

Prefiled Direct Testimony
of
Joshua Linda, Vice President
Regarding Traditional Service Rates

Interstate Navigation Company
Docket No. _____

July 2006

1 **INTRODUCTION**

2
3 **Q. Please state your name, position and business address for the record.**

4 A. My name is Joshua Linda and I am Vice President of Interstate Navigation Company. My
5 business mailing address is P.O. Box 482, New London, Connecticut, and my administrative
6 office is located at 14 Eugene O’Neil Drive, New London, Connecticut. Interstate also has
7 offices in Galilee, Rhode Island and Block Island, Rhode Island.

8
9 **Q. Mr. Linda, have you testified for Interstate before the Rhode Island Public Utilities
10 Commission as a witness prior to this docket?**

11 A. Yes.

12
13 **Q. What is your educational background?**

14 A. I have a Bachelor’s Degree in Business Management from Roger Williams University.

15
16 **Q. What is you background with Interstate Navigation Company (Interstate)?**

17 A. I am a licensed Captain and the holder of a coast Guard 100-ton Master’s license. I have
18 been working with Interstate in various capacities for over 22 years. I have worked on the
19 vessels as a deck hand, an engineer, a mate, and as a captain. I have worked with my father,
20 Raymond Linda, the General Manager of the company, in the construction, maintenance, and
21 repair of our vessels and docking facilities. I have worked with my mother, Susan Linda the
22 President and Chief Financial Officer of the Company, in the office on the various administrative
23 responsibilities of running the company. In addition to being Vice President of the company, I
24 am one of three Directors of the company. I have been involved in the ferry business with
25 Interstate for my entire working life.

26
27 **Q. Are you familiar with Interstate’s last rate filings Docket # 3573?**

28 A. Yes. In Docket #3573, Interstate agreed to a “Stipulation and Settlement” with the Division
29 which was approved by this Commission. That stipulation was signed on the 12th day of May
30 2004. Please see Mr. Edge’s prefiled testimony for a brief summary of the agreed upon points
31 in the stipulation.

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

2 A. I will present information regarding our general financial situation and a general overview of
3 the goals which Interstate has for the future. In addition, I will be prepared to respond to any
4 questions relating the overall operation of the Company to include scheduling, staffing and
5 management; the description, use and proposed maintenance of vessels; and the description, use
6 and proposed maintenance of the ferry, docks and ramps and the passenger and freight terminals.

7
8 **Q. Are you familiar with the Point Judith terminal reconstruction project and can you**
9 **provide the Commission with an update on this project?**

10 A. Certainly. As my mother testified in the last docket, "The Block Island Ferry terminal
11 expansion project originally involved relocating the existing terminal building and associated
12 pedestrian/vehicular operations to a different location on the site, including repaving the entire
13 site and flood-proofing the new structure in accordance with current FEMA flood regulations.
14 Freight operations were to be centralized and expanded in the small existing building along the
15 bulkhead between the ferry ramps." When the original bids were open January 2002 the lowest
16 bid of \$1.1 million was considerably more than the budget.

17
18 After deciding not to proceed as a result of the high bids, a redesign of the project was initiated
19 in March 2002. In order to lower construction costs changes were made as follows:

- 20
21 1. The existing ferry terminal building was left in the same location.
22 2. Interstate performed interior modifications to provide a winter waiting area and bathrooms
23 as well as the pedestrian shelter addition.
24 3. The freight operations were relocated to a new freight depot building by the eastern
25 portion of the site.
26 4. To reduce truck/freight traffic on Great Island Road, the existing driveway behind the
27 Sunflower Restaurant was used to provide access to the freight operations.
28 5. The truck access change (trucks exiting onto Great Island Road) required modification of
29 the existing driveway apron onto Great Island Road.
30 6. RI Coastal Resources Management Council (CRMC) permit and Water Quality Certificate
31 applications were submitted in July 2003. We receive CRMC approval. Final plans,
32 specifications and bid documents were then submitted to the State for putting the project
33 out to bid.
34

1 **Q. What happened next?**

2 A. The bidding process was completed April 8th 2005. The winning bid was \$773,000 by J. G.
3 Edwards Construction Co., Inc of Portsmouth R. I. After the State awarded the contract, the
4 building permit was issued April 18th 2005 and construction commenced shortly thereafter.
5 Construction was substantially completed May 26th 2006, at a final cost of \$943,206 including
6 change orders in the amount of \$170,206. The project has been very well received by our
7 employees and our customers.

