

AGENDA

WATER CARRIERS WORKING GROUP MEETING

MARCH 18, 2021

1:00 – 3:30 PM

VIA ZOOM CONFERENCE MEETING

<https://us02web.zoom.us>

Meeting ID:

Passcode:

I. Welcome

II. Housekeeping

- Corrections to Group Memory from January 20, 2021 meeting solicited.

III. Status Reports for Small Groups/Subcommittees

- Team representative will provide summary of work completed on recommendations.
- Questions, comments, or suggestions will be solicited after each report from WCWG members.
- Sequence of reporting:
 - i. Pier space
 - ii. Sustainability and Profitability
 - iii. Cargo
 - iv. Subsidized Shipping
 - v. Rates

IV. Low Hanging Actions That Have Been Identified

- Low hanging items discussed and ideas for implementation generated.
- Identify WCWG champion(s) for each item who will be responsible for creating an implementation plan.

V. Discussion of Overlapping, Similar, or Related (O/S/R) Recommendations

- Identify recommendations that are O/S/R.
- Discuss how they should be addressed.
 - i. One of the groups with the O/S/R recommendation will volunteer to take the lead on addressing it.
 - ii. Combine small groups with O/S/R recommendations.
 - iii. Form a new small group to address the O/S/R recommendation.

VI. Suggestions for Meeting on April 15th

- **Small groups/subcommittees who did not complete their templates for this meeting can share their finished products.**
- **O/S/R groups can provide status reports on recommendations.**

VII. Evaluation of meeting

VIII. Conclude

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The public repository link is as follows:

<https://hawaiioint-my.sharepoint.com>

Password:

## PUC Water Carriers Working Group Meeting

January 21, 2021, 1:00 – 3:30 p.m.

(Virtual Meeting via Zoom)

### Meeting Attendees (in alphabetical order)

P = Present; A= Absent

|   | <b>Name</b>                       | <b>Title</b>                         | <b>Company</b>                                                                                             |
|---|-----------------------------------|--------------------------------------|------------------------------------------------------------------------------------------------------------|
| P | Jay Ana                           | President                            | Young Brothers, LLC                                                                                        |
| P | Vic Angoco                        | SVP                                  | Matson Navigation Company, Inc.                                                                            |
| P | Jesse Andrade                     | ILWU Member/Unit<br>4209 Chair       | International Longshore and<br>Warehouse Union, Local 142                                                  |
| P | Henry J.C. Aquino                 | Representative                       | House District 38 / Chair, House<br>Committee on Transportation                                            |
| P | Nelisa Asato for Vic<br>Angoco    |                                      | Matson Navigation Company, Inc.                                                                            |
| A | Jayne Nantkes                     | Committee Clerk                      | Office of Representative Aquino                                                                            |
| P | Leodoloff (Leo) R.<br>Asuncion    | Commissioner                         | Public Utilities Commission                                                                                |
| A | Jade Butay                        | Director                             | Department of Transportation                                                                               |
| A | Rick Blangiardi                   | Mayor                                | City and County of Honolulu                                                                                |
| P | Michael Caswell                   | SVP                                  | Pasha Stevedoring & Terminals L.P.                                                                         |
| A | Catherine Awakuni<br>Colón        | Director                             | Department of Commerce and<br>Consumer Affairs                                                             |
| P | Derek J. Chow                     | Deputy Director                      | Department of Transportation,<br>Harbors Division                                                          |
| P | Stacy Crivello                    | Community Liaison                    | Maui County Mayor's Office                                                                                 |
| A | Michael Dahilig                   | Managing Director                    | Kauai County – Office of the Mayor                                                                         |
| P | Christopher Edwards               | Director of Finance                  | Young Brothers, LLC                                                                                        |
| P | Mary Alice Evans                  | Director, Office of<br>Planning      | Department of Business, Economic<br>Development & Tourism                                                  |
| A | James P. Griffin                  | Chair                                | Public Utilities Commission                                                                                |
| A | Matthew Gonser                    | Chief Resiliency<br>Officer/Director | City and County of Honolulu – Mayor's<br>Office of Climate Change,<br>Sustainability and Resiliency (CCSR) |
| P | Randy Grune (for<br>Mike Caswell) | PASHA Managing<br>Director           | Hawaii Stevedores, Inc.                                                                                    |

|   |                                     |                                                              |                                                                              |
|---|-------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------------------|
| P | William "Baba" Haole IV             | Division Director of Hawaii Longshore Division               | International Longshore and Warehouse Union, Local 142                       |
| P | Steven Hunt                         | Deputy Finance Director                                      | Hawaii County                                                                |
| P | Lorraine R. Inouye                  | Senator                                                      | Senate District 4 / Chair, Senate Committee on Water and Land, Majority Whip |
| P | Richard Kamoe                       | Vice Division Director of Hawaii Longshore Division          | International Longshore and Warehouse Union, Local 142                       |
| P | Gilbert S.C. Keith-Agaran           | Senator                                                      | Senate District 5 / Senate President designee                                |
| A | Mitch Roth                          | Mayor                                                        | County of Hawaii                                                             |
| P | Keith Kiyotoki                      | Manager of Sales and Marketing                               | Young Brothers LLC                                                           |
| P | Chris Lee                           | Senator                                                      | Senate District 25/Chair, Senate Committee on Transportation                 |
| P | Chris Martin                        | Director of Operations                                       | Young Brothers LLC                                                           |
| A | Reiko Matsuyama                     | Budget Director                                              | Kauai County – Office of the Mayor                                           |
| A | Mike McCartney                      | Director                                                     | Department of Business, Economic Development & Tourism                       |
| P | Kris Nakagawa                       | Vice President of External and Legal Affairs                 | Young Brothers LLC                                                           |
| P | Mark M. Nakashima                   | Representative                                               | House District 1 / House Speaker designee                                    |
| A | Dean Nishina                        | Executive Director / Consumer Advocate                       | Department of Commerce & Consumer Affairs – Division of Consumer Advocacy    |
| P | Dori Palcovich (for Mike McCartney) | Administrator for the Small Business Regulatory Review Board | Department of Business, Economic Development & Tourism                       |
| A | Jennifer M. Potter                  | Commissioner                                                 | Public Utilities Commission                                                  |
| A | Fred Robins for Baba Haole          |                                                              | ILWU                                                                         |
| P | Stevette Santiago                   | Director of HR                                               | Young Brothers LLC                                                           |
| P | Phyllis Shimabukuro-Geiser          | Chairperson                                                  | Department of Agriculture                                                    |

