WORKING GROUP'S FINDINGS AND RECOMMENDATIONS ON HOUSE CONCURRENT RESOLUTION NO. 204, H.D.1, S.D. 1 ON TIME AND COST OF SHIPPING GOODS TO AND FROM MOLOKA`I, LĀNA`I AND HĀNA, MAUI

A Report to the Legislature of the State of Hawaii

Submitted by

The Department of Business, Economic Development & Tourism

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EXECUTIVE SUMMARY

House Concurrent Resolution No. 204, H.D.1, S.D.1 (2013) requests the Director of the Department of Business, Economic Development and Tourism (DBEDT) to "establish a working group (Working Group) to study, consider and recommend ways to reduce the time and cost of shipping goods from O`ahu to Moloka`i, Lāna`i and Hāna , Maui. Accordingly, a ten-member Working Group was organized by DBEDT.

OVERVIEW:

The Working Group looked at the following three modes of shipping goods from O`ahu to Moloka`i, Lāna`i and Hāna, Maui to help identify ways to reduce cost and time.

1. **Cargo Transportation by Water:** The Working Group found that water transport accounted for a far greater percentage of cargo shipped from O`ahu to Moloka`i and Lāna`i. No water cargo carrier currently calls upon Hāna, Maui since it has no functioning commercial harbor facility. The inter-island system of cargo distribution that supports our neighbor islands has Honolulu Harbor as its hub, and Young Brothers, Limited is the largest carrier in this system.

   The Public Utilities Commission (PUC) has jurisdiction over regulating water carriers that provide regularly scheduled water carrier service between locations within the State. This oversight includes market entry, rates and services provided. By legislative design of the regulatory structure, service (and associated freight rates) to the less populated islands of Moloka`i and Lāna`i is heavily subsidized by other profitable routes and lines of service. This subsidy is made possible by the costs of Moloka`i and Lāna`i being spread through a larger statewide system of service, thus taking advantage of the larger system's attendant efficiencies of scale and scope.

2. **Cargo Transportation by Air:** Air cargo services to Moloka`i, Lāna`i and Hāna, Maui are limited. The State's largest air cargo carrier is Aloha Air Cargo. However, Aloha Air Cargo does not provide regular air cargo service to Moloka`i, Lāna`i or Hāna, Maui (although it does offer charter cargo service to these locations). Smaller air carriers including Kamaka Airlines and Mokulele provide air cargo service on a limited basis. Unlike water carriers, air carriers are not regulated by the PUC.

   Regular service is not provided because of the constraints of limited airport infrastructure as well as basic economics. With respect to economics, the limited volume of both dry and perishable air cargo going to and coming from these locations cannot support the necessary private capital investment (in both aircraft and ground equipment) plus air carrier expenses such as labor, equipment, facilities and fuel for expanded air cargo service. The economies of scale and/or scope at these locations can support only the current limited air cargo service.

3. **Ground Shipping:** There is an opportunity to lower the total cost of transportation via supplier or third-party ground consolidation of cargo in O`ahu and at various destinations. By consolidating cargo at a central location before trucking to the water or air carrier facility and shipping it as one load, shippers may benefit from an economy of scale. Essentially, shippers can share the cost of trucking on the front end (from a Honolulu warehouse to the water or air carrier's Honolulu facility), and share the cost of trucking on the back end (from the destination's harbor/airport facility and then on to a central deconsolidation center).

CONCLUSION:

As a result of the foregoing review of the three modes of shipping, the Working Group found that the Legislature has already taken the following substantive actions to reduce the cost of shipping from O`ahu to Moloka`i, Lāna`i and Hāna, Maui:

1. **The Public Utilities Commission:** As a result of the regulatory structure for water carriers, mechanisms are already in place to subsidize rates to ship refrigerated and dry containers, vehicles, and roll-on/roll-off cargo (such as construction equipment), to or from all ports, including Moloka`i and Lāna`i. Moreover, rates for less-than-container-load (LCL) shipments to and from Moloka`i and Lāna`i are less than LCL rates to and from Kahului, the other Maui County port. For Hāna, without regularly scheduled service, PUC jurisdiction would not be triggered. Falling outside the scope of regulatory oversight, the cost of service to the Port of Hāna would not be absorbed into (and possibly subsidized by) the cost structure of a regulated water carrier.

2. **Capital Improvement Projects:** The Legislature recognizes that completion of key capital improvement projects in the State's commercial harbors and airports is essential in terms of providing the infrastructure necessary to support economic development and efficient water and air cargo services. The Legislature also recognizes that statewide harbor and airport improvements are an essential component of controlling shipping costs for residents and businesses throughout the State.

   Key capital improvement projects in the State's harbors include:

   Honolulu Harbor – Kapālama Container Terminal (KCT)
   Hilo Harbor – Pier 4 Inter-island Cargo Terminal
   Hāna Harbor

3. **General Excise Tax Incentives:** Shipping to and from Lāna`i, Moloka`i, and Hāna, Maui benefits from long established general excise tax incentives. Intra-state, inter-island shipping of agricultural commodities enjoys an exemption for all amounts received for loading, unloading, and actual transportation of such commodities. Section 237-24.3(1), Hawaii Revised Statutes (HRS). This exemption carries a tax cost of $2,615,428 per year

to the State.[1] Note that this exemption covers only intra-state activity; therefore, all of its value accrues to the State of Hawaii and its residents.

Shipping to and from Lāna`i and Moloka`i also benefits indirectly from another exemption. Section 237-24.3(4), HRS, provides a statewide exemption for stevedoring activities.[2] This exemption applies to loading and unloading of cargo not eligible for the above exemption (non-agricultural commodities). This exemption covers stevedoring activities regardless of the destination of the cargo, carrying a total statewide tax cost of $2,836,679.

4. **Agriculture Subsidies:** The Legislature has provided matching funds and departmental staff to take advantage of the federal Reimbursement Transportation Cost Payment Program for Geographically Disadvantaged Farmers and Ranchers program. This program reimburses producers for a portion of the cost for transporting their agricultural commodity or for inputs used to produce an agricultural commodity.

   Another current incentive that assists in offsetting shipping costs is outlined in Act 200 (SB 593, SD1, HD1, SLH2013) focusing on reimbursement for livestock feed. As almost all livestock feed is imported from the mainland (and feed can constitute up to 70 percent of total production costs), this bill appropriates up to $1,500,000 to reimburse qualified producers in the purchase of feed.

RECOMMENDATIONS:

1. **Regulatory Structure:** The Working Group recommends support for the PUC's recently approved alternative rate-making pilot program for Young Brothers called the "Annual Freight Rate Adjustment" or "AFRA". AFRA has two purposes: (1) the development of a process to increase rate-making efficiency and responsiveness to current economic conditions, while (2) attracting and supporting capital investments in utility resources through incremental rate adjustments over time. This three-year pilot program complements the somewhat lengthier traditional general rate case process (with a general rate case in year 1 of the three-year cycle and a rate adjustment under AFRA in years 2 and 3). This approach benefits the public by promoting efficiencies in Young Brothers' operations to provide essential services at reasonable cost. AFRA would provide an avenue for modest adjustments to Young Brothers' rates (to be capped at 5.5 percent annually) to attract and support capital investments in long-term assets that underlie reliable service. Both AFRA

[1] All data publicly available and collected from the Report of the 2005-2007 Tax Review Commission. The working group applied an inflation adjustment to the numbers to reflect 2013 dollars. Details of the inflation adjustment can be found here: http://www.bls.gov/data/inflation_calculator.htm .

[2] In Young Brothers' case, a GET exemption applies to that portion of Young Brothers' freight charges allocated to the loading and unloading of cargo. Effective July 1, 2013, 26.366 percent of Young Brothers' freight charges are exempt from GET under this exemption. This percentage is recalculated on an annual basis.

incremental rate adjustments and capital investments would be planned and spread over time. This approach would also mitigate the impact of periods during which low to flat cargo volume growth does not sustain an opportunity to earn a fair return on capital investments and thereby help maintain the utility's financial health and profile as an investment target. A financially healthy utility, in turn, would provide the funding to support its publicly regulated services.

2. **Harbors Modernization and New Day Plan:** For the benefit of all of the State's communities, the Working Group recommends that the modernization of Honolulu Harbor – namely the Kapālama Container Terminal (KCT) project – be completed by May 2017, and the new Hilo Harbor Inter-Island Cargo Terminal at Pier 4 by February 2015.

   These harbor infrastructure improvements, although not located in Moloka`i, Lāna`i, or Hāna, Maui, would nonetheless benefit these three communities because they will in turn benefit from a greater statewide system of efficiencies. Major infrastructure development is not immediately needed on Moloka`i or Lāna`i, as these port facilities are adequate for the foreseeable future (or, at the very least, these port facilities do not have a need that would justify the cost of improving them). The Department of Transportation is currently developing plans to improve the harbor at Hāna, Maui, so that it may be used in the future for emergency or infrequent cargo services.

3. **Maximizing Available Efficiencies in Transportation System and Utilizing Existing Working Relationships:**
   A logistics consultant should be contracted by the respective communities to review the purchase and shipping practices of the various Moloka`i, Lāna`i and Hāna, Maui merchants, and how they receive goods from West Coast and O`ahu sources to determine ways in which goods could be consolidated for trucking. If Moloka`i, Lāna`i and Hāna, Maui merchants are willing to work together, they might consider discussing with Honolulu freight forwarders/consolidators (including consolidators of refrigerated cargo) the feasibility of combining cargo loads and sharing trucking and consolidation costs. Included in this assessment would be purchases that are made from big box retailers such as Costco and Sam's Club for on-site consolidation to provide more efficient trucking to water and air carriers' facilities.

4. **Developing Basic Cargo Infrastructure for Airport Facilities in Moloka`i, Lāna`i, and Hāna, Maui:**
   The respective airport facilities at Moloka`i, Lāna`i, and Hāna, Maui are not adequate to support expanded air cargo services. These locations have certain limitations relating to airport runway length, cargo refrigeration capability, limited fueling service and/or other operational limitations. Presently, the economies of scale and/or scope at these locations can support only the current level of limited air cargo service; therefore, infrastructure improvements at airports are not justified.

5. **Tax Considerations:** As discussed previously, shipping currently benefits from general excise tax exemptions. Therefore, short of a generous income tax credit for the industry, there is no place in the tax code for reducing shipping costs. However, if it were considered, the efficacy of such an income tax credit to lessen the consumer cost of shipping is not certain. The working group recommends no action regarding taxation of shipping. Targeted and effective tax incentive options have been exhausted; remaining options would be both expensive and of limited effectiveness.

6. **Agriculture Incentives:** The Working Group recommends support for the Hawaii Department of Agriculture's Federal State Marketing Improvement Program (FSMIP) Funds. This yearly program provided by the Agriculture Marketing Service of the USDA, provides matching funds to state Departments of Agriculture, state agricultural experiment stations, and other appropriate state agencies to assist in exploring new market opportunities for U.S. food and agricultural products, and to encourage research and innovation aimed at improving the efficiency and performance of the marketing system. One FSMIP project is expected to create a trial program to hire a consolidator to schedule, pickup, and consolidate LCL shipments for agriculture producers in Moloka`i, Lāna`i, or Hāna. This project hopes to reduce consolidation costs, labor, and time required to prepare shipments for loading to the Young Brothers barge. At the end of the project, participants will complete evaluations estimating the money they saved, allowing the community to determine if using consolidation services is a viable means of saving on shipping expenses.

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INTRODUCTION

House Concurrent Resolution No. 204, H.D.1, S.D. 1 (2013) (HCR 204) requests that the Director of Business, Economic Development, and Tourism "establish a working group to study, consider, and recommend ways to reduce the time and cost of shipping goods to O`ahu from Moloka`i, Lāna`i, and Hāna, Maui. HCR 204, Senate Standing Committee Report 1606 (with emphasis added), states a concern "that the cost of goods in remote locations of the State may be significantly higher than in more populous regions because of increased shipping costs and transit times."

HCR 204 requests that the working group:

> consider the following strategies for reducing transport time and cost:
>
> (1) Identifying and proposing amendments to any existing statute, administrative rule, or ordinance;
> (2) The feasibility of alternative modes of transportation or other means of shipping freight between islands;
> (3) Reducing taxes or creating tax incentives; and
> (4) Any other related issue that the working group considers appropriate[.]

With respect to the members of the HCR 204 working group (Working Group), HCR 204 requests that the Director of Business, Economic Development, and Tourism:

> serve as the chairperson of the working group and invite the following persons, or their respective designees, to serve as members of the working group:
>
> (1) The Director of Transportation;
> (2) The Director of Taxation;
> (3) The Chairperson of the Board of Agriculture;
> (4) A county official from the County of Maui, appointed by the Mayor of the County of Maui;
> (5) A representative from the airline industry, appointed by the Senate President;
> (6) A member representing the Island of Moloka`i, appointed by the President of the Senate;
> (7) A member representing the Island of Lāna`i, appointed by the Governor;
> (8) A member representing the community of Hāna, Maui, appointed by the Speaker of the House of Representatives; and
> (9) A representative from the shipping industry, appointed by the Speaker of the House of Representatives[.]

