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October 16, 2006

Luly Massaro, Clerk
RI Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Interstate Navigation Company
Docket No. 3762

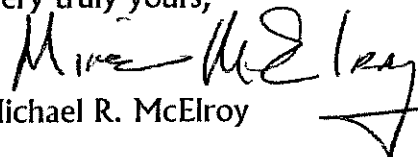
Dear Luly:

As you know, this office represents Interstate Navigation Company. Enclosed please find a complete original and three complete copies of Interstate Navigation Company's Responses to the Town of New Shoreham's Second Set of Data Requests. The complete original and three complete copies boldly indicate on the front page "Contains Privileged Information – Do Not Release the attachment to Town-37" per Commission Rule 1.2(g)(3).

Pursuant to Commission Rule 1.2(g)(2), request is made that the Commission make a finding that the information redacted from the Responses (i.e., the attachment to the Response to Town-37), is exempt from the mandatory public disclosure requirements of the Access to Public Records Act, R.I.G.L. § 38-2-1, et seq. ("the Act").

The grounds upon which this request is made are that the financial and statistical information referred to in the attachment to this Response are proprietary and confidential and disclosure would do substantial harm to Interstate Navigation Company's competitive position, especially with regard to competing high speed ferries to Block Island now and in the future.

Very truly yours,


Michael R. McElroy

MRMc:tmg

In26:06-Massar013

cc: Susan E. Linda
Joshua Linda
Walter E. Edge, Jr.
Service List (w/o attachment to Town-37)

Responses of Interstate Navigation Company to the
Second Set of Data Requests of the
Town of New Shoreham

Docket No. 3762

**Contains Privileged Information –
Do Not Release the attachment to Town-37
per Commission Rule 1.2(g).**

**SECOND SET OF INFORMATION REQUESTS OF THE TOWN OF NEW
SHOREHAM**

TOWN-34 Please provide any analysis performed by or on behalf of Interstate on the costs, demand and revenues for fast ferry service needed to support the operations of the M/V Athena and/or any other boat(s), including but not limited to the \$6 million vessel that Interstate spoke of acquiring new in order to provide fast ferry service with room for emergency vehicles. It is not necessary to provide the specific analysis contained in the DeLisi & Ghee IHSF assets appraisal report filed with the Division.

Response: See attached.

Prepared by WEE

**DIRECT TESTIMONY of
WALTER E. EDGE JR. MBA CPA
for
INTERSTATE NAVIGATION COMPANY
d/b/a The Block Island Ferry**

**Regarding Applications for
Water Carrier Certificates of Public Convenience and Necessity
To Operate a Fast Ferry (1) between Point Judith and Block Island (Old Harbor),
and (2) between Newport and Block Island (Old Harbor)**

**For
INTERSTATE NAVIGATION COMPANY
DOCKET NO. _____**

December 2004

1 **Q. Please state your name and business address for the record.**

2 A. My name is Walter E. Edge Jr. MBA CPA and my business address is One
3 Worthington Road, Cranston, Rhode Island 02920.

4
5 **Q. By whom are you employed and in what capacity?**

6 A. I am the Consulting Department Director and President of Bacon & Edge p.c. (B&E).
7 B&E is a CPA firm that specializes in utility regulation, expert rate and accounting
8 testimony, municipal auditing, school budget reviews (expert testimony), tax preparation
9 and accounting services.

10
11 **Q. Mr. Edge, are you the same Walter E. Edge Jr. who has filed expert testimony**
12 **on behalf of Interstate Navigation Company (Interstate) in numerous filings before**
13 **the Division of Public Utilities and Carriers (DPU) and the Rhode Island Public**
14 **Utilities Commission (PUC).**

15 A. Yes.

16
17 **Q. Mr. Edge, have you testified as an expert accounting witness prior to this docket**
18 **for other utilities?**

19 A. Yes. I have testified for Narragansett Bay Commission, Block Island Power
20 Company, Providence Water Supply Board, Pawtucket Water Supply Board, Newport
21 Water Department, Stone Bridge Fire District, and Prudence Ferry Inc.

22
23 **Q. What is your educational background?**

24 A. I received my Bachelors Degree in Business Administration (BSBA) from Bryant
25 College and a Masters Degree in Business Administration (MBA) from the University of
26 Rhode Island.

1 **Q. Have you been qualified as an expert witness by the DPUC and the PUC in**
2 **relation to any other public utilities?**

3 A. Yes. I have been qualified as an expert witness on many occasions for transportation,
4 water, sewer, electric, gas, and telephone utilities. I have testified as an expert witness on
5 hundreds of occasions in Rhode Island and less frequently in Washington D. C. and the
6 State of New York. I formerly was employed for five years as the Chief Accountant and
7 Rate Analyst for the Rhode Island Division of Public Utilities and Carriers.

8
9 **Q. What is the purpose of your testimony in this Docket?**

10 A. I have been asked by Interstate to provide expert testimony in support of Interstate's
11 requests for Water Carrier Certificates of Public Convenience and Necessity (CPCN) to
12 operate a fast ferry between Point Judith, Block Island (Old Harbor) and Newport, and to
13 evaluate and comment on the following areas:

14
15 1. Based upon my experience (including my experience with this Division), my
16 significant knowledge of Interstate's financial position and operations, and my
17 analysis of the CPCN requirements I will provide testimony relating to
18 whether Interstate is fit, willing and able to operate the proposed fast ferry
19 service. My testimony will primarily relate to the Company's financial fitness
20 and operating ability. Susan Linda will also address the Company's
21 willingness to provide the service. Joshua Linda will provide details of the
22 Fast Ferry boat and operations.

23
24 2. Provide my comments and observations relating to public convenience and
25 necessity of the proposed services. Further, I will provide an explanation of
26 the need for the new services to provide additional revenues to help keep
27 Block Island's year-round life line ferry rates (Interstate's primary
28 responsibility) as low as possible.

