Water Carriers Working Group

Small Group: Sustainability and Profitability

Meeting Memory February 4, 2021

Contact List

- Mary Alice Evans , Office of Planning, [redacted]
- Christopher Edwards | Director of Finance and Treasurer Young Brothers, LLC; [redacted]; Pier 40; 1331 N. Nimitz Hwy; Honolulu, HI 96817; [redacted]
- Anand Samtani - [redacted]
- Jeffrey K. Akamine; Engineer III (PUC); [redacted]
- Mike Victorino Jr. (ILWU), [redacted]
- Stevette Santiago YB [redacted]
- Jesse Andrade: ILWU Member/Unit 4209 Chair: International Longshore and Warehouse Union, Local 142; [redacted]
- William "Baba" Haole IV: Division Director of Hawaii Longshore Division International Longshore and Warehouse Union, Local 142; [redacted]
- Kris Nakagawa: Vice President of External and Legal Affairs: Young Brothers LLC; [redacted]
- Naomi Landgraf: District Representative – Maui (PUC); [redacted]

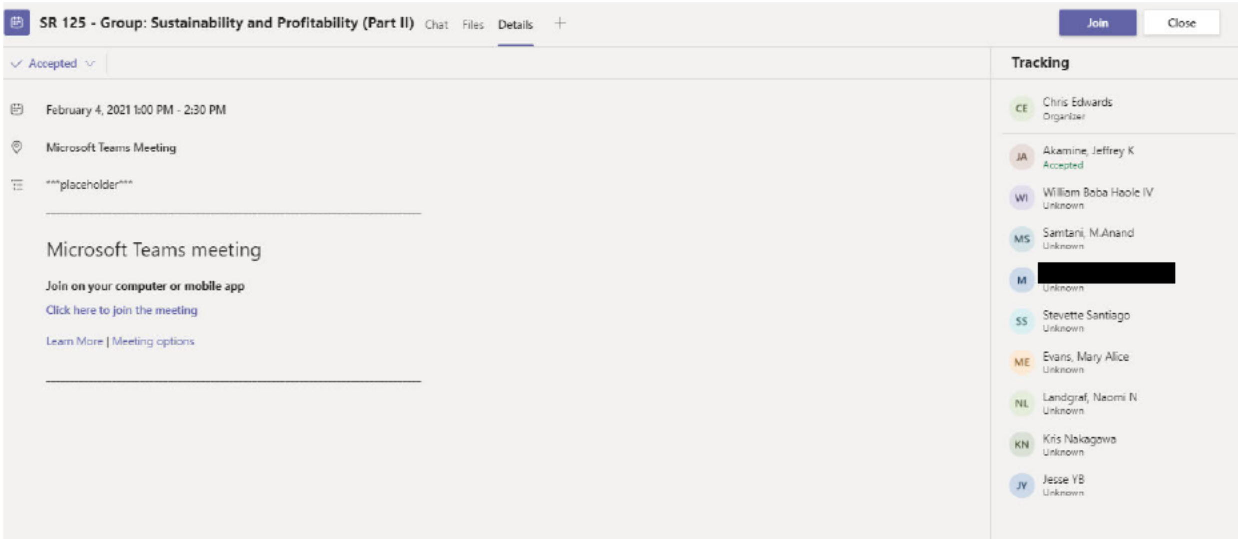
Added (2/4) Needs emails for attendees

- David Veltri [redacted]
- Zachary Harris [redacted]
- Corey Robertson [redacted]

Agenda:

1) Review last meetings discussion
2) Continue fleshing out current situation and identifying paths forward
3)

Attendees



[redacted]

Mary: Review of last weeks meeting

Chris Edwards: we talked about a profitability concept and how that relates to an independent financial outlook from lenders and parent company.

Jeff: Would utilizing smaller barges to specialize in the low volume shipments and the least profitable routes help, maybe something focusing with roll on and roll off capability because reduction of Cargo touches was discussed.

Jesse: At Kaumalapau, Lana'i part of that strategy is already being used with AMS 250, KRS 286 roll on roll off capability smaller barges specifically to serve the smaller shipments to Molokai and Lanai.

Mary: History of supplementing unprofitable routes by balancing the costs by offsetting with profitable routes.

Chris Edwards: Filed for rate increases in 2018, cost increased but during those years it did not incrementally increase and the current ask is a catchup for the last five years.

Mary: Did Matson and Pasha have a rate increase?

Chris Edwards: Generally, Matson and Pasha have been able to have rate increases about 20% over the last 5 years:

Zachary Harris: On average matson and pasha have been increasing rates 5-6.5% annually, for variable costs, fixed inflationary increases, labor related costs. Union related and labor related contractual costs have been increasing by 3% each year. YBs costs is about 70% for labor, and it was footed mostly by AFRA. Similar to HECO we need something like the RAM adjustments they use.

Kris Nakagawa: Matson and Pasha have the flexibility to increase their rates,

Jesse: Does labor costs include the equipment used as well? Tugs, etc.

Chris Edwards: No, those are separate line item costs.

Chris Edwards entered fact correction email 2/9/2021:

The information presented in YB's rate case, and the union labor (IBU/ILWU) and related costs are approximately 60% instead of the 70% mentioned in the meeting. In Docket No. 2019-0117, page 31 of 48 in the direct testimony of Chris Edwards (YB T-7) shows total labor as 59.1% of total operating expenses.

