

October 31, 2013

Dear Valued Customer,

Re: 5.5 Percent Freight Rate Increase under New Ratemaking Process

In February 2013, Young Brothers filed an application with the Hawaii Public Utilities Commission (*PUC*) for approval of a three-year pilot program that would complement the traditional general rate case process. The PUC recently approved this new process for ratemaking. This process, known as the Annual Freight Rate Adjustment or *AFRA*, limits Young Brothers to one annual rate increase or decrease capped at 5.5 percent, based on a formula approved by the PUC.

For 2013, Young Brothers has filed for a 5.5 percent across-the-board rate increase under the AFRA pilot program, based on the formula described in the enclosure. The requested effective date of this rate increase is November 29, 2013. This will be the first increase to Young Brothers' freight rates in nearly two years.

We hope that the enclosure will be helpful in addressing any questions you may have.

Sincerely,

/s/ Matthew J. Humphrey
Matthew J. Humphrey
Vice President and General Manager

**YOUNG BROTHERS' ANNUAL FREIGHT RATE ADJUSTMENT
FREQUENTLY ASKED QUESTIONS
October 2013**

Q: What is the "Annual Freight Rate Adjustment" (AFRA)?

A: AFRA is a three-year pilot program, which seeks to make the ratemaking process streamlined and predictable and contemplates rate adjustments (capped at 5.5 percent upward or downward) at the end of November in 2013 and 2014, followed by a general rate case in 2015.

Q: What are the goals of the AFRA process?

A: The goals of AFRA include (1) avoiding volatility and dramatic jumps in freight rates for our customers, (2) spreading incremental rate adjustments over time to support capital investment vital to sustaining customer service levels and (3) increasing ratemaking efficiency and responsiveness to current economic conditions. AFRA seeks to achieve these goals by, among other things, capping any rate adjustments, upward or downward, at 5.5 percent in 2013 and 2014 and utilizing a streamlined and predictable ratemaking process that supports planning and investment.

Q: How would AFRA work?

A: AFRA complements the traditional general rate case process. Under the pilot program, a general rate case and two AFRA filings would be part of a three-year cycle in which rates are approved by the PUC.

Under the three-year pilot program:

1. Rates established in traditional general rate case in December 2011. The PUC's decision and order issued in December 2011 in Young Brothers' last general rate case established our current rates. These rates were established based upon (1) capital investment in intra-state operations (known as rate base), (2) a PUC-authorized rate of return on this investment, (3) projected revenues (based on projected cargo volumes), and (4) projected operating expenses.
2. Rate adjustment in November 2013. Under the AFRA formula, rates will be adjusted based upon (a) the adjustment of projected 2011 general rate case revenue to reflect actual prior year's (2012) revenue (based on actual cargo volumes) and (b) the adjustment of (previously approved) projected operating expenses by an inflation factor or, in the case of labor expenses, as adjusted by an update to current salary or hourly rates, reduced by a productivity offset.

Applying the AFRA formula, YB would require a rate increase of more than 5.5 percent in 2013; however, with the AFRA caps, YB's requested rate increase is 5.5 percent.

3. Rate adjustment in November 2014. Rates will again be adjusted in 2014 based on the same AFRA formula and the same AFRA caps.
4. Traditional general rate case with a target completion date of November 2015. In 2015, YB will file a traditional general rate case application to set rates with a target effective date on or near November 29, 2015.

Q: What will be the effective date of the rate adjustment under AFRA in 2013?

A: YB has filed an AFRA notice of a 5.5 percent increase based on the formula described above. The requested effective date for this rate increase is November 29, 2013.

Under the AFRA process, YB plans to seek future rate adjustments to be effective no earlier than November 29th of each year, subject, of course, to PUC approval.

Q: Could rates go down under AFRA?

A: Yes. Under the AFRA pilot program, much of the AFRA adjustment would be accounted for by actual cargo volumes. Rates could be adjusted downward if cargo volumes exceed the cargo volume projections upon which rates are, in part, based and the resulting increased revenue exceeds the adjustment to expenses. As noted, any rate adjustment under AFRA, whether up or down, would be capped at 5.5 percent.