



**THE NORTHWEST  
SEAPORT ALLIANCE**  
Gateway to Solutions

**Item No.:** 5D  
**Date of Meeting:** June 2, 2020

## **Gate Efficiency Program Agreement Amendment – Everport Terminal Services**

Presenter: Dustin Stoker  
Title: Chief Operation Officer

## Action Requested

Request authorization for the Chief Executive Officer or their delegate to amend the Gate Efficiency Program (GEP) with Everport Terminal Services (ETS)

## Background

- **During the 2019 Peak Planning Meeting BCOs forecasted 3-5% growth in container volume during the 2019 peak shipping season**
  - Industry insisted on extend service hours → reliable service levels
- **Gate Efficiency Program (GEP) established in June of 2019 providing \$2M in funds to reimburse Marine Terminal Operators (MTOs) for a portion of actual costs to run additional gate hours**
  - MTOs commit to run extended gates from July 2019 – December 2020
- **Three (3) Tiers of participation available based on commitment level**
- **SSAT Terminal 18 and Everport (ETS) enrolled in the program**
  - Tier 1 = \$600,000 [3 gates during peak and 2 during off peak]
  - Reduced program funds from \$2M to \$1.2M

## Background Continued

- **Tariff situation negatively impacted container volumes June and July of 2019**
- **GEP with SSAT suspended in August 2019 until volumes require additional service hours**
- **COVID-19 has further impacted volumes.**
  - Gateway down 15% | ETS down 17.5%
- **Blank sailings severely impacting ETS. Volumes fluctuate from +7,000 one week to 2,000 in other weeks**
- **ETS Management reluctantly requested an amendment to provide flexibility during low volume weeks**

## Proposed Amendment Details

- 1. Provide flexibility to ETS for the remainder of 2020**
- 2. Allow ETS to fall below the original program terms during low volume weeks**
- 3. ETS commits to running extended gates beyond the original Program Term (current completion date is December 31, 2020) for the same duration of weeks that they fall below the original terms**
  - Example: if ETS drops below for four (4) weeks during the rest of 2020 the GEP commitment would be extended to January 31, 2021*

## Financial Implications

### **Financial Impact:**

The amendment of the GEP with ETS will not have any further financial impact on the NWSA as all funds associated with ETS were expensed in 2019.

*\*Note: SSAT's program is currently suspended. Funds will be expensed when the program is restarted and SSAT incurs the cost to run additional gates per the original GEP (\$405,608.24 remain)*

## Alternatives Considered and Their Implications

- **No Action Alternative:** ETS would be in breach of the agreement and be required to pay back the funds the NWSA reimbursed. In addition, when volumes improve ETS would not be required to run additional gates, decreasing the likelihood that off-hour gates would be offered to the market when most needed.
- **Recommended Action:** Amend the Program Agreement with ETS to allow them flexibility during the current COVID-19 pandemic. This alternative ensures that the NWSA realizes the benefit of the program when most needed by our customers.

## Action Requested

Request authorization for the Chief Executive Officer or their delegate to amend the Gate Efficiency Program (GEP) with Everport Terminal Services (ETS)

**THE NORTHWEST SEAPORT ALLIANCE**  
**MEMORANDUM**

**MANAGING MEMBERS**  
**ACTION ITEM**

**Item No.** 5D  
**Date of Meeting** June 2, 2020

**DATE:** June 2, 2015  
**TO:** Managing Members  
**FROM:** John Wolfe, CEO  
**Sponsor:** Don Esterbrook, Deputy CEO  
**Project Manager:** Dustin Stoker, Chief Operations Officer  
**SUBJECT:** 1<sup>st</sup> Amendment to the Everport Gate Efficiency Program Agreement

**A. ACTION REQUESTED**

Request Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to amend the Gate Efficiency Program (GEP) with Everport Terminal Services (ETS).

**B. SYNOPSIS**

ETS has been hit particularly hard by the COVID-19 pandemic with year-on-year (YOY) volumes down 17.5%. ETS's average weekly vessel volume is down from over 5000 vessel lifts per week in 2019 to an average of 4000 in 2020. ETS is experiencing large swings in vessel volumes week-to-week. During peak weeks they will have volumes in excess of 7,000 lifts and see only 2,000 lifts during slow weeks. All of this is having a significant negative impact on their operations and financial position.

Staff is seeking Managing Member authorization to amend the Gate Efficiency Program (GEP) with ETS to provide flexibility during the COVID-19 situation. The proposed amendment would allow ETS to drop below the currently required off-hour gates during weeks when volumes are low, for the balance of 2020. ETS would commit to running extended gates beyond the original Program Term (with current completion date of December 31, 2020) for the same duration of weeks that they fall

below the original GEP requirement (e.g., if the program is suspended for four (4) weeks their commitment would be extended four weeks through January 31, 2021).