8

9 **Q. Mr. Linda, what are the major reasons which have caused the need for rate relief at**
10 **this time?**

11 A. The major reasons are listed in Mr. Edge's prefiled testimony pages 4-6, but I would like to
12 provide additional comments from my point of view.

13 1. First, fuel costs continue to rise and adversely impact the cost of providing service to our
14 ratepayers. Although the State fuel surcharge has helped, it has resulted in additional
15 work and cost (the cost of filing each month). Further, the surcharge is somewhat unfair
16 to passengers, to the benefit of freight and vehicle traffic. After reviewing the situation,
17 I agree with Mr. Edge that fuel costs should be charged in our base rates so that all rate
18 classes will pay their fair share of the fuel costs. If the Commission approves the fuel
19 costs in base rates Interstate will not file for the state surcharge until fuel costs exceed the
20 per gallon price of fuel included in Interstate's base rates.

21

22 2. We have invested significant amounts of money in improving our service to our
23 ratepayers. The purchase of the *M/V Anna C* and the re-powering and upgrading of the
24 *M/V Carol Jean* have significantly improved our service to the ratepayers. I was not
25 aware of the ratemaking issue of average rate base described by Mr. Edge in his prefiled
26 testimony, but I do believe that we need to have all of the costs incurred for these two
27 vessels included in our rates.

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1 3. Mr. Edge also provides in his testimony evidence that shows that our passenger and bike
2 revenues have declined in recent years as a result of competition. I have seen first hand
3 the results of competition. I clearly understand why we had to spend significant dollars
4 on improving our vessels and terminals in order to compete in this market. In fact, our
5 recent efforts have been toward entering the fast ferry market directly.
6

7 **Q. Management of Interstate has never recommended that profits that were authorized**
8 **by this Commission and earned by Interstate be paid out in dividends to stockholders.**

9 **Could you comment on why?**

10 A. Certainly. My family and especially my grandfather, John H. Wronowski, who owned and
11 operated this Company for about 60 years until his death in 1997, has always looked at Interstate
12 as a very important entity which should be nurtured, passed through the family if possible, and
13 whenever possible, improved and financially strengthened. To this end, the controlling
14 owners of the Company (currently my parents) have chosen to forgo paying dividends so that the
15 money could be reinvested into the Company. Although certain minority shareholders have been
16 asking the Company in the last few years to declare dividends, the controlling shareholders have
17 chosen to reinvest the Company earnings instead of declaring dividends. This was done so that
18 cash would be available when Interstate needed money to make major capital investments, such
19 as recently rebuilding the Block Island terminal bulkhead, rehabilitating the *M/V Carol Jean*,
20 purchasing the *M/V Anna C*, etc.
21

22 **Q. Mr. Linda, what are Interstate's goals for the future?**

23 A. Our immediate goals are to continue to improve our vessels and service, comply with the
24 Homeland Security Coast Guard regulations, and to continue to improve the staging and terminal
25 areas at Point Judith and on Block Island. Our long term goals are as they have always been, to
26 provide the best quality year-round ferry service to Block Island at reasonable rates, now in the
27 face of direct competition for summer tourists, while at the same time maintaining the financial
28 strength of the Company.
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1 In order to try to stem the growing loss of summer customers, it is imperative, now that we are in
2 a competitive market, for us to recognize that we need to come up with creative strategies for
3 retaining and possibly even expanding our customer base. In this regard, we pursued and
4 obtained a fast ferry Certificate of Public Convenience and Necessity (CPCN). Further, we have
5 entered into a fast ferry leasing agreement for the summer of 2006 to provide fast ferry service to
6 Block Island.

7
8 We realize that it is very important to preserve the lifeline service to Block Island. To that end,
9 Interstate must remain competitive and must try to stop the downward spiral of revenues that is
10 occurring. As Interstate's rates continue of necessity to increase, and the differential between
11 Interstate's conventional rates and the current fast ferry rates continues to decrease, (making the
12 fast ferry boat more attractive), Interstate's conventional service must find ways to effectively
13 compete.

