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December 27, 2021

The Honorable David Y. Ige
Governor of Hawaii

Members of the 31st Hawaii State Legislature
Regular Session of 2022

Pursuant to Senate Resolution No. 125, S.D. 1 (2020), the Water Carriers Working Group is pleased to present to you its final report of the Working Group's findings and recommendations.

Senate Resolution No 125, S.D. 1 requested that the Public Utilities Commission, in collaboration with the Department of Commerce and Consumer Affairs' Division of Consumer Advocacy and any interisland water carriers operating in the State, convene a working group to recommend mid-term and long-term solutions to balance the need for continuous interisland water carrier service throughout the State with the need for water carriers to maintain financial sustainability.

The attached report describes the process followed by the 18-member Working Group to identify issues and develop recommendations, and resulted in six recommendations focused around the following three topical areas:

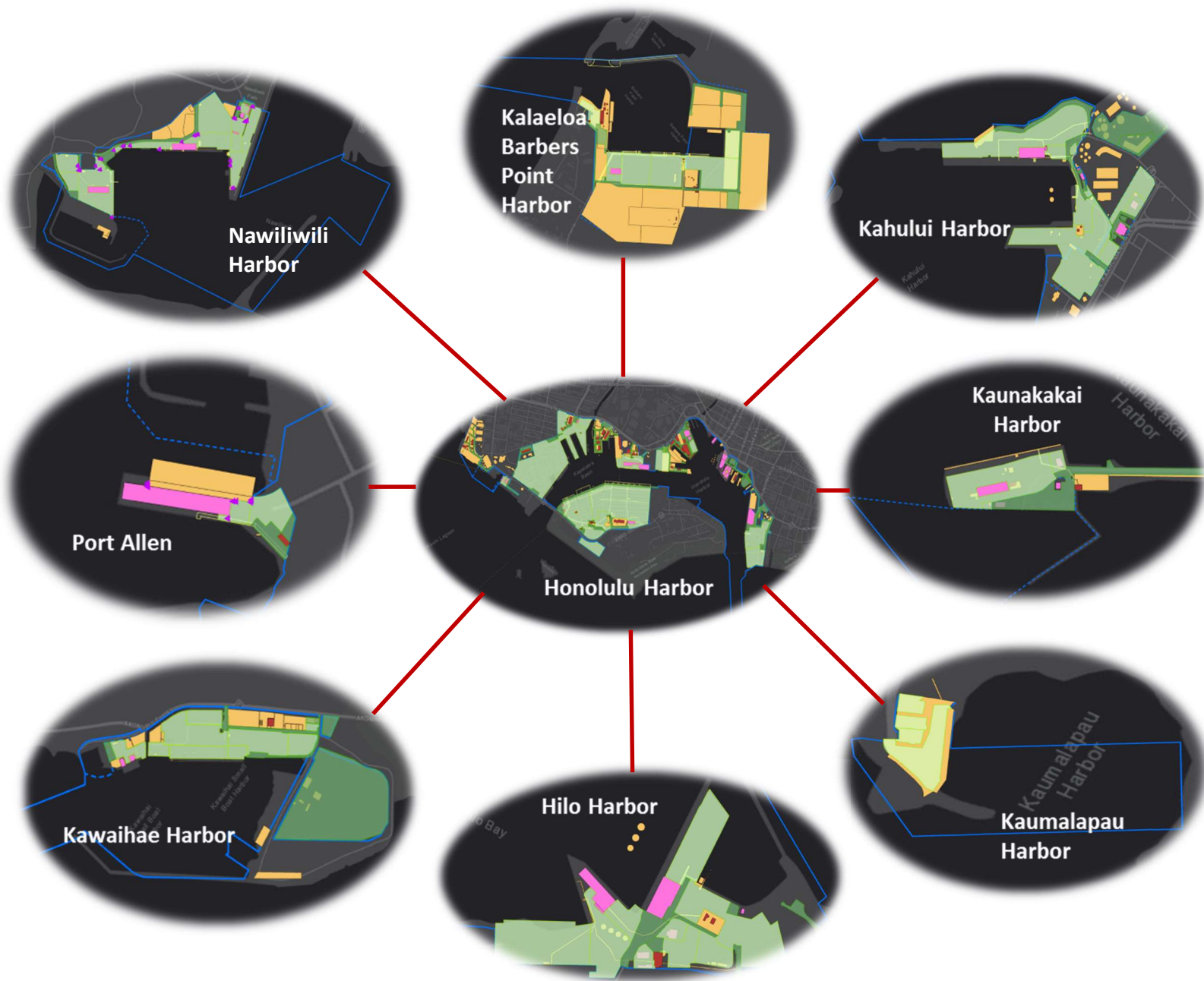
- A two-tiered interim annual rate adjustment for regulated cargo rates along with the requirement for the water carrier to submit a general rate case every three years.
- Enhancing the water carrier's reservation system to cover all lines of services which will improve the accuracy of booking reservations and improving the overall customer experience.
- Establishment of a broad subsidy for trans-Pacific and interisland cargo, the source of which may come from existing or newly created federal, state, and county government programs.

These topical areas and the six recommendations are fully described in the attached report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Leo R. Asuncion, Jr.".

Leo R. Asuncion, Jr.
Chair
Water Carriers Working Group



**REPORT TO THE HAWAII STATE LEGISLATURE
IN RESPONSE TO
SENATE RESOLUTION NO. 125, S.D. 1 (2020)**

**DECEMBER 1, 2021
WATER CARRIERS WORKING GROUP**



WATER CARRIERS WORKING GROUP

Sen. Ronald Kouchi, Senate President Sen. Gilbert Keith-Agaran, Designee	Rep. Scott Saiki, Speaker of the House Rep. Mark Nakashima, Designee
Sen. Lorraine Inouye, Chair, Senate Committee on Water and Land	Sen. Chris Lee, Chair, Senate Committee on Transportation
Rep. Henry Aquino, Chair, House Committee on Transportation	Rick Blangiardi, Mayor, City and County of Honolulu Matthew Gonser, Designee
Derek Kawakami, Mayor, County of Kauai Reiko Matsuyama/Michael Dahilig, Designees	Michael Victorino, Mayor, County of Maui Stacy Crivello, Designee
Mitch Roth, Mayor, County of Hawaii Steven Hunt, Designee	Leo Asuncion, Commissioner, Public Utilities Commission
Dean Nishina, Executive Director, Office of the Consumer Advocate Lisa Hiraoka, Designee	Mike McCartney, Director, Dept. of Business, Economic Development & Tourism (DBEDT) Mary Alice Evans/Dori Palcovich, Designees
Jade Butay, Director, Dept. of Transportation Derek Chow, Designee	Phyllis Shimabukuro-Geiser, Chairperson, Dept. of Agriculture
Jay Ana, President, Young Brothers, LLC Kris Nakagawa, Designee	Vic Ancogo, Vice President Matson Navigation Co., Inc.
Michael Caswell, Senior VP Pasha Hawaii Randy Grune, Designee	Donna Domingo, President, ILWU Local 142 William “Baba” Haole, Designee

Executive Summary

Senate Resolution 125, S.D. 1 (“SR 125”) was adopted by the Hawaii State Senate on July 8, 2020, and included two requests: 1) That the Department of Transportation provide funding to water carriers for the purpose of providing financial assistance to maintain routes and lines of services within the State and 2) the convening of a working group by the Public Utilities Commission to recommend mid- and long-term solutions to ensure continuous water carrier service throughout the State with the need for water carriers to maintain financial sustainability.

Members of the Water Carriers Working Group (WCWG) included representatives of the Senate, House of Representatives, the counties of Kauai, Honolulu, Maui, and Hawaii, the Public Utilities Commission, the Division of Consumer Advocacy, Department of Business, Economic Development, and Tourism, Department of Transportation, Department of Agriculture, Young Brothers, LLC., Matson Navigation Co., Inc., Pasha Hawaii, and the International Longshore and Warehouse Union.

The WCWG met a total of thirteen times over the past year, with meetings from July through December 2020 focused on receiving background information, preliminary discussion of various issues, and organizing themselves to effectively and efficiently develop near-, mid-, and long-term recommendations. Meetings in the 2021 calendar year focused on discussions within and among small groups/subcommittees, development of recommendations, identification of key areas of recommendations, finalization of recommendations, and drafting of this report to the Legislature and Governor. All meetings of the WCWG were facilitated.

