

**Prefiled Direct Testimony  
of  
Walter E. Edge Jr., MBA, CPA  
Regarding Traditional Service Rates**

**Interstate Navigation Company  
Docket \_\_\_\_\_**

**July 2006**

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1 **Q. Mr. Edge, do you have additional knowledge and experience relating to Interstate**  
2 **Navigation Company?**

3 A. Yes. My staff has prepared Interstate's PUC annual reports for the past fourteen years and I  
4 reviewed each of the reports before filing.

5  
6 **Q. What were the results of Docket #3573?**

7 A. Interstate, the Town of New Shoreham, and the Division agreed to and this Commission  
8 approved a "Stipulation and Settlement" signed the 12<sup>th</sup> day of May 2004. It has been two years  
9 since that agreement was signed.

10

11 **Q. What is the purpose of your testimony in this filing?**

12 A. My testimony is in support of Interstate's traditional (traditional) service rate increase request  
13 for new rates effective January 1, 2007. In this testimony, I will address the cost of  
14 service/revenue requirement for the rate year (January 1, 2007 – December 31, 2007), rate year  
15 rate base, the appropriate rates of return (on rate base and equity) and any rate design changes.  
16 Please refer to Mr. Bebyn's testimony for his evaluation of the test year (December 1, 2004 –  
17 November 30, 2005) and his five year comparative revenue and expense analysis.

18

19 **Q. Mr. Edge is this filing a regular rate filing?**

20 A. Yes it is. However, Interstate is looking at this filing as a true-up of the traditional service  
21 rates before Interstate hopes to start subsidizing the traditional service rates with Interstate's fast  
22 ferry service profits. Interstate believes that the traditional service should be operating at its  
23 appropriate authorized rate of return when any fast ferry subsidy starts. This filing will establish  
24 traditional service rates that generate an appropriate return on Interstate's traditional rate base.

25

26 **Q. Does that conclude your introduction section of your testimony?**

27 A. Yes.

28

29

1 **OVERVIEW**

2

3 **Q. What traditional service rate filings has Interstate made in the past ten years?**

4 A. There have been only two traditional service rate filings within the past ten years as follows:

5

<u>DATE FILED</u>	<u>DOCKET #</u>	<u>\$ INCREASE ALLOWED</u>
1996	2484	\$1,171,000
2003	3573	1,456,061

6

7 It should be noted that Interstate also filed for single season (summer of 2006) fast ferry rates in

8 April of 2006.

9

10 **Q. What were the findings or stipulations as a result of Docket 3573?**

11 A. They were as follows:

- 12
- 13 1) In addition to setting the increased revenue requirement at \$1,456,061, the stipulation set
- 14 the rate base at \$10,862,133 and the rate of return on equity at 10.75%.
- 15
- 16 2) The parties agreed to include \$3.1 million in rate base for the purchase of the M. V. *Anna*
- 17 **C at the mid-point of the rate year.** Further the parties agreed that the vessel would be
- 18 depreciated over 15 years.
- 19
- 20 3) Interstate agreed to provide a level of service equal to the service level set forth in
- 21 Interstate's 2004 ferry schedule. Further, Interstate agreed that the M. V. *Anna C*, the M.
- 22 *V. Block Island* and the M.V. *Carol Jean* would be the vessels to provide the trips
- 23 between Point Judith and Block Island.
- 24
- 25
- 26

- 1 4) The rate increase was applied as follows: All rates except non-commuter cars were  
2 increased by 11.5%. Non-commuter cars were increased by 50%. There were also some  
3 changes in the eligibility requirements for discount commuter rates.  
4
- 5 5) The parties agreed to a few minor rate design changes.  
6
- 7 6) In the event that Interstate sells the M. V. *Manitou* (which to date it hasn't), Interstate  
8 agreed to amortize the proceeds from the sale of the M. V. *Manitou* over 60 months to  
9 provide the ratepayers the benefit from the sale.  
10
- 11 7) Interstate agreed to submit any lease of the Old Harbor docking facility to the Town, the  
12 Division and the Commission for "prudence" review by the Commission. There has  
13 been no new Old Harbor lease.  
14
- 15 8) Interstate agreed to file certain statistical and financial information.  
16
- 17 9) The parties agreed to funding for Homeland Security in the amount of \$395,956, with the  
18 monies to be maintained in a separate and restricted account. Interstate has maintained  
19 all of the Homeland Security funds in a separate interest bearing restricted account.  
20

21 **Q. Has Interstate complied with all of these stipulations?**

22 A. Yes, with the exception of some of the statistical and financial information that is still not  
23 available on a timely basis from Interstate's current accounting systems.  
24

25 **Q. Mr. Edge, what are the major reasons for this rate relief filing?**

26 A. By far the single largest increase to Interstate's costs is the increase in fuel consumption cost  
27 for the traditional ferries. In this filing, I will address the test year and current consumption and  
28 cost of fuel, the emergency fuel surcharge and projected fuel expense in the rate year for the  
29 traditional ferries.

1 Second, Interstate has invested a significant amount of money for rate base items that are not  
2 entirely reflected in Interstate's current rates. For example, two major items, the purchase of the  
3 M. V. *Anna C* (\$3,100,000) and the re-powering and other improvements of the M. V. *Carol*  
4 *Jean* (which ended up totaling \$3,192,910) were added to the rate base in the rate year in Docket  
5 #3573. As a result, only half of these two items were included in Interstate's rate base.

6  
7 The fact that only one half of these assets were included in rate base is because rate base was  
8 calculated on an average basis (beginning rate year rate base plus ending rate year rate base  
9 divided by 2). Since neither asset was in the beginning rate year rate base only one half of these  
10 two assets was included in Interstate's rate base in Docket #3573 and therefore, only half of the  
11 return on these assets is reflected in Interstate's current rates. In this docket, rate base will be  
12 higher than it was in Docket #3573. I will also review the federal income tax and depreciation  
13 impacts of these additions.

14  
15 Third, Interstate passenger revenues (adjusted for the rate increase granted in Docket #3573)  
16 continued to decline in FYE May 31<sup>st</sup> 2004 and May 31<sup>st</sup> 2005 as Interstate projected they would  
17 in prefiled testimony in Docket #3573. Further, Interstate's bike, moped etc. revenue also  
18 declined in FYE May 31<sup>st</sup> 2004 but showed a minor recovery in FYE May 31<sup>st</sup> 2005. These  
19 reduced revenue levels, which were directly the result of increased competition, were not fully  
20 reflected in the Docket #3573 stipulation. I will re-evaluate and project the appropriate rate year  
21 revenue levels for this docket.

22  
23 Fourth, general ledger accounts like payroll, payroll taxes, employee pension and health  
24 insurance increase each year and Interstate is asking for increases in all four of these accounts.  
25 Other accounts such as crew expense, wharfage, telephone expense, credit card administrative  
26 fees, and professional services are material accounts that need to be reviewed in more detail in  
27 every docket filed at the PUC. Lastly, items such as gross receipts tax and federal income tax  
28 are calculated after identifying rate year revenues and expenses. All of these accounts will be  
29 discussed in this testimony.

1 **Q. Given that Interstate received rate relief recently, did you identify any accounts that**  
2 **did not require as much review for this filing as they did in Docket #3573?**

3 A. Yes I did. Given that Interstate's last rate increase was only two years ago, I have  
4 determined that 41 of Interstate's 64 expense accounts and all of the revenue accounts can be left  
5 at test year levels. If the Division agrees with my evaluation of these accounts this would  
6 substantially reduce the scope of this filing compared to Docket # 3573.

7

8 **Q. Are there any rate design changes?**

9 A. No. Interstate believes that the rate increase should be applied across the board equally.

10

11 **Q. What is the increase in revenue requirement requested by Interstate in this filing?**

12 A. Interstate is requesting an increase in revenue of \$2,415,393 or 27.15%.

13

14 **Q. Will all rates increase by 27.15%?**

15 A. No, certain revenues are not impacted by the proposed rate increase. Therefore the rates  
16 which are impacted must be increased by a larger percentage (29.40%). See my calculation of  
17 rate increase percentage needed on Schedule WEE – 14. Further see the ratepayer impact  
18 schedule included in this testimony on page 33.

19

20 **Q. Does that conclude your overview?**

21 A. No, I think that it would be helpful for our new Commissioner who was not present during  
22 Docket #3573 if I provide a brief description of the current vessels owned by Interstate and the  
23 routes they travel as follows:

24

#	Vessels	Routes	Capacity
1.	<i>M. V. Block Island</i> (Built 1997)	Runs from Point Judith to Block Island year-round	1,000 passengers and 35 cars.
2.	<i>M. V. Anna C</i> (Built 1986)	Runs from Point Judith to Block Island year-round	1,300 passengers and 35 cars.



#	Vessels	Routes	Capacity
3.	<i>M. V. Carol Jean</i> (Built 1984) (Re-powered and winterized 2005)	Runs from Point Judith to Block Island primarily in the summer.	1,300 passengers and 35 cars.
4.	<i>M. V. Nelseco</i> (Built 1981)	Runs from Newport to Block Island during the summer months	839 passengers with 0 cars.
5.	<i>M. V. Manitou</i> (Built 1970)	Use for special charters and as an emergency stand-by vessel.	394 passengers with 0 cars, or 280 passengers with 8-10 cars.

1

2 **Q. Does Interstate lease or charter any vessel?**

3 A. Yes. During the summer of 2006 Interstate was authorized by the DPUC and the PUC to  
4 lease the *M. V. Athena* to provide fast ferry service from Point Judith to Block Island at the same  
5 rates as previously provided by Island Hi-Speed Ferry.

6

7 **Q. Have you addressed this one year lease in this rate filing?**

8 A. No, I have not. Interstate has agree in writing in the Stipulation in Docket #3742 item #4  
9 that “any net profit from its new fast ferry service in the 2006 season will be utilized to either  
10 fund the purchase of Interstate’s own fast ferry, to subsidize its life line traditional rates, or to  
11 otherwise enhance its service to customers. Ultimate disposition will remain with the  
12 Commission”. This fast ferry revenue will not be earned in the rate year.

13

14 Since I do not know what (if any) fast ferry net profit will be provided for from the 2007 fast  
15 ferry season, and I do not know which of the above uses of the fast ferry profit will be approved  
16 by the Commission, I have not dealt with this issue in this docket. The use of the 2006 fast ferry  
17 profit “to fund the purchase of Interstate’s own fast ferry” would have no impact on this filing  
18 while using any 2006 fast ferry profit to subsidize the traditional service would reduce the  
19 revenue requirement.

1 **Q. Mr. Edge is it likely that the 2006 fast ferry season net profit will be known before the**  
2 **completion of this docket?**

3 A. Yes. However, this one year lease is non-recurring and not reflective of the costs that would  
4 be incurred by Interstate if it purchased its own fast ferry.

5  
6 **Q. Mr. Edge do you think that any net profit from the 2006 fast ferry service should be**  
7 **used to reduce the rate increase needed in this filing?**

8 A. No. I believe that it would be inappropriate to use any such profit to reduce the rate increase  
9 in this filing. As stated earlier, Interstate looks at this filing as a true-up of the traditional rates  
10 before the subsidization of the traditional rates by any fast ferry profits begin. I believe that it  
11 would be inappropriate to start subsidization of the traditional rates until the traditional rates are  
12 generating the appropriate authorized rate of return on rate base. Nevertheless, if the  
13 Commission makes a determination as to how Interstate should use this one time only 2006  
14 season fast ferry net profit, if it exists, I would be happy to address the issue at that time. Until  
15 then I believe that this item is too speculative for inclusion in this docket.

16

17 **Q. Does that conclude your overview testimony?**

18 A. Yes.

19

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**RATE YEAR COST OF SERVICE**

**Revenues:**

**Q. In general what revenues does Interstate collect?**

A. Interstate received revenue from 12 sources in the test year. They include the following:

<u>Type of Revenue</u>	<u>T.Y. %</u>	<u>D. #3753</u>	<u>D. #2484</u>
Passenger Revenue	45.2%	50.8%	56.0%
Car/Truck Revenue	34.7%	30.8%	23.8%
Bike Revenue	1.3%	1.8%	2.8%
Freight Revenue	7.7%	7.8%	8.0%
Total	88.9%	91.2%	90.6%
Bar Revenue	5.7%	6.2%	5.2%
Hazardous Charter Revenue	1.3%	1.3%	3.0%
Mail Revenue	<1.0%	<1.0%	<1.0%
Landing Fees Commission	<1.0%	<1.0%	<1.0%
Miscellaneous Charter	1.8%	*	*
Other Income	<1.0%	<1.0%	<1.0%
Interest Income	<1.0%	<1.0%	<1.0%
Amortization ( <i>M. V. Manisee</i> )	<1.0%	<1.0%	N.A.

\* Included elsewhere or none

The first four revenue accounts listed above (passenger, car/truck, bike and freight), make up about 90% of all of Interstate's revenue. These four accounts and hazardous charter revenue are tariff related activities and as such they are regulated by the PUC.

Bar revenue (rates are not regulated) is offset by bar supplies expense and only the net profit margin is available to lower rates. Mail revenue, landing fees, other income and the amortization of the sale of the *M. V. Manisee* are all minor unregulated revenue accounts (less than 1% of the total revenue) that are used in the rate making process to reduce the annual revenue requirement for the ratepayers. Miscellaneous Charter Revenue is for the most part revenue from special charters and non-reoccurring revenue. Interest income is the stockholder's return on its cash investment and therefore is not included in the cost of service.

