AGENDA

WATER CARRIERS WORKING GROUP MEETING

MAY 20, 2021
1:00 – 3:00 PM
VIA ZOOM CONFERENCE MEETING

https://us02web.zoom.us/[redacted]
Meeting ID: [redacted]
Passcode: [redacted]

I. Welcome

II. Housekeeping

- Corrections to Group Memory from March 18, 2021 meeting solicited

III. Overview of Small Group Activity and May and June Meetings

- Summary of WCWG small group process
- Introduction of the WCWG Final Report template; Introduction to its application to the work of the small group at the meeting today and in June

IV. Status Reports for Small Groups/Subcommittees

- Team representative from each small group will provide summary of work completed on recommendations
- Questions, comments, or suggestions will be solicited after each report from WCWG members
- Six-point recommendation section from the Final Report template will be applied to each recommendation. WCWG members will be able to provide input during this process that small groups will integrate into the next version of the recommendation that will be distributed before and then discussed at the WCWG meeting on June 17th
- Sequence of reporting:
  - i. Cargo
  - ii. Subsidized Shipping
  - iii. Rates (Sustainability and Profitability small group was combined with the Rates group)

V. Review of Work to be Accomplished before and at the Meeting on June 17th

- Questions and suggestions solicited on how to integrate contributions from WCWG members into the next iteration of small group recommendations that will be distributed before and reviewed at the meeting on June 17th

VI. Evaluation of meeting

VII. Conclude

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The public repository link is as follows:

https://hawaiioimt-my.sharepoint.com/[redacted]

Password: [redacted]
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PUC Water Carriers Working Group Meeting

March 18, 2021, 1:00 – 3:30 p.m.
(Virtual Meeting via Zoom)

Meeting Attendees (in alphabetical order)
P = Present; A= Absent

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

A	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
A	Lorraine R. Inouye	Senator	Senate District 4 / Chair, Senate Committee on Water and Land, Majority Whip
A	Richard Kamoe	Vice Division Director of Hawaii Longshore Division	International Longshore and Warehouse Union, Local 142
A	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
A	Chris Lee	Senator	Senate District 25/Chair, Senate Committee on Transportation
P	Jennifer Lim		Young Brothers LLC
P	Matt Loke		HDOA
P	Chris Martin	Director of Operations	Young Brothers LLC
P	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
A	Mark M. Nakashima	Representative	House District 1 / House Speaker designee
P	Dean Nishina	Executive Director / Consumer Advocate	Department of Commerce & Consumer Affairs – Division of Consumer Advocacy
P	Lisa Hiraoka		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
P	David Veltry		Young Brothers LLC
P	Corey Robertson		Young Brothers LLC
A	Michael P. Victorino	Mayor	Maui County
P	Mike Victorino, Jr.		ILWU
	Public Utilities Commission Staff		
P	Jeffrey Akamine	Engineer	Public Utilities Commission
A	Jodi Endo Chai	Executive Officer	Public Utilities Commission
A	Michael Chapman	Economist	Public Utilities Commission
P	Steven Iha	Consultant	Public Utilities Commission
P	Layla Kilolu	Economist	Public Utilities Commission
A	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

Leo welcomed attendees to the sixth meeting of the Water Carriers Working Group (WCWG) and thanked them for attending. He acknowledged that everyone has been working in their small groups since mid-January. The focus of today's meeting will be sharing the small group status reports that were submitted and circulated to the WCWG.

Housekeeping

Donna thanked everybody for their hard work in the small groups and noted that many groups met multiple times to get this work done. The result of that work is a lot of good information to work with at this meeting. There have been updates and refinements to some of the small group meeting notes since they were initially distributed. Any updates will be sent out after this meeting.

Group Memory

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

Status Reports for Small Groups/Subcommittees

Donna asked the small groups to provide a summary of the key work done by each group and some background/context for where their recommendations came from. After each report out there will be time for Q&A. For those who were interested in multiple groups but could only participate in one, you'll have a chance to weigh in on the information shared.

Many of you have talked to us about the fact that your recommendations are very similar to those from other groups. We anticipated this would be the case. We'll identify these similar or related recommendations and then we'll decide the best way to proceed – whether to combine groups or form new groups. If we don't get to that today, we'll push that to the April meeting.

Sustainability and Profitability (Mary Alice Evans reported)

For details, see the full report. These are highlights that were shared:

- The compelling case is that YB needs to be profitable in order to be sustainable. Otherwise, they'll go out of business and there are neighbor islands that won't be served.
- If they're not profitable, YB will have difficulty meeting payroll, keeping their workforce employed, paying vendors, accessing affordable capital, meeting sailing schedules, etc.
- If they continue to bridge unprofitable low volume services with only profits from high-volume cargo, they may not have funds available to pay debts and support their operations.
- There are factors in the control of the WC and factors that are not in their control. We brainstormed these different factors.
- We prioritized a list of actions. It overlaps many of other groups' lists.
    - 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.
- Drilling down on subsidies for less profitable activities:
    - Add a subsidy for all inter-island goods that aren't profitable but are vital for survival, such as eggs and milk.
    - Increase state or federal money or allow YB to change the rates specifically targeting these goods.