The WCWG followed the process outlined below to identify issues and develop recommendations:



After identifying gaps, critical areas, and topic areas, the WCWG engaged in Force Field Analysis in order to develop its draft recommendations.

Force Field Analysis (FFA) is a tool that can quickly help an organization collectively identify a desired future while highlighting many of the elements it needs to address to achieve that future. During this analysis, appropriate problems and challenges are only identified in the context of achieving the desired future. FFA provides a cursory analysis and does not take the place of an in-depth strategic planning effort.

Using FFA, the WCWG developed six desired futures for Water Carriers:

- Being able to understand what cargo is going to show up, in what dimensions, where.
- Incremental adjustments to rates.
- Standardized and streamlined ratemaking that factors in ports and cargo types that are negative earners.
- All carriers involved in the movement of cargo have the ability to be sustainable and profitable.
- Adjust service offering to create higher efficiency to improve cargo flow.
- Use of available space on piers are optimized.

Moving forward, Small Groups were formed for each of the following Topic Areas - Cargo Carrier Services, Pier Space, Rates, Subsidies, and Sustainability and Profitability. These Small Groups met to discuss and formulate recommendations that would be discussed by the Working Group as a whole. After a number of months and with draft recommendations being developed by the Small Groups and discussed by the WCWG, the following mid- and long-term recommendations are being made and are discussed fully in the report herein:

- A two-tiered interim annual rate adjustment for regulated cargo rates along with the requirement for the water carrier to submit a general rate case every three years.
- Enhancing the water carrier's reservation system to cover all lines of services which will improve the accuracy of booking reservations and improving the overall customer experience.
- Establishment of a broad subsidy for trans-Pacific and interisland cargo, the source of which may come from existing or newly created federal, state, and county government programs.

Table of Contents

Executive Summary	ii
Introduction	1
Background	1
Meetings of the Water Carriers Working Group	1
Process Followed by Working Group	2
Identify Gaps/Critical Areas.....	2
Identify Topic Areas	5
Force Field Analysis	6
Summary of Six Desired Futures.....	9
Recommendations.....	12
Recommendations from Small Groups – Topic Areas.....	12
Near-Term Recommendations	15
WCWG Recommendations Forwarded to Legislature and Governor.....	15
Recommendation No. 1: Two-Tiered Interim Annual Rate Adjustment	15
Recommendation No. 2: Improvement of Current Reservation System.....	17
Recommendation No. 3: Federal/State/County Subsidies Working Group	19
Recommendation No. 4: Federal Waterborne Cargo Subsidies Program.....	20
Recommendation No. 5: Congressional Delegation Bill Sponsorship	22
Recommendation No. 6: Local Waterborne Cargo Subsidies Program	24
Conclusions.....	26
Appendices	

Introduction

Background

Senate Resolution 125, S.D. 1 (2020)

Senate Resolution 125, S.D. 1 (“SR 125”) was adopted by the Hawaii State Senate on July 8, 2020. The resolution requested the Department of Transportation to provide funding to water carriers for the purpose of providing financial assistance to maintain routes and lines of services within the State and to convene a working group to recommend mid- and long-term solutions to ensure continuous water carrier service throughout the State with the need for water carriers to maintain financial sustainability.

Pursuant to SR 125, the Public Utilities Commission, in collaboration with the Department of Commerce and Consumer Affairs' Division of Consumer Advocacy and any interisland water carriers operating in the State, was requested to convene the working group on or before August 1, 2020, to carry out the task of recommending mid- and long-term solutions to ensure water carrier service via a final report of its findings and recommendations, including any proposed legislation, to the Legislature and the Governor no later than twenty days prior to the convening of the Regular Session of 2022.

The members of the Water Carriers Working Group (WCWG), along with their designees, are listed on the inside cover.

Meetings of the Water Carriers Working Group

The WCWG met a total of thirteen times over the past year, and at the outset met to receive background information, discuss issues, and organized themselves to effectively and efficiently develop near-, mid-, and long-term recommendations.

All meetings of the WCWG were facilitated, with meetings held in 2020 primarily as an opportunity for the working group to gather background information on water carriers, Hawaii’s harbor system, regulatory oversight of water carriers, identify potential issues and topic areas, establish small groups/subcommittees for each topic area, and to have initial discussion on the development of recommendations.

WCWG MEETING DATES

July 31, 2020
September 17, 2020
October 15, 2020
November 19, 2020
December 17, 2020
January 21, 2021
March 18, 2021
May 20, 2021
June 17, 2021
July 15, 2021
August 19, 2021
September 16, 2021
October 22, 2021

Meetings held in 2021 focused on discussions within and among small groups/subcommittees, development of recommendations, identification of key areas of recommendations, finalization of recommendations, and drafting of this report to the Legislature and Governor.

All meeting material (agendas, handouts, presentations) as well as the group memory of each meeting can be found at <https://puc.hawaii.gov/water-carriers/hwcwg/>

Process Followed by Working Group

The WCWG followed the process outlined below to identify issues and develop recommendations:



Identify Gaps/Critical Areas

At the initial meetings of the WCWG, members were asked to identify desired needs and elements that a water carrier should exhibit. The following list summarizes the working group's thoughts and discussion on this exercise:

Desired Needs

Affordability

- Affordable pricing
- Competitive pricing
- Economic Viability
- Streamlined rate making process
- Fair and equitable evaluation of annualized increase
- Reasonable and affordable rates

Reliability

- Reliable, unwavering freight service schedule with known capacities
- No interruption of service except for weather
- Uninterrupted schedule
- Reliable and efficient transportation of goods between islands that meet or exceed customer expectations
- Consistent sailing schedules, gate hours and operations

Meet Client Needs

- Provide freight service needs of the Neighbor Islands
- Continue to service freight of all kinds
- Options—want other options to be considered for services that will allow competitive pricing for comparable services
- Extend and organize gate hours

Service

- Customer service and outreach
- Service
- Quality customer service
- Operational Excellence
 - Staging and overall efficiency
 - Higher costs = expectation of better delivery of services or carrier to provide something "new" that is not the case today
 - Empowered with flexibility to nimbly respond to changing conditions

Unique Items

- Safety (especially in re: animals)
- Independent auditor to review Young Brothers finances
- Provide State funding for those commodities that are granted discounts
- Current regulatory framework reviewed and updated and restore regulatory parity w/unregulated service providers
- Adequate support (e.g., grants, subsidies) to incentivize water carrier(s) to provide the breadth of desired services when some are not compensatory

Desired Elements

Meeting Client Needs (many of these are examples)

- Demonstrate constant improvement in service and a desire to meet the needs of its customers throughout the process from initiation of shipping, tracking and retrieval of cargo

-
- Expediency of the processes by which customers can drop off and pick up freight and cargo at the docks
 - Ability to check availability of shipping dates and make reservations online, with available customer service for follow-ups
 - A new and/or improved tracking system for tracking goods through the shipping process
 - Allow for transport of trucks and smaller vehicles between islands; not require always moving entire barge
 - Continuance of less than container loads (LCLs) and offer affordable shipping rates with minimal rate increases. Rates that reflect the cost that producers take on by owning and maintaining their own shipping containers

Flexibility and Efficiency

- Regulatory and operational flexibility
- New vessels that are more economical/adaptable to flexible load configurations and needs
- Barge schedule flexibility based on cargo availability for all regulated and non-regulated cargoes with supporting metrics
- Maximize the inbound and outbound container space utilization

Financial Viability

- Regular/Annual and equitable rate adjustments to keep pace with annual cost increases, enabling a financially healthy carrier
- Financial segregation and treatment of regulated/non-regulated cargoes for mixed barge movements, with open opportunity/support of additional water carriers to decrease dependency on a single carrier. This could include utilization/support of other water carriers' current routings to Neighbor Islands

Safety

- Delivery of agricultural products and livestock in a safe, timely manner and ensuring they arrive in good, healthy condition

Unique Items

- Improve infrastructure and consistent availability of properly maintained equipment
- Regulatory parity

With needs and desired elements identified, the working group members were asked to identify gaps that needed to be addressed in order for the working group to complete its tasks moving forward.

The gaps identified included information needed from Young Brothers, LLC. (YB), clarification on Stop In Transit (SIT), stakeholder input, operational information from all water carriers, information from Department of Transportations, Harbors Division (DOT-Harbors) on ports and baseyard facilities, and exploration on additional financial resources (i.e., government grants).

