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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

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

October 4, 2016

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1 **I. INTRODUCTION**

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

3 A: My names is Randy S. Esch, but I go by Troy. My business address is PO Box
4 4008, Walnut Creek, California, 94596.

5 **Q: By whom are you employed and in what capacity?**

6 A: I am a partner and Vice President of Marine Express, Inc., the parent corporation
7 of MEI Northwest, LLC. I am also the President and LLC Manager of MEI Northwest.

8 **Q: Would you please describe your educational background?**

9 A: I hold a Bachelor's Degree in Communications from California State University,
10 Sacramento, and I went to captain school at California State University, Maritime Academy.
11 I currently hold a 200 Ton Master of Towing License with Radar Unlimited.

12 **Q: Would you please describe your business experience?**

13 A: I have worked as a specialty and relief captain for the past 10 years in San
14 Francisco, California and Long Beach, California. I have been in the maritime industry
15 generally for 15 years in many different capacities. For the past 15 years, I have worked for
16 Marine Express, Inc. Marine Express was founded in 1982 by my grandfather, Edward F.
17 Esch, and I have grown up around the industry. He started the business with one 26-foot
18 fiberglass boat, and together we have grown the business to a fleet of 13 vessels and 5
19 barges. We currently provide cargo delivery services, tug and barge services, hold cleaning
20 services, and environmental services in San Francisco, Long Beach, and the California Delta
21 ports.

22 **Q: As a partner and Vice President of Marine Express, Inc., what are your**
23 **responsibilities?**

24 A: My responsibilities really encompass just about everything necessary to run the
25 day-to-day business of Marine Express. I am responsible for operations; the financial aspects
26 of the business; legal affairs; as well as sales, marketing, and business development. I am

1 intimately familiar with all aspects of managing and running the day-to-day operations of a
2 successful, multi-port launch service.

3 **Q: How does your experience directly apply to the issues before the Washington**
4 **Utilities and Transportation Commission?**

5 A: My years of experience operating an identical business to the one I seek to operate
6 in Washington State applies to many of the issues before the Commission today. For
7 example, my ability to operate an identical business shows that I have the necessary
8 experience to successfully operate a launch service. And my experience operating a launch
9 service in a major West Coast port that is similar to the Puget Sound in terms of vessel
10 volume gives me a unique perspective and insight into what the public requires from a
11 launch service provider.

12 **II. SUMMARY OF TESTIMONY**

13 **Q: What is the purpose of your testimony?**

14 A: The purpose of my testimony today is to demonstrate to the Commission that MEI
15 Northwest, LLC's commercial ferry application should be granted in full.

16 **Q: Would you please summarize the reasons why the Commission should grant**
17 **MEI Northwest's application?**

18 A: The Commission should grant MEI Northwest's application because doing so
19 would serve public convenience and necessity. The areas that MEI Northwest seeks to serve
20 are currently underserved by the sole provider, Arrow Launch. I have had many commercial
21 shipping customers in the Puget Sound region contact me through MEI Northwest's parent
22 company, Marine Express, and tell me that their needs are not being adequately served by
23 Arrow Launch. Because these people in the Puget Sound region know that Marine Express
24 provides identical services in California, and many are customers of mine in California, they
25 have told me that if I made services available in Washington State, they would take
26 advantage of them.

1 **Q: Will you be sponsoring any exhibits to be introduced in this proceeding?**

2 A: Yes. I am sponsoring several exhibits in this case:

- 3 • Exhibit No. ____ (RSE-2) is a true and correct copy of a document from the
4 Marine Exchange of San Francisco showing the number of vessels that called
5 to port in San Francisco during 2015.
- 6 • Exhibit No. ____ (RSE-3) is a true and correct copy of a document from the
7 Marine Exchange of Puget Sound showing the number of vessels that called to
8 port in the Puget Sound region in 2015.
- 9 • Exhibit No. ____ (RSE-4) is a true and correct copy of the commercial ferry
10 application MEI Northwest, LLC filed with the commission.
- 11 • Exhibit No. ____ (RSE-5) is a copy of a document entitled “Seabulk’s Verified
12 Complaint in Intervention” provided to me by my counsel.
- 13 • Exhibit No. ____ (RSE-6) is a copy of a document entitled “Trial Brief of
14 Defendant Arrow Launch” provided to me by my counsel.

