

PUC Water Carriers Working Group Meeting

January 21, 2021, 1:00 – 3:30 p.m.

(Virtual Meeting via Zoom)

Meeting Attendees (in alphabetical order)

P = Present; A= Absent

	Name	Title	Company
P	Jay Ana	President	Young Brothers, LLC
P	Vic Angoco	SVP	Matson Navigation Company, Inc.
P	Jesse Andrade	ILWU Member/Unit 4209 Chair	International Longshore and Warehouse Union, Local 142
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	Rick Blangiardi	Mayor	City and County of Honolulu
P	Michael Caswell	SVP	Pasha Stevedoring & Terminals L.P.
A	Catherine Awakuni Colón	Director	Department of Commerce and Consumer Affairs
P	Derek J. Chow	Deputy Director	Department of Transportation, Harbors Division
P	Stacy Crivello	Community Liaison	Maui County Mayor's Office
A	Michael Dahilig	Managing Director	Kauai County – Office of the Mayor
P	Christopher Edwards	Director of Finance	Young Brothers, LLC
P	Mary Alice Evans	Director, Office of Planning	Department of Business, Economic Development & Tourism
A	James P. Griffin	Chair	Public Utilities Commission
A	Matthew Gonser	Chief Resiliency Officer/Director	City and County of Honolulu – Mayor's Office of Climate Change, Sustainability and Resiliency (CCSR)
P	Randy Grune (for Mike Caswell)	PASHA Managing Director	Hawaii Stevedores, Inc.

P	William “Baba” Haole IV	Division Director of Hawaii Longshore Division	International Longshore and Warehouse Union, Local 142
P	Steven Hunt	Deputy Finance Director	Hawaii County
P	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
P	Gilbert S.C. Keith-Agaran	Senator	Senate District 5 / Senate President designee
A	Mitch Roth	Mayor	County of Hawaii
P	Keith Kiyotoki	Manager of Sales and Marketing	Young Brothers LLC
P	Chris Lee	Senator	Senate District 25/Chair, Senate Committee on Transportation
P	Chris Martin	Director of Operations	Young Brothers LLC
A	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
A	Dean Nishina	Executive Director / Consumer Advocate	Department of Commerce & Consumer Affairs – Division of Consumer Advocacy
P	Dori Palcovich (for Mike McCartney)	Administrator for the Small Business Regulatory Review Board	Department of Business, Economic Development & Tourism
A	Jennifer M. Potter	Commissioner	Public Utilities Commission
A	Fred Robins for Baba Haole		ILWU
P	Stevette Santiago	Director of HR	Young Brothers LLC
P	Phyllis Shimabukuro-Geiser	Chairperson	Department of Agriculture

A	Michael P. Victorino	Mayor	Maui County
P	Mike Victorino, Jr.		ILWU
	Public Utilities Commission Staff		
P	Jeffrey Akamine	Engineer	Public Utilities Commission
P	Jodi Endo Chai	Executive Officer	Public Utilities Commission
P	Michael Chapman	Economist	Public Utilities Commission
P	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
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

Happy New Year! Leo welcomed attendees to the sixth meeting of the Water Carriers Working Group (WCWG).

He shared that the group had a full agenda today. Some regular attendees may be busy since the Legislative session started yesterday.

He introduced one person who will be joining the group:

- From the C&C of Honolulu, Matt Gonser, who is the New Chief Resiliency Officer from the City and County's Office of Climate Change and Resilience. He will be representing Mayor Blangiardi.

Housekeeping

Group Memory

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

Comments on Force Field Analysis

Donna asked if there were any items in the Force Field Analysis that were egregiously misclustered. None were identified by the group. She then asked if there were any questions about the comments that were added to the group memory after the session. None were identified by the group.

C: In the Worst Case Scenario, p. 12. Regarding 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.