Critical areas were also noted by the WCWG – Financial Viability, Regulatory, and Operations (including Safety and Customer Service) – that were key to the development of recommendations.

In addition, listening sessions were held with Agricultural and Non-Agricultural sectors on December 9, 2020, and January 29, 2021, respectively. These sessions gathered input from the agricultural sector (primarily ranchers) and the business sector (primarily island Chambers of Commerce and the ILWU Local 142) and resulted in a number of topic areas and preliminary recommendations for the Small Groups to discuss and consider in developing potential recommendations to forward to the WCWG. Summaries of both meetings can be found in Appendix D.

Identify Topic Areas

Subsequently, working group members were asked to categorize the above needs and desires in order to identify topic areas under which further discussion between small group/subcommittee participants would take place, all towards the development of recommendations.

The topic areas identified by the WCWG are as follows:

- Cargo Services – Addressing improvements to cargo services via multiple means.
 - Members: Young Brothers, DBEDT, County of Hawaii, ILWU
- Pier Space – Examining the availability of space for the water carrier to efficiently move, load and unload cargo between the islands.
 - Members: Young Brothers, Matson, ILWU, DOT-Harbors
- Rates – Providing fair and predictable cargo rates that are affordable to customers for intrastate services that meet customers’ needs and ensuring the long-term financial sustainability and profitability of the water carrier by establishing rate structures for affordable intrastate services in parallel with the State’s and customers’ needs and other holistic operational changes.
 - Members: Young Brothers, ILWU, County of Hawaii, County of Maui, Consumer Advocate’s Office, Senate

-
- Subsidies – Exploring, if not securing through identified actions, federal, state, and county subsidies for the transport of goods to the neighbor islands.
 - Members: County of Maui, ILWU, DOT-Harbors, Dept. of Agriculture, Young Brothers, Senate
 - Sustainability and Profitability – Exploring the means to ensure that the water carrier is provided a reasonable opportunity to be profitable to support the sustainability of the water carrier.
 - Members: DOT-Harbors, Young Brothers, ILWU, DBEDT, Consumer Advocate’s Office

Force Field Analysis

Force Field Analysis (FFA) is a tool that can quickly help an organization (or in this case the Water Carriers Working Group) collectively identify a desired future while highlighting many of the elements it needs to address to achieve that future. During this analysis, appropriate problems and challenges are only identified in the context of achieving the desired future. FFA provides a cursory analysis and does not take the place of an in-depth strategic planning effort.

The FFA template is provided below. It was used to help the WCWG focus on identifying the different elements during its analysis.

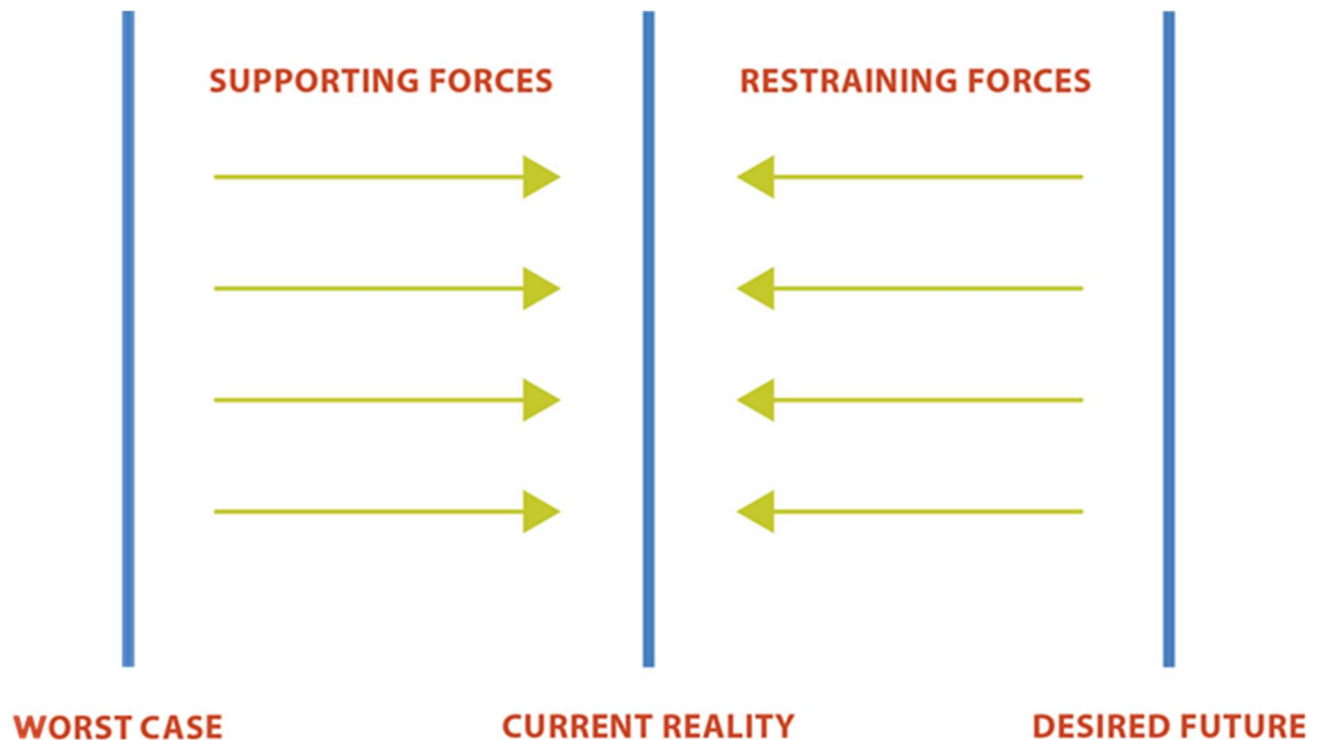


Figure 1 - Force Field Analysis Template

The framing question used in performing the analysis is: **What would it look like if we were able to successfully ensure effective, efficient, and continuous water carrier service throughout the State of Hawaii?**

Desired Future: Initially, the WCWG brainstormed the key elements of its desired future, i.e., an effective, efficient, and continuous water carrier service throughout the State.

Almost always, groups work in a vacuum not understanding what they are ultimately trying to collectively accomplish. The WCWG needed to collectively develop clarity about the desired future they were trying to achieve in order to help each WCWG member understand how their work contributes to achieving that future. When people see their work in the context of what they are trying to collectively achieve, they can identify opportunities to move the group closer to that future. Also, synergy is more possible as members work together to create more efficacy than a single person could create working alone.

Current Reality: Next, the WCWG brainstormed its current reality. Using a phrase or short sentence, it needed to describe what the situation looks like currently.

Worst Case Scenario: The WCWG then brainstormed the worst-case scenario. Using a phrase or short sentence, it needs to describe what the situation will look like if achievement of the desired future completely fails.

Supporting Forces: The next step involved WCWG members identifying things they are doing to move the situation closer to the desired future. Also, this is the time when members can think outside the box about things they can do or opportunities they can take (often with external partners not in the WCWG) to move them closer to their desired future.

Restraining Forces: Finally, the group generates (i.e., brainstorms) a list of things that prevent them from moving their current reality toward their desired future. These are sometimes viewed as problems, challenges, or constraints.

Planning Strategically: Subsequently, the WCWG moved to the planning stage of the analysis, which involves:

- **Desired Future:** From the brainstormed list of the desired future, reduce redundancy (i.e., items that are so similar that they overlap) by clustering like items. Then, select the two or three clusters that really resonate with the group. These are the elements that represent the important core of the group's desired future.
- **Supporting Forces:** From the brainstormed list of the supporting forces, reduce redundancy (i.e., items that are so similar that they overlap) by clustering like items. Then, select the one or two clusters that they are already doing that need to be enhanced or strengthened because they can significantly close the gap between the current reality and the desired future. Use the same process to identify the one or two opportunities (with external partners) they need to take that will enhance their ability to achieve their desired future.
- **Restraining Forces:** From the brainstormed list of the restraining forces, reduce redundancy (i.e., items that are so similar that they overlap) by clustering like items. Then, select the one or two clusters to address (e.g., solve) from this list that significantly prevent their organization from achieving its desired future. As a result, problems and challenges are not viewed in a vacuum, but instead are viewed in the context of enabling the group to achieve its desired future.

Additional information on Force Field Analysis can be found in Appendix B.

Summary of Six Desired Futures

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; and 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 rate 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 Kapalama Container Terminal (KCT) operational as soon as possible.
- A dynamic carrier website or phone app for scheduling rates that are updated hourly.