HCR 204 requests that the Working Group "report to the Legislature its findings and recommendations, including any proposed legislation, no later than 20 days prior to the convening of the Regular Session of 2014". The full text of HCR 204 is attached to this Report as Appendix "A".

In an earlier resolution (Senate Concurrent Resolution 33 (2006)), the Hawai`i Legislature cites the O`ahu Commercial Harbors 2020 Master Plan for two commonly recited and critical principles regarding cargo service:

> The inter-island system of cargo distribution is the principal means by which neighbor island communities receive and export their cargo. This system has Honolulu Harbor as its hub or point of distribution and consolidation.
>
> The 2020 Master Plan estimates that eighty percent of everything used or consumed in the State is imported and that over ninety-eight percent of these imported goods are shipped by sea entering the State through our commercial harbors.

Because a far greater percentage of cargo is imported (and exported) by water than by air, this report focuses largely on cargo transportation by water.

By at least one measure, Honolulu Harbor and its (interstate and inter-island) cargo carriers are the most efficient in terms of throughput on the U.S. West Coast. Because of space constraints, on-site cargo handling density in Honolulu Harbor is higher than at any other U.S. West Coast harbor. The number of U.S. mainline vessel "twenty-foot container equivalents" ("***TEUs***") handled at Honolulu Harbor per terminal acre in 2005 was over 7,000, compared with around 4,000 TEUs per acre for Seattle, Tacoma, and Oakland, and around 5,000 for Los Angeles and Long Beach. However, operating at this high density can be expensive, requiring, for example, costly ground-stacking and multiple handling of containers and cargo.

2005 Honolulu & West Coast Port Densities

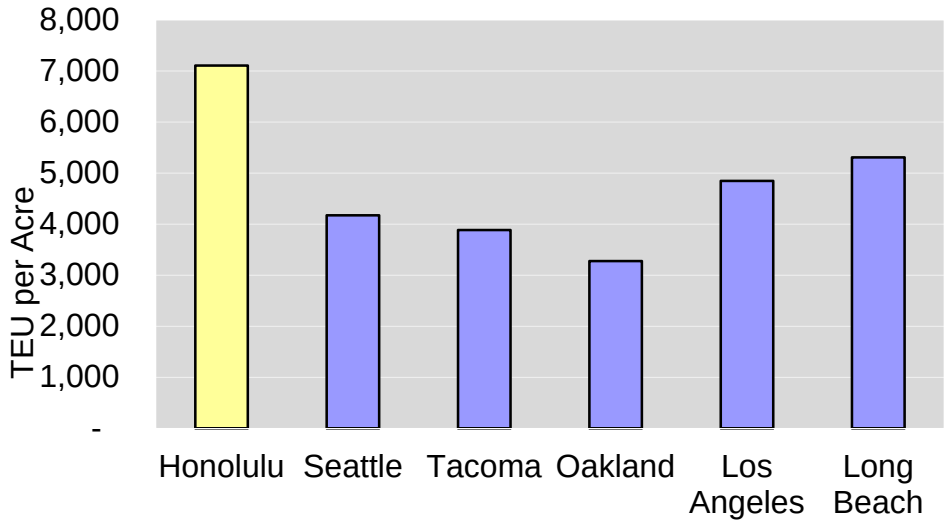

Figure 1: Source: HHUG, 2006

As discussed below in turn, the Legislature recognizes that transportation of cargo to the neighbor islands is an essential service requiring both (I) regulatory oversight as well as (II)

adequate infrastructure in commercial harbors (which are owned by the State of Hawai`i) to support efficient and cost-effective cargo transportation. Moreover, it is also clear that (III) there are certain elements of costs and logistics of shipping that are beyond government action relating to water carriers and harbors—for example, certain private sector initiatives and planning efforts relating to shipper preparation of cargo and improved and cooperative consolidation practices may reduce the cost of shipping. With these principles in mind and in response to HCR 204, the Working Group presents this report.

CHAPTER 1

WORKING GROUP'S FINDINGS RELATING TO AVAILABILITY AND REGULATION OF INTER-ISLAND TRANSPORTATION OF GOODS

PART I: ESTABLISHING REGULATORY STRUCTURE FOR PUBLIC UTILITIES

PUC Regulation of Public Utilities Generally

Under Chapter 269 of the Hawai`i Revised Statutes (HRS), the Legislature granted the Public Utilities Commission (PUC) general powers and duties for the regulation of "public utilities". As charged by the Legislature (*see, e.g.* HRS § 269-16), the PUC's mission is to (a) ensure that regulated public utilities provide their customers with **adequate and reliable services** in an **efficient and safe manner** at **just and reasonable rates** while (b) providing such companies with a fair opportunity to earn a reasonable rate of return. As directed and authorized by Chapter 269, the PUC regulates five categories of public utilities: (1) transportation of passengers and freight (with transportation of freight governed by Chapters 269, 271, and 271G), (2) telecommunications, (3) storage or warehousing of goods (when found necessary by the commission), (4) private sewage disposal, and (5) provision of light, power, heating, cooling, water, gas, or oil.

The PUC's authority to regulate transportation excludes "aerial transportation enterprise[s]" such as an airline or air cargo carriers.

PUC Regulation of Water Carriers (Excluding Air Carriers)

Recently the Legislature reaffirmed certain of the principles of water carrier regulation. In 2011, the Legislature set forth certain findings in Act 213, Section 1:

> The legislature finds that the State's water cargo transportation industry is critical to the economic health of its island communities. In recognition of the significance of a healthy, efficient, and accessible water transportation system, the legislature passed the Hawaii Water Carrier Act, codified as chapter 271G, Hawaii Revised Statutes, to subject water carriers to the regulatory oversight of the public utilities commission.

As noted immediately above, with respect to regulation of water carriers of persons and property, the primary regulatory provisions are found under the Hawai`i Water Carrier Act of 1974 (HRS Chapter 271G) and the administrative rules, promulgated by the PUC, under the authority of HRS Chapters 269 and 271G. HRS § 271G-2 provides, in part:

> It is intended by this chapter to provide for fair and impartial regulation of such transportation, so administered as to recognize and preserve the inherent advantages of such transportation, in the interest of preserving for the public the full benefit and use of the waterways consistent with the public safety and the needs of commerce: to promote safe, adequate, economical, and efficient service among carriers, to encourage the establishment and maintenance of reasonable

> rates and charges for transportation and related accessorial service, without unjust discrimination, undue preference or advantage, or unfair or destructive competitive practices, all to the end of developing, coordinating, and preserving a sound transportation system by water.

The PUC has jurisdiction over water carriers that provide regularly scheduled water carrier service between locations within the State. HRS **§§** 269-2(2)(E) & (F), 271G-2, 271G-4. It specifically does not have jurisdiction over "interstate carriers", i.e., carriers that transport cargo from a port in another state (or country) to the State of Hawai`i, and carriers to the extent that they enter into private contracts for carriage between points within the State, provided that such carriage is not pursuant to either an established schedule or an undertaking to perform carriage services on behalf of the public generally. *Id.*[3]

In short, among the primary areas of regulatory focus and jurisdiction of the PUC (as directed by the Legislature) are market entry (and the terms of such entry), utility rates, and utility service (of carriers with regularly scheduled water carrier service between locations within the State) as part of a coordinated "sound transportation system by water."

In contrast, and as suggested above, there is no form of State regulation (by the PUC or otherwise) that directs market entry, rates or service of air cargo carriers.

> **Regulation of *Market Entry:*** With respect to entry into the regulated inter-island cargo service market and the terms of such entry, the Legislature stated in Act 213, Section 1 (2011):
>
> > The legislature finds that the State's water cargo transportation industry is critical to the economic health of its island communities. In recognition of the significance of a healthy, efficient, and accessible water transportation system, the legislature passed the Hawaii Water Carrier Act, codified as chapter 271G, Hawaii Revised Statutes, to subject water carriers to the regulatory oversight of the public utilities commission.
> >
> > The regulatory framework created by chapter 271G, Hawaii Revised Statutes, includes a requirement that a water carrier apply for and receive a certificate of public convenience and necessity from the public utilities commission before engaging in operations within the State. Issuance of a certificate of public convenience and necessity requires findings that the applicant is willing and able to properly perform the proposed service and conform to the applicable laws and rules, and that the proposed service is currently required for the convenience and necessity of the public or that it will be in the future.
> >
> > Experience has shown that efficient, reliable, frequent, and universal water carrier service depends on economies of scale and scope, as well as the substantial investment of capital

[3] Water carriers participating in the noncontiguous domestic trade, that is, movements between the U.S. and Puerto Rico, Guam, the Virgin Islands, Hawai`i, and Alaska, and motor property carriers providing service jointly with those water carriers must file tariffs with the federal Surface Transportation Board ("***STB***"). The tariff regulations which have been adopted by the STB (*see* 49 C.F.R. 1312) define a tariff as an issuance which contains rates, rules, regulations, classifications or other provisions which have been published and filed with the STB in compliance with 49 U.S.C. 13702.

and other resources. A successful regulatory regime must take into account and accommodate these realities. In reviewing applications to offer new services within the existing regulatory environment, the public utilities commission must ensure that the entry of new services and service providers does not erode the underpinnings of the regulatory framework or threaten future investment in service and infrastructure in a manner that risks the loss of existing services. . . .

The legislature finds that applications for entry into the regulated water carrier market require in-depth analysis of specific issues of public convenience and necessity to ensure that successful applications serve the public interest and protect communities from the risk of harm.

Accordingly, the purpose of this Act is to clarify the legislative intent that underlies the existing requirement for a finding of present or future public convenience and necessity for the issuance of a certificate of public convenience and necessity.

The State Legislature has determined it is in the public interest to impose a public utilities regulatory scheme on the provision of inter-island water carrier services. Under this regulatory scheme, the PUC not only regulates market entry and the terms thereof, but also regulates rates and services. In contrast, a competitive scheme would encourage each competitor to choose its lines of service, target service populations, and price its services accordingly. State legislatures commonly determine that a market should be so regulated where, among other things, (a) the relatively small size of the market precludes two or more competitors from operating efficiently for the benefit of consumers and (b) providing an essential service requires substantial investment and includes high operating costs to serve both high and low demand locations and locations and lines of service that are both profitable and unprofitable. In such a context, the service provider has a "universal service obligation," being the obligation of the utility to reach and provide access to every willing user. In a regulated market, the PUC oversees and determines rates, service types, and quality, and determines whether a water carrier has made efficient use of available resources and, in addition, ensures that smaller and/or less profitable service populations and/or types of shippers have access to adequate service.

Regulation of Water Carrier *Rates:* All licensed water carriers are required to provide safe and adequate service, equipment, and facilities for the transportation of property and to establish just and reasonable rates and charges for such service. In turn, they are entitled to an opportunity to earn a "fair and reasonable return" on investment.

The PUC regulates a utility's return on investment primarily by way of "general rate cases." This rate-making process involves the filing of an application by a utility and the PUC's determination of the rates the utility is allowed to charge its customers for the service rendered by the utility.

The PUC's review of such an application is a very lengthy process. The process includes the Division of Consumer Advocacy within the Department of Commerce and Consumer Affairs (commonly referred to as the "Consumer Advocate"). The Consumer Advocate represents the interests of all consumers of utility services and is a party to any proceeding before the PUC.

The process to review such applications may include public hearings on all islands in which the utility operates, several exchanges of "information requests" between the parties (including the utility, the Consumer Advocate, and any intervenors), position and rebuttal statements by the parties, testimony by the parties' factual witnesses and subject matter experts, possibly a full or partial settlement agreement by and among the parties, and, in the absence of a full settlement, pre- and post-trial briefs, and an evidentiary hearing before the Commission. Added to this process may be motions and related replies, compliance with intermediary orders of the PUC, information requests from the PUC, and numerous communications to clarify matters, settle issues, and set hearing protocols.

It is the utility's burden to process a "general rate case" and prove its case in an "on the record" proceeding in which the PUC acts in a quasi-judicial capacity. Through the rate case, the utility will seek a rate structure that will obtain the total amount of revenue ("Revenue Requirements") needed by the utility to cover the cost to the utility (including a reasonable rate of return on the utility's investment) of providing service to its customers. In a "general rate case" filed with the PUC, rates are set using a "future test year" consisting of projected estimates of revenues and expenses, average rate base, and rate of return. For example, if a PUC-regulated water carrier were to file a rate case in December 2013, the water carrier would project and use revenues, expenses, rate base, and rate of return for calendar year 2014 as the "test year". In somewhat simplified form, the additional revenue the water carrier would require (and would need to prove through its rate case) is calculated as follows:

Operating Expenses[4] *+ (Rate Base*[5] *x Allowed Rate of Return*[6]*) = Revenue Requirements*

Revenue Requirements – Revenue at Currently Effective Rates = Additional Revenue Required

In short, the *Additional Revenue Required* determines the rate increase sought by a utility. A utility's *Revenue Requirements* (and regulated rates for customers) are made up of recovery of *Operating Expenses* and return on investment through an *Allowed Rate of Return* on *Rate Base* (invested capital), which is usually the average of the value of a utility's rate base at the beginning and at the end of the test year.

