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GOVERNOR | KE KIA'ĀINA

SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA

STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAI'I
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Testimony of the Department of Commerce and Consumer Affairs

Before the
House Committee on Consumer Protection & Commerce
Tuesday, March 18, 2025
2:05 p.m.
Conference Room 329

On the following measure:
S.B. 21, S.D. 2, H.D. 1, RELATING TO WATER CARRIERS

Chair Matayoshi and Members of the Committee:

My name is Michael Angelo, and I am the Executive Director of the Department of Commerce and Consumer Affairs (Department) Division of Consumer Advocacy. The Department offers comments on this bill.

The purpose of this bill is to authorize the Public Utilities Commission (Commission) to establish a Water Carrier Inflationary Cost Index Automatic Adjustment Mechanism and grant exemptions to any water carrier from any requirement under the Hawai'i Water Carrier Act.

Specifically, this measure authorizes the Commission to establish a water carrier inflationary cost index automatic adjustment mechanism (Automatic Adjustment Mechanism) on or before January 1, 2026. This Automatic Adjustment Mechanism is to be tied to the annual percentage change in the Gross Domestic Product Price Index as reported by the Bureau of Economic Analysis of the United States Department of Commerce. In addition, this mechanism shall be: (1) applied on an annual basis,

regardless of whether the factor is a positive or negative percentage change; (2) capped at plus or minus 5% per year; and (3) applied at an ongoing three-year cadence, with the Automatic Adjustment Mechanism being applied annually for two consecutive years, with the third year requiring a general rate case.

Under this measure, any request to establish the proposed Automatic Adjustment Mechanism made by a water carrier would be through a 45-day tariff transmittal. Additionally, it would expressly not constitute a rate increase application or request for a general rate increase. The provision would expand the Commission's discretion and waiver authority or its ability to exempt water carriers of all laws and any applicable decisions, orders, rules, or other laws upon a determination that such laws, decisions, orders, and rules should not apply to water carriers or that application of them would be unjust, unreasonable, or not in the public interest.

The Department appreciates the intent of this bill to support the water carrier industry. Water carriers play a crucial role in sustaining each island's economy and community. The Department recognizes that any disruptions in intrastate water carrier services present significant hardships to customers, especially for neighbor island communities.

However, the Department is concerned that adoption of such a mechanism may result in unnecessarily burdening customers with increasing and unchecked rates. The review of whether the establishment of an automatic rate adjustment mechanism for Young Brothers, LLC (YB) is in the public interest will be considered and evaluated in a Commission proceeding that has already been opened. In short, last year, YB submitted an application with the Commission requesting approval of essentially the same type of mechanism, which became a matter of Docket No. 2024-0092. By order issued on December 12, 2024, the Commission dismissed YB's application without prejudice, and stated that YB may include a request for an adjustment surcharge or rate adjustment mechanism as part of its next test year rate application. The Department notes that YB's current 2025 test year rate increase application includes a request for an automatic rate adjustment mechanism. The Department believes that such a mechanism should be thoroughly evaluated in the current Commission proceeding rather than be required

through law. Through the rigors of the regulatory processes, the reasonableness and the need for such a mechanism can be carefully examined. For example, it is not clear that the Gross Domestic Product Price Index (GDPPI) accurately reflects the water carrier's actual costs of operations, especially in light of the fact that the water carrier's fuel expenses are already passed through to customers as a surcharge. In addition, GDPPI indices measure overall inflation for all sectors producing goods and services in all regions in the United States. However, inflation impacts sectors and regions differently, and the GDPPI indices are unlikely to track the impact of inflation on the operations and maintenance expenses of the water carrier, whose regulated business operates only in Hawaii. Overall, the Department believes that such a mechanism warrants careful examination through the already opened Commission proceeding since the impacts of such a mechanism will likely affect consumers with higher rates, most likely on an annual basis, throughout the State.

For context, the Commission already attempted to implement certain regulatory programs that are similar to the mechanism proposed in this bill with the intention of providing the regulated water carrier with flexibility that would allow the water carrier to gradually re-balance its rates so that the rates for less than container load service would better match the cost of providing that service. This flexibility was granted in a zone of reasonableness program, as well as an annual freight rate adjustment program. After the water carrier used both programs to raise rates for all customers as well as file general rate increases to further increase rates, the Commission terminated both regulatory flexibility programs because they were not being used for their intended purposes.

