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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  
JACK HARMON  
PRESIDENT, ARROW LAUNCH SERVICE, INC.**

**November 1, 2016**

1 **I. INTRODUCTION**

2 **Q: Please state your name, position at Arrow Launch Service, Inc., and business**  
3 **address.**

4 A: My name is Jack Harmon and I am and have been an owner of Arrow Launch Service,  
5 Inc. (“Arrow”) for the past 27 years. My business address is 830 Boathaven Drive Port  
6 Angeles, Washington 98362.

7 **Q: Will you please provide a brief background of your experience regarding the**  
8 **operation of Arrow in general and familiarity with Arrow Launch Service, Inc. in**  
9 **particular?**

10 A: My family has owned commercial work boats for my entire life, with my crib literally  
11 being on a commercial fishing boat, with every dollar I’ve ever earned coming from the  
12 marine industry. Prior to coming to Washington State in 1989, I lived in Southern  
13 California and worked on various fishing vessels, both commercial and recreational  
14 commercial, and later, for several tug companies, ultimately going to work for launch  
15 companies in San Pedro, H10 Water Taxi and J & S Water Taxi. I also worked for  
16 Antone Sylvester Tug & Launch. I hold a U.S. Coast Guard Masters License 1600  
17 gross tons, All Oceans, with an unlimited RADAR endorsement that includes  
18 Automatic Radar Plotting, with necessary endorsement to sail on international voyages.  
19 In addition, I am a USCG certificated “Person In Charge” of transferring dangerous  
20 liquids (PIC/DL) meeting the requirements for transferring oil products over water. I  
21 received my first Captain’s license at the age of 18 (over 40 years) and have operated  
22 vessels all over the West Coast and in the Gulf of Mexico. In 1989, my then partner  
23 and I purchased the former Sea Wolf Launch and Charters and its WUTC certificate  
24 and relocated our families from Southern California to Washington State. In the mid-  
25 1990’s my wife, Terri, and I bought out our partner and incorporated the company from  
its trade name Arrow Launch to its now corporate name Arrow Launch Service, Inc.

1 **Q: Are you a member of any marine stakeholder groups or organizations?**

2 A: Yes, to name just a few, I am a member of the following organizations:

3 1) National Safety Council Waterborne Transportation Group

4 2) Puget Sound Marine Exchange Board of Directors

5 3) American Boat & Yacht Council

6 4) Puget Sound Harbor Safety Committee

7 5) Passenger Vessel Association

8 **Q: Has the company grown during your tenure?**

9 A: Well, yes, in terms of reported revenues. When we bought the company in 1989, it had  
10 about \$169,000 in annual gross revenues which we have now grown to approximately  
11 \$6.5 million in gross annual sales including nonregulated revenues. In the course of  
12 that growth, we have expanded our fleet of launch vessels from three in 1989 to our  
13 current 12 vessels and operate launch terminals in all Puget Sound Ports, and have 42  
14 employees

15 **II. SUMMARY OF TESTIMONY**

16 **Q: Can you briefly summarize the purpose of your testimony in opposing this**  
17 **application?**

18 A: I am testifying in support of Arrow's Protest and in opposition to MEI Northwest  
19 LLC's ("MEI") application for a Certificate of Public Convenience and Necessity to  
20 operate launch service in the Puget Sound. My testimony is intended to establish for  
21 the Commission that Arrow provides a fully adequate and satisfactory service to all  
22 territories in which it serves and has never failed or refused to provide reasonable and  
23 adequate service to any customer in its certificated territory. I am also quite familiar  
24 with the topics about which Randy Esch testifies in support of MEI's Application and  
25 believe my testimony will demonstrate why MEI's Application should be denied by the  
Commission.

1 **Q: Do you believe that the territories in which MEI is applying can support two full**  
2 **time, viable launch providers?**

3 A: No, I do not. As other industries have, many shipping companies have also entered into  
4 mergers which has resulted in fewer vessels calling on *all* West Coast Ports. The  
5 widening of the Panama Canal which just reopened accelerates this phenomenon.  
6 Further, larger ships are being built to haul more cargo per voyage, reducing the amount  
7 of ships required to call upon ports. Additionally, Alaskan crude output has steadily  
8 diminished, resulting in fewer US tankers operating between Alaska and West Coast  
9 ports. This in turn has resulted in more foreign flagged tankers transporting crude from  
10 other global locations. As identified below, foreign flagged vessels utilize a fraction of  
11 the launch service required by US flagged vessels. This does not include any of the  
12 impact of oil by rail on overall vessel traffic volume. This steady traffic decline, as  
13 evidenced by Puget Sound Marine Exchange historical arrival numbers (*see* Exhibit No.  
14 \_\_\_\_ (JLH-2)) has and will affect all segments of the marine industry. This is also very  
15 visible in the consolidation and reduction of other marine providers. For example,  
16 Puget Sound at one time had five local ship chandlers (supplier), and now is down to  
17 one local Chandler. Puget Sound also previously had several bunker (fuel) barge  
18 providers, and now is served by a single one. Additionally in response to many of these  
19 factors, the ports of Seattle and Tacoma joined forces in 2015, forming the NW Seaport  
20 Alliance, combining resources of both ports in an effort to combat the declining  
21 volumes of ship traffic in Puget Sound which is a significant threat to the economic  
22 well-being of the State of Washington.

23 **III. APPLICANT CANNOT DEMONSTRATE ARROW LAUNCH SERVICE, INC.**  
24 **FAILED TO PROVIDE REASONABLE OR ADEQUATE SERVICE**

25 **Q: In support of your testimony are you sponsoring any exhibits which will be**  
**introduced in support of Arrow's protest to the application?**

A: Yes, I am sponsoring the exhibits below:

- 1 1) Exhibit No. \_\_\_ (JLH-2) is a true and correct copy of an e-mail chain between Jack  
2 Harmon and Neil Caldwell, Operations Manager for the Marine Exchange of Puget  
3 Sound, in which the annual vessel visits to the Puget Sound from 2013 to date are  
4 provided.
- 5 2) Exhibit No. \_\_\_ (JLH-3) is a true and correct copy of the Certificate BC-97 of  
6 Arrow Launch Service, Inc.
- 7 3) Exhibit No. \_\_\_ (JLH-4) is a true and correct copy of Arrow Launch Service, Inc.'s  
8 2014 and 2015 WUTC Annual Report Fleet Schedules.
- 9 4) Exhibit No. \_\_\_ (JLH-5) are true and correct copies of the launch schedules used by  
10 a number of Arrow's customers including asterisked notations indicated by the  
11 customer.
- 12 5) Exhibit No. \_\_\_ (JLH-6) is a true and correct copy of e-mails and a letter received  
13 from customers regarding Arrow's service.
- 14 6) Exhibit No. \_\_\_ (JLH-7) is a true and correct copy of the Puget Sound Marine  
15 Exchange's data for vessel arrivals in 2015.
- 16 7) Exhibit No. \_\_\_ (JLH-8) is a true and correct copy of an NTSB Marine Accident  
17 Brief regarding the sinking of the towing vessel, Delta Captain.