Here's the table:

Operating Expense Summary (in 000's)	2017 Actual	2018 Actual	2019 Forecast	2020 Budget
Total Labor [A]	$ 47,214	$ 55,055	$ 57,598	$ 62,499
Total Non-Labor [B]	41,809	48,621	46,427	43,241
Total Operating Expense	$ 89,023	$ 103,676	$ 104,025	$ 105,740
Labor Ratios				
Labor as % of Total Operating Expense	53.0%	53.1%	55.4%	59.1%

NOTES

A - Labor is comprised of Wages, Payroll Taxes, and Contributions, Welfare Plans expense for Cargo Handling, Maintenance and Voyage.

B - Non-Labor equals total Cargo Handling, Maintenance & Voyage expense less Labor.

The intent was to highlight that Young Brothers is inherently different from HECO regarding its cost structure.

While HECO has other types of fixed costs (generation, transmission, distribution) that outweigh labor costs, Young Brothers is a labor intensive company with a limited amount of fixed costs, comparatively. This is especially true when the administrative and general labor costs are included, which would increase the overall labor costs to approximately 66% of total operating expenses (page 34 of the testimony shows the A&G wages, payroll tax & fringe amount).

** missing discussion pieces

Naomi: To clarify, is YB stating that out of the 70% cost the ILWU associated fees and contracts as the lowest cost on the totem pole?

Kris Nakagawa: 20 years ago were able to use most profitable routes to help least profitable right now we are giving IAP 30% of income and also subsidizing local producers to send inter-island Island Ag Products. Young Brothers have been keeping the marketplace going

David Veltri: To clarify the customers of Young Brothers have been creating the environment and providing the subsidy to create this system

Mary: Would an unregulated market allow Young Brothers to stay in business?

Chris Edwards: One of the models was run was to charge market prices for LCL. The pricing is so cheap for Young Brothers for LCL that customers are willing to line up for hours waiting to get cargo on barges

Anand: What would be price differential for market price vs PUC regulated price for LCL?

Chris Edwards: It would cost $60 to ship a dryer with Young Brothers whereas other services cost $120. But YB would have to perform a full survey for items.

Jesse: What type of increases would market price increases include? If you implemented that to make YB affordable.

Chris Edwards: across the board the reduction of volume is hurting Pac lines and freight forwarding required a 20% shipping rate increase to stay afloat for Stop and Transit (SIT)

Mary: Pahsha and Matson can only forward items from the mainland. Do local businesses have the option to transport goods grown or built in Hawaii to use Matson and Pasha?

Kris Nakagawa: They are supposed to use only young brothers for goods made in Hawaii

Mary: If it is not able to be policed does that mean local producers have been shipping full containers and going around YB?

Chris Edwards: No not necessarily, we are mostly looking at Big Box stores like Costco and Home Depot. In Hawaii

Mary: Is this a fair statement? That the changes in the market and changes in the economy have contributed to the decline in YB in the last 20 years?

Chris Edwards: Yes.

Mary: Is it possible from a regulation side to help contribute to bringing YB back to profitability

Anand: Yes, there is. Looking at the 70% labor cost which is looked at as a fixed cost there isn't a lot that can be done. But the variable costs is where we can potentially look toward for savings opportunities.

Chris Edwards: Under a market environment with similar volumes to pre-covid times with tourism in full swing it was profitable because the system that was built and maintained to keep consistent arrivals and loading. (The system was tuned for a specific flow of goods, if something is done to tune it for the current flow who is to say that when we return to previous volumes that it then would make even more shortfalls).

Mary: (missed, convo)

Chris Edwards: synopsis(it is like a conveyor belt system) cannot really treat a barge or port as a standalone system because when one vessel finishes loading the port has to prep for the next arrival offloading and so on to make that vessel ready for its loading and next sailing, this is especially true for Oahu. {recorder's side note: is this consistent across all islands?}

Chris Edwards: YB benefits from an imperfect little monopoly on unprofitable cargo,

Mary: Didn't one of the mainland carriers have approval to move Hawaii goods?

Group Answer: Pasha had a temporary approval to move goods until 2013. Reference docket 2009-0059, during which Young Brothers acted as Intervenor to Pasha's Hawaii Transport Lines LLC division.

https://dms.puc.hawaii.gov/dms/index.jsp search for 2009-0059

Mary Evans: Is pasha and Matson regulated by the Freight Maritime Commission (FMC) or some other entity to operate?

Kris Nakagawa: Matson and Pasha have Freight Traiff 60 that is regulating {this is what allows them to ship mainland originating goods between islands and potentially ship LCL generated by freight forwarders and moving companies for residential customers specifically addressing cargo between Honolulu, and the ports of the islands of Hawaii, Maui and Kauai.}

Matson Navigation v. Hawaii Pub. Util. Com'n, 742 F. Supp. 1468 (D. Haw. 1990) :: Justia

In summary:

Chris Edwards: What is our deliverable to the larger group?

Mary Evans: Have to check in

Unspecified attendee: Rate adjustments and rate making

Jesse: To answer Jeffs question regarding the conveyor belt, there are other group meetings taking a specific look at operations to improve what can be changed without affecting reliable time tables and consistent schedules.

Jeff: Maybe create a specific list of items that YB is being asked to transport at a loss and make a list to suggest to the legislature to subsidize those specific producers and goods to go along with allowing YB to charge Market Rate for transporting those goods.

Chris Edwards: There is a lot of information that YB has available on the goods being shipped between Islands.