BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of ARROW LAUNCH SERVICE, INC. For An Order Granting Deferred Accounting Treatment	DOCKET TS- PETITION OF ARROW LAUNCH SERVICE, INC. FOR ACCOUNTING ORDER

1 Pursuant to WAC 480-07-370, Arrow Launch Service, Inc. ("Arrow" or "Company"), BC-97, hereby petitions the Washington Utilities and Transportation Commission (Commission) for an order authorizing the specific deferred accounting treatment outlined in this petition.

2 Arrow, like other common carriers regulated under RCW Title 81, is broadly charged to provide "safe, adequate, and sufficient service facilities and equipment to enable it to promptly, expeditiously, safely, and properly receive, transport, and deliver all persons or property offered to or received by it for transportation, and to promote the safety, health, comfort, and convenience of its patrons, employees, and the public."[1] In so doing, it carefully plans for maintenance and, when necessary, replacement of or upgrades to its equipment so that the Company can provide essential launch services in a safe, responsive and expeditious manner.

3 Arrow also remains committed to promoting the "safety, health, comfort and convenience of its patrons, employees and the public"[2] as both public policy and marine technology continue to evolve. Arrow has therefore embarked on an ambitious plan—working closely with local, state and federal agencies and legislators—for repowering its entire 13 vessel fleet. Over approximately four-to-five years, the Company will repower its fleet with a new generation of low emission diesel

[1] RCW 81.28.010.

[2] *Id.*

engines. The Company is seeking federal grants and other assistance to support the project and to help defray costs.

4 There are several advantages to the Company's plan. Modern, Tier 3 EPA Diesel engines burn fuel more efficiently and generate far less particulate matter. This supports the health and safety of both Arrow Launch passengers, its employees and the broader public. The repowering of a single vessel, is expected to result in health benefits from avoided exposure to particulate matter (PM2.5) equivalent to tens of thousands of dollars in health benefits each year. Repowering will also reduce emissions of NO_x and other harmful pollutants.

5 The Company must also confront the level of current technical support available for its engines. There is now an acute shortage of qualified mechanics to work on older, generation 1 diesel engines. Continuing to rely on older technology risks obsolete powered vessels being taken out of service and essential launch services being disrupted. It is thus prudent to invest in newer generation engines that can be maintained and supported by a broader array of specially trained and qualified mechanics.

6 The Company has also found that the newer, Tier 3 EPA Diesel engines provide several operational benefits. Launch vessels with the newer engines achieve higher speeds while consuming less fuel. Arrow Launch will therefore be able to deliver supplies, parts, and transport crew or harbor pilots in a quicker and more efficient manner. If a ship's crew member or another individual needs urgent medical care, Arrow will be able to transport that individual to the harbor and to acute medical care faster than would otherwise be possible with older engines.

7 These operational and environmental improvements facilitate Arrow in fulfilling its obligations as a common carrier under RCW 81.28.010. They also uphold the goals of the Washington Climate

Commitment Act (the "CCA"),[3] and the federal Diesel Emissions Reduction Act (DERA).[4] which both seek to decrease the burning of marine diesel fuel.[5]

8 In fulfilling its obligations and in seeking adjustments in its tariff rates to achieve these goals, under RCW 81.28.040, Arrow Launch requests that the Commission now enter an order allowing the Company to both track project costs for later recovery and to establish tariff supplements to reflect the additional costs of service in assuming material debt obligations to implement its fleet decarbonization plans. This Petition for an Accounting Order and proposed accompanying surcharge mechanism is thus intended to outline its request for recovery of the significant costs associated with this proposal.

9 Currently, the Company plans to repower three of its vessels each year. This will allow it to repower the entire 13-vessel fleet over a four-to-five year period. The Company is financing the repowering of its vessels using a construction loan. The loan interest will vary during the project year depending on the balance. Interest is accrued daily. At the end of the project year, the loan will be finalized, and monthly payment will be established covering the principal and interest. The loan amortization period is 30 years, with a reassessment of the remaining term at the 10-year mark.

10 While the Company is only beginning to incur costs for this program, they are already significant. Deferred accounting treatment is necessary to support the Company's cashflow and to allow it to carry the financing costs of the project. Repowering a single vessel is projected to cost approximately $450,000, with federal funds covering up to 40 percent of the project cost.

[3] RCW 70A.65.250 *et seq*.

[4] Public Law 109–58 Aug.. 8, 2005.

[5] ***See, e.g.***, WAC 173-446-040(2)(b) (generally exempting marine fuels burned outside the state, but not those fuels burned inside the state, from regulation under the CCA).

Repowering a total of 13 vessels with the newer technology is a significant cost for Arrow which it could not accomplish without government grants and rate relief through its instant request.

11 As to the latter, the Company proposes a surcharge comprised of two components: a closed or "completed" phase where the loan principal amount has been calculated and finalized and an "open/current" executory phase covered by a construction loan, under which periodic disbursements occur to finance real-time improvements. The surcharge mechanism will be premised upon those two components, addressing the interest accruing on the "open" construction loan with its accumulating amount of interest attributable to the borrowed principal and the monthly amortized payment for the closed/completed portion of the term loan. Over time, the amount of the surcharge will increase reflecting the growing amount of the cumulative finance costs.

12 In the Company's next general rate filing, the affected assets would then be booked through a calculation that considers the total cost of the project less the federal EPA DERA grant funds targeted to fund up to 40 percent of the overall project funding, less the total principal recovered from the approved surcharge as submitted in Arrow's next general rate case. The surcharge will then be subject to annual renewal for each phase of the decarbonization project and will require the implicated funds to be segregated and held in a special account to be used only for payment of the loan costs and phases as illustrated in Exhibit "A."

13 Arrow will submit an accounting for these funds to the Commission annually. The surcharge calculation will also be adjusted if the company chooses to submit a general rate case during the pendency of this project when assets pertinent to any closed end loan phase less federal grant funding monies received will be added to Arrow's rate base for recovery. Filing of a general rate case during the project's pendency however will not relieve Arrow of the annual reporting obligation described above. Finally, whether any general rate case is filed throughout the project,

within six months after completion of the final lending phase of the project, Arrow shall file a general rate case. Addition of all decarbonization/repower assets through that general rate case will signal the termination of the surcharge and the start of recovery of the value of the deferred assets through regular rates.

14 Based on the foregoing, Arrow Launch Service, Inc. therefore requests that the Commission enter an order: (1) approving the deferral of decarbonization/repowering project costs as ultimately adjusted and (2) the creation of a tariff surcharge for recovery of these same costs as discussed in ¶¶ 11-13 of this Petition, above.

DATED this 26th day of November, 2024.

RESPECTFULLY SUBMITTED,

By ________________________________

David W. Wiley, WSBA #08614
Michael S. Howard, WSBA #41034
WILLIAMS, KASTNER & GIBBS PLLC
601 Union Street, Suite 4100
Seattle, WA 98101-2380
Telephone: (206) 628-6600
Fax: (206) 628-6611
dwiley@williamskastner.com
mhoward@williamskastner.com

Attorneys for Arrow Launch Service, Inc.