• Restraining Forces

- The need to service the broad customer needs creates inefficiency and development of a niche.
- Mandated rates may be inherently inefficient.
- Availability of scheduled shipments for specific items.

Desired Future 6

Use of available space on piers is optimized

Supporting Forces

- Make KCT operational as soon as possible.
- 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.

Recommendations

Recommendations from Small Groups – Topic Areas

Small Groups/Sub-Committees were formed for each of the Topic Areas noted above, with each Small Group meeting to discuss and formulate recommendations that would be discussed by the Working Group as a whole. The Working Group would then finalize the recommendations to be forwarded to the Legislature and Governor in accordance with SR 125 (2020).

The following is a summary of reports from each of the Small Groups provided to the Working Group to discuss proposed recommendations. Full status reports from each Small Group can be found in Appendix C.

Cargo Carrier Services Small Group

This Small Group respectfully recommends enhancing the water carrier's reservation system to cover all lines of services. Preliminarily, this subgroup anticipates an initial start-up cost estimated at \$400,000 and monthly maintenance fees of \$10,000 to \$15,000.

The enhanced reservation system will, among other things, improve the accuracy of booking reservations (as it is intended to now allow for bookings for all lines of service); thus, improving the overall customer experience. Subsequent to the deployment of such system, this subgroup anticipates increased operational efficiencies, better visibility on scheduled gate hours and service offerings, improved cargo tracking, and an enhanced ability to determine equipment availability to meet customer's needs of such equipment. The specific requirements of the system will ultimately be based on both customer and company needs in order to maintain a sustainable and viable economic future.

Overall, the enhanced reservation system will accommodate all cargo types to be implemented in phases, and that will enhance shipping efficiencies and improve cargo movement transparency for all customers utilizing the interisland water carrier services.

Pier Space Small Group

The goal of the Pier Space Small Group was to discuss the availability of space for the water carrier to efficiently transport cargo between the islands, and to clarify the use of Pier 41 and surrounding yard space.

The Department of Transportation Harbors Division (DOT-H) noted that it has the authority to allocate cargo space through its rules and statutes. The DOT-H further noted that it had made a portion of the Kapalama Container Terminal (KCT) available to the water carrier, and that, when

complete, it will allocate space for the use of Pier 41. The DOT-H discussed how it plans to schedule water carriers at Pier 41, stating that it will use the DOT-H's web-based vessel scheduling system, Portcall.com.

Rates Small Group

The Rates Small Group recommends a two-tiered interim annual rate adjustment for regulated cargo rates ("the "Water-carrier Inflationary Cost Index" or "WICI") along with the requirement for the water carrier to submit a general rate case every three years. The first tier is an annual rate adjustment tied to the Gross Domestic Product Price Index to address the impact of inflation on certain operating expenses. The second tier allows a water carrier to request an additional rate adjustment provided that the water carrier submits additional information and data on performance measures to justify the need for the second tier and to demonstrate the water carrier's performance is deserving of the second-tier adjustment.

The WICI allows for a timelier recovery for certain changes in costs between rate cases, reduces the administrative burden to the water carrier for rate adjustments and supports the profitability and sustainability of the water carrier. To mitigate the impact to customers and prevent significant annual increases, the annual WICI adjustment factor will not exceed 5% per year.

Subsidies Small Group

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported, of which over 98% is transported as waterborne cargo. Consequently, Hawaii consumers generally pay a higher cost for goods than consumers in the continental US, in part due to the limited means to transport goods to Hawaii and the limited local manufacturing or growing of consumed goods.

Hawaii relies on its transport of goods by water carrier. While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii. To reduce the cost of goods, a broad subsidy for trans-Pacific and interisland cargo is recommended. Sources of the subsidies may be from existing or newly created federal, State, and county government programs.

Sustainability and Profitability Small Group

The Sustainability and Profitability Small Group began their discussions with the premise that water carriers must be profitable to be sustainable or face significant and adverse impacts not only to itself, but to the State's and neighbor island economies. Therefore, solutions should 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.

While this Small Group did not develop specific recommendations, most of their suggested recommendations overlapped recommendations being developed in other Small Groups, particularly those from the Rates and Subsidies Small Groups.

Customer Service Small Group

This Small Group was originally considered by the WCWG when all other Small Groups were formed. However, YB informed the WCWG that a similar group was already formed within the company to address YB's Customer Service Strategy, which was required as a condition in YB's 2020 Test Year Rate Case (PUC Docket No. 2019-0117). The WCWG acknowledged the formation of the internal company group and forming a Customer Service Small Group as part of the WCWG would be duplicative of the on-going work surrounding customer service.

Nonetheless, YB provided the following status on the progress of its internal group is making on the topic of customer service:

YB assembled an internal working group of team members from departments across the company who interact with customers or influence their experience. As part of this internal working group's sessions that started in September 2020, and after reviewing, among other things, data/feedback derived from customers, YB developed the following six (6) initiatives:

- o Develop a new training program
- o Develop a Customer Experience Ombudsman Role
- o Invest in customer-focused technology
- o Hold regular internal and external listening sessions
- o Expand customer communications
- o Designate Customer Experience management committee

As part of its CS Strategy, YB's internal working group also developed action plans and timelines for each of the above initiatives, as well as a customer focused vision statement as follows: "Connecting Hawaii with Efficiency and Aloha."

YB's Customer Service Strategy is intended to be a "living document," so many of the above initiatives and vision statement are subject to additions and/or modifications, particularly after receiving additional feedback or input from YB's employees and customers. In addition, many of the specifics reflected in the applicable action plans/timelines for each of the initiatives will also be subject to additions and/or modifications given that some of these initiatives reflected in the action plans may either not be feasible or effective at that time or may require substantial capital investments and/or expenditures.

YB has provided quarterly updates to its Customer Service Strategy in PUC Docket No. 2019-0117. All of these filed quarterly updates can be viewed at the PUC DMS at <https://dms.puc.hawaii.gov/dms/dockets?action=search&docketNumber=2019-0117>.

Near-Term Recommendations

Although the WCWG' task was to develop mid- and long-term recommendations, a number of near-term recommendations or actions were identified in order to take preliminary steps and continue work on the mid- and long-term recommendations found below.

As of the publication of this report, the following near-term recommendations or actions have been taken:

- Working with the Department of Transportation – Harbors Division, a resolution was introduced to the National Conference of State Legislatures (NCSL) by Working Group member Sen. Lorraine Inouye to advance the recommendation for subsidies for general cargo transport to and within U.S. island states and territories (See Recommendations No. 4 and 5 below). The resolution:
 - Urges Congress to fund a broad subsidy for trans-Pacific, trans-Atlantic, and interisland waterborne cargo to improve the affordability of imported goods,
 - Requests that U.S. Department of Transportation Maritime Administration, the most appropriate federal agency, develop and implement such a federal waterborne cargo subsidies program, and that sources of any subsidies may be from existing or newly created federal programs.
 - On November 5, 2021, the NCSL passed the resolution.

WCWG Recommendations Forwarded to Legislature and Governor

Recommendation No. 1: Two-Tiered Interim Annual Rate Adjustment

Summary of Recommendation

The Rates/Sustainability & Profitability Small Groups recommend a two-tiered interim annual rate adjustment for regulated cargo rates along with the requirement for the water carrier to submit a general rate case every three years. The two-tiered annual adjustment factor, which the committee named the Water Carrier Inflationary Cost Index (WICI), will have an automatic rate adjustment component that is tied to the annual percent change in the Gross Domestic Product Price Index (GDPPI) as the first tier and an expense justified second tier that must be applied for by the water carrier and approved by the Hawaii Public Utilities Commission (HPUC). The automatic annual

adjustment factor shall be applied to the regulated cargo rates regardless of whether the factor is a positive or negative percentage change. The second-tier adjustment will require additional justification from the water carrier to recapture costs as well as their submission of performance measures showing there has been no material decline in levels of operation, safety, or customer service. The total annual WICI adjustment factor shall not exceed 5% per year. Fuel surcharges will continue to be separate and apart from the WICI adjustment and will not be counted against the 5% annual adjustment ceiling. Similarly, should the water carrier, for any reason, find it necessary to seek a temporary/emergency rate adjustment, that application process to the HPUC shall remain separate from the 3-year general rate case submission requirement. WICI does not account for a water carrier's new capital investment.