- Charge more for profitable cargo. The key deterrent is that customers may choose to take business elsewhere.
- Make the unprofitable activities more efficient (decrease the cost to the water carrier)
- Create an additional cost of labor rate for LCL Cargo

Summary of Key Recommendations:

- Return to the AFRA rate adjustment process
- Create a short-term rate increase to offset drop in intrastate volume due to COVID-19
- Find a way to make LCL more profitable

Q&A

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

C: Your report currently states that YB is taking on debt. For clarification, we're not taking on any debt. I think you mean that we're subsidizing losses. We have not taken on any debt.

A: We'll make that clarification in the report.

Q: You mentioned subsidies, can you elaborate?

A: We're going to defer that to the Subsidies group since they took a more comprehensive look at subsidies.

(Donna): Thanks Mary Alice. This is a great report, but it points out something that is the natural inclination of groups – which is to come up with more recommendations than they can actually achieve effectively. In most instances, groups are very unfocused rather than lasering in on what is most critical. As we go through the other reports, I want the group to consider criteria to narrow in on recommendations that will really make a difference. If we end up with too many recommendations, we won't help the State focus on actions that have the potential to make a significant difference in successfully ensuring effective, efficient, and continuous water carrier service. This lack of focus will spread resources too thin and we'll end up with mediocre results.

Clarity of Cargo (Keith Kiyotoki reported)

- We focused on creating an improved reservation system for all cargo types that would improve efficiency, to be implemented in phases.
- A byproduct of the system would be to review storage and transit/SIT policies for improved enforcement and visibility of cargo transported by WC.
- Currently YB does have a reservation system, but it is limited to certain types of cargo (container, as well as autos, roll on roll off). The system allows tracking for internal

purposes. Everyone wants to be like UPS and FedEx, where the customer can go online and track their cargo but that comes at a price.
- An improved reservation system would include handling the LCL cargo, e.g., for the customer that is dropping off pallets or one or two boxes. Right now, this is not in the reservation system. Customers just come down and deliver to WC.
- Going forward, we should articulate the benefits of the reservation system for small boxes and LCL.
- Having a reservation system can incentivize customers where you have the option. Like DMV – I can make a reservation for tomorrow to drop off my pallet. Or, I can come without a booking, but service may not be as timely.
- Restraining forces are the financial/cost constraints. On the cost constraints – there are the costs to implement the system AND the additional maintenance costs down the road. It may cost $1,000 now but also $1,000 a month to continually run and improve that system.
- SIT – there was a presentation at the beginning on SIT. Basically, it's a benefit to a consumer that properly uses SIT. If a container is designated as SIT and I have a facility on Oahu and Maui and I'm not able to send a full container to Maui – that SIT container drops off half of cargo in Honolulu and the remaining half continues on to Maui. SIT benefits the consumer when done properly. There is a potential that is due YB. We need improved enforcement and visibility of cargo going in the container.
- Conclusion – the goal is to get an improved reservation system that handles all types of cargo and gives consumer more visibility, but this comes with a cost. We didn't get into the actual cost calculations.
- To understand what is flowing in SIT, maybe there needs to be a committee that reviews the revenue that is due to the intrastate carrier.

Summary of Key Recommendations

- Doing a cargo reservation service. *(Note: this was later identified as low-hanging fruit).* We're already looking into costs.
- Look at alternatives available (e.g., going through an outside company that provides these services)
- SIT (maybe a broader group can work on this issue, with representatives from PUC, DCA, DOT and even the steamship companies)

Donna: The committee should discuss how to create the compelling case for all the groups involved why it's in their best interest to support your reservation service (e.g., customers, the company – all the various stakeholder groups).

Q&A

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

Q: SIT question. Having dealt with YB for decades now, this has been suggested before. It should be looked at. Can YB quantify the amount of revenue from SIT that is being improperly shipped? If the anticipated revenues that might be collected for this is nominal compared to the external subsidies, maybe we should focus more on the subsidies. Unless interstate shippers are providing inappropriate SIT for free, there's a reason that customers are doing what they're doing. The rates are too high.

A: It isn't possible to quantify that since it isn't being monitored or tracked. To say that the rates are too high when the alternative cost is zero is a false statement. They're just backfilling with additional cargo. The comparative cost is nominal because it's free. Not YB's cost – cost to dray the cargo. This is often more expensive. The general dray cost is $300. Say an LCL shipper pays a trucker to move cargo, $65 of revenue goes to YB (less 30% wharfage fee). If they have to send a vehicle to PASHA or Matson, they can consolidate the costs.

A: To clarify, a SIT container doesn't necessarily mean just (for example) a 40-footer with half of the cargo destined for Honolulu and half for Hilo. It may be combined with other Hilo cargo coming from other states.

C: In this case, every little piece matters. Is SIT a $50 million problem? No. It's probably a $5 or $10 million problem. If it continues it can become more of a problem. But your point is well taken that other things might improve the viability of WC other than SIT issues.

C: Adding to Keith's presentation, one of the other things the reservation system does is gives the company assurance that cargo will show up on the docks. Sometimes cargo doesn't show up. If customers are provided with a time to drop cargo off, the WC could be strategic about creating full, RORO, LCL. The order may affect the efficiency, which could create cost savings.

Additional comments that were shared later in the discussion but relate to a reservation system:

C: You should identify and articulate what are the most important components of a reservation system.

C: We have a cargo reservation system already. Currently reservation isn't utilized to apply reservations to LCL and mixed.

