

**Exhibit No. SS-1T
Docket TS-160479
Witness: Scott Sevall**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In re Application of

MEI NORTHWEST LLC

**For a Certificate of Public Convenience
and Necessity to Operate Vessels in
Furnishing Passenger Ferry Service**

DOCKET TS-160479

TESTIMONY OF

SCOTT SEVALL

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Response Testimony

November 1, 2016

Revised 12-5-16 (clean)

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LIST OF EXHIBITS

Exhibit No. SS-2 Summary Matrix of Steam Boat Certificate Orders
Exhibit No. SS-3 Steam Boat Certificate Order 363-A and Order 364

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Scott Sevall. My business address is the Richard Hemstad Building,
1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
Washington 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission
(Commission) as a Regulatory Analyst. Among other duties, I am responsible for
reviewing tariff and application filings, and making recommendations pertaining to
those filings to the Commission.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since August 2014.

Q. Would you please state your educational and professional background?

A. I hold a Bachelor’s Degree in Business Administration focused in Accounting from
Washington State University. After graduating I worked for the Washington
Department of Ecology performing multiple accounting duties. Previous to
attending Washington State University, I was in the United States Navy from 2001 to
2007. I have also attended the National Association of Regulatory Utility
Commissioners (NARUC) Utility Rate School in 2015.

1 **Q. Have you previously testified before the Commission?**

2 A. No.

3

4 **Q. What topics will you be discussing in your testimony?**

5 A. I will first discuss the fitness of the applicant to receive a certificate of convenience
6 and necessity (certificate) under Washington statute and Commission rules including
7 its financial fitness and wherewithal to provide launch service within its proposed
8 territory. Secondly, I will address allegations by MEI that Arrow Launch has failed
9 to provide adequate service to its customers. Finally, I will discuss MEI's proposal
10 for overlapping certificates.

11

12 **Q. Have you reviewed the application by MEI Northwest for launch service?**

13 A. Yes.

14

15 **Q. Have you prepared exhibits in this docket?**

16 A. Yes. I have prepared two exhibits.

17 • Exhibit No. SS-2 is a Summary Matrix of Steam Boat Certificate (S.B.C.)

18 Orders

19 • Exhibit No. SS-3 is a copy of S.B.C orders 363-A and 364

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II. APPLICATION – REVIEW OF FITNESS

Q. State statute requires a number of things be determined prior to issuing a certificate. One requirement is that the Commission determine that MEI has the financial resources to operate its proposed service for at least 12 months.¹ Did your review include an analysis to determine if the MEI application meets this requirement?

A. Yes. I reviewed the data and pro forma statements provided by the company in its application.

Q. What was your conclusion regarding the applicant’s ability to provide service consistent with the requirements?

A. I concluded that applicant has the financial resources to operate the proposed service for at least 12 months.

Q. Please describe how you arrived at your conclusion.

A. I first considered the assets of the applicant. The company balance sheet filed with its application reflects assets of \$405,000, \$300,000 of which is cash. The remaining assets are support vehicles and equipment equaling \$105,000. MEI’s application also shows two vessels not on the balance sheet that are to be used to provide service. These vessels are owned by MEI’s parent company, Marine Express Incorporated, and will be chartered to MEI.

¹ RCW 81.84.020(2)

1 Based on my review, it is my opinion that the company has both the long-
2 term fixed assets and current working capital required to provide the service level
3 proposed.

4
5 **Q. RCW 81.84.020(2) requires a determination of “ridership and revenue forecasts**
6 **and cost of service.” Did you perform such a review?**

7 A. Yes. I reviewed the company’s estimate of \$500,000 in annual revenue for launch
8 services, in addition to its projection of an additional \$200,000 in non-regulated
9 revenues, and found them reasonable estimates of expected annual revenue for a
10 startup company. I further reviewed the company’s projected \$552,600 in annual
11 expenses and concluded the expenses listed by the company are appropriate for the
12 level of service and the type of business while reflecting costs comparable to other
13 companies providing similar marine services.

14
15 **Q. In your opinion, does the company have the financial ability to provide the**
16 **proposed service for at least 12 months?**

17 A. Yes. With the current cash balance of \$300,000, and with the company’s estimated
18 earnings before taxes and interest of \$147,400, the company has the working capital
19 and liquidity to maintain service for the 12-month period.

20
21 **Q. Experience of the applicant in providing launch service is also important. Did**
22 **you examine the prior history and experience of the applicant?**

1 A. Yes. The applicant's president, Mr. Esch, testifies that its parent company has over
2 30 years of experience in marine services, which includes launch service. Mr. Esch
3 has 15 years of experience in marine services with 10 years as a captain in
4 California.² I understand the California market is similar to the Puget Sound area
5 and that the experience qualifications of Mr. Esch are compatible with the applied
6 for service area.

7
8 **Q. Based on your analysis, have you drawn an opinion as to whether MEI**
9 **Northwest LLC is fit, willing, and able to provide launch serve as described in**
10 **its application?**

11 A. Yes, I have. Mr. Esch has the appropriate credentials and 15 years of experience in
12 the industry, while the parent has over 30 years. The maritime experience, financial
13 position, and projected operating results show a company that has the financial
14 wherewithal adequate to support its proposed operations for a minimum of 12
15 months. Based on the above, I am of the opinion that MEI Northwest LLC is fit,
16 willing, and able to provide launch serve as described in its application.