Justification/Compelling Reason

General rate cases tend to be time consuming to both the water carrier and the HPUC. As a result, regulated cargo rates do not typically get adjusted annually and are sometimes subject to relatively large rate increases when the cases are completed. Having the WICI interim rate adjustment combined with a regular cadence for general rate case submissions will reduce the administrative burden to the water carrier and provide a more contemporaneous means of pairing regulated cargo rates with inflation adjusted expenses. One of our Small Groups' primary objectives was to ensure the profitability and sustainability of the water carrier. We believe implementing these recommendations will be a significant step forward with respect to achieving the profitability and sustainability of the water carrier.

Mid-term or Long-Term

Our committee sees these recommendations as a potential solution for not only the short-term, but also for the mid- and long-term as well. General rate cases tend to be a good mechanism for setting (or resetting) regulated cargo base rates; however, the process is a bit cumbersome and does not work well in responding to inflationary changes in a timely manner.

Pros:

- First-tier provides an automatic adjustment, that if sufficient to annual expense changes, can be implemented without substantial efforts to the water carrier.
- Second-tier allows the water carrier to also address expenses that are real, such as labor and fringe costs, but may (or may not) follow changes in annual inflation-based indices such as the GDPPI.
- It's a timelier response to operational expense changes as compared with the less periodic general rate cases.
- Mitigates the likelihood of sometimes large increases to rates.
- Most importantly, it provides an opportunity for a water carrier to become financially sustainable and potentially profitable.

Cons:

- Recommendations may be perceived as a disincentive for management to actively control costs if those increases can be recaptured through the WICI adjustment factor.
- Recommendations may be perceived as a disincentive for management to seek volume growth.
- Public may feel that rate increases have become “rubber stamped” by the HPUC.
- Labor is typically not something that is subject to an annual index for public utilities.
- WICI increases may impact consumers’, particularly farmers’ and ranchers’, ability to afford services.
- WICI increases may result in above authorized rate of return between general rate cases.

Identify any proceeding steps to undertake or outstanding items to address, if any

The two aforementioned recommendations could be implemented by amendments to the Hawaii Revised Statutes, Legislative Resolutions, Hawaii Administrative Rules, or by HPUC order. The committee considers implementation by HPUC order to be the most expedient method of effectuating our recommendations.

Impact to agencies/entities

Impacts to those agencies and entities involved are unknown at this time.

Costs (if any or readily estimated)

Unknown.

Recommendation No. 2: Improvement of Current Reservation System

Summary of Recommendation

The Cargo Services Small Group recommends improving the current reservation system to accommodate all cargo types (e.g., straightload equipment, automobiles, and roll-on roll-off equipment, and less than container load cargo). The Small Group arrived at this recommendation through various meetings and felt that implementation would enhance the overall customer experience when shipping with Young Brothers, as well best serve the community by continuing the present line of services (e.g., straightload equipment, automobiles, and roll-on roll-off equipment, and less than container load cargo). The Small Group also felt that this recommendation would improve the water carrier’s ability to forecast cargo volume and also provide cargo visibility for its customers.

Justification/Compelling Reason

Improving the current reservation system to accommodate all cargo types will enhance shipping efficiencies and improve cargo movement and transparency for consumers. The improved reservation system should be flexible, implemented in phases and will improve cargo visibility to both the consumer and the carrier.

Mid-term or Long-Term

Mid to Long-term solution.

Pros:

Operational efficiencies with implemented new and/or updated policies will assist with the accuracy of booking reservations, ultimately resulting in a committed customer base as well as seeing an overall improvement in cargo tracking and the scheduling of gate hours and service offerings. Reservations for all cargo will provide the water carrier with cargo data to analyze and improve upon the inefficiencies where customers currently show up half days.

Overall improvement of the customer service experience will be provided through known availability for both shipping and transporting. Tracking will be a benefit so customers can schedule when to drop-off and pickup cargo. This is expected to assist in real time tracking and availability to help save and schedule time and will allow for planning and scheduling in terms of the amount of time customers must wait in port. The improved reservation system will provide an incentive for customers to schedule reservations, as it would provide them with a shorter waiting line for drop-offs and a resulting commitment from them.

Cons:

Cost will be initially high to develop and implement. The reservation system will incur long term costs to maintain and have continuous improvement as the business and industry changes. Customers, especially one-time customers will need time to adjust.

The water carrier will be required to identify any proceeding steps to undertake or outstanding items to address if any. This may include developing a customer survey that will assist the company in understanding customer needs, implementing a pilot program for three to six months, and gathering accurate data and feedback with minimum impact to labor costs in order to compile comprehensive and accurate information to assist in determining the best possible actions to take. Implementation will need to occur in phases to reduce the impact on customers and allow for changes and improvement throughout the project.

Impact to agencies/entities

None.

Costs (if any or readily estimated)

The initial cost to improve the current reservation system to include bookings for all lines of service along with a customer service portal would cost approximately \$400,000 in the initial startup and implementation. Monthly maintenance fees and any enhancements to improve the customer experience would be approximately \$10,000 to \$15,000.

Recommendation No. 3: Federal/State/County Subsidies Working Group

The Subsidies Small Group recommends that the State Legislature pass a resolution directing the Hawaii Department of Transportation to convene a working group(s) to create and recommend federal, state, and county subsidies for the transport of waterborne cargo and provide an update on the status of creating these programs to the Hawaii State Legislature no later than 20 days prior to the start of the 2023 legislative session.

The Small Group also recommends that draft waterborne cargo subsidy program language be submitted to the Hawaii Congressional Delegation by November 2021, and that work continues with Congressional staff in development of the program language.

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 waterborne cargo.

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

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. The shipping of goods to and within Hawaii can be as much as 7.5% (per a 2015 study) of the cost of the goods and generally higher than the cost of goods in the U.S. mainland.

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Small Group. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the State is required.

Recommendation No. 4: Federal Waterborne Cargo Subsidies Program

The Subsidies Small Group recommends that the Hawaii Department of Transportation lead a committee to continue working and consulting with the U.S. Department of Transportation (USDOT) in the establishment of a federal waterborne cargo subsidies program, including the drafting of legislative language.

Justification/Compelling Reason

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 waterborne 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 7.5% (per a 2015 study) of the cost of the goods.

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

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Small Group. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

The Subsidies Small Group met with representatives from the Office of the Secretary of Transportation, USDOT, U.S. Maritime Administration (MARAD), Federal Aviation Administration (FAA), and Federal Highways Administration (FHWA) to investigate whether federal subsidies for waterborne cargo are available, and if not, the steps needed to create such a federal program.

The federal representatives acknowledged there are no federal subsidies specifically for waterborne cargo. There is, however, a federal subsidy for aircraft transportation to disadvantaged areas such as the islands of Molokai and Lanai, and part of the Big Island. The USDOT Essential Air Services (EAS) Payment to Air Carrier program requires an air carrier to apply to the USDOT and win a bid for the program.

The federal representatives agreed to provide advice and assistance, where possible, in the creation of a federal program to provide broad and directed federal subsidies for waterborne cargo transportation to and within Hawaii. The program for waterborne cargo subsidies will require legislation in Congress before the USDOT makes it available.

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/usdfiles/FactSheets/rtcp_facts_sheet.pdf.
 - 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/>
 - www.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

There is a federal subsidy for aircraft travel service to the islands of Molokai and Lanai, and small community of Kamuela on the island of Hawaii. The program is the:

- USDOT Essential Air Service 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. Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the State is required.

Mid-term or Long-Term

Given the need to compose legislative language in consultation with the federal agency and congressional offices, it is anticipated that the creation of a federal subsidy program will take a lot of effort and time. This is believed to be a long-term solution.

Pros:

- Reduces cost of goods for Hawaii consumers.

Cons:

- Reduced costs of goods for Hawaii cargo will be borne by the taxpayers.

Identify any proceeding steps to undertake or outstanding items to address if any

Consult with the USDOT in the preparation of a federal program and to ensure implementation is feasible.

Impact to agencies/entities

The USDOT will have to administer this program, including determining eligibility and approval.

The Hawaii DOT will likely have to submit regular applications for these program grants that will also require documentation collected from the water carrier and cargo economic studies.

Costs (if any or readily estimated)

Costs of this waterborne cargo subsidy program will be determined at the implementation of such a program.

Recommendation No. 5: Congressional Delegation Bill Sponsorship

The Subsidies Small Group recommends that the Hawaii Department of Transportation lead a committee to work and consult with the Hawaii Congressional Delegation to sponsor a bill to establish a federal waterborne cargo subsidies program within the USDOT.

