

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

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

REBUTTAL TESTIMONY OF
Randy S. Esch
PRESIDENT, LLC MANAGER, MEI NORTHWEST, LLC

December 5, 2016

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
I. Introduction	2
II. Summary of Rebuttal Testimony	2
III. MEI Northwest is financially fit to operate its proposed launch service	3
A. <i>Troy Esch's rebuttal of Mr. Harmon's testimony related to MEI's financial fitness</i>	4
B. <i>Troy Esch's rebuttal of Weldon Burton's testimony related to MEI's financial fitness</i>	7
IV. Arrow Launch is underserving its territory	11
V. Public convenience and necessity would be better served by two launch operators	14
Exhibit No. ____ (RSE-8) Shipper Support Statement from Crowley Petroleum Services Inc. and its affiliates	(pgs. 11, 13, 15)

1 **I. INTRODUCTION**

2 **Q: Please state your name, position with MEI Northwest, and current business**
3 **address.**

4 A: My name is Randy Esch, but I go by Troy. I am the President and LLC Manager
5 of MEI Northwest, and my current business address is PO Box 4008, Walnut Creek,
6 California, 94596.

7 **II. SUMMARY OF REBUTTAL TESTIMONY**

8 **Q: What is the purpose of your rebuttal testimony?**

9 A: The purpose of my rebuttal testimony is to respond to the contents of the
10 testimony submitted by Arrow Launch and the UTC Staff and demonstrate to the
11 Commission that MEI Northwest, LLC's commercial ferry application should be granted in
12 full.

13 **Q: Would you please summarize the testimony you will be giving today?**

14 A: I will respond to the testimony submitted by both Arrow Launch and the UTC
15 Staff. Primarily I will be responding to the testimony of Jack Harmon, Arrow's principal,
16 and Weldon Burton, Arrow's CPA. I plan to address Arrow's contention that MEI
17 Northwest has not demonstrated its financial fitness, that Arrow is currently providing
18 adequate service to its customers, and that the public convenience and necessity does not
19 require two providers.

20 **Q: Are you sponsoring any exhibits to be introduced with your rebuttal**
21 **testimony?**

22 A: Yes. I am sponsoring the following exhibit:

- 23 • Exhibit No. ____ (RSE-8) is a true and correct copy of a Shipper Support
24 Statement completed by Crowley Petroleum Services, Inc. and its affiliates
25 ("Crowley").

1 **III. MEI NORTHWEST IS FINANCIALLY FIT TO**
2 **OPERATE ITS PROPOSED LAUNCH SERVICE**

3 **Q: After reading the UTC Staff’s testimony and the testimony presented by**
4 **Arrow Launch regarding MEI Northwest’s financial fitness, do you have any general**
5 **comments you would like to make?**

6 A: I have two. First, the UTC Staff has concluded that MEI Northwest has the
7 financial resources to operate our proposed service for at least 12 months. Exhibit No. ____
8 (SS-1T), 3:13-14. The Staff testified that “MEI Northwest LLC is fit, willing, and able to
9 provide launch service as described in its application.” Exhibit No. ____ (SS-1T), 5:15-16.
10 Further, the Staff submitted cross-answering testimony after reviewing the testimony
11 submitted by Arrow and its CPA. In this testimony, the Staff indicated that it still believes
12 MEI is financially fit to operate its proposed services for the first 12 months. Exhibit No.
13 ____ (SS-4T), 3:3-4:14. In my mind, the Utilities and Transportation Commission has looked
14 at all of our financial information and concluded that MEI is financially fit to operate in the
15 Puget Sound.

16 However, Arrow Launch went to great lengths to try and undermine MEI’s financial
17 fitness, which brings me to my second comment. Arrow’s testimony misses the point. MEI
18 is not a true “start-up” company. While it is true that MEI is a newly created entity, the
19 principals of MEI have been in business in the maritime industry for over 34 years. If our
20 application is granted, we will simply be opening up another office in the State of
21 Washington. During the past 10 years we have opened up 2 remote offices for an MEI
22 parent company and have been very successful in doing so. Based on our past experience,
23 our estimates are reasonable and, if anything, conservative. Frankly, I believe we have a lot
24 more experience operating launch service businesses than Arrow’s accountant.