C: If this group is going to focus on creating a reservation system to address LCL and mixed, can we clarify if we are looking for alternatives or looking for a system that works? It's like we're spinning our wheels if we look at both.

C: The first step is to articulate the needs you have that you want in a system, then look at the different options.

C: One of my struggles with this is wondering if the focus is supposed to be items we're supposed to provide to the Legislature? If so, this doesn't fall into that category. It's for the company to decide. The focus is for the group to determine Legislative recommendations, right?

C: I understood that we are currently talking about low hanging fruit that we would try to implement sooner (in the 3-5 year timeframe).

C: I think why this group saw this as so important was because the content you were focused on was more internal than bigger picture. Trying to make YB more efficient and more effective. Are you suggesting that this is something they shouldn't be looking at?

A: No, I wasn't suggesting that, but alternatives are on the implementation side. I understand the value of a reservation system. I'm just trying to consider how we are utilizing our time in this group.

A: I was just trying to point out we have to identify the needs that we have in order to know what we're looking for in a system. We've heard a lot about these needs. Maybe just consolidating them in terms of stakeholder groups would be useful?

C: Alternatives – are we talking about those that have a similar system that YB can contract with?

A: Initially that was what we talked about, but then it became actually looking outside YB for an alternative to do the work itself.

C: To be clear, this group is not a board of directors overlooking YB and making recommendations from that perspective. But, from the customer service perspective, this still needs to be a topic of discussion. If we find out it is hugely expensive, then maybe it dies. But, if we find out it is a small seven figure but generates small seven figures back in efficiency, it might be worth it.

C: Ultimately, it will be up to YB to make the call/the decision.

C: The issue that's being brought up is another issue the group discussed. Is it worth pursuing this?

A: An alternate option is a big negative for us. And for rate payers…it would force them into unregulated costs. The focus should be on what we can do to improve the operations we already have, not on moving the work to an outside entity. That would have a major negative impact.

A: We should stay focused on the initial recommendation (reservation system).

And SIT:

- Addressing the fundamental actions being taken by shippers (interstate and intrastate)…I will defer to PUC on this…enforcement taken by DOT or third party that would enforce…leads should be WC, including interstate carriers.
- Having Matson and PASHA in the discussion, we would have to be careful. There's a process currently in place that's a random inspection process.
- The management of containers does not belong to Harbors. There's a lot more that needs to be thought through.

Donna: Everyone interested in this issue should come back to next meeting with a recommendation on how it should be resolved. Keith is the point person on these suggestions.

<u>Subsidized Shipping</u> (Derek Chow reported)

- We're looking at both federal and state subsidies. Phyllis is in our group and shared with us that currently there are ag-specific subsidies being fully utilized. What we're talking about is looking at subsidies beyond those, for all of cargo transport within the Hawaiian Islands, not just for the non-compensatory routes – all types/all routes. The rationale is that everything that comes to Hawaii is more expensive than for the lower 48's, which are closer to manufacturing hubs.
- Senator Chris Lee and Senator Inouye talked about state providing subsidies. Even though the American Rescue package passed, until we more clearly know our state's financial situation has improved, we don't want to count on this. That left us with federal.
- There is a U.S. DOT maritime-related office called MARED. I reached out to them but didn't get a response. I took advantage of time with the Deputy Secretary of Transportation to mention this. He welcomed me sending info and set up a meeting with the U.S. Office of Secretary of Transportation and acting administrator of MARED to discuss. We'd be asking about broad subsidies for all cargo and all goods as well as specific subsidies for Lanai and Molokai (e.g., like essential air service/airlines). The meeting is on March 24 and I'll discuss these possibilities with them.
- In our discussion, we agreed that there doesn't seem to be any objections from customers, carriers, etc. to seeking subsidies. How they will be applied will be dictated by agency that supplies them. They will set the parameters around funding and financing.

<u>Summary of Key Recommendations</u>

- Continue with following up on federal subsidies *(Note: This was later identified as low-hanging fruit)* (Derek is already working on this)
- Set aside state and county subsidies for now (due to the state's current financial situation)

Donna: Thank you for showing such initiative and moving forward to see what's available at federal level. In terms of low-hanging fruit, could this committee give you some direction about where you might want to prioritize the highest level of need relative to neighbor islands?

Q&A

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

A: That would be helpful for discussion with the U.S. DOT. My first approach is to get subsidies for ALL, since we know it is more expensive to transport to and through Hawaii vs. the lower 48.

Q: For the current ag subsidies already being used, are the ag folks using federal subsidies in addition to those reduced rates?

A: Yes, the state DOA informed us that there are additional federal subsidies to reduce the rates for raw materials. To what extent they're being used, we don't know.

Q: That was my question, is the company able to take advantage of subsidy since we're moving ag – or is it just for producers?

Q: Matt is here from HDOA – can you shed some light on this?

A: I believe that the federal subsidies are for interstate shipping – no intrastate shipping subsidies coming from feds. This is a national program for states like Hawaii and places like Guam, American Samoa and Puerto Rico that are also geographically disadvantaged.

Q: Can you clarify where ag folks are actually getting subsidies?

A: There is reimbursement for transportation cost payment (from the USDA) for producers. Also, emergency conservation program, not insured crop disaster program, as well as programs related to livestock, honeybees, etc. There is a tree assistance program, a conservation reserve program, a grassland reserve program, and a food assistance program associated with Coronavirus pandemic.

