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Re: Docket No. 2020-0084, Instituting an Emergency Investigative Proceeding Regarding Young Brothers, LLC's Financial Condition.

Dear Mr. Ono and Mr. Nakashima:

To assist the Commission in its review of the above-referenced docket and in preparation for the June 10, 2020 Status Conference, to the extent possible, please respond to the following Information Request(s) ("IRs") by incorporating responses into Young Brothers' presentation scheduled to be given during the June 10, 2020 Status Conference in this docket. Young Brothers can also provide additional, written responses to these questions by June 15, 2020, to be filed in the instant docket.

Thank you for your assistance.

Sincerely,

Caroline C. Ishida  
Commission Counsel

CCI:ljc

Enclosure

c: Service List, Docket No. 2020-0084, via the Commission's Document Management System electronic Distribution List

Docket No. 2020-0084  
Young Brothers, LLC  
Information Requests

**General Instructions:**

Unless otherwise directed, all responses to these IRs that concern or require tabular or graphic representations of data should include the data in an electronic spreadsheet file compatible with MS Excel. All spreadsheet files provided the responses to these IRs should be provided in live or dynamic format with cell logic, references, calculations and formulas intact; and all cells unhidden and unprotected.

**I. Request for Financial Assistance (i.e., CARES Act or third-party financing) and YB Commitments**

- A. Please detail all efforts by Young Brothers and its parent company, Saltchuk Resources, to secure federal financial assistance and other external sources of financing.
- B. Based on [YB's May 29 Letter "Requested Information Regarding YB's Access to Financing, Financial Impact, and Contingency Plans](#) at 4) – “[T]he Company is in the early stages of soliciting indicative proposals for third party bank financing and other potential debt financing arrangements.” Please provide information on the results of YB’s efforts to explore third party financing options to-date.
  - 1. Identify how much financing YB is requesting (short-term/long-term);
  - 2. If available, what are the proposed/offered loan terms (rates, period, fees)?
- C. Does YB still anticipate filing a request for temporary/emergency rate relief with the Commission? (**Reference:** [YB's May 26 Notice of Liquidity Crisis](#))
- D. Please discuss the proposed commitments Young Brothers is currently considering if the Company were to receive government assistance. Potential commitments could include any or all of the following:
  - 1. Guarantees to continue operations;
  - 2. Leverage State assistance with other sources of funding (federal gov’t, parent company, external financing, etc.);
  - 3. Improved service offerings and sailing schedules;
  - 4. Reduce/forego regulatory request(s) for rate increases;
  - 5. Undergo significant restructuring of Company to achieve profitable operations;
  - 6. Guarantee and verify that assistance will only be used for Hawaii-based operations; and
  - 7. All other areas under active consideration by Young Brothers.

## II. YB Finances

### A. Short Term Cash Flow/Liquidity

1. The following questions refer to the table titled, “Young Brothers, LLC – 13 Week Cash Forecast” ([YB’s May 29 Letter “Requested Information Regarding YB’s Access to Financing, Financial Impact, and Contingency Plans](#) at 3):
  - a. Based on the projection in this table, is YB’s official position that it will be unable to sustain operations by the end of July 2020?
  - b. Please submit YB’s bank statements (and all other relevant financial information) to verify the accuracy of the estimates in the table.
  - c. Please discuss the key factors that would extend YB’s timeline for depleting available cash reserves. Document all actions that the Company is currently taking and that it has planned to reduce losses.
  - d. Based on YB’s projection that operations may cease by the end of July 2020, please provide the following information to document current plans and communications related to YB’s potential to close operations.
    - i. All communications to vendors, customers, and employees discussing YB’s potential to close operations as soon as July 2020;
    - ii. All communications to/from Foss Maritime and/or Saltchuk Resources discussing Young Brothers’ plans to cease operations; and
    - iii. All internal planning documents Young Brothers has developed regarding plans to cease operations.
2. Does YB still anticipate filing a request for deferred accounting related to COVID-19 costs with the Commission? (**Reference:** [YB’s May 26 Notice of Liquidity Crisis](#))
3. YB stated in [YB’s May 26 Notice of Liquidity Crisis](#) at 1, that “no amount of cost-cutting can make [YB] viable in the short-run.”:
  - i. What is the basis for this statement?
  - ii. YB proposed reducing its sailing schedule (see YB Tariff Transmittal No. 20-0003 and associated extension and modification requests) to cut costs in the short term. What other options has YB considered to further reduce costs below anticipated revenues?
  - iii. Is YB foregoing planned capital expenditures as a result of its current financial situation?