1 **Q. Are there any other points about the above revenue accounts that we must consider?**

2 A. Yes. Most of Interstate's revenue is directly affected by seasonal changes, winds,  
3 temperature variances (degree days), rain and other weather. Further, Interstate is a summer  
4 peaking utility that derives the overwhelming majority of its revenue in June, July and August.  
5 When looking at revenue for just one year, it is imperative to consider the weather in that year.  
6 When trying to project the revenue for the rate year one would like to have all normal revenue  
7 years. I believe that the five years that are included in Mr. Bebyn's five year analysis (DGB-4)  
8 are actually fairly normal years with the summers of 2001 and 2005 being a little bit better than  
9 normal. That said, I believe that for the first time since I have been doing Interstate rate filings,  
10 we have five fairly normal historical years and only a slightly better than normal test year. This  
11 should make the projection of revenues much easier.

12

13 **Q. Mr. Edge did you review the total revenue amounts from FYE 2001 through FY 2005?**

14 A. Yes I did. I reviewed the annual total revenue amounts on page one of Mr. Bebyn's  
15 schedule DGB-4 to determine if there had been overall revenue growth since FYE May 31<sup>st</sup>  
16 2001. To make the years comparable I had to make adjustments to both FYE May 31<sup>st</sup> 2001 and  
17 FYE May 31<sup>st</sup> 2005. First, I made an adjustment to remove the proceeds from the one time sale  
18 of the Manisee from FYE 2001. I then backed out the FYE 2005 rate increase approved by the  
19 PUC (\$1,456,061) from the FYE May 31<sup>st</sup> 2005 total revenue. The result of my analysis was  
20 that the adjusted total revenue in FYE May 31<sup>st</sup> 2001 was \$7,342,784 and in May 31<sup>st</sup> 2005 was  
21 \$7,367,702 (almost exactly the same).

22

23 **Q. What did you conclude from the above results?**

24 A. I conclude that overall revenue for Interstate has been flat since FYE May 31<sup>st</sup> 2001. I  
25 therefore believe that there is no justification to make any adjustments to individual revenue  
26 accounts at this time. I note however that the revenue for the test year (FYE November 30<sup>th</sup>  
27 2005) is about \$493,620 higher than FYE May 31<sup>st</sup> 2005. Further review of the test year  
28 revenues suggests that more than half of the increase in revenues is the result of the fuel  
29 surcharge. Fuel costs increased from \$771,927 (FYE 2005) to \$1,054,361 (FYE Nov 2005).

1 **Q. Mr. Edge do you know what caused the remainder of the revenue growth in the test**  
2 **year?**

3 A. The remainder of the increase may be the result of the good weather in the summer of 2005.  
4 Nevertheless, given all of the above information and analysis, I have chosen to leave all of the  
5 revenue accounts at the adjusted test year levels for the rate year.

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1 **Expenses:**

2  
3 **Q. Mr. Edge, would you explain how you projected expense balances for the rate year?**

4 A. Yes. In an effort to keep this filing as simple as possible and to reflect the fact that Interstate  
5 just received a rate increase two years earlier, I have left 40 of Interstate's 64 expense accounts at  
6 the test year level without further analysis. However, it was necessary to review the remaining  
7 23 accounts in detail to determine if they should be increased or decreased for the rate year.

8  
9 **Payroll, Payroll Taxes and Fringe Benefits**

10  
11 **Q. How was rate year payroll expense projected?**

12 A. Because Interstate primarily hires different summer help each year, it is difficult to project  
13 future payroll expense based upon a detailed payroll listing. Interstate tries to control payroll  
14 spending by establishing a 5% cap on salary expense increases from year to year. The success of  
15 this policy was somewhat compromised in FYE 2002 and 2003 due to a significant reduction in  
16 the number of crew willing to work long hours for modest pay and a review by the Department of  
17 Labor.

18  
19 It should be noted that there was a large increase in salary expense in 2002 which was the result  
20 of a Department of Labor lawsuit that resulted in retroactive overtime pays to certain employees.  
21 Backing out the retro pays in 2002 resulted in an average increase for 2002 and 2003 of  
22 approximately 8% per year. Interstate has done well to control its payroll costs since 2003  
23 therefore I did not use the 2002 and 2003 average 8% increases in this analysis.

24  
25 The more recent history shows that Interstate general ledger payroll expense account has  
26 increased by 4.2% from 2003 to 2004, 4.3% from 2004 to 2005 and by 0.7% for the half year  
27 November 30, 2005. For a more complete evaluation of the annual increases in payroll expense,  
28 I determined that the annual payroll expense account percentage increases must be adjusted to  
29 reflect the payroll cost allocated to Homeland Security.

1 The following table shows the impact of the payroll expense allocations to the Homeland  
 2 Security account:  
 3

Year	Payroll Exp.	Homeland Security	Total	% Increase
2003	\$2,321,102	\$0	\$2,321,102	
2004	2,406,954	\$0	2,406,954	+4.2%
2005	2,512,014	170,628	2,685,642	+11.6%
Test Year *	2,511,753	193,710	2,705,463	+0.7%
			Total (A)	<u>16.5</u>
Ave.		(A/3)		<u>+5.5%</u>

\* Half year increase

4  
 5 **Q. What have you calculated as the salary increases for the remainder of FYE May 31<sup>st</sup>**  
 6 **2006, FYE May 31<sup>st</sup> 2007 and FYE May 31<sup>st</sup> 2008?**

7 A. Interstate intends to continue its policy of trying to hold payroll increases to not greater than  
 8 5% each year if the market permits. Therefore, I have not used the average of the payroll  
 9 expense percentage increases (per the table above) to increase payroll expense for the period  
 10 from November 30<sup>th</sup> 2005 through May 31<sup>st</sup> 2006, FYE 2007 and FYE 2008. Instead I used  
 11 Interstate's goal of 5% to proforma the payroll expense through the rate year. However, since  
 12 the rate year is calendar year 2007, I only used half of the FYE 2008 percentage increase.  
 13 Therefore, I have projected a 2.5% increase for the remainder of 2006, a 5.0% increase for FYE  
 14 2007 and a 3.0% increase for that portion (seven months) of FYE 2008 included the rate year.

15  
 16 My salary calculation is as follows:

Adjusted Test Year	<u>\$2,511,753</u>
Remainder of FYE May 2006 (TY * 1.025)	<u>2,574,547</u>
FYE May 2007 (FYE May 2006 * 1.05)	<u>2,703,274</u>
Rate year CYE December 31 <sup>st</sup> 2007 (May 2007 * 3%)	<u>2,784,372</u>
Adjustment (RY – TY)	<u>\$272,619</u>

17 Note: There are no salaries for fast ferry payroll included above.

1 **Q. How were payroll taxes calculated?**

2 A. Payroll taxes were calculated using the test year relationships between payroll and the payroll  
3 tax. (See calculations on Schedule WEE-4).

4

5 **Q. How was fringe benefits calculated?**

6 A. I used the company standard 3% of gross payroll to project the pension contribution see  
7 Schedule WEE-5.

8

9 Health benefits were calculated using the most current rates (rates good through 1/31/07) times  
10 the actual employees that get health insurance coverage to arrive at the interim year cost of health  
11 insurance and Delta Dental. The interim year cost of health insurance was increased by 13.75%  
12 (11/12 of the projected 15% rate year increase) to arrive at the rate year cost. The interim level  
13 of Delta Dental expense was increased by 11/12 of the 8% projected rate year increase to arrive  
14 at the rate year cost. See Schedule WEE-5 for the detail calculations.

15

16 **Q. What account would you like to review next?**

17 A. I normally like to present my testimony in the same order as the test year trial balance as  
18 much as possible. However, the next item on the test year trial balance is federal income taxes.  
19 This account will have to be calculated after I calculate return on rate base, so I will postpone this  
20 discussion until later. Therefore the next account that I would like to discuss is depreciation.

21

22 Depreciation

23

24 Depreciation is calculated by Interstate's outside accountant each year using Interstate's  
25 depreciation lapse schedule. For this filing, I obtained the depreciation lapse schedule and added  
26 appropriate capital items and calculated depreciation for each year to extend the lapse schedule  
27 calculations through the rate year. This calculation provided the appropriate rate year  
28 depreciation amount (Please see Schedule WEE-6).

29



1 Crew Expense

2  
3 **Q. The next account appears to be Crew Expense, is that correct?**

4 A. Yes. Crew expense was increased by the same percentages as payroll expense. Since crew  
5 expense is a payroll expense item that is reclassified to the crew expense account, I simply  
6 complete the same calculation as I did for payroll. I multiplied the test year crew expense  
7 (\$127,604) by 102.5% to extend to the end of FYE May 31<sup>st</sup> 2006. I multiplied the result by  
8 105% to extend the calculation through FYE May 31<sup>st</sup> 2007. I then multiplied that total by  
9 103% to complete the rate year. The result was a rate year crew expense of \$141,454.

10  
11 Wharfage

12  
13 **Q. How did you calculate wharfage?**

14 A. I reviewed all of the current wharfage contracts and calculated the wharfage expense that  
15 will be paid in the rate year (See WEE-7). It is important to point out that Interstate Navigation  
16 Company (Interstate), (a company controlled by Susan Linda), does not have a long term lease to  
17 land its fleet in Old Harbor with Interstate Nav. (A company controlled by Ms. Linda's brother  
18 that owns the facility.). Due to circumstances beyond Interstate's control, Interstate Nav. has  
19 agreed to only allow a month to month lease. Nevertheless, Interstate is paying a fair market  
20 lease rate as determined by an outside appraisal. The increase for the Point Judith lease with  
21 DEM is the recommendation of the State's legal counsel based on his discussions with DEM's  
22 legal council.

23  
24 Charter Expense

25  
26 **Q. I note that you reduced Charter Expense to a zero balance in the rate year. Why?**

27 A. Charter of the M. V. *Anna C* ended when Interstate purchased the M. V. *Anna C* from  
28 Nelseco Navigation. The remaining \$17,575 account balance was the cost of chartering a bus  
29 for tour groups. Interstate purchased the bus so there will be no bus charter in the rate year.

1 Bar Supplies

2  
3 **Q. Mr. Edge, I notice that you left bar supplies at the test year level. Was bar supplies one**  
4 **of the original 41 accounts that you left at the test year level?**

5 A. No. Normally, I leave bar revenue and bar supplies expense at the test year level, but I like  
6 to review these accounts to determine if there is any material effect of doing so. After reviewing  
7 the bar revenues and expenses accounts for this filing, I realized that the effect was minor (only  
8 about 57 cents on every dollar of sales in the test year). Further, I noted that the profit margin  
9 decreased to 57% in the test year. The revenue increase was about \$40,000 while bar supply  
10 expense increased by \$48,000 reducing the profit margin. These accounts are simply too volatile  
11 and difficult to project. Further, they are not material enough to worry about so I left them at  
12 test year levels.

13  
14 Homeland Security

15  
16 **Q. The next account that we have to review is Homeland Security expense. How did you**  
17 **project this expense for the rate year?**

18 A. It might be helpful if I provide a bit of history on this account before projecting the rate year  
19 level of expense as follows. The Federal Government through the Department of Homeland  
20 Security published "Port Security Regulations" in response to the 9/11 attacks in New York and  
21 Washington D.C. The Regulations are divided into six sections as follows:

- 22  
23 ➤ Implementation of National Maritime Security Initiatives (Part 101)  
24 ➤ Area Maritime Security (Part 103)  
25 ➤ Vessel Security (Part 104)  
26 ➤ Facility Security (Part 105)  
27 ➤ Outer Continental Shelf Security (not applicable to Interstate) (Part 106)  
28 ➤ Automatic Identification Systems (at this time not applicable to Interstate) (Part  
29 161)

30  
31 Based upon the above regulations, Interstate has been and will continue to be required to spend  
32 significant amounts of money on security.

1 **Q. Mr. Edge, how did the Commission protect the ratepayers against the possibility that**  
2 **the allowance for Homeland Security set in Docket # 3573 was excessive?**

3 A. Interstate agreed to put all of the monies collected for Homeland Security in a restricted  
4 account to be used exclusively for vessel and port security. Further, Interstate agreed to report  
5 the status of the restricted account (collections, expenditures and balance) on an annual basis to  
6 the Division and the PUC. The FYE May 31<sup>st</sup> 2005 Homeland Security report was overlooked  
7 when preparing the 2005 annual report filing. However, the May 31<sup>st</sup> 2006 report will be filed  
8 with the 2006 annual report before hearings start in this docket. (Please see Schedule WEE-8)

9  
10 **Q. Has the Homeland Security allowance and the restricted account worked?**

11 A. Yes they have. Interstate has hired Block Island's former police chief, Mr. William  
12 McCombe, to be its Company Security Officer, a position mandated by the Homeland Security  
13 regulations. I have provided a schedule that shows the activity in the restricted account for the  
14 first two years from its inception through May 31<sup>st</sup> 2006. (Please see Schedule WEE-8).

15  
16 After two years of operations the reserve account had a net balance of approximately \$33,000. I  
17 anticipate that the balance will be increased to \$50,000 at the end of the rate year to provide for  
18 an adequate reserve in the event the threat level is increased and Interstate needs to increase its  
19 security activities, such as by hiring police officers or private security personnel. I am  
20 proposing to leave the allowance at the same level as in Docket #3573 and to keep the restricted  
21 account to protect the ratepayers.

22  
23 Local Transfer

24  
25 **Q. Mr. Edge how have you projected local transfer expense?**

26 A. Local transfer expense has increased each year for the last six years. Local transfer expense  
27 payments are made by Interstate to Lambs Package Services (LPS). LPS provides a delivery  
28 service on Block Island of UPS packages sent to the island on Interstate's boats. I calculated the  
29 average annual percentage increases over the last five years as 21.1% per year.