C: Even with all that, we understand that these are nominal amounts.

Q: When we talk about transportation subsidy, it doesn't mean only WC's right? It can be for however farmer wants to transport (via air, etc.)? They get reimbursed for a portion of expenses.

A: I'd have to defer to state DOA.

A: Yes – the ceiling amount available to any rancher/producer is $16,000/year. If you used air transport, you'd burn through that quickly.

Q: For clarity, interstate means any vendor shipping to mainland – or shipping from mainland. This could be a focus in the discussion – supporting our local farmers. This is a restraining force to our local ag community. Almost detrimental to our local farmers and movement.

A: Bear in mind interstate commerce law says it has to be fair for every state. There are only a few states that are noncontiguous: American Samoa, Guam, Puerto Rico, Alaska.

C: Given all this, the state or county levels may be the best place to look for subsidies vs the federal level.

C: Regarding the island ag product discount that exists, is the committee only talking about external subsidies or also about YB's tariffs? That's another source of funding – based on the rates of other customers.

C: We didn't want to burden another part of the YB customer base to help a disadvantaged base of YB customers so we looked for outside subsidies. Ideally if we can get sufficient subsidies, we can reduce the rates so one portion of customer base isn't subsidizing another.

C: I'll ask my group to help me shape the conversation with the feds.

Donna: The WCWG has lots more context in order to help the feds get up to speed. In the interim, after your meeting, we'd appreciate it if you'd be willing to share with the group how the conversation went.

C: I will.

Pier Space (Gina Yu reported)

- I'm not the subject matter expert so apologies in advance.
- We discussed how the KCL terminal would be made available to WC. DOTH said that KCT is currently available (since 2020) and anticipated to be available until 2023.
- We talked about Pier 41, which is undergoing renovation. It is anticipated to be complete in 2024. Construction on Piers 39 and 40 has been delayed due to COVID-19.
- All scheduling at pier 41 will occur via portcall.com.
- Outcome of the meetings was that there were no outstanding issues. We agreed that there would be adequate space for the WC to use.

Q&A

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

Donna: Your report read more like fact-finding and the status of the piers.

C: Yes!

Additional information shared later in the discussion that related to Pier Space:

C: Currently KCT is in Phase 2. It won't be available for operations until 2024 although the operator, PASHA, will be doing some construction and that includes putting in cranes.

Rates (Steven Hunt reported)

- We met 4 times, found it difficult to make decisions in a silo. Recurring topics:
  - Continue to regulate pricing on LCL cargo or have priced at market prices? Further discussion needed. It impacts each island and port differently, depending on amount of storage, whether there is consolidation, transportation between ports, etc.
  - How to address certain routes/cargo that are negative earners.
  - Should sailing rates set demand?
  - Is the WC being asked to be as efficient and cost-effective as possible?
  - What are the state's goals, for food, etc.?
  - How does the WC avoid large catch-up rate increases?
  - Balancing – keeping customer needs and price affordable.
- There needs to be a mechanism for improved, incremental rate adjustments (AFRA, zone of reasonableness). This should mitigate the need for large catch-up rate increases.
- There needs to be transparency for rate adjustments.
- Federal, state and or county should help to defray price increases to ensure that WC is fairly compensated.

Summary of Key Recommendations

- AFRA but with guardrails *(Note: This was later identified as low-hanging fruit)*. (A group will come back with refined recommendations.)
- Getting away from cross-subsidy within the organization so that routes and cargo types are at cost basis.

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

- (Mary Alice) When I reviewed the Rates report in comparison with ours, we had similar recommendations.
- Incremental rate adjustments, possibly restoring AFRA. Note – we didn't discuss the impact of that on customers. There is an outstanding question.
- Yes, AFRA is an overlap AND a low-hanging fruit. Routes and cargo at true costs. Subsidies won't be available immediately.

Donna: What are some strategies?

- When we looked at YB's presentation, the only times they were in the black was when AFRA or the Zone of Reasonableness was in place. Bring back AFRA but with standards or benchmarks for those rates so there is transparency for customers.
- To clarify, at least based on financial reports filed with PUC on regularly basis, YB was profitable until about 2017 and AFRA stopped before that so it may not be tied to that. The issues were in the 2017/2018 timeframe. I'd hate to peg profitability to AFRA if that wasn't the case.

Donna: Does a small group that includes Dean want to explore this? Maybe we're making some incorrect assumptions about cause and effect?

- Here is a slide that was presented to the small group showing the rates of return/when YB was profitable.
- Did AFRA end in 2016?
- 2015 was the last year of AFRA. 2016 was last year of profitability.
- This is only on regulated basis, not on consolidation. Profitability in 2017 was based on regulated.
- The numbers report regulated returns. Both methods were still profitable.
- Should we look at reports filed with the PUC for any financial info?
- I don't think we should peg profitability with AFRA.
- To clarify, this slide is only regulated cargo volumes? That would be the only rates affected by AFRA. This is a true statement about how it affected profitability.
- Dean's' statement is still accurate. AFRA has an impact. In our YB ecosystem, it's very fragile. All factors have an effect. AFRA mitigates some of the risks, like rising costs. It may not be *causing* profitability but it mitigates the risks that we would be exposed to absent AFRA.