29

1 3. Lastly, I will calculate the impact on Interstate's financial position and rates if
2 the CPCN filing is granted as requested. I will also address the impact on
3 other competing fast ferry entities.
4

5 **Q. What did you review in order to make your observations and conclusions?**

6 A. I have reviewed the May 31st 2004 financial statements of Interstate, the CPCN
7 requirements of the DPU, results of a survey of Interstate passengers regarding fast ferry
8 preferences, the description and cost of the proposed fast ferry vessel, financing
9 alternatives, the proposed uses for the new fast ferry, the projected revenue that will be
10 generated, and the current statistics of passenger travel to Block Island by all water
11 carriers.
12

13 **Q. Per your review of the financial statements and your knowledge of Interstate is**
14 **it your opinion that Interstate is financially fit, willing and operationally able to run**
15 **a fast ferry service from Point Judith and Newport to Block Island?**

16 A. This may be the easiest question I have ever been asked. Given that Interstate
17 currently runs a successful year round life line ferry operation using four boats from Point
18 Judith to Block Island (and seasonally from Newport to Block Island), and has done so
19 for over 60 years, the answer is unequivocally yes. Even with the recent problems,
20 facing competition from every direction, Interstate remains a financially sound operation.
21 Further, operationally Interstate will have no difficulty adding a new fast ferry to its
22 current fleet and schedule.
23

24 **Q. Mr. Edge in your opinion, is there a need ("a public necessity") for the new fast**
25 **ferry services proposed by Interstate?**

26 A. Yes there is. There are actually many needs for Interstate to provide a fast ferry from
27 Point Judith and Newport to Old Harbor. They are as follows:
28
29

1 1. Interstate has suffered considerable loss of ridership as a result of competition
2 from two other fast ferries traveling to Block Island (and from another fast ferry
3 traveling from Quonset Point to Martha's Vineyard). This lost ridership has
4 resulted, and Interstate believes will continue to result, in lost revenue and
5 significant rate increases to Interstate's remaining customers. Interstate believes
6 that the addition of a fast ferry to its fleet will result in a slow down or elimination
7 of future passenger losses. Also, Interstate believes, as I will explain in this
8 testimony that the addition of a fast ferry will result in moderating future rate
9 increases for Interstate's life line customers.

10
11 2. Interstate has determined from a recent survey taken that a significant percentage
12 of its own current customers traveling to Old Harbor have expressed a need for a
13 fast ferry service so that they can have a choice of service. They are interested in
14 having a choice (for convenience) of Interstate's current fleet or a fast ferry to go
15 to Old Harbor. For example, when there is a need for a quick trip from Point
16 Judith to Old Harbor (or from Old Harbor to Point Judith or Newport) Interstate's
17 customers need access to faster transportation than Interstate can currently
18 provide. Interstate's proposed fast ferry service will address this need.

19
20 3. Interstate is aware of prospective customers that have gotten sick when traveling
21 on Interstate's current fleet for about an hour on the open sea (two hours from
22 Newport). These individuals have chosen not to travel to Old Harbor to avoid
23 getting sick. Often these prospective customers' family and friends who
24 normally travel with them likewise chose to not travel from Point Judith or
25 Newport to Old Harbor because their loved one can't go. A fast ferry to Old
26 Harbor should provide a smoother ride lasting about a half an hour from Point
27 Judith and less than an hour from Newport. Interstate believes that the addition
28 of this faster service will address this need and allow more of the public to travel
29 to Old Harbor.

30

1 4. Interstate carries a substantial number of elderly to the island (individually and in
2 groups) that because of their limited mobility need to arrive in Old Harbor where
3 the bulk of the hotels, stores and restaurants are located. These customers
4 currently have no realistic option but to travel by Interstate's conventional vessels.
5 Interstate's fast ferry service will allow the elderly to chose, either the fast ferry to
6 Old Harbor or one of Interstate's current fleet. Interstate believes that this choice
7 for the elderly is necessary to adequately serve its customers.

8
9 **Q. Will the proposed service address any other needs of the public?**

10 A. Yes. The current service from Newport to Block Island has no fast ferry. Interstate
11 provides one trip per day (summers only) leaving from Newport at 9:15 AM and
12 returning from Old Harbor at 4:45 PM. Sailing time each way is about two hours, for a
13 total of four hours on the water. Currently, passengers can not travel by ferry from Block
14 Island to Newport and return in the same day. Further, passengers can not travel back
15 and forth between Newport to Block Island for shorter than full day visits.

16
17 The proposed fast ferry should allow Interstate to run about three trips (less than an hour
18 on the water each way) a day back and forth from Block Island to Newport (see the
19 testimony of Joshua Linda for the details regarding the possible schedule). Interstate
20 believes that a schedule of about three trips a day would address many needs currently not
21 serviced by the one trip a day. For example, this fast ferry service will allow individuals
22 and families in Newport to enjoy a half day or more if they chose to visit Block Island or
23 for that matter give Block Island residents and guests the opportunity to enjoy a half day
24 or more in Newport and then return the same day. This opens the door for an entirely
25 new customer base not being serviced at this time. Note that the three trip per day
26 schedule is tentative and will be adjusted, if necessary, to meet actual demand between
27 Newport and Old Harbor.

1 **Q. Will the new fast ferry provide any other services not currently addressed by**
2 **current fast ferry services to Block Island?**

3 A. Yes it will. The proposed fast ferry will be significantly different from any of the
4 existing fast ferries currently serving Block Island. Interstate intends to build a fast ferry
5 that will have a small freight/car deck that will provide choice to Interstate's current
6 customers to travel with their vehicle on a fast ferry to Block Island and return.

7 Currently this option does not exist for the public. For an additional fee the public will
8 be able to choose to travel to Old Harbor by fast ferry service and take their cars and
9 freight.

10
11 Also, Interstate believes that this service will address the need of families who wish to
12 travel to the island by fast ferry that need a car and are currently forced to split up the
13 family. For example, dad and the kids take the existing fast ferry from Galilee to New
14 Harbor and mom has to go on the conventional vessel to Old Harbor with the car.
15 Interstate believes that families have the right to travel together and this new service will
16 address this need.

