

**STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS**

BEFORE THE PUBLIC UTILITIES COMMISSION

Re: INTERSTATE NAVIGATION COMPANY

DOCKET No. 3573

DIRECT TESTIMONY

OF

JOHN STUTZ

On behalf of:

The Rhode Island Division of Public Utilities and Carriers

March 26, 2004

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1 **1. INTRODUCTION AND SUMMARY**

2
3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.**

4 A. My name is John K. Stutz. My business address is the Tellus Institute (Tellus), 11
5 Arlington Street, Boston, Massachusetts 02116-3411. I am a vice president at Tellus.

6
7 **Q. HAVE YOU PREPARED A SUMMARY OF YOUR EDUCATION,**
8 **EMPLOYMENT, AND PROFESSIONAL QUALIFICATIONS?**

9 A. Yes, it is provided in Schedule JS-1.

10
11 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN RHODE ISLAND?**

12 A. Yes. My first appearance as an expert witness in Rhode Island was in 1979. Since the
13 early 1980s, I have appeared regularly on behalf of the Division of Public Utilities and
14 Carriers. In 2003, I testified concerning the appropriate form of regulation for Island Hi-
15 Speed Ferry LLC (IHSF).

16
17 **Q. WHAT IS THE SCOPE OF YOUR TESTIMONY IN THIS PROCEEDING?**

18 A. My testimony addresses the changes in charges for tariffed services, the flexible proposals
19 and the partial deregulation proposed by Ms. Linda and Mr. Edge on behalf of Interstate
20 Navigation Company (Interstate or the Company).

21
22 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

23 A. This section presents a summary of my testimony and recommendations. My detailed

1 testimony is presented in the following two sections.

2
3 **Q. WHAT ARE THE KEY POINTS OF YOUR TESTIMONY?**

4 A. My key points are as follows:

- 5 • The increases in tariffed charges proposed by Interstate will produce
6 substantially more in rate year revenues than Interstate requested.
- 7 • Ms. Crane's proposed revenue increase can be met with lesser increases in
8 vehicle charges than Interstate has proposed, and no increases in any other
9 charges.
- 10 • Implementation of flexible pricing could result in customer and revenue
11 losses.
- 12 • Implementation of limited deregulation would afford Interstate an
13 opportunity to earn more than its allowed rate of return.

14
15 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

16 A. I recommend that the Commission increase vehicle charges as shown in my
17 Schedule JS-3 to meet the rate year revenue requirement Ms. Crane has proposed.
18 I also recommend that the flexible pricing and limited deregulation proposed by
19 Ms. Linda be rejected.

1 **2. CHANGES IN CHARGES**

2

3 **Q. PLEASE DESCRIBE INTERSTATE’S PROPOSED CHARGES AND THEIR**
4 **ANTICIPATED IMPACTS ON RATE YEAR REVENUES.**

5 A. The proposed changes in charges and their anticipated revenue impacts are as follows:

- 6 • Interstate is proposing a 39.8 percent across-the-board increase in all
7 charges, except for tourist vehicles (i.e., non-commuter cars, vans, and
8 SUVs). Interstate assumes that associated rate year revenues will also
9 increase by 39.8 percent.
- 10 • Interstate proposes a roughly 93 percent rate increase in charges for tourist
11 vehicles. However, the associated revenues are only assumed to increase
12 by 39.8 percent.
- 13 • Interstate proposes four different types of flexible pricing. The Company
14 assumes that there will be no resulting net impact on rate year revenues.

15

16 **Q. PLEASE DISCUSS MR. EDGE’S TREATMENT OF TOURIST VEHICLE**
17 **CHARGES AND REVENUES IN A BIT MORE DETAIL.**

18 A. On page 34 of his testimony Mr. Edge describes Interstate’s proposed tourist vehicle
19 charges and his analysis of the resulting impact on rate year revenues as follows:

20 The most significant change almost a 100% increase in the car, van SUV
21 rates may result in additional income but it is impossible to tell at this
22 time. If the rate is doubled and the volume is cut in half the revenue impact
23 is zero. I have not made an allowance for either additional revenue or less

1 revenue for this increase.