18 **Q. Could you describe the territory serviced by Arrow?**

19 A. Yes, pursuant to its Certificate of Public Convenience and Necessity, BC-97, submitted  
20 as Exhibit No. \_\_\_ (JLH-3), Arrow provides passenger and freight launch service  
21 throughout the Puget Sound as well as Grays Harbor.

22 **Q. Please describe, generally, what services Arrow provides in those geographic  
23 territories?**

24 A. Arrow provides launch service, transporting people to and from ships, as well as  
25 transportation of freight and goods, including food, supplies and equipment, to and  
from ships at anchor, underway or alongside docks.

1 **Q. Can you describe for us the boats used by Arrow to provide those services?**

2 A. Arrow owns and operates 12 United States Coast Guard Inspected and Certificated  
3 vessels, ranging in size from 40 to 74 feet (*see* Exhibit No. \_\_\_\_ (JLH-4)). Our boats are  
4 modernized with updated mechanical, navigation systems, operational and rescue  
5 systems, to name just a few of those systems, including: two RADARS, of which one  
6 RADAR overlays a chart plotter and the Automatic Information System (AIS) onto the  
7 display screen, two GPS units, two Marine VHF radios, a private radio that is encrypted  
8 for security, electronic engine controls, low and high voltage alarm monitoring system,  
9 Pilot house mounted CCTV monitor that views both the engine room and passenger  
10 areas, with all wiring meeting or exceeding USCG and/or ABYC standards. In  
11 addition, every Arrow vessel is equipped with an automated external defibrillator  
12 (AED), an advanced first aid kit (in addition to the first aid kits required by the United  
13 States Coast Guard), a pulse & blood pressure monitor, illuminated self-inflating man  
14 over board rescue pole, modern LED and redundant lighting, cold water rescue suit,  
15 custom engineered rescue davit with recovery gear. Arrow vessels are also equipped  
16 with life rafts that in the event of an emergency keep persons completely out of the  
17 water. These updates are identical on all Arrow vessels and allow our vessels to  
18 operate at very high performance levels; with all crew being continually trained and  
19 evaluated in the proper use of the above-referenced equipment, almost all of which are  
20 upgrades not mandated by the United States Coast Guard.

21 **Q: Are there various standards or criteria that Arrow's boats are required to meet?**

22 A: Yes, in addition to the requirements of the U.S. Coast Guard, some of our customers  
23 subscribe to Oil Companies International Marine Forum (OCIMF) requirements, which  
24 are superior to what they view as the "minimum" requirements of the U.S. Coast  
25 Guard, and utilize either Offshore Vessel Inspection Database (OVID) or Ship

1 Inspection Report Programme (SIRE) requirements. In order to serve all customers,  
2 Arrow's vessels are compliant with these standards.

3 **Q: Mr. Esch testified that he estimates one to two of Arrow's boats would be**  
4 **unavailable at any given time. Is this an accurate estimation?**

5 A: Not at all. For Arrow, the annual average number of vessels offline at a given time is  
6 actually less than one. This is due to the fact that Arrow has a very aggressive  
7 preventative maintenance program that includes a fully-staffed shop of welders,  
8 electricians, mechanics and purchasing. Unlike what Mr. Esch describes, dry docking  
9 of Arrow USCG-inspected vessels is only required twice in five years, NOT every year.  
10 Also, when dry docking, our vessels are moved into our own inside repair facility.  
11 Being inside keeps us out of the weather and significantly shortens the maintenance  
12 out-of-service period.

13 **Q: Mr. Esch also testified that for the San Francisco Bay, approximately 20 percent**  
14 **of launch vessels are not available for commercial use at any given time. Is this**  
15 **also true for Arrow in the Puget Sound?**

16 A: No, it is not.

17 **Q: Why not?**

18 A: As noted above, Arrow follows a very aggressive preventative maintenance program,  
19 utilizing in-house welders, fabricators, electricians and mechanics as well as 8,000  
20 square feet of inside/covered shore facilities to support the fleet. In addition, Arrow  
21 owns a plethora of spare parts, such as complete and ready to install new engines and  
22 transmissions, pumps, propellers, along with owning inventory for just about every part  
23 used on our fleet. Our vessels have been standardized so parts used on our boats are  
24 interchangeable, which keeps our fleet fully operational, minimizes any out of service  
25 time, which increases reliability of our fleet.

**Q: What is the effect of vessel standardization?**

1 A: Arrow's implementation of standardization allows interchangeability of parts or  
2 equipment which results in Arrow being more cost effective, reducing training time and  
3 expense, and affording our crews vessel familiarity throughout the fleet resulting in safe  
4 and efficient service to our customers. Additionally, because Arrow is a major service  
5 provider in Puget Sound, we schedule maintenance sequentially and there is no chance  
6 that we schedule a boat to be out of service at the same time as another launch  
7 company, as assumed in Mr. Esch's testimony, thus eliminating complications in  
8 keeping our vessels in the water and in service.

9 **Q: Mr. Esch further testified that Arrow is underserving the public with its existing**  
10 **fleet, do you agree?**

11 A: No, I wholeheartedly disagree. Mr. Esch's allegations of an inadequate fleet are without  
12 merit or any first-hand knowledge. Mr. Esch suggests another provider would result in  
13 newly built vessels. In MEI's application, however the two boats it proposes to utilize  
14 by lease from its parent company are 38 years old, which is a similar age to some of our  
15 vessels. However, as I know all too well, age alone is rarely an accurate indicator of  
16 the condition of a vessel. Boat maintenance is a constant process so as to assure the  
17 equipment is safe, dependable and ready to work. Upgrades and standardization of  
18 systems are routine in our fleet. Even in ports with multiple operators, I am not aware  
19 of any launch company whose fleet isn't populated with similarly aged vessels, which  
20 are in various conditions of quality and reliability based on the launch operator's  
21 tolerance of maintenance expenses. We have looked at building new vessels many  
22 times in the course of our history; however, the capital expense of a new boat does not  
23 make financial sense when the maintenance costs of a vessel, new or old, begins  
24 immediately upon being placed in the water, and when the tariff rates to support that  
25 new equipment would need to be considerably higher.

**Q: Does Mr. Esch's testimony about your equipment engage in other forms of**



1 **speculation?**

2 A: Yes. Mr. Esch also speculated that with another operator's emergence, we would likely  
3 repower our vessels. In California, MEI's parent Company is eligible for re-power  
4 grants via the Bay Area Air Quality Management District's Carl Moyer Memorial Air  
5 Quality Standards Attainment Program. It is my understanding that these grants  
6 (subsidies) will fund re-power (new engines) for marine vessels with maximum eligible  
7 grant funding up to 85% of the capital cost of new main engines and approved  
8 modifications required to the vessel. Washington State has no such equivalent  
9 program.