1 I noted however that the increase from 2001 to 2002 was 34% and since it was the oldest and  
2 largest percentage increase in my analysis I considered that it should be eliminated because it  
3 inappropriately skewed the results. The average percentage increase from 2002 through the test  
4 year was 13.2%. Given that this was a much more reasonable average annual percentage  
5 increase, I used this percentage to increase the test year expense to the rate year level.

6  
7 I multiplied the test year level of expenditure in the amount of \$130,846 by 13/12 of 13.2% for  
8 the interim period through December 31<sup>st</sup> 2006 and the result by 13.2% for the calendar rate year  
9 2007. The rate year level of expenditure was calculated to be \$169,298 (adjustment of \$38,452).

10  
11 Advertising Expense

12  
13 **Q. Mr. Edge, would you please proceed with your analysis of advertising expense.**

14 A. Certainly, I have projected advertising expense for the rate year on my Schedule WEE-9.  
15 This schedule reflects the calendar 2006 advertising plan plus a 5% projected increase for the rate  
16 year, calendar 2007.

17  
18 Professional Services

19  
20 **Q. How did you calculate professional services for the rate year?**

21 A. The last three years show professional services (legal and accounting) have been about the  
22 same each year. Professional services were \$377,844 in 2003, \$355,755 in 2004, \$377,736 in  
23 2005 and \$342,259 in the test year. It appears reasonable to me to believe that this level of  
24 spending for legal and accounting services for Interstate (a regulated ferry company with no in-  
25 house legal counsel or rate department) will continue. Further, in the last Docket, Interstate  
26 correctly projected that this expenditure would continue at this level of expense as new issues  
27 continually arise when old issued are resolved. The Division, on the other hand, projected in  
28 Docket # 3573 that the legal fee component of the professional services would decrease  
29 substantially in FY 2005 and beyond, but it has not.

1 The test year professional services expense was paid to Schacht & McElroy (for various legal  
2 services), other specialized legal firms (for specialized legal services), B&E Consulting  
3 (ratemaking and accounting services), and John J. Kanabis (bookkeeping, accounting and tax).

4  
5 Although the detailed services provided by Schacht & McElroy, other specialized legal firms and  
6 B&E Consulting vary from year to year the level of effort and cost remain about the same. The  
7 services provided by Mr. Kanabis are the same and recurring each year (bookkeeping, financial  
8 statements and tax returns). Mr. Kanabis' annual fees generally include an increase for inflation.  
9 In the test year, the cost of the services provided by Mr. Kanabis' firm was \$31,200.

10  
11 To assist the Division and Commission in their review, I have completed a listing of the legal  
12 activities that were addressed since the last docket (FYE 2005 and FYE 2006). See attached  
13 Schedule WEE-10. For the most part, many of these activities required accounting and  
14 ratemaking skills which are provided by B&E Consulting. Given the history and the  
15 importance of this account, I have used the average of the last three actual years and the test year  
16 to estimate professional fees (legal, accounting and regulatory) for the rate year at \$363,399.  
17 Please note that the test year level of professional fees expense was a calculated balance in the  
18 amount of \$342,259 which decreased the average. Six months of the test year were also  
19 included in the FYE May 31<sup>st</sup> 2005 professional fees expense.

20

21 **Q. Mr. Edge does Interstate pay any other professional fees?**

22 A. Yes, Interstate pays "other professional fees" for services such as vessel engineering, pension  
23 administration and lobbying. I left this account at the test year level because the annual balance  
24 of this account is about the same each year.

25

26 Credit Card Administration

27

28 **Q. How did you project the rate year level of expenditure for credit card administration?**

29 A. Credit card fees have increased by well over 15% on average per year for the last four years.

1 This trend is expected to continue as more passengers use credit cards. I have projected a 15%  
2 increase for the interim year (CY 2006) and a 15% increase for the rate year (CY 2007). I have  
3 calculated the credit card administration expense for the rate year at \$159,340 ( $\$120,484 * 1.15 * 1.15$ ).  
4 For this calculation, I ignored the interim period December 2005.

5

6

### Telephone

7

8 **Q. The next account is telephone, how did you calculate the rate year expense level for**  
9 **telephone?**

10 A. Telephone expense has decreased over recent years as a result of Interstate's management  
11 decision to drop its leased computer lines and get its own network. This decision has saved the  
12 ratepayers tens of thousands of dollars. However, I am anticipating a small increase in telephone  
13 expense in the rate year because Interstate recently added a toll free number for its customers.  
14 As this toll free line gets known through Interstate's advertising program use of the line will  
15 increase. I calculated the increase and determined that the overall increase would be less than  
16 \$4,000 which I did not consider material enough to adjust. Therefore, I left telephone expense at  
17 the test year level for the rate year.

18

19

### Insurance

20

21 **Q. The next account to review is insurance expense. How did you project the insurance**  
22 **expense for the rate year?**

23 A. First, it is important to point out that Interstate pays small injury and damage claims directly  
24 as a result of a large deductible on its primary insurance policy. This management decision has  
25 resulted in significant savings for the ratepayers when compared to a lower deductible and higher  
26 insurance costs for these nuisance claims. In addition to the large deductible, Interstate has  
27 made a business decision to carry a separate umbrella policy protects the Company and the  
28 ratepayers against large claims as a result of more catastrophic events. Interstate believes that  
29 these two insurance decisions are in the best interest of the Company and the ratepayers.

1 **Q. What insurance does Interstate have?**

2 A. Property insurance that combines Hull and Liability and excess protection and indemnity  
3 insurance are maintained by Interstate as follows:

4

<u>Insurance Type</u>	<u>Renewal 2006</u>	<u>Estimated Rate Year</u>
Commercial Property	\$6,776	7,000
Piers and Docks	5,337	5,500
Commercial General Liability	1,611	1,600
Hull and Machinery	131,242	140,000
Breach of Warranty	3,500	3,500
Vessel Pollution Liability	5,850	6,000
Excess Marine Liabilities	22,440	22,000
Primary Bumbershoot	4,758	5,000
Excess Bumbershoot	15,714	15,714
Protection and Indemnity	53,164	53,000
Other Miscellaneous	25,567	26,000
Total	<u>\$275,959</u>	<u>\$285,314</u>

5

6 I used the above calculated amount of \$285,314 for the rate year insurance expense.

7

8 Gross Receipts Tax

9

10 **Q. Mr. Edge how did you calculate the gross receipts tax amount for the rate year?**

11 A. Gross receipts tax was adjusted by Mr. Bebyn for the test year to reflect the revenue  
12 adjustments he made to back out the emergency fuel surcharge revenue. Since I have made no  
13 adjustment to revenue for the rate year, I made no adjustment to gross receipts tax, at this time. I  
14 will however adjust gross receipts tax for new revenue as a result of the rate increase when I  
15 calculate the rate year revenue requirement increase on my Schedule WEE-1.

16

17

18

19

1 Vessel and Terminal Maintenance

2  
3 **Q. Have you made any adjustments for vessel and terminal maintenance expense for the**  
4 **rate year?**

5 A. Yes I have.  
6

7 Mr. Joshua Linda prepared an analysis of the major maintenance expense and capital related  
8 items that will be needed for the vessels and the terminals over the next three fiscal years, May  
9 31<sup>st</sup> 2007, 2008 and 2009 (See Schedule JL-1). Note: the capital items for the rate year that were  
10 originally on Mr. Linda's major maintenance expense analysis were removed and added to the  
11 rate base on my Schedule WEE-12. Since the rate year is the calendar year December 31<sup>st</sup> 2007,  
12 I averaged the vessel and terminal maintenance cost for the fiscal years May 31<sup>st</sup> 2007 and May  
13 31<sup>st</sup> 2008. The projected rate year major vessel maintenance expense is \$223,610 and the  
14 terminal expense is \$71,466.  
15

16 **Q. Mr. Edge, are their other maintenance items each year that are not reflected in yours**  
17 **and Mr. Linda's analysis of major maintenance and capital items?**

18 A. Yes there are emergency repairs that have to be done throughout the year. These emergency  
19 repairs can range from a fifty cent washer and a little in house labor to a blown engine that could  
20 cost \$100,000 to repair (labor and materials). It is extremely difficult to estimate these  
21 expenditures however it would be naïve to ignore the inevitable. I have included in my analysis  
22 an allowance of \$50,000 per year for emergency repairs which increased the vessel maintenance  
23 expense to \$273,610. This \$50,000 allowance must cover the emergency repairs for all five  
24 vessels and the two terminals. One significant emergency could wipe out this allowance and  
25 there would then be no additional funds available for the other vessels or terminal(s).  
26  
27  
28  
29



1 Fuel Surcharge

2  
3 **Q. Mr. Edge, would you explain the “emergency fuel surcharge” and how it impacts**  
4 **Interstate and its ratepayers?**

5 A. Yes. The State legislature established an emergency fuel surcharge to protect transportation  
6 utilities from significant increases in fuel costs. This legislation was very helpful for Interstate  
7 to help address significant increases in fuel cost. Interstate was allowed under this legislation to  
8 pass some of its excess fuel costs on to its ratepayers by way of a surcharge. The surcharge,  
9 although helpful is not perfect.

10  
11 **Q. Why do you believe that the surcharge is not perfect?**

12 A. The surcharge kicks in only when the price of marine diesel fuel reaches \$1.20 a gallon.  
13 Unfortunately Interstate’s base rates from Docket 3573 include only \$1.05 per gallon for fuel, so  
14 Interstate has to eat the \$0.15 shortfall. A second problem with the surcharge was the \$0.50 per  
15 ticket maximum initially allowed for the surcharge. Through the effort of our lobbyist, that  
16 maximum was eventually increased to \$3.00 per ticket, but there is still the possibility that  
17 Interstate could exceed the maximum and lose the difference between the actual cost of fuel and  
18 the amount allowed by the surcharge. In fact, Interstate has already experienced a fuel surcharge  
19 of \$2.65 per ticket (in November 2005).

20  
21 **Q. Mr. Edge, are there any other problems that you have noticed with the emergency**  
22 **surcharge legislation?**

23 A. Yes, I believe that there are a number of weaknesses in the surcharge calculation and  
24 application. One example of a weakness is the cross-subsidization built into the surcharge  
25 which provides that a twelve year old child weighting 80 lb. pays the same fuel surcharge as a 16  
26 wheel 100,000 lb. tractor trailer. Clearly the tractor trailer should pay more. Further, freight  
27 pays no surcharge. Another fairness issue is that the surcharge penalizes passengers who ride  
28 the ferry in the off-season when the excess cost of fuel is divided by a much lesser number of  
29 passengers resulting in a much higher emergency fuel surcharge.

1 Even the calculation itself is a mismatch. The ratepayers who ride the ferry when there is an  
2 increased fuel cost are not the ratepayers that pay the emergency fuel surcharge. The calculation  
3 to collect the excess fuel cost from one month is charged to the ratepayers in the subsequent  
4 month. Further, the surcharge does not provide an allowance to collect the gross receipts tax  
5 that Interstate has to pay on the emergency fuel surcharge revenues. Although this surcharge is  
6 beneficial, in my opinion it is not as effective as addressing the fuel cost in base rates and  
7 allowing the fuel surcharge only when fuel costs exceed the amount allowed in base rates.

8

9 **Q. Mr. Edge, why is reflecting the cost of fuel in base rates more appropriate?**

10 A. It corrects all of the weakness that I just explained above. Freight will pay its fair share.  
11 The tractor trailer will be allocated a greater portion of the fuel cost than the twelve year old.  
12 All adult passengers will be allocated the exact same portion of the fuel cost regardless of when  
13 they ride the vessel and how many other passengers ride the ferry that month (with the exception  
14 of the year round, life line customers that receive a discount on their passenger tickets). All  
15 ratepayers will pay the average cost of fuel and not be penalized for the high cost of fuel in the  
16 month before they ride the boat. And the gross receipts tax will be calculated to reflect the total  
17 revenue collected which will include the fuel surcharge revenue.

18

19 **Q. Mr. Edge, won't the inclusion of the total cost of fuel in base rates significantly increase**  
20 **the base rates?**

21 A. Not really. The test year increase would have been less than 4%. In addition, most experts  
22 believe that Americans will have to learn to live with the fact that oil will remain at \$60 to \$70  
23 (or more) a barrel. If there were no emergency fuel surcharge the Division and Commission  
24 would not think twice about setting rates to reflect the projected rate year cost of fuel. I strongly  
25 believe that the best and fairest way to address the high cost of fuel for all ratepayers is to reflect  
26 the total cost of fuel in base rates. Of course, using a higher threshold (i.e. the per gallon amount  
27 allowed in rates) instead of \$1.20 per gallon would significantly reduce the impact of the fuel  
28 surcharge calculation and reduce the number of times Interstate would need to file under the  
29 surcharge rules.

1 **Q. Does the Commission have any other options, other than including the entire fuel cost**  
2 **in base rates for this rate filing?**

3 A. Yes. The Commission could chose to include in Interstate's base rates fuel costs that reflect  
4 Interstate's projected fuel consumption times \$1.20 (the trigger for the implementation of the fuel  
5 surcharge). Interstate would continue to use the surcharge and collect the fuel cost in the rate  
6 year. This choice would clearly reduce the rate increase needed in this filing but it would  
7 continue all of the ratemaking weaknesses mentioned above.

8  
9 If the Commission chooses this approach the gross receipts tax should be calculated on the total  
10 estimated fuel revenue, not just the amount in base rates, to eliminate a built in shortfall of the  
11 fuel surcharge. Interstate would prefer to simply move the trigger at which Interstate would use  
12 the fuel surcharge to \$2.81 per gallon (the projected cost per gallon in the rate year).

13  
14 **Q. How did you calculate the fuel cost for the rate year in your testimony?**

15 A. First, I determine that the test year was a normal representative year that could be used to  
16 reflect the consumption of fuel in the rate year. Per Interstate, I determined that there will be no  
17 new traditional boats used and no additional trips. Consumption in the rate year should remain  
18 about the same as the test year.