15 **III. PUBLIC CONVENIENCE AND NECESSITY**

16 **Q: Do you believe that people would use your services if your application were**
17 **granted?**

18 A: Yes, I do. More specifically, I believe that the commercial market would use our
19 services. We intend to service deep-draft vessels in the various anchorages listed in our
20 application.

21 **Q: Why do you believe people would use your services?**

22 A: Because there is currently a limited amount of resources and availability to meet
23 the demand in the marketplace. There are more customers than capabilities to provide
24 services to the customers.

25 **Q: Do you know how many ships or customers utilize launch services in the**
26 **territory you are applying to serve?**

1 A: Yes. And for example, there are, on average, 3-4 ships in Anacortes awaiting
2 berth that would use our services.

3 **Q: What segments of the public do you anticipate would utilize your proposed**
4 **service?**

5 A: While the general public use would probably be small as there would not be many
6 public passengers being transported to vessels at anchorage, I anticipate that the commercial
7 public would utilize our proposed service regularly. Further, we anticipate that U.S.
8 Customs & Border Protection, the U.S. Coast Guard, and other state and federal authorities
9 would utilize our services.

10 **Q: How often do you believe these segments of the public would utilize your**
11 **proposed service?**

12 A: We estimate, conservatively, that these segments of the public would utilize our
13 services an average of 3 to 4 times per week.

14 **Q: Do you believe that the territories you are applying to serve can support two**
15 **full-time providers such as Arrow Launch and MEI Northwest?**

16 A: Yes, I do.

17 **Q: Why?**

18 A: Well, if you look at Exhibit Nos. ____ (RSE-2) and ____ (RSE-3), you will see that
19 two similar areas, the San Francisco Bay Area and the Puget Sound have historically similar
20 numbers of vessels that call to port in those areas in a given year. For example, if you look at
21 Exhibit No. ____ (RSE-2), you will see that, in 2015, the San Francisco Bay Area had 3235
22 vessels arrive in the area. And when you exclude yachts and fishing vessels, the Puget
23 Sound had 3165. Exhibit No. ____ (RSE-3). The San Francisco Bay Area, however, has two
24 companies that provide launch services to the territories, Marine Express and Westar Marine
25 Services. But the Puget Sound only has one provider—Arrow Launch.

1 **Q: How do you think this information shows that the Puget Sound can support**
2 **two full-time providers?**

3 A: Well, when you look at Exhibit Nos. ____ (RSE-2) and ____ (RSE-3) you can see
4 that roughly the same percentage breakdown of ships enters each region. For example, of the
5 3235 ships that called the San Francisco Bay Area in 2015, 347 were Bulk Carriers. This
6 equates to 10.7% of the overall traffic in the Bay Area. In Puget Sound, of the 3165 vessels
7 entering the region, 302 were Bulk Carriers. This equates to 9.5% of the overall traffic in the
8 Puget Sound. Container ships made up 42.9% of the vessels entering the Bay Area, and
9 34.4% of the ships entering the Puget Sound. And while the percentages won't match
10 exactly, it gives you a good idea that the ship traffic entering both regions is roughly the
11 same, meaning that the number of customers utilizing launch services is likely to be roughly
12 the same.

13 In the Bay Area, there are two different launch companies servicing the area.
14 Between the two companies there are over 10 launches available to the commercial market.
15 And in addition to those 10 launches, both companies operate tugs and barges to deliver large
16 amounts of palletized materials and bulk dry/liquid cargos. Further, the Bay Area, while
17 consisting of different anchorage zones, is a centralized area and the two launch companies
18 work within a 5-mile range.

19 Even with 10 launches in the market, not all launches are available all the time given
20 the maintenance schedules and United States Coast Guard requirements for dry-docking. In
21 the Bay Area, it is generally safe to estimate that out of 10 boats, at any given time 2 are
22 probably not available for service given these reasons. Thus, at any given time period, about
23 20% of the potential launches are not available for commercial use. With all the services
24 offered in the Bay area, there are still occasions during the year when both companies cannot
25 provide for all the needs of the vessels. Further, Pilots in the Bay Area generally operate
26 their own launches and rarely need the assistance of launch operators.