17
18 **Q. What is the value of providing a small freight/car deck?**

19 A. This deck will allow Interstate to address urgent needs of the island such as for
20 ambulance transport, medical supplies, critical parts needs for island businesses (such as
21 Block Island Power Company, the Sewer Commission, and the Water Department), 911
22 type emergencies, etc. Often Interstate's current vehicle/freight deck is totally booked
23 and it is hard to accommodate emergencies. Even when emergencies are accommodated,
24 Interstate's existing fleet cannot make the crossing in much less than an hour. The fast
25 ferry service will only take about a half an hour and will be almost as fast as (or faster
26 than in certain situations) arranging for a helicopter to airlift an injured person for
27 example.

1 **Q. Will the proposed new fast ferry services provide convenience for the public?**

2 A. Yes, for all of the individuals that will have their needs addressed by the proposed
3 fast ferry services, Interstate believes these customers will find the new services very
4 convenient. Also, for those travelers that wish to simply take a quieter, smoother riding
5 boat to Old Harbor they will have the convenience of choice. Not only will the fast ferry
6 be more than twice as fast, it will be much quieter than Interstate's existing fleet, and with
7 the addition of "ride control", the fast ferry will give travelers a faster, quieter, smoother,
8 and more comfortable ride.

9
10 **Q. Mr. Edge, can Interstate afford this new fast ferry?**

11 A. Yes. I believe that this new fast ferry will not only pay for itself it will help
12 subsidize the other rates charged by Interstate to help keep life line rates lower.

13
14 **Q. How will this new services subsidize the current rates for Interstate's current
15 customers, including the life line customers?**

16 A. By generating more revenue than it costs to operate this vessel, Interstate expects that
17 this new operation will be profitable. Of course the revenue generation from the new fast
18 ferry is dependent on the rates allowed by the PUC. Interstate has done a preliminary
19 review of the winter fast ferry leasing industry and believes that the new vessel may be
20 marketable for winter leases. If leased off-season, the revenues will be applied to the
21 benefit of ratepayers. It is even possible that it could be more profitable per month to
22 lease the vessel in the off-season than it will be running back and forth to Block Island.

23
24 **Q. How would the rates for this new service be set?**

25 A. Interstate believes that the Division and the Commission would not want Interstate to
26 gain a competitive pricing edge over Island Hi-Speed Ferry (IHSF) since IHSF is
27 regulated by a price floor that it can not lower its rates past. Interstate believes that a
28 similar price floor is appropriate for Interstate's fast ferry service rates. In other words,
29 IHSF currently charges \$29.00 per adult round trip; Interstate proposes to charge the same
30 rates as IHSF or more for its fast ferry services, but not less.

1 Wherever possible, Interstate will use the exact same rates as IHSF if the Division and the
2 Commission feel that is the most favorable way for Interstate to operate its fast ferry. Of
3 course the freight rates and the vehicle rates for the fast ferry service will have to be
4 determined by the PUC. For purposes of the revenue projections, I have assumed vehicle
5 rates at \$200 per car (round trip). Freight usage will be small, but I have assumed rates
6 of twice the conventional ferry.

7
8 **Q. If the passenger rates are initially set the same as IHSF's rates isn't it possible**
9 **that Interstate will earn a return on its investment greater than its current**
10 **authorized rate of return?**

11 A. No. Although IHSF has no rate of return cap, the intent of Interstate's proposal is to
12 allow the current ratepayers to benefit from either current Interstate customers or new
13 customers choosing to pay significantly more to take the Interstate fast ferry service to
14 Old Harbor rather than the less expensive conventional vessels in Interstate's fleet.

15
16 Interstate is confident that it will generate profits from this fast ferry at the current IHSF
17 rates and believes that this is just one more opportunity for Interstate to keep its current
18 life line rates as low as possible. In this time of competition Interstate must take every
19 opportunity to generate additional revenues to protect its life line ratepayers (passenger,
20 vehicle and freight) from significant rate increases and even rate shock. Interstate
21 believes that the proposed fast ferry services will address this need.

22
23 **Q. How will the fast ferry services generate new customers?**

24 A. First of all by providing new services, three runs a day from Block Island to Newport
25 and return. Interstate has seen the success of fast ferries in recent years and specifically
26 the new fast ferry from New London, Connecticut (a two hour trip on the conventional
27 ferry reduced to one hour by the fast ferry). The new fast ferry from Connecticut to
28 Block Island was an instant success and also created a significant new demand for the
29 service.

1 Similarly, Interstate believes that the Newport to Block Island fast ferry runs (increased
2 from one per day to about three per day and the one way travel time reduced from two
3 hours to less than one hour) will provide a whole host of new customers. Given that both
4 Block Island and Newport are great vacation spots, it is reasonable to expect that many
5 vacationers visiting Block Island for a week or two may wish to take a day trip to
6 Newport, and visa versa.

7

8 The total number of people traveling to Block Island is growing each year, but fewer of
9 them are traveling to Block Island on Interstate's ferries, especially since the introduction
10 of a fast ferry from Point Judith (Island Hi-Speed Ferry) and a fast ferry service from New
11 London (Block Island Express). Interstate believes that its new fast ferry services from
12 Point Judith and Newport to Old Harbor will encourage additional travelers to the island
13 for the reasons stated earlier. In addition for every current Interstate customer that
14 chooses to take the new Interstate fast ferry, Interstate will get additional revenue double
15 what is currently collected. In other words, for every current customer choosing to take
16 Interstate's new fast ferry service Interstate will be getting revenue equivalent to two
17 customers. Doubling revenue even without increasing the number of customers is one
18 way of addressing a shrinking customer base.

19

20 **Q. How does Interstate know that using IHSF's rates will generate profits that can**
21 **be used to subsidize current rates?**

22 A. I have prepared an analysis that projects revenues and expenses for Interstate's
23 proposed fast ferry service on a stand alone basis (excluding any overhead allocation from
24 Interstate's current operations). That analysis clearly shows that Interstate will make
25 money on it proposed fast ferry service even with no revenue from off-season charters
26 (See Schedule WEE-1).

