



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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*Peter F. Kilmartin, Attorney General*

December 19, 2013

Ms. Luly Massaro, Clerk  
Public Utilities Commission  
89 Jefferson Blvd  
Warwick, RI 02889

**Re: Docket Nos. 3762 and 3764**

Dear Ms. Massaro,

Enclosed for filing on behalf of the Division of Public Utilities and Carriers in the above matters, please find a Memorandum from Division rate consultant David J. Effron, CPA to Stephen Scialabba. Included with the memorandum is a schedule of Interstate Navigation Company's earnings during the rate plan, as prepared by Mr. Effron. This is filed in response to the October 10, 2013 submission of Michael McElroy in this docket which included a memorandum from Walter Edge, CPA regarding Interstate Navigation Company's accumulated earnings during the period of the regulatory rate plan approved in docket 3762.

The Division agrees with the conclusions of Mr. Edge that Interstate's final accumulated earnings calculation for the six year rate plan did not reach the threshold for earnings sharing, and there is therefore no need to issue refunds to ratepayers, or otherwise deal with any excess earnings.

Very truly yours

Leo J. Wold

Assistant Attorney General

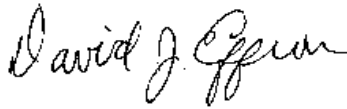
November 26, 2013

To: Stephen Scialabba

From: David J. Effron

Subject: Interstate Navigation Company  
Final Accumulated Earnings Report

The Settlement of Commission Docket No. 3762 required that Interstate Navigation Company file a Final Accumulated Earnings Report to determine the extent to which Interstate's earnings for the period covered by the Settlement exceeded a return on equity of 12.50% on a cumulative basis. Attached is a schedule that calculates the earnings in excess of 12.50% for the period 2007-2012. As can be seen on this schedule, the earnings for these years did not produce a return on equity in excess of 12.50% on a cumulative basis. Therefore, there are no excess earnings to share with customers. It should be noted that Interstate does not agree in all respects with the Division's calculation of applicable earnings. However, all parties are in agreement that the earnings for the years 2007 – 2012 did not produce a cumulative return on equity in excess of 12.50%.

A handwritten signature in black ink, reading "David J. Effron". The signature is written in a cursive, flowing style.

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David J. Effron

**Interstate Navigation Company**  
**Final Accumulated Earnings Report (CY 2007-2012)**

		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues		11,851,405	12,714,448	11,229,094	11,875,088	12,523,618	13,010,629
Operating Expenses		<u>10,075,445</u>	<u>11,616,454</u>	<u>10,483,399</u>	<u>10,680,258</u>	<u>11,761,320</u>	<u>12,062,102</u>
Pre-Tax Profit per Trial Balance		1,775,959	1,097,994	745,695	1,194,831	762,298	948,527
Amortize 2006 Fast Ferry Profit		121,916	121,916	121,916			
Fast Ferry Depreciation & Amortization		262,167	262,167	262,167	262,167	262,167	262,167
Rate Case Expense Amortization		(83,333)	(83,333)	(83,333)			
Excess Homeland Security		82,147	8,977	6,005	(42,254)	105,325	(74,057)
Fast Ferry Principal		(82,420)	(87,480)	(95,200)	(102,360)	(110,040)	(117,880)
Fast Ferry Interest		(404,799)	(399,092)	(392,764)	(384,981)	(377,354)	(370,176)
Interest on Debt Supporting Rate Base 4.46%		<u>(507,705)</u>	<u>(458,855)</u>	<u>(416,708)</u>	<u>(373,312)</u>	<u>(326,986)</u>	<u>(297,544)</u>
Pre-Tax Profit per Rate Plan		1,163,932	462,293	147,779	554,091	315,410	351,037
Income Taxes		<u>395,737</u>	<u>157,180</u>	<u>40,884</u>	<u>188,391</u>	<u>106,260</u>	<u>119,353</u>
Net Income	A	768,195	305,114	106,895	365,700	209,150	231,684
Rate Base		11,383,121	10,287,864	9,342,895	8,369,929	7,331,253	6,671,146
Common Equity Ratio		30.31%	30.31%	30.31%	30.31%	30.31%	30.31%
Ceiling ROE		<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Ceiling Net Income	B	431,278	389,781	353,979	317,116	277,763	252,753
Excess Earnings	A - B	336,917	(84,668)	(247,084)	48,584	(68,613)	(21,069)
Cumulative Excess Earnings		<u>336,917</u>	<u>252,250</u>	<u>5,166</u>	<u>53,750</u>	<u>(14,863)</u>	<u>(35,932)</u>

Sources: Interstate Navigation trial balances 2007-2012.