Once the PUC determines a utility's revenue requirements, the next and final step is to spread those requirements over the rates the utility charges for its various lines of service. At least two principles are applicable here. First, the utility's operating expenses, particularly where a utility is a sole service provider, must reflect efficiencies of scope and scale[7] to lessen its revenue requirements. Second, the resulting revenue requirements are spread across both profitable and unprofitable locations and lines of service to, in essence, create blended rates under which profitable locations and lines of service subsidize unprofitable

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[4] Through its rates, a utility may recover operating expenses which are just and reasonable, prudently incurred and allowed by the PUC. Allowable operating expenses include operation and maintenance costs, depreciation, and all taxes, including income taxes.

Source: National Association of Regulatory Utility Commissioners (NARUC) (http://www.narucpartnerships.org/Documents/Tariff%20Development%20I--Basic%20Ratemaking%20Process%20-%20final%20draft%20ver%201%200.pdf)

[5] "Rate Base" is the net amount of investment, funded by investors, in utility plant and other assets devoted to the rendering of utility service. Assets in rate base must be "used and useful", *i.e.,* only plant currently providing or capable of providing utility service to customers is included in rate base and must be a "prudent" investment, *i.e.,* only plant prudently purchased or constructed is includable in rate base. Once an asset is approved by the PUC as part of rate base, a utility may earn a reasonable rate of return on this investment.

Id.

[6] "Rate of Return" is the percentage rate which the PUC concludes should be earned on the rate base in order to cover the utility's cost of capital.

- The rate of return on invested capital is based upon the concept of the cost of capital --i.e., the compensation that investors require for exposing their capital to risk.
- For a given type of capital, or financing instrument (for example: common equity, preferred stock, long-term debt, etc.), the "cost" to a company when it issues that capital is the rate of return that investors require for similar investments with similar risk characteristics.

Id.

[7] See footnote 8 and accompanying text for further discussion of efficiencies of scale and scope.

locations and lines of service. As a result, all users of all ports pay generally the same rates for the same services regardless of the profitability of a specific port.

PUC Regulation of Water Carrier Services: In the regulated water carrier market, the Legislature has directed the PUC to supervise each utility affirmatively, dictating the types of services that a utility must provide (as well as the rates for such services as noted above). By this regulatory structure, the Legislature charges the PUC with ensuring the efficient use of resources and protection of consumers. Under HRS § 271G-17**,** the PUC must approve the services provided by a water carrier and any changes to that service. This section provides:

> (a) Every water carrier shall file with the public utilities commission, and print, and keep open to public inspection, tariffs showing all the rates, fares, and charges for transportation, and all services in connection therewith, of passengers or property. The rates, fares, and charges shall be stated in terms of lawful money of the United States. The tariffs required by this section shall be published, filed, and posted in such form and manner, and shall contain such information as the commission by regulations shall prescribe; and the commission may reject any tariff filed with it which is not in consonance with this section and with the regulations. Any tariff so rejected by the commission shall be void and its use shall be unlawful.
>
> (b) No change shall be made in any rate, fare, charge, or classification, or any rule, regulation, or practice affecting the rate, fare, charge, or classification, or the value of the service thereunder, specified in any effective tariff of a water carrier, except after forty-five days' notice of the proposed change filed and posted in accordance with subsection (a); provided that changes to a fuel surcharge approved by the commission may be made after thirty days' notice of the proposed change filed and posted in accordance with subsection (a). The notice shall plainly state the change proposed to be made and the time when it will take effect. The commission may in its discretion and for good cause shown allow the change upon notice less than that herein specified or modify the requirements of this section with respect to posting and filing of tariffs either in particular instances or by general order applicable to special or peculiar circumstances or conditions.
>
> (c) No water carrier shall engage in the transportation of passengers or property unless the rates, fares, and charges upon which the same are transported by the carrier have been filed and published in accordance with this chapter.
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> (d) Whenever there is filed with the commission any schedule stating a new rate, fare, or charge, for the transportation of passengers or property by a water carrier or any rule, regulation, or practice affecting such rate, fare, or charge, or the value of the service thereunder, the carrier may on its own initiative, or shall by order of the commission served prior to the effective date of the schedule, concurrently file a pro forma statement of account which shall be prepared under the same form and in the same manner as prescribed by the commission's uniform system of accounts.

PART II: PUC'S IMPLEMENTATION OF THE LEGISLATURE'S DIRECTIVES RELATING TO WATER CARRIER REGULATION

Specific Water Carriers Regulated by PUC and Description of Regulated Inter-Island Water Carrier System of Cargo Distribution

As stated in the PUC's 2011-2012 Annual Report to the Legislature, dated November, 2012:

> The Commission regulates four water carriers: Young Brothers, Limited ("Young Brothers"), a provider of inter-island cargo service between all major islands; Sea Link of Hawaii, Inc. ("Sea Link"), a passenger and cargo carrier providing water transportation services between the islands of Maui and Moloka`i; Hone Heke Corporation ("Hone Heke"), a passenger and cargo carrier providing water transportation services between the islands of Maui and Lana`i; and Pasha Hawaii Transport Lines LLC ("Pasha"), a provider of cargo service between the ports of Honolulu, Kahului, and Hilo with authorization to make calls to Nawiliwili, Barbers Point, and Pearl Harbor upon a customer's request.

As noted, the inter-island system of cargo distribution that supports our neighbor islands has Honolulu Harbor as its hub or point of distribution and consolidation. Young Brothers, Limited (Young Brothers or YB) is the largest carrier in this system. Through its hub operations in Honolulu Harbor, Young Brothers makes twelve neighbor island port calls per week (including four to the Big Island [two each to Hilo and Kawaihae], three to Maui, two to Kaua`i, two to Moloka`i, and one to Lāna`i). It carries a large percentage of cargo destined for the neighbor islands, including essentially all water carrier cargo to Moloka`i and Lāna`i.[8] YB services the State's ports with the following seven barges:

- *Ho'omaka Hou* **(**340' x 90' / flat deck barge with 11,700-ton capacity)
- *Maka'ala* **(**340' x 90' / flat deck barge with 11,700-ton capacity)
- *Kala'enalu* **(**340' x 90' **/** flat deck barge with 11,700-ton capacity)
- *Ha`aheo* **(**340' x 90' / flat deck barge with 11,700-ton capacity)
- *Kaholo* (330' x 86' / an automobile and roll-on/roll-off barge with a 5,600-ton capacity or 498 automobiles)
- *Kukahi* (310' x 76' / house barge with 7,300-ton capacity, with 7,134 square feet under cover of a "house")
- *Kamaluhia* (285' x 78' **/** 7,240-ton capacity / house barge with 5,565 square feet under cover of a "house")

Moloka`i and Lāna`i are most commonly served by the barge *Kamaluhia.* This barge is small enough to enter the very confined and surge-prone Kaumalapau Harbor (in Lāna`i) regularly without the assistance of a second tug. It is also partially covered with a "house" (unlike YB's four largest barges) to accommodate the more LCL-reliant Moloka`i and Lāna`i

[8] Much of the remainder of cargo going to the neighbor islands travels via the barges of Matson Navigation Company (Matson), which originates on the West Coast and is transshipped at Honolulu Harbor from a Matson liner vessel. Because this is "interstate cargo," see footnote 1 above and accompanying text, Matson's service and rates are not regulated by the PUC and are instead regulated by the federal Surface Transportation Board.

communities (*i.e.*, as discussed further below, the smaller businesses in these communities more commonly ship via pallet than in the more protected mode afforded by containers).

Neighbor island businesses require the frequency of service provided by Young Brothers to maintain their just-in-time methods of inventory and distribution. No other carrier provides nearly this frequency of service. Because of the lack of warehouse space on the neighbor islands, this just-in-time system is an essential component of maintaining sufficient store inventories of essential goods. This system also serves to reduce the cost of goods by, e.g., supporting efficient trucking practices, minimizing warehousing costs, and avoiding the costs of development and maintaining warehouses, particularly refrigerated warehouses. Frequency of service is also essential to shipping local agricultural goods (which depend upon frequent shipment of just harvested produce) and maintaining the viability of this vital industry.[9]

Young Brothers provides service on a universal basis--that is, it offers multiple lines of service to all islands. These lines of service include shipments by refrigerated and dry containers, less-than-container load pallets and boxes, as well as automobiles and other wheeled vehicles (roll-on/roll-off cargo), to all islands, regardless of whether the line of service or route is profitable. In essence, it is the low-cost option upon which many local businesses depend to ship smaller less-than-container load cargo, the primary mode of shipment for Moloka`i and Lāna`i.

No cargo carrier, including Young Brothers, currently calls upon Hāna, Maui. There is no currently functioning commercial harbor facility in Hāna. As discussed below, Act 200 passed by the 2008 Legislature (sometimes referenced as the "Harbors Modernization Act") adds most of Hāna Harbor to the jurisdiction of the State Department of Transportation (DOT). The Act authorizes improvements to ensure the Hāna community has a working pier that can support its cargo needs, especially in times of emergencies and natural disasters. As further discussed below, DOT planning is currently underway for such a facility. However, it is not contemplated that the Port of Hāna would require and receive regulated scheduled water carrier service and, instead would be equipped to receive barge service in the event of an emergency or if roads to Hāna are for any reason cut off or closed. The improvements would also provide Hāna with the potential of occasional barge service to receive cargo from or send cargo to other destinations. Without regularly scheduled service to Hāna, PUC jurisdiction would not be triggered. Falling outside the scope of regulatory oversight, the cost of service to the Port of Hāna would not be absorbed into (and possibly subsidized by) the cost structure of a regulated water carrier, such as Young Brothers.

[9] The essential nature of and Young Brothers' commitment to this frequency of service is also evidenced by the fact that Young Brothers has maintained the same number of port calls despite the fact that its cargo volumes fell approximately 30 percent from peak cargo loads in 2007 to low recessionary volumes that continued through 2011. Despite such falling volumes, corresponding with falling revenues, Young Brothers has maintained its frequency of service to each neighbor island, understanding that neighbor islands need frequency of service to maintain their just-in-time methods of inventory and distribution.

Time to Ship Goods: Cargo Service Provided by Young Brothers to Moloka`i and Lāna`i

Under the PUC's regulation of service in general and frequency in particular, Young Brothers sails twice weekly to Moloka`i and once weekly to Lāna`i. These sailings provide overnight, "next day service" to both islands.

Young Brothers and the Moloka`i community (in particular, the Moloka`i Chamber of Commerce) have worked together over many years to maximize the efficiency of the Moloka`i schedule and to meet the community's desire for two weekly sailings. Cargo volumes for Moloka`i are much lower than for other islands (other than Lāna`i). As a result, low volumes are being spread over two weekly sailings, although the volume could easily be accommodated in one voyage. Due to lack of storage space and the high cost of adding storage space in Moloka`i, the community has identified the maintenance of two weekly sailings as a high priority. As discussed below, Young Brothers and the Moloka`i community have worked together to mitigate the high cost of these two weekly sailings.

Young Brothers also has a working history with the Lāna`i community. Lāna`i was the last island to be added to the Young Brothers system. Young Brothers nonetheless has also established a unique relationship with the Lāna`i community. In mid-1991, Dole Packaged Foods Company announced it would phase out virtually all pineapple growing on Lāna'i and discontinue the intermittent barge service to the island provided by Isleways, Ltd. In November 1991, Young Brothers filled the void by initiating regular weekly barge service to and from Lāna'i. According to then President Chuck Swanson, Young Brothers' service to Lāna'i wasn't expected to be profitable, but Young Brothers "believes it necessary and proper that we provide this vital lifeline." Primary use of the harbor changed from the export of pineapple to the import of goods and fuel for the Lāna`i community.

Looking specifically at the weekly sailing schedule , on ***Sunday*** night, a Young Brothers barge departs Honolulu and arrives in Kaunakakai on Moloka`i early ***Monday*** morning (and, like other Young Brothers sailings, sails through the night to arrive in the early morning hours in neighbor island ports in coordination with early morning trucking and delivery schedules). Typically, Young Brothers receives cargo for this barge from distributors and other vendors in Honolulu shipping to Moloka`i on the preceding Friday. This barge is unloaded Monday morning in Moloka`i (with cargo being available for Moloka`i customers on Monday). By late Monday afternoon, the barge is back-loaded with Moloka`i cargo, including agricultural cargo, destined for Honolulu. The vessel departs that Monday night and arrives in Honolulu on ***Tuesday*** morning.

On Tuesday morning, this Moloka`i cargo is unloaded in Honolulu and made available for Honolulu customer pick-up. If any of the Moloka`i cargo is destined for another neighbor island, it will be loaded onto another barge. During the course of the Tuesday work day, this barge is again loaded with cargo destined for Moloka`i, along with cargo destined for Lāna`i commonly delivered to YB in Honolulu on that Tuesday. The barge departs again on ***Tuesday*** evening, arriving first in Lāna`i on ***Wednesday*** morning. After the Lāna`i cargo is unloaded and cargo outbound from Lāna`i is loaded, the barge then departs later that same day for a

Moloka`i arrival on late ***Wednesday*** afternoon (with cargo to be available to Moloka`i customers on Thursday morning). After the Moloka`i-destined cargo is unloaded, the barge is again back-loaded with Moloka`i cargo (on Wednesday afternoon) and sails back to Honolulu for a ***Thursday*** morning arrival in Honolulu, with cargo being available for pick-up by Honolulu customers on Thursday.

