

## PUC Water Carriers Working Group Meeting

December 17, 2020, 1:00 – 3:30 p.m.

(Virtual Meeting via Zoom)

### Meeting Attendees (in alphabetical order)

P = Present; A= Absent

	Name	Title	Company
A	Arlina Agbayani	Committee Clerk	Office of Senator Inouye
P	Jay Ana	President	Young Brothers, LLC
A	Vic Angoco	SVP	Matson Navigation Company, Inc.
P	Jesse Andrade	ILWU Member/Unit 4209 Chair	International Longshore and Warehouse Union, Local 142
P	Henry J.C. Aquino	Representative	House District 38 / Chair, House Committee on Transportation
P	Nelisa Asato for Vic Angoco		Matson Navigation Company, Inc.
A	Jayne Nantkes	Committee Clerk	Office of Representative Aquino
P	Leodoloff (Leo) R. Asuncion	Commissioner	Public Utilities Commission
A	Jade Butay	Director	Department of Transportation
A	Kirk Caldwell	Mayor	City and County of Honolulu
P	Michael Caswell	SVP	Pasha Stevedoring & Terminals L.P.
A	Catherine Awakuni Colón	Director	Department of Commerce and Consumer Affairs
P	Derek J. Chow	Deputy Director	Department of Transportation, Harbors Division
A	Stacey Crivello	Community Liaison	Maui County Mayor's Office
A	Michael Dahilig	Managing Director	Kauai County – Office of the Mayor
P	Mary Alice Evans	Director, Office of Planning	Department of Business, Economic Development & Tourism
P	Lisa Hiraoka	Analyst	Department of Commerce & Consumer Affairs – Division of Consumer Advocacy
P	James P. Griffin	Chair	Public Utilities Commission
A	Justin Gruenstein	Deputy	City and County of Honolulu – Mayor's Office of Climate Change, Sustainability and Resiliency (CCSR)

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

A	Stevette Santiago	Director of HR	Young Brothers LLC
P	Phyllis Shimabukuro-Geiser	Chairperson	Department of Agriculture
P	Tyrone Tahara		ILWU
A	Michael P. Victorino	Mayor	Maui County
Public Utilities Commission Staff			
P	Jodi Endo Chai	Executive Officer	Public Utilities Commission
P	Michael Chapman	Economist	Public Utilities Commission
P	Amanda Hustrulid	Attorney Trainee	Public Utilities Commission
A	Steven Iha	Consultant	Public Utilities Commission
P	Layla Kilolu	Economist	Public Utilities Commission
P	Carolyn Laborte	Chief Auditor	Public Utilities Commission
P	Naomi Landgraf	District Representative – Maui	Public Utilities Commission
P	Andrew Okabe	Utility Analyst	Public Utilities Commission
P	Anand Samtani	Supervising Economist	Public Utilities Commission
A	David Mattice	District Representative – Hawaii Island	Public Utilities Commission
P	Gina Yi	Acting Chief Engineer	Public Utilities Commission
P	Jackie Young	Auditor	Public Utilities Commission
P	Debra Abe	Auditor	Public Utilities Commission
Independent Facilitation			
P	Donna R. Ching	Facilitator	Pacific Center for Collaboration
P	Jennifer Cornish Creed	Recorder	Hawaii Alliance for Nonprofit Organizations (Director of Professional Development)

## Welcome

On behalf of his fellow Commissioners and the group's intrepid facilitator and recorder, Leo welcomed attendees to the fifth meeting of the Water Carriers Working Group (WG) and wished everyone happy holidays – Merry Christmas and a Happy New Year.

There will be a short presentation and a couple updates and then we'll get to Force Field Analysis (FFA), which will help the group when we start making recommendations, begin to vet them and determine if they are mid- or long-term. The FFA will help us set the direction we're going to take in the next year.

He introduced people who were new to the group:

- Nelisa from Matson is sitting in for Vic.
- We have some new PUC staff members. Layla just joined us. She's an economist with the PUC.

Leo thanked the group for their continued participation.

## **Housekeeping**

### Group Memory

Donna reminded the group that Leo had sent out a corrected version of the group memory from the November session. She asked if there were any additional corrections that needed to be made. There were no corrections suggested.