Donna: It seems like the impact of AFRA is significant. Is this worth exploring? If AFRA won't make any difference, then it isn't critical to pursue.

Q&A

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

A: Yes…I do think it is worth exploring.

Donna: Steve – Mary Alice had to leave. You're here so I can volunteer you for this.

C: I think AFRA shouldn't become an across the board rate increase. There has to be something that's transparent that justifies the increases. Some sort of guardrails to say when this can be used.

Donna: I'd like a small group to explore this recommendation more deeply in the next month and come back to the larger group with the issues more teased out and with a recommendation that might be more short-term. Steve – would you be willing to head that group?

Steve: Yes.

Donna: Who else?

Note: Mary Alice agreed to be part of this group, as well as Jay or someone from his team. Dean also agreed to be part of the group and Andrew from the PUC will participate.

Donna: If anyone else wants to join the group but doesn't want to say so publicly on this call, please contact me offline. Are there any other obvious overlaps that you saw where recommendations were really related or very similar?

C: I'm not suggesting that the Rates and Subsidies groups be combined…there is too much uncertainty. If the Rates group comes up with a solutions on how the rates should be set, and the Subsidies group works on securing federal subsidies… that would bring down some of the costs that would otherwise have to paid by the customer.

C: The groups could work independently. Once the rates are set, then the subsidies focus on reducing the costs to consumer.

Donna: So you see them on parallel tracks then?

A: Yes. I see a sub-group working on improving the cost to the consumer after the rates have been set.

Donna: Between now and the next meeting, really look at what all the groups have suggested and at next meeting come up with suggestions about where the work might be dovetailing. I'd like the small groups to continue to meet and really hone down recommendations to one or two. Some of you still have too many. If you can focus in, that would help. We're aiming for 3 and no more than 5 total for the WCWG. We don't want to divide people's attention too much.

Q: Can we go through what has been identified by all the groups and determine which are short-term, medium-term and long-term? If we're thinking about long-term viability of WC service in Hawaii, some might have a significant impact on longer-term solutions. We could have 2 or 3 short-term solutions that can be implemented sooner. Medium-term can be the bridge between the two.

Q: Can we categorize first then prioritize?

A: Let's go back and see what stands out from reports. Pull out recommendations. Some that are short-term and longer-term.

Donna: Cargo group came up with the reservation system, right? There are costs involved. In terms of the cargo situation, I know that if you give people a chance to be disorganized, they will be (e.g., farmers). The fact that they can come whenever and drop off makes it hard for WC to plan for efficiency. What if you incentivized them to come online and make reservation – the sooner the better? Putting more responsibility on the user to be more planful so that you can also be more planful. That recommendation really stood out in terms of having the customer be as responsible as you are to create efficiencies.

Next Steps

- The next meeting was scheduled for April 15th but the date is challenging for a number of participants. We will send an email to gauge people's availability on April 22nd. Please keep both dates on hold for now until we confirm the change.
- If we move the meeting, the small group report backs would be due on April 12th. We need those in advance because we take your input, then our team meets to review and determine how to move forward. Then we share materials back with you before

the meeting. Keep in mind, just submit whatever you have by the deadline, it doesn't have to be the final version.

GROUP AGREEMENTS:

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

ACTIONS:

(Listed in **blue** in the document)

1. The Sustainability and Profitability group will make the stated clarification about YB not taking on debt in their report.
2. The team will send out any changes made to small group reports after they were initially distributed.
3. Everyone interested in the clarity of cargo issue (reservation system and SIT) should come back to next meeting with a recommendation on how it should be resolved. Keith is the point person on these suggestions.
4. A small group, headed by Steve, will explore the AFRA issues more deeply and come back to the larger group with the issues teased out and a refined recommendation that might be more short-term.
5. Between now and the next meeting, really look at what all the groups have suggested and come up with suggestions about where the work might be dovetailing. Small groups should continue to meet and really hone down recommendations to one or two.

WATER CARRIERS WORKING GROUP

OUTLINE FOR REPORT TO THE GOVERNOR & LEGISLATURE

I. Executive Summary

II. Table of Contents [Including Figures/Tables, if used, and Appendices]

III. Introduction
   a. Background – SR 125, S.D. 1 (2020) [summarize; attach SR 125 in Appendices]
   b. WCWG members [name primary and delegated members of the WCWG]
   c. Meetings of the WCWG [Summarize meetings held by the WCWG; refer to public webpage for details, group memory, presentations, handouts, etc.]
   d. Process followed by the WCWG [speak about how meetings were held/facilitated; Force Field Analysis; etc.; include graphics in this section and/or include in Appendices]

