

# YOUNG BROTHERS • HOW YOUNG BROTHERS IS NAVIGATING DELAYED RATE RELIEF.

As Hawai'i's only regulated water carrier for property, Young Brothers plays a critical role in supporting the state's commerce and communities by providing interisland shipping services to all major islands, including routes that may not cover operating costs.

## YOUNG BROTHERS OPERATES UNDER OVERSIGHT OF PUC

Young Brothers operates under the oversight of the Hawai'i Public Utilities Commission (PUC). The objective of this oversight is to ensure that the company delivers reliable services while being able to recover its costs and a reasonable return on investments in utility infrastructure. While balancing the need for the utility's financial sustainability, the PUC and state Consumer Advocate also ensure that the rates customers pay are reasonable and equitable.

## KEY POINTS:

- The PUC sets both the rates and schedules for Young Brothers' services, which means the company must seek approval for any adjustments.
- Unlike federally regulated shippers, Young Brothers cannot independently raise rates to account for rising costs or inflation.
- This regulatory framework ensures that customer rates reflect the true cost of providing essential services but also means that Young Brothers must follow a rigorous public process called general rate application or "rate case" to recover costs and earn a reasonable rate of return on its investments.
- Customer rates should cover approved costs and a rate of return on investments, which is also set by the PUC.

## HOW REGULATORY LAG IMPACTS YOUNG BROTHERS

Regulatory lag refers to the delay between when a utility incurs costs—such as infrastructure investments—and when it can recover those costs through adjusted customer rates.

For instance, in 2018, Young Brothers invested \$80 million in new Kāpena-class tugs, yet only \$20 million of that investment is reflected in customer rates. The company has been forced to absorb the remaining costs for over five years, limiting its ability to make further improvements.

The shipping industry is a capital and equipment-intensive business, meaning Young Brothers relies on expensive equipment like tugs, barges, containers, and other customer equipment, as well as shoreside equipment at all seven port locations. Delayed recovery of investments creates a significant challenge for Young Brothers.

## IMPACT ON FINANCIAL STABILITY

YB has made substantial investments to improve the safety, reliability, and efficiency of its services but is unable to recover these costs under the current rate structure.

Since 2020, Young Brothers has experienced a 17% increase in operating expenses and a 16% increase in its rate base due to its \$120 million investments in tugs, barges, and shoreside infrastructure to improve the safety, reliability, and efficiency of its services. **None of these increases are currently recovered through existing rates, leading to projected losses of over \$8.3 million in 2025 and a negative rate of return of -8.21%.**

**Young Brothers' ability to attract capital and make future investments is hindered by this lag, which puts both service reliability and financial sustainability at risk.**



# PROPOSED SOLUTIONS TO ADDRESS REGULATORY CHALLENGES

## WATER CARRIER INFLATIONARY COST INDEX (WICI)

Young Brothers has proposed a solution to mitigate the effects of regulatory lag by proposing the Water Carrier Inflationary Cost Index (WICI).

### Purpose of WICI

This mechanism would allow for more frequent but smaller rate adjustments tied to inflation. The result would be a more responsive and predictable rate structure that minimizes large, sudden increases while ensuring that Young Brothers can recover rising costs closer to when they are incurred.

### Key Features of WICI:



**Automatic Adjustments:** Rates would adjust annually based on inflation indices, reducing the need for large, abrupt rate hikes.



**Regulatory Efficiency:** The mechanism reduces the administrative burden of expansive and less frequent general rate cases on both Young Brothers and the PUC.



**Set Schedule:** While WICI provides automatic adjustments to rates, it also requires YB to file general rate cases every three years, ensuring the PUC will continue to be actively involved in setting the YB's rates.



**Customer Certainty:** Smaller, predictable rate increases allow businesses and residents to better plan for shipping costs.

## MOVING FORWARD: WHY TIMELY ACTION MATTERS

### CONSEQUENCES OF INACTION

Young Brothers will continue to experience financial strain without timely rate relief, making it difficult to provide the reliable services that Hawai'i's communities and businesses depend on. If left unaddressed, regulatory lag threatens the company's ability to attract the capital necessary to modernize its fleet and maintain critical infrastructure.

### A BALANCED APPROACH

Young Brothers' current proposals, including the WICI and rate case adjustments, strike a balance between ensuring the company's financial health and keeping shipping costs manageable for customers. Young Brothers remains committed to working with the PUC to stabilize YB's finances and create a more resilient company to serve Hawai'i in the future.

### RESILIENCE THROUGH RESPONSIVE RATES

As a vital lifeline for Hawai'i's interisland commerce, Young Brothers is dedicated to providing dependable and affordable services. However, regulatory reforms and timely rate relief are essential to continue fulfilling this role. By adopting mechanisms like the WICI, Young Brothers can better navigate the challenges posed by regulatory lag and rising costs, ensuring that it remains a reliable partner in Hawai'i's economic future. This more responsive regulatory framework will help Young Brothers fulfill its critical role and serve the state's long-term needs.

### KEY TAKEAWAYS:

- Young Brothers operates under strict PUC regulation, which limits its ability to independently adjust rates.
- Regulatory lag has created significant financial strain by delaying cost recovery for essential investments.
- The proposed WICI mechanism offers a more responsive, predictable rate adjustment process to keep pace with rising costs.
- Timely rate relief is crucial for Young Brothers to maintain reliable service and invest in future infrastructure improvements.