2 “Additional revenue” refers to revenue beyond the \$964,442 that would result from the
3 39.8 percent increase in all vehicle revenues shown in Schedule WEE-18.

4 In order for a 93 percent increase in tourist vehicle charges to increase revenues by
5 only 39.8 percent, tourist vehicle traffic to Block Island would need to decrease by about
6 28 percent. In fact, a reduction in tourist vehicle traffic is unlikely.

7
8 **Q. WHY IS A REDUCTION IN TOURIST VEHICLE TRAFFIC UNLIKELY?**

9 A. Interstate’s proposed increase in tourist vehicle charges increases the cost of a round trip
10 by \$48.20. Schedule JS-2 examines the impact of such an increase on the cost of a stay on
11 Block Island during the summer season. The schedule shows that the increase adds 5.2
12 percent to the cost of a long weekend (i.e., two nights and three days), and 2.0 percent to
13 the cost of a week-long stay, for two adults and a child. For those planning to take
14 vehicles to Block Island, such a small increase in cost of a stay is unlikely to change their
15 plans. And, if the increase in charges does dissuade a few tourists from taking their
16 vehicles to the island, other tourists could easily take their place.

17
18 **Q. WHAT IS YOUR ESTIMATE OF THE REVENUE IMPACT OF THE TOURIST
19 VEHICLE CHARGE INCREASE PROPOSED BY INTERSTATE?**

20 A. Based on data for the test year, I estimate that, of the \$2,422,003 in rate year vehicle
21 revenues before any rate increase, \$1,363,491 is revenue from tourist vehicles. Absent
22 any reduction in tourist vehicle traffic, a 93 percent increase in charges would produce
23 \$725,377 more in revenue than the \$964,442 increase in total vehicle revenue shown in

1 Mr. Edge's Schedule WEE-18.

2
3 **Q. HOW WOULD YOU SET INTERSTATE'S TARIFFED CHARGES TO MEET**
4 **THE RATE YEAR REVENUES PROPOSED BY MS. CRANE?**

5 A. Development of my proposed increases in charges is shown in Schedule JS-3. Ms. Crane
6 has proposed an increase of \$902,951 to her estimated \$7,348,276 in Rate Year Revenues
7 at current charges. As discussed above, Interstate's proposed increases in vehicle charges
8 would raise \$1,689,819 in additional Rate Year Revenues. I recommend reducing
9 Interstate's proposed increases in vehicle charges to the level required to produce Ms.
10 Crane's recommended increase. This results in increases of 49.69 percent for tourist
11 vehicles and 21.28 percent for other vehicles, rather than the 93 and 39.8 percent
12 increases recommended by Interstate.

13
14 **Q. PLEASE EXPLAIN THE BASIS FOR YOUR RECOMMENDATION.**

15 A. The Company suggests that the vehicle charges be increased in order to discourage
16 vehicle traffic to the island. The increase in vehicle charges I propose will send a "price
17 signal" discouraging vehicle transport to Block Island. While I do not expect this price
18 signal to reduce vehicle traffic to the island, I do think it may help slow its growth.

19
20 **Q. WHAT IF A LARGER INCREASE IS APPROVED?**

21 A. In the event the Commission approves a larger revenue increase than that proposed by
22 Ms. Crane, I would recommend that vehicle charges be increased, up to the level
23 proposed by Interstate. This would accommodate increases up to \$1,689,819. Any

1 increase in revenue above that level should be raised through an across the board increase
2 to all other tariff items except passengers charges. The elimination of any increase in
3 passenger rates will maintain the significant differential between Interstate's rates and the
4 other ferry service operating from Point Judith.

5
6 **Q. IS IT NECESSARY TO OBTAIN ALL OF A REVENUE INCREASE FROM**
7 **INCREASES IN TARIFFED CHARGES?**

8 A. No. In developing my charges, I have not taken into account revenues from the increase
9 in non-tariffed charges included in Mr. Edge's Schedule WEE-18. Rate Year revenues
10 would be \$235,000 higher if this revenue were included. Some of any increase could be
11 offset by items such as the nearly \$180,000 in increased bar revenues shown in Schedule
12 WEE-18.