14
15 **Q. Mr. Linda, have you reviewed Interstate's capital needs for the next three or four**
16 **years?**

17 A. Yes I have. Please see my schedule JL-1 attached that shows the four year budget of capital
18 related maintenance items that I believe must be completed to maintain our quality of service.

19
20 **Q. Would you please summarize the items that you feel are needed for the rate year CY**
21 **2007 and beyond?**

22 A. Certainly. The following is a summary of the capital related maintenance items that I
23 believe are needed. These are the same items that I have posted to my schedule JL-1.

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1 **Planned Capital Items and Maintenance Work**

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3 **Vessels:**

4
5 ***M. V. Anna C (Built in 1986):***

- 6 1. Rebuild Port main engine (Cummins KTA50M). This engine has not been overhauled
7 since 1996 and is approaching time for a major overhaul. We plan to complete this major
8 overhaul (capital item added to rate base) during the rate year 2007 at a cost of
9 approximately \$90,160. (This estimate is based upon 2006 cost, which includes parts and
10 labor). Unless otherwise noted all cost estimates are based upon 2006 costs that will
11 probably be higher by the time we do the projects.
- 12 2. Rebuild bow-thruster engine (Detroit Diesel 8V-71). This engine has not been
13 overhauled in 20 years and will soon need to be. We plan to overhaul it in 2009 at a cost
14 of approximately \$20,134.
- 15 3. Replace the three four bladed propellers with three new five bladed propellers. In 2008
16 we will replace the existing propellers with new manganese bronze Rolls-Royce New
17 generation work-wheels. These new style propellers dramatically reduce vessel vibration
18 and should increase vessel speed without increased fuel consumption. We installed these
19 wheels on the *M. V. Carol Jean* with great success. We plan to replace these three
20 propellers in 2008 at a cost of approximately \$40,635. (This estimate is based upon 2005
21 cost and will probably increase by the time we make the replacement)
- 22 4. Replace exterior cabin windows. The original exterior windows are now twenty years
23 old and are in need of replacement. We plan to replace 22 windows on the 1st deck (14
24 fixed and 8 sliders) in 2007 at the approximate cost of \$16,750. We plan to replace 15
25 windows on the 2nd deck (9 fixed and 6 sliders) also in 2007, time permitting, at an
26 approximate cost of \$11,775.
- 27 5. Replace twelve existing aluminum port-lights with new bronze port-lights. The existing
28 port-lights are severely corroded and we plan to replace them in 2007 at an approximate
29 cost of \$10,994.
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- 1 6. Water blast exterior of hull from keel to gunwale. The paint coatings on the exterior of
2 the hull are well beyond 10 years old, which is their expected service life, and they need
3 to be water blasted off and coated with a new paint system. We plan do this work in
4 2008 at an approximate cost of \$88,125.
- 5 7. Water blast the exterior of the superstructure from the gunwale to the top deck. The
6 superstructure has not been sandblasted in ten years and the paint system in failing. We
7 plan to have the superstructure exterior water blasted and re-coated in 2009 at an
8 approximate cost of \$61,030.
- 9 8. Renovate 1st cabin seating with new Turnbull seating. The original cabin seating consists
10 of uncomfortable wooden benches which the passengers dislike. The new seats are
11 airplane style and are very comfortable. We renovated the *Carol Jean's* seating with the
12 Turnbull seating and we have received extremely good passenger feedback. We plan to
13 replace this seating in 2009 at an approximate cost of \$58,000.

14
15 ***M. V. Block Island (Built in 1997):***

- 16 1. Completely rebuild both main engines. (GM EMD 8-710). Both of these engines have
17 performed flawlessly since the vessel was built in 1997, but they will soon be reaching
18 their overhaul time of 30,000 hours. This is a capital project (added to rate base). We
19 plan to rebuild the Starboard engine in 2007 at a cost of approximately \$76,172. We plan
20 to overhaul the Port engine also in 2007 time permitting at a cost of approximately
21 \$76,172 (both estimates include parts, labor, travel, and lodging and will probably
22 increase by the time we do the work).
- 23 2. Completely rebuild both generator engines (GM Detroit Diesel 8V- 71). Both of these
24 engines have been in service since the vessel was new and are approaching overhaul
25 time. We plan to overhaul the Starboard generator engine in 2007 at a cost of
26 approximately \$20,134 (includes parts and labor). We then plan to overhaul the Port
27 generator engine in 2008 at a cost of approximately \$20,134.