Finally, the Department notes that the bill allows that the Commission establish the Automatic Adjustment Mechanism to address, among other things, inflation and regulatory lag. Inflation and regulatory lag have been prevalent throughout the history of public utilities. In exchange for a monopoly, regulated entities are generally required to undergo a process to scrutinize and approve any requests to increase their rates. In practical terms, this regulatory lag can serve to ensure that a properly and efficiently managed regulated entity is appropriately and prudently managing its costs in between rate cases to the benefit of customers.

On the other hand, an automatic adjustment mechanism, such as the one proposed in the bill, could serve to disincentivize a regulated entity from appropriately managing its costs in between its rate cases. Along those lines, the water carrier's business model is an open issue before the Commission. By order issued on December 31, 2024, the Commission has already noted an unsustainable pattern by which the water carrier has: (1) sought urgent assistance from the Commission, (2) received said urgent relief, and (3) sought even more assistance, and sometimes before the previous request for assistance has been resolved. Based off this unsustainable pattern, the Commission has encouraged the water carrier to incorporate specific improvements to its business model and suggested cost control measures in its actively pending rate case. The Department offers that it is premature to enable any automatic rate adjustment through this bill without first gaining a better understanding of, and potentially improving upon, the water carrier's business model as well as its ability to enact and emplace cost control measures.

Thank you for the opportunity to testify on this bill.

JOSH GREEN, M.D.
Governor

SYLVIA LUKE
Lt. Governor



SHARON HURD
Chairperson, Board of Agriculture

DEAN M. MATSUKAWA
Deputy to the Chairperson

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TESTIMONY OF SHARON HURD
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

TUESDAY, MARCH 18, 2025

2:05 PM

CONFERENCE ROOM 329

SENATE BILL NO. 21, S.D. 2, H.D. 1
RELATING TO WATER CARRIERS

Chair Matayoshi, Vice Chair Chun, and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill 21, S.D. 2, H.D. 1. This bill authorizes the Public Utilities Commission (PUC) to establish a Water Carrier Inflationary Cost Index Automatic Adjustment Mechanism to address inflation and regulatory lag. It further authorizes the PUC to grant exemptions to any water carrier from any requirement under the Hawai'i Water Carrier Act and defines "automatic adjustment mechanism." The Department of Agriculture (Department) appreciates the opportunity to provide the following comments.

The Department acknowledges that implementing this proposed mechanism, as with most price indices, will typically increase rates over time. The potential negative economic impact of this bill on local farmers, ranchers, was demonstrated by the PUC rates being increased by 46 percent in August 2020, during the COVID-19 Pandemic. A



comprehensive survey conducted by USDA-NASS, a year later, in 2021 found that approximately 40 percent of agricultural producers surveyed identified shipping and transportation costs as a major barrier to their business expansion.

The Department further recognizes the unique challenges faced by local farmers, ranchers, and allied operators, particularly those on the neighbor islands, in managing shipping costs. These hardworking individuals experience a “double jeopardy” in their business operations. First, they must incur the shipping costs for essential farm inputs, including fertilizer, herbicide, fuel, and feed. Secondly, they face additional shipping expenses when transporting their harvested crops and raised animals to markets. Given these circumstances, Hawai‘i’s agricultural producers are effectively “price takers” with regards to shipping costs. No formal mechanism exists to offset the impact of rapidly escalating transportation costs.

Finally, the Department recognizes the importance of maintaining consistent and reliable shipping services across the state while ensuring fair returns for existing carriers. While the automatic rate increase via the cost index mechanism offers efficiency, the Department is concerned about the potential negative impact for the State’s agricultural industry and will defer to the PUC. The three-year cadence approach, which adopts the water carrier inflationary cost index annually for two consecutive years, followed by a general rate case in the third year, is unlikely to significantly impact the magnitude of price movements.

Thank you for the opportunity to testify on this measure.

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



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Testimony of the Public Utilities Commission

To the
House Committee on
Consumer Protection & Commerce

March 18, 2025
2:05 p.m.

Chair Matayoshi, Vice Chair Chun, and Members of the Committee:

Measure: S.B. No. 21, S.D. 2, H.D. 1
Title: RELATING TO WATER CARRIERS.

Position:

The Public Utilities Commission ("Commission") supports this measure with offered amendments and provides the following comments for consideration.