IV. Recommendations
   a. Topic Areas [description of topic areas; also note sub-committees were formed]
      i. Cargo Services
      ii. Pier Space
      iii. Rates
      iv. Subsidies
      v. Sustainability and Profitability
   b. Summary of Recommendations from Sub-Committees [include section on process WCWG followed to arrive at recommendations being forwarded to Gov/Legislature]
   c. Near-Term Recommendations [include in this section any near-term recommendations proposed (preferably non-policy/non-statutory) and identify entities responsible/committed to implement said near-term recommendations]
   d. WCWG Recommendations being forwarded to Governor and Legislature [in accordance with SR 125, S.D. 1 (2020)]
      i. Recommendation 1
         1. Justification/Compelling Reason
         2. Mid-term or Long-Term
         3. Pros/Cons
         4. Identify any preceding steps to undertake or outstanding items to address, if any
         5. Impact to agencies/entities
         6. Costs (if any or readily estimated)

ii. Recommendation 2
   1. Justification/Compelling Reason
   2. Mid-term or Long-Term
   3. Pros/Cons
   4. Identify any preceding steps to undertake or outstanding items to address, if any
   5. Impact to agencies/entities
   6. Costs (if any or readily estimated)

iii. Recommendation 3, etc.
   1. Etc.
   2. …

V. Conclusions

VI. References [could either include any references used here (endnotes) or alternatively cite references used, if any, in respective sections above (footnotes)]

VII. Appendices
   a. SR 125, S.D. 1 (2020)
   b. Etc.
   c. …

PUC WCWG Small Group Status Reports
For Meeting on May 20, 2021

Small Group Topic/Issue: Cargo Services Subgroup

- Create a compelling case to support the Cargo Services Subgroup's recommendation

Improve the current reservation system to accommodate all cargo types, implemented in phases, which is flexible, 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.

- **What are the benefits for the company?**

- Operational efficiencies with implemented policies will assist with the accuracy of booking reservations, ultimately resulting in a committed customer base.

- Improvement in the scheduling of the gates (gate hours and service offerings) - defer to separate Sub-group findings.

- Incentivization of carrier for knowing of customers scheduled reservations.

- Improved cargo tracking will give employee better tools to assist customers.

- Reservations for all cargo will provide company with cargo data to analyze and improve upon the inefficiencies where customers currently show up half days.

- Provide a customer survey that will assist the company in understanding customer needs; or instead, implement a pilot program for three to six months, gather accurate data and feedback with the minimum impact to labor costs in order to compile comprehensive and accurate information to assist in determining the best possible actions to take.

- **What are the benefits for the customers?**

- Overall improvement of the customer service experience, providing known availability for both shipping and transporting.

- Tracking will be a benefit so customers can schedule when to drop-off and pickup. This is expected to assist in real time tracking and availability to help save and schedule time.

- Scheduling of the gates (i.e., gate hours and service offerings) - defer to separate Sub-group findings.

- Allow for planning and scheduling in terms of the amount of time customers must wait in port.

- Incentivization of customers for scheduling reservations as it would provide them with a shorter waiting line for drop-offs and a resulting commitment from them.

- **<u>What components of the reservation system are the most relevant points of the system?</u>**

  - Fixed routes and flexible outgoing interim routes.

  - Look to a "vessel by vessel" capacity taking into consideration existing demand - how much for the full container load, how much for the roll-on roll-off, how much for LCL mix, how much for refrigeration and farm animals - where the reservations will have some form of flexibility to adjust to a vessel-by-vessel basis.

  – Get commitment by the customer by instituting a 24-48-hour scalable monetary penalty or non-refundable deposit system for large revenue items (i.e., containers, autos, and roll-on roll-off cargo) to reduce no shows and maintain accuracy of cargo booked.

  - Reservation system will improve equipment availability to meet customer demand, forecasting of seasonal equipment needs and/or forecasting of capital expenditures for future equipment replacement.

  - Potential cross-savings that may be passed on to the consumer and expected to create operational efficiencies.

  - Customers planning to ship less than container load cargo will get priority check-in if they book their cargo ahead of time.

  - Allowing for full accessible tracking availability to the public will allow the carrier to give customers the ability to view shipments arriving, or in-transit, and allow customers to plan appropriately when picking up cargo.

- **<u>SIT – look into what affects rates</u>**

  - Defer to Sub-group on Rates.

- **<u>Articulate what the needs are in the system</u>**

  - Customer and company needs will be gathered to determine what specific system will meet those requirements and at what cost - these will dictate what can actually be improved/upgraded in either the current system or whether a new system needs to be purchased.

  - Determination by management as to what will make the company viable and what will take the company into the future.

  - Determine if there are cost savings to create a comprehensive reservation system. Can the cost savings be passed to the consumer?

PUC WCWG Small Group Status Reports
For Meeting on May 20, 2021

Small Group Topic/Issue: Shipping Subsidies

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?

  RESPONSE: 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?

  R: 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.

  R: 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?
  R: 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.

R: 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 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.

SR125 WATER CARRIERS WORKING GROUP April 2021
Subsidies Sub-group

BACKGROUND

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported. Of that imported, over 98% is transported as water borne cargo.

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. Shipping of goods to Hawaii can be as much as __% of the cost of the goods.

Unlike communities in the continental US that have alternative means of transporting goods by truck and rail, Hawaii relies on transport by water carrier.

