

## Rates Subgroup

### Summary of Recommendation

The committee recommends 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. The two-tiered annual adjustment factor, which the committee named the Water-carrier Inflationary Cost Index (WICI), will have an automatic rate adjustment component that is tied to the annual percent change in the Gross Domestic Product Price Index (GDPPI) as the first tier and an expense justified second tier that must be applied for by the water carrier and approved by the Hawai'i Public Utilities Commission (HPUC). The automatic annual adjustment factor shall be applied to the regulated cargo rates regardless of whether the factor is a positive or negative percentage change. The second-tier adjustment will require additional justification from the water carrier to recapture costs as well as their submission of performance measures showing there has been no material decline in levels of operation, safety, or customer service. The total annual WICI adjustment factor shall not exceed 5% per year. Fuel surcharges will continue to be separate and apart from the WICI adjustment and will not be counted against the 5% annual adjustment ceiling. Similarly, should the water carrier, for any reason, find it necessary to seek a temporary/emergency rate adjustment, that application process to the HPUC shall remain separate from the 3-year general rate case submission requirement. WICI does not account for water carrier's new capital investment.

#### 1. Justification/Compelling Reason

General rates cases tend to be time consuming to both the water carrier and the HPUC. As a result, regulated cargo rates do not typically get adjusted annually and are sometimes subject to relatively large rate increases when the cases are completed. Having the WICI interim rate adjustment combined with a regular cadence for general rate case submissions will reduce the administrative burden to the water carrier and provide a more contemporaneous means of pairing regulated cargo rates with inflation adjusted expenses. One of our committee's primary objectives was to ensure the profitability and sustainability of the water carrier. We believe implementing these recommendations will be a significant step forward with respect to achieving the profitability and sustainability of the water carrier.

#### 2. Mid-term or Long-Term

Our committee sees these recommendations as a potential solution for not only the short-term, but also for the mid-term and long-term as well. General rate cases tend to be a good mechanism for setting (or resetting) regulated cargo base rates; however, the process is a bit cumbersome and does not work well in responding to inflationary changes in a timely manner.

#### 3. Pros/Cons

Pros: First-tier provides an automatic adjustment, that if sufficient to annual expense changes, can be implemented without substantial efforts to the water carrier

Second-tier allows the water carrier to also address expenses that are real, such as labor and fringe costs, but may (or may not) follow changes in annual inflation-based indices such as the GDPPI

It's a timelier response to operational expense changes as compared with the less periodic general rate cases

Mitigates the likelihood of sometimes large increases to rates

Most importantly, it provides an opportunity for water carrier to become financially sustainable and potentially profitable

Cons: Recommendations may be perceived as a disincentive for management to actively control costs if those increases can be recaptured through the WICI adjustment factor

Recommendations may be perceived as a disincentive for management to seek volume growth

Public may feel that rate increases have become "rubber stamped" by HPUC

Labor is typically not something that is subject to an annual index for public utilities

WICI increases may impact consumers, particularly farmers and ranchers, ability to afford services

WICI increases may result in above authorized rate of return between general rate cases

4. Identify any preceding steps to undertake or outstanding items to address, if any

The two aforementioned recommendations could be implemented by amendments to Hawai'i Revised Statutes, Legislative Resolutions, Hawai'i Administrative Rules, or by Commission order. The committee considers implementation by Commission order to be the most expedient method of effectuating our recommendations.

5. Impact to agencies/entities

Impacts to those agencies and entities involved are unknown at this time

6. Costs (if any or readily estimated)

Unknown