25 **Q: Other than these general comments regarding the testimony from the UTC**
26 **Staff and Arrow Launch, do you have any specific critiques of their testimony?**

1 A: Yes. I have several critiques of the testimony provided by Arrow Launch.

2 **Q: Which portion of the testimony would you like to comment on first?**

3 A: First, I'd like to talk about some of the things Mr. Harmon had to say about the
4 financial fitness of MEI. Then I'd like to talk about the testimony of Arrow Launch's CPA,
5 Weldon Burton.

6 **A. Troy Esch's rebuttal of Mr. Harmon's testimony related to MEI's financial**
7 **fitness.**

8 **Q: Which specific areas of Mr. Harmon's testimony do you believe are incorrect**
9 **or misleading?**

10 A: Well, I'm going to resist my urge to go line-by-line through his testimony and
11 correct every incorrect or misleading fact included in his testimony. My main points of
12 contention with Mr. Harmon related to financial fitness have to do with his testimony on
13 pages 25-30 of Exhibit No. ____ (JLH-1T).

14 Mr. Harmon takes issue with many specific categories of expenses that we listed on
15 our pro forma financial statement. Mr. Harmon, however, is not privy to our books or the
16 way that MEI plans to conduct its business. Further, Mr. Harmon seems to take issue with
17 the way MEI has labeled the out-of-pocket costs associated with doing business in the Puget
18 Sound. Perhaps Mr. Harmon would have chosen to include expenses under one category that
19 we would choose to include in another. This is really an accounting debate about how to
20 characterize certain numbers and has no bearing on our financial ability to thrive in the Puget
21 Sound. MEI's principals have been in this business for 34 years and know well the costs and
22 expenses associated with operating a full-time launch service.

23 **Q: Mr. Harmon focuses a lot on your maintenance program, or what he**
24 **assumes is lacking in your maintenance program. What do you have to say in**
25 **response?**

1 A: The fact is that we employ maintenance personnel to at least the same extent as (if
2 not, a greater extent than) Arrow Launch. We have fitters, welders, carpenters, painters,
3 mechanics, engineers, and other tradespeople. These resources are common in the industry if
4 you have more than a couple boats. When the maintenance required exceeds the abilities of
5 the boat crew, our in-house tradesman handle the project or, in rarer instances, we
6 subcontract as needed for repair work. Boats that are due for a major overhaul are rotated
7 out of service and replaced with a comparable boat.

8 We also employ a preventative maintenance (“PM”) program. We have created a PM
9 system that is ran and tracked by a custom software program tailored to our equipment list.
10 We operate boats throughout California and have boats stationed in three different ports (San
11 Francisco, Stockton, and Long Beach). It is not possible to have a large equipment list
12 operating remotely without a sophisticated PM program and tracking system. It is also
13 important to note that our maintenance and maintenance records are audited by ABS and
14 AWO on a regular basis and comply with all industry requirements and standards.
15 Furthermore, any repairs made in dry dock are reviewed and approved by USCG for certified
16 launches.

17 **Q: Mr. Harmon seems to think you have under-budgeted for maintenance costs.**
18 **Do you have anything to say in response?**

19 A: We are very familiar with our boats and the expenses associated with their
20 upkeep. As mentioned above we are proactive about our maintenance and have developed a
21 system with custom software that tracks each boat’s maintenance history and needed
22 maintenance. We continue to believe that the figure we provided for maintenance in our
23 financial statement is accurate for the first 12 months. The boats being transferred to the
24 Northwest have undergone major maintenance projects in preparation for their relocation and
25 thus the lower costs of foreseen maintenance in the first 12 months.

1 **Q: In addition to claiming that you have under-budgeted your maintenance**
2 **costs, Mr. Harmon appears to attribute the unfortunate sinking of a vessel to MEI's**
3 **failure to adequately maintain its vessels. What do you have to say in response?**

4 A: Attributing the unfortunate sinking of the DELTA CAPTAIN to faulty
5 maintenance is ridiculous. When you read the NTSB report that Mr. Harmon submitted as
6 “evidence” of MEI’s poor maintenance track record, you will find that the NTSB makes
7 absolutely no mention of poor maintenance as a cause of the sinking. In fact, before this
8 unfortunate incident, the DELTA CAPTAIN had volunteered for and was participating in a
9 United States Coast Guard pilot program for inspecting tugs (tugs are not currently required
10 to be inspected at the level that launches are). The DELTA CAPTAIN successfully passed
11 the USCG pilot program’s inspection, had been AWO approved and inspected for
12 approximately a decade, was current in its dry docking schedule to remain in good standing
13 with AWO, and was repowered with a new engine and gears. The vessel was excellently
14 maintained.