1 **3. FLEXIBLE PRICING AND PARTIAL DEREGULATION**

2
3 **Q. PLEASE SUMMARIZE INTERSTATE’S FLEXIBLE PRICING AND**
4 **DEREGULATION PROPOSALS.**

5 A. Interstate has proposed that it be permitted to institute four separate types of flexible
6 pricing. These proposals would permit Interstate to lower charges for tourists when the
7 demand for passenger service is low, and raise them when the demand is high. In
8 conjunction with its flexible pricing proposal, Interstate has requested **limited**
9 **deregulation**, allowing the Company to retain any revenue due to increases in summer
10 season passenger charges to tourists above that required to produce the allowed rate of
11 return.

12
13 **Q. DO YOU SUPPORT INTERSTATE’S PROPOSAL FOR FLEXIBLE PRICING?**

14 A. No. As Ms. Linda explains on page 11 of her testimony, flexible pricing has been
15 proposed to help Interstate retain and possibly expand its customer base, resulting in
16 increased revenues. In fact, flexible pricing could easily reduce Interstate’s revenues:

- 17 • As Interstate notes in response to Data Requests 1 and 5 from the town
18 of New Shoreham, mid-week and group discounts may not increase
19 traffic sufficiently to produce a net gain. Offering group discounts and
20 then withdrawing them if revenue increases do not result, could drive
21 some groups away.
- 22 • Having weekend passenger charges closer to IHSF’s for service with
23 fewer amenities may cause more wealthy tourists to use IHSF, and may

1 also convince some “day trippers” to look for other options for a day at
2 the beach.

3 Interstate’s proposed flexible pricing is a risky experiment. The Company is sufficiently
4 unclear about the likely result of the experiment that Mr. Edge includes no (i.e., zero)
5 additional revenue due to flexible pricing.

6 Interstate is concerned about the impact of competition from IHSF. Avoiding
7 passenger charge increases altogether is the simplest and most direct way to address this
8 concern. That is exactly what I have proposed. The changes in charges I have proposed
9 deal with the issues behind Interstate’s flexible pricing proposals without flexible pricing
10 and the rest of revenue loss it entails. Thus, I recommend that the flexible pricing
11 proposal be rejected.

12
13 **Q. DO YOU HAVE ANY COMMENTS ON INTERSTATE’S PROPOSAL FOR**
14 **LIMITED DEREGULATION?**

15 A. Yes, I do. In considering this proposal, it is important to be clear that Interstate and IHSF
16 are both currently regulated. As I explained in my testimony in Docket No. 3495, the
17 form of regulation applied to IHSF—imposition of a price floor—is appropriate for that
18 company. Rate base/rate-of-return regulation is currently applied to Interstate. As Mr.
19 Edge’s testimony and his Schedule WEE-5 show, all of Interstate’s costs and its allowed
20 return are included in the Company’s required revenues, and so would be included in the
21 charges approved in this proceeding. Interstate’s proposal for limited deregulation would,
22 in effect, allow the Company an opportunity to earn a higher return than the Commission
23 finds reasonable. This is inappropriate. Thus, even if flexible pricing is approved,

1 Interstate's request to keep certain revenues should be rejected.

2

3 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

4 **A.** Yes, it does.

BACKGROUND AND QUALIFICATIONS

Education and Employment

Dr. Stutz received a B.S. from the State University of New York at Stonybrook in 1965 and a Ph.D. from Princeton University in 1969. Both degrees are in mathematics. After completing his Ph.D., he taught and did research at the Massachusetts Institute of Technology, the State University of New York at Albany where he received tenure, and Fordham University where he held the position of associate professor of mathematics and was co-director of the program in mathematics and economics. He left Fordham to help found Tellus, where he has been employed since 1976. Tellus is a non-profit institute. It provides research and consulting services to clients in the public and private sectors in the areas of energy, environmental policy, solid waste management, water resource planning, and sustainable development.