Justification/Compelling Reason

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 waterborne 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 7.5% (per a 2015 study) of the cost of the goods.

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

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Small Group. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

The Subsidies Small Group met with representatives from the Office of the Secretary of Transportation, USDOT, MARAD, FAA, and FHWA to investigate whether federal subsidies for waterborne cargo are available, and if not, the steps needed to create such a federal program. The federal representatives acknowledged there are no federal subsidies specifically for waterborne cargo. There is, however, a federal subsidy for aircraft transportation to disadvantaged areas such as

the islands of Molokai and Lanai, and part of the Big Island. The USDOT EAS Payment to Air Carrier program requires an air carrier to apply to the USDOT and win a bid for the program.

The federal representatives agreed to provide advice and assistance where possible in the creation of a federal program to provide broad and directed federal subsidies for waterborne cargo transportation to and within Hawaii. The program for waterborne cargo subsidies will require legislation in Congress before the USDOT makes it available.

While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii. Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the state is required.

Mid-term or Long-Term

Given the need to compose legislative language in consultation with the federal agency and congressional offices, it is anticipated that the creation of a federal subsidy program will take a lot of effort and time. This is believed to be a long-term solution.

Pros:

- Reduces cost of goods for Hawaii consumers.

Cons:

- Reduced costs of goods for Hawaii cargo will be borne by the taxpayers.

Identify any proceeding steps to undertake or outstanding items to address if any

Consult with the USDOT in the preparation of the federal program and to ensure implementation is feasible.

Impact to agencies/entities

The USDOT will have to administer this program, including determining eligibility and approval.

The Hawaii DOT will likely have to submit regular applications for these program grants that will also require documentation collected from the water carrier and cargo economic studies.

Costs (if any or readily estimated)

Costs of this waterborne cargo subsidy program will be determined at the implementation of such a program.

Recommendation No. 6: Local Waterborne Cargo Subsidies Program

The Subsidies Small Group recommends that the Hawaii Department of Transportation lead a committee to work and consult with the Hawaii State Senate and House of Representatives Transportation Committees, county departments of transportation and county councils in the establishment of local waterborne cargo subsidies program, including the drafting of legislation.

Justification/Compelling Reason

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 waterborne 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 7.5% (per a 2015 study) of the cost of the goods.

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

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Small Group. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

The Subsidies Small Group met with representatives from the Office of the Secretary of Transportation, USDOT, MARAD, FAA, and FHWA to investigate whether federal subsidies for waterborne cargo are available, and if not, the steps needed to create such a federal program.

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

Aside from a federal subsidies program, the State and county should establish a waterborne cargo subsidies program as State and county communities will directly benefit. A State and county waterborne cargo subsidies will require legislation by the State Legislature and County Councils.

While the State and counties are in poor financial situations because of the COVID 19 pandemic, the Subsidies Small Group still recommends State and county subsidies be investigated and developed that may be implemented in the future.

While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii. Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the State is required.

Mid-term or Long-Term

Given the need to compose legislative language in consultation with the State and county agencies, that must be enacted into law by the State Legislature and County Councils, it is anticipated that the creation of a State and county subsidy program will take a lot of effort and time. This is believed to be a long-term solution.

Pros:

- Reduces cost of goods for Hawaii consumers.

Cons:

- Reduced costs of goods for Hawaii cargo will be borne by the State and county taxpayers.

Identify any proceeding steps to undertake or outstanding items to address if any

- Consult with the State DOT, DBEDT, Department of Budget and Finance, and county transportation, economic and budget agencies, in the preparation of the State and county programs and to ensure implementation is feasible.

Impact to agencies/entities

The State and county transportation, economic, and budget agencies will have to administer this program, including determining eligibility and approval.

The Hawaii DOT will likely have to submit regular applications for these program grants that will also require documentation collected from the water carrier and cargo economic studies.

Costs (if any or readily estimated)

Costs of this waterborne cargo subsidy program will be determined at the implementation of such a program.

Conclusions

The six recommendations described previously are those that were discussed and developed first in the respective Small Groups and subsequently by the WCWG as a whole, ultimately being recommendations from the WCWG to the Legislature and Governor.

All six recommendations will require continued discussions and refinement, and in some instances will require near-term actions in order to effectuate implementation of the recommendations in the mid- (3-5 year) to long-term (beyond 5 years) timeframe. Further, circumstances surrounding the water carriers or actions related to the water carriers will have to be considered at the time such recommendations are advanced or implemented.

Given the timeframe and circumstances in which the WCWG discussed and developed these recommendations – that of meeting virtually for all thirteen WCWG meetings plus many more virtual meetings of the Small Groups - due to the COVID-19 Pandemic, the recommendations are as robust as time and resources allowed.

Thanks go out to all WCWG members, plus countless other individuals from each WCWG member entity for their commitment to the process taken, the various discussions, meeting deadlines, and input in the development of this report.

Appendices

Appendix A – Senate Resolution No. 125, S.D. 1 (2020)

Appendix B – Force Field Analysis

Appendix C-1 through C-5 – Small Group Final Reports

**Appendix D – Summaries of Neighbor Island Agricultural and Non-Agricultural
Sectors Listening Sessions**

Appendix A – Senate Resolution No. 125, S.D. 1 (2020)

THE SENATE
THIRTIETH LEGISLATURE, 2020
STATE OF HAWAII

S.R. NO. 125
S.D. 1

SENATE RESOLUTION

REQUESTING THE DEPARTMENT OF TRANSPORTATION TO PROVIDE FUNDING TO WATER CARRIERS FOR THE PURPOSE OF PROVIDING FINANCIAL ASSISTANCE TO MAINTAIN ROUTES AND LINES OF SERVICES WITHIN THE STATE AND TO CONVENE A WORKING GROUP TO RECOMMEND MID- AND LONG-TERM SOLUTIONS TO ENSURE CONTINUOUS WATER CARRIER SERVICE THROUGHOUT THE STATE.

1 WHEREAS, the COVID-19 pandemic is causing a significant
2 decrease in interisland cargo volumes that has put financial
3 stress on all forms of interisland transportation of goods and
4 property; and

5
6 WHEREAS, for counties with populations of less than five
7 hundred thousand, interisland cargo transportation is a life-
8 line for the residents and businesses in those counties and an
9 interisland tug and barge service is essential to the State's
10 economic recovery from the COVID-19 pandemic's deleterious
11 statewide economic effects; and

12
13 WHEREAS, it is in the State's best interests for the State
14 of Hawaii to provide financial assistance to any interisland
15 water carrier of property holding a Certificate of Public
16 Convenience and Necessity pursuant to Chapter 271G, Hawaii
17 Revised Statutes, which has suffered significant financial harm
18 due to the economic effects of the COVID-19 pandemic; and

19
20 WHEREAS, it is in the public interest for the State to
21 provide subsidies to interisland cargo carriers to offset the
22 costs incurred by those carriers as a result of providing cargo
23 carrier services to ports serving counties within the State
24 having a population of less than five hundred thousand, and to
25 address the impacts of the COVID-19 pandemic and to ensure the
26 continued operations of an interisland tug and barge service to
27 advance the State's economic recovery from the COVID-19
28 pandemic's statewide economic effects; and
29

2020-2324 SR125 SD1 SMA-1.doc



1

1 WHEREAS any funds provided as financial assistance to any
2 interisland water carrier of property holding a Certificate of
3 Public Convenience and Necessity that has suffered significant
4 financial harm due to the economic effects of the COVID-19
5 pandemic are to be used by the water carrier for operating
6 expenses, excluding payments to any parent company or other
7 affiliates of the same parent company, executive bonuses,
8 profits for the water carrier to which assistance is being
9 provided, or profits for any affiliated business of the water
10 carrier; and it must also be required that certain operations
11 continue for ports serving counties within the State having a
12 population of less than five hundred thousand; now, therefore,
13

14 BE IT RESOLVED by the Senate of the Thirtieth Legislature
15 of the State of Hawaii, Regular Session of 2020, that the
16 Department of Transportation and respective counties are
17 requested to address, on or before September 30, 2020, the
18 impacts of the COVID-19 pandemic and to offset costs incurred by
19 any water carrier as a result of providing interisland water
20 carrier service to ports within the State, by providing a
21 combined total of at least \$15,000,000 in funding directly to a
22 water carrier for the purposes of providing financial assistance
23 to support the continuation of different routes and lines of
24 services within the State; and
25