- iv. Has YB conducted an analysis of additional, potential cost cutting measures?
- 4. What opportunities does YB see for increasing revenues, aside from raising prices?
- 5. How has YB's revenue forecast for the rest of the year changed given recent changes to State policy regarding the pandemic (i.e., "Act with Care," available at: [https://governor.hawaii.gov/wp-content/uploads/2020/05/2005088-ATG\\_Eighth-Supplementary-Proclamation-for-COVID-19-distribution-signed.pdf](https://governor.hawaii.gov/wp-content/uploads/2020/05/2005088-ATG_Eighth-Supplementary-Proclamation-for-COVID-19-distribution-signed.pdf))?
- 6. Has the sale of the Tug Hokulani (approved in Docket No. 2019-0344) improved YB's short term cash flow/liquidity? (**Reference:** Docket No. 2019-0117, May 5, 2020 Letter at 4: "The sale of Hokulani tug was identified as a measure that would assist YB to weather the COVID-19 related financial impacts.")
  - a. If so, how? And if not, why not?
- 7. YB has stated that in the event that there is delay in its receipt of requested CARES Act funding, then it may be necessary for YB to sell off some of its assets "as a potential source of generating cash in the near term." (**Reference:** [YB's May 29 Letter "Requested Information Regarding YB's Access to Financing, Financial Impact, and Contingency Plans](#) at 7) YB states that under this scenario it would "seek to sell its least critical assets first subsequent to receiving Commission approval."
  - a. Please define how YB currently defines a "critical" asset, and provide some examples of YB's existing assets that it deems to be critical.
- 8. YB also notes that in a scenario where CARES Act funding is delayed, it could "stretch its available cash by working with its vendors and other entities to which YB has financial obligations to renegotiate rates, ask for permanent forgiveness of amounts owed, and/or defer payments wherever possible."
  - a. How much of a financial impact does YB anticipate that these asset sales and payment delays would have on YB's near term financial condition?
  - b. What is YB's anticipated timeline for regulatory approval for any of these potential sales?

## B. Longer Term Finances/Profitability

1. According to the information provided by Young Brothers to the PUC, operational expenses have grown far faster than revenues prior to the COVID-19 Emergency (see summary table and sources of information in Docket No. 2020-0084, Order No. 37161, filed on June 2, 2020).
  - a. Discuss in detail why YB's operational expenses grew 26% between 2015-2020, before the COVID-19 emergency.
  - b. What plans or strategies did Young Brothers execute during this period to address this trend of rapidly escalating costs?
  - c. Did Young Brothers seek rate increases from the PUC during this period?
  - d. Please provide details on:
    - i. Initial requested amount of rate increases in its recent rate cases;
    - ii. Settlement with Consumer Advocate in its recent rate cases;
    - iii. Rate increase approved by PUC in its recent rate cases;
    - iv. YB's projected rate of return under recent settlements (Docket No. 2016-0014, Supporting Docs to Stipulation, Exhibit B at 1, and Docket No. 2017-0363, Supporting Documents to Stipulation, Exhibit A at 3)
    - v. Did Young Brothers' actual operations deviate from the evidence provided to support these settlements?
2. Young Brothers has proposed government assistance, rate increases, and reductions in service as the primary strategies to achieve profitability to address its current liquidity crisis (**Reference:** [YB's May 29 Letter "Requested Information Regarding YB's Access to Financing, Financial Impact, and Contingency Plans](#) at 5-8).
  - a. Based on Young Brothers' proposed strategies, describe the Company's plans for rate increases and reductions in service under the following scenarios of potential financial assistance: a) \$5 million; b) \$10 million; c) \$12.6 million.
  - b. Discuss all other potential strategies that Young Brothers could employ to achieve sustainable finances, including strategies not considered in its May 29 letter (**Reference:** [YB's May 29 Letter "Requested Information Regarding YB's Access to Financing, Financial Impact, and Contingency Plans](#)).
3. For the sake of discussion, if YB gets everything that it has requested in the near term (i.e., \$25M in CARES Act or other 3<sup>rd</sup> Party funding,

emergency rate relief, ongoing reduced sailing schedules, etc.), what is YB's sense today of what it would take for it to operate profitably in 2021 and beyond?