15 To my knowledge, Arrow does not provide offshore tug services as part of its
16 business. Thus, Mr. Harmon may not be aware of the risks and dangers that are inherent
17 when working offshore that are not present in the Puget Sound. The list of marine-related
18 incidents off the West Coast is vast and to simply attribute this incident to maintenance
19 without any foundation for doing so is groundless.

20 **Q: Is there anything else you’d like to say in response to Mr. Harmon’s**
21 **testimony as it relates to MEI’s financial fitness?**

22 A: Just that MEI’s principals have extensive knowledge and experience operating
23 and crewing a launch service. The figures that we have outlined in our pro forma statement
24 are not the result of some ad hoc guesswork, but are the result of honed experience operating
25 in this industry. Mr. Harmon’s suggestions that MEI is not financially fit to operate in the
26 Puget Sound are simply incorrect. Further, I think the fact that the UTC Staff found our

1 financial statement to be sufficient and indicative of a provider that is financially fit to
2 operate should govern here.

3 **B. Troy Esch's rebuttal of Weldon Burton's testimony related to MEI's financial**
4 **fitness.**

5 **Q: Do you have any general comments related to Mr. Burton's testimony?**

6 A: Yes. I have my suspicions about Mr. Burton's testimony. Arrow Launch has
7 been a customer of Mr. Burton's for the past 3 years and I presume that Arrow Launch
8 compensated Mr. Burton for his time in reviewing MEI's financial statement and preparing
9 testimony in support of Arrow Launch. It would be my belief, and I believe this is shown
10 from Mr. Burton's testimony, that the purpose of Mr. Burton's review of MEI's financial
11 statement and my direct testimony is to try and undermine our calculations in any way
12 possible. I don't think that Mr. Burton's review of MEI's pro forma financial statement was
13 impartial or fair; rather, it was an attempt to find problems where they do not exist.

14 **Q: Let's take Mr. Burton's testimony one subject at a time. First, Mr. Burton**
15 **discusses Question 12 on your application, what do you have to say about his**
16 **testimony?**

17 A: Mr. Burton seems to try and make a big deal out of the fact that we used white out
18 on the liabilities portion of Question 12. The simple fact is that the standard format of the
19 application provided by the UTC does not contain enough lines to list all of the payables that
20 we needed to list. We believed that because we were providing a detailed spreadsheet in our
21 pro forma financial statement that we could just make reference to that statement instead of
22 trying to list all of the payables in the spaces provided under Question 12 (and apparently this
23 was sufficient for the UTC Staff).

24 **Q: Mr. Burton next takes exception with your calculation that you will generate**
25 **\$500,000 in revenue during your first year of operation. What do you have to say in**
26 **response?**

1 A: It appears that the main reason Mr. Burton takes exception with our revenue
2 projection is that we have not provided “any verifiable customer demand for services
3 requested in this Commercial Ferry Application and for their projected demand levels.”
4 (Exhibit No. ____ (WB-1T), 3:5-7). This demonstrates another problem that I have generally
5 with Mr. Burton’s testimony. He has no insight into how we do business and has never seen
6 MEI’s parent company’s books and has no understanding of our costs of doing business. He
7 does not know who our customers are and the level of services they would require from us.
8 As I stated in my direct testimony, I have been in contact with many of my customers that
9 operate both in California and in the Puget Sound. Based on what they have told me about
10 their needs in the Puget Sound area, I continue to believe that \$500,000 in revenue during
11 MEI’s first year of operation is a conservative estimate and that MEI will be a profitable
12 operation in the Puget Sound region.

13 I add again, at the risk of sounding repetitive, that MEI’s principals have been in
14 business for 34 years. We have opened 2 remote office locations in the last 10 years, and all
15 of our operations are financially viable and thriving. We know our business and the costs
16 associated with it intimately well. We would not be seeking to open up another remote
17 location for our business if we were not certain about customer demand and our ability to
18 remain profitable.