Comments:

The Commission supports the intent of this measure to address inflation and regulatory lags water carriers may experience, at a minimum, by establishing a Water Carrier Inflationary Cost Index ("WICI") automatic adjustment mechanism.¹ The Commission concurs with amendments to the measure made by the Senate Committee on Commerce and Consumer Protection. The Commission offers the following additional comments and amendments on this measure.

During the 2020 Legislative Session, Senate Resolution 125, S.D.1 was passed, requesting that the Commission convene a working group to discuss and recommend both mid-term and long-term solutions to balance the need for interisland water carrier service in the State with the need for water carriers to maintain a level of financial sustainability. Following the working group stakeholder meetings, which included a number of members from the Legislature, the Commission submitted the Hawaii Water Carriers Working Group ("HWCWG") final report to the Legislature on December 27,

¹ The Commission notes that discussions of an automatic adjustment mechanism for water carriers in the State was presented in the final report of the Hawaii Water Carriers Working Group ("HWCWG"). The HWCWG was formed as a result of Senate Resolution Number 125, Senate Draft 1, 2020 Legislative Session.

2021.² In the report, the HWCWG developed recommendations, which included a two-tiered interim annual rate adjustment for regulated cargo rates along with the requirement for the water carrier to submit a general rate case every three years.

Over the course of the past five years, Young Brothers and Hone Heke have filed various applications for general rate increases, financing, and automatic adjustment mechanisms. While some of these proceedings remain active, for the most part, the Commission has approved many of these requests, with conditions. As an example, Young Brothers now has final rates from full resolution of its 2020 Test Year Rate Case, which resulted in a 46 percent increase, and required Young Brothers to provide refunds to customers. In 2024, Young Brothers included a request for approval of a WICI within their currently open rate case.³ More recently, Young Brothers filed a Motion for Temporary Rate Relief on February 7, 2025 in the same rate case. In that motion, YB requested at least a 20-percent increase by April 1, 2025, and another increase of an additional 5 percent by July 1, 2025. The Commission has begun to schedule statewide public hearings for Young Brothers' 2025 Test Year Rate Case inclusive of rates therein, consideration of WICI, and the Temporary Rate Relief requested, with the first public hearing to be held on April 7, 2025 on Oahu. As for Hone Heke, in 2024, final rates were approved, accommodating their use of Ma'alaia Small Boat Harbor while Lahaina Small Boat Harbor is being rebuilt (with further investigation time certain).

While the Commission understands the intent for the annual inflationary adjustments of approved rates, the Commission observes the potential for a compounding effect on rates and impact on customers, including Young Brothers' recent Motion for Temporary Rate Relief. As such, the Commission believes it prudent to first consider the effects of any temporary or general rate increase proceeding before establishing an automatic adjustment mechanism.

The Commission appreciates that the current measure, as amended, provides the Commission the flexibility and discretion in establishing an automatic adjustment mechanism for regulated water carriers.

The Commission, in supporting this measure with the following amendments, believes that the Legislature may wish to enable establishment of WICI under applications well into the future rather than a limited timeframe after approval. The Commission also notes that with the current language of this measure the Commission would be unable to consider or approve a WICI as part of a general rate increase application. Lastly, the Committee may wish to provide the Commission flexibility in setting a particular Product

² The Commission maintains a repository of the HWCWG activities and final report on the Commission's website at <https://puc.hawaii.gov/water-carriers/hwcwg/>.

³ Docket No. 2024-0255, 2025 Test Year Rate Case.

Price Index.⁴ For these reasons, the Commission offers the following amendments for your consideration:

Page 1, Line 5-14, additions in bold.

~~(a) No later than January 1, 2026 f~~For each water carrier subject to this chapter, the commission may establish automatic adjustment mechanisms to address, among other things, inflation and regulatory lag and, at a minimum, a water carrier inflationary cost index automatic adjustment mechanism. The water carrier inflationary cost index automatic adjustment mechanism shall create an automatic rate adjustment that is tied to the annual per cent change in ~~a the Gross Domestic~~ Product Price Index as **determined by the commission. In doing so, the commission shall consider applicable inflation indexes, including those** reported by the Bureau of Economic Analysis of the United States Department of Commerce.

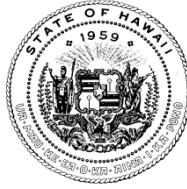
Page 6, Line 16-21, additions in bold.