Currently, there are federal subsidies for certain agricultural products. Agricultural subsidies programs include:

- Reimbursement Transportation Cost Payment (RTCP) www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/rtcp_facts_sheet.pdf See attachment.
- Micro-Grant Program for Small-Scale Agriculture link to the news release with information and a link to the grant portal: https://hdoa.hawaii.gov/blog/main/small-scale-ag-grants/
- Fsa.usda.gov/state-offices/Hawaii/programs/index
  - Emergency Conservation Program (ECP)
  - Noninsured Crop Disaster Assistance Program (NAP)
  - Livestock Forage Program (LFP)
  - Livestock Indemnity Program (LIP)
  - Emergency Assistance for Livestock, Honey Bees, & Farm-raised Fish (ELAP)
  - Supplemental Assistance Revenue Payment (SURE)
  - Tree Assistance Program (TAP_
  - Conservation Reserve Program (CRP)
  - Grassland Reserve Program (GRP)
  - Environmental Quality Incentive program (EQIP) administered through the USDA Natural Resources Conservation Service.
- Third Coronavirus Food Assistance Program (CFAP 3) pending in March 2021. www.farmers.gov/cfap

Additionally, there is a federal subsidy for aircraft travel service to the island of ___ as in the:

- USDOT Payment to Air Carrier program.

While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii.

PROBLEM

Hawaii consumers generally pay a higher cost for goods than consumers in the continental US. This in part is due to the limited means to transport goods to Hawaii and the limited local manufacturing or growing of consumed goods.

While subsidies exist for some agricultural goods and airline services in Hawaii, there are no federal subsidies for waterborne commerce/shipping.

ACTION

To reduce the cost of imported goods, a broader subsidy for all cargo is being sought by the Subsidies subgroup. Sources of the subsidies may be from existing or newly created federal, state and county government programs.

SR125 WATER CARRIERS WORKING GROUP April 2021
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ACTIONS

To reduce the cost of imported goods, a broader subsidy for all cargo is being sought by the Subsidies subgroup. Sources of the subsidies may be from existing or newly created federal, state and county government programs.

The Subsidies Subgroup has met with the Office of the Secretary of Transportation, USDOT, MARAD, FAA, and FHWA representatives to investigate if federal subsidies for water borne cargo is available, and if not, the steps to creating such a federal program.

The federal representatives acknowledged there are no federal subsidies specifically for water borne cargo. There is a federal subsidy for aircraft transportation to disadvantaged areas such as the islands of Molokai and Lanai. This program, USDOT Payment to Air Carrier program, requires an air carrier to apply to the USDOT and win a bid for the program.

The representatives agreed to provide advice and assistance where possible in the creation of a federal program to provide broad and directed federal subsidies for water borne cargo transportation to and within Hawaii.

Given the State of Hawaii and counties of Hawaii's poor financial situation as a result of the covid pandemic, the Subsidies Subgroup agreed that the State or counties could not create or consider creating a state or county subsidy for cargo transport at this time.

PUC WCWG Small Group Status Reports

For Meeting on May 20, 2021

Small Group Topic/Issue: Rates

The Rates focus group was tasked with looking at an annual rate adjustment to replace what had previously been implemented under AFRA (Annual Freight Rate Adjustment). The goal of this group was to come up with recommendations that would support the sustainability and profitability of the water carrier, minimize the need for large adjustments between formal rate cases, and provide safeguards for consumers with respect to runaway or unreasonable automatic increases for the water carrier.

While the focus group was unable to come to a consensus on the actual calculation or specific formula for the rate adjustments, we did reach consensus on a number of policies to accompany that eventual rate adjustment index. These include:

- The proposed name of the new annual rate adjustment is the Water-carrier Inflationary Cost Index (WICI). Water carrier must show a compelling case for any rate increase
- Performance metrics supporting the WICI rate adjustment must be reported to Commission and shall include:
  - Safety: Recordable Incident Rate
  - Safety: Lost Time Incident Rate
  - Safety: Workers' Compensation Insurance Claims
  - Safety: Hazardous Materials
  - Efficiency: Fuel Efficiency (shoreside and marine use)
  - Service: On-Time Barge Arrival
  - Service: Customer Wait Time for Freight
  - Service: Caller Wait Time
  - Service: Customer Dropped Calls
  - Service: Completed Sailings
  - Service: Cargo Insurance Loss Ratio
- WICI formula should not double count adjustments that are already accounted for such as the fuel cost adjustment
- The full WCWG would be responsible to make the final determination and recommendation with respect to any annual rate adjustment mechanism

Other considerations where consensus was not reached:

- An index based adjuster (GDPPI or a collared version of U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Transportation Services: Deep Sea Water Transportation of Freight https://fred.stlouisfed.org/series/WPU301301) that allows for low to medium oversight up to a certain % whether that is 2% or 3% rate increases. Any requests above the 2% or 3% would require increased oversight but less than a full rate case up to 5.5%.
- Baseline for WICI shall be the annualized national Gross Domestic Product Price Index (GDPPI); however, additional localized cost factors or industry specific adjustments might be necessary to supplement the GDPPI to more accurately reflect cost of services for the water carrier industry.