27

28

29

30

1 **Q. Mr. Edge, would you please explain your calculations on Schedule WEE-1?**

2 A. Certainly. Schedule WEE-1 shows the projected revenue in the first year of
3 operations of the Fast Ferry in the amount of \$1,863,368 and projected expense for the
4 first year of operations of \$1,267,000. The projected profit is \$596,368.

5
6 **Q. How will the Fast Ferry profit be accounted for in Interstate's current
7 operations?**

8 A. It will be available in the rate setting process to keep current passenger, vehicle and
9 freight rates as low as possible and reduce the need for and size of future rate increases.
10 Interstate's management believes that this new service will create a new customer base,
11 provide its current customers with choice and subsidize the current service rates. The
12 fact that the choice will be theirs, it is appropriate to allow subsidization to exist.

13
14 **Q. Mr. Edge, how did you project the revenue for Interstate's Fast Ferry in the
15 first year of operations?**

16 A. First I identified that there will be two different sources of new revenue, 1) Fast Ferry
17 revenue collected from Interstate's current customer base, and 2) Fast Ferry revenue
18 collected from new customers (as described previously in this testimony). I have
19 prepared detailed calculation schedules (WEE-2 through WEE-8) that show my
20 assumptions and calculations for each revenue source.

21
22 **Q. What are the differences between revenue from current customers and new
23 customers?**

24 A. Unlike a new customer base, the projected Fast Ferry revenue from Interstate's
25 current customer base must be reduced by the amount of revenue that will be lost from
26 Interstate's current revenue base. In other words, when one of Interstate's current
27 customers chooses to use Interstate's Fast Ferry, Interstate will receive more revenue
28 from these customers but will lose the revenue that the ratepayer would have paid to use
29 Interstate's current fleet.

1 Schedule WEE-1 reflects “net” revenue growth for all current customers choosing to use
2 Interstate’s Fast Ferry (net of lost revenue from Interstate’s current revenue base).

3
4 **Q. Are you projecting more revenue from Interstate’s current customers or from
5 new customers?**

6 A. I have projected \$1,153,368 net revenue from Interstate’s current customers and
7 \$540,000 from new customers. It is expected that more than two thirds of the new
8 revenue will be generated from Interstate’s own current customer base.

9
10 **Q. Have you calculated the first year expense levels on you Schedule WEE-1?**

11 A. Yes I have. Mr. Josh Linda has provided his estimates of the cost of salaries, fuel,
12 and maintenance. I have added \$100,000 for items like insurance and advertising.
13 Further, I have calculated the debt service cost for the first year.

14
15 **Q. How did you calculate the debt service expense level for the first year?**

16 A. I was provided the cost of the new Fast Ferry by Josh Linda at approximately \$5.5
17 million but to be conservative I used \$6,000,000 to account for possible overages and
18 contingencies. I have used a fixed interest rate of 7% (slightly more than the fixed rate is
19 now) and a 20 year term. I calculated the interest at 7% of \$6,000,000 or \$420,000 in the
20 first year and principal payments (depreciation) of \$6,000,000 divided by 20 or \$300,000.
21 Note: I have assumed in this analysis that the principal payments and depreciation are the
22 same.

23
24 **Q. Is it possible that the new vessel may cost more or less than \$6,000,000?**

25 A. Yes it is possible that the cost could be less than \$6,000,000 if for example the
26 car/freight deck was not built, however I believe that the \$6,000,000 amount is very close
27 if not at the high end of the probable cost as currently planned. It was important to
28 determine if the projected revenues from this Fast Ferry operation would cover a worst
29 case (highest cost) situation to make sure that the current ratepayers were not adversely
30 impacted by Interstate’s decision to run a fast ferry.

1 **Q. Are there any other situations that will reduce the net cost of the new Fast**
2 **Ferry?**

3 A. Yes. Interstate intends to try to sell the M/V Nelseco (the boat currently used on the
4 Newport to Block Island run) after the Fast Ferry is in service and operating well. The
5 after tax proceeds from the sale of the Nelseco could be used for example to pay down the
6 debt on the Fast Ferry. This would make the cash flow from the Fast Ferry operation
7 greater and therefore more beneficial to the current ratepayers.

8
9 **Q. How would the current ratepayers benefit from the sale of the Nelseco?**

10 A. The after tax net proceeds from the sale of the Nelseco could be used to pay down the
11 \$6 million dollar loan or it can be deferred and amortized as a revenue source over some
12 future period of time (to be determined by the Commission) to benefit the current
13 ratepayers. This revenue source would go directly to the benefit of the current ratepayers
14 without a reduction of service because the new Fast Ferry would be providing a greater
15 level of service than the Nelseco currently provides.

16
17 **Q. Your analysis clearly shows that the Fast Ferry operation will generate enough**
18 **money to cover its costs and provide a subsidy to the current Interstate operations.**
19 **How will this subsidy get passed through to the current ratepayers?**

20 A. When Interstate files its first full rate filing after the first year of operations of the
21 Fast Ferry service the revenues and expenses from the Fast Ferry operation will become
22 part of the cost of service calculation to determine Interstate's rates. Since the Fast Ferry
23 revenues will exceed the Fast Ferry expenses, the increase needed in rates will be less
24 than if Fast Ferry did not exist. At that time (which will be later than if there were no
25 Fast Ferry) the benefit of running the Fast Ferry will be passed to the current ratepayer
26 base.

1 **Q. What if Interstate does not file a rate increase request immediately after the**
2 **first year of the Fast Ferry operations?**

3 A. At that point one of two things can happen, both of which are advantageous to the
4 current customer base (and the life line customers). By not filing, Interstate causes a
5 temporary freeze in the current base rates until a filing is made. Secondly the
6 Commission may choose, after reviewing Interstate's annual report, to call Interstate in
7 for a possible rate review and rate reduction. In either case the life line ratepayers benefit
8 from the Fast Ferry operations.

9
10 **Q. What if Interstate losses money on the Fast Ferry operation, how would that**
11 **impact the current customer base?**

12 A. It would have no impact. Interstate would simply not file for a rate increase relating
13 to the loss from the Fast Ferry operation and therefore the loss would not be passed on to
14 the ratepayers. In other words Interstate is willing to take the business risk of the Fast
15 Ferry not being profitable.