10 **Q: Have you in fact reevaluated your own vessel power systems?**

11 A: Yes, we re-powered two of our prior international ferries, with new 4-cycle marine  
12 engines. That experience led us to affirm our retention of the reliable 2-cycle Detroit  
13 engines we currently use. In our experience, Detroit 71 series engines are simply the  
14 longest-lasting, most reliable, adaptable, easily maintained, and best option available to  
15 us today. Because the regulatory requirements of modern diesel engines continue to  
16 evolve, there is a patchwork of available engine models. Consequently, California  
17 operators, (including MEI), experience a patchwork of different engine manufacturers  
18 and models in their fleets which is not effective or efficient to maintain, complicates the  
19 operation and maintenance of a vessel to her crew, and ultimately leads to less reliable  
20 service.

21 **Q: Can you please characterize Arrow's maintenance program in the context of**  
22 **operating systems like Detroit Diesel engines?**

23 A: Yes. A component of Arrow's maintenance program is to regularly replace the  
24 propulsion systems in our boat(s) with new engines and transmissions. Because of our  
25 standardized fleet, we have new spare engines and transmissions in inventory and ready  
to put into service. When we replace the engines, we remove existing engines and

1 replace them with our on-hand new units. By having on-hand propulsion components,  
2 we can accomplish this on average in two days. The removed engines are then  
3 disassembled to bare block, thoroughly inspected and tested, then built with new  
4 components to original manufacturer's specifications. This system has worked very  
5 well for us and minimizes downtime, reduces expenses, in direct contrast to our  
6 experience and the limited availability of critical components or electronics necessary  
7 to repair and maintain the newer 4-cycle engines which, again, was our actual  
8 experience with new electronic engines.

9 **Q: Mr. Esch testified Arrow has just eight launch boats. Is that true?**

10 A: No, that is not correct. As I previously mentioned, Arrow owns and operates 12 launch  
11 vessels.

12 **Q: How does owning 12 launch vessels, as opposed to eight, impact Arrow's ability to  
13 provide service?**

14 A: Simply, 12 vessels is four more (or 50% additional) vessels than Mr. Esch based his  
15 theories of our service on (Exhibit No. \_\_\_(RSE-1T), 7:14), and which our 2014 and  
16 2015 Annual Fleet Report filing schedule confirms (See Exhibit No. \_\_\_ (JLH-4).  
17 Throughout our 27 year history, Arrow has always been able to provide service  
18 throughout the Puget Sound; but having 12 vessels, as of 2014, provides Arrow the  
19 enhanced flexibility to nimbly move its vessels to different ports where they may be  
20 needed, without impacting the ability to provide on-demand service elsewhere.

21 **Q: How does Arrow determine where its vessels are needed to be positioned?**

22 A: Our in-house, round-the-clock dispatch team monitors ship traffic and their anticipated  
23 movements. Further, Arrow is in constant communication with its customers to  
24 schedule services and to ensure our boats are in the locations where they are needed.  
25 Therefore we have the ability to move vessels between the Ports as necessary to

1 accommodate temporary spikes in demand, or to provide the best suited vessel for a  
2 specific customer job and/or weather conditions.

3 **Q: Does Arrow permanently keep a certain number of boats and support equipment**  
4 **at each port?**

5 A: Yes we do. Arrow typically keeps four boats in each of our three regions. We do this  
6 in order to provide the optimal service possible; despite that, more often than not, we  
7 have two to three vessels sitting idle per region and waiting for a call from the  
8 customer. Specifically, four boats in the North Sound (Anacortes), four in the South  
9 Sound (Seattle/Tacoma) and four boats in the West Sound (Port Angeles). This  
10 combination allows us to move vessels to other ports as needed. In addition, we own  
11 and operate 13 forklifts, nine cranes, trucks and all the necessary rigging and equipment  
12 to support our customers' requirements.

13 **Q: What about in Grays Harbor?**

14 A: At present, we do not keep any boats in Grays Harbor. Though we have historically  
15 serviced Grays Harbor and will continue to provide service when called upon to do so,  
16 the Port of Grays Harbor offers a publicly-owned launch service, the tariffs for which  
17 are charged to ships in the Port regardless of whether they use a private provider's  
18 service. This means any customer who wants to use Arrow would have to pay twice,  
19 once to the Port and once to Arrow.

20 **Q: Mr. Esch testified he believed Arrow underserved Anacortes by keeping only two**  
21 **boats in the area when four are needed at its peak. Do you agree with that?**

22 A: No, Mr. Esch is again incorrect. As stated above, we keep four boats in each of our  
23 regions. Actually, quite often, with four boats moored in Anacortes, we have two or  
24 three sitting idle and it's not uncommon to have all four sitting idle. Contrary to Mr.  
25 Esch's statement that "if an American Tanker arrives it will require a boat for the day,"  
(Exhibit No. \_\_\_(RSE-1T), 15:14-15). The fact is that an American tanker with even

1 the most robust requirements, orders service that is less than 12 hours of billable time in  
2 a 24 hour period. Most companies are scheduling two to eight trips a day, and  
3 cancelling service when ship's crew fails to "sign up to use the launch" (*see*, Exhibit  
4 No. \_\_\_( JLH-5)).

5 **Q: Are there high demand times where Anacortes requires four launch vessels?**

6 A: There are actually only a few times in the year that four boats are needed in Anacortes  
7 and in those rare instances, as noted, Arrow routinely has four boats in Anacortes. If  
8 any additional vessel above four were ever to be required, Arrow can easily relocate  
9 vessel(s) to any port requiring additional resources. I thus thoroughly disagree with Mr.  
10 Esch that Anacortes is or has ever been in our experience, "underserved."

11 **Q: Does Arrow interact with its Customers on efficient launch utilization?**

12 A: We in fact always communicate with our customers in order to satisfy their needs for  
13 service and their simultaneous need for economic efficiency by also often offering  
14 suggestions about combining services ordered for their vessels through *efficient*  
15 utilization of launch services. Further, as referenced above, because Arrow maintains a  
16 fleet of 12 launch boats, 42 crew persons, and a host of support items throughout Puget  
17 Sound we can assure that expeditious and broad geographic range of service for our  
18 customers.

19 **Q: Mr. Esch conversely implied Arrow is stretched too thin by dedicating 25% of its**  
20 **capability to just 12.5% of its territory. Do you agree with this?**

21 A: First, as I previously stated, Mr. Esch based his theories of our operations on incorrect  
22 data which result in misleading percentages. Mr. Esch is assuming Arrow has just six  
23 boats in the water, with one to two dedicated to Anacortes and the remaining boats  
24 covering Puget Sound plus Grays Harbor. Yet another incorrect assumption. I cannot  
25 recall how many years it has been since we have had just "one to two boats in  
Anacortes." As we have explained, Arrow operates 12 boats in Puget Sound, and boats

1 are additionally moved to various ports as customer demand, weather and job suitability  
2 dictate. Mr. Esch's testimony at page 4 further implies that *every day* "there are 3-4  
3 ships in Anacortes awaiting berth that would use our services." The fact is, there are  
4 *NOT 3-4 ships sitting idle everyday requiring service*, but when there are 3-4 ships at  
5 anchor, they are anchored where Arrow DOES provide service, and Arrow has never  
6 once been unable to service ships simultaneously. Finally, while Mr. Esch (Exhibit No.  
7 \_\_\_\_ (RSE-1T), 7:15) observes that we have eight separate ports to reinforce his  
8 utilization theories, as I have explained, we organize operations in Puget Sound  
9 primarily in three different regions: North Sound (Anacortes/Vendovi), West Sound  
10 (Port Angeles), and South Sound (Seattle/Tacoma). In addition to the previously noted  
11 US flagged tanker vessels, there are also Foreign Flagged Vessels which require  
12 minimal service, such as grain ships, container ships, vehicle carriers, and tankers.  
13 Most of these vessels proceed from the ocean directly to their berths, requiring zero to  
14 two launches per visit. Nonetheless, the equipment and ability to respond to an  
15 emergency request from these vessels would not be available if it were not for the  
16 "regular" users who require regular availability of vessels and workforce.