- The maximum annual percent change to regulated cargo rates, regardless of the calculated WICI percentage, shall be limited to 5%
- WICI shall be used for two consecutive years with the third year requiring a rate case and reevaluation of the WICI factor
- Initial WICI year would begin the year following the next formal rate case
- Commission must be notified of proposed WICI rate increases/decreases
- More safeguards to protect regulated cargo consumers from inefficiencies or lack of incentives to be efficient and less than satisfactory customer service
- Need to include emphasis on performance for both upside and downside inflation index
- Cost of labor and employee fringe needs greater emphasis if any inflationary marker is used
- There shouldn't be automatic annual adjustments; water carrier needs to justify need for application of the WICI rate factor
- Information provided in the monthly financial reports should support the need for any rate increase, especially rate increases above GDPPI.
- *Performance metrics supporting the WICI rate adjustment must be reported to Commission and shall include:*
    - Efficiency: Labor Efficiency (working on better labor metric than prior version)

Conclusion:

Our group looked at alternative calculations for the annual inflation index that would involve labor costs (wages, health, pension, and other fringe) in addition to other operating expenses that had been used in the past under AFRA. Because changes in fuel costs are currently recovered through a quarterly fuel price adjustment, we all agreed that fuel costs should be removed from the WICI factor analysis to avoid any over-recovery of fuel costs from customers. We focused much of our discussion on a possible two-tiered approach that would involve an automatic adjustment based on the GDDPI index (whether up or down) while also providing the water carrier the opportunity to seek an additional rate adjustment, subject to HPUC approval after providing compelling evidence to support their case for an additional adjustment. We also discussed various possible terms and conditions of the WICI adjustment as outlined above in "Other considerations where consensus was not reached."

There were concerns expressed about what happens to rates in times when emergency rate relief is requested or when major capital investments are made. These issues should probably be considered outside the WICI process. Another concern raised was that we should not be making overarching policy decisions based on decreased cargo volume born by this pandemic as declining revenues exposed high fixed costs. Similarly, it was also discussed that the water carrier's labor efficiency should not be measured simply by revenue tons of cargo moved divided by labor hours as the sailings are not determined by maximum cargo capacity but rather by *fixed* sailing schedules and collectively bargained manning guidelines (labor hours) which are tied to the *fixed* sailing schedules.

Despite our best efforts to come to consensus on a working formula to calculate this new WICI factor, we ultimately felt compelled to bring our discussion back to the larger group for further refinement and decision making. A two-tiered approach that starts with an automatic annual rate adjustment that is calculated from the GDDPI for the first tier with a "compelling case" that requires review and approval for the second tier is generally identified as an alternative to continue to pursue; however, how to go about incorporating labor changes and terms and conditions of the WICI including performance metrics into the WICI factor is where we see the greatest challenges.

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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.

- **Water Carriers must be profitable to be sustainable; otherwise they go out of business.** The profitability of an interisland water 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.

- **Factors that are within the control of the water carrier:**

- Construction materials and vehicles are profitable cargo for YB. However, low volume perishables, the most vital for life for communities, are not. Profitability depends on how many labor hours are required 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 adds most of the cost.

- 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 because it is a significant source of labor cost. It is difficult to reduce (per shipment) the labor hours put into processing, tracking and coordination for low volume items. It can take just as long to process paperwork for small quantity LCL as a batch of High Volume filled containers.

- Implement a booking system and paperwork simplification effort to allow employees to get more done in less time. Convert to efficient copy and pasting for filling out forms.

- **Factors that are not within the control of the water carrier:**

- 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 water carriers. Thus, there is a critical role that the water carriers play 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 a 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

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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 access capital to replace equipment and to improve its services may be limited.

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

- On a macro level, if the water carrier is unable to achieve 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 subsidize unprofitable low volume services, with profits from high-volume cargo, they will not have the funds necessary to pay their workers, debts, 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).
  - If container customers are subsidizing low volume cargo by paying more, they will shift to cheaper transport services.

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.

- Return to the AFRA rate adjustment process to catch up with its bill payments and keep up with rising costs: from labor, supplies, overhead,
- Create a short-term rate increase to offset the decrease in intra-state shipping, down 20% since beginning of Covid-19
- Make LCL profitable.

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

Solutions that balance the need to enable an intrastate water carrier to be profitable without adversely affecting customers and the economies of the neighbor islands and the entire state.

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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 versus lower labor costs required for High-Volume cargo services.
- Reducing labor related costs and labor hours through managerial decisions that make more efficient use of labor force.
- YB should be given the ability to charge a flexible at-cost-for-processing rate for low volume cargo, instead of a rate structure that is structured around high-volume cargo.

- The group probably generated additional strategies during your discussion.

<u>Subsidy for the less profitable activities</u>

- Create a subsidy for all inter-island goods that aren't profitable, but vital for survival, such as eggs and milk.
- Increase State or federal money or allow YB to change the rates specifically targeting less profitable but critical 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.

<u>Make the unprofitable activities more efficient (decrease the cost to the water carrier)</u>

- Use alternate hub to serve least profitable routes, such as Oahu direct to Molokai and Oahu direct to Lanai, however there are negative outcomes: This would add more labor touches and complicate 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
- Increase efficiency for processing paperwork and customer service.

<u>Create an additional cost of labor rate for LCL Cargo</u>

- This solution was derived from discussions revolving around the sources for the high cost of LCL cargo but was not directly discussed.

REVISED DRAFT

- Further discussion is needed to determine how new pricing for LCL shipping could be set and adjusted as the economics of shipping 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.

- Need to balance customer needs when making any changes to the rates and services.
- Limited space to make significant operational changes that might require more space.
- Availability of affordable capital to make investments to improve efficiency
- Contacts and CB agreements that limit the changes that a water carrier can make to operations.
- YB is taking on debt due to under-utilized labor and overhead expenses during Covid, until cargo volume returns with the return of the tourist population.

- 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 what items are the biggest losers, then find an alternate way to get them to where they need to go, whether by smaller ships, freight forwarder, or air cargo.

- 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 improve water carrier profitability 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.