## **Update/Continuation of Harbors Report**

### Kapalama Container Terminal Presentation

Derek continued the Harbors Report by sharing a short presentation focused on the new Kapalama Container Terminal. The following is a recap of the highlights of his presentation.

This is a general overview of what the new terminal is and what the main benefits are:

- YB is currently located at Piers 39 and 40.
- Pasha is at Pier 51.
- When containers come off the Pasha ship from the mainland and the cargo goes to YB to go to the neighbor islands, its driven by truck across the Sand Island Access bridge (too shallow for large boats to enter) and then goes West and North towards Nimitz Highway until it gets to Waiakamilo Road where YB's yard is. That's a span of 2.2 miles. After that, YB puts that container on a barge for the neighbor islands.
- The new terminal is in the middle of that driving area.
- Construction is in Phase 1 of the project. Phase 2 of this work was just awarded and will start in January 2021.
- The new terminal brings the Pasha yard closer to where YB is operating. It eliminates the need for cargo to be transported over the bridge, on the road, etc.
- Phase 2 was awarded in October. It will take 3 years to construct. The total cost will be a little more than half a billion dollars.
- The brown area will be occupied by Pasha. The green area is where the contract carrier/neighbor island carrier will work. The blue is where YB is.
- When cargo containers come off the ship at the bottom area of this map, it is driven to the green area, then loaded onto a barge to go to neighbor islands.
- This eliminates the need to take containers over the roads and bridge (that 2.2 miles) and will significantly decrease the number of truck trips per year.
- The cargo will go directly from ship terminal to barge area without going on/off trucks.
- Pasha is designated to go there. We're still negotiating the lease with Pasha.

- The way it works is DOT Harbors Division owns all the properties. We lease out to carriers/tenants. They're responsible for all equipment etc. We just maintain the infrastructure.

Q&A

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

Q: Is the new area for YB smaller or larger than what they have now?

A: The area in blue is what exists now. The area in green is for the carrier that is contracted by Pasha to carry their cargo to neighbor islands. Currently that is YB.

C: The reason I ask is that at the listening session, ag customers talked about needing more space for stakeholders to bring their cargo onto the pier.

Q: To clarify, the green area is to be leased to Pasha or is it for any contract carrier that intends to move interisland cargo?

A: The intent is to lease it all to Pasha. Then Pasha would allow their contract carrier to utilize it.

Q: So, any other interstate water carrier that wanted to move cargo between the islands would still have to rely on the existing gates that YB allows them access to?

A: If the water carrier came to the Pasha pier, it wouldn't have to go through a gate. It would go directly from vessel to barge.

C: I understand the efficiency of it. I'm wanting to clarify that if the green area is being leased to Pasha, Matson wouldn't be able to take advantage of that area. They'd still need to take their cargo to the gates that they currently rely upon?

A: Yes.

Q: So, the assumption is YB would be the carrier?

A: YB is our contract carrier as of today.

Q: In regard to the green area, if the State is in charge, what's the point of leasing it to a contracted carrier company?

A: How Pasha negotiates their agreements with their carrier is beyond Harbors.

Q: So, the use of the space would be determined by the two parties? But not the State? Is that what you're saying?

A: Yes. The use is configured so that containers taken off ships can be easily moved to barge operations.

Q: I understand. Currently there's not enough space though. If the water carrier is going to have use of the facility, shouldn't the agreement be between the water carrier and the State instead of the provider?

A: Interstate cargo is what will predominantly be on that pier. That's purely Pasha's domain.

C: Our barges are mixed with interstate and intrastate cargo (for example, our Maui sailing has Pasha, Matson and interstate cargo). I foresee that we're going to have problems so I want to understand the dynamic. It's clear that if this is put as "contracted carrier" it will disrupt shipping interisland.

C: YB has properties that they're operating on today.

C: YB will continue to operate out of the property they have now (in blue). If they get interisland cargo that's coming from Honolulu, it will be brought onto YB property and placed on whichever barge going to that destination.

Q: So, if there is no other contract carrier, what happens to that green space? Do YB's barges land in that space?

At this point Donna stepped in and closed the discussion due to time constraints. She noted that the issues have been captured in the group memory and encouraged Jessie to work with Derek and Michael offline to get this issue clarified.

## **Update on Sub-committee Focusing on Stakeholder Input**

### **Brief Summary of Listening Session for Agricultural Shippers**

Mary Alice reported out on the Listening Session with Agricultural Shippers.