### **C. BACKGROUND**

During the 2019 Peak Planning Meeting, Beneficial Cargo Owners (BCOs), both Importers and Exporters, forecasted 3-5% growth in container volume for the peak shipping season. To handle the peak volumes the industry insisted on extended service hours at the international container terminal gates to ensure smooth, reliable service to the trucking community. In response to the market, the Managing Members authorized to fund the Gate Efficiency Program (GEP) to expand gate hours at the NWSA's international container terminals in an amount not to exceed \$2,000,000. The Program funds were authorized to reimburse Marine Terminal Operators (MTOs) for a portion of their actual cost incurred to provide extended gate service hours. In return, MTOs committed to run additional gate hours (based on GEP Tier Level) through the end of 2020. The following tier options were available through the program.

**Tier 1:** MTOs will be required to run three (3) off-hour gates per week during the peak shipping season in 2019 and 2020 (July – December) and two (2) off-hour gate per week during the non-peak shipping season (January 2020 – June 2020). Under Tier 1 the NWSA will reimburse each MTO up to a maximum of \$600,000 for actual cost incurred to run additional gates.

**Tier 2:** MTOs will be required to run three (3) off-hour gates per week only during the peak shipping season in 2019 and 2020 (July – December). Under Tier 2 the NWSA will reimburse each MTO up to a maximum of \$300,000 for actual cost incurred to run additional gates.

**Tier 3:** MTOs will be required to run two (2) off-hour gates per week only during the peak shipping season in 2019 and 2020 (July – December). Under Tier 3 the NWSA will reimburse each MTO up to a maximum of \$200,000 for actual cost incurred to run additional gates.

Everport and SSAT Terminal 18 were the only two (2) MTOs that enrolled in the program. Both MTOs chose to participate at the Tier 1 level. Based on the MTO participation level, only \$1.2 million of the authorized \$2,000,000 would be spent.

Although volumes were anticipated to grow during the 2019 peak shipping season, the tariff situation impacted international trade. Year-over-year (YOY) loaded container volumes declined in June and July of 2019. The decrease in volume severely hindered the utilization of SSAT's night gates. Due to the volume decrease, the Managing Members authorized an amendment to the Gate Efficiency Program Agreement with SSAT in August of 2019. The amendment allowed SSAT's program

to be suspended until volumes dictate the need for additional gate service hours. Unfortunately, the volumes have not rebounded and thus the GEP with SSAT remains on hold.

While SSAT suspended their program, ETS proceeded to embrace and support the GEP. Throughout the program they have offered hoot gates in support of their Tier 1 participation level. Even with the sharp decline in volume in Quarter 1 of 2020 they continued to adhere to the program. However, as the COVID-19 pandemic remains, volumes continue to decline. ETS has found it necessary to request an amendment to the GEP as a result of the deteriorating situation.

The proposed amendment to the GEP Agreement with ETS would not suspend the program but provide flexibility for the balance of 2020. The modification would allow ETS to drop below the original GEP requirements for operating off-hour gates during weeks that their volumes are low. In return, ETS commits to running extended gates beyond the original Program Term for the same number of weeks that they fall below the original GEP Tier 1 commitment. For example; if ETS drops below four (4) weeks in 2020 then the GEP commitment would be extended to January 31, 2020.

#### **D. FINANCIAL IMPLICATIONS**

##### ***Financial Impact***

In 2019 the Managing Members authorized \$2 million to fund the original Gate Efficiency Program (GEP). Although \$2 million was authorized only two (2) Terminals, SSAT and ETS signed up as Tier 1 participants. The smaller than projected participation level reduced the program funding requirement to \$1.2 million. With the suspension of the SSAT program as authorized by the Managing Members in August of 2019, only \$794,291.76 (\$600,000 for ETS and \$194,391.76 for SSAT) has been spent.

Funds are dispersed only after the MTO incurs the cost to run extended gates. All funds associated with ETS have been expensed in 2019. Therefore, the amendment of the GEP with ETS will not have any further financial impact on the NWSA as all funds were expensed in 2019.

It should be noted that when SSAT returns to operating extended gates, additional funds of \$405,608.24 will be dispersed after SSAT incurs the costs to run additional gates per the original GEP.

#### **E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS**

- **No Action Alternative:** Under this alternative, ETS would be in breach of the Agreement and be required to pay back the funds the NWSA reimbursed. In

addition, when volumes improve ETS would not be required to run additional gates, decreasing the likelihood that off-hour gates would be offered to the market when most needed.

- **Recommended Action:** Amend the Program Agreement with ETS to allow them flexibility during the current COVID-19 pandemic. This alternative ensures that the NWSA realizes the intended benefit of the program when most needed by our customers.

#### **F. ATTACHMENTS TO THIS REQUEST**

- Computer slide presentation.
- ETS GEP 2019.pdf
- DRAFT – ETS 1<sup>st</sup> Amendment to Gate Efficiency Program

#### **G. PREVIOUS ACTIONS OR BRIEFINGS**

- June 2019 – Authorization to fund the Gate Efficiency Program (GEP)