19 **Q: Mr. Burton next discusses your projections for revenues generated by**
20 **accessorial and project management fees. What do you have to say in response?**

21 A: Again, Mr. Burton seems to be taking exception with the fact that we have not
22 provided verifiable customer demand for these services. My answer to this is largely similar
23 to the answer above: Mr. Burton does not have access to our customer list and does not
24 know the level of services our Puget Sound customers would require from us. As I stated
25 above and in my direct testimony, the estimates provided in our pro forma statement are
26

1 conservative—we believe that our ancillary, unregulated services in the region will easily
2 reach the projected revenues we describe.

3 Further, Arrow Launch’s own testimony seems to indicate that our projections are
4 reasonable. Arrow’s principal testified that Arrow now has about \$6.5 million in gross sales
5 per year, which includes regulated and nonregulated revenues. (Exhibit No. ____ (JLH-1T),
6 3:10-11). MEI’s projected \$700,000 total in combined regulated and nonregulated revenue
7 equates to about 11% of the figure Arrow achieves on an annual basis. Based on the
8 complaints I have heard from my customers in the Puget Sound about Arrow’s service, I
9 believe \$700,000 is a very reasonable projection for the amount of business that Arrow is not
10 currently capturing from the market due to its poor performance and underserving the
11 market.

12 **Q: Mr. Burton next takes issue with the expenses you have pro formed for fuel.**
13 **What do you have to say in response?**

14 A: First, in my opinion, a CPA has no business providing fuel calculations. While
15 Mr. Burton tries to make the calculation seem like a simple equation (hours x fuel burn rate x
16 cost), this is simply not the case. A realistic equation provided by a knowledgeable operator
17 would look very different. For example, taking Mr. Burton’s 1,659.75 hour estimate, Mr.
18 Burton incorrectly assumes that the burn rate would be consistent across all of those hours.
19 This is not correct. The boat is not running at 75% throttle for all 1,659.75 hours, not even
20 close. The boats will be idling at the dock during loading periods and idling or clutching
21 alongside the ship it is providing launch services to. Both of these activities burn little to no
22 fuel at all. It is not unrealistic to say that approximately 70% of the running hours in a given
23 year can be removed from the fuel calculation altogether. Thus, we would anticipate the
24 burn rate to be about 497.92 hours per year. Applying the fuel cost Mr. Burton testified to,
25 this results in a fuel cost of approximately \$24,398.08.

1 An important fact to remember in all of this is that the 1,659.75 hours comes from the
2 high end of our estimated services. So while the \$24,398.08 number is higher than the
3 \$15,000 we pro formed, it is certainly not six times greater (as Mr. Burton suggests). Also, if
4 we take into account the two hour billing minimum there will be many occasions where the
5 launch run took less than the minimum and thus additional hours would be removed from the
6 equation. The difference between the running hours and billable hours would likely get us
7 very close to the \$15,000 we pro formed. Regardless, we will gladly accept a slightly higher
8 fuel cost than we initially estimated in return for more work.

9 **Q: The next area that Mr. Burton takes exception with in your pro forma**
10 **financial statement are the calculations MEI provided for Captain and Deckhand**
11 **labor. What do you have to say in response?**

12 A: The first thing I have to say is that Mr. Burton forms his opinion about our pro
13 formed salary calculations with reference to the 2016 Marine Employees' Compensation
14 Survey. This survey has no bearing on what rates private companies choose to pay their
15 employees. The survey itself states that “[d]iscretion should be exercised in interpreting
16 salary results, *especially with sample sizes of less than 15 organizations.*” (Page 3). The
17 salary data Mr. Burton refers to for captains has an extraordinarily small sample size of 2
18 organizations—much smaller than the 15 organization threshold the survey itself warns of.
19 Similarly, the average pay rate for an Able Seaman is based off of data from a mere 3
20 organizations. The sample size is far too small to be of any use in calculating an average rate
21 of pay among Captains and Deckhands.

22 The truth is that compensation packages are generally proprietary information to the
23 company that is paying its employees. I imagine this is why Arrow’s CPA turned to a
24 publicly available source as opposed to listing the rates of pay for Arrow’s captains and
25 deckhands. MEI continues to be comfortable with our projections—based on its principals’
26 34 years of operating experience—that we listed in our pro forma financial statement.