Professional Experience

Dr. Stutz has extensive experience in the utility industry, particularly as an expert witness. Since 1977 he has appeared before the Federal Energy Regulatory Commission (FERC) as well as Public Utility Commissions in 39 states, the District of Columbia, and three provinces in Canada. In total, he has appeared in 180 proceedings as shown in the attached table. Most of his appearances have been in electric utility proceedings. However, he has also testified on gas and telecommunications matters. Much of Dr. Stutz's testimony has addressed ratemaking issues. Since 1979, he has appeared as a witness on ratemaking in 122 proceedings. His testimony has addressed a variety of topics, including marginal costs, embedded cost-of-service studies (COSS), service quality standards, and numerous aspects of rate design.

Dr. Stutz's articles and comments on utility-related subjects have appeared in the *Public Utilities Fortnightly*, *The Electricity Journal*, and elsewhere. His paper with Thomas Austin is cited, in the second edition of Bonbright's *Principles of Public Utility Rates*, as a source of information on electric ratemaking in general and COSS in particular. He was the lead author of *Aligning Rate Design Policies with Integrated Resource Planning*, a report commissioned and published by the National Association of Regulatory Utility Commissioners (NARUC). As NARUC's preface states, Tellus was selected to prepare this report largely because of Dr. Stutz's expertise.

In addition to his utility-related activities, since 1988 Dr. Stutz has worked regularly for the United States Environmental Protection Agency (EPA), the Organisation for Economic Cooperation and Development (OECD), and various state and local agencies, on issues related to solid waste management and its impact on the environment.

Dr. Stutz's Testimony Before Regulatory Commissions

STATE	APPEARANCES		STATE	APPEARANCES	
	<u>Ratemaking</u>	<u>Planning</u>		<u>Ratemaking</u>	<u>Planning</u>
Alabama	1		Minnesota	2	
Arizona	5		Mississippi	1	
Arkansas	1		Nevada	4	3
Canada	9		New Jersey	7	
Colorado	5	4	New York		5
Connecticut	3	3	New Mexico	6	
Delaware	2		New Hampshire	2	
District of Columbia	1		North Carolina	3	
FERC		3	Ohio	5	1
Florida	1	3	Oregon	1	
Georgia		1	Pennsylvania	2	4
Hawaii		1	Rhode Island	20	3
Illinois	1	3	South Carolina	1	
Iowa	1		Tennessee	1	
Kansas	1		Texas	7	1
Kentucky	1		Utah	2	
Louisiana	2		Vermont	3	1
Maine	11	5	Virginia	1	
Maryland	2		Washington		1
Massachusetts	1	4	West Virginia	3	
Michigan	2	12	Wisconsin	1	
				<u>Total</u>	<u>Total</u>
				<u>Ratemaking</u>	<u>Planning</u>
				122	58

**IMPACT OF TOURIST VEHICLE RATE INCREASE ON COST OF A STAY ON
BLOCK ISLAND**

	Long Weekend Stay (3 days, 2 nights)	One Week Stay (7 days, 7 nights)
Lodging¹	\$500	\$1,500
Food²	\$225	\$600
Transport³	\$143.90	\$143.90
Miscellaneous⁴	\$60	\$160
<i>Sub Total</i>	\$928.90	\$2,403.90
Increase	\$48.10	\$48.10
<i>Impact (%)</i>	5.2%	2.0%

Notes:

¹\$200 per weeknight, \$250 per weekend night

²\$30 per adult per day, \$15 per child per day

³150 miles at 40 cents per mile plus round trip ferry charges (without increase):

adult \$12.80

child \$ 6.40

vehicle \$51.90

⁴\$20 per day

**INCREASE IN CHARGES
BASED ON RECOMMENDED REVENUE INCREASE**

Rate Year Revenue at Current Charges	\$7,348,276
Proposed Increase in Revenues	\$902,951
Increase in Rate Year Vehicle Revenue	
Based on Interstate's Proposed Charges	\$1,689,819
Percent of Interstate's Increases Required	53.43%
Proposed Increase in Tariffed Charges	
Tourist Vehicles	49.69%
Other Vehicles	21.28%
All Other Charges	0.00%