- There are 2 different sharing sessions, one with Ag stakeholders and one with non-Ag stakeholders.
- We held the Ag session with Donna, Jennifer and Leo's help. The non-Ag one hasn't happened yet.
- Dori has been doing yeoman's work with the neighbor island Chambers of Commerce to organize the sharing session in early January so they can share their concerns and solutions in terms of their interisland shipping needs.
- Donna noted that the notes from the Ag session should be distributed by the end of this week. She has clustered the recommendations and added Phyllis' definition of "agriculture" to the bottom of the notes. The clusters are in three main priority areas – safety, affordability and service. Without question, the issue of service had a very long list of items; by far the most.

## **Force Field Analysis**

Donna acknowledged that Leo has been taking some hits about how slowly this process is moving. Some people have been saying "we know how to solve these problems so why don't we start generating solutions." Groups always think this! They come with ideas in mind and

they want to share them with everyone. In Donna's experience though, people always come with their own self-interest but don't take into consideration the interests of others in the group. We've taken the time during our meetings this fall to share information on the existing conditions and the larger environment. One facilitator mantra is "Go slow to go fast." If you don't have enough context, it's a lot harder to find areas of overlapping interest, and to make recommendations that really represent a large group of people vs the special interests of a few people. Thanks to everyone who provided information and context during the fall meetings, we're in a better position to do the FFA now. It's a quick and dirty analysis to look at the important elements in this situation that will help us focus our efforts and identify what we can select and leverage to make a difference.

Donna shared the FFA conceptual framework:

- We start with end in mind – brainstorm what does success look like / the desired future. There is no one right answer.
- Then we look at what's the current reality – there's probably a gap between the desired future and the current reality.
- In our situation, we've added the worst case scenario since there are consequences if we don't address this issue. We do need to talk about if we don't address the issue, what are the ramifications of us not being successful.
- Then we look at supporting forces – things that we're doing right now or could be doing that help us move the current reality toward the desired future.
- Finally, we look at restraining forces – things that exist today or could happen that would prevent the current reality from getting better or would move us towards the worst-case scenario.

When we complete the FFA, we'll have many of the elements to make our recommendations. Between now and the next meeting, we'll try to provide some structure to the lists by clustering related items (the clusters just help us see items that are similar and don't have to be exact) and we'll send this first draft to you before the next meeting. Right after the meeting, some people thought of additional items and sent them to Donna. Those items are highlighted in yellow. You'll have an opportunity to review this draft, and if you also think of items the group missed, you will need to send them to Donna [REDACTED] by Friday, January 8<sup>th</sup> (this is a HARD deadline) so they can be included in the updated draft you will receive that we will discuss at the January 21<sup>st</sup> meeting. Be sure to indicate what FFA component (e.g., desired future, current reality, etc.) and cluster they belong in.

The larger clusters in the desired future list help us focus on what elements resonate with many of you in terms of what you perceive as success. Another important component would be the large clusters under the supporting forces. These are elements we could generate recommendations around – to do it, do more of it, etc. so we can move closer to the desired future. We'll also look at what the key restraining forces are that we must work on because they prevent us from getting to the desired future.



# Force Field Analysis

Framing question for this analysis: **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** – elements describing what success would look like

## Governance

- Commercial port authority established.
- Seamless movement of both interisland and interstate cargo throughout HI.
- Standardized rate making (how interstate vs intrastate rates are made) throughout the industry that factors in ports and cargo types that are negative earners.
- Standardized rates that result in the profitability of routes (e.g., postage stamp rate model)
- Regulatory flexibility to add other carrier options such as car ferries for live animal transport.

## Cargo/Services

- 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.
- The needs of shippers of all sizes can be met affordably and efficiently.
- Partnerships between the carriers and large cargo shipping customers (e.g., food/agricultural industry) guarantees cargo volumes while the carriers guarantee routes and schedules.
- Interstate cargo carriers will have control over their cargo until their cargo reaches its final destination/receiver.
- Long-term commitment between interstate shippers and the sole intrastate carrier.
- **Adjust Gate Hours and service offerings to create higher efficiency and improve cargo flow.**

## Financial

- All carriers involved in the movement of cargo have the ability to be sustainable.
- All carriers involved in the movement of cargo have the ability to be sustainable and profitable.
- The needs of shippers of all sizes can be met affordably and efficiently.
- Standardized rate making (how interstate vs intrastate rates are made) throughout the industry that factors in ports and cargo types that are negative earners.