19  
20 The only adjustment that had to be made was for price increases. Given the volatility of fuel  
21 costs in recent months (post test year) it was difficult to get reasonable industry projections for  
22 the calendar year 2007. Therefore, as a surrogate for the interim and rate year increases, I  
23 calculated the rate year price of fuel based upon the increases in the price of fuel in the test year.

24 First, I calculated the average cost per gallon of fuel in the test year which was \$1.979. I then  
25 calculated the percentage increase from in the price of fuel from November 2004 to November  
26 2005 which was 21.09%. When I multiply the test year percentage increase, of 21.09% times  
27 \$1.979 and add \$1.979, I got \$2.40 per gallon which is about the current (June 2006) price of fuel  
28 (\$2.38 per gallon).

29

1 Given that the mid point in the rate year is still a year away I multiplied the percentage increase  
2 that I calculated for the interim year of 21.09% times two to get 42.19%. This percentage  
3 (42.19%) when applied to the average test year price should allow for a reasonable average rate  
4 year price of \$2.81 per gallon.

5  
6 To project the rate year fuel cost I multiplied the test year fuel cost (\$1,054,361) by 1.4219 which  
7 resulted in a rate year cost of fuel of \$1,499,173 and a fuel adjustment of \$444,812. See my  
8 calculations on Schedule WEE-11.

9  
10 It should be noted that the adjustment on WEE-3 is actually \$831,463 which reverses Mr.  
11 Bebyn's test year expense adjustment to remove the fuel cost reimbursed by the fuel surcharge.  
12 This adjustment puts all of the fuel cost in the base rates.

13  
14 **Q. Mr. Edge do you believe that this is a fair estimate of the cost of fuel in the rate year?**

15 A. Yes. However, since this is such a volatile commodity and as I write this testimony there  
16 are about six months before the start of the rate year, I will be happy to address this expense  
17 account later in my rebuttal testimony. As we get closer to the rate year, we may get some  
18 clarification of just how high fuel costs will rise. Nevertheless, it is important to estimate a fuel  
19 cost amount at this time that will hopefully not be exceeded to protect Interstate against notice  
20 restrictions. I am hopeful that the cost will not rise greater than I have estimated and I may be  
21 able to reduce this expense account for the rate year.

22  
23 Rate Case Expense

24  
25 **Q. Mr. Edge, how did you calculate rate case expense for the rate year?**

26 A. Rate case expense for this docket was estimated as follows:  
27  
28  
29

Cost of Service (Accounting)	\$60,000
Legal	60,000
Division	40,000
Commission	20,000
	<hr/>
Total	\$180,000
	<hr/>
Divided by 2 years	\$90,000
	<hr/>

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Interstate has agreed in the past, and will agree again in this docket, to adjust rate case expense to actual at the end of the case should the Division and/or Commission desire. The above rate case expense balance of \$90,000 per year for two years is in addition to the yearly PUC administrative cost reflected in the PUC expense account (left at the test year level in this docket). Please see Schedule WEE-3 for the adjustment.

Interstate's last rate case was just 2 years ago and in that docket rate case expense was amortized over five years (\$30,000). Mr. Bebyn added this rate case allowance to the test year therefore when the above calculated \$90,000 is added to the test year \$30,000 per year the total rate case expense allowance for the rate year is \$120,000.

**Q. Does that conclude your rate year cost of service testimony?**

A. Yes, I would like to now discuss rate base/rate of return.

1 **RATE BASE AND RATE OF RETURN**

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**Q. Mr. Edge what is ratebase?**

A. Ratebase is a rate making term which relates to a utility's net investment in fixed assets plus working capital and adjustments for deferred debits and credits. Interstate's rate base has been historically limited to net utility plant and working capital. The largest item, by far, in rate base is net utility plant (net fixed assets) which in the past has represents over 95% of Interstate's rate base. For this Docket, I have calculated an average rate base for the rate year 1/1/07 through 12/31/07 (see WEE-12).

**Q. What do you mean by "net" investment?**

A. Net investment is original cost of utility plant "net" of (less) accumulated depreciation. My Schedule WEE-12 shows the actual net utility plant at 11/30/05 rolled forward by adding actual purchases and subtracting appropriate depreciation through 5/31/06. All subsequent additions and deletions (depreciation) for the interim period (6/1/06 through 12/31/06) were reflected in the next calculation to arrive at a beginning net utility plant for rate base at 1/1/07. This calculation was followed by a third calculation reflecting rate year additions and deletions to arrive at the rate year ending rate base at 12/31/07. The average of the resulting beginning and ending rate base amounts was used for the average rate year rate base.

**Q. Is the investment in rate base simply the result of stockholder investment?**

A. No. Rate base is the result of stockholder investment and a utility's long term borrowing.

**Q. Why would assets that were obtained through borrowing be in rate base?**

A. Rate base is used in the rate process to determine the appropriate return (revenue above cost) for the utility. This return (on rate base) is used by the utility to gain profit for the stockholders and interest paid to the bank. Therefore, it is necessary to include assets which are purchased with borrowed monies in the rate base calculation.

1 **Q. Is that why interest expense is considered a “below the line” account and excluded**  
2 **from your rate year cost of service?**

3 A. Yes. Interest expense is a "below the line" other expense for a regulated utility and as such  
4 is backed out of the cost of service expense accounts. Payment of interest expense is provided  
5 from the revenue generated from the return on rate base.

6

7 **Q. Mr. Edge how did you calculate working capital?**

8 A. For this docket Interstate is not requesting working capital to reduce the number of issues in  
9 this case and hopefully to make the proceedings shorter. However, by not requesting the  
10 allowance at this time, Interstate is not agreeing that such an allowance should not be applied and  
11 Interstate reserves the right to request the allowance in the future.

12

13 **Q. How is the percentage rate of return on rate base calculated?**

14 A. The percentage is calculated by adding the weighted cost of borrowing to the weighted cost  
15 of capital. My Schedule WEE-13 shows the rate of return on rate base requested by Interstate for  
16 this rate filing.

17

18 **Q. Mr. Edge, how did you calculate the Rate of Return on Rate Base?**

19 A. I projected the rate year debt and equity. I then calculated the weighted cost of debt and  
20 equity using the appropriate interest rates for debt and my proposed return on equity.

21

22 **Q. Mr. Edge, how did you calculate the Return on Equity?**

23 A. First, I reviewed the return on equity allowed in the last rate case (about two years ago) and  
24 found that it was 10.75%. This rate was provided by the Division's witness and accepted by  
25 Interstate at that time to reach a stipulation. At that time I was Interstate's return on equity  
26 witness and calculated a return on equity of 11.50%.

27

28

29

1 **Q. Did you calculate the return on equity using one of the more traditional methodologies**  
2 **such as the Discounted Cash Flow (DCF) or the Capital Pricing Model (CAMP) analysis?**

3 A. No, the discounted cash flow methodology doesn't work for Interstate because they never  
4 distribute dividends and there are no regulated ferry companies that are comparative to Interstate  
5 (in fact the Division's witness used what I consider totally unrelated water utilities to do her DCF  
6 analysis in the last docket). The CAMP analysis has more merit assuming you can identify an  
7 appropriate market risk premium and an appropriate Beta.

8  
9 **Q. How did you calculate the return on equity for this docket?**

10 A. As I just stated, I started with the Return on Equity allowed in the last Interstate full rate  
11 filing of 10.75% and compared it to the recent returns on equity allowed by the Commission. I  
12 concluded that Interstate's return on equity should be greater than the much larger electric  
13 company Narragansett Electric who recently was approved an allowance of 10.5% (settlement in  
14 Docket 3617).

15  
16 To the Narragansett Electric rate of return of 10.5% I added 50 basis points for the added risk of  
17 competition and 50 basis points to reflect the additional risk related to the size of the utility  
18 (Interstate in comparison is a very small utility) and the fact that Interstate provides services that  
19 are not required by the majority of its customers. Interstate's services are optional and for the  
20 most part they not needed by the day trippers who can chose not to go to Block Island.

21 Narragansett's customers need electricity to live a normal life.

22  
23 Lastly, I added 50 basis points for Interstate's entry into the fast ferry market. Interstate has  
24 agreed to absorb any first year losses while at the same time pass the benefit of any fast ferry  
25 profits on to the ratepayers. This no risk approach for the ratepayers puts more risk on  
26 Interstate's stockholders and is justification for an additional 50 basis points on the return on  
27 equity. My total rate of return on equity is 12.0%. Please note that each 50 basis points adds  
28 just \$15,633 to the revenue requirement.



1 **Q. Mr. Edge, does that conclude your Rate Base and Rate of Return testimony?**

2 A. Yes.

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1 **RATE DESIGN**

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**Q. Mr. Edge, what rate design issues are in this filing?**

A. Interstate has proposed an "across-the-board" rate increase for all rates in this filing.

**Q. Is Interstate requesting any tariff changes to its miscellaneous charges?**

A. As in the past, Interstate has made some very minor changes in its freight tariffs by adding new items as they arrive for transport on the boat and eliminating old items that are no longer carried. These changes have a very minimal effect on revenues.

**Q. Does that conclude your rate design testimony?**

A. Yes.

1 **RATEPAYER IMPACT**

2

3 **Q. What is the impact on ratepayers of this rate increase?**

4 A. The across-the-board increase resulted in all rates increasing 30.26%. Some of the more  
5 commonly used rates increase as follows:

6

Rate	From	To
Adult Round Trip (PJ-BI)	\$14.30	\$18.60
Adult One Way (PJ-BI)	8.70	11.30
Children Round Trip (PJ-BI)	7.10	9.20
Children One Way (PJ-BI)	4.50	5.90
Bikes	2.50	3.30
Cars	38.90	50.70
Pick-up Trucks, vans and SUV's	46.90	61.10

7

8 **Q. Does that conclude your testimony?**

9 A. Yes.

**Rate Year Summary**  
Interstate Navigation

	Adjusted Test Year	Adjustments	Rate Year Old rates	Rate Increase	Rate Year New rates
Revenue	\$ 8,895,057	\$ -	\$ 8,895,057	\$ 2,438,522	\$ 11,333,579
Expenses	8,406,473	1,991,621	10,398,093	36,037	10,434,131
Net Profit	\$ 488,584	\$ (1,991,621)	\$ (1,503,036)	\$ 2,402,485	\$ 899,449 (A)
Rate Base	\$ 12,702,544				\$ 11,112,116
Return on rate base	3.85%				8.09%
Test Year Profit and Interest	\$ 488,584				\$ 899,449 (A)
Profit and interest	\$ 488,584				
Less test year interest	625,618				
Profit/(Loss)	\$ (137,033)				
Test Year equity	\$ 4,125,242				
Return on Equity TY	-3.32%				

**Statement of Revenue-Rate Year**  
 Interstate Navigation  
 Test Year FYE May 31st 2006 and Rate Year Calendar Year 2007

	<b>Adjusted Test Year</b>	<b>Adjustments</b>	<b>CY 2007</b>
<b>Revenue</b>			
-Passengers	\$ 3,889,918	\$ -	\$ 3,889,918
-Vehicles	3,177,364	-	3,177,364
-Bar	554,511	-	554,511
-Charter	113,716	-	113,716
-Freight	719,432	-	719,432
-Bikes, Mopeds, etc.	123,573	-	123,573
-Mail	30,553	-	30,553
-Tours	33,804	-	33,804
-Other	61,527	-	61,527
Landing Fee Commissions	27,200	-	27,200
Miscellaneous Charter	158,990	-	158,990
Miscellaneous Income	4,468	-	4,468
Sale of MV Manisee	-	-	- *
	<hr/>		<hr/>
<b>Total Revenue</b>	<b>\$ 8,895,057</b>	<b>\$ -</b>	<b>\$ 8,895,057</b>

\* The amortization of the sale of the Manisee ended in FYE May 31, 2005

Note: After reviewing the actual revenues for the most recent five years preceding the test year and the projected test year, I determined that the test year revenue levels were normal and that no rate year volume adjustment was needed. (See Testimony pages 9-11)