4. Has YB investigated the pros and cons of restructuring or reorganizing via a bankruptcy action?
  - a. If so, what are its conclusions to-date about the benefits and potential downsides of pursuing bankruptcy?

### III. Customer Service

- A. What is YB's assessment of the effectiveness of its communication to customers regarding its various service changes since early-March 2020 (related to both COVID-19 and its financial situation)?
- B. Is it still YB's position that "there have been no major problems associated with the reduced sailing schedule" put in place in response to [YB's Transmittal No. 20-0003](#)? (Reference: [YB's May 26 Notice of Liquidity Crisis](#) at 2, "I would also like to report that there have been no major problems associated with the reduced sailing schedule, and we also intend to request to extend this temporary sailing schedule further in light of [the] situation.").
- C. Why have requests to modify service varied so widely from Contingency Plans 1 and 2 submitted in YB's May 29 letter (see [YB's May 29 Letter "Requested Information Regarding YB's Access to Financing, Financial Impact, and Contingency Plans"](#))?
- D. If YB receives government financial assistance, what are:
  1. YB's future plans and commitments to improve service?
  2. YB's commitments to uninterrupted operations?
- E. YB has previously stated that LCL/Mix cargo is "non-compensatory" and "very costly and labor intensive." (Reference: [YB's May 29 Letter "Requested Information Regarding YB's Access to Financing, Financial Impact, and Contingency Plans"](#) at 5.) To better understand this assertion, please provide the following information:
  1. What are YB's operational costs associated with handling Less than Container Load (LCL) cargo per ton?
  2. What is the difference between the operational costs for LCL loads and the revenue generated (per ton)? (In other words, what are the losses YB attributes to LCL cargo by ton?)
- F. Please identify the cost savings YB calculated it would realize by suspending shipment of LCL cargo when it proposed to do so on May 29, 2020.
- G. Why did YB decide not to suspend shipment of LCL cargo after originally proposing to do so on May 29, 2020?

- H. What effect would suspending LCL cargo shipments have on YB's current cargo load projections?

#### **IV. Parent Company Relationship/Financing**

- A. Please provide all presentations, supporting documentation, and communications to/from Saltchuk Resources' management related to Young Brothers' request for financial assistance.
- B. Please provide all supporting documentation and communications to/from Saltchuk Resources' management regarding the decision to withhold financial support starting on May 31, 2020 (Reference: [YB's May 26 Notice of Liquidity Crisis](#) at 1.)
- C. Please provide information on all fees, charges, and assessments charged to Young Brothers by Saltchuk Resources and/or affiliates for the period from 2015-2020.
- D. Please discuss Young Brothers' efforts to solicit these services competitively, where possible.
- E. On May 29, 2020, the Star-Advertiser published an editorial entitled, "Take hard look at Young Brothers plea for coronavirus relief aid," (see <https://www.staradvertiser.com/2020/05/29/editorial/our-view/editorial-take-hard-look-at-young-bros-plea/>), which included a quote from Young Brothers' former interim President and Saltchuk Resources Senior Vice President, Paul Stevens, stating, "We lost our way." Please explain this statement further in the context of the Company's significant financial decline prior to the COVID-19 emergency and its current request for assistance.
- F. Has Saltchuk Resources changed any of the management/executive team responsible for Young Brothers (at either/both parent and affiliate levels)?
- G. Is Saltchuk Resources willing to provide additional information not-yet-requested to the State of Hawaii in order to facilitate the State's assessment of YB's request for financial assistance (i.e., CARES Act or other funding)?

## V. Compliance with HRS 271G Requirements

- A. HRS § 271G-10 requires an applicant for a certificate for public convenience and necessity to demonstrate that it is fit, willing, and able to provide service to customers:
1. As it stands today (not with CARES funding or outside financing, but under present conditions), is it YB's position that YB's current water carrier services are adequate to presently service the public or meet demonstrated and quantifiable future demands for service?
  2. Given YB's representations in the May 29, 2020 letter (**Reference:** [YB's May 29 Letter "Requested Information Regarding YB's Access to Financing, Financial Impact, and Contingency Plans"](#)), is the Company's position that government financial assistance is required to meet these criteria (i.e., fit, willing, able)?



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