Notably, all perishable cargo is stored and transported in temperature-controlled containers in every segment of Young Brothers' sailings to retain freshness and product quality.

Cost for Shipping Goods Under Young Brothers' Freight Rates

By legislative design in a regulatory structure, service (and associated freight rates) to the less populated islands of Moloka`i and Lāna`i are heavily subsidized by other profitable routes and lines of service. This subsidy of costs is made possible by Moloka`i and Lāna`i costs being spread through a larger statewide system of service, with this larger system's attendant efficiencies of scale and scope. [10]

This subsidy results in Young Brothers customers paying the same rates to ship refrigerated and dry containers, vehicles, and roll-on/roll-off cargo (such as construction equipment), whether to or from Moloka`i and Lāna`i or to or from other ports. Young Brothers employs this single-rate structure despite the fact that the unit cost of such shipments to Young Brothers is substantially higher, and Young Brothers realizes a net loss of revenue from

[10] "Economies of scale" is a term used by economists to refer to the situation in which the cost of producing an additional unit of output (i.e., the marginal cost) of a product decreases as the volume of output (i.e., the scale of production) increases.

Economies of scope are conceptually similar to economies of scale. Whereas economies of scale primarily refer to efficiencies associated with increasing or decreasing the scale of production of a single product type, economies of scope refer to efficiencies primarily associated with increasing or decreasing the scope of production and/or distribution of different types of products. Economies of scope exist whenever the same investment can support multiple economic activities less expensively in combination than separately.

Young Brothers' rates as well as its ability to afford and provide the services our State requires, including multiple weekly sailings, transport services for freight of all kinds and discounted rates for commodities such as local agriculture, are based on the ***economies of scale and scope*** of Young Brothers' operations. Most persons understand that these economies are critical to Young Brothers' ability to provide subsidized service to our State's smaller ports (from which Young Brothers realizes a net loss of revenue); however, all persons should also understand that these economies are critical to Young Brothers realizing the type of efficiencies that allow it to afford making multiple sailings each week to larger islands as well.

In determining economies of scope and scale, economists analyze the "minimum efficient scale", which is the minimum size a firm can be for it to be productively efficient. In a relatively small market, for example, the market can be too small to support more than one firm efficiently. That is, if a market is smaller than the minimum efficient scale of a single firm, then multiple firms will be less efficient than a single firm with resulting higher prices to consumers. In Hawaii's intra-state water carrier market, the minimum efficient scale of providing this service (*i.e.*, the output at which average total cost of providing shipping services is minimized) is large relative to the size of the market. This is a critical consideration given the amount of capital investment and operating expenses required to operate a cargo transportation company.

operations in these smaller ports. In addition, freight rates for shipment of "less than container load" (LCL) cargo (which includes shipments by pallet and individual boxes commonly used by smaller shippers) to or from Moloka`i and Lāna`i are lower than for any other island. These lower LCL rates are a direct result of Young Brothers' work with the Moloka`i community. Prior to 2009, one of the two Young Brothers weekly sailings to Moloka`i included one sailing from O`ahu ***to*** Moloka`i ***via*** Maui. In the continuation of work on sailing schedules with the Moloka`i community, particularly the Moloka`i Chamber of Commerce, and also to achieve efficiencies in voyage costs, Young Brothers reorganized its Maui County sailing schedules in 2009 with PUC approval. This reorganized schedule eliminated the sailing triangle that included Honolulu, Kahului, and Kaunakakai harbors and replaced it with a triangle that originated in Honolulu and provided service to the two smallest ports Kaunakakai and Kaumalapau, thereby maintaining two weekly sailings to Moloka`i using a smaller barge. The savings resulting from these increased efficiencies were passed on to Moloka`i customers in the form of lower LCL rates for Moloka`i and Lāna`i. These proportionately lower LCL rates are still reflected in Young Brothers' tariff, with LCL rates to and from Moloka`i and Lāna`i being approximately 7.64 percent less than LCL rates to and from Kahului, the other Maui County port.

In addition, local agricultural products (from all islands) receive a 30 to 35-percent discount on rates. Known as the Island Agricultural Product or "IAP" Discount, Young Brothers' tariff provides for a 30 percent discount for LCL cargo and a 35 percent discount for containerized cargo. Under this tariff, island agricultural products are defined as "fresh agricultural products grown wholly in Hawaii, including but not limited to: pineapple, sugar, island fruits and vegetables, coffee, hay, whole eggs, island juices (not in retail can), macadamia nuts, onions and potatoes, milk, island meats and poultry, flowers, and flowering and ornamental plants." For the discount, products must be in an unprocessed or raw state.

In summary, at least five factors contribute to the current control of rates for Moloka`i and Lāna`i: (1) the PUC's regulation of rates including, (2) the subsidy in the Young Brothers rate structure for small shippers of all islands (in LCL rates), (3) the additional subsidy in the rate structure for the less populated islands of Moloka`i and Lāna`i, (4) Young Brothers' reduction and control of expenses, as described below in footnote 12 and accompanying text, and (5) for local agriculture, Young Brothers' 30 to 35 percent discount on freight rates for island agricultural products. Examples of these rates are demonstrated in the following tables:

Examples of Young Brothers Freight Rates Applied to Various Commodities
(as invoiced, including State general excise tax, fuel price adjustment, wharfage, and insurance charges)

Effective November 29, 2013 with Increase of 5.5 Percent

Less-than-Container Load Cargo (Dry)

57 cubic feet of canned goods (soup cans) – Honolulu to Moloka`i or Lāna`i *via dry pallet* *at General Cargo rate*	**All-In Freight Charges (including Young Brothers freight charges, State general excise tax, fuel price adjustment, wharfage, and insurance charges)**
For entire pallet (2,640 cans):	**$79.71**
Price *per can*:	**3.0¢**

60 cubic feet of beverages on dry pallet– Honolulu to Moloka`i or Lāna`i *at Beverage rate*	**All-In Freight Charges (including Young Brothers freight charges, State general excise tax, fuel price adjustment, wharfage, and insurance charges)**
For entire pallet (494 six-packs):	**$76.87**
Price *per six-pack*:	**15.6¢**

Examples of Young Brothers Freight Rates Applied to Various Commodities
(as invoiced, including State general excise tax, fuel price adjustment, wharfage, and insurance charges)

Effective November 29, 2013 with Increase of 5.5 Percent

Less-than-Container Load Cargo (Refrigerated)

2,000 pounds of frozen chicken - Honolulu to Moloka`i or Lāna`i *via refrigerated pallet at General Cargo rate*	**All-In Freight Charges (including Young Brothers freight charges, State general excise tax, fuel price adjustment, wharfage, and insurance charges)**
Cost of 2,000-pound pallet:	**$151.61**
Price *per pound*:	**7.6¢**

2,000 pounds of locally produced agricultural products – Moloka`i or Lāna`i to Honolulu *via refrigerated pallet with Island Agricultural Product Discount (30%)*	**All-In Freight Charges (including Young Brothers freight charges, State general excise tax, fuel price adjustment, wharfage, and insurance charges)**
Cost of 2,000-pound pallet:	**$104.56**
Price *per pound*:	**5.2¢**

Examples of Young Brothers Freight Rates Applied to Various Commodities
(as invoiced, including State general excise tax, fuel price adjustment, wharfage, and insurance charges)

Effective November 29, 2013 with Increase of 5.5 Percent

Containerized Cargo (Dry)

Dry* 20-foot Container (about 20,000 lbs or 10 tons) of general freight *at General Cargo rate	**All-In Freight Charges (including Young Brothers freight charges, State general excise tax, fuel price adjustment, wharfage, and insurance charges)**
Cost of entire 20-foot Container:	**$703.89**
Price *per ton*:	**$70.39**

Dry* 20-foot Container (about 20,000 lbs or 10 tons) of beverages *at Beverage rate	**All-In Freight Charges (including Young Brothers freight charges, State general excise tax, fuel price adjustment, wharfage, and insurance charges)**
Cost of entire 20-foot Container:	**$510.60**
Price *per ton*:	**$51.06**

Examples of Young Brothers Freight Rates Applied to Various Commodities (as invoiced, including State general excise tax, fuel price adjustment, wharfage, and insurance charges)

Effective November 29, 2013 with Increase of 5.5 Percent

Containerized Cargo (Refrigerated)

Refrigerated* 20-foot Container (about 20,000 lbs or 10 tons) of general freight *at General Cargo rate	**All-In Freight Charges (including Young Brothers freight charges, State general excise tax, fuel price adjustment, wharfage, and insurance charges)**
Cost of 20-foot Container	**$836.53**
Price *per ton*:	**$83.65**

Refrigerated* 20-foot Container (about 20,000 lbs or 10 tons) of locally produced agricultural products *with Island Agricultural Product Discount (35%)	**All-In Freight Charges (including Young Brothers freight charges, State general excise tax, fuel price adjustment, wharfage, and insurance charges)**
Cost of 20-foot Container	**$538.52**
Price *per ton*:	**$53.85**

These tables demonstrate efficiencies achieved by the scale and scope of Young Brothers' operations, as well as other efficiencies it has achieved[11] to keep prices down. These efficiencies may be measured by comparison to other transportation services. For example, the cost for a trucking company to pick up a pallet of general cargo (say, one pallet comprising 57 cubic feet holding 2,640 cans of soup) from Halawa Valley and move that pallet approximately 7 miles to Young Brothers' Honolulu facility is about $120 to $140. As noted in the tables above, the (all-in) rate for Young Brothers to take this same pallet on an approximately 100 mile ocean voyage to Moloka`i or Lāna`i is about $80.

[11] See footnote 14 below and accompanying text with respect to fuel efficiency achieved by Young Brothers.

Young Brothers' last general rate increase was approved by the PUC in December 2011. After filing its required "Notice of Intent" to file an application for a general rate increase on September 22, 2010, Young Brothers filed its application on December 22, 2010. After a series of filings, a series of public hearings (on all islands, including two on the Big Island), extensive discovery (known as "information requests"), numerous pleadings of various types, a partial settlement agreement, and an evidentiary hearing, the case concluded on December 16, 2011, nearly 15 months after the original filing of the Notice of Intent.

Whether it is the complexity of the process, its adversarial nature, or some other reason, a case may be made that a more efficient and shorter process with lower costs, both monetary and in the form of lost opportunities, would be beneficial to the State, the utility, and the people that they both serve.[12] The PUC recently approved an alternative rate-making pilot program for Young Brothers called the "Annual Freight Rate Adjustment" or "AFRA". AFRA has two purposes: (1) the development of a process to increase rate-making efficiency and responsiveness to current economic conditions while (2) attracting and supporting capital investments in utility resources through incremental rate adjustments over time to sustain continuous and frequent service to YB customers.

AFRA is, initially, a three-year pilot program that will complement the somewhat lengthier traditional general rate case process. Under the pilot program, a general rate case and two AFRA filings would be part of a three-year cycle in which rates are established by the PUC. In year 1, the PUC's decision in a general rate case establishes rates based upon the traditional elements of (a) Young Brothers' capital investment in intra-state operations (known as rate base), (b) a PUC-determined rate of return on this investment, (c) projected revenues (based on projected cargo volumes for year 1), and (d) projected operating expenses for year 1.[13] Then, in years 2 and 3, rates would be adjusted through an AFRA filing so that, in the ratemaking formula[14], projected revenue for year 1 would be adjusted to reflect actual revenue

[12] This approach supports the increasing need of the PUC to efficiently use its own resources given its expanding workload and priorities. As stated in the PUC's most recent Annual Report to the Legislature, dated November 12, 2012, at page 1:

> In addition to the Commission's traditional duty to oversee and regulate public utilities to ensure the provision of essential and reliable service at just and reasonable rates, the Legislature has entrusted the Commission with increased authority and discretion in implementing the State's clean energy policies. Three major legislative mandates, the Renewable Portfolio Standards ("RPS"), the Energy Efficiency Portfolio Standards ("EEPS") and the Public Benefit Fee ("PBF") are key energy policies driving Hawaii's clean energy transformation. Given the State's overall desire to stabilize Hawaii's economy and move towards energy independence, the majority of the Commission's time and resources are devoted to this sector.

[13] The AFRA formula employs YB's 2011 test year expenses (as adjudicated by the PUC in Docket No. 2010-0171), with these expenses being at levels driven by the restrictions and cutbacks of a recessionary budget and expense level.

[14] As noted above, the ratemaking formula is:

for the immediately preceding year (based on actual cargo volumes) and projected operating expenses would be adjusted by an inflation factor or, in the case of labor expenses, adjusted by an update to the preceding year's salary or hourly rates (offset by a productivity factor required by the PUC).