This is true in a sense and not true in a sense. What isn't true – food production will decrease. There are more farmers growing food now than at any other period. Many small scale farmers. There are more types of commodities and more production of food that is being sent outbound. What is true – they won't be able to afford to ship to markets is true.

C: I want to respond to the ~~earlier~~ point about the Worst Case Scenario. That comment is not to say there isn't more farming activity on the neighbor islands. It was to describe a worst case scenario if YB went out of business and if Matson and Pasha did not fill in with service to Molokai and Lanai. In that scenario, it would hamper famers on those islands from shipping their produce and livestock to Oahu.

Low Hanging Actions

Donna asked if any of the participants had any “low hanging fruit” items to offer, something that might be started on right away?

Q&A

Q = Question, A = Answer, C = Comment

C: Low-hanging fruit. The broad one I think of is the creation of a commercial port authority. Was introduced in the legislative session last year but didn't go anywhere. That can answer the questions about how LCL is regulated or not regulated and about non-compensatory routes, particularly Molokai and Lanai.

Currently, the state DOT manages all of the commercial harbors. They are a landlord port – folks rent space from the state to conduct their operations. State manages the land and infrastructure – sets leases and tariffs. We use money to perform maintenance on that property. This authority may have some of those same types of red tape but could streamline a lot of it if the Legislature gives the authority those responsibilities.

The biggest thing is that the rate that the shippers charge others is set by PUC. If there was a commercial port authority, it could regulate the rates as a body that is familiar with maritime regulations.

Q: Are you suggesting legislation get re-introduced in this session?

A: Yes, the Legislature could make it happen.

C: On the bill introduced last year, ILWU worked hard to dismantle it. The PUC sets the rates now and the public has an opportunity to voice opinions and speak to the rates that get set. When you have a Port Authority set rates, they might be higher than what the customer is currently paying. Especially on the neighbor islands.

Q: Donna – Are these low-hanging enough? Can they be done ~~more immediately~~ in the near term or are they medium-term solutions?

A: It depends on what part. In the Port Authority example, the legislation itself could be low hanging fruit, but how you set it up in terms of getting the bill passed, that takes time. Minimum 2 years.

Q: Donna: Derek – would you like to be the champion on this item? If so, I'll get you some volunteers.

A: Derek - I'm interested in this topic, but I'm not sure if it's appropriate for me in DOT to be the advocate for this.

C: Regarding creating a maritime authority. The Hawaii Island farmers continue to have issues. For example, that the rates are set and controlled by PUC and by statute. I can see the merit in Derek's suggestion. There might also be other options. It also could be at a time when the Legislature feels we should give more authority to the Harbors Division and the State. You still have to go through rule making. It seems like the growers and farmers out there are looking at transparency. They can't get to Honolulu to make their claims to the PUC. We shouldn't overlook other options if they're out there.

C: Donna – this issue could be narrowly defined, or it could be the work of this whole group. It depends on how we approach it. One of the reasons Derek raised this is not about controlling the rates but making it a more efficient process and where they apply them for efficiency.

C: You don't have to copy other maritime authority in other states. You can determine what the parameters are.

C: I can understand Derek's proposal, but it seems like this isn't a low hanging fruit. We're tied to the PUC and that's law. The process to move us from there, I'm not sure it's something we can do immediately.

C: Donna – I'm hearing that we can identify it as a potential option to consider but it might be more of a medium- or long-range item.

Q: Lorraine – was it Pasha or Matson that used to do cargo handling/shipments to the neighbor islands before the PUC got involved? At that point in time before PUC was given authority to set rates, how was rate setting done?

A: This gets back to our original presentation. The PUC charter has been in place for 30 years. There has been oversight for over 30-40 years.

Q: So, the rate structure was always governed by the PUC?

A: Yes.

C: Another possible low hanging fruit item would be to review current rate design and address less profitable rates and ports. We currently have an open docket. Look at compensatory and non-compensatory routes. There's a process that's already in the works with PUC. In some way, shape or form there will be a result.