~~(f) Notwithstanding subsections (a) to (e), any request to establish an automatic adjustment mechanism made by a water carrier shall be submitted as a forty-five-day tariff transmittal filing, and the filing shall not constitute a rate increase application or request for a general rate increase. The commission shall have broad discretion in its application of~~

Thank you for the opportunity to testify on this measure.

⁴ There are multiple Producer Price Indexes ("PPI") that should be considered in establishing an automatic adjustment mechanism, including the Blue Chip Economic Index ("BCEI"), the United States Department of Commerce, Bureau of Economic Analysis ("BEA") PPIs, United States Department of Labor, Bureau of Labor Statistics PPIs, and even the Department of Business and Economic Development and Tourism's PPIs.

JOSH GREEN, M.D.
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STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAI'I
DEPARTMENT OF TRANSPORTATION | KA 'OIHANA ALAKAU
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March 18, 2025
2:05 P.M.
State Capitol, Room 329

**S.B. 21, S.D. 2, H.D. 1
RELATING TO WATER CARRIERS**

House Committee on Consumer Protection & Commerce

The Department of Transportation (DOT) **supports** this measure that establishes an automatic adjustment mechanism for water carriers based on an inflationary cost index.

DOT was a member of the Water Carriers Working Group established by the legislature in 2020 and finds that S.B. 21 is also consistent with the recommendation of the working group.

This new mechanism allows for water carrier rates to keep pace with inflation without requiring a formal rate case to be considered and approved by the Public Utility Commission each year. Formal rate cases are time consuming, and consequently rates are typically not adjusted annually and the lags between rate cases necessitate large increases when the rate cases are considered. This has a significant impact and burden on businesses that rely on water carriers.

Thank you for the opportunity to provide testimony.



March 16, 2025

Representative Scot Z. Matayoshi, Chair
Representative Cory M. Chun, Vice Chair
House Committee on Consumer Protection & Commerce

RE: Senate Bill 21, SD2, HD1 – RELATING TO WATER CARRIERS
Hearing date: March 18, 2025, 2:05 p.m.

Aloha Chair Matayoshi, Vice Chair Chun, and Members of the Committee:

Thank you for the opportunity to submit testimony on behalf of Young Brothers, LLC (“YB”)¹ offering **STRONG SUPPORT** for Senate Bill 21, SD2, HD1 – Relating to Water Carriers.

This measure would:

- 1) Require the Public Utilities Commission (“PUC”) to establish automatic adjustment mechanisms for water carriers to address, among other things, inflation and regulatory lag and at a minimum, a water carrier inflationary cost index (“WICI”) mechanism by January 1, 2026.
- 2) Explicitly distinguish a water carrier request to establish an automatic adjustment mechanism from a general rate case application and provide the PUC with broad discretion in the procedural requirements associated with any such request.
- 3) Grant the PUC the authority to waive or exempt a water carrier from any requirement that it determines should not be applied to water carriers or is otherwise unjust, unreasonable, or not in the public interest.

As discussed below, YB believes that these legislative amendments will equip the PUC with the authority and legislative clarity necessary to, not only establish automatic adjustment mechanisms

¹ YB is a common carrier by water, transporting property by tug and barge between the islands of O‘ahu, Hawai‘i, Kaua‘i, Maui, Moloka‘i, and Lāna‘i. YB is currently the only water carrier authorized to transport property under Chapter 271G, Hawaii Revised Statutes (“HRS”) (i.e., the Hawaii Water Carrier Act), subject to the regulatory authority of the Public Utilities Commission of the State of Hawaii (“PUC”). Since 1900, customers across Hawaii have relied on YB’s frequent, regular, and universal sailings to serve as the bridge that connects all communities in this island-state.

outside of a general rate case, but also to address other issues that may affect a water carrier's ability to establish and maintain financial sustainability in an evolving and increasingly competitive operating environment.