- 1 3. Replace cut-less shaft bearings on both propeller shafts. The shaft bearings have not
2 been replaced since the vessel was built and are wearing to their tolerance limit. We plan
3 to replace all six cut-less bearings during dry-dock in 2008 at a cost of approximately
4 \$64,621.
- 5 4. Water blast bottom of hull up to gunwale. The paint system on the hull will be ten years
6 old in 2007 and is starting to fail. We plan to water blast the hull in 2009, or sooner if we
7 need to, and have a new paint system installed at a cost of approximately \$100,000.
- 8 5. Replace cabin seating with new Turnbull seating. The interior cabin seating on the *Block*
9 *Island* is padded but not very comfortable. After we renovated the *Carol Jean* with new
10 Turnbull seating we received many requests from our passengers to renovate the *Block*
11 *Island's* seating with the same seating. Since the *Block Island* is the winter boat and used
12 year round, it would make sense to give our passengers more comfortable seating. We
13 plan to renovate the cabin seating in 2007 at a cost of approximately \$71,900 (we will
14 install the seats with our crews).

15
16 ***M. V. Nelseco (Built in 1981):***

- 17 1. Rebuild Port generator engine (GM Detroit Diesel 3-71). This engine has not been
18 overhauled in the 25 years that the vessel has been in operation and is due for an
19 overhaul. We plan to overhaul this engine in 2007 at a cost of approximately \$8,018,
20 (which includes parts and labor).
- 21 2. Water blast bottom of hull from keel to gunwale. The exterior of the hull has not been
22 blasted in over 15 years and is badly in need of a new paint system. We plan to water
23 blast the hull in 2008 for the cost of approximately \$55,000, (which includes paint and
24 labor).

25
26 ***M. V. Carol Jean (Built in 1984):***

- 27 1. Rebuild bow-thruster engine (GM Detroit Diesel 8V-71). This engine has not been
28 overhauled in over 20 years that it has been in service and is due for overhaul. We will
29 overhaul this engine in 2007 at a cost of approximately \$20,134, (which includes parts
30 and labor).

1 ***M. V. Manitou (Built in 1970):***

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- 3 1. Sandblast the exterior of the hull from the keel to the gunwale. The *Manitou's* bottom
- 4 has not been sandblasted in over 20 years and needs to be done soon. A new paint
- 5 system will then be applied. We plan to do this work in 2008 at a cost of approximately
- 6 \$19,000, (estimate based upon 2006 cost) which includes paint and labor.
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8 **Routine General Vessel Maintenance**

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10 **Q. Mr. Linda, does that conclude your analysis of the work needed on the vessels?**

11 A. Yes. However, these major items do not include the cost of general maintenance that is

12 done on the vessels weekly as things break, or the significant work that we do on the vessels

13 from October to June at the Montville shipyard. During these off season months, my father and

14 I work with five of our engineers to complete what we consider normal annual maintenance on

15 the vessels.

16

17 I have estimated that the normal annual maintenance averages about \$35,000 (excluding labor).

18 The items that I consider general annual maintenance are posted to our general ledger account

19 #301027 on Mr. Edge's Schedule WEE-3. It should be noted that our general maintenance

20 account does not include the in-house labor costs that are already accounted for in our salary

21 dollars in this filing. Further, it should be noted that Mr. Edge left this account at the test year

22 level for the rate year.

23

24 **Q. How much would the labor costs be if the annual maintenance were completed at local**

25 **shipyards with their labor force?**

26 A. Local shipyards currently charge about \$68 per hour for work that they do on vessels. I

27 estimate that our crew, my father and I work about 10,000 hours on our vessels from October

28 until the last boat is returned to service in the summer. If we were to put our vessels into a

29 shipyard for general maintenance it would cost us about \$680,000 in labor costs.

30

1 We believe that there is a significant savings to the ratepayers (over a half million dollars each
2 year) with us doing the work. My family has always tried to save money for the ratepayers and
3 we have been working on our own vessels every winter since my grandfather started the
4 business.