In an AFRA filing, rates could go up or down. Much of the AFRA adjustment would be accounted for by actual cargo volumes. Rates could be adjusted downward if cargo volumes exceed the cargo volume projections upon which rates are based and the resulting increased revenue exceeds the adjustment to expenses. Any rate adjustment in years 2 and 3 under AFRA, whether up or down, would be capped at 5.5 percent.

Because the AFRA formula is based on figures previously determined by the PUC (e.g., rate base, rate of return, and operating expenses) plus historical data (actual cargo volumes and rate of inflation), there is very limited, if any, potential grounds for dispute of relevant factual matters. For this reason, AFRA filings could be completed and implemented in a very short period each year. After years 2 and 3, the baseline rate base (and rate of return), revenues, and expenses would be reset by the PUC in another full general rate case.

This approach benefits the public. First, it promotes efficiencies in Young Brothers' operations. For the initial three-year cycle, the AFRA formula maintains non-labor expenses at levels set during a year of low, recessionary cargo volumes (2011), as approved by the Commission in Young Brothers' last general rate case, adjusted only by an inflation factor. Second, and perhaps most important to the goal of meeting customer needs and providing essential services at reasonable cost, AFRA would provide an avenue for modest adjustments to Young Brothers' rates (to be capped at 5.5 percent) to attract and support capital investments in long-term assets that underlie reliable service. Both AFRA incremental rate adjustments and capital investments would be planned and spread over time. This approach would also mitigate the impact of periods during which low to flat cargo volume growth does not sustain an opportunity to earn a fair return on capital investments and thereby help maintain the utility's financial health and profile as an investment target.

Potential for Implementation of Performance Standards

HCR 204 presents one approach to the pertinent question of how to deliver needed services at the most reasonable rates. The AFRA pilot program addresses the same issue in terms of performance standards that seek to measure utility service levels and operational efficiencies (*i.e.*, efficiencies that may reduce or control costs and therefore rates). Although

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Operating Expenses[14] + (Rate Base[14] x Allowed Rate of Return[14]) = Revenue Requirements

Revenue Requirements – Revenue at Currently Effective Rates = Additional Revenue Required

the PUC has not yet made its decision with respect to performance standards, Young Brothers has proposed the following benchmarks in connection with AFRA[15]:

a. Performance Standard No. 1: Safety (recordable and lost time incident rates). Young Brothers tracks recordable and lost time injuries in accordance with Hawaii Occupational Health and Safety Division (HIOSH) and federal Occupational Safety and Health Administration (OSHA) requirements that can be used to calculate recordable and lost time incident rates. These incident rates can be measured against the national average for the industry as determined by the Federal Bureau of Labor Statistics (BLS). It has always been the goal of Young Brothers to have zero injuries. Young Brothers has also, more recently, developed an organization-wide performance standard for the company to be at or below the national average for incident rates for its industry (Marine Cargo Handling).

The national average for the industry is reported in its annual Survey of Occupations Injuries and Illnesses (SOII). The most recent SOII report for "48832 Marine Cargo" classification states that the national average for the industry is a recordable incident rate of 8.3 and a lost time incident rate of 5.1.

b. Performance Standard No. 2: Cost Control (labor costs and fuel efficiency). Young Brothers' cost and time attributes for existing freight movements. Young Brothers proposes to the PUC two components of a Cost Control performance standard.

The first component is labor costs; Young Brothers proposes to use the annual performance expectations for labor hours and costs established during the annual Young Brothers budgeting process as the performance standard of controlling labor costs. This budgeting process is the means by which test year labor hours have been calculated and presented by Young Brothers in general rate cases. In general rate case years, Young Brothers' annual budget is the foundation of Young Brothers' entire test year for ratemaking purposes.

The second component is fuel efficiency. Young Brothers proposes a standard under which Young Brothers will transport 2.2 tons of cargo moved per gallon of fuel consumed and, in addition, report annually to the PUC on plans for improvement of this performance as well as progress in such improvement.[16]

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[15] The Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs filed its own proposed standards with the PUC. *See* Division of Consumer Advocacy's Proposed Performance Metrics, filed-dated December 2, 2013, in PUC Docket No. 2013-0032.

[16] Young Brothers has invested over $100 million in improvements since 2006, with the emphasis on four modern, fuel-efficient, environmentally sensitive barges (and including limited tug improvement, new cargo handling equipment and new computer systems). The new barges provide 40-50 percent more capacity per voyage than the barges they replace, as well as improve cargo handling and safety and eliminate the need for tandem tows, enabling Young Brothers to readily meet the needs of its customers and efficiently accommodate future growth. The new barges eliminate external ballast water exchange systems to prevent introduction of marine alien species. The use of fresh water ballast by the new barges will reduce long-term vessel corrosion to preserve vessel utility and reduce life-cycle repairs and maintenance. In addition, computerized monitoring of all tug propulsion engines (as part of YB's program to operate tugs at the optimal speed for both efficient fuel consumption and on-time

c. Performance Standard No. 3: Reliability and Customer Satisfaction (on-time arrival and freight delivery and pickup). Young Brothers proposes to the PUC two components of the "Reliability and Customer Satisfaction" performance standard:

The first component is Young Brothers' on-time record for barge arrivals. Young Brothers proposes to calculate an annual percentage for on-time arrivals for its major ports, by dividing the number of barges, each on overnight sailings, that arrive on-time (with "on-time" being, in most cases, by the time YB's gates open for business at 7:30 a.m.) with the total number of sailings annually to its major ports. YB's proposed standard for on-time arrivals is 75 percent annually.

The second component is customer wait times for freight delivery and pick-up. YB proposes a performance standard under which the wait times for truckers picking up and delivering dry and refrigerated pallets in Honolulu shall be an annual average of 45 minutes or less, with this 45-minute average including the time it takes to pick up and drop off cargo in the palletized area of the Young Brothers yard, starting from the time a truck enters the gate until the same truck exits the gate.

d. Performance Standard No. 4: Market Access (completion of regulated sailings). With respect to market access, YB considers routes, frequency, and universality of its service to be key aspects of its regulated service and its part of providing market access. Maintaining the day-in, day-out nature of these attributes throughout the year is a key element of its performance. YB proposes to the PUC the following standard relating to market access:

> YB shall execute and complete 99 percent of its annual scheduled and regulated roundtrip sailings.

Although the foregoing performance standards seek to measure utility service levels and operational efficiencies on a statewide basis, achievement of these standards would equally serve the interests of Moloka`i and Lāna`i residents and businesses.

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arrival) as well as YB's previous upgrade of three of its tugs with new propulsion system designs significantly improve vessel performance and fuel efficiency. Lastly, maintaining efficient and timely shoreside barge loading operations to support on-time barge departures allows more time for the barge to arrive at its destination and therefore allows slower tug speeds and greater fuel efficiency. The additional barge capacity, combined with these other improvements, allows Young Brothers to transport far more cargo more efficiently with a single gallon of fuel than previously. In terms of measuring fuel efficiency, Young Brothers moved approximately 2.2 tons of cargo per gallon of fuel (a 17 percent percent improvement from 2003 through 2010). The next phase of capital development will include an emphasis on tug and shoreside heavy lift equipment replacement with improved capacity and technology, through which fuel efficiency and reliability will be improved.

PART III: SERVICES OFFERED BY AIR CARGO CARRIERS

Air cargo service to Moloka`i, Lāna`i and Hāna, Maui is limited. Air cargo options to these locations include:

- Kamaka Air provides daily service from Honolulu to Kalaupapa (Moloka`i) and Lāna`i (as well as Kahului). Kamaka Air specializes in loose freight, palletized freight, large items, construction materials, hazardous materials, produce, large appliances and motorcycles. Its recent acquisition of a Douglas Super DC-3 aircraft enables it to handle loads up to 7,500 pounds.
- Mokulele also provides cargo service to Moloka`i, Lāna`i, and Hāna, Maui, although the regularity of its service is not known at this time. Also not known is if its anticipated flights from Kalaeloa will also include cargo service.

The reasons for this limited air cargo service are demonstrated by the economics of the State's largest air cargo carrier, Aloha Air Cargo. Aloha Air Cargo's aircraft fleet consists of four Boeing 737-200C freighters and three Saab 340A Turbo-prop freighters in an all-cargo configuration. Each 737-200 has a cargo carrying capacity of approximately 28,000 pounds and each SAAB 340 has a carrying capacity 8,000 pounds. This carrier provides air cargo service between the islands of O`ahu, Maui, Kaua`i, and Hawai`i. Its daily operations include 12 to 14 nightly departures out of Honolulu and two daily charters, including service to airport destination within the State of Hawai`i that include Kahului, Līhue, Hilo, and Kona. It carries a diverse range of products that include fresh bakery products, fish and seafood, produce, tropical fish, live animals, cut floral and tropical fruit export products, and other general cargo, including other time sensitive shipments. Aloha Air Cargo is also the only overnight carrier offering refrigeration capabilities at each of its Hawai`i locations.

However, Aloha Air Cargo does not provide regular air cargo service to Moloka`i, Lāna`i or Hāna, Maui (although it does offer charter cargo service to these locations). It does not offer such regular service as a result of the constraints of both limited airport infrastructure as well as basic economics. With respect to economics, the limited volume of both dry and perishable air cargo going to and coming from these locations cannot support the necessary private capital investment (in both aircraft and ground equipment) plus air carrier expenses such as labor, equipment, facilities, and fuel for expanded air cargo service, *i.e.,* the economies of scale and/or scope at these locations support only the current limited air cargo service.

With respect to airport infrastructure, these locations have certain limitations relating to airport runway length, cargo refrigeration capability, limited fueling service, and/or other operational limitations. These limitations are discussed below in the next section relating to State infrastructure supporting cargo transportation.

CHAPTER 2

WORKING GROUP'S FINDINGS RELATING TO THE CONDITION OF STATE HARBOR AND AIRPORT INFRASTRUCTURE SUPPORTING INTER-ISLAND TRANSPORTATION OF CARGO

PART I: HARBORS MODERNIZATION AND THE NEW DAY PLAN: THE ADMINISTRATION AND THE LEGISLATURE HAVE RECOGNIZED THE NEED FOR MODERNIZED STATE HARBOR INFRASTRUCTURE

The Legislature recognizes that (a) completion of key capital improvement projects in the State's commercial harbors is essential in terms of providing the infrastructure necessary to support economic development and efficient cargo services, and (b) statewide harbor improvements are an essential component of controlling shipping costs for residents and businesses throughout the State. In Senate Concurrent Resolution (SCR) 33 (2006), the Legislature stated:

> Hawaii's economic sustainability depends on the effectiveness and efficiency of berth and terminal resources throughout the State's harbor system, as well as the availability of sufficient cargo and container facilities.

In the middle of the last decade, several sources, including the State Legislature in SCR 33 (2006), the Hawai`i Harbor Users Group (in a report entitled "Harbor Facility Development To Serve The State of Hawaii" (2006)), and the Economic Momentum Commission (in its Report dated November 1, 2005) recognized that there were no adequate plans to address harbor infrastructure and capacity. They concluded that failure to plan and execute adequately would drive up the cost of transportation and consumer goods in Hawai`i. Subsequently, by the Harbors Modernization Act passed in 2008, the Legislature authorized the Department of Transportation to issue revenue bonds and appropriated moneys to finance harbor improvements at Kahului and Hāna Harbors on Maui; Nāwiliwili on Kaua'i; Hilo and Kawaihae Harbors on the Big Island; and Honolulu and Kalaeloa Harbors on O'ahu. In Section 1 of the Harbors Modernization Act, the Legislature found:

> To meet the economic needs of the state, the harbors division of the department of transportation must provide suitable harbor facilities and berthing piers, which in turn ensures the efficient and timely delivery and shipment of goods imported into the state. Ocean surface transportation is our state's lifeline. It remains the only viable means to service the largest share of Hawaii's economic needs. However, Hawaii's aging commercial harbor system has not kept pace with our growing economy, and Hawaii's commercial ports statewide are experiencing competition for berthing rights for cargo, fuel, and cruise ship activities, and severe congestion in harbor facilities. Harbor users, the state administration, and the legislature recognize that it is now extremely critical to upgrade existing port facilities and develop harbor improvements in an expedited manner. The Hawaii Harbors Users Group, a maritime transportation industry group, was formed in 2005 because the industry recognized that Hawaii is facing a shortage of port facilities statewide. Its goal is to help the State identify and prioritize Hawaii's harbor improvement needs. The Hawaii Harbors Users Group has completed research that predicts that if Hawaii's harbor

> infrastructure is not improved, the loss of real domestic product (in 2007 dollars) could amount to more than $50,000,000,000 by the year 2030. In comparison, an assessment of immediate commercial harbor needs statewide is estimated to cost in the range of $850,000,000.

