

November 7, 2014

RE: 2.21 Percent Freight Rate Increase under AFRA Ratemaking Process

Dear Valued Customer:

On October 15, 2014, Young Brothers requested approval from the Hawai`i Public Utilities Commission (the *PUC*) to implement, effective November 29, 2014, its **annual freight rate adjustment, or AFRA, of 2.21 percent**, to be applied, across-the-board, to all freight charges for all ports served by Young Brothers. Approved by the PUC in 2013 as a three-year pilot program, AFRA is a new and more efficient process for ratemaking. Under the AFRA pilot program, Young Brothers is limited to one annual rate increase or decrease capped at 5.5 percent, based on a formula approved by the PUC and described in the enclosure.

In 2013, Young Brothers implemented a 5.5 percent across-the-board rate increase under the AFRA pilot program. Young Brothers' current AFRA filing seeks an increase of 2.21 percent, to be effective on November 29, 2014—one year after its 2013 AFRA.

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 PILOT PROGRAM
FREQUENTLY ASKED QUESTIONS
November 2014

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

A: AFRA is a three-year pilot program approved by the Hawai'i State Public Utilities Commission (the PUC) in 2013. The AFRA pilot program 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. At the end of the three-year pilot, the PUC will determine if AFRA should continue to be implemented in order to adjust Young Brothers' freight rates regularly, fairly, and efficiently.

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 sustain customer service levels by supporting capital investment, 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 customer service, 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. Base rates established in traditional general rate case in December 2011. The PUC's decision issued in December 2011 in Young Brothers' last general rate case established the base rates for AFRA (*AFRA base rates*).
2. Rate adjustment in November 2013. Under the AFRA ratemaking formula, rates were increased in 2013. The AFRA base rates were adjusted to reflect (a) actual prior year's (2012) revenue (based on actual 2012 cargo volumes) and (b) application of an inflation factor to certain (but not all) operating expenses or, in the case of labor expenses, updated salary or hourly rates, reduced by a productivity offset as ordered by the PUC.

Applying the AFRA formula, YB would have required a rate increase of more than 5.5 percent in 2013; however, with the AFRA caps, YB's requested annual rate increase was limited to 5.5 percent.

3. Rate adjustment in November 2014. Based on the same AFRA formula and the same AFRA caps, YB seeks a rate adjustment of 2.21 percent for 2014.
4. New AFRA base rates to be set in November 2015 in a traditional general rate case. 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. If the PUC continues AFRA beyond the pilot program, these rates will become the new base rates for the next set of AFRA filings.

Q: What will be the effective date of the rate adjustment under AFRA in 2014?

A: YB has requested an increase of 2.21 percent under AFRA based on the formula described above. The requested effective date for this rate increase is November 29, 2014.

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