|   |                                   |                                |                                                                                    |
|---|-----------------------------------|--------------------------------|------------------------------------------------------------------------------------|
| A | Michael P. Victorino              | Mayor                          | Maui County                                                                        |
| P | Mike Victorino, Jr.               |                                | ILWU                                                                               |
|   | Public Utilities Commission Staff |                                |                                                                                    |
| P | Jeffrey Akamine                   | Engineer                       | Public Utilities Commission                                                        |
| P | Jodi Endo Chai                    | Executive Officer              | Public Utilities Commission                                                        |
| P | Michael Chapman                   | Economist                      | Public Utilities Commission                                                        |
| P | Steven Iha                        | Consultant                     | Public Utilities Commission                                                        |
| P | Layla Kilolu                      | Economist                      | Public Utilities Commission                                                        |
| P | Carolyn Laborte                   | Chief Auditor                  | Public Utilities Commission                                                        |
| P | Naomi Landgraf                    | District Representative – Maui | Public Utilities Commission                                                        |
| P | Andrew Okabe                      | Utility Analyst                | Public Utilities Commission                                                        |
| P | Anand Samtani                     | Supervising Economist          | Public Utilities Commission                                                        |
| P | Gina Yi                           | Acting Chief Engineer          | Public Utilities Commission                                                        |
| P | Jackie Young                      | Auditor                        | Public Utilities Commission                                                        |
| P | Debra Abe                         | Auditor                        | Public Utilities Commission                                                        |
|   | Independent Facilitation          |                                |                                                                                    |
| P | Donna R. Ching                    | Facilitator                    | Pacific Center for Collaboration                                                   |
| P | Jennifer Cornish Creed            | Recorder                       | Hawaii Alliance for Nonprofit Organizations (Director of Professional Development) |

## Welcome

Happy New Year! Leo welcomed attendees to the sixth meeting of the Water Carriers Working Group (WCWG).

He shared that the group had a full agenda today. Some regular attendees may be busy since the Legislative session started yesterday.

He introduced one person who will be joining the group:

- From the C&C of Honolulu, Matt Gonser, who is the New Chief Resiliency Officer from the City and County's Office of Climate Change and Resilience. He will be representing Mayor Blangiardi.

## Housekeeping

### Group Memory

Donna asked if there were any corrections to the group memory from the December meeting. There were no corrections suggested.

## Comments on Force Field Analysis

Donna asked if there were any items in the Force Field Analysis that were egregiously misclustered. None were identified by the group. She then asked if there were any questions about the comments that were added to the group memory after the session. None were identified by the group.

C: In the Worst Case Scenario, p. 12. Regarding Impact on Neighbor Islands and Businesses:

- Local production of food will not increase because neighbor island farmers will not be able to afford to ship to markets.

This is true in a sense and not true in a sense. What isn't true – food production will decrease. There are more farmers growing food now than at any other period. Many small scale farmers. There are more types of commodities and more production of food that is being sent outbound. What is true – they won't be able to afford to ship to markets is true.

C: I want to respond to the ~~earlier~~ point about the Worst Case Scenario. That comment is not to say there isn't more farming activity on the neighbor islands. It was to describe a worst case scenario if YB went out of business and if Matson and Pasha did not fill in with service to Molokai and Lanai. In that scenario, it would hamper famers on those islands from shipping their produce and livestock to Oahu.

## Low Hanging Actions

Donna asked if any of the participants had any “low hanging fruit” items to offer, something that might be started on right away?

Q&A

### Q = Question, A = Answer, C = Comment

C: Low-hanging fruit. The broad one I think of is the creation of a commercial port authority. Was introduced in the legislative session last year but didn't go anywhere. That can answer the questions about how LCL is regulated or not regulated and about non-compensatory routes, particularly Molokai and Lanai.

Currently, the state DOT manages all of the commercial harbors. They are a landlord port – folks rent space from the state to conduct their operations. State manages the land and infrastructure – sets leases and tariffs. We use money to perform maintenance on that property. This authority may have some of those same types of red tape but could streamline a lot of it if the Legislature gives the authority those responsibilities.

The biggest thing is that the rate that the shippers charge others is set by PUC. If there was a commercial port authority, it could regulate the rates as a body that is familiar with maritime regulations.

Q: Are you suggesting legislation get re-introduced in this session?

A: Yes, the Legislature could make it happen.

C: On the bill introduced last year, ILWU worked hard to dismantle it. The PUC sets the rates now and the public has an opportunity to voice opinions and speak to the rates that get set. When you have a Port Authority set rates, they might be higher than what the customer is currently paying. Especially on the neighbor islands.

Q: Donna – Are these low-hanging enough? Can they be done ~~more immediately~~ in the near term or are they medium-term solutions?

A: It depends on what part. In the Port Authority example, the legislation itself could be low hanging fruit, but how you set it up in terms of getting the bill passed, that takes time. Minimum 2 years.

Q: Donna: Derek – would you like to be the champion on this item? If so, I'll get you some volunteers.

A: Derek - I'm interested in this topic, but I'm not sure if it's appropriate for me in DOT to be the advocate for this.

C: Regarding creating a maritime authority. The Hawaii Island farmers continue to have issues. For example, that the rates are set and controlled by PUC and by statute. I can see the merit in Derek's suggestion. There might also be other options. It also could be at a time when the Legislature feels we should give more authority to the Harbors Division and the State. You still have to go through rule making. It seems like the growers and farmers out there are looking at transparency. They can't get to Honolulu to make their claims to the PUC. We shouldn't overlook other options if they're out there.