17 **Q: What are some utilization factors for your launches relative to the U.S. tankers?**

18 A: There are four U.S. tanker operators servicing the West Coast refineries with cargo  
19 from Valdez. When they have need to call on a Puget Sound refinery and require  
20 launch service they schedule "crew runs." The primary function of a crew run is to  
21 offer crew member(s) shore leave (sometimes called "liberty launches"). However,  
22 other personnel such as repair technicians, owners' representatives, the United States  
23 Coast Guard, the American Bureau of Shipping and others also ride on these crew runs.  
24 There is also a subset of U.S. tankers we serve called Articulated Tug and Barge  
25 (ATB). ATBs operate with smaller crews than conventional tankers because they are  
regulated as tugs. Unlike the U.S. tanker industry though, ATBs do not schedule runs

1 to provide their crews “shore leave” and typically instead schedule runs to combine  
2 joining or repatriated crew simultaneously with repair technicians, resulting in 0-to 2  
3 trips in a 24-hour period. Mr. Esch testifies that “when a US tanker arrives it will  
4 require a boat for the entire day” (RSE-T1, 15:14-15). The fact is that when a U.S.  
5 tanker arrives and if it anchors for a period long enough to require launch service, the  
6 US tanker operators may schedule between two to eight crew runs a day (*see* Exhibit  
7 No. \_\_\_ (JLH-5)). Unfortunately, as often happens, and as referenced in that exhibit,  
8 runs that have been scheduled are later deemed by the ship “not required,” and are then  
9 cancelled on short notice. These U.S. tankers transport Alaskan crude oil or refined  
10 derivatives to (and between) almost every refinery on the entire West Coast. External  
11 circumstances have decreased Puget Sound tanker arrivals. Refinery maintenance or  
12 shutdowns along with other market demands lead to situations where tankers that  
13 historically traded between Alaska and Puget Sound instead now operate almost  
14 exclusively between Alaska and California and/or Hawaii. A resultant decline in U.S.  
15 tanker traffic is corroborated by statistical arrival data from the Puget Sound Marine  
16 Exchange who tracks (all) arrivals into Puget Sound. Comparing the number of tankers  
17 calling on Puget Sound from Valdez demonstrates the severity of this decline; in 1992  
18 there were 285 tankers. By 2015, just 89 tankers arrived in Puget Sound, a decrease of  
19 69%. Despite this decline, launch resources (equipment and personnel) are still  
20 required to be available (and have always been) to provide reasonable and adequate  
21 service.

22 **Q: Has Arrow ever refused to provide service to a customer in its territory?**

23 A: Absolutely not.

24 **Q: Has Arrow ever failed to provide service to a customer because it was unavailable**  
25 **to do so?**

1 A: Again, absolutely not. In fact, Arrow prides itself on always providing excellent  
2 customer service and remains in constant contact with customers to anticipate their  
3 needs in advance to ensure service is provided in a timely and efficient fashion even  
4 when service is requested on very short notice. Frankly, without sounding immodest, I  
5 believe the industry and the WUTC would be amazed at the lengths Arrow dispatchers  
6 and crew go to assure timely, expedited service in every port of Puget Sound in which  
7 Arrow holds certificate authority.

8 **Q: Mr. Esch also testified “[if] that means a customer has to wait until it is more**  
9 **convenient for Arrow Launch to provide services, then the customer will have to**  
10 **wait, even if Arrow Launch is capable of performing the services when asked.” Do**  
11 **you agree with this statement?**

12 A: No, first of all, who, why and how would that ever be in our best interest? Various  
13 customers and vessels operate differently from one another. Some vessel operators will  
14 place their orders 36 hours in advance of their requirements, while others will wait until  
15 the last minute to order service. We accommodate all of our customers’ needs as  
16 expeditiously as humanly possible and without complaint.

17 **Q: What about emergencies on board ships, how does that impact scheduling?**

18 A: As an example, when a ship calls and reports, for instance, a medical emergency with a  
19 person onboard the ship who requires hospitalization, we will mobilize the closest and  
20 most appropriate equipment and crew to get that individual ashore. Nevertheless, I  
21 cannot think of a single time in which there was delayed service by Arrow to one vessel  
22 because of a medical issue on another vessel.

23 **Q: Do you receive calls to transport medical emergencies ashore and why isn’t that**  
24 **done by the U.S. Coast Guard in most circumstances?**

25 A: Yes we do. In fact because we operate on 24/7/365 basis to vessels, we are more likely  
to have a vessel underway than the U.S. Coast Guard in many situations. Also, the

1 Vessels we service have experience working with our boats and crew(s). Thus, we  
2 already have time-tested transfer protocols and working relationships established, and  
3 we know the nuances of individual ships or gangways on the ships, so we are actually  
4 better suited to provide a safe and timely transfer of personnel. In providing this  
5 service we are also most frequently called by cruise ships within our territory for  
6 emergency evacuations of personnel. The Coast Guard is ideal when a helicopter is the  
7 fastest route ashore due to the affected vessel's location or condition of an injured  
8 person, meaning they can fly directly to a hospital, while we transport the patient ashore  
9 to a waiting ambulance. As a consequence, we work with first responders in all Ports,  
10 and when appropriate, we will arrange for an EMT or Paramedic crew to ride out to the  
11 ship with us so they can begin treatment onboard and then monitor a patient enroute to  
12 shore. And again, all Arrow vessels have AED's and advanced first aid equipment and  
13 Arrow's crew(s) are fully and routinely trained in that equipment.

14 **Q: But, is the example given by Mr. Esch regarding the incident 16 years ago, in**  
15 **January, 2000 in Bellingham, reflective of a failure by Arrow to provide service?**

16 A: No, in fact, the incident in 2000 discussed by Mr. Esch demonstrates that Arrow did not  
17 fail to provide service to a customer. That incident also occurred during a unique time  
18 relative to the Puget Sound maritime industry and actually illustrates Arrow's  
19 willingness to go to lengths to accommodate customer needs on demand. The use of  
20 the chartered vessel was limited to the pipeline explosion aftermath, and to the best of  
21 my recollection, was used on just two or three occasions.

22 **Q: Why was that a unique time relative to the maritime industry in the Puget Sound?**

23 A: In June 1999, the Olympic Pipeline exploded near Bellingham, Washington. As  
24 a result of the shutdown of the pipeline, Arrow was concerned about the impact on  
25 ships supporting the oil transportation industry. At that time, Arrow owned five launch  
vessels, and realized that the increase in ship traffic was obviously temporary. It thus



1 contracted a vessel from Island Commuter Service, LLC to assist in accommodating  
2 various vessel demands.

