

April 8, 2011

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VIA EMAIL to WUTC RECORDS CENTER/  
ORIGINAL VIA FIRST CLASS MAIL

David Danner, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
Attention: Records Center  
P.O. Box 47250  
1300 S. Evergreen Park Dr. SW  
Olympia, WA 98504-7250

Re: Docket T-101661, In Re Notice of Inquiry/Written Response to "Staff Recommendation for Fuel Surcharges" of March 18, 2011; Comments of Arrow Launch Service, Inc.

Dear Mr. Danner:

On behalf of Arrow Launch Service, Inc. ("ALS"), this is to briefly comment on the "Notice of Staff Recommendation for Fuel Surcharges et al." served March 25, 2011 in this Docket. As the Staff duly noted at page 5 of that Recommendation, "[t]here has been little controversy regarding the elements of the current methodology" for the commercial ferry industry. As also mentioned, ALS in fall, 2010 filed a letter which urged the Commission to retain the fuel surcharge methodology as an effective mechanism to reflect fluctuating fuel prices for the commercial ferry industry.

In their new Recommendation, the Staff as we understand it, does propose to broadly retain current fuel surcharge methodologies for all commercial ferry companies (other than for Lake Chelan Boat Co.) but would also add an alternative definition of "Base Fuel Cost." The new alternative, in addition to the basic element of the average monthly fuel costs from the Company's last rate case, would be "the average monthly fuel cost for the previous calendar year, whichever is greater." ALS finds that addition to the Staff's proposal to update fuel costs reasonable under the circumstances.

Thus, ALS is not contesting the gist of the Staff's proposal for the retention of the fuel surcharge methodology, as amended. However, as it initially noted on the record at the Open Meeting where its last general rate proposal was considered by the Commission (Docket No. TS-101930), on December 30, 2010, ALS again points out that it does not agree that the Commission has expressly, by industry order, adopted a 93% operating ratio methodology as the uniform basis for establishing rates for the commercial ferry industry.<sup>1</sup> While the Commission Staff, through incremental Open Meeting memos,

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<sup>1</sup> More specifically, Cause T-9974 *In re Motor General Freight Rates*, (June 1970), has never been formally interpreted by the Commission to expressly apply the "Kosh Operating Ratio" methodology to commercial ferries.

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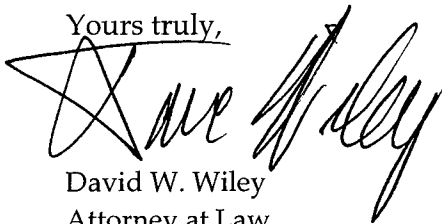
may have defaulted to such a measurement index in the past, ALS indicated that it does not concur with this across-the-board ratemaking methodology index for this industry.

ALS believes it is important to note its objection to and lack of waiver of opposition for a uniform 93% operating ratio ratemaking methodology or "zone of reasonableness," at least as concerns regulated launch operations. For one, ALS believes that such a methodology insufficiently rewards risk and the return on fixed expenses for providing on-call, 24/7 operations, 365 days a year to a relatively small and declining customer base oriented to two cyclical industries: oil and grain shipping. The flat 93% operating ratio rate methodology is simply ill-equipped and unattuned to this type of specialized operation. One size clearly does "not fit all" in regulated launch service ratemaking.

Thus, while ALS has no objection to the proposed revisions to the current fuel surcharge methodology for the commercial ferry industry as proposed at pages 6, 7 of the March 25, 2011 Statement, it again disputes any implicit acceptance of the 93% operating methodology alluded to by Staff in that Statement.

Please contact the undersigned should you have further questions or concerns on this matter.

Yours truly,

A handwritten signature in black ink, appearing to read "David W. Wiley". The signature is written in a cursive, somewhat stylized font. To the left of the signature, there is a large, hand-drawn star or asterisk symbol.

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DAV:lct

cc: Arrow Launch Service, Inc.