C: Donna – this issue could be narrowly defined, or it could be the work of this whole group. It depends on how we approach it. One of the reasons Derek raised this is not about controlling the rates but making it a more efficient process and where they apply them for efficiency.

C: You don't have to copy other maritime authority in other states. You can determine what the parameters are.

C: I can understand Derek's proposal, but it seems like this isn't a low hanging fruit. We're tied to the PUC and that's law. The process to move us from there, I'm not sure it's something we can do immediately.

C: Donna – I'm hearing that we can identify it as a potential option to consider but it might be more of a medium- or long-range item.

Q: Lorraine – was it Pasha or Matson that used to do cargo handling/shipments to the neighbor islands before the PUC got involved? At that point in time before PUC was given authority to set rates, how was rate setting done?

A: This gets back to our original presentation. The PUC charter has been in place for 30 years. There has been oversight for over 30-40 years.

Q: So, the rate structure was always governed by the PUC?

A: Yes.

C: Another possible low hanging fruit item would be to review current rate design and address less profitable rates and ports. We currently have an open docket. Look at compensatory and non-compensatory routes. There's a process that's already in the works with PUC. In some way, shape or form there will be a result.

A: Leo – the dockets have their time. We have to go through a process. We're already in that process. I'm not sure we could accelerate the process. A recommendation could be to look at the timeframe and recommend a timeframe that would be more optimal. By law, we have to do certain things. If we reduce the time we have, the Commission ends up having less time to work on decisions and can't get all the input from various parties.

Q: We're in this situation because of YB's financial situation – it's bleak. We're trying to bail out an entity. The customer is picking up the loss of revenue. Are there any other times in history this has happened?

A: As far as I know, no, it hasn't happened before.

C: That's the situation our farmers are facing. They're saying that the process we're undertaking in the WCWG is not going to result in anything unless it results in legislation.

A: This task force has always been looking at the mid-to long-term solutions. Any low hanging fruit could be a step towards the medium- to long-term solutions.

C: In my role, I know there is not any money to give out – no CIPs etc. But we can do things to get the economy moving. Some folks on Hawaii Island are looking at expansion beyond Hawaii. KTA Superstores is considering going beyond Hawaii Island. How are we going to create Meadow Gold products and get them to neighbor islands? How are we going to create economic viability so that business thrives, jobs are created, and we have a good transportation system?

C: Everyone is hurting right now, no doubt. The WCWG is tasked with looking at medium- and long-term activities and has been asked to be thoughtful about them. When we do short-term fixes, we often create unintended consequences that are worse than the original situation. We don't have the resources to fix any new problems right now.

### **Priority Issues Resulting from Force Field Analysis**

Andrew shared a short slide presentation of the high priority items from the Force Field Analysis that were submitted by the WCWG participants.

## Desired Future 1

- Being able to understand what cargo is going to show up, in what dimensions, where.
  - Like an online airline reservation system where customers can see available blocks and make reservation.
  - Reservations that can be depended on so that the carrier can make their schedule with confidence – and there is reliability on both sides.
  - Having pre-determined capacities for LCL, etc. to create efficiencies.
  - Expenses and Revenue breakouts based on Commodity type / Cargo type.
- Supporting Forces
  - Improve customer outreach and communications to support: 1) consistent application of rules; 2) availability of services; 3) improve customer satisfaction.
  - Adopt new technologies and practices to improve efficiencies.
- Restraining Forces
  - Demand dynamics between outbound and inbound cargo are not uniform which results in inefficiencies.
  - The mandated routes may be inherently inefficient.
  - Availability of scheduled shipments for specific items.

## Desired Future 2

- Incremental adjustments to rates.
  - Have rate built in with some sort of a COLA – Consumer Price Index Unit adjustment so the carrier could make the argument to reset the base when necessary.
- Supporting Forces
  - Review services to determine what should continue to be provided as a regulated service or what could be provided by a competitive market.
  - Financial stability of the Utility will drive capital investments resulting in customer satisfaction and operational efficiencies.
  - Tax credits allowed by the Legislature
  - Other Options to subsidize shipping
- Restraining Forces
  - YB is operating a regulated service in a competitive environment (others are pricing their product at a market rate)
  - The cost of providing LCL services is greater than the revenue because of the labor, fees, equipment and infrastructure.





## Desired Future 3

- Standardized and streamlined ratemaking that factors in ports and cargo types that are negative earners
- Supporting Forces
  - Increased flexibility in implementation of current rate design to address less profitable regulated services/ ports/routes.
  - Financial stability of the Utility will drive capital investments resulting in customer satisfaction and operational efficiencies.
  - Potential incorporation of rate adjustment mechanisms.
- Restraining Forces
  - The cost of providing LCL services is greater than the revenue because of the labor, fees, equipment and infrastructure.
  - The mandated routes may be inherently inefficient.
  - Regulatory burden and lag.



## Desired Future 4

- All carriers involved in the movement of cargo have the ability to be sustainable and profitable.
- Supporting Forces
  - Increased flexibility in implementation of current rate design to address less profitable regulated services/ ports/routes.
  - Review services to determine what should continue to be provided as a regulated service or what could be provided by a competitive market.
- Restraining Forces
  - The need to service the broad customer needs creates inefficiency and development of a niche.
  - YB is operating a regulated service in a competitive environment (others are pricing their product at a market rate).

## Desired Future 5

- Adjust service offerings to create higher efficiency and improved cargo flow.
  - Potential low hanging fruit with customers seeing quick benefits (also have some medium term)
- Supporting Forces
  - Make KCT operational ASAP.
  - A dynamic carrier website or phone app for scheduling rates that are updated hourly.
- Restraining Forces
  - The need to service the broad customer needs create creates inefficiency and development of a niche.
  - Mandated rates may be inherently inefficient.
  - Availability of scheduled shipments for specific items.



1/21/2021



## Desired Future 6

- Use of Available space on piers is optimized
- Supporting Forces
  - Make KCT operational ASAP.
  - Review services to determine what should continue to be provided as a regulated service or what could be provided by a competitive market.
- Restraining Forces
  - When LCL stays on dock, it isn't the most operationally efficient and is labor intensive.
  - Mandated routes may be inherently inefficient.