16
17 **Q. Mr. Edge, isn't it possible that a large loss from the Fast Ferry operation could**
18 **result in a financial hardship for Interstate which in turn could adversely impact on**
19 **Interstate's current ratepayers even if there is no increase in current rates?**

20 A. Based upon my analysis, I do not expect a large loss from the Fast Ferry operations.
21

22 **Q. Nevertheless, what if there is a large loss from the Fast Ferry operations, what**
23 **will Interstate do?**

24 A. Interstate will determine why there was a loss. If it is decided that the Fast Ferry
25 operation can not be profitable, then Interstate Navigation's management intends to sell
26 the new Fast Ferry. Our research has shown that the resale value of these fast ferry boats,
27 due to the high demand for this quickly growing mode of transportation, is often greater
28 than the original cost for a period of time. Therefore, Interstate is confident that even the
29 worst case loss scenario will not adversely impact the current ratepayers.

30

1 **Q. Is Interstate prepared to take any other steps to protect the current rate payers?**

2 A. Yes. Interstate is prepared to lease the new Fast Ferry from a related entity, either
3 Nelseco Navigation Company or some other company owned and operated by the Linda
4 family. Interstate believes that this approach would best protect the current ratepayers
5 (the ratepayers would only be exposed to the lease payments rather than the \$6,000,000
6 purchase price) but this approach would involve related party activity.

7
8 Also, although Interstate prefers to use the new Fast Ferry exclusively for its own
9 operations, it is possible that the new Fast Ferry could be leased in the winter to other
10 operations. Interstate has determined that these leases can be very profitable. The
11 Commission's review of Hi-Speed's winter leases should support this claim.

12
13 **Q. Will this new Fast Ferry adversely impact Hi-Speed's operations?**

14 A. I believe not. Hi-Speed Ferry provides transportation from Point Judith to New
15 Harbor (not Old Harbor) and to passengers in a previously un-served or underserved
16 "niche market". Interstate intends to offer its Fast Ferry service predominantly to its own
17 customer base and those few individuals (and their traveling companions) that wish to go
18 to Old Harbor and due to age or physical impairment are unable to travel to Old Harbor
19 through New Harbor.

20
21 As for the Newport runs, Island Hi-Speed Ferry does not run from Newport to Block
22 Island therefore the Newport runs should have no impact on Hi-Speed's operation.
23 When Hi-Speed Ferry started its operation it suggested to the Commission that it was
24 offering a "niche market" of Block Island travelers a choice of high speed service from
25 Point Judith to Block Island through New Harbor instead of Interstate's conventional fleet
26 and as we know many travelers have accepted that choice. Hi-Speed said that it was not
27 targeting Interstate's customers and that it would have very little or no impact on
28 Interstate's operations.

1 That said, the current Interstate travelers, who chose to stay with Interstate, that wish to
2 travel from Point Judith or Newport to Block Island (through Old Harbor) are entitled to
3 have a choice as well of a Fast Ferry or Interstate's conventional fleet. Interstate believes
4 that this choice requires Interstate to provide a Fast Ferry service to Block Island.
5 Interstate believes that this new Fast Ferry service will have more of a positive impact on
6 Interstate's current operations (and have reflected that impact in this filing) than it will
7 impact Hi-Speed Ferry's operations to New Harbor. It is important to point out that Hi-
8 Speed Ferry has been operating successfully for a number of years now and they have
9 developed a loyal customer base that Interstate does not intend to service.

10
11 **Q. Does this conclude your testimony?**

12 A. Yes

13 _____
14 Walter E. Edge Jr. MBA CPA

15
16 Sworn to and subscribed before this _____ day of December , 2004.

17
18 _____
19 Notary Public

**DIRECT TESTIMONY of
WALTER E. EDGE JR. MBA CPA
for
INTERSTATE NAVIGATION COMPANY
d/b/a The Block Island Ferry**

**Regarding Applications for
Water Carrier Certificates of Public Convenience and Necessity
To Operate a Fast Ferry (1) between Point Judith and Block Island (Old Harbor),
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DOCKET NO. _____**

December 2004

1 **Q. Please state your name and business address for the record.**

2 A. My name is Walter E. Edge Jr. MBA CPA and my business address is One
3 Worthington Road, Cranston, Rhode Island 02920.

4

5 **Q. By whom are you employed and in what capacity?**

6 A. I am the Consulting Department Director and President of Bacon & Edge p.c. (B&E).
7 B&E is a CPA firm that specializes in utility regulation, expert rate and accounting
8 testimony, municipal auditing, school budget reviews (expert testimony), tax preparation
9 and accounting services.

10

11 **Q. Mr. Edge, are you the same Walter E. Edge Jr. who has filed expert testimony**
12 **on behalf of Interstate Navigation Company (Interstate) in numerous filings before**
13 **the Division of Public Utilities and Carriers (DPU) and the Rhode Island Public**
14 **Utilities Commission (PUC).**

15 A. Yes.

16

17 **Q. Mr. Edge, have you testified as an expert accounting witness prior to this docket**
18 **for other utilities?**

19 A. Yes. I have testified for Narragansett Bay Commission, Block Island Power
20 Company, Providence Water Supply Board, Pawtucket Water Supply Board, Newport
21 Water Department, Stone Bridge Fire District, and Prudence Ferry Inc.

22

23 **Q. What is your educational background?**

24 A. I received my Bachelors Degree in Business Administration (BSBA) from Bryant
25 College and a Masters Degree in Business Administration (MBA) from the University of
26 Rhode Island.

27

28

29

1 **Q. Have you been qualified as an expert witness by the DPUC and the PUC in**
2 **relation to any other public utilities?**

3 A. Yes. I have been qualified as an expert witness on many occasions for transportation,
4 water, sewer, electric, gas, and telephone utilities. I have testified as an expert witness on
5 hundreds of occasions in Rhode Island and less frequently in Washington D. C. and the
6 State of New York. I formerly was employed for five years as the Chief Accountant and
7 Rate Analyst for the Rhode Island Division of Public Utilities and Carriers.