3 **Q: Do you feel Mr. Esch is fair in relying on the allegations made in a personal injury**  
4 **lawsuit against Island Commuter Service in Bellingham to claim Arrow failed to**  
5 **provide adequate service even on an isolated occasion 16 years ago?**

6 A: Absolutely not. In fact, those allegations don't tell the whole story. That an incident  
7 occurred is highly unfortunate. However, that incident was more than 16 years ago and  
8 the fact it resulted in a personal injury lawsuit which was settled without fines or any  
9 fault attribution to any party is hardly evidence of any failure or refusal to provide  
10 regulated service by Arrow. Rather than selecting a random passenger ferry service in  
11 the San Juan Islands for a chartered vessel as Island Commuter II is portrayed by Mr.  
12 Esch, Arrow was quite familiar with the vessel it selected, "Island Commuter II," which  
13 is why we chose that vessel. Actually, both the Captain and Deckhand were also  
14 launch crew employees of Arrow who both understood how to safely operate a launch  
15 vessel. Mr. Esch's portrayal of Arrow as somehow unavailable to provide launch  
16 service and simply calling in a random boat operator to assist on the spot is completely  
17 false. Arrow well anticipated the surge in demand for service in 2000 and took  
18 appropriate actions to ensure its customers would be serviced in full compliance with  
19 WUTC regulations.

20 **Q: Has Arrow ever caused a customer vessel to be delayed?**

21 A: No.

22 **Q: Have any of your customers ever contacted Arrow alleging lost business**  
23 **opportunities, or that ships went to another port because of services performed by**  
24 **Arrow, including having sought remedy for a penalty or a demurrage claim to a**  
25 **customer vessel that was caused or contributed to by Arrow?**

1 A: Absolutely not. And, contrary to what Mr. Esch describes in his testimony Exhibit No.  
2 \_\_\_ (RSE-1T), 19:23-22:22) Arrow has never caused lost business opportunities or  
3 ships to go to other ports. Mr. Esch, incredibly, appears to implicitly attribute this to  
4 Arrow. The fact is that ships go to specific ports for their cargo requirements, not  
5 because of launch services(s). The documented decline of vessel traffic is not unique to  
6 Puget Sound ports. San Francisco is also experiencing declining vessel traffic, down by  
7 468 arrivals (comparing 2011 to 2015) as Mr. Esch provides in his testimony (*see*  
8 Exhibit No. \_\_\_(RSE-2), pg. 2). Following this rationale, the launch service in San  
9 Francisco must be failing to “adequately serve” the shipping public.

10 **Q: Mr. Esch is also claiming some unidentified Arrow customers have complained to**  
11 **him that Arrow informed them that no other companies can come into this market**  
12 **and that they consequently will not be flexible with their terms and conditions in**  
13 **order to promote better customer service. Is that true?**

14 A: Once again, absolutely not. Arrow prides itself on providing exemplary customer  
15 service and holds its customer needs second only to safety. We are constantly in touch  
16 with our customers on scheduling and service levels and could not have remained in  
17 this market this long if we were not innovative, responsive and constantly promoting  
18 interaction with our customers to maximize service efficiencies. As a result of our  
19 work with our customers, to our knowledge, not one has ever suffered any increased  
20 expense, demurrage fee, or harm to its business from delay. Arrow has a policy that  
21 invokes the following principles: “early is on time and on time is late,” coupled with  
22 constantly striving for an A+ rating with those customers. Arrow periodically receives  
23 inquiries from new customers or employees of customers who are not familiar with the  
24 regulatory framework for launch service in Washington State and who seek to better  
25 understand that framework. In those cases, we make sure they understand that we have  
an open-door policy and that, should they ever feel their concerns are not being heard,

1 the WUTC has a customer complaint process that is readily available to them. That  
2 process is also communicated during rate filings.

3 **Q: Does Arrow also work with customers to be flexible on rates?**

4 A: Our rates are an area where we consistently explain to our customers the regulated  
5 nature of the industry in the State of Washington. Some of our customers would like us  
6 to be flexible on rates, or to extend discounted payment terms because of their volume,  
7 or to give them commissions. As a company philosophy, we obviously eschew these  
8 practices, and as a regulated transportation company, we are not permitted to  
9 discriminate or afford preferences amongst customers. If a customer wants detailed  
10 input on the establishment or application of rates and what the Commission regulates  
11 they are, of course, invited by us to direct comments, questions or perspectives to the  
12 Commission during a rate filing or otherwise.

13 **Q: Do you think there could be any confusion about what constitutes a customer  
14 complaint?**

15 A: Absolutely not about service. About billing issues, late fees and payment terms there  
16 should not be any because they are uniformly applied in accordance with our tariff. As  
17 noted, some customers fail to observe that all of those factors are referenced in our  
18 regulated tariff and often request we offer “volume discounts” or other preferences that  
19 they may be used to in a deregulated environment that we cannot offer in Washington.  
20 Specifically, objections to net 30 day payment terms, late fees, or the inability to  
21 provide “volume” or “preferred discounts” could be wrongly characterized as a  
22 complaint about service. While customers who have asked us for these discounts  
23 and/or commissions may be displeased, it is my understanding that MEI is offering  
24 commissions and/or discounts to its California customers and that could explain why  
25 MEI may want to characterize the unavailability of those discounts and/or commissions  
here as “complaints” involving Arrow and its offerings.

1 **Q: By the way, have you heard complaints about MEI services in San Francisco?**

2 A: Yes.

3 **Q: What have you similarly heard from your own customers about MEI services in**  
4 **San Francisco?**

5 A: Over the last several years, we have had several of our customers tell us they wish we  
6 provided service in San Francisco which we responded by suggesting they talk with  
7 their current provider to address their concerns or service issues.

8 **Q: What is Arrow's philosophy when servicing a vessel?**

9 A: For any given vessel we have two "customers": first is the crew of the ship and second,  
10 but of equal importance, is the office or shore personnel who manage/operate the  
11 vessel, who have a primary interest in safe, dependable and cost-effective service. The  
12 crew onboard a vessel are effectively quarantined away from their homes and families  
13 for extended periods of time, typically 30-60 days on US crewed vessels, and six  
14 months to a year on foreign crewed vessels. I have served aboard vessels and  
15 understand this type of schedule monotony, which is why we deliver fresh doughnuts  
16 and newspapers to our customers' vessels during morning runs. I view this philosophy  
17 of personal service to the vessel and her crew, in addition to satisfying the shore side  
18 management of the vessel, as a pillar of our success.

19 **Q: Has Arrow ever received a complaint in response to solicitation of service**  
20 **inquiries?**

21 A: No. In fact, we frequently receive positive responses and feedback like the ones we  
22 now provide as Exhibit No. \_\_\_\_ (JLH-6).