Each of these actions and reports, by the Legislature and others, recognize that operational inefficiencies resulting from inadequate facilities at one port will impact the costs of the transportation system statewide. The primary example of this interconnection and impact is Honolulu Harbor, which, as noted above, serves as the hub for the entire State and receives nearly all (98 percent) of its imported goods for distribution to O`ahu as well as to all of the neighbor islands. For this reason, the centerpiece of the Harbors Modernization Act is construction of the Kapālama Container Terminal, which will be located at the site of the former Kapālama Military Reservation. Although this site is slated to become a new interstate cargo facility supporting vessels transporting goods from the West Coast to Honolulu, it also serves a critical neighbor island need. For example, as stated in SCR 33 (2006):

> The … Kapālama Military Reservation site is considered the ideal location for a container terminal because of its relatively underused space and its proximity to the Young Brothers inter-island shipping terminal, allowing for cargo to be efficiently transshipped to neighbor islands.

In the Harbors Modernization Act, the Legislature authorized funding for "Honolulu harbor. Development of infrastructure, expansion of facilities, and tenant relocations, including the development of the new Kapālama container terminal."

With respect to the neighbor islands, the key capital improvement project (also relating to overall system efficiency) is the planned Hilo Harbor Pier 4 development for a new inter-island cargo facility. Hilo's current inter-island cargo facility, Pier 2, was built in the 1920s, has severe load restrictions resulting from the limited strength of the deck, contains certain areas that are condemned entirely, and yields limited space overall. The weakened strength of the deck limits the size and capacity of lifting equipment that can be employed, and consequently limits the height of container stacks, further reducing yard capacity. Operating around these limitations substantially reduces operational efficiency and increases costs of operation. The Legislature has long recognized the essential nature of this capital improvement. First, it authorized construction in the 1990s, requesting that DOT make this project a priority in SCR 33, and more recently provided for Hilo Harbor Pier 4 in the Harbors Modernization Act. In this Act, the Legislature authorized funding for "Hilo harbor. Development of infrastructure, expansion of facilities, tenant relocations, and acquisition of lands, including the Pier 4 inter-island cargo terminal."

The efficiencies gained from completion of the new Kapālama container terminal in Honolulu and the new Pier 4 inter-island cargo terminal in Hilo are critical to the operations of Young Brothers, because revenue from larger ports that Young Brothers serves generally subsidizes Young Brothers' operations at smaller ports (such as Moloka`i and Lāna`i). Efficiencies gained, lost, or not realized at one port (particularly larger ports) impact the cost of the regulated statewide system, including subsidized ports. For that reason, it is critical that

cargo operations at the larger ports are supported by adequate infrastructure and achieve all efficiencies possible.[17]

The Harbors Modernization Act further directs and authorizes improvements to Hāna Harbor, as noted above. Under the Act, $20 million in capital improvement project, or "CIP", revenue bonds were authorized for improvements to this harbor. As part of the plan, the DOT assumed jurisdiction of Hāna Harbor from the Department of Land and Natural Resources, except for the small boat ramp, in order to make necessary upgrades. The purpose of the improvements is to ensure that the Hāna community has a working pier that can support its needs, especially in times of emergencies and natural disasters. As stated in the Hāna Harbor Development Plan:

> Senator [Kalani] English advocated for the funding because Hāna is at risk of being isolated in a natural disaster, and that subsistence and commercial fishermen deserve a better pier . Hāna is approximately 50 miles from Kahului and access is limited to one road, the Hāna Highway (State Route 360). The road is narrow with numerous hairpin turns and crosses 59 bridges, 46 of which are only one lane. In the event of an emergency resulting in bridge closure, Hāna would be cut off from accessing goods and services in Kahului for some time.
>
> Hāna Highway is the only road servicing the community, bridges on the Highway are aging, and there are only a few expensive flights in and out of Hāna Airport. Options are limited. For example in October 2006, a 6.7 magnitude earthquake hit off the northern coast of Hawaii Island and caused rock falls in East Maui. This resulted in a two-year closure of 10 miles of Hāna Highway between Kaupo and Kïpahulu. The rock fall also destabilized cliff faces and undermined sections of the road. This natural disaster cut-off access to and from the Hāna community and is one of the primary considerations for improvements to the pier. In these situations, a limited operational pier would serve as an important lifeline for the community and allow goods for daily sustenance and services to be more efficiently and economically accessed by the community.[18]

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[17] Failure to complete these essential infrastructure projects will result in higher costs of operations associated with slow and inefficient terminal processing, longer terminal working hours, a need for more commercial trucks resulting from inefficient terminals rather than true demand for more trucking services (in the case of Kapālama Container Terminal), and congestion in the terminal (as well as on public roads). These higher operational costs will translate into higher shipping costs, both in terms of carrier rates and as a result of losses in efficiency of the State's "just in time" method of delivery.

[18] The importance of adequate infrastructure to an emergency response cannot be overstated, whether in Hāna or elsewhere in the State. For example, Hurricane Iniki struck on September 11, 1992, inundating coastal areas and tearing apart structures. Damages of nearly $2 billion were almost entirely on Kaua`i. In Honolulu, Young Brothers' response to the crisis began immediately through a pledge of the company to the rescue effort. The company had the knowledge, experience and heavy lift capacity to respond without delay. Relief agencies were invited to ship supplies to Kaua`i at no cost through October and, in individual cases, for longer periods of time. Priority was given to the American Red Cross, Hawai`i Food Bank, Catholic Charities, and the Salvation Army to ensure that the full benefit of shipments of goods, clothing and other essential supplies went to where they were most needed.

On Sunday, September 13, less than 48 hours after the hurricane and the first day on which Kaua`i and its harbor were in any shape to take large volumes of supplies (largely because of the work Young Brothers and others did to clear the yard and put navigational buoys back into place in the harbor), virtually every Young Brothers employee in Kaua`i reported for work to unload relief supplies.

PART II: STATE AGENCY IMPLEMENTATION: STATUS OF HARBORS MODERNIZATION AND THE NEW DAY PLAN

Honolulu Harbor – Kapālama Container Terminal (KCT)

In the original Harbors Modernization Act, this project was anticipated to begin construction in FY2013. The more recent December 2012 Draft Environmental Impact Statement reported that *"Project site preparation (including demolition of existing buildings) would occur as soon as 2014, after environmental and land use permits and approvals are obtained and existing tenants vacate the site. Actual construction of the main pier and container terminal is anticipated to occur through the year 2016."*

In 2013 alone, the State has released funds multiple times in support of the KCT project. For example, in February, the Governor released the following CIP items:

- $9,500,000 – Construction of site improvements to support the relocation of the UH Marine Center from the Kapālama Military Reservation.

- $8,500,000 – Construction for renovations at Pier 35 to accommodate the relocation of the University of Hawai`i School of Ocean and Earth Science and Technology (UH SOEST) from the proposed KCT project site

- $7,500,000 – Design of Phase 2 of the KCT project.

On July 25, 2013, the Governor announced the release of CIP funds including $750,000 for construction management services for the demolition of approximately 24 structures at Kapālama Military Reservation in preparation for the new container yard.

DOT's most recent project schedule is as follows:

- **Description of Phases**
    - Construction of Building Improvements at Pier 35 and Rehabilitation of Building and Yard Areas at Piers 34/35

In the first week after the hurricane, Young Brothers had moved 20,000 tons of cargo to Nāwiliwili and could and would have carried more but the harbor and community could not absorb any additional cargo. In fact, as a result, Young Brothers had to slow down the rate of delivery of cargo, because cargo could not get to the island's warehouses, and the harbor was beyond its storage capacity with cargo waiting to go into the community. Tons of cargo had to be stacked at Nāwiliwili Harbor until it could be distributed.

People, supported by vessels, airlines, and trucks, were ready to and did serve the community; however, early efforts were, in part, frustrated by the inability of the infrastructure to absorb those supplies so that they could more quickly get into the community. When the harbor and its staging area became accessible, it was inadequacy of other infrastructure, such as roads, warehouses, electricity (refrigeration), and communications, which prevented or slowed the distribution of relief supplies into the community once these supplies arrived.

- Construction of Piers 12 and 15 Improvements
- Demolition of Structures at Kapalama Military Reservation
- Design and Construction of New Kapalama Container Terminal
- Design and Construction of New Kapalama Container Terminal Wharf and Dredging

- **Project timeline, including dates of commencement and completion of phases**
  - Second Draft EIS completion - October 2013
  - Second Draft EIS Public Review period - October 8 to November 22, 2013
  - Final EIS completion & acceptance - December 2013
  - Building Improvements at Pier 35 and Rehabilitation of Building and Yard Areas at Piers 34/35
    - Completion of Remaining Design and Permitting – Completed
    - Procurement – Completed
    - Construction – December 2013 to November 2014
  - Piers 12 and 15 Improvements
    - Completion of Remaining Design and Permitting – Completed design, awaiting DA Permit
    - Procurement – Bidding Period November 2013 to January 2014
    - Construction – February 2014 to April 2015
  - New Kapalama Container Terminal
    - Completion of Remaining Design and Permitting – Anticipated December 2014
    - Procurement – Anticipated bid date January 2015
    - Construction – May 2015 to May 2017
  - New Kapalama Container Terminal Wharf and Dredging
    - Completion of Remaining Design and Permitting – Anticipated December 2014
    - Procurement – Anticipated bid date January 2015
    - Construction – May 2015 to May 2017

- **Variables that may impact budget, commencement, and/or completion dates** for the New Kapalama Container Terminal, Wharf and Dredging:
  - Coral Mitigation
  - Poor Soils Conditions - Ananoho fishpond/Military Landfill
  - Environmental Contamination
  - Redesign to avoid Federal Project Limit
  - Allowable crane heights at KCT and possible conflicts with airport traffic

Hilo Harbor – Pier 4 Inter-island Cargo Terminal

Groundbreaking for the facility was held in August 2011. This project is expected to be completed in phases, with distinct portions of the project including dredging of the harbor at the approach to the new Pier 4 yard, construction of a cargo yard, construction of a new 600-foot pier, and the widening of Kumau Street to create a new harbor entrance directly to the inter-island cargo terminal apart from the passenger facility. Dredging was completed in May 2012.

In 2013 alone, the State has released funds multiple times in support of the Hilo Harbor Pier 4 project, including

- In April 2013, $6 million to pay for widening of Kumau Street and a related appropriation of $1.8 million for work connected to the development of Pier 4

- In July 2013, $45 million for the construction of a new wharf, utilities, mooring system, and associated site work.

DOT's most recent project schedule is as follows:

- **Description of Phases**
  - **Hilo Pier 4, Phase 1: Dredging – Deepening of harbor basin for Pier 4 vessels (Completed May 2012)**
  - **Hilo Pier 4, Phase 2: Terminal – Construction of container/cargo yard**
  - **Hilo Pier 4, Phase 3: Wharf – Construction of Pier 4**
  - **Kumau St. Improvements – Construction of new harbor entrance road and gate**

- **Remaining Project timeline, including dates of commencement and completion of phases**

  - **Hilo Pier 4, Phase 2: Terminal**
    - Completion of Remaining Design & Permitting - completed
    - Procurement - completed
    - Construction - November 2013 to October 2014
  - **Hilo Pier 4, Phase 3: Wharf**
    - Completion of Remaining Design & Permitting - Completed design and awaiting permit issuance.
    - Procurement - Anticipated bid date Spring 2014
    - Construction - Anticipated August 2014 to February 2015
  - **Kumau St. Improvements**
    - Completion of Remaining Design & Permitting - completed
    - Procurement - completed
    - Construction – December 2013 to December 2014

- **Variables that may impact commencement and/or completion dates are the** Department of Army 404 permit and Department of Health 401 Water Quality Certifications for construction of Pier 4.

Hāna Harbor

As noted above, under the Legislature's Harbors Modernization Act, the DOT assumed jurisdiction of Hāna Harbor from the Department of Land and Natural Resources, except for the small boat ramp, in order to make necessary upgrades. According to the ensuing Hāna Harbor Development Plan (Hāna DP)[19] prepared at the direction of DOT, "the goals and mission of DOT Harbors Division, who has jurisdiction over Hāna Pier and the Hāna Harbor Development Plan, may conflict somewhat with the expressed desires of the Hāna community. DOT Harbor's mission and responsibility is to operate commercial harbors, while the Hāna community would like to maintain the rural environment by not commercializing the pier." (Final Hāna DP, page 89) Indeed, in describing the purposes of the project, the Hāna DP states that the community prefers a recreational pier for its own use, but also indicates that the DOT's primary purpose for the project is to ensure that the Hāna community has a working pier that can support its needs, especially in times of emergencies and natural disasters (Final Hāna DP, page 2).

Ultimately, the DOT determined in the Hāna DP that Hāna pier would remain non-commercialized, and "the cost for the operation and maintenance of Hāna pier would be partially covered by revenues generated in Honolulu." (Final Hāna DP, page 89) Furthermore, the Hāna DP recommended an option, designated as Option 7A, for "Fully Reinforced 'T' Option/Twin Mooring Support and Pedestrian Access (Same Footprint as Existing Pier)" which best met the following criteria: "cost of construction, the ability to meet community expectations, the ability to withstand emergency barge operations, and environmental impact." (Final Hāna DP, page 86) The selected design option calls for construction of a new 17,250 square foot deck of reinforced concrete, designed to support loading/unloading of wheeled vehicles and equipment from supply barges. Other pier design elements anticipated to support the mooring of supply vessels are included in this option.