As competition from air freight, freight forwarders, and national and international water carriers increase, coupled with the advent of online shipping services and the highest inflationary period the nation has experienced since the 1980s, YB's regulated cargo volumes have stagnated, and its costs have risen – leading to an ongoing struggle to establish and maintain financial sustainability. As a PUC regulated cargo water carrier, unlike other cargo carriers, YB cannot independently and quickly adjust its rates or service offerings to account for rising costs or inflation. The existing regulatory framework requires YB to serve all major islands in the state at set rates and sailing frequencies – regardless of whether YB makes a profit - but also requires that YB follow a rigorous and time-consuming regulatory review process known as a “rate case” to recover reasonable costs and for an opportunity to earn a reasonable rate of return on its investments. The period of time between when a utility incurs new costs and when such costs, if justified, are allowed to be recoverable via rate increases, is known in the industry as “regulatory lag”. These issues were exacerbated by the onset of the COVID-19 pandemic and the cascade of economic fallout that continues to be experienced by communities, businesses, and individuals throughout the State.

During the 2020 legislative session, the Hawaii State Senate adopted Senate Resolution No. 125, S.D. 1 (2020), requesting the PUC to convene a working group to discuss and recommend solutions to ensure continuous water carrier service throughout the State, balanced with the need for water carriers to maintain financial sustainability. Said working group (the Hawaii Water Carriers Working Group, hereinafter “HWCWG”) was comprised of 18 key stakeholders from both the public and private sectors² and met 13 times from August 2020 through October 2021 to gather background information on water carriers, Hawaii's harbor system, and regulatory oversight of water carriers.

In the HWCWG's final report summarizing its findings and recommendations, the HWCWG recommended the WICI mechanism, a two-tiered³ interim annual rate adjustment for regulated cargo

² The HWCWG was comprised of (titles listed are the titles that were in effect upon the WCWG's filing of its final report to the Governor and the Hawaii State Legislature): Senator Ronald Kouchi, Senate President and Senator Gilbert Keith-Agaran, Designee; Representative Scott Saiki, Speaker of the House and Representative Mark Nakashima, Designee; Senator Lorraine Inouye, Chair, Senate Committee on Water and Land; Senator Chris Lee, Chair, Senate Committee on Transportation; Representative Henry Aquino, Chair, House Committee on Transportation; Rick Blangiardi, Mayor, City & County of Honolulu and Matthew Gonser, Designee; Derek Kawakami, Mayor, County of Kauai and Reiko Matsuyama/Michael Dahilig, Designees; Michael Victorino, Mayor, County of Maui and Stacy Crivello, Designee; Mitch Roth, Mayor, County of Hawaii and Steven Hunt, Designee; Leo Asuncion, Commissioner, Public Utilities Commission; Dean Nishina, Executive Director, Office of the Consumer Advocate and Lisa Hiraoka, Designee; Mike McCartney, Director, Department of Business, Economic Development & Tourism and Mary Alice Evans/Dori Palcovich, Designees; Jade Butay, Director, Department of Transportation and Derek Chow, Designee; Phyllis Shimabukuro-Geiser, Chairperson, Department of Agriculture; Jay Ana, President, Young Brothers, LLC and Kris Nakagawa, Designee; Vic Angoco, Vice President, Matson Navigation Co., Inc.; Michael Caswell, Senior Vice President, Pasha Hawaii and Randy Grune, Designee; Donna Domingo, President, ILWU Local 142 and William “Baba” Haole, Designee.

³ The first tier of WICI is an annual rate adjustment tied to GDPPI to address the impact of inflation. The second tier for the WICI mechanism (which was recommended by the HWCWG but is not explicitly addressed by this measure) would also allow water carriers to apply for an interim rate adjustment for justified operating expenses.

rates, along with the requirement for the water carrier to submit a general rate case every three years.⁴ **The working group found that WICI, combined with a regular three-year cadence for general rate cases, would reduce the administrative burden associated with rate adjustments, provide a more contemporaneous means of pairing regulated cargo rates with inflation adjusted expenses, and be a “significant step forward” with respect to ensuring water carrier service throughout the State and supporting the financial sustainability of the water carrier.**⁵ YB also contends that its customers may value the ability to plan for smaller more predictable cadenced rate increases rather than the less frequent, but less predictable and likely much larger rate increases necessitated under the current ratemaking system. The HWCWG recognized that its WICI recommendation could be implemented legislatively but considered implementation by PUCOrder to be the most expedient method of implementation.⁶

Accordingly, on April 5, 2024, YB filed an application with the PUC seeking implementation of the first tier of the WICI mechanism.⁷ However, on December 12, 2024, the PUC dismissed the application before beginning its independent substantive review, citing to, among other things, concerns over a lack of direct legal authority to support the Commission’s review of YB’s WICI application outside of a general rate case and the inability to accurately assess the reasonableness of the WICI mechanism while permanent rates remain pending in YB’s 2020 test year rate case.⁸