1/21/2021

The following discussion occurred in response to the high priority items. The items highlighted in blue were the agreed upon high priority items.

**Q = Question, A = Answer, C = Comment**

C: Rates is going to be a complex subject. Whether they are regulated by the PUC or a Port Authority in the future. I'm thinking about two aspects - one is sustainability of a statewide

route (some routes will be less profitable); the second is the potential to set rates on a priority basis. Could we look at having luxury goods pay a disproportionate rate and lower rate charged for agriculture to maintain routes that are not necessarily profitable to the water carriers, but are a priority for agriculture folks? Maybe the pricing structure needs to be adjusted. Luxury goods pay the premium to subsidize what we consider high priority goods to be shipped.

Can we call this item **Predictable, Incremental Rate Adjustments**? It would be about prioritizing types of products for lower rates that we need to have be more widely available. If we want to be less reliant on food from mainland, then we can consider preferential rates for agriculture items.

C: It would have to be incremental. It's tied to CPIU. In collective bargaining, or adjusting COLA, this might be challenging. But maybe if it were changed incrementally over 5 years.

Q: Can we have a larger category called **Rates**?

A: Yes, we can.

At this point Donna suggested that the group continue to identify items from the FFA that describe what we want to have in the future – likely from the Desired State portion of the conversation. Some of the supporting/restraining forces are listed, but there are likely others as well. After we've identified those, we will get into small groups and at minimum:

- Share contact information (e.g., email and phone numbers)
- Determine date and time of first meeting
- Identify person willing to host the first and subsequent small group meetings
- If time permits, identify a potential focus for the work of this group

Donna mentioned that the plan is to skip the February meeting so that the small groups can meet multiple times. Each group will come back to the larger group with a proposal, including a goal and strategies that can used to achieve the goal. Also, potential barriers that might prevent us from achieving the goal.

The discussion continued.

Q: Shippers – what about tax credits allowed by the Legislature? Other opportunities to look at the agriculture industry/sector.

C: Reservations; availability of scheduled shipping for a commodity. Making reservations for special islands. (Can go under # 5 desired future)

C: It's the tail wagging the dog. A byproduct of everything you've done in terms of CS and fixed/controllable costs. We should ask what do we need to provide these routes, this volume of services, etc. to make the entity sustainable over time?

C: What about an item called **Other options for subsidizing shipping**?

C: And an item called **Clarity about Cargo?**

- What cargo shows up where – a system where people can make reservations/schedule with confidence
- Consumers to know what's available and when
- Creating a reservation system that requires commitment from the carrier and the customer
- A potential restraining forces might be mandated rates or routes. We can consider fixing routes, not just rates.

C: What about an item called **Sustainability and profitability of carriers?**

C: And an item called **Use of Available Space on Piers?**

C: Can we add an item called **Service?** This would be about adjustments to gate hours and LCL drop off and pick up times, etc. I'm wondering if we could have a small group that would focus on this. It is likely low hanging fruit, in the short- and medium-term.

The agreed upon priority items were shared back with the group and small group breakout rooms were created for each so that WCWG members could participate in one or more priority item conversation. Although some of the WCWG members identified multiple interest areas, Donna asked group members to select their top priority group to participate with for the purpose of the discussion at this meeting and to designate a representative to be part of the other small groups. Depending on when future small group meetings occur, folks who want to be part of more than one may be able to. Every small group will have a PUC representative.

Leo: After the small groups meet, we'll come back to the large group before the end of the meeting so we can debrief together. We want to make sure we know when the meetings will be happening.

The WCWG members moved into breakout rooms by selected priority items.

## **Large Group Debrief**

The small groups and members are as listed below:

1. **Rates** – Sen. Inouye, Jay A., Jesse, Baba, Stacy, Steven H., Kris N., and Chris E.; PUC – Carolyn, Layla, Steven I.
  - **Date and time of first meeting:** Friday, January 29, 8:30 to 10 a.m.
  - **Host of small group meetings:** Tammy from Sen. Inouye's office

2. **Other options for subsidizing shipping** – Stacy, Baba, Derek, Matthew/Phyllis, Sen. Inouye, Jay A., Sen. Lee; PUC – Michael C.
  - **Date and time of first meeting:** February 3, 9:30 to 10:30 a.m.
  - **Host of small group meetings:** Michael C. will send invite via Andrew’s Zoom.
  
3. **Clarity about Cargo** – Jay A., Dori, Steven H., Baba, Keith K.; PUC - Naomi
  - **Date and time of first meeting:** January 28, 10 to 11 a.m.
  - **Host of small group meetings:** Dori will be hosting
  
4. **Sustainability and Profitability of Carriers Group** –Derek, Jay A., Jesse, Mary Alice, Chris E., Stevette, Mike V.; PUC – Jeffrey
  - **Date and time of first meeting:** January 28, 10 to 11 a.m.
  - **Host of small group meetings:** Chris E.
  
5. **Use of Available Space on Piers** – Jay A., Nelisa (volunteering Vic), Baba, Derek, Chris M.; PUC - Gina
  - **Date and time of first meeting:** January 29, 2:30 to 3:00 p.m.
  - **Host of small group meetings:** Gina coordinated, invite via Andrew’s Zoom.
  
6. **Service (Internal to YB)** – Jesse, Mike V., Jay A. – does not need to meet in small group today since the group is already connected.

### Next Steps

- Please get the names and contact information for your group to Jennifer for the Working Group files.
- The planning team will develop a template for the status report at our March meeting. Please keep the larger group abreast of what’s happening and get feedback from others (e.g. potential restraining forces that you want to take into consideration).
- The next meeting will be on March 18.

### GROUP AGREEMENTS:

- There were no specific group agreements made at this meeting.

### ACTIONS:

- There were no specific actions agreed on at this meeting.

Template for PUC WCWG Small Group Status Reports  
For Meeting on March 18, 2021

Small Group Topic/Issue: **Pier Space**

Create a compelling case to convince other WCWG members that your topic/issue needs to be addressed by our group:

- How will addressing this issue make a significant impact on our ability to successfully ensure effective, efficient, and continuous water carrier service throughout the state of Hawaii?