6 Terminals

7
8 **Q. What maintenance and capital items are you planning during the next three years for**
9 **Interstate's two terminals?**

10 A. We plan to complete the following items:

12 ***Block Island Terminal:***

- 13 ➤ Replace Eastern loading ramp. The eastern loading ramp is approaching 20 years old
14 and is due for replacement. The salty environment has severely corroded it and it needs
15 to be replaced. We plan to replace this ramp in 2007 at a cost of approximately \$34,327
16 for material and transportation. We plan to build the ramp with our crews. (Once again
17 all estimates are based upon 2006 cost unless noted otherwise).
- 18 ➤ Rebuild Western finger dock. The finger pier between the loading ramps is about 35
19 years old and needs to be rebuilt. Although we do not load passengers at this pier, we
20 still use it for mooring our vessels. We plan this capital project (rate base item) in 2007
21 at a cost of approximately \$127,055.
- 22 ➤ Replace wear piles on four dolphins. The wear piles on the four main dolphins for the
23 loading ramps are getting severely worn and need to be replaced. We plan to have these
24 twenty pilings replaced in 2009 at an approximate cost of \$47,500.

26 ***Point Judith Terminal:***

- 27 ➤ Replace apron on Northern loading ramp. The loading apron on the North ramp is
28 severely corroded and needs to be replaced. We plan to remove the existing apron and
29 replace it in 2007 at a cost of approximately \$13,565. We will do the work with our
30 crews.

- 1 ➤ Replace North finger pier. The North finger pier is rotted and needs to be replaced. We
2 anticipate that we will be using this pier more frequently to load passengers on the high
3 speed ferry and it must be replaced. We plan to complete the capital project (rate base
4 item) in 2007 at a cost of approximately \$189,736.
- 5 ➤ Replace two forklifts. Two of the oldest forklifts at Point Judith are almost ready for
6 retirement. We plan to replace both forklifts in 2007 at a cost of approximately \$23,000
7 each. These are capital items included in rate base.
- 8 ➤ Replace one 12 pile dolphin cluster and one seven pile dolphin cluster in North slip.
9 There are two dolphins in this slip that are rotted and need replacement. We plan to have
10 them replaced in 2007 at a cost of approximately \$45,000.

11

12 **Q. Mr. Linda, have you prepared any attachments to your testimony for this filing?**

13 A. Yes, I have provided as an attachment to my testimony an analysis of payroll expense in the
14 test year by month, by location and by function (See Attachment A). Also required is the
15 overtime paid for the last three years which was \$224,782 (Test Year); \$232,348 (YE 11/30/04)
16 and \$239,354 (YE 11/30/03).

17

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

19 A. Yes. However, the following attestation which is required under Commission Rule 2.7 was
20 signed by my mother who is President and Treasurer of Interstate. My mother is prepared to
21 respond to questions that can not be answered by Mr. Edge relating to the financial data provided
22 to Mr. Edge and presented in this filing.

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Attestation of Financial Data pursuant to Rule 2.7:

I, Susan Linda, President and Treasurer of Interstate Navigation Company, do hereby attest to the accuracy of the test year financial data presented in the rate base, cost of service and other financial statements; that such data purports to reflect the books of the company, and the results of operations; and that all differences between the books and the test year data, and any changes in the manner of recording an item on the Company's books during the test year, have been expressly noted.


Susan E. Linda

Three Year Budget - Maintenance Items
Interstate Navigation

Project	2007	2008	2009
Vessels:			
M. V. Anna C:			
Rebuild bow thruster engine	\$ -	\$ -	\$ 20,134
New propellers		40,635	
New 01 deck windows	16,750		
New 02 deck windows	11,775		
New portlights	10,994		
Waterblast hull		88,125	
Waterblast Superstructure			61,030
New seats			58,000
M.V. Block Island:			
Rebuild Stbd. gen engine	20,134		
Rebuild Port gen. engine		20,134	
Replace shaft bearings		64,621	
Waterblast hull			100,000
New seats	71,900		
M. V. Nelseco:			
Rebuild Port gen engine	8,018		
Waterblast hull		55,000	
M. V. Carol Jean:			
Rebuild bowthruster engine	20,134		
M.V. Manitou:			
Sandblast hull		19,000	
	<u>159,705</u>	<u>287,515</u>	<u>239,164</u>