1 In Puget Sound, however, there is only one service provider, despite the vessel traffic
2 being almost exactly the same. Puget Sound's unique geography also presents an issue for
3 the single provider. As I already mentioned, the two launch companies in the Bay Area
4 operate in a relatively small, 5-mile area. The Puget Sound region, obviously, is much larger
5 than that. It is clearly even more challenging for one provider to adequately service such a
6 large area when two providers can encounter difficulties serving an area that is much smaller,
7 but which sees comparable vessel traffic.

8 The Puget Sound also sees a larger number of Pilots that require launch services in
9 the Puget Sound. While the Pilots in the Bay Area generally operate their own launches, the
10 Pilots in Puget Sound frequently require launch services. This is another factor that helps
11 show that a single provider will have difficulty adequately serving the Puget Sound region.

12 Additionally, it is my understanding that Arrow Launch does not operate tugs and
13 barges to accommodate large amounts of cargo, and I further understand that Arrow Launch
14 only operates around 8 launches at any one time. Those 8 launches are then responsible for
15 servicing eight separate ports spanning a distance of over 120 miles, as well as the remote
16 location of Grays Harbor. Given that regular maintenance is required to keep the vessels in
17 service, and the Coast Guard's dry docking requirements, it is likely that Arrow Launch has
18 1 to 2 boats unavailable for service at any given time. It is impossible then for Arrow
19 Launch to adequately serve all these locations.

20 **Q: How does Puget Sound compare to other major West Coast Ports?**

21 A: For the most part, the Puget Sound area is very similar to other West Coast ports.
22 It is my understanding that, throughout the West Coast, each port has multiple shipping
23 companies, multiple barging companies, multiple marine environmental companies, multiple
24 dry docking facilities, and multiple sightseeing and cruise companies. And to my
25 knowledge, all the other major West Coast ports also have multiple launch companies, with
26 the exception of the Puget Sound.

1 **IV. FINANCIAL FITNESS**

2 **Q: Next, I'd like to talk to you about the financial side of MEI Northwest. You**
3 **included a pro forma financial statement in your application to the Commission,**
4 **correct?**

5 A: Yes, I did.

6 **Q: I'm going to ask you to explain some things for me on the statement now.**
7 **We will call the application your pro forma statement is in Exhibit No. ____ (RSE-4).**
8 **Can you please turn to page 7 of Exhibit No. ____ (RSE-4) and briefly explain in general**
9 **terms what this document represents?**

10 A: Sure. The pro forma financial statement that we included in MEI Northwest's
11 application contains our best projections on what our financial inputs and outputs will be
12 during this first year. MEI Northwest's parent company, Marine Express, has some recent
13 history with expanding into a new market and becoming a successful provider, so that recent
14 experience helped us really hone in on our estimates and projections.

15 **A. Ridership and revenue forecast.**

16 **Q: I see that your total projected income for the first year is \$700,000. How did**
17 **you arrive at that number?**

18 A: We broke down our expected profits for 3 different types of services that we
19 would be offering if granted a certificate by the Commission. The first is, obviously, launch
20 services. This would be our bread and butter, so to speak, and we believe after looking at the
21 number of ships entering Puget Sound, our experience in other ports, and speaking with some
22 of our customers, that \$500,000 in launch services is a very realistic number. The other two
23 services, what we call Accessorial and Project Management Services, won't be as strong of
24 revenue generators as the launch services, but we realistically expect those two services to
25 bring in an additional \$200,000 total during our first twelve months.

1 **Q: Let's get into some of these numbers a little deeper. How did you arrive at**
2 **the \$500,000 number for launch services and what makes you think it is an accurate**
3 **number?**

4 A: The number is really based on about half the business we have been told is out
5 there for us. Honestly, we were trying to be a little conservative in our projections to account
6 for a margin of error that may exist in the information that was provided to us. It is also
7 based on a conservative estimate of MEI Northwest only providing services on a couple of
8 ships per week during the first twelve months. We certainly believe that we will be servicing
9 more ships than that, but chose to provide a more conservative estimate.