23 **Q: Has Arrow ever received a complaint about failing or refusing to provide service**  
24 **lodged with the Washington Utilities and Transportation Commission?**

25 A: No. To our knowledge, Arrow has never received a complaint at the Commission  
regarding our service.

1 Q: **Mr. Esch also implied in his testimony that Arrow may have somehow intimidated**  
2 **its customers to the point where they are not willing to come forward and**  
3 **complain or otherwise support this applicant. Has Arrow done anything of this**  
4 **sort to intimidate or discourage its customers from speaking up?**

5 A: No, and I find that idea truly absurd. Although Arrow has grown over the years, we are  
6 still a small, family-owned operation. Every one of our customers is a very large  
7 company that dwarfs us in size. For example, I cannot imagine how Arrow could  
8 possibly intimidate Shell Oil. Moreover, Arrow provides more than just regulated  
9 services and we well know our customers have many options with respect to those  
10 other services. It would be foolish of us to try to intimidate (implicitly or explicitly)  
11 any customer, because we would risk not only losing their business but would  
12 jeopardize Arrow's very existence, our certificate, and along with it, the jobs and  
13 livelihoods of each of Arrow's employees. Further, we operate a service company, not  
14 one that makes "widgets" or supplies material goods. We operate transparently with  
15 our customers within the structure and jurisdiction of the WUTC. Many customers  
16 actually solicit our feedback when they are considering new or special operations in our  
17 territory because they rely on our extensive knowledge and track record of providing  
18 safe and cost effective services to their vessels. Lastly, and with regularity, I personally  
19 captain our vessels in all Ports, directly interfacing with our customers while serving  
20 them, in addition to being accessible by any customer 24/7/365 via phone or email.

21 Q: **By the way, when you applied with the WUTC in the past to extend your launch**  
22 **certificate to additional areas, were you aware that you needed to present shipper**  
23 **witnesses who could address need for service?**

24 A: Absolutely, and several of our customer witnesses appeared at the hearing in support of  
25 our application and were subject to cross-examination accordingly. Further, the WUTC  
Application forms (such as in Exhibit No. \_\_\_(RSE-4), pg. 1, "Shipper Support"

1 indication) advise parties of the process. Therefore, we presented several customer  
2 witnesses at our previous hearing.

3 **IV. REBUTTAL TO TESTIMONY OF RANDY ESCH REGARDING THE PUBLIC**  
4 **CONVENIENCE AND NECESSITY AND FINANCIAL FITNESS OF MEI**  
5 **NORTHWEST LLC'S APLLICIATION**

6 **Q: Have you reviewed Randy Esch's Pre-filed Testimony regarding his estimate for**  
7 **unmet demand for service in the Puget Sound?**

8 A: Yes, I have.

9 **Q: Do you take issue with any of the bases upon which he relies in reaching his**  
10 **conclusions?**

11 A: Yes, I absolutely do. For one thing, as shown, Mr. Esch based much of his testimony  
12 on inaccurate estimates of the capacity of Arrow to provide service. As I testified  
13 earlier, Mr. Esch alleged that Arrow had only eight launch vessels, when in fact Arrow  
14 owns and operates 12 launch boats, which is four more than what Mr. Esch speculated  
15 Arrow owns and operates. Additionally, as I also previously testified, Arrow keeps  
16 more of its boats in the water and operating than Mr. Esch projected. Mr. Esch also  
17 speculated that one to two of our boats would be unavailable for commercial use at any  
18 given time, leaving in his estimation, just six to seven boats in operation at once. In  
19 reality, on average, Arrow has 11-12 launch boats in the water. Additionally, Mr. Esch  
20 testified those boats were covering the Puget Sound *plus* Grays Harbor, but as I also  
21 testified earlier, due to negligible demand, Arrow doesn't even keep a boat in Grays  
22 Harbor. I also take issue with some of Mr. Esch's prognostications about the levels of  
23 demand for service which unfortunately have been materially declining, not increasing,  
24 in recent years, particularly involving the oil industry. Likewise, Mr. Esch failed to  
25 acknowledge that the proximity of the ports in Puget Sound allows us to move vessels  
between ports in several hours, which is vastly different than moving vessels between  
his operations say, in San Francisco and Los Angeles/Long Beach.

1 **Q: What other specific problems did you find with his testimony regarding the**  
2 **demand for launch service in the Puget Sound?**

3 A: To start with, much of his projection of service in Puget Sound is based on an  
4 extrapolation from data for San Francisco Bay. I believe the two areas are not  
5 sufficiently similar to ever use San Francisco Bay as a baseline for determining demand  
6 in Puget Sound. As an example of these differences, Mr. Esch testified that in San  
7 Francisco Bay, the pilots frequently use their own launch and projected a usage factor  
8 on the basis Puget Sound Pilots “frequently” require launches Exhibit No. \_\_\_(RSE-  
9 1T), 7:10) in Puget Sound. However here, the Puget Sound Pilots exclusively use their  
10 boats at Port Angeles and frequently and routinely receive free transportation from tugs  
11 and consequently only hiring a launch service when the “free” tug is unavailable.  
12 Further, Mr. Esch is also including an additional demand for launch service from the  
13 United States Customs and Border Protection. However, Customs and Border  
14 Protection (“CBP”) rarely, if ever, do at-anchor boardings in the North Puget Sound,  
15 and, if they do board a ship, it is rarely done as a single launch. CBP rides in  
16 conjunction with other scheduled launches. CBP is actually boarding their first vessel  
17 in North Puget Sound since 9/11/01, as I write this on October 13, 2016!

18 **Q: What is your reaction to the failure of MEI to provide any shipper/user support**  
19 **testimony in its case in chief?**

20 A: I was surprised frankly, that MEI went through the entire application process,  
21 prehearing conference and all this time and expense for parties and staff, to this point,  
22 and then, when it needed to put forward its application case in chief, it apparently had  
23 no direct evidence of need for service to present.

24 **Q: What about MEI’s efforts to support its application indirectly through the**  
25 **applicant’s own testimony and references to unidentified prospective customers of**  
**theirs?**

1 A: To say that testimony is self-serving is an understatement. Those “sources” are totally  
2 unidentified and MEI attempts to discredit us on the basis of hearsay speculation and  
3 supposition that it knows cannot be refuted through cross-examination of those  
4 unidentified businesses or users of their proposed services. In fact, not only are those  
5 fabricated pronouncements on our service completely untrue, but we are here  
6 presenting our own testimony from some current customers to respond to it, despite  
7 never having a complaint about levels of service or having an opportunity to respond to  
8 phantom customer support of MEI.

9 **Q: Do you agree that you have been “inflexible” or unmotivated to provide and**  
10 **enhance service in your 27 years of operation in Washington?**

11 A: Absolutely not, just the opposite. We are keenly aware of the standards in law and in  
12 the marketplace by which we are judged daily in performing regulated service. As  
13 noted, we always dialogue with our customers to meet both scheduled and on-demand  
14 service and have continuously expanded our fleet and our employment base over the  
15 years to meet those needs. In short we have continually invested in our infrastructure  
16 and personnel to meet and anticipate those needs.