The issue presented and discussed with the Water Carriers Working Group: "Pier Space" Subgroup, was the availability of space for the water carrier to efficiently move, load and unload cargo between the islands. The Subgroup agreed that having safe and modern pier space and cargo yard has a significant impact on the Water Carriers' ability to successfully ensure effective, efficient, and continuous water carrier service throughout the state of Hawaii.

The Subgroup asked about the availability of space for the water carrier. The DOTH shared that it had made a portion of the recently completed KCT, Phase I yard available to the water carrier as early as September 2020 for the water carriers use for autos, LCL, and or other needs. To-date the water carrier is planning to use the space. The DOTH also stated that it believes that the 77 acres of cargo yard at KCT has enough space for the water carrier to use as well as space for the new overseas tenant to construct its maintenance and office facilities, say through 2023.

The DOTH stated, that Pier 41, when completed on or about January 2024, will allocate space to the water carrier for the use of Pier 41. The DOTH also noted that due to the financial impact of COVID-19 to the DOTH, repairs to Pier 39 and 40 are delayed. The DOTH noted and the Subgroup acknowledged that conducting repairs while the water carrier is currently operating will negatively impact their efficiency. It's like having two teams playing a college basketball game usually played on full court only at half-court.

The DOTH also discussed how scheduling of the water carrier's vessels at Pier 41 will occur. The water carrier will request berthing through Portcall.com, the DOTH's web-based vessel scheduling system. By Hawaii Administrative Rule and through the Harbor Masters Notice, all requests for use of a pier is through the web-based vessel electronic scheduling system to replace facsimile requests for vessel reservation.

- What are the significant (negative) ramifications of us not addressing this issue?

There is no issue. The water carrier requested clarification and the DOTH hopes its response as re-stated below is sufficient to addressing and clarifying the water carrier's concerns. The authority for the DOTH to allocate space for cargo needs currently exist.

The DOTH stated that it is authorized to manage state harbor lands through its rules and statutes. The DOTH, through its Harbors Administrative rules, issues its Harbors Masters Notice, allocates cargo space.

Exclusive authority to a private party is not permitted by the terms of the non-taxable bonds that is contributing to the construction of KCT and Pier 41 and prohibits the exclusive use and control by a private party. Therefore, the DOTH in compliance with its bond covenants and its rules allocates cargo yards and approves berthing requests to piers.

Articulate Small Group Goal or Objective:

- This goal or objective was probably generated as you talked about what the group was trying to accomplish.

The goal or objective the Water Carriers Working Group: "Pier Space" Subgroup was to clarify the use of Pier 41 pier and yard space. The DOTH provided the above information and clarified that the DOTH allocates cargo yards and approves berthing requests to piers, and controls berths at the Pier 41 pier.

- What is the desired outcome you are trying to achieve?

The DOTH stated that the DOTH controls the use of Pier 41 pier and yard space, pursuant to its authority of its Hawaii Administrative Rules, DOTH will allocate space to the water carrier for the use of Pier 41. The Water Carriers Working Group: "Pier Space" Subgroup believes the desired outcome was achieved.

Additional understanding regarding the time and use of Pier 41 should be helpful to the water carrier with planning its business. Also having information regarding the DOTH plans to repair Pier 39 and 40 was also helpful to the water carrier for planning its business.

Prioritized List of Actions or Strategies to Address Goal or Objective:

- This discussion might have started with a discussion of relevant supporting forces from the Force Field Analysis that will help you achieve your goal or objective.
- The group probably generated additional strategies during your discussion.
- Actions or strategies also have to take into consideration restraining forces that may prevent you from achieving your goal or objective. You may have identified relevant restraining forces from the FFA or generated new ones that have to be addressed.

- The group needs to think about prioritizing actions or strategies i.e., important ones need to be addressed first to create momentum for your plan.
- Actions or strategies might also have a time relationship i.e., some have to be accomplished first before others are considered.

There is no prioritized list of actions or strategies to address goal or objectives necessary. The DOTH is authorized to manage state harbor lands through its rules and statutes.



Draft Template for PUC WCWG Small Group Status Reports  
For Meeting on March 18, 2021

Small Group Topic/Issue: Sustainability and Profitability

Create a compelling case to convince other WCWG members that your topic/issue needs to be addressed by our group.

- The sustainability and profitability of an interisland carrier is affected by a number of factors, which include but are not limited to factors that are: 1) within the control of the water carrier; 2) can be affected by other stakeholders; and 3) those that are unlikely to be controlled or affected by Hawaii stakeholders.
- Unlike the contiguous 48 states, Hawaii does not have robust multi-modal options to transport goods between islands and, due to limited harbor space, Hawaii's small market, and the high start-up costs, there is a natural monopoly for a water carrier. Thus, there is a critical role that the water carrier plays in ensuring the affordable and timely delivery of goods between the islands to support the individual economies of each island and for the entire state.
  - If the water carrier is not able to sustain its operations, the lack of alternative transportation options and the importance of the affordable and timely transport of goods will have a significant and adverse impact on the state's and neighbor island economies.
  - Without adequate profitability, the ability for a water carrier to attract capital to replace equipment and to improve its services may be limited.
- Factors that are within the control of the water carrier:
  - Construction materials and vehicles are generally deemed profitable cargo for YB. However, low volume perishables the most vital for life for communities are not. Profitability hinges on how many man hours it takes for a specific order to be processed. It is not the route or the costs of travel but rather the time it takes to prepare the goods that are traveling to these destinations that makes the heaviest impact to wallets.
    - Possible solutions that need to be discussed: reducing labor related costs; example labor hours, managerial decisions which may be counter productive to efficient use of labor force.
  - Regular shipments (two per week) are vital for the communities on Molokai and Lanai, for items that are low volume and perishable, such as milk. However, this type of cargo service is very costly for YB to continue to provide. A significant source of labor cost is that it is difficult to take advantage (per shipment) of the labor hours put into processing, tracking and coordination for low volume items. It could take just as long to process paperwork for small quantity LCL as a batch of High Volume filled containers.
    - Take advantage of efficient copy and pasting for filling out forms.