**Expenses Summary-Rate Year**  
Interstate Navigation

<b>Account #</b>	<b>Account Name</b>	<b>Adjusted Test Year</b>	<b>Adjustments</b>	<b>Adjusted Rate Year</b>	<b>REF</b>
301000	Payroll	\$ 2,511,753	\$ 272,619	\$ 2,784,372	<b>Testimony P.13</b>
	Payroll Taxes - FICA expense	204,430	22,188	226,618	<b>Sch. WEE- 4</b>
	Provision for Federal Income tax	-	129,325	129,325	<b>Sch. WEE-13</b>
	Depreciation	1,076,298	156,922	1,233,220	<b>Sch. WEE - 6</b>
	Interest Expense	-	-	-	TY
	Terminal Maintenance	40,922	30,544	71,466	<b>Testimony P.22</b>
301013	Lube	27,126	-	27,126	TY
301015	Crew Expense	127,604	13,850	141,454	<b>Testimony P.15</b>
301017	Supplies	24,119	-	24,119	TY
301019	Other Vessel Expense	11,998	-	11,998	TY
301021	Wharfage	314,028	51,649	365,678	<b>Sch. WEE - 7</b>
301022	Building Maintenance	12,698	-	12,698	TY
301023	Rent	34,420	-	34,420	TY
301025	Charter	17,575	(17,575)	0	<b>Testimony P.15</b>
301027	General Maintenance	35,201	-	35,201	TY
301031	Bar Supplies	237,685	-	237,685	TY
	Homeland Security	246,350	149,606	395,956	<b>Sch. WEE - 8</b>
301035	Utilities	91,481	-	91,481	TY
301037A	Auto Maintenance	6,034	-	6,034	TY
301037	Auto Expense	14,795	-	14,795	TY
301041/39	Local Transfer	130,846	38,452	169,298	<b>Testimony P.18</b>
301043	Travel	6,681	-	6,681	TY
301051	Advertising	364,839	(29,071)	335,768	<b>Sch. WEE - 9</b>
301052	Trash Removal and dumping fees	28,135	-	28,135	TY
301053	Other traffic expense	44,091	-	44,091	TY
301061	Office	43,015	-	43,015	TY
301065	Dues and Subscriptions	11,369	-	11,369	TY
301066	Professional Services	342,259	21,140	363,399	<b>Testimony P.19</b>
	Other Professional Fees	69,318	-	69,318	TY
	Credit Card Admin Fees	120,484	38,856	159,340	<b>Testimony P. 19</b>
	Bank Charges	1,168	-	1,168	TY
	Finance Charges	1,267	-	1,267	TY
	Freight	7,260	-	7,260	TY
301067	Contributions	3,001	-	3,001	TY
301068	Miscellaneous	29,345	-	29,345	TY
301069	Telephone	77,635	-	77,635	<b>Testimony P. 20</b>
301071	Employee Insurance	284,483	131,599	416,082	<b>Sch. WEE - 5</b>
301072	Employee Pension	95,050	(11,519)	83,531	<b>Sch. WEE - 5</b>
301073	PUC Expense	33,061	-	33,061	TY
	Landing Fee Expense	-	-	-	TY
301081	Insurance	217,490	67,824	285,314	<b>Testimony P. 21</b>
	Bad Debts	1,558	-	1,558	TY
301083	Workmans Comp	57,533	-	57,533	TY

**Expenses Summary-Rate Year**  
Interstate Navigation

<b>Account #</b>	<b>Account Name</b>	<b>Adjusted Test Year</b>	<b>Adjustments</b>	<b>Adjusted Rate Year</b>	<b>REF</b>
301088	Damages	8,597	-	8,597	TY
	Penalties	133		133	TY
	Cash Over/Short	-		0	TY
	Returned Items	5,298	-	5,298	TY
	Chargebacks	1,348	-	1,348	TY
	Refunds, Voids and Credits	70,159		70,159	TY
302011/20	Municipal Tax (Real Estate & Pers	31,339	-	31,339	TY
302013	Gross Receipt Tax	104,757	-	104,757	Testimony P. 21
302015	Annual Report	125	-	125	TY
302017	Sale and use tax	44,863	-	44,863	TY
302021	CT Corp Tax	250	-	250	TY
302027A	Permits and Licenses	3,736	-	3,736	TY
302027	Registrations	-	-	-	TY
302031	Unemployment Comp	3,320	360	3,680	Sch. WEE- 4
302032	Federal Unemployment	7,067	767	7,835	Sch. WEE- 4
302035	RI Unemployment	78,837	8,557	87,394	Sch. WEE- 4
302050	Vessel Maintenance	279,546	(5,936)	273,610	Testimony P.21
302055	Payroll Service	6,190		6,190	TY
302060	Computer Expense	58,789	-	58,789	TY
	Fuel Expense	667,710	831,463	1,499,173	WEE - 11
	Rate Case Expense	30,000	90,000	120,000	Testimony P. 26
	<b>Total Expenses</b>	<b>8,406,473</b>	<b>1,991,621</b>	<b>10,398,093</b>	
	<b>Revenue</b>	<b>8,895,057</b>	<b>-</b>	<b>8,895,057</b>	
	Gain/ (loss)	<u>\$ 488,584</u>	<u>\$ (1,991,621)</u>	<u>\$ (1,503,036)</u>	
	P and L Increase (before return on rate base, GRT and FIT)			<u>16.90%</u>	

**Payroll Tax Calculations-Rate Year**  
Interstate Navigation

Payroll Expense for the rate year \$2,784,372

Payroll Tax Accounts for the rate year:

Payroll Taxes - FICA expense	\$ 226,618
Unemployment Comp	\$ 3,680
Federal Unemployment	\$ 7,835
RI Unemployment	\$ 87,394

The above was calculated using the same ratio as the test year:

**Payroll Taxes - FICA expense:**

<u>TY FICA</u>	equals	<u>204,430</u>	times	\$ 2,784,372	equals	<u>\$ 226,618</u>
TY Payroll		2,511,753				

**Unemployment Comp:**

<u>TY UC</u>	equals	<u>3,320</u>	times	\$ 2,784,372	equals	<u>\$ 3,680</u>
TY Payroll		2,511,753				

**Federal Unemployment:**

<u>TY FU</u>	equals	<u>7,067</u>	times	\$ 2,784,372	equals	<u>\$ 7,835</u>
TY Payroll		2,511,753				

**RI Unemployment:**

<u>TY RIU</u>	equals	<u>78,837</u>	times	\$ 2,784,372	equals	<u>\$ 87,394</u>
TY Payroll		2,511,753				



**Fringe Benefits**  
Interstate Navigation

**Pension expense:**

Payroll Expense for the rate year	\$ 2,784,372
Pension Funding Rate (3%)	<u>0.03</u>
Pension expense	<u>\$ 83,531</u>

**Health Insurance:**

Test Year Level of expenditure: \$ 284,483 \*

Health Insurance includes Blue Cross - RI, Health Ins - Conn. and Delta Dental

**ANALYSIS:**

Blue Cross RI (Rate are good through January 31, 2007)

Cost per year at current rates	\$ 291,492
Rate Year Increase 11/12 * 15%	1.1375
(A)	<u>\$ 331,572</u>

Health Ins - Conn. (Rate are good through January 31, 2007)

Cost per year at current rates	\$ 47,822
Rate Year Increase 11/12 * 15%	1.1375
(B)	\$ 54,398

Delta Dental (Rate are good through January 31, 2007)

Cost per year at current rates	\$ 28,056
Rate Year Increase 11/12 * 8%	1.0733
(C)	<u>\$ 30,113</u>

Rate Year Level of Expense (A+B+C) \$ 416,082

Adjustment \$ 131,599

**Calculation of Depreciation by Year By Asset Group**  
Interstate Navigation

	Fiscal Year			Calendar Year
	2006	2007	2008	2007
Vessels	\$ 629,958	\$ 600,449	\$ 588,554	\$ 594,502
Vessel Impro and equip	333,874	350,542	386,818	368,680
Office Equipment	49,090	43,914	35,595	39,755
Buildings	30,893	23,292	18,136	20,714
Docks and Ramps	154,583	154,583	186,262	170,422
Point Judith Project	25,182	25,182	25,182	25,182
Vehicles	14,188	16,402	11,528	13,965
Dredging				-
	<u>\$ 1,237,768</u>	<u>\$ 1,214,364</u>	<u>\$ 1,252,075</u>	<u>\$ 1,233,220</u>

**Wharfage for the Rate Year**  
Interstate Navigation

**Wharfage:**

	<u>Test Year</u>	<u>Rate Year</u>	
Point Judith Dock (State of R I)	\$ 39,124	78,248	Doubled per advice of DEM counsel.
Old Harbor:	237,504	248,299	3% inflation.
Fort Adams	9,400	9,850	Increases of \$300 per year last three years.
Montville Dock	<u>28,008</u>	<u>29,281</u>	3% inflation.
Total	<u>\$ 314,028</u>	365,678	
Test Year Wharfage		<u>314,028</u>	
Adjustment		<u>\$ 51,649</u>	

**Homeland Security**  
Interstate Navigation

Account #	Account Name	May 31st 2005	May 31st 2006	Rate Year CY 2007
7505	HS Start-up	\$ 7,792	\$ -	
7506	HS - Equipment	52,297	36,044	12,600
7507	HS - Personnel MARSEC Level 2	205,486	205,512 8,867	202,900
7508	HS - Operations	26,466	15,048	57,420
	Capital Additions	75,475	75,475	144,730
	Contingency Reserve	50,000	-	-
	Total Expenditure	<u>\$ 417,516</u>	<u>\$ 340,946</u>	<u>\$ 417,650</u>
	Allowance	<u>\$ 395,956</u>	<u>\$ 395,956</u>	<u>\$ 395,956</u>
	Carry Forward	<u>\$ (21,560)</u>	<u>\$ 33,450</u>	<u>\$ 11,756</u>

## Detail Capital Additions:

## Point Judith Project Homeland Security Items (Allocation):

1)	Vechile Security Check In Booth	\$ 16,000
2)	Booth Foundation	1,000
3)	Electrical for Booth	500
4)	New Freight Building	15,000
5)	Canopy	43,000
7)	Fire Alarm System	22,450
8)	Interior doors	3,000
9)	Exterior doors	4,500
10)	Winter Waiting Room	45,500
		<u>\$ 150,950</u>
		<u>\$ 75,475</u>
		<u>\$ 75,475</u>

CY 2007 Capital Cost includes a computer update \$50,000 and TWIX Card USGA requirement \$94,730.

**Advertising**  
Interstate Navigation

Test Year Advertising \$ 364,839

Calendar Year 2006 Advertising Program:

Print Media	\$ 116,435
Radio	53,491
TV	33,138
Outdoor (Billboards)	77,940
Internet	2,375
Administration	<u>36,400</u>
	319,779
Increase for rate year	<u>1.05</u>
Rate Year Advertising Expense	<u>335,768</u>
Adjustment	<u>\$ (29,071)</u>

**Legal matters handled by Schacht & McElroy for Interstate Navigation Company – June 2004 – May 2005**

**1. General:**

- Issues relating to loan for the Anna C and lease for Old Harbor.
- Preparation and finalization of Montville Dock Agreement.
- Issues related to Old Harbor taxes.
- Review of various articles in Martha's Vineyard Gazette, Cape Cod Times, Block Island Times, Providence Journal, Newport Daily News, Hartford Courant, Mass Live, Providence Business News, New London Day, Nantucket Independent, Nantucket Inquirer, South County Independent, Narragansett Times, New York Times, Canton, Ohio newspaper, Pawtucket Times, New York Post, AOL News, News Day, Cambridge Chronicle, McGraw Hill Construction, Boston Herald, Connecticut Maritime Coalition news letter, Boston Globe, Gloucester Times, Salem News, Boston.com and Fast Ferry International.
- Issues regarding loan filing at the DPUC.
- Issues related to and representation of Interstate at State House hearing on stay bill.
- Issues regarding Kiley Foundation.
- Issues regarding \$3.1 million loan to purchase the Anna C.
- Issues related to collection of landing fee from New London high speed ferry.
- Issues related to Smiles Per Gallon publicity campaign.
- Review of loan agreement regarding draw downs.
- Issues related to disbursement request.
- Preparation of various loan documents and correspondence for \$3.1 million loan.
- Preparation of Borrowing Request No. 1 for 25% payment for engines and related documents.
- Issues related to terminal project and landscaping plans and bids for the same.
- Preparation of loan documents for \$3.1 million for the Carol Jean.
- Issues related to testimony for the DPUC supporting a \$3.1 million loan approval request.
- Issues regarding hot dog vendor parking directly in front of terminal.
- Issues related to New London to Block Island high speed ferry ticket using term "Block Island Ferry".
- CT Corp - Lien search in connection with \$3.1 million loan.
- Issues related to wave generation plant in Point Judith.
- Review of Coast Guard title abstracts for all Interstate vessels.
- Issues regarding use of "Block Island Ferry" by IHSF on radio ad.
- Summarize four articles from the Roger Williams University Law Review regarding wrong decisions by the Supreme Court in the moratorium/fine case and in the New Harbor case, concluding that the administrative hearing process is flawed and biased.
- Issues related to obtaining a federal grant for Wi-Fi installations.

- Discussions regarding increase in insurance for the Anna C.
- Representation of Interstate at DPUC hearing seeking approval of \$3.1 million loan; review loan agreement and promissory note.
- Review of ground lessor estoppel certificate for Waterfront, assignment of licenses and permits, assignment of lease for Waterfront and assignment of lease for the Galilee docking facility.
- Issues related to problem at Fort Adams with docking of the Nelseco due to BHC barge for the Tall Ships.
- Issues related to sexual harassment claim.
- Issues related to tripartite agreement.
- Issues regarding Fleet ships mortgage.
- Issues regarding CRMC notice of violation on Block Island Express ticket booth.
- Issues related to ticket disclaimer regarding Homeland Security.
- Prepare for and represent Interstate at \$3.1 million closing; subsequent meeting regarding possibility of further loan to finance a high speed ferry and regarding investment options for \$3.1 million in Nelseco and for excess cash in Interstate Navigation.
- Download and chart loan rates.
- Issues related to reinstating cancellation fee and opting out of the landing fee collection contract.
- Issues related to landing fees.
- Issues related to fuel surcharges.
- Issues related to termination of deck hand.
- Issues related to investment options and proposals.
- Issues related to applying for trademarks for “Block Island Ferry” and “Block Island High Speed Ferry”.
- Issues related to Newport questionnaire.
- Issues related to CPI increases.
- Issues related to PUC annual report.
- Issues related to Carol Jean specifications and contract with Eastern Ship Building.
- Preparation of letter to PUC filing annual reports, both complete and redacted and claiming confidentiality and delivery of the same to the PUC.
- Issues relating to requisition No. 2 for the down payment on the Eastern Shipbuilding contract for the Carol Jean.
- Issues related to May 31, 2004 financial statements to determine whether rate relief is necessary.
- Issues related to water quality certificate from DEM regarding Filippi Marina.
- Issues related to objection to Paul Roberti’s investigation regarding Old Harbor lease.
- Issues related to filing due at the Public Utilities Commission November 30 including motion for a 30-day extension.
- Issues related to asbestos claim.
- Negotiations to purchase the Sunflower restaurant; issues related to amending lease to convert to use as office space and Michael Kern’s offer to purchase liquor license and restaurant equipment.