26 BE IT FURTHER RESOLVED that such funds shall not be used
27 for the following purposes:
28

- 29 (1) As payment in any form or nature to any parent company
30 of the water carrier or affiliate of any parent
31 company of the water carrier, except for tug assist,
32 lease, or charter payments to an affiliate company of
33 the water carrier receiving such funds; provided
34 further, however, that the rates for any such tug
35 assist, lease, or charter must be at or below market
36 rates;
37
- 38 (2) As profits for the water carrier, any parent company
39 of the water carrier, or any affiliate of any parent
40 company of the water carrier;
41



- 1 (3) As repayment of any loan, bond, or other form of
2 indebtedness of any parent company of the water
3 carrier or any affiliate of any parent company of the
4 water carrier;
5
6 (4) As payment for any capital expenditure made by any
7 parent company of the water carrier for assets held by
8 the water carrier; or
9
10 (5) As payment for executive bonuses; any advertising or
11 marketing, except customer and employee
12 communications; club or membership dues; charitable or
13 political contributions; non-essential business
14 travel; seminars, conferences, or conventions;
15 entertainment expenses; or any other non-operating
16 expenses; and
17

18 BE IT FURTHER RESOLVED that on or before August 1, 2020,
19 the Public Utilities Commission, in collaboration with the
20 Department of Commerce and Consumer Affairs' Division of
21 Consumer Advocacy and any interisland water carriers operating
22 in the State, is requested to convene a working group to
23 recommend mid-term and long-term solutions to balance the need
24 for continuous interisland water carrier service throughout the
25 State with the need for water carriers to maintain financial
26 sustainability; and
27

28 BE IT FURTHER RESOLVED that the working group consist of:

- 29
30 (1) The Senate President or the Senate President's
31 designee;
32
33 (2) The Speaker of the House of Representatives or the
34 Speaker's designee;
35
36 (3) The mayor of each county or the mayor's designee;
37
38 (4) One representative from the Public Utilities
39 Commission;
40
41 (5) One representative from the Department of Commerce and
42 Consumer Affairs' Division of Consumer Advocacy;



- 1
- 2 (6) One representative from the Department of Business,
- 3 Economic Development, and Tourism;
- 4
- 5 (7) One representative from the Department of
- 6 Transportation;
- 7
- 8 (8) One representative from the Department of Agriculture;
- 9
- 10 (9) The chairpersons of the legislative standing
- 11 committees on transportation;
- 12
- 13 (10) One representative from each water carrier operating
- 14 in the State; and
- 15
- 16 (11) One representative from the International Longshore
- 17 and Warehouse Union Local 142; and
- 18
- 19 BE IT FURTHER RESOLVED that the working group is requested
- 20 to submit a final report of its findings and recommendations,
- 21 including any proposed legislation, to the Legislature and the
- 22 Governor no later than twenty days prior to the convening of the
- 23 Regular Session of 2022; and
- 24
- 25 BE IT FURTHER RESOLVED that certified copies of this
- 26 Resolution be transmitted to the Senate President; Speaker of
- 27 the House of Representatives; Chairperson of the Public
- 28 Utilities Commission; Chairperson of the Board of Agriculture;
- 29 Director of Business, Economic Development, and Tourism;
- 30 Director of Commerce and Consumer Affairs; Director of
- 31 Transportation; chairpersons of the legislative standing
- 32 committees on transportation; President of Young Brothers, LLC;
- 33 President of the International Longshore and Warehouse Union
- 34 Local 142; and the mayor of each county.



Appendix B – Force Field Analysis

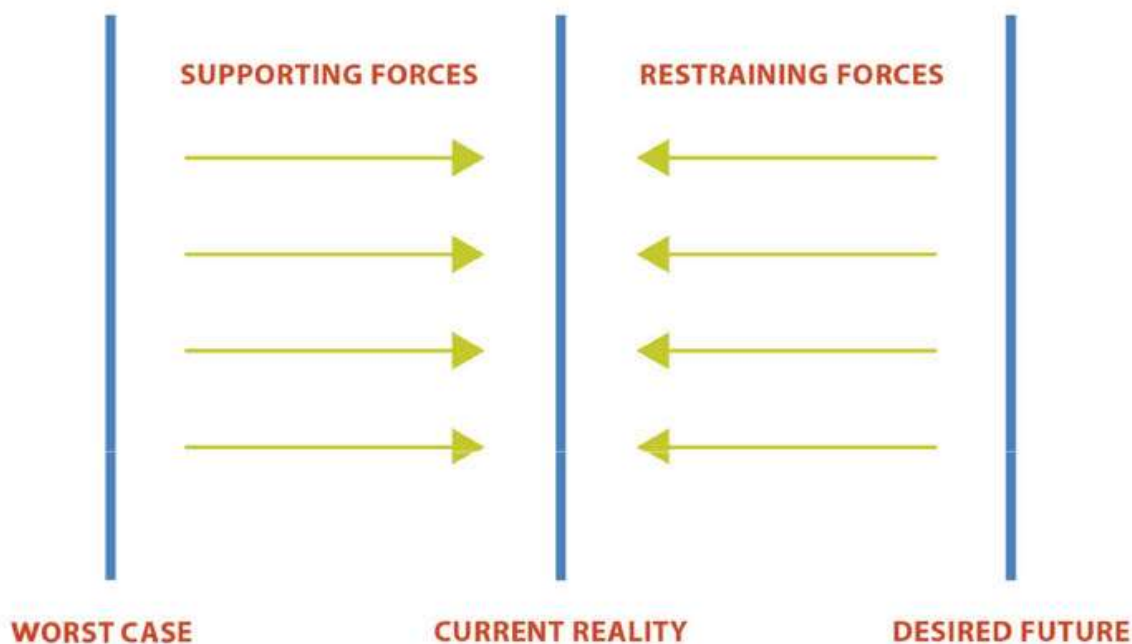


USING FORCE FIELD ANALYSIS TO PLAN STRATEGICALLY

Because of a perception of scarcity, many organizations focus on achieving only short-term goals and objectives. When this perception is combined with a management style that operates by moving from solving one problem or challenge to the next, then it is difficult to be strategic in an organization's planning efforts. These organizations do not understand the importance of acknowledging the context within which planning needs to occur because they have not collectively articulated a desired future that they seek.

Force Field Analysis (FFA) is a tool that can quickly help an organization or in this case the Water Carriers Working Group collectively identify a desired future while highlighting many of the elements it needs to address to achieve that future. During this analysis, appropriate problems and challenges are only identified in the context of achieving that desired future. This tool provides a cursory analysis and does not take the place of an in-depth strategic planning effort.

The FFA template is provided below. It can be used to help the group focus on identifying the different elements during its analysis.





THE ANALYSIS

The framing question we will use when doing this analysis is: What would it look like if we were able to successfully ensure effective, efficient, and continuous water carrier service throughout the state of Hawaii?

Desired Future: Initially, the WCWG will brainstorm the key elements of its desired future i.e., an effective, efficient, and continuous water carrier service throughout the State. Almost always, groups work in a vacuum not understanding what they are ultimately trying to collectively accomplish. We need to collectively develop clarity about the desired future we are trying to achieve and this will help each WCWG member understand how their work contributes to achieving that future. When people see their work in the context of what they are trying to collectively achieve, they can identify opportunities to move the group closer to that future. Also, synergy is more possible as members work together to create more efficacy than a single person could create working alone.

Current Reality: Then, the WCWG will brainstorm its current reality. Using a phrase or short sentence, it need to describe what the situation looks like currently.

Worst Case Scenario: Next, the WCWG will brainstorm the worst-case scenario. Using a phrase or short sentence, it needs to describe what the situation will look like if we completely fail to achieve the desired future.

Supporting Forces: The next step involves members identifying things they are doing to move the situation closer to the desired future. Also, this is the time when they can think outside the box about things they can do or opportunities they can take (often with external partners not in the WCWG) to move them closer to their desired future.

Restraining Forces: Finally, the group generates (i.e., brainstorms) a list of things that prevent them from moving their current reality toward their desired future. These are sometimes viewed as problems, challenges, or constraints.

Planning Strategically: If the WCWG has time at this meeting (if not, this part of the analysis will move to the next meeting), it will move to the planning stage of this analysis. That will involve:

- **Desired Future:** From the brainstormed list of the desired future, reduce redundancy (i.e., items that are so similar that they overlap) by clustering like items. Then, select the two or three clusters that really resonate with the group. These are the elements that represent the important core of the group's desired future.
- **Supporting Forces:** From the brainstormed list of the supporting forces, reduce redundancy (i.e., items that are so similar that they overlap) by clustering like items.



