



October 20, 2022

Port of Alaska Commission  
2000 Anchorage Port Road  
Anchorage, Alaska 99501

Dear Commissioners:

We appreciate the opportunity to continue to engage the Port Commission on the proposed tariff in support of the Port of Alaska Modernization Program (PAMP).

As you prepare for the upcoming meeting on October 24, 2022, I wanted to recap my comments from your last meeting on September 28, 2022.

During my presentation, I made four basic points for the Commission's consideration. They are:

**1. TOTE is all-in serving Alaskans**

TOTE is part of the Saltchuk family of companies. It is a second-generation, family-owned business that has reliably served Alaska since 1975. TOTE, combined with its other sister companies, directly employs nearly 1,000 people in Alaska and has invested close to \$1 billion in fixed assets in Alaska. TOTE donates more than \$2 million annually to non-profits in Alaska and Washington and contributes another \$2 million in in-kind shipping for non-profits, such as the Food Bank of Alaska. TOTE has been "all in" serving Alaska for nearly 50 years and that commitment remains in place as we continue to invest in people and assets for today and into the future.

**2. Alaska is a unique market that needs roll-on/roll-off (RoRo) service**

Many of Alaska's key industries, like oil and gas, mining, and tourism, as well as essential services including the military, public transportation, and school districts, need large, out-of-gauge equipment and materials. These items cannot fit into standard 45-foot containers. In the Lower 48, this type of cargo is normally delivered over the road. Here, in Alaska, our RoRo vessels are the most reliable and cost-effective solution. TOTE's uniquely designed vessels essentially extend the Lower 48 road system to Alaska. Furthermore, TOTE's specialized Orca Class vessels have the flexibility to carry dry and refrigerated trailers, as well as an assortment of cars, trucks, RVs, buses, military vehicles, and large industrial equipment. Without TOTE's RoRo service to regularly transport these items, they would be transported by seasonal barge service or over-the-road from the Lower 48 through Canada, resulting in significantly slower service and higher transportation costs.

These facts underscore the reason why the Port needs a dedicated RoRo terminal. RoRo's are essential to serving the backbone of Alaska's economy and are not "unicorns" as some have suggested. We trust that the Port and this Commission recognize this fact and will continue to

foster and support the conditions to enable regular RoRo service to remain viable at the Port of Alaska.

### **3. Finalize the design and determine the costs before voting on a tariff**

TOTE met recently with the Mayor’s Chief of Staff and Deputy Municipal Manager, who told us they will not propose a tariff for adoption until the design of the new cargo terminals is finalized. And, as we understand it, the design advisory board is not voting on final design parameters until December. The Administration’s sequencing makes good sense, because you must first have a design before you can project a cost – and cost is, of course, a key input in developing a tariff.

We also know from discussions with the Port Director that the Port currently has sufficient funds to complete the design and permitting work. We also know that there is nothing that legally obligates the Municipality to implement the proposed tariff in January 2021. While TOTE appreciates the sense of urgency to proceed and is fully committed to the modernization project, it urges this Commission to support a thoughtful approach. Now is the time for the Port Commission, Municipality, Assembly, and port users to work together to develop consensus on a path forward that everyone can support.

We view a fair and sustainable solution to this issue as one that: (1) addresses essential needs, (2) manages project costs to protect Alaska shippers and consumers, and (3) maintains competition among port users.

#### *Addresses essential needs*

One of the most important issues is structuring a tariff that fairly and equitably supports the construction of two separate and distinct terminals that share a common berthing line; one that can support RoRo operations and one that can support load-on/load-off (“LoLo”) operations. While we all want the tariff to be at the lowest reasonable cost to minimize the impact to Alaska shippers and their customers, we also want a tariff structure that does not inadvertently disrupt competitive markets and harm consumers.

#### *Manages project costs to protect consumers*

We have been presented with a suite of PAMP projects that have an estimated \$1.8 billion price tag that will have to be covered with a combination of third-party funding and debt financing, i.e., tariffs that will be absorbed by Alaska’s shippers.

When implementing a new tariff, we must distinguish what is considered replacement work from what is considered expansion work. More specifically, there is a difference between replacing the corroded pilings within the existing footprint of the cargo terminals and expanding the existing footprint to accommodate new capabilities. The most recent plan proposes to expand the LoLo terminal by 86% to accommodate 100-gauge cranes – cranes almost three times the size of the existing 38-gauge cranes. Meanwhile, that same plan proposes to expand the RoRo terminal by only 11%.

