

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
)
 YOUNG BROTHERS, LIMITED)
)
 For Approval of Tariff Change to)
 Reflect 2006 Rate Increase Pursuant)
 To Decision and Order No. 21768.)
 _____)

TRANSMITTAL NO. 06-0002

DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

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RECEIVED

DECISION AND ORDER NO. 22856

Filed Sept. 15, 2006
At 12 o'clock P.M.

Karen Higashi
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.
K. Higashi

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DECISION AND ORDER

By this Decision and Order, the commission approves YOUNG BROTHERS, LIMITED's ("Young Brothers") request for an across-the-board increase of 5.5% of its rates set forth in Tariff 5-A, as requested in its Application for Approval of Tariff Change to Reflect 2006 Rate Increase Pursuant to Decision and Order No. 21768 ("Application").¹

I.

Background

A.

Young Brothers

Young Brothers is a Hawaii corporation authorized to operate as a common carrier by water pursuant to the Hawaii Water Carrier Act, Hawaii Revised Statutes ("HRS") Chapter 271G. It transports property by barge between all major islands of the State of Hawaii in twelve (12) scheduled weekly departures from

¹Application of Young Brothers, Limited for Approval of Tariff Change to Reflect 2006 Rate Increase Pursuant to Decision and Order No. 21768; Exhibits; Verification; and Certificate of Service, filed on August 4, 2006.

Honolulu to ports on each island. This service is provided under the terms set forth in Young Brothers' Local Freight Tariff No. 5-A, which contains the commodity rates to be charged for the transport of property, as well as the sailing schedules and general rules applicable to all shipments.

B.

Application

On August 4, 2006, pursuant to HRS §§ 271G-16 and 17, Hawaii Administrative Rules ("HAR") §§ 6-61-94, 6-65-5 and 6-65-30, and the zone practice ("Zone Practice"), established in Decision and Order No. 19115, filed on December 20, 2001 ("Decision and Order No. 19115"), as extended by Decision and Order No. 21768, filed on April 22, 2005 ("Decision and Order No. 21768"), in Docket No. 01-0255, Young Brothers filed its Application for approval of a tariff change to reflect a 2006 across the board rate increase of 5.5%.² The Zone Practice allows Young Brothers to adjust its rates within a reasonable zone by an annual maximum increase of 5.5% and an annual maximum

²On August 4, 2006, the Application was served upon the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"). Pursuant to HAR § 6-61-62, the Consumer Advocate is an *ex officio* party to all proceedings before the commission.

Concurrently with the filing of its Application, Young Brothers filed its motion for commission approval to modify the requirement of HAR § 6-65-31(e) to allow Young Brothers to use a 2006 calendar test year, i.e., January 1 to December 31, 2006, rather than a 2007 calendar test year, i.e., January 1 to December 31, 2007 ("Motion"). By Order No. 22836, filed on September 11, 2006, the commission approved the Motion allowing Young Brothers to use a 2006 calendar test year.

decrease of 10%, without a rate case proceeding, provided that Young Brothers does not exceed its authorized rate of return of 11.06% on its average depreciated rate base.³ According to Young Brothers, "one of the overriding purposes of [its] Zone Practice [is] the simplification of ratemaking to achieve administrative and regulatory efficiency."⁴

All Zone Practice filings must comply with HRS § 271G-17(b), which requires 45 days' notice of any proposed tariff change.⁵ A Zone Practice filing must also include, among other things, submission of test year financial statements. Young Brothers uses the January 1, 2006, to December 31, 2006 test year to support its Application.⁶

In the Application, Young Brothers states that it "seeks improvement of its ability to earn a fair return on its investment in accordance with the zone of reasonableness pricing flexibility authorized by the [Zone Practice]"⁷ and as such, requests an across-the-board increase of 5.5% of its rates set forth in Tariff 5-A. Applicant asserts that the proposed 5.5% increase "would provide a rate of return of 8.27% on [its] average rate base for the test year, which is well below [its]

³Applicant's authorized rate of return of 11.06% was approved by the commission in Decision and Order No. 16008, filed on October 10, 1997, in Docket No. 96-0483.