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COLLABORATION

Then, select the one or two clusters that they are already doing that need to be enhanced or strengthened because they can significantly close the gap between the current reality and the desired future. Use the same process to identify the one or two opportunities (with external partners) they need to take that will enhance their ability to achieve their desired future.

- **Restraining Forces:** From the brainstormed list of the restraining forces, reduce redundancy (i.e., items that are so similar that they overlap) by clustering like items. Then, select the one or two clusters to address (e.g., solve) from this list that significantly prevent their organization from achieving its desired future. As a result, problems and challenges are not viewed in a vacuum, but instead are viewed in the context of enabling the group to achieve its desired future.

Appendix C-1 – Cargo Carrier Services Small Group Final Report

PUC WCWG Small Group Status Reports
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.
 - **What components of the reservation system are the most relevant points of the system?**
 - 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.
 - **SIT – look into what affects rates**
 - Defer to Sub-group on Rates.

- **Articulate what the needs are in the system**

- 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?

Appendix C-2 – Pier Space Small Group Final Report

Water Carriers Working Group
Pier Space Subgroup: Report (Template Form)
June 17, 2021

1. Justification/Compelling Reason

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 Department of Transportation Harbors (DOTH) provided information and clarified that the DOTH allocates cargo yards and approves berthing requests to piers, and controls berths at the Pier 41 pier.

The DOTH is responsible for managing state harbor lands through its rules and statutes.

2. Mid-term or Long-Term Recommendation

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 Kapalama Container Terminal (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 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 carriers' 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 request for use of a pier is through the web-based vessel electronic scheduling system to replace facsimile requests for vessel reservation.

3. Pros/Cons

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.

4. Identify any proceeding steps to undertake or outstanding items to address, if any

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 with planning its business.

5. Impact to agencies/entities

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.

6. Costs (if any or readily estimated)

N/A

Appendix C-3 – Rates Small Group Final Report

PUC WCWG Small Group Status Reports

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 report from this group will be shared with the full WCWG and they will make the final determination relative to this recommendation prior to the final report.

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 GDPPI 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.

Appendix C-4 – Subsidies Small Group Final Report

PUC WCWG Small Group Status Reports
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?

RESPONSE: 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.

RESPONSE: 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?

RESPONSE: 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.

RESPONSE: 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.

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.

Appendix C-5 – Sustainability and Profitability Small Group Final Report

PUC WCWG Small Group Status Reports
October 21, 2021

Small Group Topic/Issue: Sustainability and Profitability Summary

- Water Carriers must be profitable to be sustainable; otherwise, they go out of business, leaving the State to operate the service.
- If the water carrier is unable to achieve profitability on a sustainable basis, there may be a significant and adverse impact on Hawaii's state economy as well as on each of the neighbor island economies.
- Unlike the contiguous 48 states, Hawaii does not have robust multi-modal affordable 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 some types of shipments. Water carriers play a critical role 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 unable to achieve profitability on a sustainable basis, 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 may 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 LCL cargo by paying higher rates, they will shift to cheaper transport services.
- Construction materials and vehicles are profitable cargo for YB. However, low volume perishables, those most vital for life 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 load LCL goods that are traveling to these destinations, that adds most of the cost.

- Regular shipments (two per week) are vital for residents on Molokai and Lanai, for items that are low volume and perishable, such as milk. However, this type of cargo service is costly for YB 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 coordinating low volume items. It can take longer to process paperwork for small quantity LCL shipments than a batch of high-volume filled containers.
- If a water carrier is not able to sustain its operations, the lack of affordable alternative transportation options and the importance of the affordable and timely transport of goods will have a significant adverse impact on the state 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.

Sustainability and Profitability Group Goal: Solutions should 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.

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 annual 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.

Prioritized List of Actions or Strategies to Address Goal and Objectives:

- Create/find subsidies for the less profitable perishable goods vital for life and health.
- Make the unprofitable activities more efficient and improve cost control.
- Create an additional cost-of-labor rate for LCL cargo. This would capture the uncompensated labor costs necessary for LCL cargo versus the lower labor costs required for High-Volume cargo services.
- Reduce 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.

Subsidy for the less profitable activities

- 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.
 - A 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 hubs to serve the 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.
- Develop a method to increase efficiency for low-volume cargo organization, receiving, and handling.
- Determine how new pricing for LCL shipping could be set and adjusted as the economics of shipping shift.
- Balance customer needs when making any changes to the rates and services.
- Significant operational changes may require more harbor space.
- Need affordable capital to make investments to improve efficiency.
- Contracts and CB agreements limit changes that a water carrier can make to operations.
- Identify which items are money-losers, then find an alternate way to get them to where they need to go, whether by smaller ships, freight forwarder, or air cargo.
 - Before modifying rates, subsidies should be sought and made available to high-cost cargo to serve customers, such as farmers and ranchers.
 - Before modifying sailing schedules or stops, there may need to be infrastructure improvements (e.g., building more warehouse space (both with and without refrigeration), and making capital available to vendors who could switch to larger, less frequent sailings, etc.)

-
- Leasing a smaller vessel, such as a car ferry with lower labor costs, may provide a better option for farmers and ranchers on the Neighbor Islands who could ship cattle in their own trailers and perishable produce in refrigerated trucks.
 - YB's smallest vessel, AMS 250 <https://htbyb.com/wp-content/uploads/AMS-250.pdf>, which is capable of roll on and roll off cargo, is mostly being used for Lanai and Molokai, but sails from Oahu 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.

Note: The Sustainability and Profitability Small Group merged with the Rates Group after several meetings, since some of the prioritized actions or strategies involved rate changes. See Rates Group Summary for further development of rates-related recommendations.

Appendix D – Summaries of Neighbor Island Agricultural and Non-Agricultural Sectors Listening Sessions

Neighbor Island Agriculture Sub-Group

In December 2020, a virtual meeting was held with agriculture stakeholders. The meeting resulted in four areas of concern and recommendations: 1) Subsidies; 2) Customer Service, 3) Pier Accessibility, and 4) Technology.

Subsidies

- Codification of cattle and beef into the current Island Fresh (IF) subsidy law is needed for consistency purposes and to extend the subsidy to cattlemen
- Subsidize all shipping of livestock even though livestock is not ultimately consumed at final destinations
- Communicate effectively to shippers that the IF subsidy will enable a reduction in shipping costs

Customer Service

- An investment by Young Brothers (YB) is needed for training of staff to understand the importance of customer communication and service, e.g., timely responsiveness when submitting orders
- Consistent service along with consistent rules must be offered and followed across the State

Pier Accessibility

- Provide optimal situations for accessibility to the piers:
- Processing of customers consistently throughout the entire day so a backlog is not created, e.g., staggering of employee lunch hours rather than ceasing accessibility
- Closed, shaded areas in piers for livestock as well as water provisions for treating animals humanely

Technology

- YB to determine if it is using the most efficient technology processes to get the product to the customer as soon as possible; if not, the following is recommended:
- Website to provide timely information to customers, e.g., schedules, requirements, etc.
- Website to have one link that provides daily changes for easy accessibility to information
- Establish a “listserv” for immediate access to customers

Neighbor Island Non-Agriculture Sub-Group

In January 2021, a virtual meeting was held with neighbor island non-agricultural stakeholders - Molokai, Kauai, Maui and Hawaii County Chambers of Commerce. The meeting's purpose was to determine what is needed by way of barge and interisland carrier service, what is currently working, what is not working and what, if anything, the islands are not receiving.

As an overview, while Young Brothers (YB) offers an essential service that has performed well during the COVID pandemic, each island shares unique issues and concerns. Therefore, the following is an overall summary of the general problem-solving suggestions.

Specific Plan for Rates

As neighbor-island small businesses are having a very difficult time passing their costs onto their customers and will likely be unable to sustain continued higher rates, it was suggested that a specific plan for rates be developed so that neighbor islands can return to a system where businesses will be aware of any future rate increases.

Communication

As there purportedly continues to be barriers and challenges with customer service, shipment tracking, and scheduling inefficiencies, improvement in ongoing communication should help to enhance and improve upon customer service.

"Customer Service Plan"

A need to receive and review the required updated status on YB "customer service plan" and current financial condition was raised.

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