17

18 **III. APPLICATION – ADEQUATE SERVICE STANDARD**

19

20 **Q. The Commission is prohibited from issuing a certificate to territory already**
21 **served by an existing certificate holder unless the current holder has failed or**
22 **refused to furnish reasonable and adequate service.³ To your knowledge, has**

² Esch, Exh. No. RSE-1T at 2:13-21.

³ RCW 81.84.020(1)

1 **the existing certificate holder failed or refused to furnish reasonable and**
2 **adequate service?**

3 A. No. There is no Commission record of failed or refused service by Arrow Launch.

4

5 **Q. Please describe the reason given by MEI for the Commission to consider issuing**
6 **it a certificate of convenience and necessity in an area already served by Arrow**
7 **Launch.**

8 A. MEI asserts Arrow Launch lacks availability and resources to serve its customers in
9 Puget Sound.⁴ According to the MEI witness, customers of Arrow Launch
10 approached MEI saying they were not being adequately served by the incumbent and
11 urged MEI to offer services within Washington.⁵

12

13 **Q. Has the Commission received any complaints from customers about the service**
14 **provided by Arrow Launch?**

15 A. As stated above, Commission records indicate that no complaints have been filed
16 against Arrow Launch.

17

18 **Q. If customers have not received adequate service, why do you think they have**
19 **not filed a complaint with the Commission?**

20 A. According to Mr. Esch, Arrow's customers are afraid to speak out because they fear
21 some form of retaliation.⁶

⁴ Esch, Exh. No. RSE-1T at 4:22-24.

⁵ Esch, Exh. No. RSE-1T at 3:18-26.

⁶ Esch, Exh. No. RSE-1T at 21:9-11.

1 **Q. What has Staff done to investigate the allegation that customers are afraid to**
2 **speak out?**

3 A. I performed a limited survey of current customers of Arrow Launch in which I
4 personally contacted company representatives of several of the companies. I did not
5 find any customers that would say, on or off the record, that they were anxious or
6 afraid to talk about Arrow Launch's service. As to the customers' experiences with
7 Arrow Launch, I found two customers had positive comments about Arrow, three
8 had no issues with Arrow but supported competition, and one was dissatisfied.

9
10 **Q. What did you conclude from your informal survey of launch service customers?**

11 A. I conclude there is some factual support for MEI's allegation because one customer
12 indicated a negative experience with Arrow Launch. I also conclude that there is
13 some support among Arrow Launch's current customers for increased competition.
14 But before reviewing Arrow Launch's response testimony and MEI's rebuttal
15 testimony, I am not prepared to conclude that Arrow Launch has failed or refused to
16 furnish reasonable and adequate service within the meaning of the statute.

17

18 **IV. APPLICATION – OVERLAPPING CERTIFICATES**

19

20 **Q. MEI is requesting overlapping certificated service areas. What impact would**
21 **granting a certificate to MEI, as requested in its application, have on launch**
22 **service currently provided in Puget Sound?**

1 A. The introduction of limited competition would, by definition, introduce customer
2 choice. With a choice of launch service providers, customers would be able to signal
3 their dissatisfaction with a particular service by switching to another provider. Also,
4 the existence of a competitor would incent all service providers, existing as well as
5 new entrants, to provide better service and would spur innovation.

6

7 **Q. Have you performed any research as to whether the Commission has ever**
8 **authorized overlapping launch services?**

9 A. Yes, I have. My research, reflected in Exhibit SS-2, shows that the Commission has
10 issued overlapping certificates within the current statutory framework. The
11 Commission asserted jurisdiction over launch services in Orders S.B.C. 363-A and
12 364⁷ in 1977. Multiple companies in the following years applied for and were
13 granted overlapping certificates.⁸ My Exhibit SS-2 shows which companies had
14 certificates and the ports and anchorages where they could operate.

15

16 **Q. Based on your review, is there any barrier to issuance of overlapping**
17 **certificates as proposed by MEI?**

18 A. To my knowledge, if the Commission supports the applicant's application, there is
19 no barrier to an overlapping certificate since there is Commission precedent for
20 issuing them.

21

⁷ Staff Exhibit SS-3.

⁸ See Steam Boat Certificate Orders 365, 366, 367, 368, 369, 371, 376, 377, 379, 380, 381, 383, and 385. See also Staff Exhibit SS-2.

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3 **V. CONCLUSION**

4 **Q. Is Staff ready to make a recommendation to the Commission?**

5 A. As a policy matter, Staff does not oppose overlapping certificates for launch services
6 in Puget Sound. It is not unusual in transportation regulation for some forms of
7 common carriage, such as the trucking industry, to operate under competitive
8 conditions while still requiring regulatory oversight of tariffs. Overlapping
9 certificates would provide competition in the area of quality of service while still
10 maintaining the important oversight of rates and charges. That said, Staff must
11 review Arrow Launch’s response testimony and MEI’s rebuttal testimony before
12 concluding whether the evidentiary record shows that Arrow Launch has “failed or
13 refused to furnish reasonable and adequate service” within the meaning of
14 RCW 81.84.020(1).

15 **Q. Does this conclude your testimony?**

16 A. Yes.