17 **Q: Have you ever sought to “put fear” in any of “your clients” as Mr. Esch suggests?**

18 A: Again, absolutely not. That is really an outrageous accusation in my view. We instead  
19 actually are constantly on guard and vigilant to always provide the most optimal caliber  
20 of service so as never to be accused of failing to “furnish adequate and reasonable  
21 service” as well as to always go above and beyond in meeting all customers’, large and  
22 small, launch service needs.

23 **Q: Have you also had an opportunity to review the pro-forma financial statement and**  
24 **Randy Esch’s testimony regarding MEI’s financial fitness?**

25 A: Yes, I have.

**Q: Do you believe there are any inaccuracies with the information they rely upon?**



1 A: Yes, numerous inaccuracies, omissions and erroneous assumptions.

2 **Q: Now let's turn to Mr. Esch's Pro Forma Financial Statement / Exhibit No.**  
3 **\_\_\_(RSE-4). Do you have any specific concerns with these various itemized**  
4 **projections?**

5 A: Yes. Our review of Mr. Esch's testimony and financial exhibits leads to serious doubts  
6 about the basic accuracy of the projections about costs of service. For instance, in Mr.  
7 Esch's testimony Exhibit No. \_\_\_ (RSE-1T, 21:2) he states "[w]e would crew a boat  
8 around the clock" and then says Exhibit No. \_\_\_ (RSE-1T,12:24) "[w]e think 4 to 6  
9 full-time employees would be appropriate." Using my 40 plus years' of experience in  
10 both vessel crewing requirements and financial operations of launch companies, I can  
11 assure the Commission that the cost of "crewing a vessel" 24/7/365 combined with any  
12 need to randomly crew a second boat, when including the expense of holiday pay,  
13 overtime hours, benefits and taxes will far exceed his estimated \$220K of annual  
14 wages. Further, MEI has failed to include any meals or lodging in its pro forma other  
15 than a \$2,500 figure that it is unclear as to whether that is crew relocation travel or  
16 administration travel from San Francisco or both. Additionally, it is unclear to what  
17 \$102K expense for "Launch Charter" and "Admin Support/Corporate Fee" relates.  
18 Moreover, while I realize that our monthly cost of providing phones for 12 boats, key  
19 personnel and launch terminals throughout Puget Sound is significantly more than MEI  
20 would project, I'm unaware of how he can possibly provide "Communications" for  
21 \$2,000 a year. Is that just for a land line and two pagers, possibly?

22 **Q: Are there some other material expense line items you would question?**

23 A: Yes. Health care for six people at \$33K a year would be inadequate except possibly  
24 with a very high deductible plan and an under 35 year old risk pool in today's market as  
25 that amounts to less than \$500 per month per employee. MEI also projects a cost for  
"Professional Fees" of \$4K. In my experience, that is significantly low and would not

1 include even routine CPA or Attorney fees let alone the professional fees for  
2 prosecution of this application. Regarding his estimates for “Vessel Maintenance,”  
3 again MEI boats are about the same age as ours. If we next take MEI’s total aggregate  
4 annual estimate for “vessel maintenance” - \$12K, “subcontractors and Boat Yards” -  
5 \$15K and “mechanical maintenance” - \$8,500 and combine those figures, totaling  
6 \$35,500, it clearly demonstrates that MEI is anticipating not having one (1) major  
7 engine OR transmission failure. Whether the engines/transmissions are a day old or  
8 many years, the reality is that they are comprised of mechanical rotating parts that are  
9 subject to failure. If even just one of those parts fails, MEI’s projected \$35,500 for  
10 maintenance would be woefully inadequate. Additionally, if the Coast Guard in any  
11 inspection were to require even a small portion of a launch vessel’s hull plate to be  
12 replaced, which does occur, MEI’s \$35,500 annual maintenance figure could well be  
13 exhausted by that expense alone, not to mention the occasional misfortune of bent  
14 propellers. That budgeted amount would thus pale in comparison with the reality of  
15 these types of fairly routine maintenance “expenses.”

16 **Q: Finally, do you have a comment on MEI’s estimate of \$30,000 annually for vessel**  
17 **insurance?**

18 A: Yes. MEI pro forms insurance to be \$30,000. Again, in my 40 years of experience,  
19 and having just renewed a policy that has the purchasing power of a sizable fleet  
20 coupled with the fact that one of our customers now is requesting to have launches  
21 carry \$25 million minimum liability levels, for two launch vessels in liability coverage,  
22 it’s simply hard to believe MEI can credibly represent an annual cost of \$30K for  
23 insurance.

24 **Q: Do you see other anomalies or problems with MEI’s testimony?**

25 A: Yes. First, Mr. Esch or Puget Sound Marine Exchange (PSME) apparently  
unintentionally requested or provided the incorrect data set to MEI. Specifically, the

1 PSME vessel count information provided to Mr. Esch, and used in his Exhibit No. \_\_\_\_  
2 (RSE-3) is actually “Berth Arrivals” or counts for Puget Sound, meaning, when one  
3 ship arrives, *each movement* that the ship makes generates a “count,” thus including one  
4 vessel multiple times. This results in inflated data for these purposes.

5 **Q: Do you have anything more reliable to demonstrate Puget Sound vessel activity?**

6 A: Yes, a more accurate report to compare to Mr. Esch’s San Francisco Bay Marine  
7 Exchange Report (Exhibit No. \_\_\_\_ (RSE-2) “Total Arrivals”) would be the attached  
8 PSME report (Exhibit No. \_\_\_\_ (JLH-7)). To be clear, the SF Bay Marine Exchange  
9 actually counts “ship arrivals” as each ship passes under the Golden Gate Bridge when  
10 inbound from the ocean. In contrast, the Puget Sound Marine Exchange document MEI  
11 relied upon counts each movement of the vessel inside Washington, including multiple  
12 berth changes.

13 **Q: Do you have any other critiques of Mr. Esch’s Puget Sound vessel activity**  
14 **projections?**

15 A: Yes. We fundamentally disagree with the speculative nature of utilizing ship traffic  
16 volumes to correlate to launch service requirements. The combined Ports of Seattle and  
17 Tacoma account for approximately 68% of all vessel traffic entering Puget Sound as  
18 corroborated by (Exhibit No. \_\_\_\_ (JLH-7)). As measured by the PSME, though, those  
19 arrivals account for only 19% of Arrow’s launch activity. This demonstrates the fallacy  
20 of using these types of statistical data in an attempt to represent future launch  
21 utilization.

22 **Q: What about Mr. Esch’s annual revenue projection?**

23 A: I also question his projected \$500K in revenue. In MEI’s testimony ((Exhibit No. \_\_\_\_  
24 (RSE-1T), 8:20-22) Mr. Esch says “...and we believe after looking at the number of  
25 ships entering Puget Sound, our experience in other ports, and speaking with some of  
our customers, that \$500K [annually] in launch services is a very realistic number.”