1 **Q: Do you have any other comments regarding Mr. Burton's testimony?**

2 A: Just to reiterate a couple of points. First, MEI is not a start up in the traditional
3 sense. The same principals who run MEI are the same principals who run MEI's parent,
4 Marine Express. And MEI's proposed operations in the Puget Sound are akin to opening a
5 new Marine Express office. We have successfully opened up two remote offices for Marine
6 Express in the past ten years. We are conservative in our growth and only expand
7 strategically, when we have an understanding of customer demand and the need for our
8 services. Second, if there are miscalculations in our projections, MEI's principals are
9 prepared to fill in the gaps financially. Any attempt by Arrow Launch to paint MEI as
10 anything but financially stable and fit is simply a diversionary tactic on their part from
11 focusing on their sub-par service in the region.

12 **IV. ARROW LAUNCH IS UNDERSERVING ITS**
13 **TERRITORY**

14 **Q: Speaking of Arrow Launch's customer service, did anything in Arrow's**
15 **testimony change your opinion related to Arrow's service in the Puget Sound?**

16 A: No. None of the testimony provided by Arrow Launch changes my opinion. I
17 stand behind everything in my direct testimony related to Arrow's service and what I have
18 heard about it from my customers.

19 **Q: And since Arrow submitted its testimony, have you received any more**
20 **information regarding Arrow's inability to adequately serve its customers?**

21 A: Yes. One of my customers that I work with in California, Crowley Petroleum
22 Services, Inc. has completed a Shipper Support Statement that I am presenting today along
23 with my testimony as Exhibit No. ____ (RSE-8).

24 **Q: And how does Crowley's statement rebut the testimony that Mr. Harmon**
25 **provided?**

1 A: Well, Mr. Harmon testified extensively that all of his customers were happy and
2 pleased with Arrow's service and that he was not underserving the region at all. He testified
3 that he "believe[s] the industry and the UTC would be amazed at the lengths Arrow
4 dispatchers and crew go to assure timely, expedited service in every port of Puget Sound in
5 which Arrow holds authority." Exhibit No. ____ (JLH-1T), 15:5-7. Contrary to this
6 testimony, a very significant customer in the Puget Sound obviously feels very differently.

7 Further, Mr. Harmon makes several contentions in his testimony that Crowley's
8 support statement directly refutes. For example, Mr. Harmon testified that Arrow is a
9 24/7/365 operation and that it is willing and able to provide quality service to its customers
10 around the clock. Crowley's statement, however, provides that "Crowley's operations run on
11 a 24 hour basis. We need a vendor who is able to provide prompt and reliable service on a
12 24 hour basis to and from our vessels. *We often need to hire multiple ferry vessels at the*
13 *same time to meet the requirements of our customers' schedule. This need is not currently*
14 *being met.*" This shows that, despite Arrow's contention that it holds itself out as a reliable
15 around-the-clock service provider, Arrow is currently unable to meet the around-the-clock
16 demands of one of the largest shipping companies in the Puget Sound.

17 Mr. Harmon also testified that Arrow has never caused a customer vessel to be
18 delayed. Exhibit No. ____ (JLH-1T), 17:20-21. But Crowley's statement reports that
19 "[d]elays in transporting crew to our vessels have occurred in the past. *This puts our*
20 *customers behind schedule.* When a petroleum tanker operated by a major oil company is
21 behind schedule, it becomes a serious problem for Crowley."

22 Contrary to Mr. Harmon's assertions, Arrow is underserving its territory.

23 **Q: Mr. Harmon indicates in his testimony that there may be some confusion**
24 **about why you are receiving complaints from your customers. He believes that because**
25 **MEI's parent company offers volume discounts to customers in California that the sole**
26

1 **reason Puget Sound customers are unhappy is because Arrow cannot offer any other**
2 **rate to its customers that what the UTC mandates. Is that true?**

3 A: First, it is true that MEI's parent company can offer discounts to customers in
4 California. But that is because California is an unregulated, competitive marketplace.

5 Second, I have not heard anything from my customers that relates to the rates charged
6 by Arrow. Every complaint that I have heard regarding Arrow has to do with its service. I
7 continue to stand by the statements I made regarding the complaints I have heard about
8 Arrow that I made in my direct testimony. And Crowley's statement lends further support to
9 my position, because Crowley believes that allowing another provider to serve the region
10 "would cause the current service provider to improve its performance." Exhibit No. ____
11 (RSE-8).