8
9 **Q. What is the purpose of your testimony in this Docket?**

10 A. I have been asked by Interstate to provide expert testimony in support of Interstate's
11 requests for Water Carrier Certificates of Public Convenience and Necessity (CPCN) to
12 operate a fast ferry between Point Judith, Block Island (Old Harbor) and Newport, and to
13 evaluate and comment on the following areas:

14
15 1. Based upon my experience (including my experience with this Division), my
16 significant knowledge of Interstate's financial position and operations, and my
17 analysis of the CPCN requirements I will provide testimony relating to whether
18 Interstate is fit, willing and able to operate the proposed fast ferry service. My
19 testimony will primarily relate to the Company's financial fitness and operating
20 ability. Susan Linda will also address the Company's willingness to provide
21 the service. Joshua Linda will provide details of the Fast Ferry boat and
22 operations.

23
24 2. Provide my comments and observations relating to public convenience and
25 necessity of the proposed services. Further, I will provide an explanation of
26 the need for the new services to provide additional revenues to help keep
27 Block Island's year-round life line ferry rates (Interstate's primary
28 responsibility) as low as possible.

1 3. Lastly, I will calculate the impact on Interstate's financial position and rates if
2 the CPCN filing is granted as requested. I will also address the impact on
3 other competing fast ferry entities.
4

5 **Q. What did you review in order to make your observations and conclusions?**

6 A. I have reviewed the May 31st 2004 financial statements of Interstate, the CPCN
7 requirements of the DPU, results of a survey of Interstate passengers regarding fast ferry
8 preferences, the description and cost of the proposed fast ferry vessel, financing
9 alternatives, the proposed uses for the new fast ferry, the projected revenue that will be
10 generated, and the current statistics of passenger travel to Block Island by all water
11 carriers.
12

13 **Q. Per your review of the financial statements and your knowledge of Interstate is
14 it your opinion that Interstate is financially fit, willing and operationally able to run
15 a fast ferry service from Point Judith and Newport to Block Island?**

16 A. This may be the easiest question I have ever been asked. Given that Interstate
17 currently runs a successful year round life line ferry operation using four boats from Point
18 Judith to Block Island (and seasonally from Newport to Block Island), and has done so for
19 over 60 years, the answer is unequivocally yes. Even with the recent problems, facing
20 competition from every direction, Interstate remains a financially sound operation.
21 Further, operationally Interstate will have no difficulty adding a new fast ferry to its
22 current fleet and schedule.
23

24 **Q. Mr. Edge in your opinion, is there a need ("a public necessity") for the new fast
25 ferry services proposed by Interstate?**

26 A. Yes there is. There are actually many needs for Interstate to provide a fast ferry from
27 Point Judith and Newport to Old Harbor. They are as follows:
28
29

1 1. Interstate has suffered considerable loss of ridership as a result of competition
2 from two other fast ferries traveling to Block Island (and from another fast ferry
3 traveling from Quonset Point to Martha's Vineyard). This lost ridership has
4 resulted, and Interstate believes will continue to result, in lost revenue and
5 significant rate increases to Interstate's remaining customers. Interstate believes
6 that the addition of a fast ferry to its fleet will result in a slow down or elimination
7 of future passenger losses. Also, Interstate believes, as I will explain in this
8 testimony that the addition of a fast ferry will result in moderating future rate
9 increases for Interstate's life line customers.

10
11 2. Interstate has determined from a recent survey taken that a significant percentage
12 of its own current customers traveling to Old Harbor have expressed a need for a
13 fast ferry service so that they can have a choice of service. They are interested in
14 having a choice (for convenience) of Interstate's current fleet or a fast ferry to go
15 to Old Harbor. For example, when there is a need for a quick trip from Point
16 Judith to Old Harbor (or from Old Harbor to Point Judith or Newport) Interstate's
17 customers need access to faster transportation than Interstate can currently
18 provide. Interstate's proposed fast ferry service will address this need.

19
20 3. Interstate is aware of prospective customers that have gotten sick when traveling
21 on Interstate's current fleet for about an hour on the open sea (two hours from
22 Newport). These individuals have chosen not to travel to Old Harbor to avoid
23 getting sick. Often these prospective customers' family and friends who normally
24 travel with them likewise chose to not travel from Point Judith or Newport to Old
25 Harbor because their loved one can't go. A fast ferry to Old Harbor should
26 provide a smoother ride lasting about a half an hour from Point Judith and less
27 than an hour from Newport. Interstate believes that the addition of this faster
28 service will address this need and allow more of the public to travel to Old Harbor.

1 4. Interstate carries a substantial number of elderly to the island (individually and in
2 groups) that because of their limited mobility need to arrive in Old Harbor where
3 the bulk of the hotels, stores and restaurants are located. These customers
4 currently have no realistic option but to travel by Interstate's conventional vessels.
5 Interstate's fast ferry service will allow the elderly to chose, either the fast ferry to
6 Old Harbor or one of Interstate's current fleet. Interstate believes that this choice
7 for the elderly is necessary to adequately serve its customers.

8
9 **Q. Will the proposed service address any other needs of the public?**

10 A. Yes. The current service from Newport to Block Island has no fast ferry. Interstate
11 provides one trip per day (summers only) leaving from Newport at 9:15 AM and returning
12 from Old Harbor at 4:45 PM. Sailing time each way is about two hours, for a total of
13 four hours on the water. Currently, passengers can not travel by ferry from Block Island
14 to Newport and return in the same day. Further, passengers can not travel back and forth
15 between Newport to Block Island for shorter than full day visits.

16
17 The proposed fast ferry should allow Interstate to run about three trips (less than an hour
18 on the water each way) a day back and forth from Block Island to Newport (see the
19 testimony of Joshua Linda for the details regarding the possible schedule). Interstate
20 believes that a schedule of about three trips a day would address many needs currently not
21 serviced by the one trip a day. For example, this fast ferry service will allow individuals
22 and families in Newport to enjoy a half day or more if they chose to visit Block Island or
23 for that matter give Block Island residents and guests the opportunity to enjoy a half day
24 or more in Newport and then return the same day. This opens the door for an entirely
25 new customer base not being serviced at this time. Note that the three trip per day
26 schedule is tentative and will be adjusted, if necessary, to meet actual demand.

