PUC WCWG Small Group Status Reports

For Meeting on May 20, 2021

Small Group Topic/Issue: Rates

The Rates focus group was tasked with looking at an annual rate adjustment to replace what had previously been implemented under AFRA (Annual Freight Rate Adjustment). The goal of this group was to come up with recommendations that would support the sustainability and profitability of the water carrier, minimize the need for large adjustments between formal rate cases, and provide safeguards for consumers with respect to runaway or unreasonable automatic increases for the water carrier.

While the focus group was unable to come to a consensus on the actual calculation or specific formula for the rate adjustments, we did reach consensus on a number of policies to accompany that eventual rate adjustment index. These include:

- The proposed name of the new annual rate adjustment is the Water-carrier Inflationary Cost Index (WICI). Water carrier must show a compelling case for any rate increase
- Performance metrics supporting the WICI rate adjustment must be reported to Commission and shall include:
    - Safety: Recordable Incident Rate
    - Safety: Lost Time Incident Rate
    - Safety: Workers' Compensation Insurance Claims
    - Safety: Hazardous Materials
    - Efficiency: Fuel Efficiency (shoreside and marine use)
    - Service: On-Time Barge Arrival
    - Service: Customer Wait Time for Freight
    - Service: Caller Wait Time
    - Service: Customer Dropped Calls
    - Service: Completed Sailings
    - Service: Cargo Insurance Loss Ratio
- WICI formula should not double count adjustments that are already accounted for such as the fuel cost adjustment
- The full WCWG would be responsible to make the final determination and recommendation with respect to any annual rate adjustment mechanism

<u>Other considerations where consensus was not reached:</u>

- An index based adjuster (GDPPI or a collared version of U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Transportation Services: Deep Sea Water Transportation of Freight https://fred.stlouisfed.org/series/WPU301301) that allows for low to medium oversight up to a certain % whether that is 2% or 3% rate increases. Any requests above the 2% or 3% would require increased oversight but less than a full rate case up to 5.5%.
- Baseline for WICI shall be the annualized national Gross Domestic Product Price Index (GDPPI); however, additional localized cost factors or industry specific adjustments might be necessary to supplement the GDPPI to more accurately reflect cost of services for the water carrier industry.

- The maximum annual percent change to regulated cargo rates, regardless of the calculated WICI percentage, shall be limited to 5%
- WICI shall be used for two consecutive years with the third year requiring a rate case and reevaluation of the WICI factor
- Initial WICI year would begin the year following the next formal rate case
- Commission must be notified of proposed WICI rate increases/decreases
- More safeguards to protect regulated cargo consumers from inefficiencies or lack of incentives to be efficient and less than satisfactory customer service
- Need to include emphasis on performance for both upside and downside inflation index
- Cost of labor and employee fringe needs greater emphasis if any inflationary marker is used
- There shouldn't be automatic annual adjustments; water carrier needs to justify need for application of the WICI rate factor
- Information provided in the monthly financial reports should support the need for any rate increase, especially rate increases above GDPPI.
- *Performance metrics supporting the WICI rate adjustment must be reported to Commission and shall include:*
    - Efficiency: Labor Efficiency (working on better labor metric than prior version)

Conclusion:

Our group looked at alternative calculations for the annual inflation index that would involve labor costs (wages, health, pension, and other fringe) in addition to other operating expenses that had been used in the past under AFRA. Because changes in fuel costs are currently recovered through a quarterly fuel price adjustment, we all agreed that fuel costs should be removed from the WICI factor analysis to avoid any over-recovery of fuel costs from customers. We focused much of our discussion on a possible two-tiered approach that would involve an automatic adjustment based on the GDDPI index (whether up or down) while also providing the water carrier the opportunity to seek an additional rate adjustment, subject to HPUC approval after providing compelling evidence to support their case for an additional adjustment. We also discussed various possible terms and conditions of the WICI adjustment as outlined above in "Other considerations where consensus was not reached."

There were concerns expressed about what happens to rates in times when emergency rate relief is requested or when major capital investments are made. These issues should probably be considered outside the WICI process. Another concern raised was that we should not be making overarching policy decisions based on decreased cargo volume born by this pandemic as declining revenues exposed high fixed costs. Similarly, it was also discussed that the water carrier's labor efficiency should not be measured simply by revenue tons of cargo moved divided by labor hours as the sailings are not determined by maximum cargo capacity but rather by *fixed* sailing schedules and collectively bargained manning guidelines (labor hours) which are tied to the *fixed* sailing schedules.

Despite our best efforts to come to consensus on a working formula to calculate this new WICI factor, we ultimately felt compelled to bring our discussion back to the larger group for further refinement and decision making. A two-tiered approach that starts with an automatic annual rate adjustment that is calculated from the GDDPI for the first tier with a "compelling case" that requires review and approval for the second tier is generally identified as an alternative to continue to pursue; however, how to go about incorporating labor changes and terms and conditions of the WICI including performance metrics into the WICI factor is where we see the greatest challenges.