

Template for PUC WCWG Small Group Status Reports
For Meeting on March 18, 2021

Small Group Topic/Issue:

Create a compelling case to convince other WCWG members that your topic/issue needs to be addressed by our group:

- How will addressing this issue make a significant impact on our ability to successfully ensure effective, efficient, and continuous water carrier service throughout the state of Hawaii?

Establishing the ideal rate matrix is both complex and interdependent on the decisions (or suggested solutions) being made by the other small groups. Intrastate rate increases, when approved by the Hawai'i Public Utilities Commission, are but one means by which a water carrier can achieve financial viability but at the same time must be affordable to all customers. In addition to intrastate rate increases, a water carrier's financial viability is also dependent on its ability to:

- Readily access the financing market and obtain reasonable costs, whether from affiliates or third-party lenders;
- manage its operating costs;
- obtain profitable contracts for interstate goods and services;
- obtain state financial incentives such as tax credits, bond financings, property tax holidays, etc. from the legislature

The timing and amount of the requested rate increase for rate cases are at the discretion of the water carrier.

- What are the significant (negative) ramifications of us not addressing this issue?
Not addressing the rate structure could place the water carrier service at risk in terms of sustainability and profitability. It also impacts our local economy as the demand for shipping is somewhat inelastic and high fixed costs may adversely affect the viability of local farms and businesses which compete with produce and goods being imported from mainland or international ports.

Articulate Small Group Goal or Objective:

- This goal or objective was probably generated as you talked about what the group was trying to accomplish.
Fair and predictable cargo rates that are affordable to all customers for intrastate services that meet customers' needs.
- What is the desired outcome you are trying to achieve?
Ensure the long-term financial sustainability and profitability of the water carrier by establishing rate structures for affordable intrastate services that are in parallel with the State's and customers' needs and other holistic operational changes proposed.

Prioritized List of Actions or Strategies to Address Goal or Objective:

- This discussion might have started with a discussion of relevant supporting forces from the Force Field Analysis that will help you achieve your goal or objective.

The rate setting framework includes three desired futures:

- 1.) Incremental adjustment to rates
- 2.) All carriers involved in the movement of cargo have the ability to be sustainable and profitable
- 3.) Standardized and streamlined ratemaking in ports and cargo types that are negative earners

- The group probably generated additional strategies during your discussion.

What are the state's goals for food independence, agriculture, and sustainable economies for each island?

What investment should the state make in terms of additional harbor space and facilities with refrigeration?

What cargo types should remain regulated?

LTL is not currently profitable and impacts operational efficiency

Can offsite cargo consolidation become part of the efficiency solution? (At what cost?)

Non-regulated cargo from interstate water carriers moving within the state is profitable and helps offset certain non-profitable intrastate cargo type

Returning to an Annual Freight Rate Adjustment (AFRA) or Zone of Reasonableness adjustment should require performance metrics where each commodity class would recover its fair share of costs ... not just a tool for across-the-board rate increases

What third-party financing is available to water carriers?

Should State and Counties be subsidizing mandated routes to Kaunakakai, Kaumaapau, and Hilo since these

are negative earners? (Tax credits, free harbor leases, no property taxes, etc...)

Alternatively, should water carrier be given sailing schedule flexibility based on demand/capacity?

- Actions or strategies also have to take into consideration restraining forces that may prevent you from achieving your goal or objective. You may have identified relevant restraining forces from the FFA or generated new ones that have to be addressed.

Balancing the rates necessary to achieve water carrier sustainability and profitability may not be the same rates that consumers, especially our local farms and businesses, are able to afford. If this is the case, what source of subsidy is available to fill this rate imbalance?

Perishables might require more frequent routes but total cargo loads might dictate otherwise. Establishing sailing schedules affects pricing and ability of customers to transport cargo in good or healthy (in terms of livestock) condition.

- The group needs to think about prioritizing actions or strategies i.e., important ones need to be addressed first to create momentum for your plan.

Incremental rate adjustments can be one part of the solution to avoid large catch-up escalations but must include performance metrics that will determine whether customers are satisfied with the services provided

- Actions or strategies might also have a time relationship i.e., some have to be accomplished first before others are considered.

The determination of fixed route schedules, what types of cargo should remain regulated, what operational efficiencies can be achieved, what cost containment efforts have been achieved, what third-party financing has been obtained, and what state subsidies are available must all precede rate making strategies or recommendations. This group recognizes that the Hawai'i state legislature controls what cargo is regulated and the Hawai'i Public Utilities Commission makes the decisions on actual rates. Nonetheless, in the context of what types of cargo or routes might warrant subsidies, we needed to have a larger discussion on rates strategy.