- Standardized rates that result in the profitability of routes (e.g., postage stamp rate model)
- Incremental adjustments to rates (have rate built in with some sort of a COLA – Consumer Price Index Unit adjustment so the carrier could make the argument to reset the base when necessary)

### Operations

- Piers are operational and safe.
- Use of available space on piers is optimized.
- Cargo consolidation is performed offsite.
- The carrier has uniform rules or requirements among all neighbor island ports.  
[Note: Could be tied to Governance if rules and requirements are placed in tariff.]
- Regulatory flexibility to add other carrier options such as car ferries for live animal transport.
- Continue servicing freight of all kinds.

### Current Reality – what does the situation look like currently?

#### Governance

- PUC approves rates and routes.

#### Cargo/Services

- Less than Container Load (LCL) is an inefficient operation and a money loser (non-compensatory).
- We have reliable routes but not reliable volume of shipping.
- Cargo deliveries into YB off Nimitz and Auiki streets causes traffic congestion.
- Infrastructure deficiencies do not optimize cargo flow across the state.
- Need to support broad customer needs leads to inefficiency and lack of focus and niche.
- Consolidation occurs now through YB and other consolidators/freight forwarders.
- LCL and Mixed Cargo offerings are efficient options for small shippers and the general public.
- Reduced gate hours and reduced service offerings drive customers to use less desirable, more expensive, unregulated shipping services.

#### Financial

- Unprofitable routes exist.
- The rate is not affordable to all neighbor island shippers.
- Pandemic restrictions.
- Harbor fees are used to implement infrastructure.
- High labor costs are a reality.

- Transport of goods to Hawaii by water carrier, both containerized and bulk goods, is vastly less expensive than air freight, which is the only other alternative to and within Hawaii.
- Reduced gate hours and service offerings reduce revenue opportunity.

#### Operations

- Piers 39 and 40 are under construction at the moment and not fully operational.
- The Ag stakeholders are concerned that the rules about access to piers on neighbor islands for livestock shippers are not transparent or consistent.
- Pandemic restrictions.
- Harbor fees are used to implement infrastructure.
- Infrastructure deficiencies do not optimize cargo flow across the state.
- Gate times and restrictions impact the ability to ship when needed.
- Cut off times are problematic for interstate carrier.
- Need to support broad customer needs leads to inefficiency and lack of focus and niche.
- Consolidation occurs now through YB and other consolidators/freight forwarders.
- Pasha's contract with YB to haul interstate cargo expires in the next year or two.

#### **Worst-Case Scenario** - what would it look like if we completely fail?

#### Governance

- One or more carriers will withdraw from service, leaving a monopoly.
- Harbors Division continues to operate as a bureaucracy, resulting in inefficiencies and ineffectiveness.

#### Cargo/Services

- Delay in delivery of goods.
- No ocean service for small ports (Molokai and Lanai)
- Neighbor island businesses and consumers will see a reduction in available goods and/or increased prices for the available goods.
- Hazardous and essential materials may not be able to ship between the islands.

#### Financial

- Prices will continue to go up, making it even less affordable than it is.
- Water carrier is not sustainable.
- Neighbor island economies will suffer.

#### Operations

- Customer needs are not met.
- Traffic congestion.

- Deteriorating infrastructure.
- No ocean service for small ports (Molokai and Lanai)
- Lack of adoption of technology to improve efficiencies.

#### Impact on Neighbor Islands and Businesses

- Local production of food will not increase because neighbor island farmers will not be able to afford to ship to markets.
- Molokai and Lanai will join Kahoolawe and Niihau as islands without the ability to sustain the basics of 21<sup>st</sup> century human life without subsidized shipping.
- Farming and ranching on the NI will shrink to meet single-island demand, after losing the economies of scale made possible by the Oahu market.
- The cost of living on a NI will increase resulting in local families with service jobs leaving and the need to pay a COLA to state workers on the NI.