1 There are numerous mistakes here. Again, the information MEI provides was gleaned  
2 from the incorrect data set in the Puget Sound Marine Exchange Report and the San  
3 Francisco/Golden Gate Area Marine Exchange. After reviewing that information, as I  
4 said previously, it is clear that Mr. Esch's testimony (Exhibit No. \_\_\_ (RSE-1T), 5:23)  
5 misinterprets the actual arrivals numbers for Puget Sound, thereby overinflating his  
6 represented number to 3,165 instead of using the actual far fewer number of arrivals of  
7 2,484 (Exhibit No. \_\_\_ (JLH-7). I also hasten to add, that I have communicated Mr.  
8 Esch's observations about San Francisco launch activity experience (Exhibit No. \_\_\_  
9 (RSE-1T), 5:24, 6:21-24), with Westar owner Mary McMillan, who is the other major  
10 launch company in the Bay area. She disagrees with the premise that "at any given  
11 time period, about 20% of the potential launches are not available for commercial use."  
12 She also disputes MEI's statement that "with all the service available in the Bay area,  
13 there are still occasions during the year when both companies cannot provide for all of  
14 the needs of the vessels." Yet, even putting aside Westar's statements and assuming  
15 MEI's ratio of 10 launches in the SF Bay area versus Arrow's 12 vessels in Puget  
16 Sound and using his erroneous, inflated Puget Sound ship arrival numbers, Arrow still  
17 has more launch vessels per ship as compared to the San Francisco/Bay Area launch  
18 providers, referenced by Mr. Esch (Exhibit No. \_\_\_(RSE-1T), 6:14). Moreover,  
19 contrary to MEI's fundamental assumption in counting ship arrival data, not all ships  
20 arriving in Puget Sound go to anchor; the majority in fact go right to a dock, never  
21 requiring launch services.

22 **Q: Would you have any of your own concerns about MEI's track record?**

23 A: Yes, MEI's track record for maintaining its vessels appears to be questionable and, as  
24 demonstrated, seriously understates necessary maintenance expenses in its pro forma. I  
25 also know of at least one recent incident in which an 85' tug owned and operated by  
MEI's parent company sank off the coast of California due to a cause which, while

1 never specifically determined, appears to be related to questionable vessel maintenance.  
2 Exhibit No. \_\_\_\_ (JLH-8) is the National Transportation Safety Board Marine Accident  
3 Brief regarding the incident.

4 **Q: Can you please elaborate on this analysis?**

5 A: Yes. Based on my review of the facts in this report, the incident occurred one day after  
6 the boat departed Alameda, near San Francisco. The tug was towing a barge to Long  
7 Beach, when the tug experienced uncontrolled flooding in its engine room, with the  
8 crew “abandoning the tug within about 10 minutes after the flooding began.” In the  
9 case of all vessels (including Arrow’s), the watertight integrity between compartments  
10 is critical. Apparently, on MEI’s tug, the steering room filled with water and the  
11 watertight integrity between the steering compartment and engine compartment was  
12 compromised, ultimately flooding the engine room and sinking the tug with 18,000  
13 gallons of diesel aboard. At a minimum, if the vessels MEI intends to charter from its  
14 parent company are of a comparable condition, MEI will undoubtedly incur  
15 considerably more maintenance expense than the \$35,500 maximum combined figure it  
16 included in its pro forma.

17 **Q: Do you have anything in closing you would like to add?**

18 A: I could go on and on, line-by-line through Mr. Esch’s testimony correcting inaccuracies  
19 about our services or equipment. I will resist that further inclination now except to  
20 make a few final observations. For instance, Mr. Esch attempts to denigrate our  
21 equipment by noting we still maintain two single-engine vessels in our fleet. We do not  
22 conceal the fact we operate within our fleet, two single-engine vessels and use them on  
23 a regular basis. Indeed, efficiencies exist in our operations where speed is not an issue,  
24 and using the two more economical single engine vessels saves fuel and half the  
25 propulsion maintenance costs. Mr. Esch also testified that Arrow did not operate any  
tugs or barges to “accommodate large amounts of cargo” (Exhibit No. \_\_\_\_ (RSE-1T,

1 7:12). First, Mr. Esch is again incorrect. We do own and operate a deck barge.  
2 Secondly, *all* of our vessels carry freight, with three that “accommodate large amounts  
3 of cargo,” including for us, up to 35 pallets of freight per vessel. More importantly,  
4 Arrow has always delivered every piece of freight we have been asked to throughout  
5 our 27 years, all to the satisfaction of our customers. In Esch’s testimony (Exhibit No.  
6 \_\_\_\_ (RSE-1T), 20:11-15) he further unilaterally speculates about potential effects of  
7 delays to shipping. It is truly absurd to allege, by unsupported rhetoric, that these  
8 alleged inadequate levels of service could have existed and been tolerated for 27 years,  
9 without complaint from some of the largest corporations in the world.

10 **Q: Would you draw any conclusions about MEI’s own ability to serve?**

11 A: Yes. MEI’s website lists six crew boats (launch boats) with one being a 105 foot  
12 offshore crewboat, which is not an efficient vessel to operate as a harbor launch,  
13 leaving MEI currently with five available launches to service its entire Los  
14 Angeles/Long Beach, San Francisco, and proposed Puget Sound area customers. Here  
15 recall, MEI proposes to send two of those five launches to Puget Sound. This utilization  
16 proposal seems frankly preposterous, becoming even more so when you use Mr. Esch’s  
17 theory that 20% of his fleet is offline at any given time.

18 **Q: Does this conclude your testimony?**

19 A: Yes it does.  
20  
21  
22  
23  
24  
25

2 CERTIFICATE OF SERVICE

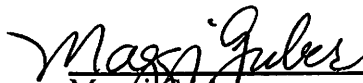
3 I certify that on November 1, 2016, I caused to be served the original of the foregoing  
4 document to the following address via FedEx to:

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 Transportation  
12 Commission's Secretary an official electronic file containing the foregoing document via the  
13 WUTC web portal; and served a copy via email to the following parties:

<p>12 <b>For Washington Utilities and Transportation Commission Staff:</b> 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: <a href="mailto:jbeattie@utc.wa.gov">jbeattie@utc.wa.gov</a></p>	<p><b>For MEI Northwest, LLC:</b> Mr. Dan Bentson Bullivant, Houser, Bailey, PC 1700 Seventh Ave, Suite 1810 Seattle, WA 98101 Email: <a href="mailto:dan.bentson@bullivant.com">dan.bentson@bullivant.com</a></p>
<p>17 <b>For Pacific Cruises Northwest, LLC:</b> 18 Captain Drew M. Schmidt 19 President 20 Pacific Cruises Northwest, Inc. 355 Harris Avenue, Suite 104 Bellingham, WA 98225 Phone: (360) 738-8099 Email: <a href="mailto:drew@whales.com">drew@whales.com</a></p>	<p><b>Administrative Law Judge</b> Judge Marguerite E. Friedlander Washington Utilities and Transportation Commission Email: <a href="mailto:mfriedla@utc.wa.gov">mfriedla@utc.wa.gov</a></p>

21 Signed at Seattle, Washington this 1st day of November 2016.

22  
23   
24 Maggi Gruber  
25 Legal Assistant  
Williams Kastner & Gibbs PLLC  
[mgruber@williamskastner.com](mailto:mgruber@williamskastner.com)