Following completion of the Hāna Harbor Development Plan, DOT began preparing a Draft Environmental Assessment (EA), which involves clarifying the project's purpose and need, project description, and design. In support of the Draft EA, DOT has to date solicited additional comments from both the general public, including a public informational meeting in Hāna on July 10, 2013, as well as separate consultations with stakeholders, including the various resource agencies involved with the permitting.

The following technical studies and permits/approvals were identified in the Final Hāna DP as "Next Steps":

- *Geotechnical soil study. This study will start in 2014.*
- *Wave modeling and circulation study*. DOT submitted a request to the US Army Corps of Engineers for assistance in evaluating the wave climate in the harbor.

[19] As part of the Governor's New Day Initiatives, DOT-Harbors worked with the Hāna community to complete the Hāna Harbor Development Plan. The plan was completed in 2011 and is available for review online at: http://hidot.hawaii.gov/harbors/files/2013/01/FINAL_Hāna-Dev-Plan_061611-2.pdf.

- *Preliminary Pier Structural Integrity Analysis*. Analysis completed.
- *US Army Corps of Engineers, U.S. CFR Section 10 and Section 404 permits*. DOT has requested early coordination for this permit. In preparation for the permit, DOT has completed the requisite quantitative marine assessment.
- *Conservation District Use Application, HRS Chapter 183C*. DOT is exempted from this permit.
- *HRS Chapter 343 Review*. DOT has started this process with the aforementioned EA.
- *HRS Chapter 6E Historic Site Review, possible Historic American Building Survey (HABS) documentation*. DOT will start this process.

- DOT anticipates the current project schedule:
    - Draft EA completion: late-2014.
    - Final EA completion: mid-2015.
    - Completion of Design & Permitting: TBD.
    - Procurement: TBD.
    - Construction: TBD.

PART III: AIRPORT INFRASTRUCTURE IN MOLOKA`I, LĀNA`I, AND HĀNA, MAUI

The foregoing discussion on harbor infrastructure highlights necessary infrastructure development in ports other than Moloka`i, Lāna`i, and Hāna, Maui that would nonetheless benefit these three communities because they will each benefit from greater Statewide system efficiencies. The foregoing discussion on harbors also includes no mention of additional infrastructure development needed on Moloka`i or Lāna`i, as these port facilities are adequate for the foreseeable future (or, at the very least, these port facilities do not have a need that would justify the cost of improving them). In contrast, the airport facilities serving Moloka`i, Lāna`i, and Hāna, Maui are not adequate to support expanded air cargo services. These shortcomings fall into the following categories:

Runway Length and Other Payload Limitations

Both Moloka`i and Hāna, Maui have limitations due to airport runway length. With respect to the aircraft used by the State's largest air cargo carrier, Aloha Airlines, its 737-200 is able to fly in and out of Moloka`i and Lāna`i but not Hāna, Maui. The runway at Hāna, Maui would need to be lengthened by approximately 1,400 feet (with a minimum length of 5,000 feet). Runway length limits the maximum carrying capacity of the 737-200.

In addition, payload out of Moloka`i for the 737-200 is severely reduced (to 12,000 pounds from 28,000 pounds) due to prevailing winds and airport obstructions. In comparison, Lāna`i has a much better outbound payload of 23,000 lbs.

Aloha Air Cargo's Saab 340A and similar turbo prop aircraft may be better suited for these smaller airports. The Saab 340A has a maximum takeoff weight of 17,945 pounds, of

which 8,000 pounds can be payload/cargo. Nonetheless, Hāna, Maui's runway length and the runway obstruction at Moloka`i still reduce the payload of the Saab 340 and similar turbo prop aircraft by half. Outbound loads from Moloka`i and Hāna, Maui are limited to 4,300 pounds. Again, in contrast, there are no limitations of this magnitude for Lāna`i, where the maximum payload is nearly achieved (7,500 lbs).

Absence of Adequate Refrigerated Cargo Capability

Current airport facilities at these three locations lack adequate cargo refrigeration capability. Refrigeration is necessary to maintain perishable cargo.

Limited Fueling Service

Due to the limited fueling service at Moloka`i, Lāna`i and Hāna, Maui, it is necessary for aircraft flying into these airports to tanker fuel out of Honolulu, *i.e*., each must carry enough fuel and the additional weight to avoid the need to fuel at these airports.

Summary of Foregoing Facility Issues and Other Facility Issues Limiting Air Cargo Operations

The following table summarizes operational highlights and considerations at each of the three airports.

		Location		
Operational Issue / *Possible Fix*		Moloka`i	Lāna`i	Hāna, Maui
	Payload with roundtrip fuel	(1800) = 4300 lbs.	Payload with roundtrip fuel (1800) = 7300 lbs (full airplane)	Payload with roundtrip fuel (2200) = 4300 lbs. Boeing 737 is unable to service this airport due to short runway length.
	Emergency services	Provided up to 20:30H *Extending emergency services hours would be beneficial*	Provided up to 19:30H *Extending emergency services hours would be beneficial*	No emergency services.
	Runway approach and Instrument Landing	Three unsophisticated approaches, causes difficulty in poor weather. Lack of necessary equipment to support Instrument Landing System (ILS) approach /	ILS precision approach makes it easier to land in poor weather	Only one unsophisticated approach (which Saab 340A unable to utilize), makes it harder to land in poor weather.

		Sophisticated approach or a straight-in simple approach without circling would be beneficial. Install necessary ILS equipment		
	Take-off obstacles	Obstruction (hill) at end of runway limits cargo capacity		
	Weather		Weather is marginal about 30% of the time. Automated weather reporting is unreliable.	Weather is marginal about 30% of the time.

CHAPTER 3

WORKING GROUP'S FINDINGS RELATING TO POSSIBLE PRIVATE SECTOR INITIATIVES TO CONTROL THE COST OF SHIPPING GOODS

There are substantial working relationships between Young Brothers and businesses as well as community groups on Moloka`i and Lāna`i. These working relationships should be the foundation of any plan moving forward. It must be recognized that the communities served by the three ports (that are the subjects of this report) have certain issues in common as well as issues unique to each port and the community each serves.

PART I: Lāna`i

From the early period of regularly scheduled and regulated barge service in 1991 (as described above), the Lāna`i community has had very low volumes of outgoing cargo. Unlike Moloka`i, it currently has almost no outgoing agricultural cargo. However, like Moloka`i, it is highly reliant on incoming cargo, much of which is LCL cargo. Despite this similarity, Lāna`i has at least one issue that is unique to this community with respect to incoming LCL cargo. Generally speaking, each small business in Lāna`i individually transports its LCL cargo roughly 7 miles "up the hill" from Kaumalapau Harbor to Lāna`i City (commonly in a truck or other vehicle). Small business owners spend a substantial amount of time and, with the ever-increasing cost of fuel, a substantial amount of money, transporting their cargo up the hill to the business center surrounding Dole Square. Indeed, for some of these businesses, the cost of fuel for their individual vehicles to transport their cargo from the harbor to the city is substantially more than Young Brothers' freight rates from Honolulu Harbor to Kaumalapau Harbor. This high cost of transportation "up the hill" is certainly a problem but also presents an opportunity.

The opportunity is to lower the total cost of shipping via supplier or third-party consolidation of cargo in Honolulu. Currently, each of the various Honolulu suppliers of Lāna`i small businesses receives an order from a Lāna`i business and commonly fills that order by having a commercial trucker deliver a pallet or pallets from the Honolulu supplier's warehouse to Young Brothers' Honolulu facility. Small businesses do not commonly order sufficient volume to fill a container. At its Honolulu facility, Young Brothers consolidates this pallet with pallets destined for other Lāna`i customers by fork-lifting their pallets together onto a 20-foot or 40-foot shipping device called a platform (similar to an open-side container), and then loading the entire platform onto a barge with heavy or high lift equipment. When this cargo reaches Kaumalapau Harbor, the consolidation process is reversed (*i.e.*, the cargo is deconsolidated) by first unloading the platform, then fork-lifting the individual pallets, and lastly loading these pallets onto individual trucks for transport (usually to Lāna`i City).

The alternative would be to consolidate this cargo before it reaches the Young Brothers Honolulu facility. This alternative would require substantial cooperation and coordination

among Lāna`i businesses. It would essentially require and result in (1) cargo from various Lāna`i customers being consolidated by their common Honolulu supplier(s) or by a third-party freight forwarder, into a single (and enclosed) container prior to delivery to Young Brothers, (2) a single truck taking this consolidated container to the Young Brothers Honolulu facility to be loaded onto the barge destined for Lāna`i (with the cargo receiving the container freight rate), and (3) this single container being offloaded at Kaumalapau and being taken "up the hill" by one truck to Lāna`i City for deconsolidation near the Dole Square businesses.

This alternative method of consolidation would offer cost savings on potentially three segments of transportation: (1) the shared cost of trucking from a Honolulu warehouse to the Young Brothers Honolulu facility, (2) the unit cost of shipping under Young Brothers' containerized freight rate (because, as noted above, the unit cost of shipping via container is less than the unit cost of shipping via pallet or loose box), and (3) the shared cost of transporting cargo "up the hill" from Kaumalapau Harbor to Lāna`i City. These savings would be somewhat less if consolidation could not be done at the supplier's warehouse and is instead done at the warehouse facility of a third-party consolidator, in cases where consolidation cannot be done at a single supplier's warehouse because, for example, shippers are dependent on multiple suppliers.[20]

PART II: Moloka`i

Similar to the alternative discussed above for Lāna`i, one possibility for Moloka`i is consolidating Moloka`i-bound cargo before it reaches Young Brothers' Honolulu facility. Some examples are discussed below.

Some Moloka`i food retailers appear to purchase inventory from "big box" outlets such Costco, Sam's Club, and perhaps others in Honolulu. These outlets may wish to consider creating a central purchasing system for Moloka`i for all Moloka`i merchants through which a single order is placed with a big box retailer for all of these merchants. This Honolulu outlet would then consolidate all of the ordered cargo into a single container.

As part of the above-described consolidation plan, Moloka`i retailers should then consider whether there are available or prospective loading docks outside of the harbor in Kaunakakai and determine whether any such docks may be feasibly employed as a deconsolidation center for orders consolidated by a Honolulu "big box" outlet (with the understanding that there should be compensation to the owner of the Moloka`i loading dock).

In addition to ordering and consolidating cargo through a big box outlet or outlets, Moloka`i merchants may consider the use of a trucking/freight forwarding company (for which Moloka`i merchants would share the cost) to consolidate cargo for multiple Moloka`i merchants from various Honolulu suppliers and trucking the consolidated cargo to the Young

[20] Of note, the major landowner on Lana`i has, in recent years, commenced the practice of consolidating its cargo through a third-party consolidator.

Brothers Honolulu facililty. If several Moloka`i merchants and their Honolulu suppliers are willing to work together, they might consider discussing with Honolulu freight forwarders/consolidators (including consolidators of refrigerated cargo) the feasibility of combining cargo loads and sharing trucking and consolidation costs.

Honolulu freight forwarders/consolidators currently do not appear to view Moloka`i merchants, as a whole, as a potential consolidation customer and, for the most part, appear to view the practice of shipping pallets to Moloka`i as the only viable method of shipping to Moloka`i.

As part of such a consolidation/deconsolidation plan, Moloka`i retailers would need to determine the feasibility of a deconsolidation service on Moloka`i, whether it be a Honolulu-based consolidator staffing a Moloka`i deconsolidation operation two days per week or possibly contracting with an agent, possibly a trucking company, to pick-up cargo at Young Brothers' Kaunakakai facility and then transporting it to a deconsolidation facility.

PART III: Hāna

Currently, Hāna does not receive any water carrier service, and any future reliance by the Hāna community on regularly scheduled water carrier service to provide its required or desired consumer goods is unlikely. Accordingly, the Working Group does not provide any recommendations with respect to possible private sector initiatives to control the cost of shipping for the Hāna community.

CHAPTER 4

WORKING GROUP'S FINDINGS RELATING TO SUBSIDIES AND INCENTIVES ALREADY IN PLACE TO REDUCE THE COST OF SHIPPING TO AND FROM LĀNA`I, MOLOKA`I , AND HĀNA

PART I: Tax Subsidies and Exemptions

While shipping to and from Lāna`i, Moloka`i , and Hāna, Maui benefits from various economy-wide subsidies, shipping also benefits from long established general excise tax incentives. Intra-state, interisland shipping of agricultural commodities enjoy an exemption for all amounts received for loading, unloading, and actual transportation of such commodities. Section 237-24.3(1), Hawaii Revised Statutes (HRS). This exemption carries a tax cost to the state of $2,615,428per year.[21] Note that this exemption covers only intra-state activity, therefore all of its value accrues to the State of Hawaii and its residents.

Shipping to and from Lāna`i and Moloka`i also benefits indirectly from another exemption. Section 237-24.3(4), HRS, provides a statewide exemption for stevedoring activities. This exemption applies to loading and unloading of cargo not eligible for the above exemption (non-agricultural commodities). This exemption covers stevedoring activities regardless of the destination of the cargo, carrying a total statewide tax cost of $2,836,679.