In addition to requiring the PUC to establish automatic mechanisms including at least the WICI mechanism before the end of 2025, this measure seeks to address these concerns by clarifying that requests for the implementation of automatic adjustment mechanisms, like the WICI mechanism, can be addressed outside of a general rate case proceeding. This measure would also grant the PUC the authority and discretion to waive or exempt any water carrier from requirements that are unjust, unreasonable, or not in the public interest. YB hopes that these amendments will equip the PUC with the tools and legislative clarity necessary to, not only initiate its independent review of the WICI

⁴ See Final Report of the HWCWG (December 27, 2021), available at: <https://puc.hawaii.gov/wp-content/uploads/2021/12/Final-Water-Carriers-Working-Group-Report-12-01-2021.pdf>

⁵ See Final Report of the HWCWG (December 27, 2021) at 15-17, available at: <https://puc.hawaii.gov/wp-content/uploads/2021/12/Final-Water-Carriers-Working-Group-Report-12-01-2021.pdf>

⁶ Id., at 17.

⁷ See YB’s Application for Approval of the First Tier of the WICI Mechanism, available at: <https://shareus11.springcm.com/Public/DownloadNative/25256/12e77d0e-75f3-ee11-b843-48df377ee718/54312051-83f3-ee11-b843-48df377ee718>

⁸ See Order No. 41249 at 9-10, available at: <https://shareus11.springcm.com/Public/DownloadNative/25256/a9ccf1a8-d3b8-ef11-b848-48df377ee710/8bf3e05c-e3b8-ef11-b848-48df377ee710>, stating “the Commission concurs with the Consumer Advocate and finds that filing of the instant request is premature pending final resolution of the rate case proceeding in Docket No. 2019-0117. [footnote omitted]. As discussed in Order No. 40784 and Order No. 41232 (in Docket No. 2024-0255), prior to final resolution of the pending 2020 Test Year Application, Young Brothers is unable to accurately assess the reasonableness of or need for a potential WICI adjustment or a general rate increase based on a 2025 test year. [footnote omitted]. Practically speaking, prior to resolution of the 2020 Test Year Application, there are no final base rates upon which to assess Young Brothers’ revenue sufficiency and calculate a proposed rate increase or WICI adjustment or notify the general public of the same. [footnote omitted] Pending this determination of Young Brothers’ final rates in 2019-0117, reviewing a separate mechanism to modify Young Brothers’ revenues in an unrelated proceeding may cause confusion and potentially inconsistent results.”

mechanism, but also to address other issues that may affect a water carrier's ability to establish and maintain financial sustainability in an evolving and increasingly competitive operating environment.

For the reasons stated above, YB offers **STRONG SUPPORT** for this measure, as amended.

Thank you for your service to the State of Hawaii, and for the opportunity to testify offering comments on this measure.

Sincerely,

Kris Nakagawa
Vice President, External and Legal Affairs



Testimony to the House Committee on Consumer Protection & Commerce

**Representative Scot Z. Matayoshi, Chair
Representative Cory M. Chun, Vice Chair**

**Tuesday, March 18, 2025, at 2:05PM
Conference Room 329 & Videoconference**

RE: SB21 SD2 HD1 Relating to Water Carriers

Aloha e Chair Matayoshi, Vice Chair Chun, and Members of the Committee:

My name is Sherry Menor, President and CEO of the Chamber of Commerce Hawaii ("The Chamber"). The Chamber supports Senate Bill 21 Senate Draft 2 House Draft 1 (SB21 SD2 HD1), which authorizes the Public Utilities Commission to establish a Water Carrier Inflationary Cost Index Automatic Adjustment Mechanism and grant exemptions to any water carrier from any requirement under the Hawai'i Water Carrier Act.

SB21 SD2 HD1 aligns with our 2030 Blueprint for Hawaii: An Economic Action Plan, specifically under the policy pillar for Maritime. This bill promotes policies that drive economic growth, enhance workforce opportunities, and improve the quality of life for Hawaii's residents.

