

January 27, 2016

To: All Arrow Launch Service Customers

Arrow Launch Service, Inc. (“Arrow”) last applied to the Washington Utilities and Transportation Commission (“WUTC”) for a rate adjustment in the fall of 2010. As I have discussed with many of you, since that rate filing, our costs to provide 365-day a year, 24-hours a day staffing and equipment availability have increased substantially. For example, during the five-plus years since our last rate change we have absorbed significant cost attrition, particularly in employee health insurance premiums (up an average of 15%-20% per year), moorage, parts, insurance and outside vendor expenses. We also just granted to all our employees, except management, a wage increase of 2% for the first time in that five-year period which we believe was conservative and overdue.

Additionally, in that interval, we have concertededly strived to reduce expenses while also expanding our fleet to bring larger capacity, more efficient equipment on line in efforts to bring all vessel costs to a superior efficiency level.

We also recognize that borrowing costs to acquire newly-constructed equipment would significantly balloon our costs of service so we have consciously opted instead to upgrade and expand our fleet with used vessels that are in turn improved and upgraded for your use after their acquisition. As most of you are aware, we have made significant vessel retrofits particularly on the recently-acquired *Brave*, *Motega*, *Chief* and *Pacific Arrow* all of which are 65-80 feet long and have been acquired in the last five years.

Over this interval, in order to defer and defray the need for rate increases, we have also explored and expanded “special projects” such as the Polar Pioneer arctic exploration venture, which have served to cushion our regular customers from rate changes, but now, after more than half a decade, we have reluctantly recognized a need to seek price adjustments for our services from the WUTC.

Additionally, business volumes in our core of regulated service areas have either declined or been generally flat over this period. Due to all of the above, we are now compelled to seek a 4% increase in our basic hourly service rate (from \$245 to \$255 per hour) and an approximate 11% increase in deckhand rates (from \$45 to \$50 per hour), respectfully, which averages an approximate 5% overall increase.

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While, under current law and regulation, our own internal calculations demonstrate a revenue need of over 10%, we realize that economic conditions in the maritime industry, which is the mainstay of our customer base, are not benign at the present time. We are thus attempting to mitigate and otherwise protect against the full impact of this adjustment by asking for less than half of that amount and reaffirm our commitment to you and your principals to maintain the utmost vigilance on cost containment. Enclosed is our proposed tariff schedule to become effective March 1, 2016 that has now been filed with the WUTC for review and approval.

The Commission has the authority to set rates higher or lower than the company's request, depending on the results of its investigation. Commission staff will make a recommendation to the commissioners at an open meeting in Olympia, which is scheduled for 9:30 a.m. on Thursday, February 25, 2016. You will have an opportunity to comment in person at this meeting. If you are unable to attend the open meeting, the Commission has a bridge line which enables you to participate or listen by telephone. Call 360-664-1234 the day before the open meeting for instructions and to sign in. You can also comment by using the comment form at the Commission's web site at utc.wa.gov/comment, or by using the contact information below:

Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250, Olympia, WA 98504-7250
E-mail: comments@utc.wa.gov
Telephone: 1-888-333-9882

While we regret having to request any increase in our rates to serve you, we hope that you, as our loyal customer, endorse our desire to maintain the highest quality on-demand, round-the-clock reliable service that we have offered you over the past two-and-a-half decades and look forward to partnering with you in the months and years to come.

Sincerely,

Arrow Launch Service, Inc.

A handwritten signature in black ink, appearing to read "Jack L. Harmon, Jr.", written over a light yellow rectangular background.

Jack L. Harmon, Jr., President