Rate Year terminal expense (CY 2007) is \$223,610 ((FYE 2007+ FYE 2008)/2)

Terminals:

Block Island:

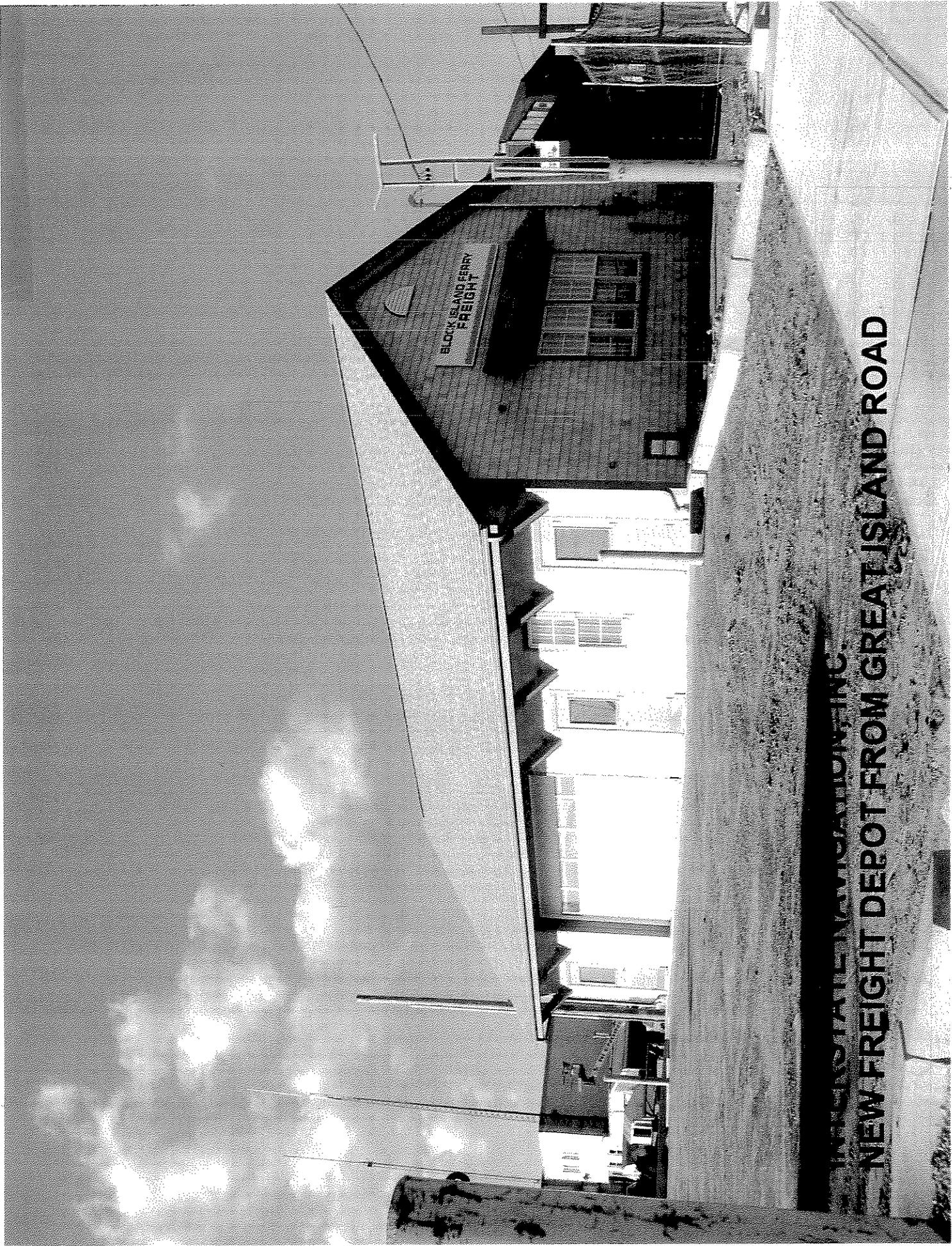
New loading ramp for dock	34,327		
Replace dolphin wear pilings			47,500

Point Judith:

New loading ramp apron	13,565		
New dolphins	45,000		

General Terminal Maintenance	25,000	25,000	25,000
	<u>117,892</u>	<u>25,000</u>	<u>72,500</u>
Major Maintenance Totals:	<u>\$ 277,597</u>	<u>\$ 312,515</u>	<u>\$ 311,664</u>