Hawaii's economy relies on efficient and cost-effective maritime transport to move goods and support inter-island commerce, but water carriers often face inflation-driven expenses and regulatory delays that can jeopardize affordable service. To address these challenges, this legislation allows the Public Utilities Commission to implement a Water Carrier Inflationary Cost Index Automatic Adjustment Mechanism, enabling carriers to adjust their rates annually based on the Gross Domestic Product Price Index. By establishing a targeted plus-or-minus five percent rate cap and incorporating periodic rate cases, the bill aims to balance financial sustainability for water carriers with stable shipping costs that support local businesses and consumers.

This new mechanism is designed to reduce regulatory lag, minimize the burden of repetitive rate cases, and ensure fair oversight of water carriers crucial to Hawaii's commerce. The Chamber supports this measure because it will help maintain consistent, reliable shipping services throughout the State, strengthening the economic infrastructure on which both small businesses and major industries depend.

The Chamber of Commerce Hawaii is the state's leading business advocacy organization, dedicated to improving Hawaii's economy and securing Hawaii's future for growth and opportunity. Our mission is to foster a vibrant economic climate. As such, we support initiatives and policies that align with the 2030 Blueprint for Hawaii that create opportunities to strengthen overall competitiveness, improve the quantity and skills of available workforce, diversify the economy, and build greater local wealth.

We respectfully ask to pass Senate Bill 21 Senate Draft 2 House Draft 1. Thank you for the opportunity to testify.



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March 18, 2025

Representative Scot Z. Matayoshi, Chair

Representative Cory M. Chun, Vice Chair

House Committee on Consumer Protection and Commerce

RE: Senate Bill 21 – RELATING TO WATER CARRIERS

Hearing date: March 18, 2025. 2:05 p.m.

Aloha Chair Matayoshi, Vice Chair Chun, and Members of the Committee:

I am Paul Oliveira, the Chief Operating Officer of Lānaʻi Oil. Thank you for the opportunity to submit testimony in **STRONG SUPPORT** of Senate Bill 21 – Relating to Water Carriers.

As a critical business servicing Lānaʻi with various types of fuel necessary for transportation, power and construction activities, YB has been indispensable in our operations. The products we ship weekly are of vital importance to the people of Lānaʻi and any disruptions to shipping directly affect our ability to provide for this community. Overall, YB has provided fast, efficient, and reliable transportation of our goods.

The proposed Water Carrier Inflationary Cost Index (WICI) mechanism offers a more incremental approach to adjusting rates, helping local families and businesses absorb cost increases over time and ensuring that rates keep up with rising costs. By automatically adjusting rates based on changes in the Gross Domestic Product Price Index (GDPPI), the WICI mechanism brings predictability and transparency to the rate-setting process, with WICI adjustments capped at plus or minus five percent per year to ensure they remain gradual and manageable. This approach allows for smaller, consistent rate adjustments, and a more predictable rate case cycle, which is critical for long-term planning and financial viability.

By helping businesses like ours better manage costs and maintain competitive pricing, the WICI mechanism ultimately supports stable pricing for consumers and stability for water carriers, ensuring goods continue to flow between our island communities. With adjustments capped at manageable levels, the WICI mechanism helps prevent excessive rate hikes, offering both businesses and residents greater clarity and ample time to prepare for any changes, reducing the impact of rate fluctuations on everyday living costs.



This measure is based on the comprehensive recommendations of the Hawaii Water Carriers Working Group (HWCWG), which included 18 key leaders from both the public and private sectors, meeting over 13 sessions from August 2020 to October 2021. The Working Group's report outlined the need for a predictable, transparent system that allows water carriers to remain sustainable while protecting consumers from erratic rate fluctuations. This recommendation, which Lānaʻi Oil strongly supports, was designed with the input of multiple stakeholders, all working to balance the needs of consumers and carriers alike.

Additionally, the WICI mechanism would address the challenges posed by regulatory lag, or the delayed recovery of investments and costs in utility infrastructure through customer rates. Regulatory lag often occurs with the current complex mechanism for adjusting customer rates. This new proposed framework for setting rates will help to ensure that rising operational costs are recovered more quickly. This is especially important in a period of economic uncertainty, where inflation and rising costs are a concern for businesses across the state. Additional strain to YB's financial position could result in drastic decisions including selling critical assets like the newly built *Kalohi* barge that is customized to serve both Lānaʻi and Molokai, and reducing service offerings.