12 **Q: Mr. Harmon has testified that he has more boats serving the region than you**
13 **initially believed. Does this fact cause you to change your belief that Arrow is**
14 **underserving the region?**

15 A: No. Even though Arrow testifies that it has 4 boats in three different regions at
16 any given time, this does not change my opinion. It is clear to me that Arrow still is
17 underserving the region. As I stated before, my customers have told me so and Crowley's
18 shipper support statement further backs this point up. Crowley stated that they often need to
19 hire multiple vessels at the same time to service their oil clients and that their need is not
20 currently being met. Exhibit No. ____ (RSE-8). So the fact that Arrow has more boats than I
21 originally believed doesn't change my opinion at all—they are still underserving their
22 customers.

23 Further, based on Arrow's testimony about its aggressive PM program, I still have a
24 difficult time believing that it has the number of boats in rotation at any given point that it
25 claims to. It seems that at any given point during the year, 1 or more of their boats would be
26 nonoperational due to preventative maintenance. I also find it worth noting that before MEI

1 submitted its application, Arrow had its two single-screw boats for sale on Marcon
2 International. In my mind, this casts doubt on Arrow's actual intent to keep these boats in
3 rotation for the foreseeable future, or whether it is counting these boats solely for the
4 purposes of its protest to MEI's application.

5 **V. PUBLIC CONVENIENCE AND NECESSITY WOULD**
6 **BE BETTER SERVED BY TWO LAUNCH OPERATORS**

7 **Q: Do you believe that the Puget Sound can support two full-time launch**
8 **providers?**

9 A: I do. And despite Mr. Harmon's testimony to the contrary, I believe that the facts
10 contained in his testimony help support the fact that the Puget Sound can support two full-
11 time providers. Mr. Harmon testifies that his launch service currently grosses \$6.5 million
12 annually in regulated and nonregulated services. Exhibit No. ___ (JLH-1T), 3:10-11. This is
13 up from \$169,000 in 1989. *Id.* at 3:9-10. Mr. Harmon further testifies that, over the years,
14 the number of vessels in his fleet has continued to grow. In 1989, Arrow had 3 vessels. *Id.*
15 at 3:12. In 1999, Arrow had 5 vessels. *Id.* at 16:23-25. And now, in 2016, Arrow owns 12
16 vessels. *Id.* at 3:13-14. Arrow's launch count in the first ten years increased by 166%. In
17 the next 17 years, its launch count increased by 240%. This shows that, over the years,
18 Arrow has continued to thrive and expand in the Puget Sound. And the fact that Arrow is
19 currently bringing in an estimated \$6.5 million in revenue per year shows that business is still
20 doing well in Puget Sound, despite Arrow's contentions to the contrary.

21 Additionally, Arrow makes the point that the number of oil tankers calling the Puget
22 Sound from Valdez has decreased from 285 in 1992 to 89 in 2015. The Valdez tanker
23 market is down, but other oil markets have increased as the consumption of oil has increased
24 over the years. And despite that decline, Arrow has continued to build and grow its gross
25 revenue and has expanded the size of its fleet. I believe that this fact does not tell the whole
26

1 story and that there are still portions of the Puget Sound market (including the oil market)
2 that are being underserved.

3 **Q: Well what makes you believe that this shows anything other than Arrow**
4 **maximizing the market? That is, why do you think that this shows the Puget Sound can**
5 **support, and that the Puget Sound public needs, another launch provider?**

6 A: First I think that this shows that the Puget Sound is still a vibrant market. Arrow
7 has significantly increased its gross revenues and continued to add boats to its fleet over the
8 years. Second, there is untapped potential in the market. As I discussed in my direct
9 testimony, I have had numerous clients that I work with in California tell me that they are
10 being underserved in the Puget Sound. And Crowley's support statement speaks to this as
11 well. In Crowley's statement, Crowley makes the point that "[t]here is currently only one
12 service provider for passenger ferry and freight service in the Puget Sound. This has created
13 timing and reliability issues for us as our customers (i.e., major oil companies) work on a
14 tight schedule. The lack of competition reduces our ability to meet the needs of our
15 customers." Exhibit No. ___ (RSE-8).

16 This shows that one of the major shipping customers in the Puget Sound believes that
17 there is currently an untapped market that another provider could take advantage of. Arrow's
18 inability to provide reliable, around-the-clock service to its customers helps illustrate that the
19 Puget Sound could indeed support another full-time provider. Crowley further states in its
20 support statement that if MEI's application were denied, Crowley "would be less able to
21 provide reliable, timely, and cost-effective service for [its] major oil customers." I believe
22 that this illustrates that there is a currently unmet need for services and that allowing another
23 service provider to enter the region will help meet the needs.