10 **Q: How many days a week do you anticipate MEI Northwest will be providing**
11 **launch services?**

12 A: We believe that, on average, MEI Northwest will be providing launch services to
13 vessels 3 to 4 times a week for 4 to 8 hours per day.

14 **Q: Will the number of days you provide services fluctuate depending on the**
15 **season?**

16 A: Generally need fluctuates with the amount of ships, but not with any one season.

17 **Q: Do you have experience starting up a similar launch service to what you are**
18 **proposing in your application that is the subject of this docket?**

19 A: Yes, we started a similar service with Marine Express in Long Beach, California
20 in 2012 and have been very successful. When we entered the market there were five other
21 launch companies already servicing the area. It was our relationships with our customers,
22 our emphasis on customer service, our quality of equipment, and our abilities that made us
23 successful in entering the marketplace.

24 **Q: How is that are similar to Puget Sound?**

25 A: The main similarity between the Puget Sound and the Long Beach area is that we
26 have the same business relationships with customers and they want and need our service.

1 Many of our customers in Long Beach and San Francisco are large companies with a
2 presence in all major West Coast ports. They would like to see us in Puget Sound too. The
3 customers believe that additional resources are needed in the Puget Sound to instill
4 competition that will make the services they receive better.

5 **Q: Do you know people in the Puget Sound are that would utilize your launch**
6 **services?**

7 A: Yes. We have business supporters throughout the West Coast.

8 **Q: How do you know?**

9 A: The clients that we work for throughout California also have a presence in the
10 Puget Sound and have informed us that they would welcome our support in the Puget Sound.

11 **Q: Now, moving on to Accessorial Services. How did you arrive at the \$150,000**
12 **estimate for accessorial service and what makes you think it is an accurate number?**

13 A: Accessorial services relate to transporting cargo or waste incidental to the launch
14 service. In our experience, cargo or waste is involved in about 30% of the launches we
15 perform. It can even increase some years to a total of 50% of the total revenue we derive
16 from performing launch services throughout the year. We used a very conservative estimate
17 for these charges, which will probably be higher.

18 **Q: How many days per week do you anticipate that MEI will provide accessorial**
19 **services?**

20 A: The service will be provided on an as-needed basis to all of our customers. Like I
21 mentioned just a moment ago, accessorial services of some kind, whether that's transporting
22 cargo, warehousing services, shipping, forklift service, crane service, or waste management
23 and disposal, make up about 30% of our business on average. So I would anticipate that we
24 would be providing some accessorial services at least every week that we are operating.

25 **Q: And do you have experience providing similar accessorial services**
26 **elsewhere?**

1 A: Yes. As far as I know, every launch company has accessorial charges, they are
2 often just called different things. Accessorial charges account for all the support and
3 additional equipment that is needed to furnish the launch service. We provide accessorial
4 services in all the places that MEI Northwest's parent company, Marine Express, operates.

5 **Q: And moving now to project management services. How did you arrive at the**
6 **\$50,000 estimate for those services and what makes you believe it is an accurate**
7 **number?**

8 A: We believe that this is a very conservative number based on managing just one
9 special project for any one of our customers. We anticipate that we would get more than one
10 of these projects in a given year, but again, we are being conservative in our estimates.
11 These project management services would include dry docking operations, specialty crane
12 service, large waste offloads, and consulting, among other things.

13 **Q: How often do you believe that MEI would provide project management**
14 **services?**

15 A: We currently provide this service throughout California, at the rate of several per
16 month. We have budgeted on this pro forma statement as though we would only provide one
17 such service during the course of the year, just to be safe and conservative. We do, however,
18 anticipate that this number will certainly grow the longer we are serving the Puget Sound.

19 **Q: Do you know of any customers in the Puget Sound area that would utilize**
20 **your project management services?**

21 A: Yes. We are respected throughout the industry and have a very good reputation
22 when it comes to managing special projects, specifically projects that involve cruise ships.
23 We believe that we can bring our knowledge and reputation to the region and serve cruise
24 ship customers, among others, in the Puget Sound.