- Issues related to sale of Carol Jean engines.
- Issues regarding possibility of Interstate operating parking at the Lighthouse Inn.
- Representation of Interstate at bid opening at the State Division of Purchasing.
- Issues related to CRMC hearing.
- Meeting with Joseph DeAngelis exploring possibility of settlement.
- Issues related to execution of new escrow agreement for terminal.
- Review and discuss three proposed bills in the Rhode Island Legislature forward by Trion Communications.
- Issues related to title and right of way issues on Old Harbor.
- Prepare analysis of various options regarding outstanding loans and whether to fix all or a portion of the loans; preparation of various confirmatory letters and documents implementing changes.
- Issues related to filing motion to recuse Michael Tikoian, Chairman of the CRMC, from the Filippi hearings.
- Issues regarding Old Harbor survey.
- Review of files; organize the same; prepare testimony and arguments for Filippi hearing.
- Represent Interstate at Filippi Marina hearings.
- Issues related to Interstate's 2005 schedule.
- Prepare for the deposition of Danni Goulet, engineer for the CRMC and represent Interstate at the deposition.
- Issues relating to the Army Corps' position with regard to the stability of the breakwater.
- Issues related to Town zoning, sedimentation control, erosion control, and necessity for Town permits.
- Research in preparation for meeting with Mary Jane Balsar and Cliff McGinnes; meeting with Mary Jane Balsar, Cliff McGinnes, Chris Myers and Bill Mcombe to discuss our requirement that a driver licensed to operate the vehicle travel with each vehicle.
- Issues related to rest rooms in Galilee.
- Issues regarding group tour discounts and Boy Scout complaint.
- Receipt and review of Smiles Per Gallon and Military discount program documentation; begin preparation of petition to the Division seeking to allow participation in the two programs.
- Research issues related to Council questions regarding our fuel surcharge bill and the application of the fuel surcharge; send regulations and sample fuel surcharge paperwork to Nancy Dodge.
- Issues related to complaint received by John Spirito related to bike carrier.
- Issues related to \$100,000 line of credit.
- Review of transcripts of all hearings in order to utilize references in preparation for drafting of post hearing brief.
- Preparation for upcoming annual meeting.
- Prepare for and represent Interstate Navigation at annual meeting.



## **2. 2004 Rate Case:**

- Issues related to pending rate increase.
- Issues regarding vehicle rates, reservations, group rates, cancellation fees and waiver of cancellation fees and other matters related to implementation of new rates.
- Review and summarize report and order issued by PUC approving rate increase.

## **3. 2005 Rate Case:**

- Review revenue comparison between 2004 and 2003 and additional information to determine whether relief is necessary.
- Preparation of Town data responses.
- Preparation of Division data responses.
- Discuss various matters including tour of vessel and Narragansett landing fees.

## **4. Other:**

- Issues regarding incident report regarding injury.

## **5. CPCN:**

- Research and preparation to file CPCN for a high speed ferry.
- Issues related to building a high speed ferry, costs of operating a high speed ferry, counts of high speed ferry and related matters.
- Meeting with Walter Edge to discuss strategy and outline of proof for requesting CPCN for a high speed ferry from the Division.
- Review of IHSF CPCN pleadings in preparation for our own petition for a CPCN.
- Issues related to Town of Block Island concern regarding loss of passengers to New London Ferry.
- Review of Fast Ferry International Publications to obtain data for CPCN case.
- Travel to Point Judith with Joshua Linda, Susan Linda and representatives of Gladding-Hearn regarding possible construction of high speed ferry and issues related to the filing of a CPCN case at the Division.
- Discuss issues regarding resale prices of high speed vessels and regarding lists of current vessels placed into service.
- Discuss possibility of building a high speed ferry through Nelseco Navigation and utilizing all or a portion of the \$3.1 million in proceeds to do the same.
- Discuss issues related to possible lease of Perotti Park to land high speed ferry.
- Review and preparation of testimony in support of CPCN filing. Prepare a form for the witnesses testifying for us.
- Research whether we could use the name "Block Island High Speed Ferry" and do preliminary trademark search regarding the same.
- Review first draft of proforma statement schedules and additional information needed regarding crew cost, fuel cost, maintenance cost, and results of passenger surveys.

- Discussions regarding survey of passengers, review and analyze survey statistics, calculate a possible profit and loss statement for high speed ferry based on survey results.
- Review and analyze Newport questionnaire.
- Review of article regarding statistics dealing with New Bedford to Martha's Vineyard Fast Ferry and traditional ferry showing that 75% to 80% switched from the traditional ferry to the Fast Ferry in its first year of operation; download rates and compare the same.
- Review CPCN testimony of Walter Edge. Prepare testimony for Joshua Linda and Susan Linda, Dr. Tyrell and lay testimony.
- Preparation of DPUC CPCN application for high speed ferry. Review CPCN statute and Division Rules for filing requirements, preparation of transmittal letters to DPUC and related cities and towns.
- Discussions with Walter Edge regarding changing financial figures on CPCN application, regarding Susan Linda's testimony, regarding Joshua Linda's testimony, regarding testimony of other witnesses and strategy of going forward.
- Discussions related to Mark Hagopian's and Rich Nolan's offering to sell the IHSF CPCN to Interstate for \$5million, not including M/V Athena.
- Discussions regarding Town Council meeting and anticipated position of the Town on the CPCN.
- Meetings with Walter Edge and John Spirito to discuss pretrial issues and scheduling of pretrial conference.
- Represent Interstate at prehearing conference at which schedule was established and various other items were discussed.
- Meeting with Walter Edge to discuss results of prehearing conference and IHSF's proposed deposition of John Peter Wronowski; discuss change to schedule to include filing surrebuttal testimony.
- Discussion with Susan Linda regarding rate requests received by the Division and motion to intervene received from the Town. Receive direction from her to object to the Town's motion until they file their position.
- Issues relating to Town of Narragansett's Motion to intervene.
- Meetings with Walter Edge to discuss and organize preparation of CPCN data responses, review data requests from IHSF and discuss IHSF's allegations of lobbying regarding Block Island Express.
- Obtain documentation to back up claims regarding the success of the Quonset high speed ferry and add to data responses.
- Review data requests from the Division. Prepare, review, revise and finalize data responses.
- Issues related to withdrawing conditional objection to the Town's motion to intervene.
- Review and discuss issues related to Town's testimony.
- Research and prepare objection to motion to limit discovery filed by IHSF; prepare motion to strike testimony, or to terminate intervention.
- Issues related to rebuttal testimony.
- Representation of Interstate at discovery conference at which discovery orders were issued and schedule was revised.

## **6. Asbestos Suit:**

- Review of summons, complaint and related letter. Preparation of letter to insurance carrier demanding defense.
- Reviewed detailed allegations and orders from Ohio and Pennsylvania courts.
- Correspondence to Susan Linda regarding insurance carriers, insurance coverage, defense of the case and related issues.
- Discussions with Jennifer Morse at The Hartford regarding coverage and defense of the case, giving Dick Binzley as a possible defense attorney to hire to answer the case.
- Discussions with Attorney Binzley, defense specializing in asbestos matter; make arrangements for him to protect Interstate's interests; preparation of letter to him with enclosures necessary for him to handle the matter.

## **7. Emergency Preparedness:**

- Discussions with Chief McCombe regarding port security grant, upcoming Coast Guard inspection, purchase and installation of equipment, the vessel and facility security plan issues, and possible employment as company security officer.
- Review of Coast Guard checklist survey of vessel and security plans and review of final approved vessels and facilities plan.
- Discussions with Bill McCombe regarding status of Washington approval of plans, mail contract, Old Harbor conflict with New London Ferry, signs in the road, sexual harassment claim, WI-FI possibilities, PVA conference, grant monies and various other matters.
- Review of Vermont lawsuit claiming that screening rules of the Homeland Security Act are unconstitutional; review of Vermont lawsuit regarding screening of passengers and vehicles; discussions with Vermont court regarding status of case; discussion with defendant ferry company regarding the same.
- Discuss implementing emergency plan that requires drivers on trucks, complaints from truck drivers and possible filing at the PUC regarding the same.
- Review and file as sensitive information Coast Guard inspection report of both terminal facilities.
- Discussions regarding Homeland Security budget, preparation of emergency preparedness budget for the PUC, issues related to the same and issues related to annual security audit.
- Review and comment upon proposed security budget
- Meeting with Joshua Linda and Chief McCombe regarding emergency preparedness issues, tour boat, discuss security measures implemented to our facility.
- Meetings and discussions with Walter Edge to discuss PUC compliance issues for filing of Homeland Security reconciliation; regarding method of funding of Homeland Security restricted account; review of Report and Order regarding same.
- Review of vessel and facility audits prepared by Company Security Officer for the Steamship Authority; file same with sensitive information file.

## **8. Fuel Surcharge:**

- Discussions with Susan Linda regarding fuel surcharge issues and requirements; documentation needed to implement a fuel surcharge.
- Prepare various monthly surcharge requests and analyze monthly orders.
- Analyze decrease in passenger traffic and increase in vehicle traffic.
- Review of fuel surcharge calculations and related fuel surcharge order.
- Discussions regarding error in calculation of fuel surcharge.
- Preparation of spreadsheet for corrected calculations and letter to the Division.
- Review of fuel surcharge information; preparation of corrected fuel surcharge calculations for July and August; preparation of fuel surcharge calculations for September; preparation of corrected fuel surcharge for September that deduct overcharge; preparation of related correspondence.
- Discussions with David Preston requesting a prefiled bill amending the fuel surcharge statute to increase the limit and decrease the floor. Discussions with Terry Mercer, Susan Linda and Walter Edge regarding the same.
- Recalculate October fuel surcharge numbers to correct error in gallons purchased and to calculate October undercollection; begin calculation of November surcharge figures; preparation of letter to DPUC.
- Discussion with John Bell and Terry Mercer at the DPUC authorizing continued .50 surcharge and discussing their position on undercollections.
- Discussions with Susan Linda regarding approval of .40 surcharge one-way and appeal rights to Superior Court regarding refusal to allow collection of undercollected amounts.

## **9. Island Hi-Speed Ferry:**

- Issues regarding Supreme Court decision affirming the PUC's decision and denying our appeal with one dissent.
- Issues relating to Roger Williams Law Review criticizing Supreme Court decision regarding moratorium/fine case and criticizing Supreme Court decision regarding New Harbor zoning.
- Issues related to dismissal of last Interstate case.
- Issues related to IHSF's petition for modification of rate orders to allow for season pass and group discounts and review petition for exemption from PUC's rules regarding the same.
- Issues relating to Puerto Rico run.
- Issues related to objection to IHSF's request for a waiver of Part Two of the Commission's Rules.
- Attend prehearing conference at which we were allowed to intervene as a party; representation of Interstate at subsequent meeting with Mark Hagopian and Larry Kunkel of IHSF CPCN and related issues.
- Negotiations regarding IHSF CPCN and the Athena purchase.
- Preparation of objection to motion to limit discovery; continued preparation of objection to motion to strike testimony or to terminate intervention.
- Issues related to Docket No. 3495.

- Issues related to data requests.
- Issues related to new offer to buy both CPCN and the Athena.
- Issues related to revision to the procedural schedule.
- Representation of Interstate at public comment hearing at the PUC.
- Issues related to Town testimony and intervention.
- Issues related to motion for summary disposition.

#### **10. Narragansett Taxes:**

- Issues related to Town of Narragansett's motion to assign matter for trial.
- Issues related to withdrawal of petition and dismissal of stipulation.

### **Legal matters handled by Schacht & McElroy for Interstate Navigation Company – June 2005 – May 2006**

#### **1. General**

- Issues related to Filippi Marina hearing.
- Negotiations for Sunflower purchase.
- Issues related to Point Judith terminal project.
- Review of various articles in the Block Island Times, Narragansett Times, New London Day, the Providence Journal, Providence Sunday Journal, Martha's Vineyard Gazette, Martha's Vineyard Times, Fast Ferry International, Providence Business News, Nantucket Independent, Norwich Bulletin, Boston Globe, Boston Herald, News Day, South County Independent, Virgin Island News, Long Island papers, New Haven business publication.
- Preparation of questionnaire.
- Issues regarding fuel surcharge bill.
- Issues regarding sewage discharge bill.
- Review proposed bill in the Legislature regarding CRMC jurisdiction over expansion of dock use.
- Issues regarding lease for the Sunflower.
- Prepare oral argument for Filippi hearing.
- Representation of Interstate at Filippi CRMC hearing.
- Issues regarding exemption from discharge bill.
- Issues related to dredging in Old Harbor.
- Research regarding case that establishes that fees on federally registered vessels are unconstitutional; send the same to David Preston to use in arguing for an exemption on the sewage discharge bill.
- Issues regarding parking proposals.
- Review final version of CRMC legislation regarding more intensive use of piers.
- Negotiate revisions to Purchase and Sale Agreement for the Sunflower Restaurant; review revised Sunflower lease; prepare additional revisions; review of Sunflower zone change application prepared by Attorney Packer.