For these reasons, **we strongly support S.B. 21** and believe the WICI mechanism will benefit consumers across Hawaiʻi by ensuring more predictable, manageable rate increases and improving the sustainability of water carriers. This will allow both businesses and residents to continue relying on reliable, affordable inter-island shipping services, which are critical to our state's economy and well-being.

Thank you for considering our testimony, and for your commitment to ensuring reliable services for businesses and communities throughout Hawaiʻi.

Sincerely,

Paul Oliveira
Chief Operating Officer
Lānaʻi Oil Company

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RE: SB21, SD 2, HB1
Relating to Water Carriers
March 18, 2025, 2:05 PM

Rep. Scot Z. Matayoshi, Chair
Rep. Cory M. Chun, Vice Chair

My name is Bill Caldwell. I am the President of Hone Heke Corporation, dba Expeditions Ferry. Expeditions is a locally owned and run corporation providing ferry services to the residents of Maui County, specifically between the islands of Maui and Lanai.

I write in support of SB21, SD2, HD1 relating to water carriers. Expeditions strongly supports a mechanism whereby increase in ticket pricing can be achieved without a full rate case. In our specific circumstance, having the opportunity to raise rates to match inflation would allow us to continue to serve the public without the financial jeopardy we recently experienced. We did a rate case almost 15 years ago. It took unbelievable time and resources, which for a small, locally owned corporation was difficult. In the last several years, we have put together two rate cases (our initial filings became unsupported after the Lahaina Fire requiring almost a complete realignment of the financial data). It took a team of five people, hundreds of hours, and well into five figures to create all of the data required by the process. And without a rate case for over 15 years, our case sought to do little more than put us at an inflationary supported ticket price.

We are fortunate that the PUC recognized the challenges associated with our situation. We are not a large carrier of freight, we do not have hundreds of employees and our market is limited by Maui County. This bill supports entities such as Expeditions and allows us to maintain reasonable rates that do not require our owners (local residents) to forego compensation or forego a vessel replacement because the numbers don't work.

At this time, the PUC's framework to make a rate case is disproportionately time consuming and expensive for a small, locally owned business such as Expeditions. Passing this bill would be an



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opportunity to provide a shorter, less cumbersome path for businesses such as Expeditions to make rate changes, all while continuing to protect the public interest.

We have long been contributing members of our community – providing emergency services during COVID and the Lahaina wildfires, all at a financial loss. We believe that a less cumbersome process to match inflationary increases would be appropriate to put in place and a change of the nature anticipated by SB21, SD2, HD1 is needed.

Thank you for the opportunity to submit this position statement to you.

Sincerely,


Bill Caldwell

President, Hone Heke Corporation





Testimony for SB 21, Relating to Water Carriers

House Committee on Consumer Protection & Commerce
March 18, 2025

Aloha Chair Matayoshi, Vice Chair Chun , and members of the committee,

The Hawaii Harbors Users Group is in **support** of SB21 SD2 HD1, relating to water carriers. We supported the original version of this measure and continue to support it going forward.

This bill is an important step toward ensuring the financial sustainability and operational stability of Hawai'i's interisland shipping transportation sector. Our state depends on a reliable and efficient hub-and-spoke intrastate water carrier system to move goods, supplies, and essential resources between our island communities. Each aspect of the supply chain is vital to our state's economy. However, without a modernized regulatory framework, intrastate carriers of passengers and property are forced to navigate an outdated rate-setting process that does not timely account for inflationary pressures or the rising costs of operation. Establishing a Water Carrier Inflationary Cost Index Mechanism will provide much-needed predictability and transparency, allowing carriers to continue serving our island communities without disruption, and offers a more incremental approach to adjusting intrastate rates, helping local families and businesses absorb cost increases over time and ensuring that rates keep up with rising costs.

The Water Carrier Working Group, convened under Senate Resolution No. 125, SD1 (2020), has studied the challenges facing our interisland shipping sector and identified regulatory lag as a primary issue. The current ratemaking process does not facilitate rate adjustments in a timely manner, making it difficult to respond to rising costs and market fluctuations due to increased competition.

Mahalo for the opportunity to testify in support of this bill.

SB-21-HD-1

Submitted on: 3/17/2025 7:48:19 AM

Testimony for CPC on 3/18/2025 2:05:00 PM

Submitted By	Organization	Testifier Position	Testify
Glen Kagamida	Individual	Support	Written Testimony Only

Comments:

Good idea that makes sense. Mahalo!