25 ///

26 ///

1 **B. Cost of services for proposed operation.**

2 **Q: Now that we've gone through how you've arrived at the \$700,000 in**
3 **projected 12-month income, I'd like to talk to you about your 12-month projected costs.**

4 **Can you describe to me generally how you arrived at the numbers you did?**

5 A: Sure. With the projected costs, we take a little different approach than with
6 projected income. Where we try and be very conservative with our income projections, we
7 tend to estimate things closer to the average cost of something or slightly above the average
8 when it comes to costs. This is our business philosophy. If we don't think that we can turn a
9 profit with conservative estimates with an average to above-average output for costs, then we
10 don't think that it's a prudent business decision.

11 **Q: So then, going down the different costs listed in your "Projected Costs"**
12 **column, how did you come to conclude that all those categories needed to be included in**
13 **your costs projection?**

14 A: We have a lot of experience running this type of operation. We know all of the
15 different costs associated with launch services, from those associated with running the
16 launches themselves, to the office space, to taking care of employees, to marketing and
17 everything else. We understand well the expenses involved in running the day-to-day
18 operations of a successful launch service.

19 Overall, I think the figures provided and the detail speaks for itself. We have
20 allocated an appropriate number for costs and expenses based on the market rate for those
21 expenses in the Puget Sound area and our prior experience operating a similar service in
22 California.

23 **Q: How many full-time employees do you anticipate hiring?**

24 A: We think 4 to 6 full-time employees would be appropriate.

25 **Q: Who will captain the vessels?**

26 A: Our employees would captain and deckhand the vessels.

1 **Q: Would you have a local office?**

2 A: Yes.

3 **Q: Do you currently have arrangements in place for docking your vessels?**

4 A: No. We will make these arrangements after the Commission grants our
5 application. But we have done our due diligence research and have identified a couple of
6 different available options.

7 **C. Cost of assets used in providing the service.**

8 **Q: Does MEI Northwest own its own vessels?**

9 A: The vessels that MEI Northwest would utilize are owned by the parent company
10 Marine Express. Marine Express would charter two vessels to MEI Northwest.

11 **Q: Are the vessels insured?**

12 A: Yes, the vessels are insured. We provided a current copy of the statement of
13 insurance on the vessels, and as soon as MEI Northwest is granted a certificate, MEI
14 Northwest will be added as an additional insured under the policy.

15 **D. Statement of total assets on hand.**

16 **Q: What are the total assets of MEI Northwest?**

17 A: As provided in the application, the total assets of MEI Northwest are equal to
18 \$405,000. This is a combination of cash on-hand and other liquid assets belonging to the
19 parent company, Marine Express. This does not include the value of the boats at a combined
20 value of \$600,000.00 held by the parent company.

21 **Q: And how much cash on hand does MEI Northwest currently have?**

22 A: \$300,000.

23 **Q: And what are the other liquid assets that make up the other \$105,000?**

24 A: That would be our forklift, spare parts, company truck, and rigging and support
25 equipment.

26 **Q: Any other assets?**

1 A: MEI Northwest does not currently own any real estate, but the parent company
2 Marine Express owns several pieces of real estate throughout California. Additionally the
3 parent company owns 18 floating assets, commercial trucks, cranes and forklifts.

4 **E. Statement of prior experience.**

5 **Q: What experience does MEI Northwest have providing services of this type?**

6 A: The owners, managers, and administrative team of Marine Express will be
7 directing the operations and business practices of MEI Northwest. Marine Express has been
8 providing a successful launch service since 1982. It started out as a small service with a
9 single vessel and has grown to a multi-port, multi-vessel operation with a large customer
10 base. Marine Express recently expanded into the very competitive market in Long Beach,
11 California. It is the years of experience operating a successful launch company and a
12 commitment to customer service that has helped that venture be successful.

13 **Q: Has Marine Express ever had any financial difficulties?**

14 A: Marine Express is well-managed and has never had any major financial issues.
15 We are confident in our capabilities, but conservative in our growth efforts. We believe that
16 in our over 30 years of providing launch services that we have been able to learn how to read
17 and judge the market accurately, and while we look for ways to expand our business, we do
18 not do so at the risk of financial solvency.

19 **Q: How will this experience help you in the Puget Sound?**

20 A: We believe that our decades of operating a similar launch service will be
21 invaluable to a successful operation in Puget Sound. We have the industry know-how and a
22 built in client base in the area. We believe that we are ready to succeed in the area.