- Further discussions are needed to implement a booking system and paperwork simplification effort to allow employees to get more done in less time.
- What are the significant (negative) ramifications of us not addressing this issue?
- On a macro level, if the water carrier is unable to achieve sustainability and demonstrate profitability, as mentioned earlier, there may be a significant and adverse impact on Hawaii's state economy as well as on each of the neighbor island economies.
- On a micro level, if the water carrier is unable to achieve sustainability and demonstrate profitability, it could:
  - Encounter issues with timely payroll and employing its work force.
  - Encounter issues with timely payments to local vendors (and out of state vendors)
  - Encounter issues accessing affordable capital
  - Encounter issues with meeting sailing schedules and providing services.

If the water carrier continues to bridge unprofitable low volume services, with only profits from high-volume cargo, they will lose the funds necessary to pay their workers, and operations. If they charge higher across the board rates, they may end up sacrificing their high-volume cargo (e.g., container forwarding from mainland ships).

- They should be given the ability to charge a flexible at cost for processing rate for low volume cargo. Instead of it being structured around high-volume cargo only.

Articulate Small Group Goal or Objective:

- This goal or objective was probably generated as you talked about what the group was trying to accomplish.

Explore the means to ensure that the water carrier is provided a reasonable opportunity to be profitable to support the sustainability of the water carrier.

- There are things that YB can be looking into to increase profits like a rate increase.
- Also need to consider the customer in the process.
- What would YB need to catch up with its bill payments?
- Increasing rates to keep up with rising costs: from labor, supplies, overhead,
- Looking at intra-state shipping down 20% since beginning of COvid-19
- Specific islands being supported by other routes
- How to make LCL profitable?

- Container customers are subsidizing by paying more and it will drive other customers somewhere else
- **What is the desired outcome you are trying to achieve?**
- Explore possible solutions that balance the need to enable a monopolistic water carrier to be profitable and sustainable without adversely affecting customers and the economies of the neighbor islands and the entire state.

Prioritized List of Actions or Strategies to Address Goal or Objective:

- **This discussion might have started with a discussion of relevant supporting forces from the Force Field Analysis that will help you achieve your goal or objective.**
- Create/find subsidies for the less profitable activities
- Make the unprofitable activities more efficient and improve cost control.
- Create an additional cost of labor rate for LCL cargo. This would capture uncompensated labor costs necessary for LCL cargo verses labor costs associated High-Volume cargo services.
- **The group probably generated additional strategies during your discussion.**

#### **Subsidy for the less profitable activities**

Create a subsidy for less profitable activities. And tenably a subsidy for all inter-island goods that aren't profitable but vital for survival such as eggs and milk.

- Pump in more State or federal money or allow YB to change the rates specifically targeting these goods.
- Charge more for the profitable cargo (e.g. high-volume cargo forwarding) to make up unrecovered costs for less profitable cargo.
  - Key deterrent is customers may choose to take their business elsewhere because of expensive prices.

#### **Make the unprofitable activities more efficient (decrease the cost to the water carrier)**

- Use alternate hub to serve least profitable routes Oahu direct Molokai and Oahu direct Lanai
  - What is more expensive (cost of labor or cost of fuel+ ship wear and tear)?
  - This would add more touches and complicates logistics because destination Cargo would have to be split between perishable and non-perishable. Refrigerated and non-refrigerated containers, LCL, livestock etc. all benefit from spending less time at sea and in Young Brothers hands.

- Ships in the past would make multiple stops around Maui County, also at two ports on the Big Island
- Reduce the amount of offloading and movements required to get a container from point of origin to destination
- Increased efficiency for processing paperwork and customer service.

#### **Create an additional cost of labor rate for LCL Cargo**

- This solution was derived from discussions revolving around the sources for the high cost of LCL cargo but was not directly discussed.
  - Further discussion is needed to determine how the new pricing for LCL shipping could be set and naturally adjusted as the economics shift.
- **Actions or strategies also have to take into consideration restraining forces that may prevent you from achieving your goal or objective. You may have identified relevant restraining forces from the FFA or generated new ones that have to be addressed.**
  - Possible restraining force is the need to balance customer/economy needs when making any changes to the rates and services.
  - Possible restraining force is the limited space to make significant operational changes that might require more space
  - Possible restraining force is the availability of readily accessible and affordable capital to make investments to improve efficiency
  - Possible restraining forces are contacts and agreements that may limit the changes that a water carrier can make to operations.
  - **The group needs to think about prioritizing actions or strategies i.e., important ones need to be addressed first to create momentum for your plan.**
    - Identify exactly what items are the biggest losers, find an alternate way to get them to where they need to go be it by smaller ships, freight forwarder, or air cargo.
    - Overall costs are forcing YB to expend funds through wasted labor and overhead, until the return of cargo volume returns with the return of the tourist population.
  - **Actions or strategies might also have a time relationship i.e., some have to be accomplished first before others are considered.**
    - Actions by other stakeholders may be required before significant changes to the water carrier operations can be made. For instance:
      - Before modifying rates, subsidies should be sought and made available to high-cost cargo to serve customers.
      - Before modifying sailing schedules or stops, there may need to be other infrastructure improvements and other financing requirements to

facilitate any sailing schedule change (e.g., building more warehouse space (both with and without refrigeration), making available capital to vendors who may need to switch to larger, less frequent sailings, etc.)

- Buying or leasing a smaller ship may be time consuming and costly for YB to procure. Its smallest vessel AMS 250 <https://htbyb.com/wp-content/uploads/AMS-250.pdf> which is also capable of roll on and roll off cargo is mostly being used for Lanai and Molokai but sails from Oahu currently with a lot of empty capacity, and since it's occupied with those sailings the larger barges are reserved for the Big Island, Maui and Kauai.
- One path forward to consider would be for Young Brothers to develop a method to increase efficiency for low-volume cargo organization, receiving, and handling.
- Possible Topics for future discussion: Incorporating an online booking system for LCL cargo and low-volume customers.