Our view is that the cost of the expansion work should be treated separately. In other words, Matson should pay for the expansion related costs from which it will benefit as a LoLo user, and TOTE should pay for those benefits from which it will derive as a RoRo user. For example, we know if the port was in good shape and the piles did not need to be replaced, a user who wanted

to increase its dock space by 86% to accommodate 100-gauge cranes would pay for that improvement itself as TOTE did in 2002 when it paid to have a larger over-the-water footprint to accommodate its new class of vessels. This same approach to expansion work should be applied here.

#### *Maintaining competition amongst carriers*

There are several important reasons to separate expansion costs from improvement costs. First is to keep the Port from putting its hand on the scale of competition. As TOTE has expressed in prior communications, we have a distinctly different operating model from Matson – one with vastly dissimilar waterside and land-side costs.

TOTE's water-side costs are much higher than Matson's because we have less cargo density within the RoRo model and operate faster ships, which leads to higher waterside capital and operational expenses than a container ship. These expenses are balanced by dramatically lower land-side costs than Matson. Taken together, the Port of Alaska benefits from healthy competition between the two carriers to deliver the best value to the consumer.

Requiring one port user to subsidize the costs of enhancements from which it will not derive any benefit – but another port user does – distorts market forces. This is especially true in a case where the expansion costs exceed what is needed to serve the market and make only one port user more efficient. This approach only ends up hurting TOTE and its shippers, who are left to bear the costs associated with assets and infrastructure for a terminal they do not use.

Another reason for the Port to separate expansion costs is because this approach is consistent with that taken by most of the ports around the country. This was the finding of an international transportation consulting firm, Mercator International, LLC, that was commissioned to perform a comparative analysis of tariffs between RoRo and LoLo operations at ports throughout the country, including the nation's three busiest ports – Port of Los Angeles, Port of Long Beach, and Port of New Jersey and New York – as well as domestic maritime ports in Washington, Florida, Hawaii, and Puerto Rico to name a few. Based on their findings, which are consistent with how RoRo and LoLo rates are administered at other ports, the "beneficiary pays" model is essentially standard.

For example, the public tariff in Seattle/Tacoma for RoRo is \$22/standard unit compared to \$125/standard unit for LoLo. That's because, as Mercator concluded, "... *the infrastructure required for RoRo is less involved and less costly, and therefore calls for a lower tariff.*"

A copy of the Mercator International report is attached for your reference.

#### **Getting this right**

Now is the time for all stakeholders – the Administration, the Assembly, the Port, the port users, and the Commission – to come together in good faith and develop a rational approach that each can support.

We owe it to our fellow Alaskans to get this right. Alignment would enable port users and the Administration to work together to seek more funding. Acting prematurely on a surcharge proposal

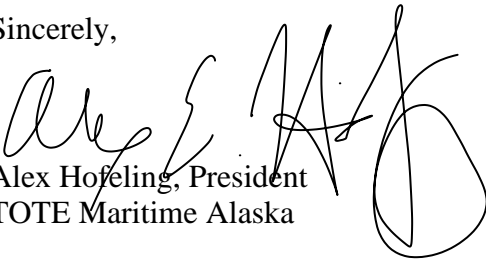
that is not fair or equitable will shift the focus from work that needs to be done, which would likely result in the Assembly sending this proposal back to the Administration.

It is imperative that we work collectively to evaluate a range of reasonable alternatives with supporting analysis from Parrish Blessing and Associates and alternative plans of finance. We must also work to understand how third-party funding and cost-offsets are allocated to the proposed project.

TOTE looks forward to coordinating with other relevant stakeholders to advance this important project and is happy to provide the Commission with any additional information that the Commission believes will be helpful in its deliberations.

Thank you for your consideration of these important issues. Rest assured, TOTE is committed to working with the Port, the Municipality, and other relevant stakeholders to develop a solution that addresses essential needs and treats port users fairly and sustainably so that we can continue serving the needs of Alaska for decades more to come.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alex Hofeling', written over a printed name and title.

Alex Hofeling, President  
TOTE Maritime Alaska

cc: The Honorable Dave Bronson  
Port of Alaska Director Steve Ribuffo