⁴Motion at 2.

⁵In the instant case, because the Application was filed on August 4, 2006, the 45th day falls on September 18, 2006.

⁶See supra note 2.

⁷Application at 2.

authorized rate of return of 11.06%.”⁸ In support of Applicant’s need for rate relief, Applicant cites increased operating expenses (12% overall compared to 2005 operating expenses), an extremely low return on rate base without rate relief (4.99%), and in particular, increased fuel costs (69.1% over 2005 costs).

Applicant states that the annualized revenue adjustment for the 5.5% increase requested in the Application for all commodity rates is projected to be \$3,010,765 (with a projected allowed rate of return of 8.27%). Applicant asserts that without the requested 5.5% increase, “the projected allowed rate of return for the test year is 4.99%.”⁹

Applicant contends that a rate of return of 4.99% would not (1) provide it with a fair rate of return on its investments, (2) allow it to reinvest in its operations, and (3) allow it to improve reliability and service to its customers. Applicant states that its request for a rate increase is modest, designed to cause minimal impact on Applicant’s customers while improving Applicant’s profitability.

II.

Discussion

The Zone Practice, which authorizes Applicant to engage in the practice of rate flexibility within an approved zone of reasonableness, was established in Decision and Order No. 19115 and extended in Decision and Order No. 21768. Among other

⁸Id.

⁹Id. at 15.

things, Decision and Order No. 21768 gives Applicant the ability to adjust rates within the established zone for any customer class or classes, i.e., a maximum annual rate increase threshold of 5.5% over a 12-month period without filing a rate case, provided that Applicant does not exceed its authorized 11.06% rate of return on its average depreciated rate base, and on the condition that any decrease proposed for a given customer class does not result in non-compensatory rates for the customer class.

Upon careful review and consideration of the record, the commission finds the proposed tariff changes to be reasonable. Approval by the commission of the requested rate increase will enable Applicant to earn a fair rate of return. It will provide Applicant with the resources to reinvest in its operations, maintain reliable service to its customers, and keep up with escalating fuel costs and increased operating expenses. The commission also finds the proposed tariff changes, i.e., an across-the-board rate increase of 5.5% with the accompanying rate of return of 8.27%, to be within the threshold authorized by the Zone Practice. Accordingly, the commission finds that the proposed tariff changes appear to be in conformance with Decision and Order No. 21768. Based upon the above findings, the commission concludes that Applicant's requested 5.5% rate increase, for a projected rate of return on rate base of 8.27% for the 2006 test year should be approved, to take effect on September 18, 2006.

III.

Orders

THE COMMISSION ORDERS:

1. Young Brothers' Application for Approval of Tariff Change to Reflect 2006 Rate Increase Pursuant to Decision and Order No. 21768, filed on August 4, 2006, is approved, and shall take effect on September 18, 2006.

2. Notwithstanding the approval of Young Brothers' Application herein, the terms and conditions set forth in Decision and Order No. 21768 shall continue until further order of the commission.

DONE at Honolulu, Hawaii SEP 15 2006.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By Carlito P. Caliboso
Carlito P. Caliboso, Chairman

By John E. Cole
John E. Cole, Commissioner

APPROVED AS TO FORM:

Benedyne S. Stone
Benedyne S. Stone
Commission Counsel

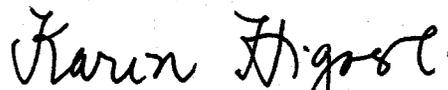
Transmittal No. 06-0002.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 22856 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, HI 96809

P. ROY CATALANI
SANDRA HOSHIDA
YOUNG BROTHERS, LIMITED
Pier 40, P.O. Box 3288
Honolulu, HI 96801



Karen Higashi

DATED: SEP 15 2006