PUC WCWG Small Group Status Report  
For Meeting on March 18, 2021

Small Group Topic/Issue: **Clarity of Cargo Services**

Create a compelling case to convince other WCWG members that your topic/issue needs to be addressed by our group: Create an improved reservation system for all cargo types, implemented in phases, that enhances shipping efficiencies and improves cargo movement transparency for consumers for a continued, well-needed service, as well as review of the Storage-in-Transit/Stop-in-Transit (“SIT”) policies for improved enforcement and visibility of cargo that should be transported via water carrier.

- How will addressing this issue make a significant impact on our ability to successfully ensure effective, efficient, and continuous water carrier service throughout the state of Hawaii?
  - Addressing this issue will:
    - Improve upon customer service efficiency because it will help establish a strong partnership and dedication between the carriers and customers
    - Help to provide greater visibility and frequency of cargo volume by Honolulu outbound vs. neighbor island inbound cargo
    - Provide accurate information on the “no-show” reservations that will help create operational efficiencies by providing accurate cargo volume, improving planning and execution throughout the cargo-handling process
- What are the significant (negative) ramifications of us not addressing this issue?
  - Ramifications for not addressing this issue are:
    - Continued impact to neighbor island communities, such as the farming community in Hilo, should additional sailings not be created
    - Equipment shortages, flat racks/containers could prevent loading, despite YB employees trying their best to load cargo/determine cargo volume
    - Lack of visibility and enforcement of SIT creates loss of revenue for the water carrier and puts additional burden on ratepayers.

Articulate Small Group Goal or Objective:

- This goal or objective was probably generated as you talked about what the group was trying to accomplish.
  - The goals of this group include:
    - Educating the subgroup as to what YB does, i.e., types of cargo, etc.
    - Educating the subgroup as to YB’s scheduling of cargo, i.e., containers, automobiles, rolling stock, LCL, etc.
      - Currently, a manual reservation process exists

- Educating the work group as to how cargo moves systemwide via Matson and Pasha and stop in transit (SIT) movement
  - Understanding the critical needs for proposed Phase I:
    - Consumers' wants and needs vs. what can be provided
    - Pros and cons for creating a cargo reservation system that requires communication from customers to carrier that will yield the greatest benefit
    - Can a reservation system similar to UPS or the airlines be achieved economically and effectively?
- What is the desired outcome you are trying to achieve?
  - The desired outcome this subgroup is trying to achieve entails:
    - Performing a Cost/Benefit Analysis through an outside consultant to either create a brand-new reservation system in phases or upgrade the current system
      - In addition, performing a Cost/Benefit Analysis for either not creating or upgrading a new system
    - Creating a general system where consumers can create reservations and schedule with confidence by tracking cargo without having to call into the company
    - Creating a reservation system that requires commitment from both the customer and the carrier
    - Reviewing existing infrastructure outside of YB (i.e., airlines, moving and transportation companies)
    - Continue to provide services for freights of all kind
    - Incorporate the current workforce with the technology used to implement the reservation system

Prioritized List of Actions or Strategies to Address Goal or Objective:

- This discussion might have started with a discussion of relevant supporting forces from the Force Field Analysis that will help you achieve your goal or objective.
  - It is important to be able to understand what cargo will be showing up, in what dimensions, and where - similar to an online airline reservation system where customers are able to see available blocks of dates and times and then make reservations
- The group probably generated additional strategies during your discussion.
  - Additional strategies during the subgroup's discussion include:
    - Understanding the most critical needs to improve upon shipping efficiencies and then building on those needs – includes:
      - Reducing long waiting lines
      - Incentivizing customers who utilize the reservation system

- Actions or strategies also have to take into consideration restraining forces that may prevent you from achieving your goal or objective. You may have identified relevant restraining forces from the FFA or generated new ones that have to be addressed.
  - Relevant restraining forces include:
    - Financial Constraints
      - Currently, it is extremely difficult to determine an actual cost for creating a reservation system despite reaching out to several companies. This is because of the significant technological mechanisms and unknown complexity of the infrastructure involved
      - Costs – monthly maintenance fees, project fee(s) such as changes to enhancements of system, etc.
    - Mandated Rates and Regulations
    - Mandated Routes
    - It is unknown if a new reservation system or enhancing the existing system will improve upon the amount of cargo, loading, etc.
      - Also unknown is if it will reduce cost of labor and equipment
    - Interdependence between regulated and unregulated service
    - Review of SIT programs
    - Resistance to implement changes that would create efficiencies
  
- The group needs to think about prioritizing actions or strategies i.e., important ones need to be addressed first to create momentum for your plan.
  - Prioritized actions include:
    - Determining whether to upgrade current YB system or create a new system
    - Existing infrastructure options
      - Via both reservation and appointment time
  
- Actions or strategies might also have a time relationship i.e., some have to be accomplished first before others are considered.
  - Actions or strategies with a time relationship include:
    - Phasing in of the creation of an enhanced reservation system over an unknown time period



Template for PUC WCWG Small Group Status Reports  
For Meeting on March 18, 2021

Small Group Topic/Issue: **Other Options to Subsidize Shipping**

Create a compelling case to convince other WCWG members that your topic/issue needs to be addressed by our group:

- How will addressing this issue make a significant impact on our ability to successfully ensure effective, efficient, and continuous water carrier service throughout the state of Hawaii?

**Both federal and state subsidies, specifically transportation subsidies, are being sought. Currently, there are agricultural specific subsidies that are being fully utilized by the agricultural businesses for transport of raw materials. Subsidies being evaluated by this group are broader than the agricultural subsidies. This group is evaluating and seeking subsidies that more broadly applies to cargo transportation to small disadvantaged communities.**

**It is believed that subsidies, to the extent available, could offset the transportation cost burden to small disadvantaged communities who are reliant on the shipment of goods. This might provide opportunities to reduce the agricultural raw product subsidy currently funded by YB and relieve pressures to adjust cargo transport schedules and costs.**

- What are the significant (negative) ramifications of us not addressing this issue?