Rate Year terminal expense (CY 2007) is \$71,446 ((FYE 2007+ FYE 2008)/2)

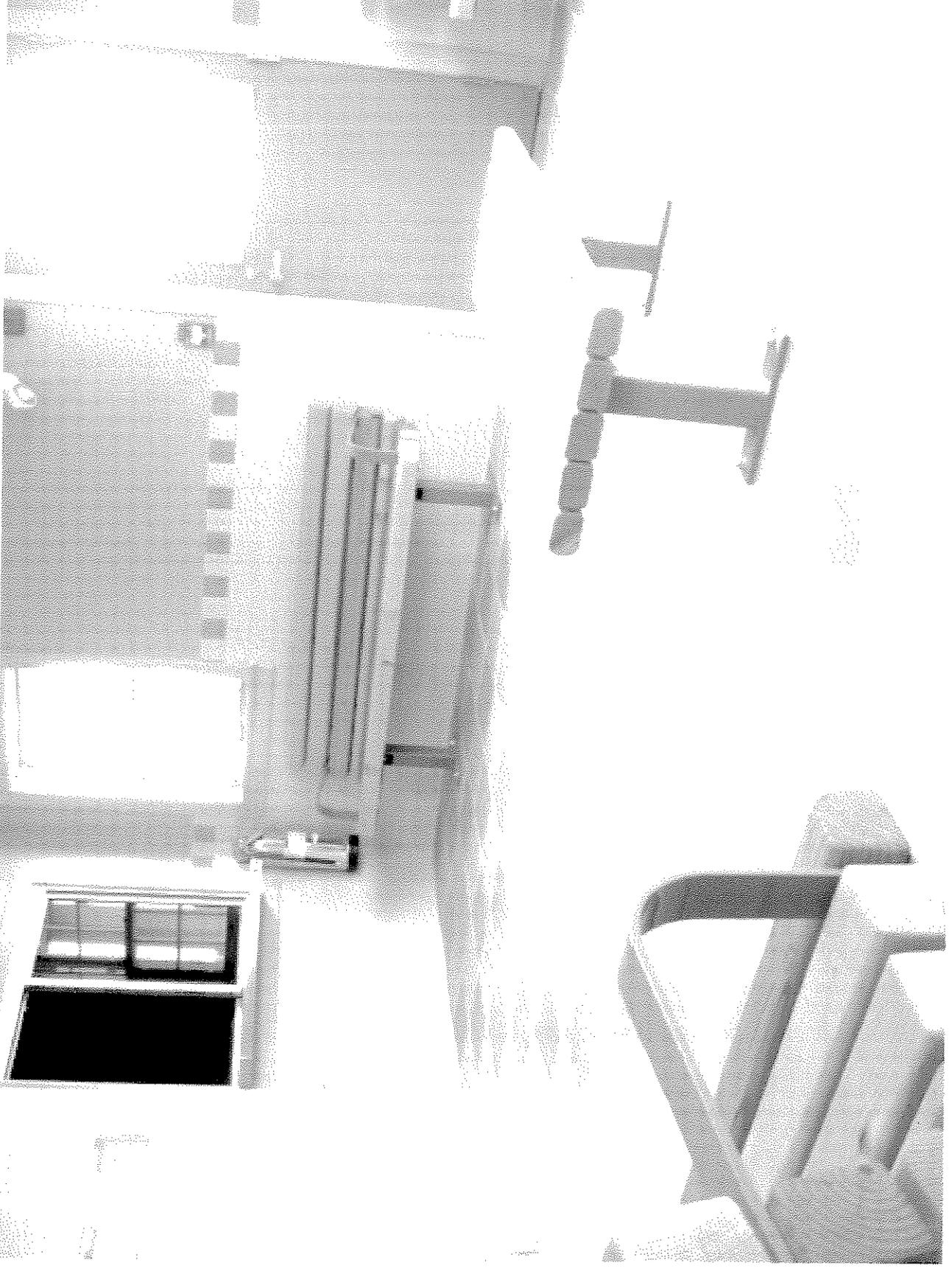


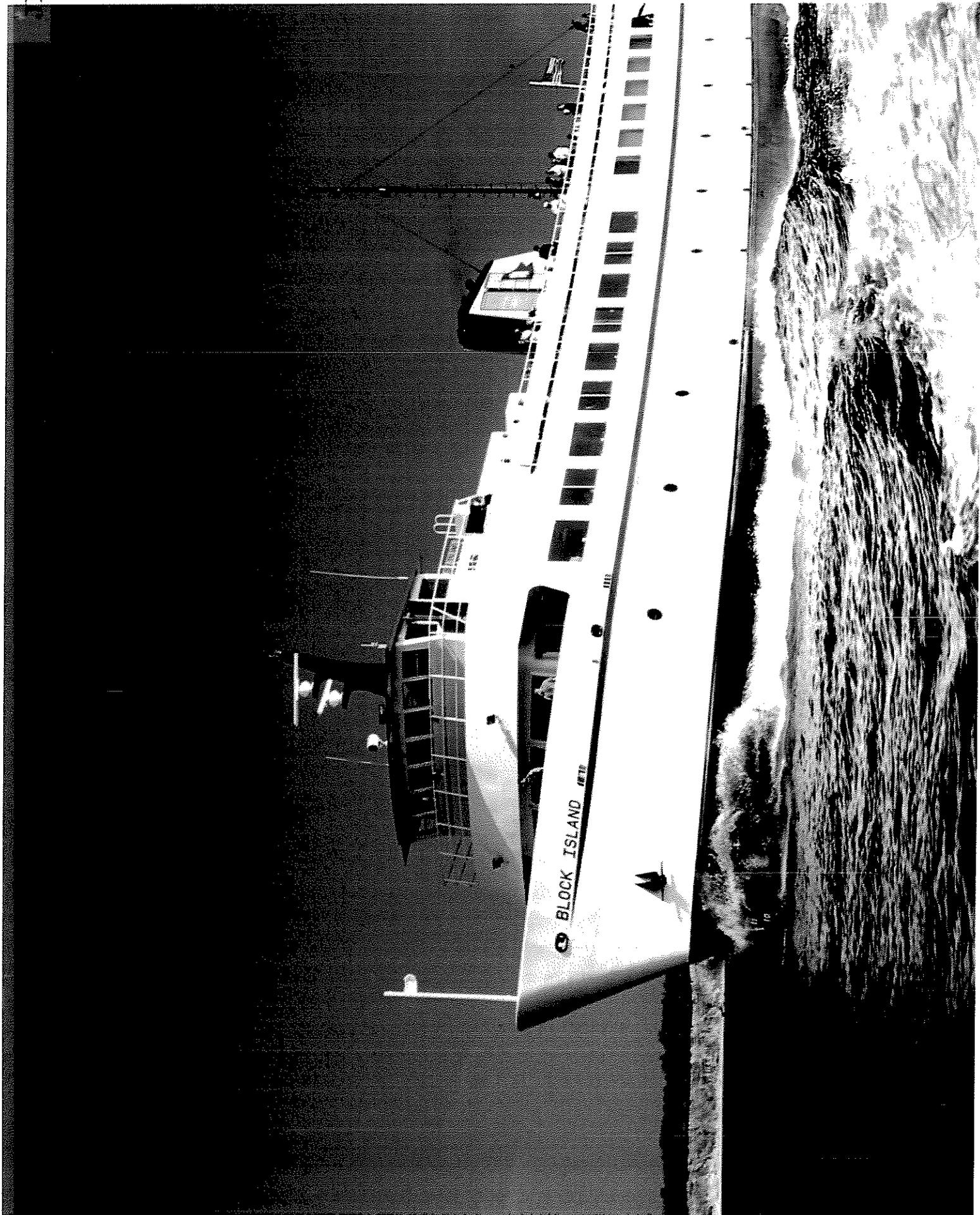
INDEPENDENT INVESTIGATION, INC.
NEW FREIGHT DEPOT FROM GREAT ISLAND ROAD



INTERSTATE NAVIGATION, INC.
NEW PEDESTRIAN SHELTER & TRAFFIC CONTROL BOOTH
FROM GREEN

**INTERSTATE NAVIGATION, INC.
NEW WINTER WAITING IN EXISTING TERMINAL BUILDING**





BLOCK ISLAND