- Review and revise draft annual meeting minutes prepared by Mark Block; preparation and finalization of annual meeting minutes and attachments, including calculations of proposed purchase offer.
- Issues related to proposed terminal project change order number 1 and change order number 2.
- Issues related to \$100,000 line of credit.
- Review of signed purchase and sale agreement, review of blank liquor license and food license application; discuss with Susan Linda confirming that she wants to apply for the liquor license and the food license and to request names and addresses of stockholders.
- Issues related to plans for the conversion of the Sunflower Restaurant to offices.
- Preparation of liquor license transfer application, liquor license application, and food service application and related correspondence.
- Issues related to ridership statistics being collected by URI.
- Preparation of passenger statistics comparison of 2004-2005 from statistics used in fuel surcharge calculations.
- Review decision of the United States Court of Appeals for the first circuit regarding the Boston Harbor Cruise “seamen” overtime case.
- Issues related to access to Ballard’s and dispute relating to fence and right of way.
- Meeting with Walter Edge to discuss filing of water carrier report and request for extension of same, download rules and regulations regarding the same and furnish to Walter Edge.
- Issues regarding dispute with the Filippi’s on various matters including easement issue, right of way issue, and follow-up call with Josh Linda regarding evidence of closure of lot once a year.
- Issues regarding IHSF 2004 landing fees but opting out of landing fee agreement.
- Issues related to pleadings and lawsuit filed by Ballard’s against Interstate Nav.
- Review of collection agreement and amendments to the same and preparation of opt out letter.
- Representation of Interstate at meeting of Galilee Lease Committee; follow-up meeting with Ray, Sue, Josh and Rusty regarding design of the building.
- Preparation of letter to DEM extending all Interstate Galilee leases.
- Issues related to possible Interstate rate filing.
- Issues related to monthly escrow payments.
- Review of Army Corps dredging notice in Point Judith.
- Issues related to Division’s request regarding cancellation notifications and possible implementation of the same.
- Issues related to DEM regarding lease renewals and regarding sewage pump out for ferry use.
- Review of Filippi CRMC decision; discussion with Kelly Sheridan analyzing the same and discussing appeal options and further discussing preliminary injunction hearing regarding East West right of way.
- Issues related to zone change petition and procedure for the same and regarding lease assignment and change of use.
- Issues related to Filippi Superior Court appeal regarding Filippi Marina.

- Issues related to notice from the CRMC regarding Block Island bait dock dredging.
- Issues related to bulkhead inspection.
- Issues related to J.G. Edwards payments.
- File request with the PUC to extend discount tickets including ticket books and discounted group sales.
- Travel to Block Island with Sue Linda, Ray Linda, Josh Linda, Jeanette Centracchio and Bill McCombe and meet with the Block Island Town Council to discuss various matters of mutual interest.
- Prepare passenger analysis from landing fee numbers and conclude that passenger traffic is up 13% over last year and preparation of letter to Sue Linda regarding the same and discussion of the impact of the same with Walter Edge regarding whether or not rate relief may be needed.
- Issues related to school ID's for commuter rate.
- Preparation of charitable contributions guidelines.
- Review of regulatory and bank financial statements for May 31<sup>st</sup>.
- Review of fiscal year 2005 financial statements from accountant and begin preparation of analysis of the same.
- Prepare and email loan request letter to Washington Trust Company.
- Prepare minutes and annual meeting reports for Interstate Navigation Company.
- Represent Interstate Navigation Company at Narragansett Town Council meeting at which request zone change for the Sunflower Restaurant was discussed by the Town Council.
- Issues related to opting out of Narragansett Landing Fee contract.
- Discussions regarding possible construction of office building in fishing zone and ways to obtain assurances that this could be done pursuant to conversation with Councilman Handrigan including possible letter from Town Solicitor or assurance from the zoning official.
- Receipt of the signed annual report from David Bebyn and preparation of report for filing with the PUC in both unredacted and redacted versions.
- Review of Order from the PUC approving continuation of group tour discounts and ticket books.
- Issues related to Sunflower zoning.
- Preparation of package transmitting revised annual report to PUC.
- Preparation of motion to consolidate the Filippi matter.
- Preparation of Filippi brief in support of administrative appeal.
- Telephone call with Rusty Sergeant regarding plans he is drawing up for initial reaction of the building inspector, review of plans, locate drawing and fax to him, and follow-up call regarding lot coverage and related issues.
- Discussions regarding appraisal for Washington Trust Company and regarding aspects of business appraisal.
- Review and preparation of comments upon draft finance testimony of Walter Edge.
- Issues related to extension of leases through 2011.
- Discussion with Bill McCombe regarding various employee issues and the law as it relates to these issues.

- Issue regarding occurrences at Town Council work session dealing with New Bedford ferry, Montauk ferry, landing fees and other issues.
- Review of 2006 schedule, compare to last year, and file the same.
- Preparation of analysis of November 30<sup>th</sup> financial statements.
- Review of Superior Court decision reversing a CRMC decision for possible use in the Filippi appeal.
- Issues regarding office space and office space requirements.
- Issues related to setting up meeting for stock swap and regarding failure of Interstate Nav. to provide the requested accounting or to make distributions.

## **2. Island Hi-Speed Ferry:**

- Review IHSF's memorandum objecting to Interstate's motion for summary disposition.
- Preparation of motion to strike Kunkel testimony for failure to respond to data requests.
- Prepare cross examination for upcoming IHSF rate hearings.
- Prepare oral arguments for upcoming PUC hearing on motion for summary disposition and motion to strike testimony.
- Representation of Interstate at PUC hearing at which the PUC denied Interstate's motion for summary disposition, granted New Shoreham's motion for a hearing on the Island, and granted IHSF's motion for a continuance to file its data responses.
- Review data responses from IHSF.
- Prepare for cross examination of witnesses at upcoming hearing.
- Travel to Block Island and represent Interstate at IHSF PUC meeting.
- Attendance at PUC open meeting at which the PUC was unable to agree on whether to approve or deny the requested rate change. Therefore, the rate change went into effect by operation of law, except that the corporate sales were not allowed and IHSF must make annual reportings.
- Review motion to reopen the case filed by the Town of New Shoreham.
- Review of open meeting transcript.
- Review of IHSF's response to the Town's motion to reopen and note that it is withdrawing its request for a season's pass for requesting an investigation of Interstate.
- Issues related to negotiations regarding the possible purchase of IHSF including the Athena and the CPCN.
- Transcript of PUC hearing.
- Issues related to IHSF's emergency motion to discontinue two runs in the off-season.
- Representation of Interstate Navigation Company at Division hearing at which IHSF sought continued reduction in its schedule and the Town objected to the same.
- Review decision from the DPUC affirming its emergency decision allowing IHSF to suspend certain runs.



- Issues related to proforma profit and loss statements and pros and cons of possible purchase of IHSF.
- Preparation of draft letter of agreement for Mark Hagopian regarding purchase of Island High Speed Ferry; preparation of second draft of proposed purchase agreement.
- Review of Mark Hagopian's response to Draft #3 and meeting with Walter Edge to discuss in detail the issues regarding the deposit, the financing period and the issue of the requested seasonal passes.
- Preparation of Asset Purchase Agreement for Island High Speed Ferry.
- Preparation of Purchase and Sale Agreement.
- Meeting with Walter Edge to discuss various PUC and DPUC filings that need to be made and supporting testimony that Mr. Edge will need to prepare.
- Preparation of consent vote authorizing transaction and letter to Sue Linda; preparation of letter to Washington Trust Company requesting financing and enclosing financial statements, proforma appraisal and letter agreement.
- Issues related to Washington Trust consideration of Island Hi-Speed loan and information package.
- Prepare for conference call with Julia Slom and Bethany Schneider, locate survey results, and scan and email the same to Julia Slom and Bethany Schneider; conference call with Julia, Bethany and Walter Edge to discuss various issues and concerns regarding the loan.
- Obtain various information for Washington Trust Company at their request including information regarding statistics showing passenger increases, web sales, and IHSF readership numbers.
- Detailed review of comments on asset purchase agreement by Mark Hagopian and comments on asset purchase by attorney for Boston Harbor Cruises, make notes of agreements regarding my proposed position.
- Meeting with Walter Edge to discuss his comments on the comments from counsel for Boston Harbor Cruises and Mark Hagopian regarding asset purchase agreement; telephone call with Susan Linda to discuss position to be taken of asset purchase agreement negotiations especially with regard to noncompete agreement and revise purchase and sale agreement accordingly.
- Review of term sheet for \$5.6 million loan prepared by Washington Trust Company; discuss with Walter Edge problems with the same including interest reserve and 1.25 debt service coverage ratio and related matters.
- Issues regarding hiring of crew and chartering of vessel.
- Issues regarding berthing permit fees for IHSF and projection and research regarding berthing rules and regulations to locate berthing charges.
- Meeting with Walter Edge and Leo DeLisi, Business Valuation Appraiser for Washington Trust Company, to discuss his business valuation appraisal of IHSF and provide him with various documentation and provide revised pro forma schedules to him at his request, send pro forma schedules to him and to Sue and Josh Linda.
- Review of revised asset purchase agreement and compare to comments on previous draft.
- Detailed review of revised purchase and sale agreement.

- Discussions regarding information needed for Leo DeLisi including insurance information regarding possibility of resolving dispute with IHSF by amending our own CPCN regarding \$1.95 fuel surcharge and related matters.
- Issues related to wharfage figures.
- Discussion with Merlyn O'Keefe regarding IHSF failure to pay landing fees to the Town and the Town's possible legal actions regarding the same.
- Review and analyze numbers presented for the proposed charter agreement; meeting with Walter Edge to discuss pro forma profit projection with charter numbers and how to revise the pro forma to incorporate charter numbers; review Walter Edge's revised pro forma numbers incorporating IHSF charter quote and IHSF training and crew costs, and analyze the same.
- Discussion with Paul Baccari regarding Interstate's comments on proposed charter agreements and subsequent preparation of email to Paul Baccari with various conditions which must be included in an escrow or similar letter.
- Issues regarding \$10,000 payment required to maintain berth with Charles Donadio.
- Review first and second drafts of testimony of Walter Edge in support of applications to the PUC for fast ferry rates and prepare comments to the same.
- Reviews of revised time charter, revised bare boat charter, revised asset purchase agreement, revised purchase and sale agreement, revised escrow letter and new non-compete agreement; prepare comments to the same.
- Issues related to liquor license application.
- Issues related to Puerto Rico renewal of contract and related matters.
- Review of revised testimony in support of the changes to Interstate's fast ferry CPCN prepared by Walter Edge and finalize the draft with exhibits, review of revised PUC testimony regarding fast ferry rates prepared by Walter Edge and finalize draft with exhibits and send the same to Susan Linda, Joshua Linda and Walter Edge for review.
- Review of PUC and DPUC filing requirements, review of related statutes, review of decisions regarding the same, preparation of correspondence filing CPCN requests, preparation of correspondence filing rate requests, preparation of request for necessary waivers, preparation of notice for publication and related documentation.
- Travel to and attend meeting with Washington Trust Company and People's Bank and Susan Linda regarding \$5.6 million loan.
- Review and preparation of revisions to papers for \$250,000 asset purchase escrow.
- Review of execution documents sent by Paul Baccari; review revised closing documents with typographical errors corrected.
- Meeting at the Division of Taxation with John Hagopian and representative of the Division of Taxation to review agent assignment and execute the same in connection with the operation of the M/V Athena regarding liquor license.

- Download and review joint petition for approval of time charter, download and review petition to hold Island Hi-Speed Ferry CPCN dormant for one year, download and review proposed agreement between Boston Harbor Cruises and Island Hi-Speed Ferry regarding distribution as a result of Interstate closing, preparation of email to Mark Hagopian regarding suggested changes in joint petition and testimony of Mr. Kunkel.
- Review and revise filing to Commission requesting fast ferry rates and certain waivers, review and revise filing to the Division requesting amendment to CPCN.
- Meeting with Walter Edge to discuss his review of the commitment letter as opposed to the previous terms sheet, follow up by conference call with Michael Davis regarding requested changes in the commitment letter.
- Representation of Interstate Navigation Company at closing at which charter agreements, purchase and sale agreement, non-compete, and related documents were executed.
- Review Report & Order of the Commission granting group discounts and seasons passes to IHSF.
- Preparation of DPUC and PUC filings and file the same at the Commission and Division and meet with Cindy Wilson of the Commission and Bill Lueker of the Division to explain the same.
- Draft letter to all attorneys seeking execution of stipulations on Division and Commission matters, draft separate stipulations for each pending Division and Commission matter to be included with letters.
- Travel to Block Island and meet with Block Island Town Council and obtain their authority to agree to all four stipulations and filings by Interstate and Island Hi-Speed Ferry, subsequent meetings with Raymond and Joshua Linda, meetings with Bill McCombe, meeting with Nancy Dodge.
- Meeting with Walter Edge regarding changes Steve Scialabba wants in the PUC stipulation to incorporate those changes, organize pleadings files in the DPUC and the PUC matter for all dockets.
- Transmit revised Stipulation to all parties for execution; review of Stipulations signed by Bill Lueker and preparation of email transmitting the same to other parties and asking for signatures.
- Representation of Interstate at prehearing conference attended by representatives of the Division, the Commission, and IHSF at which a schedule was set for handling this matter.
- Issues related to possible intervention of Charles Donadio and strategies for handling the same.
- Issues related to Washington Trust regarding insurance coverages.
- Issues related to failure to execute one of the stipulations.
- Issues related to Donadio negotiations.
- Travel to Newport to meet with City Manager, City Legal Counsel, Harbor Master, and City Planner and meet with Joshua Linda and Chris Myers to discuss execution of stipulation and possible docking in Newport most likely in 2008.
- Issues related to Anna C. appraisal.
- Travel to PUC and attend open meeting at which the PUC approved our rate filing.

- Preparation for upcoming DPUC hearing.

### **3. Personal Injury Suit:**

- Receipt and review of demand letter for an injury on the ferry; telephone call with Susan Linda, telephone call to attorney, preparation of letters to Susan Linda, attorney, and insurance carrier, demanding defense.
- Review of injury report.
- Issues regarding inspection and photograph of vessel.
- Discussions with Hartford regarding claim.