**Not addressing the issue of transportation subsidies may result in the State to continue to require YB to subsidize agricultural raw product and neighbor island communities through the internal absorption of the cost of transportation and service.**

Articulate Small Group Goal or Objective:

- This goal or objective was probably generated as you talked about what the group was trying to accomplish.

**The objective of the "Subsidy" group is to explore, if not secure, federal, state, and county subsidies for the transport of goods to the neighbor islands.**

- What is the desired outcome you are trying to achieve?

**Desired outcome is to identify actions that can be taken to secure cargo transportation subsidies.**

Prioritized List of Actions or Strategies to Address Goal or Objective:

- This discussion might have started with a discussion of relevant supporting forces from the Force Field Analysis that will help you achieve your goal or objective.
- The group probably generated additional strategies during your discussion.
- Actions or strategies also have to take into consideration restraining forces that may prevent you from achieving your goal or objective. You may have identified relevant restraining forces from the FFA or generated new ones that have to be addressed.
- The group needs to think about prioritizing actions or strategies i.e., important ones need to be addressed first to create momentum for your plan.
- Actions or strategies might also have a time relationship i.e., some have to be accomplished first before others are considered.

**There doesn't seem to be any objection from cargo users, customers, or the water carrier to securing subsidies for cargo transportation – it appears that there would be a consensus in support of subsidy solutions. That said, the immediate obstacle remains the availability of funding at all levels due to conflicting priorities, particularly due to impending needs due to the impacts of the worldwide pandemic.**

**Our small group on subsidies included State legislators, State agencies, and the water carrier. There is no federal agency representation within the subsidy subgroup. The potential agencies discussed that may provide subsidies are the USDOT-MARAD and State. We started the exploration of federal subsidies, with no luck in receiving any response. Given the State's financial situation it would be difficult for the State to provide subsidies at least for the next few years but the concept can be explored.**

Template for PUC WCWG Small Group Status Reports  
For Meeting on March 18, 2021

Small Group Topic/Issue: **Rates**

Create a compelling case to convince other WCWG members that your topic/issue needs to be addressed by our group:

- How will addressing this issue make a significant impact on our ability to successfully ensure effective, efficient, and continuous water carrier service throughout the state of Hawaii?

Establishing the ideal rate matrix is both complex and interdependent on the decisions (or suggested solutions) being made by the other small groups. The decision to *request* rate increases is at the discretion of the water carrier. Intrastate rate increases, when *approved* by the Hawai'i Public Utilities Commission, are but one means by which a water carrier can achieve financial viability but at the same time should be affordable to customers.

- What are the significant (negative) ramifications of us not addressing this issue?  
Not addressing the rate structure could place the water carrier service at risk in terms of sustainability and profitability. It also impacts our local economy as the demand for shipping is somewhat inelastic and pricing may adversely affect the viability of local farms and businesses which compete with produce and goods being imported from mainland or international ports.

Articulate Small Group Goal or Objective:

- This goal or objective was probably generated as you talked about what the group was trying to accomplish.  
Fair and predictable cargo rates that are affordable to customers for intrastate services that meet customers' needs.
- What is the desired outcome you are trying to achieve?  
Ensure the long-term financial sustainability and profitability of the water carrier by establishing rate structures for affordable intrastate services that are in parallel with the State's and customers' needs and other holistic operational changes proposed.

Prioritized List of Actions or Strategies to Address Goal or Objective:

- This discussion might have started with a discussion of relevant supporting forces from the Force Field Analysis that will help you achieve your goal or objective.  
The rate setting framework includes three desired futures:
  - 1.) Incremental adjustment to rates,
  - 2.) All carriers involved in the movement of cargo have the ability to be sustainable and profitable,
  - 3.) Standardized and streamlined ratemaking in ports and cargo types that are negative earners.

- The group probably generated additional strategies during your discussion.
  - What are the state's goals for food independence, agriculture, and sustainable economies for each island?
  - What investment should the state make in terms of additional harbor space and facilities (e.g. refrigeration)?
  - What cargo types should remain regulated?
  - LCL is not currently profitable and impacts operational efficiency.
  - Non-regulated cargo from interstate water carriers moving within the state is profitable and helps offset certain non-profitable intrastate cargo type.
  - Returning to an Annual Freight Rate Adjustment (AFRA) or Zone of Reasonableness adjustment should be justified with performance standards.
  - Ideal rates for each commodity class would recover its fair share of costs.
  - What third-party financing is available to water carriers?
  - Should State and Counties be subsidizing mandated routes and commodities that are negative earners? (Tax credits, free harbor leases, no property taxes, etc.)
  - Alternatively, should water carrier be given sailing schedule flexibility based on demand/capacity?
- Actions or strategies also have to take into consideration restraining forces that may prevent you from achieving your goal or objective. You may have identified relevant restraining forces from the FFA or generated new ones that have to be addressed.
 

Balancing the rates necessary to achieve water carrier sustainability and profitability may not be the same rates that consumers, especially our local farms and businesses, are able to afford. If this is the case, what source of subsidy is available to fill this rate imbalance?

Perishables might require more frequent routes, but total cargo loads might dictate otherwise. Establishing sailing schedules affects pricing and ability of customers to transport cargo in good or healthy (e.g. livestock) condition.
- The group needs to think about prioritizing actions or strategies i.e., important ones need to be addressed first to create momentum for your plan.
 

Regular incremental rate adjustments can be one part of the solution to avoid large catch-up escalations but should include performance standards that are tied to customer service.
- Actions or strategies might also have a time relationship i.e., some have to be accomplished first before others are considered.
 

The determination of fixed route schedules, what types of cargo should remain regulated, what operational efficiencies can be achieved, what cost containment efforts have been achieved, what third-party financing has been obtained, and what subsidies are available should precede rate making strategies or recommendations. This group recognizes that the Hawai'i state legislature controls what cargo is regulated and the Hawai'i Public Utilities Commission makes the decisions on actual rates. Nonetheless, in the context of what types of cargo or routes might warrant subsidies, we needed to have a larger discussion on rates strategy.