

WATER CARRIERS WORKING GROUP – SUB-COMMITTEE ON RATES

Discussion outline presented by Steve Hunt

Potential Operational Changes – Prior to Rate Discussion

- Reservation System
- Consolidation – on or off premise
- Deregulate LCL?
- Reconfigure Piers and Traffic Flow
- Create more Efficient Routes
- Other Operating Efficiencies

Considerations for Rate Setting – After Operational Changes

Fixed Costs

- Harbor Leases
- Debt Service
- Equipment Leases
- Medical Premiums
- Retirement Contributions
- Salaried Employees
- Replacement/Deferred Maintenance
- Storage Rental

Variable Costs

- Hourly Wages and Overtime
- Fuel Costs
- Utility Costs

Pass-Through Costs

- Wharfage
- Taxes

Return on Investment

- Rate of Return for Invested Capital

Operational Return for Risk

Rate Setting Considerations

Option #1 – Price each route at levels to ensure reasonable profitability for each route

Option #2 – Price all routes at standardized rates to smooth out both profitable and unprofitable routes while ensuring an overall reasonable rate of return

Other Considerations

Set rates on prioritized needs or desired outcomes

Lower rates – Ag products, livestock, farm equipment and supplies, medicines, essentials (toilet paper, toothpaste, etc.), renewable energy materials, electric vehicles

Higher rates – luxury goods, alcohol, cigarettes, sugary items (soda, candy, etc.), vehicles (maybe with value cap)

Standard rates – construction materials, furniture, imported food, electronics

First class rate for fixed routes vs. regular rate for a flexible route

Avoid future large rate adjustments by allowing an annual COLA tied to Honolulu CPI-U (say for 5 years) to be applied to new rates

How to address volume fluctuations?

Emergency pricing

Triggers to enable emergency pricing and/or revert to regular pricing (scalable?)

Group Discussion

Jay Ana

- Rate adjustment submit in Sept. 2019 (pre-pandemic) was for a 34% increase, which included an anticipated rate of return on operations and capital invested
- The emergency 46% rate approved was projected to be breakeven with no rate of return, nor contingency if projections fell short
- Despite additional local usage by Matson and Pasha, volume is still down 23%
- The water carrier utility has different rate making mechanisms than other utilities (for example, there's no surcharge or profit margin on fuel cost pass throughs)

Andrew Okabe

- Clarified the rate making differences between HECO and YB

Lorraine Inouye

- How was the shipment of equipment and supplies handled for Hurricane Iselle in 2014? (Jay Ana responded – YB did this at no charge out of a sense of community responsibility)
- In future, can we coordinate and add this to the federal reimbursement request since it was a real cost to YB?

Chris Edwards

- Will provide rate history at next meeting (include losses in 2017, 2018, and 2019 as well as capital invested with no return)
- Evaluate the Annual Freight Rate Adjustment (AFRA) pilot program that allowed rate adjustments within a reasonable range of -5% to +5% for interim years (sunset in 2014)
- Look at surface transportation rate making

Jesse Andrade

- Can we look at intra-state rate adjustments of “big brother” companies (Matson and Pasha) as part of the framework?
- Reinstating a program like AFRA might be a low hanging fruit

Jay Ana

- Under the “Island Ag” program, raw agricultural materials receive a 30% discount
- Pressure mounting to redefine Island Ag to include finished products

Jesse Andrade

- There are issues with customers sending full containers trying to utilize the Island Ag discount for cargo that isn’t qualified
- Difficult to police these shipments

Jay Ana

- Stop-in-Transit/Storage-in-Transit (SIT) continues to have a significant impact on YB operations
- Island Ag especially difficult to police in refrigerated containers
- How to products, like certain brands of lau-lau end up in grocery stores while not being on any manifest?

Lorraine Inouye

- SB 1253 is proposed to expand the Ag definition even further, which if passed would require discounts to Ag products from the mainland
- YB needs to make sure they submit testimony and request to speak at the virtual hearing on this bill

Steve Hunt

- Next meeting date/time – Friday, February 12th 8:30-10:00 am
- Kris Nakagawa to host on Teams sending out invitations from the email distribution list previously provided by Tammie Kotani
- Chris Edwards to provide additional information to the group (rate history, YB losses, AFRA information)
- Steve Hunt to create agenda for next meeting and distribute prior to meeting – **please feel free to add suggested items for the agenda**