Together these exemptions represent a multi-million dollar effort on the part of the State to control the costs of shipping. Together these exemptions provide all interisland shipping, whether agricultural or not, with some level of tax exemption.

PART II: Agriculture Subsidies and Incentives

Agriculture is a key industry for Moloka`i, Lāna`i, and Hāna, Maui. For agriculture producers in Moloka'i and Lana'i, almost all of the supplies they ship out to Honolulu are through the use of less than container load (LCL) shipments.

Young Brothers currently offers a 30 to 35 percent discount on freight rates for all locally grown agricultural products, called the Island Agricultural Product ("***IAP"***) discount. This discount is built into Young Brothers' rate structure as approved by the Public Utilities Commission (PUC). While any increase in subsidy for agriculture producers sending cargo through Young Brothers would certainly reduce shipping costs for Moloka`i, Lāna`i, and all other

[21] All data publicly available and collected from the Report of the 2005-2007 Tax Review Commission. The working group applied an inflation adjustment to the numbers to reflect 2013 dollars. Details of the inflation adjustment can be found here: http://www.bls.gov/data/inflation_calculator.htm .

ports they serve, unless the PUC approves further subsidization of the IAP discount, alternative measures should be considered for reducing shipping costs.

One subsidy in place is the Reimbursement Transportation Cost Payment Program from the USDA Farm Service Agency (FSA). The Food, Conservation, and Energy Act of 2008 authorized the Reimbursement Transportation Cost Payment Program for Geographically Disadvantaged Farmers and Ranchers (RTCP) to provide assistance to geographically disadvantaged farmers and ranchers. The program reimburses producers for a portion of the transportation cost for transporting their agricultural commodity or inputs used to produce an agricultural commodity.
See http://www.fsa.usda.gov/FSA/webapp?area=home&subject=prsu&topic=rtcp

- Example - A producer incurred transportation costs in Hawaii for fiscal year 2013 totaling $15,000. The fiscal year 2013 percentage of allowance in Maui County, Hawaii, is 25 percent. $15,000 x 25 percent = $ 3,750.0

Another current incentive which assists in offsetting shipping costs is outlined in SB 593 (Act 200, SLH 2013) focusing on reimbursement for livestock feed. As almost all livestock feed is imported from the mainland, and feed can constitute up to 70 percent of total production costs, this bill appropriates up to $1,500,000 to reimburse qualified producers in the purchase of feed. See
http://www.capitol.hawaii.gov/measure_indiv.aspx?billtype=SB&billnumber=593&year=2013

Upcoming Plans for the Hawaii Department of Agriculture ("***HDOA"***) that may have an impact upon farmers' cost of logistics include applying for FY 14 Federal State Marketing Improvement Program (FSMIP) Funds. This yearly program provided by the Agriculture Marketing Service of the USDA, provides matching funds to State Departments of Agriculture, State agricultural experiment stations, and other appropriate State agencies to assist in exploring new market opportunities for U.S. food and agricultural products, and to encourage research and innovation aimed at improving the efficiency and performance of the marketing system.

By utilizing funding from the FSMIP program, HDOA plans to create a trial program to hire a consolidator to schedule, pickup, and consolidate LCL shipments for agriculture producers in Moloka`i , Lāna`i , or Hāna. This project hopes to reduce consolidation costs, labor, and time required to prepare shipments for loading to the Young Brothers barge. At the end of the project, participants will complete evaluations estimating the money they saved, allowing the community to determine if using consolidation services is a viable means of saving on shipping expenses.

CHAPTER 5

WORKING GROUP'S RECOMMENDATIONS: INCREASING EFFICIENCIES TO CONTROL TRANSPORTATION SYSTEM COSTS

The State of Hawaii may take some pride in making the most of what it has, including achieving the highest cargo throughput per acre of any commercial harbor in the U.S. west coast. Nonetheless, controlling prices, achieving high levels of service, and meeting increasing expectations will require that a review and reconsideration of current conditions and established practices. Given the examples of harbor infrastructure, regulatory procedures, and shipping practices, the question is whether the State's tools need to be updated. Harbor infrastructure is old, and carriers often operate in zones of inefficiency. Some of our regulatory procedures, based upon a regulatory foundation that may be now somewhat dated, make it difficult today for regulators and the regulated to achieve efficiencies and operate at the highest levels, particularly under changed present day circumstances, complexities and demands. Some of our shipping practices in the State may also need a closer look. For example, while transportation by small units is still necessary in some or many cases, it is an expensive per-unit method of shipment for the utility and the shipper which may be replaced by alternative methods in some cases. If these old tools are, in fact, outdated, then keeping these outdated tools in place is inefficient and expensive and perhaps inappropriate in a New Day. Neither heavy regulation nor substantial investment of private capital is enough to remedy the cost of these inefficiencies.

With the foregoing in mind, the Working Group makes the following recommendations[22] intended to reduce or control the time and cost of shipping goods to O`ahu from Moloka`i, Lana`i, and Hāna, Maui:

1. **<u>Regulatory Structure:</u>** The Working Group recommends support for the PUC's recently approved alternative rate-making pilot program for Young Brothers called the "Annual Freight Rate Adjustment" or "AFRA". AFRA has two purposes: (1) the development of a process to increase rate-making efficiency and responsiveness to current economic conditions, while (2) attracting and supporting capital investments in utility resources through incremental rate adjustments over time. This three-year pilot program complements the somewhat lengthier traditional general rate case process (with a general rate case in year 1 of the three-year cycle and a rate adjustment under AFRA in years 2 and 3). This approach benefits the public by promoting efficiencies in Young Brothers' operations to provide essential services at

[22] The Working Group would like to note for the record that member Clifford Hashimoto disagrees with the study's recommendations citing that "there is no adequate solution made to lower the cost of shipping to Hana. There is no transportation services (to) Hana with the exception of packages by UPS, Fedex (ground) and USPS. All freight palletize or loose freight is provided for by private contract carrier or by local small business."

reasonable cost. AFRA would provide an avenue for modest adjustments to Young Brothers' rates (to be capped at 5.5 percent annually) to attract and support capital investments in long-term assets that underlie reliable service. Both AFRA incremental rate adjustments and capital investments would be planned and spread over time. This approach would also mitigate the impact of periods during which low to flat cargo volume growth does not sustain an opportunity to earn a fair return on capital investments and thereby help maintain the utility's financial health and profile as an investment target. A financially healthy utility, in turn, would provide the funding to support its publicly regulated services.

2. **Harbors Modernization and New Day Plan:** For the benefit of all of the State's communities, the Working Group recommends that the modernization of Honolulu Harbor – namely the Kapālama Container Terminal (KCT) project – be completed by May 2017, and the new Hilo Harbor Inter-Island Cargo Terminal at Pier 4 by February 2015.

   These harbor infrastructure improvements, although not located in Moloka`i, Lāna`i, or Hāna, Maui, would nonetheless benefit these three communities because they will in turn benefit from a greater statewide system of efficiencies. Major infrastructure development is not immediately needed on Moloka`i or Lāna`i, as these port facilities are adequate for the foreseeable future (or, at the very least, these port facilities do not have a need that would justify the cost of improving them). The Department of Transportation is currently developing plans to improve the harbor at Hāna, Maui, so that it may be used in the future for emergency or infrequent cargo services.

3. **Maximizing Available Efficiencies in Transportation System and Utilizing Existing Working Relationships:**
   A logistics consultant should be contracted by the respective communities to review the purchase and shipping practices of the various Moloka`i, Lāna`i and Hāna, Maui merchants, and how they receive goods from West Coast and O`ahu sources to determine ways in which goods could be consolidated for trucking. If Moloka`i, Lāna`i and Hāna, Maui merchants are willing to work together, they might consider discussing with Honolulu freight forwarders/consolidators (including consolidators of refrigerated cargo) the feasibility of combining cargo loads and sharing trucking and consolidation costs. Included in this assessment would be purchases that are made from big box retailers such as Costco and Sam's Club for on-site consolidation to provide more efficient trucking to water and air carriers' facilities.

4. **Developing Basic Cargo Infrastructure for Airport Facilities in Moloka`i, Lāna`i, and Hāna, Maui:**
   The respective airport facilities at Moloka`i, Lāna`i, and Hāna, Maui are not adequate to support expanded air cargo services. These locations have certain limitations relating to airport runway length, cargo refrigeration capability, limited fueling

service and/or other operational limitations. Presently, the economies of scale and/or scope at these locations can support only the current level of limited air cargo service; therefore, infrastructure improvements at airports are not justified.

5. **Tax Considerations:** As discussed previously, shipping currently benefits from general excise tax exemptions. Therefore, short of a generous income tax credit for the industry, there is no place in the tax code for reducing shipping costs. However, if it were considered, the efficacy of such an income tax credit to lessen the consumer cost of shipping is not certain. The working group recommends no action regarding taxation of shipping. Targeted and effective tax incentive options have been exhausted; remaining options would be both expensive and of limited effectiveness.

6. **Agriculture Incentives:** The Working Group recommends support for the Hawaii Department of Agriculture's Federal State Marketing Improvement Program (FSMIP) Funds. This yearly program provided by the Agriculture Marketing Service of the USDA, provides matching funds to state Departments of Agriculture, state agricultural experiment stations, and other appropriate state agencies to assist in exploring new market opportunities for U.S. food and agricultural products, and to encourage research and innovation aimed at improving the efficiency and performance of the marketing system. One FSMIP project is expected to create a trial program to hire a consolidator to schedule, pickup, and consolidate LCL shipments for agriculture producers in Moloka`i, Lāna`i, or Hāna. This project hopes to reduce consolidation costs, labor, and time required to prepare shipments for loading to the Young Brothers barge. At the end of the project, participants will complete evaluations estimating the money they saved, allowing the community to determine if using consolidation services is a viable means of saving on shipping expenses.

ADDENDUM
HCR No. 204, H.D.1, S.D. 1

REQUESTING THE DIRECTOR OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM TO ESTABLISH A WORKING GROUP TO STUDY, CONSIDER, AND RECOMMEND WAYS TO REDUCE THE TRANSPORT TIME AND COST OF SHIPPING GOODS TO O`AHU FROM MOLOKA`I , LĀNA`I, AND HĀNA, MAUI.

WHEREAS, the State is detrimentally reliant on the importation of goods, including agricultural and retail goods; and

WHEREAS, buying locally-produced goods promotes a sustainable economic environment in the State; and

WHEREAS, the residents of the various islands of the State, including Maui, grow and manufacture agricultural and retail goods that are in high demand throughout the State; and

WHEREAS, the residents of O`ahu consume more goods than residents of any other county; and

WHEREAS, shipping goods to O`ahu from Moloka`i, Lāna`i, and Hāna, Maui, is costly and time-consuming; and

WHEREAS, new efficiencies in shipping goods from the County of Maui to O`ahu would result in increased jobs and economic activity that will benefit all residents of the State; now, therefore,

BE IT RESOLVED by the House of Representatives of the Twenty-seventh Legislature of the State of Hawaii, Regular Session of 2013, the Senate concurring, that the Director of Business, Economic Development, and Tourism is requested to establish a working group to study, consider, and recommend ways to reduce the time and cost of shipping goods to O`ahu from Moloka`i, Lāna`i, and Hāna, Maui; and

BE IT FURTHER RESOLVED that, in addition to other strategies, the working group is requested to consider the following strategies for reducing transport time and cost:

(1) Identifying and proposing amendments to any existing statute, administrative rule, or ordinance;

(2) The feasibility of alternative modes of transportation or other means of shipping freight between islands;

(3) Reducing taxes or creating tax incentives; and

(4) Any other related issue that the working group considers appropriate; and

BE IT FURTHER RESOLVED that the Director of Business, Economic Development, and Tourism is requested to serve as the chairperson of the working group and invite the following persons, or their respective designees, to serve as members of the working group:

(1) The Director of Transportation;

(2) The Director of Taxation;

(3) The Chairperson of the Board of Agriculture;

(4) A county official from the County of Maui, appointed by the Mayor of the County of Maui;

(5) A representative from the airline industry, appointed by the Senate President;

(6) A member representing the Island of Moloka`i, appointed by the President of the Senate;

(7) A member representing the Island of Lāna`i, appointed by the Governor;

(8) A member representing the community of Hāna, Maui, appointed by the Speaker of the House of Representatives; and

(9) A representative from the shipping industry, appointed by the Speaker of the House of Representatives; and

BE IT FURTHER RESOLVED that the Department of Business, Economic Development, and Tourism is requested to provide all administrative, technical, professional, and clerical support required by the working group for matters pertaining to this measure; and

BE IT FURTHER RESOLVED that the working group is requested to report to the Legislature its findings and recommendations, including any proposed legislation, no later than 20 days prior to the convening of the Regular Session of 2014; and

BE IT FURTHER RESOLVED that the working group cease to exist on June 30, 2014; and

BE IT FURTHER RESOLVED that certified copies of this Concurrent Resolution be transmitted to the Governor; Director of Business, Economic Development, and Tourism; Director of Transportation; Director of Taxation; Chairperson of the Board of Agriculture; and Mayor of Maui County.