1 **Q. Will the new fast ferry provide any other services not currently addressed by**
2 **current fast ferry services to Block Island?**

3 A. Yes it will. The proposed fast ferry will be significantly different from any of the
4 existing fast ferries currently serving Block Island. Interstate intends to build a fast ferry
5 that will have a small freight/car deck that will provide choice to Interstate's current
6 customers to travel with their vehicle on a fast ferry to Block Island and return. Currently
7 this option does not exist for the public. For an additional fee the public will be able to
8 choose to travel to Old Harbor by fast ferry service and take their cars and freight.

9
10 Also, Interstate believes that this service will address the need of families who wish to
11 travel to the island by fast ferry that need a car and are currently forced to split up the
12 family. For example, dad and the kids take the existing fast ferry from Galilee to New
13 Harbor and mom has to go on the conventional vessel to Old Harbor with the car.

14 Interstate believes that families have the right to travel together and this new service will
15 address this need.

16
17 **Q. What is the value of providing a small freight/car deck?**

18 A. This deck will allow Interstate to address urgent needs of the island such as for
19 ambulance transport, medical supplies, critical parts needs for island businesses (such as
20 Block Island Power Company, the Sewer Commission, and the Water Department), 911
21 type emergencies, etc. Often Interstate's current vehicle/freight deck is totally booked
22 and it is hard to accommodate emergencies. Even when emergencies are accommodated,
23 Interstate's existing fleet cannot make the crossing in much less than an hour. The fast
24 ferry service will only take about a half an hour and will be almost as fast as (or faster than
25 in certain situations) arranging for a helicopter to airlift an injured person for example.

26
27
28
29 **Q. Will the proposed new fast ferry services provide convenience for the public?**

1 A. Yes, for all of the individuals that will have their needs addressed by the proposed fast
2 ferry services, Interstate believes these customers will find the new services very
3 convenient. Also, for those travelers that wish to simply take a quieter, smoother riding
4 boat to Old Harbor they will have the convenience of choice. Not only will the fast ferry
5 be more than twice as fast, it will be much quieter than Interstate's existing fleet, and with
6 the addition of "ride control", the fast ferry will give travelers a faster, quieter, smoother,
7 and more comfortable ride.

8

9 **Q. Mr. Edge, can Interstate afford this new fast ferry?**

10 A. Yes. I believe that this new fast ferry will not only pay for itself it will help subsidize
11 the other rates charged by Interstate to help keep life line rates lower.

12

13 **Q. How will this new services subsidize the current rates for Interstate's current**
14 **customers, including the life line customers?**

15 A. By generating more revenue than it costs to operate this vessel, Interstate expects that
16 this new operation will be profitable. Of course the revenue generation from the new fast
17 ferry is dependent on the rates allowed by the PUC. Interstate has done a preliminary
18 review of the winter fast ferry leasing industry and believes that the new vessel may be
19 marketable for winter leases. If leased off-season, the revenues will be applied to the
20 benefit of ratepayers. It is even possible that it could be more profitable per month to
21 lease the vessel in the off-season than it will be running back and forth to Block Island.

22

23 **Q. How would the rates for this new service be set?**

24 A. Interstate believes that the Division and the Commission would not want Interstate to
25 gain a competitive pricing edge over Island Hi-Speed Ferry (IHSF) since IHSF is
26 regulated by a price floor that it can not lower its rates past. Interstate believes that a
27 similar price floor is appropriate for Interstate's fast ferry service rates. In other words,
28 IHSF currently charges \$29.00 per adult round trip; Interstate proposes to charge the
29 same rates as IHSF or more for its fast ferry services, but not less.

1 Wherever possible, Interstate will use the exact same rates as IHSF if the Division and the
2 Commission feel that is the most favorable way for Interstate to operate its fast ferry. Of
3 course the freight rates and the vehicle rates for the fast ferry service will have to be
4 determined by the PUC. For purposes of the revenue projections, I have assumed vehicle
5 rates at \$200 per car round trip. Freight usage will be small, but I have assumed rates of
6 twice the conventional ferry.

7
8 **Q. If the passenger rates are initially set the same as IHSF's rates isn't it possible**
9 **that Interstate will earn a return on its investment greater than its current**
10 **authorized rate of return?**

11 A. No. Although IHSF has no rate of return cap, the intent of Interstate's proposal is to
12 allow the current ratepayers to benefit from either current Interstate customers or new
13 customers choosing to pay significantly more to take the Interstate fast ferry service to
14 Old Harbor rather than the less expensive conventional vessels in Interstate's fleet.

15
16 Interstate is confident that it will generate profits from this fast ferry at the current IHSF
17 rates and believes that this is just one more opportunity for Interstate to keep its current
18 life line rates as low as possible. In this time of competition Interstate must take every
19 opportunity to generate additional revenues to protect its life line ratepayers (passenger,
20 vehicle and freight) from significant rate increases and even rate shock. Interstate
21 believes that the proposed fast ferry services will address this need.

22
23 **Q. How will the fast ferry services generate new customers?**

24 A. First of all by providing new services, three runs a day from Block Island to Newport
25 and return. Interstate has seen the success of fast ferries in recent years and specifically
26 the new fast ferry from New London, Connecticut (a two hour trip on the conventional
27 ferry reduced to one hour by the fast ferry). The new fast ferry from Connecticut to
28 Block Island was an instant success and also created a significant new demand for the
29 service.

1 Similarly, Interstate believes that the Newport to Block Island fast ferry runs (increased
2 from one per day to about three per day and the one way travel time reduced from two
3 hours to less than one hour) will provide a whole host of new customers. Given that both
4 Block Island and Newport are great vacation spots, it is reasonable to expect that many
5 vacationers visiting Block Island for a week or two may wish to take a day trip to
6 Newport, and visa versa.