23 **V. TERRITORY ALREADY SERVED**

24 **Q: Please explain the type of service you intend to offer.**

25 A: We intend to offer launch services to deep draft vessels in the various anchorage
26 zones listed in our application.

1 **Q: Do you understand the type of service that Arrow Launch currently offers in**
2 **those territories you are applying for?**

3 A: Yes.

4 **Q: Is your proposed service different than that of Arrow Launch?**

5 A: No.

6 **Q: Is there demand in the areas that you are applying to serve that is currently**
7 **unmet?**

8 A: Yes.

9 **Q: Does the need in the various areas you are applying to serve fluctuate?**

10 A: Yes.

11 **Q: What causes the need to fluctuate?**

12 A: The number of vessels in anchorage, the global economy, and the shipping and
13 refining of crude oil are some examples that can cause need to fluctuate. Many vessels can
14 arrive the same day to the same anchorage zone and if an American tanker arrives, it will
15 require a boat for the entire day to transport the crew to and from shore.

16 **Q: What is need like at its peak?**

17 A: It depends on the area. But take Anacortes for example. Anacortes is a busy
18 anchorage zone and at its peak it requires 4 boats to adequately serve the needs of all the
19 customers.

20 **Q: Can Arrow Launch provide adequate services to all of its customers in all of**
21 **its territories when need is at its peak?**

22 A: No, it cannot. Again, take Anacortes again as an example. Typically Arrow
23 Launch only has 1 or 2 boats servicing an area. This causes availability issues when there
24 are multiple ships in the area or an American Tanker. Further, by leaving 1-2 boats in
25 Anacortes at any one time, Arrow Launch is effectively allocating approximately 25% of its
26 resources to 12.5% of its territory. This can cause issues when other areas that Arrow

1 Launch serves experience increased need and there are not enough boats nearby to handle the
2 increased need. In turn, customers become frustrated at the lack of alternatives to Arrow
3 Launch and are frustrated by the fact that there is no other company to turn to for services.

4 **Q: Have you observed Arrow Launch underserve customers in Anacortes?**

5 A: I have visited their dock several times over the past year or so and I know how
6 many boats they keep. I have also been told that if there are a couple ships at anchorage it is
7 challenging to get the launches in a timely manner. This is very frustrating to the customers
8 that I spoke with.

9 **Q: Are there any other certificated providers offering services that overlap with**
10 **Arrow Launch's launch services?**

11 A: No. It is my understanding that Arrow Launch is the only provider of launch
12 services for the territory listed in its certificate.

13 **VI. ARROW LAUNCH'S FAILURE TO FURNISH**
14 **REASONABLE AND ADEQUATE SERVICE**

15 **Q: If Arrow Launch already serves all of the territory that you intend to serve,**
16 **why do you believe that MEI Northwest's services are required?**

17 A: The clients that make up a majority of our California business also have a
18 presence in all the major ports on the West Coast. The Puget Sound is no exception. We
19 have heard from our clients that Arrow Launch is not providing the level of services that they
20 receive in other ports up and down the West Coast.

21 In short, there is a larger need for services than Arrow Launch can provide. As I
22 already mentioned, when an American tanker comes in it will tie up a launch for the majority
23 of the day, putting all the other clients on hold. Shipping and oil are the cornerstones of our
24 industry and what drive the market. That means that when an American tanker comes in, it
25 will receive the highest priority. While other customers understand this, they are frustrated
26 by the fact that they see delays in the Puget Sound that they don't experience elsewhere. Just

1 because a tanker comes in does not mean that the other customers should be forced to wait or
2 be pushed to the back of the line. If the current provider does not have the resources to
3 service all its customers when their needs require it, there should be another provider that can
4 service those needs.

5 **Q: Do you know of any particular instances where Arrow Launch was unable to**
6 **provide services and a customer suffered as a result?**

7 A: Yes. I've aware of an accident that happened a number of years ago that I
8 understand came about because Arrow Launch was over-extended in its operations and did
9 not have the capacity to serve a customer that called to ask for help.