24 Further, the UTC Staff also determined that other shipping customers in the area
25 support the entry of another provider into the marketplace. The UTC Staff apparently
26 conducted an informal survey of shipping companies in the Puget Sound that are current

1 customers of Arrow Launch. Six customers were interviewed. Of those 6, 1 customer was
2 dissatisfied and 3 supported competition in the area. Exhibit No. ____ (SS-1T), 7:1-8. That
3 means a total of 66% of the polled customers support an additional service provider in the
4 Puget Sound. This supports what I have been hearing from my customers in the region.

5 **Q: In what other ways do you think that a second service provider in the Puget**
6 **Sound would benefit the public?**

7 A: Well, contrary to Mr. Harmon's testimony, we believe that MEI's entry into the
8 region would help spur innovation and reduce our impact on the environment. Both of these
9 things will benefit the public, both immediately and into the future.

10 The majority of our fleet has newer tiered engines which reduce pollution and offer
11 more electronic advancements and settings. In situations where total repowers were not the
12 best option MEI's parent company has taken Detroit 71's and modernized them with
13 environmentally friendly tier-2 kits. Mr. Harmon's statement regarding the continued use of
14 Detroit 71 Engines as their propulsion package proves MEI's point that the region is not
15 seeing technological advancements. Arrow is simply not investing in the future of the region
16 by continuing to replace their old engines with the same model that has been discontinued
17 since the mid-1990s, meaning they are intentionally installing 20-year-old 2-cylce engines
18 into their boats. While I agree that new technology is expensive and difficult to manage, the
19 benefits of the new technology outweigh the burdens. With the new technology comes more
20 environmentally friendly equipment, more safety features, and more electronic features
21 which allow the industry and market to move forward with the times.

22 It is very costly to replace old engines with new models, and as Mr. Harmon
23 mentioned, they are expensive and sometimes inefficient to maintain. However, once you re-
24 educate your staff and implement new maintenance policies and procedures, the new
25 technology is well worth the initial burden for the operator and the maritime community.
26 MEI's parent company has made many out-of-pocket expenses concerning repowering and

1 improving its vessels. Most recently MEI's parent company solely paid out-of-pocket for the
2 repowering of one of its tug's main engines and gears, which was a significant expense and
3 resulted in a loss of revenue for the vessel. Even with the help of grants, there are many
4 costs and setbacks that can be associated with repowering vessels. But MEI's parent
5 company accepted those costs and repowered its vessels because it believes that
6 technological advancements are key to the future viability of the industry and the region in
7 which the industry serves. For longevity how does Mr. Harmon plan to continue buying parts
8 for 2-cycle engines that were developed in 1938 and have been discontinued for over 20
9 years?

10 **Q: Is there anything in Arrow's testimony that makes you question its**
11 **commitment to serving the shipping public in the Puget Sound?**

12 A: Yes. Arrow seems to be far more concerned with its bottom line than ensuring
13 that the customers it has exclusive authority to serve are adequately served. For example,
14 when discussing the costs of modernizing his fleet with newer, more environmentally
15 friendly power systems, Mr. Harmon talks about how doing so would result in a tariff rate
16 increase to Arrow's customers. Exhibit No. ___ (JLH-1T), 8:21-25. I respectfully believe
17 that this is a poor approach to business and a poor way to treat your customers. When we
18 repower our fleet with newer and more modern engines, we don't turn around and
19 immediately pass that cost down to our customers. We look at the cost as one that is
20 associated with operating a responsible business. We care about the environment and take
21 responsibility for ensuring that our fleet is responsibly powered.

22 Further, when discussing the potential impact that a second launch provider would
23 have on the region, Arrow focuses solely on its potential monetary losses, not on what the
24 shipping public in the Puget Sound would gain from having an additional provider. I believe
25 that this type of thinking is what has led to customer complaints and dissatisfaction from
26 Arrow's customers. Arrow is more concerned with its bottom line than it is with providing

1 adequate service to its customers. MEI believes that happy customers are its bottom line and
2 without happy customers, its business would suffer.

3 **Q: Does this conclude your rebuttal testimony?**

4 A: Yes. It does.

5 4842-2365-5485.2
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26