

Exhibit No. DS-1T
Docket TS-160479
Witness: Drew Schmidt

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

STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

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CROSS-ANSWERING TESTIMONY OF

DREW SCHMIDT

PRESIDENT, PACIFIC CRUISES NORTHWEST, INC.

December 5, 2016

1 **I. INTRODUCTION**

2 **Q: Please state your name, position, and business address.**

3 A: My name is Drew Schmidt; I am the President and sole shareholder of Pacific Cruises
4 Northwest, Inc. and have a business address of 355 Harris Avenue, Suite 104,
5 Bellingham, Washington 98225.

6 **Q. Can you please describe your background in the maritime industry?**

7 A. I have been working in the maritime industry since 1977. I hold a license as a master
8 mariner and have had one for over 37 years. That license permits me to serve as
9 master or captain of vessels up to 500 gross tons, which I have done everywhere from
10 Southern California to the waters off the coast of Alaska. I began operating launches
11 and tour boats out of Seattle and eventually moved to Blaine to operate as the
12 manager for Gray Line Water Sightseeing. Eventually I moved to Bellingham and in
13 1993 I purchased Gray Line Cruises and Tours and changed the name to Pacific Cruises
14 Northwest.

15 **Q. Does Pacific Cruises Northwest, Inc. hold a certificate from the Washington Utilities
16 and Transportation Commission?**

17 A. Yes, Pacific Cruises Northwest currently holds certificate BC-65013, which authorizes
18 routes for passenger-only service between Bellingham and Friday Harbor.

19 **II. PURPOSE OF TESTIMONY**

20 **Q: Please describe the purpose of your testimony?**

21 A. My testimony is to respond, on behalf of Pacific Cruises Northwest, Inc., to the
22 testimony of Scott Sevall, Regulatory Analyst with the WUTC, filed on November 1,
23 2016. Particularly, I am responding to his comments about his perception of the
24 benefits of competition in the regulated ferry and launch service industry.

25 **III. COMPETITION IN THE FERRY AND LAUNCH SERVICE INDUSTRY**

Q: Have you read Scott Sevall's testimony, which was filed on November 1, 2016?

A. I did.

1 **Q. In his testimony, Mr. Sevall stated “It is not unusual in transportation regulation for**
2 **some forms of common carriage, such as the trucking industry, to operate under**
3 **competitive conditions while still requiring regulatory oversight of tariffs.**

4 **Overlapping certificates would provide competition in the area of quality of service**
5 **while still maintaining the important oversight of rates and charges.” Do you have**
6 **any experience with competition with respect to ferry service?**

7 A. In fact, I do. Quite a few years ago, I was involved in a ferry operation known as the
8 “Island Commuter” Service, which leased its certificate from Island Mariner Cruises.
9 Island Mariner’s certificate, BC-95, and overlapped with San Juan Islands Shuttle
10 Express, certificate BC-120, and served a similar territory.

11 **Q. Were both services able to continue in operation when competition was allowed by**
12 **the Commission?**

13 A. Both were able to co-exist for a while, but eventually the natural ebbs and flows in the
14 volume of passengers took its toll and San Juan Islands Shuttle Express went under.

15 **Q. I understand that Pacific Cruises Northwest was issued a certificate for a route**
16 **between Bellingham and Friday Harbor over the protest of Island Mariner, which it**
17 **made because those points were included in Island Mariner’s certificate. Has Pacific**
18 **Cruises Northwest been able to stay afloat in that territory despite the competition**
19 **from Island Mariner?**

20 A. While the Commission did not find our application was for an overlapping certificate,
21 yes, Pacific Cruises Northwest is still operating that territory; however, Island Mariner
22 is not.

23 **Q. Based on your experiences, do you think competition in ferry or launch services will**
24 **provide a benefit to the public?**

25 A. Competition is supposed to benefit the public in theory, but based on the margins on
which we operate, and the extensive capital investment required of a ferry or launch
service, I don’t see how two services can viably operate in competition with each

1 other. The commercial ferry companies which have been placed in competition with
2 each other in the past haven't been able to make it, and I believe the effects of
3 allowing overlapping competition now would be disastrous. Should this Commission
4 decide to start granting overlapping certificates when there is no documented
5 problem or failure with the existing service, I don't see how investor-owned ferry or
6 launch services will be able to remain in business. I simply don't think you can have it
7 both ways. If the Commission is going to grant overlapping authority simply to
8 encourage competition then it also diminishes its role in the importance of "oversight
9 of rates and charges." Competition in this type of circumstance will ultimately drive
10 rates higher.

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

12 **A.** It does.

2 CERTIFICATE OF SERVICE

3 I certify that on December 5, 2016, I caused to be served the original of the foregoing
4 document to the following address via US Mail to:

5 Steven V. King, Executive Director and Secretary
6 Washington Utilities and Transportation Commission
7 Attn: Records Center
8 PO Box 47250
9 1300 S. Evergreen Park Dr. SW
10 Olympia, WA 98504-7250

11 I further certify that I have also provided to the Washington Utilities and
12 Transportation Commission's Secretary an official electronic file containing the foregoing
13 document via the WUTC web portal; and served a copy via email to the following parties:

<p>12 For Washington Utilities and Transportation Commission Staff: 13 Julian Beattie 14 Office of the Attorney General 15 Utilities and Transportation Division 16 1400 S. Evergreen Park Drive SW 17 P.O. Box 40128 18 Olympia, WA 98504-0128 19 Phone: (360) 664-1225 20 Email: jbeattie@utc.wa.gov</p>	<p>21 For MEI Northwest, LLC: 22 Mr. Dan Bentson 23 Bullivant, Houser, Bailey, PC 24 1700 Seventh Ave, Suite 1810 25 Seattle, WA 98101 26 Email: dan.bentson@bullivant.com</p>
<p>27 For Arrow Launch Service, Inc.: 28 Mr. David W. Wiley 29 Williams, Kastner & Gibbs, PLLC 30 601 Union St., Suite 4100 31 Seattle, WA 98101 32 Phone: (206) 628-6600 33 Email: dwiley@williamskastner.com</p>	<p>34 Administrative Law Judge 35 Judge Marguerite E. Friedlander 36 Washington Utilities and Transportation 37 Commission 38 Email: mfriedla@utc.wa.gov</p>

39 Signed at Bellingham, Washington this 5th day of December, 2016.

40 
41 _____
42 DREW M. SCHMIDT