A: Leo – the dockets have their time. We have to go through a process. We're already in that process. I'm not sure we could accelerate the process. A recommendation could be to look at the timeframe and recommend a timeframe that would be more optimal. By law, we have to do certain things. If we reduce the time we have, the Commission ends up having less time to work on decisions and can't get all the input from various parties.

Q: We're in this situation because of YB's financial situation – it's bleak. We're trying to bail out an entity. The customer is picking up the loss of revenue. Are there any other times in history this has happened?

A: As far as I know, no, it hasn't happened before.

C: That's the situation our farmers are facing. They're saying that the process we're undertaking in the WCWG is not going to result in anything unless it results in legislation.

A: This task force has always been looking at the mid-to long-term solutions. Any low hanging fruit could be a step towards the medium- to long-term solutions.

C: In my role, I know there is not any money to give out – no CIPs etc. But we can do things to get the economy moving. Some folks on Hawaii Island are looking at expansion beyond Hawaii. KTA Superstores is considering going beyond Hawaii Island. How are we going to create Meadow Gold products and get them to neighbor islands? How are we going to create economic viability so that business thrives, jobs are created, and we have a good transportation system?

C: Everyone is hurting right now, no doubt. The WCWG is tasked with looking at medium- and long-term activities and has been asked to be thoughtful about them. When we do short-term fixes, we often create unintended consequences that are worse than the original situation. We don't have the resources to fix any new problems right now.

Priority Issues Resulting from Force Field Analysis

Andrew shared a short slide presentation of the high priority items from the Force Field Analysis that were submitted by the WCWG participants.

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; 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 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.



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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).



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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 KCT operational ASAP.
 - A dynamic carrier website or phone app for scheduling rates that are updated hourly.
- Restraining Forces
 - The need to service the broad customer needs create creates inefficiency and development of a niche.
 - Mandated rates may be inherently inefficient.
 - Availability of scheduled shipments for specific items.



6

1/21/2021

Desired Future 6

- Use of Available space on piers is optimized
- Supporting Forces
 - Make KCT operational ASAP.
 - 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.



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The following discussion occurred in response to the high priority items. The items highlighted in blue were the agreed upon high priority items.

Q = Question, A = Answer, C = Comment

C: Rates is going to be a complex subject. Whether they are regulated by the PUC or a Port Authority in the future. I'm thinking about two aspects - one is sustainability of a statewide

route (some routes will be less profitable); the second is the potential to set rates on a priority basis. Could we look at having luxury goods pay a disproportionate rate and lower rate charged for agriculture to maintain routes that are not necessarily profitable to the water carriers, but are a priority for agriculture folks? Maybe the pricing structure needs to be adjusted. Luxury goods pay the premium to subsidize what we consider high priority goods to be shipped.

Can we call this item **Predictable, Incremental Rate Adjustments**? It would be about prioritizing types of products for lower rates that we need to have be more widely available. If we want to be less reliant on food from mainland, then we can consider preferential rates for agriculture items.

C: It would have to be incremental. It's tied to CPIU. In collective bargaining, or adjusting COLA, this might be challenging. But maybe if it were changed incrementally over 5 years.

Q: Can we have a larger category called **Rates**?

A: Yes, we can.

At this point Donna suggested that the group continue to identify items from the FFA that describe what we want to have in the future – likely from the Desired State portion of the conversation. Some of the supporting/restraining forces are listed, but there are likely others as well. After we've identified those, we will get into small groups and at minimum:

- Share contact information (e.g., email and phone numbers)
- Determine date and time of first meeting
- Identify person willing to host the first and subsequent small group meetings
- If time permits, identify a potential focus for the work of this group

Donna mentioned that the plan is to skip the February meeting so that the small groups can meet multiple times. Each group will come back to the larger group with a proposal, including a goal and strategies that can be used to achieve the goal. Also, potential barriers that might prevent us from achieving the goal.