#### Supporting Forces - things we are doing or could do to move closer to the desired future

- State subsidizes ports that are negative earners.
- Changes minimize impact to the labor force and are integrated with technology as it is implemented.
- A dynamic carrier website or phone app for scheduling rates and rules that are updated hourly.
- Make KCT operational as soon as possible.
- Review current rate design to address less profitable ports/routes.
- Improve customer outreach and communications to support: 1) consistent application of rules; 2) availability of services; 3) improve customer satisfaction.
- Adopt new technologies and practices to improve efficiencies.
- Financial stability of the Utility will drive capital investments resulting in customer satisfaction and operational efficiencies.
- Review services to determine what should continue to be provided as a regulated service or what could be provided by a competitive market.
- When LCL moves off dock, it can be handled more efficiently, be more customer oriented and be potentially more financially desirable for the water carrier.
  - Straight loads/full containers are the most efficient modes of handling for the water carrier (provided by consolidator)
- De-regulation of the LCL for the carrier.
- If LCL moves off dock, it can be managed by the carrier, customer or a third party.

#### Restraining Forces - things that prevent us from moving the current reality toward the desired future

- Matson used to handle freight of all kinds. They came to the realization that it's not the most efficient handling of cargo.
- When LCL stays on dock, it isn't the most operationally efficient and is labor intensive.

- If LCL moves off dock it can be potentially more expensive to the shipper.
- Demand dynamics between outbound and inbound cargo are not uniform which results in inefficiencies.
- The need to service the broad customer needs creates inefficiency and development of a niche.
- The cost of providing LCL services is greater than the revenue because of the labor, fees, equipment and infrastructure.
- Whether the water carrier has adequate access to financing to support operations and necessary investments.
- Lack of market information (e.g., number of providers, rates being charged) and a thorough market assessment hinders the ability to assess the need for each type of service and makes it difficult to understand where we need to focus the efforts of the WCWG.
- Inadequate strategic planning and execution may limit making necessary movement towards a desirable future.
- The mandated routes may be inherently inefficient.
- Water carrier's high fixed costs also challenging towards profitability when volume decreases.
- YB is operating a regulated service in a competitive environment (others are pricing their product at a market rate).

Discussion:

Q: For YB, how much cargo currently is consolidated offsite and ships to the neighbor islands through the intrastate carrier?

A: I don't know if there's a clear way to answer that. Almost all cargo that comes to us in a consolidated state has been consolidated by others (Y. Hata, etc.) I don't know how to quantify that.

Q: What portion of the freight that you ship is already consolidated by yourself or other freight forwarders?

A: If you include YB, 100% is consolidated. So, excluding YB, if you look at piece counts, there are far more pieces that YB consolidates than what is brought in with a straight load. It's difficult to translate volume when we're talking about two different commodity types.

Q: Really, the question is what percentage of your business is in LCL's?

A: Are you asking what percentage in revenue or revenue tonnage?

A: I can give you 2019 numbers. For regulated intrastate business, the revenue tonnage for the mix and LCL area: \$300,000 revenue tons through 11 ½ months of 2019. Compared to full load, which would include an automobile: almost \$2.3 million revenue tons (in straight load).

Q: If all freight were consolidated offsite by someone, what would that add to the cost of the items that are not consolidated on the dock? Would there be enough efficiency gained to benefit the middleman or the consumer?

A: That's an unknown. It is unregulated. These companies can charge whatever they want.

C: Part and parcel of this is that you have to truck an empty container to a consolidator and then you have to drag that load back.

Q: If YB didn't have to carry LCL or mixed loads, would it be in better financial shape than it is? I'm asking because the LCL or mixed loads are hugely important to HI farmers. Maybe the LCL needs to be subsidized in a different way since it benefits customers but not the carrier.

C: A lot of customers see higher costs and relate it to YB, but it is really the cost from the consolidators.

### **Next Steps**

- We'll try to turn the notes around within a week and a half and we'll give the group some direction about what to do next.
- We'll use this material to prepare for the next meeting in January, where we can hopefully synthesize it and come up with short-term recommendations.
- We'll try to give you at least two weeks to do any homework to prepare for the January meeting.

It was noted that the next meeting will be on **January 21**. The standard start time will be 1 p.m. going forward but we might expand time to 2.5 hours for certain meeting, as needed, to do the complex work.

Happy Holidays to everyone!

### **GROUP AGREEMENTS:**

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

### **ACTIONS:**

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