10 **Q: Do the events described in Exhibit Nos. ___ (RSE-5) and ___ (RSE-6)**
11 **describe the incident you just mentioned?**

12 A: Yes, they do.

13 **Q: Can you please tell me what your understanding is of the event that these**
14 **Exhibits describe?**

15 A: Yes. After looking at these Exhibits, I understand that Arrow Launch was called
16 by a ship coming to Bellingham Bay. Apparently the ship requested that Arrow Launch
17 provide it launch services, and Arrow Launch agreed, even though it did not have one of its
18 own launches available. I further understand that Arrow Launch apparently called another
19 company, Island Commuter, and asked if Island Commuter could perform the launch service,
20 allegedly under some kind of subcontract. When Island Commuter went to provide the
21 launch service instead of Arrow Launch, an individual was allegedly injured during the
22 course of the service.

23 **Q: How do you think this incident shows that Arrow Launch is underserving**
24 **the area?**

25 A: This accident illustrates what I've been talking about already. Arrow Launch has
26 to serve 8 different major port areas across 120 miles, plus Grays Harbor. It has to do so

1 with a total of what I believe is 8 vessels, 1 or 2 of which may be out of commission at any
2 given time for maintenance. Plus another 1 or 2 may be completely out of service given their
3 age, single propulsion systems, or the fact that they are for sale at MARCON
4 INTERNATIONAL. When things get busy, or when Arrow Launch has vessels allocated to
5 different ports, it may be unable to respond to a customer in need of launch services.
6 Because Arrow wants the business, it contracts the launch service out with a company that
7 does passenger ferry routes into the San Juan Islands instead of telling the customer that
8 Arrow Launch doesn't have any available launches. It seems pretty clear to me that this is a
9 mistake. Docking a boat at a pier or dock is one thing, but providing a launch to ship at sea
10 or anchor is a different matter altogether. Arrow Launch knows this, it said as much in that
11 document I just read: "A transfer to a launch can be dangerous" Exhibit No. ___ (RSE-
12 6).

13 There is a reason that launch services should be performed by companies experienced
14 with providing those precise services, and not some service that is arguably similar. Had
15 Arrow Launch been providing a level of service adequate to meet its customer's needs, it
16 would not have had to contract with a company that primarily provided passenger ferry
17 service to the San Juan Islands and perhaps this injury never would have occurred.

18 **Q: Thank you. I'd like to turn back to what you've heard from your own**
19 **customers now, please.**

20 A: Ok.

21 **Q: How many different customers have approached you inquiring about your**
22 **willingness to provide launch services in the area?**

23 A: Over the past 5 years, I would say that I have had at least 5 customers approach
24 me about operating in the Puget Sound. Routinely these 5 or so customers have discussed
25 this topic and their level of support and enthusiasm for our service.

26 **Q: What types of customers are these?**

1 A: These are customers that I have relationships with in California. They are
2 customers that operate in every major port on the West Coast and make up a significant
3 portion of my business in California. They are ship agents, shipping companies, and marine
4 transportation companies.

5 **Q: What have these customers told you about Arrow Launch?**

6 A: They have told me that competition in the area would be beneficial to them, as
7 members of the commercial public, as well as to the general market as a whole. They tell me
8 that there are many occasions where they are required to work around Arrow Launch's
9 schedule, which causes delays and harms their businesses. Further, they have mentioned that
10 Arrow Launch's customer service is not in-line with other providers on the West Coast.
11 They tell me that this is because Arrow Launch is enjoying a monopoly in the area and that
12 without the threat of losing some of their business, Arrow Launch has no incentive to put its
13 customers first or to improve and modernize its fleet. Arrow Launch has educated and
14 informed its clients in the Puget Sound that it is the sole provider. It has told its customers
15 that no other companies can come in and that they will not be flexible with their terms and
16 conditions in order to promote better customer service. As a result, they have put fear in
17 those same clients. The clients want to come forward and say something or do something to
18 get a new service provider in the area, but they are afraid to do so because if that effort fails,
19 they will have damaged their relationship with the only entity that they can do business with.