The discussion continued.

Q: Shippers – what about tax credits allowed by the Legislature? Other opportunities to look at the agriculture industry/sector.

C: Reservations; availability of scheduled shipping for a commodity. Making reservations for special islands. (Can go under # 5 desired future)

C: It's the tail wagging the dog. A byproduct of everything you've done in terms of CS and fixed/controllable costs. We should ask what do we need to provide these routes, this volume of services, etc. to make the entity sustainable over time?

C: What about an item called **Other options for subsidizing shipping**?

C: And an item called **Clarity about Cargo?**

- What cargo shows up where – a system where people can make reservations/schedule with confidence
- Consumers to know what's available and when
- Creating a reservation system that requires commitment from the carrier and the customer
- A potential restraining forces might be mandated rates or routes. We can consider fixing routes, not just rates.

C: What about an item called **Sustainability and profitability of carriers?**

C: And an item called **Use of Available Space on Piers?**

C: Can we add an item called **Service?** This would be about adjustments to gate hours and LCL drop off and pick up times, etc. I'm wondering if we could have a small group that would focus on this. It is likely low hanging fruit, in the short- and medium-term.

The agreed upon priority items were shared back with the group and small group breakout rooms were created for each so that WCWG members could participate in one or more priority item conversation. Although some of the WCWG members identified multiple interest areas, Donna asked group members to select their top priority group to participate with for the purpose of the discussion at this meeting and to designate a representative to be part of the other small groups. Depending on when future small group meetings occur, folks who want to be part of more than one may be able to. Every small group will have a PUC representative.

Leo: After the small groups meet, we'll come back to the large group before the end of the meeting so we can debrief together. We want to make sure we know when the meetings will be happening.

The WCWG members moved into breakout rooms by selected priority items.

Large Group Debrief

The small groups and members are as listed below:

1. **Rates** – Sen. Inouye, Jay A., Jesse, Baba, Stacy, Steven H., Kris N., and Chris E.; PUC – Carolyn, Layla, Steven I.
 - **Date and time of first meeting:** Friday, January 29, 8:30 to 10 a.m.
 - **Host of small group meetings:** Tammy from Sen. Inouye's office

2. **Other options for subsidizing shipping** – Stacy, Baba, Derek, Matthew/Phyllis, Sen. Inouye, Jay A., Sen. Lee; PUC – Michael C.
 - **Date and time of first meeting:** February 3, 9:30 to 10:30 a.m.
 - **Host of small group meetings:** Michael C. will send invite via Andrew's Zoom.
3. **Clarity about Cargo** – Jay A., Dori, Steven H., Baba, Keith K.; PUC - Naomi
 - **Date and time of first meeting:** January 28, 10 to 11 a.m.
 - **Host of small group meetings:** Dori will be hosting
4. **Sustainability and Profitability of Carriers Group** – Derek, Jay A., Jesse, Mary Alice, Chris E., Stevette, Mike V.; PUC – Jeffrey
 - **Date and time of first meeting:** January 28, 10 to 11 a.m.
 - **Host of small group meetings:** Chris E.
5. **Use of Available Space on Piers** – Jay A., Nelisa (volunteering Vic), Baba, Derek, Chris M.; PUC - Gina
 - **Date and time of first meeting:** January 29, 2:30 to 3:00 p.m.
 - **Host of small group meetings:** Gina coordinated, invite via Andrew's Zoom.
6. **Service (Internal to YB)** – Jesse, Mike V., Jay A. – does not need to meet in small group today since the group is already connected.

Next Steps

- Please get the names and contact information for your group to Jennifer for the Working Group files.
- The planning team will develop a template for the status report at our March meeting. Please keep the larger group abreast of what's happening and get feedback from others (e.g. potential restraining forces that you want to take into consideration).
- The next meeting will be on March 18.

GROUP AGREEMENTS:

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

ACTIONS:

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