### **4. Fuel Surcharge:**

- Review of fuel surcharge statistics; preparation of monthly fuel surcharge filings and related orders.
- Download legislative status report showing that fuel surcharge bill has become effective without the Governor's signature.
- Meeting with Walter Edge to discuss fuel surcharge and impact of the new law and related issues.
- Review all surcharge filings and put chart together for use by David Bebyn in preparation of annual report for the Public Utilities Commission.
- Meeting with Walter Edge to discuss options for processing fuel surcharge when the fast ferry is placed in service.

### **5. Emergency Preparedness:**

Discussions with Bill McCombe related to the following:

- Coast Guard Inspection,
- Coast Guard escort,
- erection of fence,
- Filippi hearing,
- FBI meeting,
- Elevated threat level and impact of the same;
- Issues related to the Coast Guard and level 2 security;
- Regarding threat on Nantucket ferries and Coast Guard and Steamship Authority reaction;
- Discuss increased threat level and methods of funding for handling the same;
- Identification cards;
- His handling the Port Security grant emails,
- Final paperwork regarding the same;
- Regarding sonic weapon and emergency preparedness budget;
- Upcoming Table Top Drill;
- Wi-Fi system in the boats as a homeland security expense;
- His vacation plans and how to handle emergency in his absence

- Issues related to acquisition of Island Hi-Speed Ferry and revisions to security plan to possibly incorporate the M/V Athena;
- Regarding various planning and training issues; regarding names of captains for inclusion in security plan.
- Review of various articles in numerous publications.
- Download and review Coast Guard approvals from Bill McCombe.

## 6. CPCN:

- Preparation of objection to IHSF's motion to extend surrebuttal date.
- Meetings with Walter Edge to discuss strategy for preparing for CPCN hearings; with Walter Edge and Joshua Linda to review all testimony and prepare cross examination and argument for upcoming hearings; regarding estimates on profits and ridership.
- Meeting with Walter Edge to review testimony of Mr. Kunkel and prepare cross examination testimony and data responses.
- Issues related to scheduling witnesses for upcoming hearing.
- Preparation of Josh Linda and Susan Linda for cross examination.
- Preparation and research for upcoming hearings; review of file, preparation of opening statement.
- Meeting with Walter Edge to prepare for hearings; meeting with Susan Linda, Raymond Linda, and Joshua Linda to prepare for hearings; represent Interstate at 3 days of hearings at the Division.
- Locate testimony of Susan Linda in previous CPCN case; locate cross examination of Susan Linda in previous CPCN case; locate cross examination of Joshua Linda in previous CPCN case.
- Download and review IHSF requests to the Advocacy Section.
- Transcripts.
- Meetings with Walter Edge to discuss IHSF passenger survey; to discuss survey data requests.
- Review of survey results; preparation of data requests regarding survey.
- Prepare with Walter Edge for cross examination of Mr. Nolan.
- Finalize data requests and motion for leave to file data requests.
- Preparation for cross examination of Frederick Nolan.
- Representation of Interstate at DPUC hearing at which Mr. Nolan was cross examined.
- Download and review testimony of Larry Kunkel and discuss the same with Walter Edge in terms of preparing rebuttal.
- Locate testimony of Doctor Stutz and copy for Walter Edge's use in preparing rebuttal; download and review rebuttal testimony of Doctor Stutz; discuss with Dr. Stutz potential areas of examination and responses to the same; meet with Walter Edge to prepare for cross examination of Dr. Stutz and other issues related to upcoming hearings.
- Research regarding anti trust claims and rebuttal testimony of Larry Kunkel and furnish to Walter Edge for use in his rebuttal.

- Review of first draft of data responses to IHSF's 3<sup>rd</sup> set of data requests; preparation of comments on the same; follow-up meeting with Walter Edge to discuss the same; review of 2<sup>nd</sup> and final revision.
- Preparation of rebuttal hearings.
- Prepare for and represent Interstate at final day of CPCN hearings; subsequent meeting with all parties regarding possible agreed resolution and regarding legal issues to be addressed in briefs; subsequent meeting with Ray, Sue, and Josh Linda and Walter Edge regarding upcoming negotiations with IHSF for possible resolution.
- Research on legal standards for granting a CPCN.
- Receipt of talking points from Mark Hagopian for possible conditions that may result in resolution of the pending request for a fast ferry; analyze the same with Walter Edge; discuss the same in a conference call with Susan Linda; prepare for upcoming meeting.
- Meeting with Paul Roberti, Merlyn O'Keefe and Mark Hagopian to discuss potential conditions under which both ferries could operate and negotiate the details of the same; follow-up meeting with Mark Hagopian regarding possible sale.
- Download and review second proposal from IHSF.
- Review of cases cited by Mark Hagopian regarding research project John Spirito is seeking including the Pan American case and the Sort Line case.
- Organize documentation and review of transcripts for preparation of CPCN brief.
- Review of Supreme Court case found by Mark Labollita addressing John Spirito's research question.
- Preparation of brief and Susan Linda's testimony.
- Download and review first draft of standard of review section from Mark Labollita.
- Review and incorporate Walter Edge's comments into CPCN brief; incorporate suggested changes from Mark Labollita into the CPCN brief; finalize brief.
- Download and review IHSF's Motion for an Extension of Time; research and preparation of objection to Motion for Extension of Time.
- Travel to DPUC and file CPCN brief.
- Review of IHSF's post-hearing brief.
- Pull files and locate survey information for John Spirito and telephone call with John Spirito responding to his questions.
- Review of CPCN decision.
- Discussion with Merlyn O'Keefe regarding filing of administrative appeal of award of CPCN to Interstate and motion for stay regarding the same.
- Download IHSF's complaint and motion for a stay and review the same.
- Preparation of answer to IHSF's complaint and objection to IHSF's motion for a stay.
- Preparation of answer to administrative appeal in Superior Court, preparation of objection to motion for a stay and research regarding the same.
- Discussion with Walter Edge regarding his testimony to amend Interstate's CPCN to allow for chartering of vessel and brief review of Walter Edge's first draft testimony.

- Review and comment upon Walter Edge's first draft of testimony in support of proposed amendment to CPCN to allow for the leasing of the Athena.
- Download and review and prepare comment upon Walter Edge's second draft of testimony in support of amended CPCN.

**7. 2006 Rate Case:**

- Meeting with Walter Edge to discuss issues that need to be discussed with Susan, Ray and Josh Linda regarding whether a rate filing needs to be made.
- Meeting with Walter Edge, Susan Linda, Ray Linda and Josh Linda regarding items to be included in possible 2006 rate filing.
- Meeting with Walter Edge to discuss various rate case issues.

**Calculation of Fuel for the Rate Year**  
Interstate Navigation

**Fuel prices during the test year:**

Month/Year	Average Rate	Total Dollars	Total Gallons	%	Rate Weighted
December 2004	\$ 1.560	\$ 38,031	24,376	0.05	\$ 0.074
January 2005	1.613	29,899	18,541	0.04	0.058
February 2005	1.656	33,315	20,120	0.04	0.065
March 2005	1.870	40,546	21,686	0.04	0.079
April 2005	1.857	61,624	33,190	0.06	0.120
May 2005	1.724	78,892	45,749	0.09	0.154
June 2005	1.947	107,253	55,080	0.11	0.209
July 2005	1.949	171,836	88,186	0.17	0.335
August 2005	2.130	194,769	91,426	0.18	0.379
September 2005	2.342	124,433	53,122	0.10	0.242
October 2005	2.291	77,935	34,012	0.07	0.152
November 2005	2.054	57,074	27,784	0.05	0.111
Total dollars and gallons		<u>\$ 1,015,605</u>	<u>513,272</u>	1.00	\$ 1.979
Average Price November 2004					1.696
Average Price November 2005					2.054
Increase					<u>0.358</u>
Percentage increase (\$0.358/\$1.696)					21.09%
Multiply by 2 to get to mid rate year					<u>X2</u> 42.19%
Test Year Dollars Calculated above					<u>\$ 1,054,361</u>
Price Adjustment					<u>\$ 444,812</u>
Projected Rate Year Fuel Cost					<u>\$ 1,499,173</u>

NOTE: It is impossible to predict the increase or decrease in fuel prices for CY 2007.

Therefore, I calculated the rate year increase in the cost of fuel to be equal to the price increase experienced in the test year. For this calculation, I disregarded the fact that there was an interim year and only calculated a single rate year amount.



**Rate Base  
Interstate Navigation**

<b>Net Utility Plant 11/30/05 (Per Schedule DGB - 6)</b>	\$ 12,702,544
<b>Roll forward</b>	
Additions	69,345
Less Depreciation	(687,433)
<b>Net Utility Plant 5/31/06</b>	<u>\$ 12,084,456</u>
<b>Additions 6/1/06 through 12/31/06 (Interim period):</b>	
General Additions	<u>50,000</u>
	50,000
<b>Less Depreciation 6/1/06 through 12/31/06 (Interim period):</b>	<u>(708,378)</u>
<b>Utility Plant -Beginning of Rate Year</b>	\$ 11,426,078
<b>Rate Year Additions</b>	
Rebuild Port Main Engine-Anna C	90,160
Rebuild Starboard Main Engine-BI	76,172
Rebuild Port Main Engine-BI	76,172
Rebuild Finger Dock-BI Terminal	127,055
Build Finger Pier-PJ Terminal	189,736
New Forklift	23,000
New Forklift	<u>23,000</u>
	605,295
<b>Rate Year Depreciation (deduction)</b>	(1,233,219)
<b>Utility Plant - End Of Rate Year</b>	<u>\$ 10,798,154</u>
<b>Average Utility Plant</b>	\$ 11,112,116
<b>Working Capital</b>	<u>-</u>
<b>Average Rate Base for the Rate Year</b>	<u>\$ 11,112,116</u>

**Rate of Return and Federal Income Tax  
Interstate Navigation**

**Description of Test Year Long Term Debt at Year End:**

All borrowing is with Washington Trust and all assets are pledged.

Fixed rate 10 year loan (15 year Amortization) at 6.1%	\$ 1,709,686
Fixed rate 10 year loan (15 year Amortization) at 5.91%	3,905,022
Fixed rate 10 year loan (15 year Amortization) at 6.9%	1,964,582
Fixed rate 10 year loan (15 year Amortization) at 6.88%	<u>2,872,379</u>
Total per 5/31/06 Balance Sheet	<u><u>\$ 10,451,669</u></u>

**Proposed Capital Structure fo the Rate Year**

	Amount	% of Total	Rate	Weighted Return
Current Long Term Debt:				
Loan 1 - Fixed rate 15 year	\$ 1,600,597	11.30%	6.10%	0.0069
Loan 2 - Fixed rate 15 year	3,678,285	25.97%	5.91%	0.0153
Loan 3 - Fixed rate 15 year	1,868,157	13.19%	6.90%	0.0091
Loan 3 - Fixed rate 15 year	2,722,919	19.23%	6.88%	0.0132
Equity (no gain or loss in interim year)	<u>4,292,241</u>	<u>30.31%</u>	12.00%	<u>0.0364</u>
Total Capital structure	<u><u>\$ 14,162,199</u></u>	<u>100.00%</u>		<u><u>0.0809</u></u>

**Calculation of Federal Income Tax:**

Rate Base	\$ 11,112,116
Return On Equity	<u>0.0364</u>
Taxable Income	\$ 404,139.61
Tax on the remainder (32%)	<u>129,325</u>
Total Tax	<u><u>\$ 129,325</u></u>

**Rate Increase Calculation**

## Interstate Navigation

Increase in Revenue Requirement	<u>\$2,438,522</u> A
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## Revenues impacted by rate increase:

-Passengers	\$3,889,918
-Vehicles	3,177,364
-Bar	-
-Charter	113,716
-Freight	719,432
-Bikes, Mopeds, etc.	123,573
-Mail	-
-Tours	33,804
-Other	-
Landing Fee Commissions	-
Miscellaneous Charter	-
Miscellaneous Income	-
Sale of MV Manisee	-
	<u>\$8,057,807</u> B
Rate Increase Percentage Required (A/B)	<u>30.26%</u>

**Revenue Check**  
Interstate Navigation

	<u>Revenue</u> <u>Rate Year</u>	<u>Adjustment</u>	<u>Proforma</u> <u>Revenue</u>
-Passengers	\$ 3,889,918	1.3026	\$ 5,067,007
-Vehicles	3,177,364	1.3026	4,138,834
-Bar	554,511	-	554,511
-Charter	113,716	1.3026	148,126
-Freight	719,432	1.3026	937,132
-Bikes, Mopeds, etc.	123,573	1.3026	160,966
-Mail	30,553	-	30,553
-Tours	33,804	1.3026	44,033
-Other	61,527	-	61,527
Landing Fee Commissions	27,200	-	27,200
Miscellaneous Charter	158,990	-	158,990
Miscellaneous Income	4,468	-	4,468
Sale of MV Manisee	-	-	-
	<u>\$ 8,895,056</u>		<u>\$ 11,333,348</u>
Revenue Requirement from Schedule WEE - 1			<u>\$ 11,333,579</u>
Variance			<u>\$ (231)</u>

**Related Party Transactions**

## Interstate Navigation

Interstate has the following related party transactions:

	<u>Test Year Expense</u>	<u>Rate Year Expense</u>
Anna C Charter	\$ -	\$ - (A)
Wharfage:		
Interstate Nav.	237,504	248,299
Waterfront Realty	<u>28,008</u>	<u>29,281</u>
Total Related Party Expense	<u>\$ 265,512</u>	<u>\$ 277,580</u>

(A) Interstate did not charter the M. V. Anna C in the test year or the rate year because Interstate purchased the vessel (M. V. Anna C) from Nelseco CY 2004.