20 **Q: What are the main complaints that you have heard from your customers**
21 **about Arrow Launch?**

22 A: The biggest complaint that I have heard from my customers is in regards to Arrow
23 Launch's availability. Customers are frequently having to work around the schedule of
24 Arrow Launch even though Arrow Launch holds itself out to be an around-the-clock
25 provider of services. In reality, Arrow Launch's services are frequently lacking. I have also
26 heard numerous complaints about Arrow Launch's lack of communication with its

1 customers. This leads to frustrated customers and lost business opportunities. The
2 customers that I have spoken with express frustration over the fact that Arrow Launch is not
3 willing to communicate with them to learn how it can better serve the customers' needs.
4 This leads to less efficiency for the customers because they have an unreliable provider of
5 services with no alternate provider to turn to for services.

6 **Q: What realistic effects do these complaints have on launch service customers'**
7 **businesses?**

8 A: Ships and shipping are literally and figuratively moving targets. When the
9 schedules of a specific ship or shipping company change, as they frequently do, the ships and
10 shipping companies need to have reliable launch service providers that can move swiftly
11 with them. This is because, ultimately, delays in service can have massive negative effects
12 on the shipping companies and the owners of the vessels. For example, depending on the
13 contract, delays caused by a launch provider failing to provide timely services to a vessel can
14 result in demurrage. This can lead to a potentially devastating loss for the ship or shipping
15 company.

16 And even if a delay in providing services to a customer does not result in demurrage,
17 it can still have negative impacts on the relationship between the customer and the person or
18 entity that the customer was contracting with. It can lead to a loss of business for that
19 customer because the person or entity it is contracting with might find that customer to be
20 unreliable. This is a devastating position for the customer to be in, especially when the root
21 cause is a single, regulated and protected launch service provider being incapable of
22 providing services at the level it is required to.

23 **Q: Is there any particular anchorage zone that you have heard the most**
24 **complaints regarding?**

25 A: Yes. Anacortes is definitely the area that I have heard the most complaints about.
26

1 **Q: How would you be able to serve the territory differently than Arrow Launch**
2 **if your application were granted?**

3 A: We would crew a boat around the clock to facilitate service on demand. We
4 would communicate with the client and their organization to provide efficient and safe
5 transportation. We would be flexible and forthright with information to establish more of a
6 partnership and less of a contentious environment.

7 **Q: I noticed that throughout your testimony today you have referred to**
8 **“customers,” but have not identified any by name. Is there a reason for that?**

9 A: Yes. My customers and supporters are afraid to speak out. Arrow Launch has
10 made it clear to the customers that utilize its service in the Puget Sound that business is done
11 on Arrow Launch’s terms. If that means a customer has to wait until it is more convenient
12 for Arrow Launch to provide services, then the customer will have to wait, even if Arrow
13 Launch is capable of performing the services when asked.

14 This is one of the potential drawbacks of the UTC certification process. The process
15 can create an environment where a single provider essentially holds a monopoly on the
16 market. This is fine, so long as the public is adequately being served and the provider is
17 meeting all the needs of its customers and keeping up with advancements in the industry.
18 But that is not what is happening in this case. The public is being underserved by Arrow
19 Launch not only in the services it provides, but the manner in which it provides those
20 services. The equipment that facilitates the service is just as important as the service itself.
21 In a competitive market, the public would see an improved fleet of vessels working in the
22 area. This would include newer builds, repowered vessels, more environmentally friendly
23 vessels, and vessels with twin diesel engines.

24 It is my view that when the general public is being underserved by a single provider,
25 the Commission should function like a gatekeeper. The gatekeeper should be vigilant in
26 ensuring that the public is adequately served and that the rules that the Commission is

1 governed by are being used to serve the public, not a company. Arrow Launch in
2 underserving the Puget Sound and because of the lack of resources and availability, a large
3 amount of ships are choosing to have services performed in other regions. When services are
4 intentionally avoided in a region it affects the revenue of other businesses in the industry as
5 well as the State of Washington.

6 **Q: Does this conclude your testimony today?**

7 A: Yes, it does.

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Docket TS-160479
CERTIFICATE OF SERVICE

I hereby certify that on October 4, 2016, I caused to be served the original of the foregoing document to the following address via FedEx to:

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

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1 *Administrative Law Judge*

2 Judge Marguerite E. Friedlander
3 Washington Utilities and Transportation Commission
4 Email: mfriedla@utc.wa.gov

5 Signed at Seattle, Washington this 4th day of October, 2016.

6 

7 Freida Mason, Legal Assistant
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