7
8 The total number of people traveling to Block Island is growing each year, but fewer of
9 them are traveling to Block Island on Interstate's ferries, especially since the introduction
10 of a fast ferry from Point Judith (Island Hi-Speed Ferry) and a fast ferry service from New
11 London (Block Island Express). Interstate believes that its new fast ferry services from
12 Point Judith and Newport to Old Harbor will encourage additional travelers to the island
13 for the reasons stated earlier. In addition for every current Interstate customer that
14 chooses to take the new Interstate fast ferry, Interstate will get additional revenue double
15 what is currently collected. In other words, for every current customer choosing to take
16 Interstate's new fast ferry service Interstate will be getting revenue equivalent to two
17 customers. Doubling revenue even without increasing the number of customers is one
18 way of addressing a shrinking customer base.

19
20 **Q. How does Interstate know that using IHSF's rates will generate profits that can
21 be used to subsidize current rates?**

22 A. I have prepared an analysis that projects revenues and expenses for Interstate's
23 proposed fast ferry service on a stand alone basis (excluding any overhead allocation from
24 Interstate's current operations). That analysis clearly shows that Interstate will make
25 money on it proposed fast ferry service even with no revenue from off-season charters
26 (See Schedule WEE-1).

1 **Q. Mr. Edge, would you please explain your calculations on Schedule WEE-1?**

2 A. Certainly. Schedule WEE-1 shows the projected revenue in the first year of
3 operations of the Fast Ferry in the amount of \$1,739,908 and projected expense for the
4 first year of operations of \$1,242,128. The projected profit is \$497,781.

5
6 **Q. How will the Fast Ferry profit be accounted for in Interstate's current
7 operations?**

8 A. It will be available in the rate setting process to keep current passenger, vehicle and
9 freight rates as low as possible and reduce the need for and size of future rate increases.
10 Interstate's management believes that this new service will create a new customer base,
11 provide its current customers with choice and subsidize the current service rates. The
12 fact that the choice will be theirs, it is appropriate to allow subsidization to exist.

13
14 **Q. Mr. Edge, how did you project the revenue for Interstate's Fast Ferry in the
15 first year of operations?**

16 A. First I identified that there will be two different sources of new revenue, 1) Fast Ferry
17 revenue collected from Interstate's current customer base, and 2) Fast Ferry revenue
18 collected from new customers (as described previously in this testimony). I have
19 prepared detailed calculation schedules (WEE-2 through WEE-8) that show my
20 assumptions and calculations for each revenue source.

21
22 **Q. What are the differences between revenue from current customers and new
23 customers?**

24 A. Unlike a new customer base, the projected Fast Ferry revenue from Interstate's
25 current customer base must be reduced by the amount of revenue that will be lost from
26 Interstate's current revenue base. In other words, when one of Interstate's current
27 customers chooses to use Interstate's Fast Ferry, Interstate will receive more revenue
28 from these customers but will lose the revenue that the ratepayer would have paid to use
29 Interstate's current fleet.

1 Schedule WEE-1 reflects "net" revenue growth for all current customers choosing to use
2 Interstate's Fast Ferry (net of lost revenue from Interstate's current revenue base).

3
4 **Q. Are you projecting more revenue from Interstate's current customers or from
5 new customers?**

6 A. I have projected \$1,132,368 net revenue from Interstate's current customers and
7 \$457,540 from new customers (Note: I also estimated \$150,000 of other revenue). It is
8 expected that about 70% of the Fast Ferry revenue will be generated from Interstate's
9 own current customer base.

10
11 **Q. Have you calculated the first year expense levels on you Schedule WEE-1?**

12 A. Yes I have. Mr. Josh Linda has provided his estimates of the cost of salaries, fuel,
13 and maintenance. I have added 10% of salaries for payroll taxes and \$100,000 for items
14 like insurance and advertising. Further, I have calculated the debt service cost for the first
15 year.

16
17 **Q. How did you calculate the debt service expense level for the first year?**

18 A. I was provided the cost of the new Fast Ferry by Josh Linda at approximately \$5.5
19 million but to be conservative I used \$6,000,000 to account for possible overages and
20 contingencies. I have used a fixed interest rate of 7% (slightly more than the fixed rate is
21 now) and a 20 year term. I calculated the interest at 7% of \$6,000,000 or \$420,000 in
22 the first year and principal payments (depreciation) of \$6,000,000 divided by 20 or
23 \$300,000. Note: I have assumed in this analysis that the principal payments and
24 depreciation are the same.

25
26 **Q. Is it possible that the new vessel may cost more or less than \$6,000,000?**

27 A. Yes it is possible that the cost could be less than \$6,000,000 if for example the
28 car/freight deck was not built, however I believe that the \$6,000,000 amount is very close
29 if not at the high end of the probable cost as currently planned.

1 It was important to determine if the projected revenues from this Fast Ferry operation
2 would cover a worst case (highest cost) situation to make sure that the current ratepayers
3 were not adversely impacted by Interstate's decision to run a fast ferry.
4

5 **Q. Are there any other situations that will reduce the net cost of the new Fast
6 Ferry?**

7 A. Yes. Interstate intends to try to sell the M/V Nelseco (the boat currently used on the
8 Newport to Block Island run) after the Fast Ferry is in service and operating well. The
9 after tax proceeds from the sale of the Nelseco could be used for example to pay down the
10 debt on the Fast Ferry. This would make the cash flow from the Fast Ferry operation
11 greater and therefore more beneficial to the current ratepayers.
12

13 **Q. How would the current ratepayers benefit from the sale of the Nelseco?**

14 A. The after tax net proceeds from the sale of the Nelseco could be used to pay down
15 long-term debt or it could possibly be deferred and amortized as a revenue source over
16 some future period of time (to be determined by the Commission) to benefit the current
17 ratepayers. This revenue source would go directly to the benefit of the current ratepayers
18 without a reduction of service because the new Fast Ferry would be providing a greater
19 level of service than the Nelseco currently provides.
20

21 **Q. Your analysis clearly shows that the Fast Ferry operation will generate enough
22 money to cover its costs and provide a subsidy to the current Interstate operations.
23 How will this subsidy get passed through to the current ratepayers?**

24 A. When Interstate files its first full rate filing after the first year of operations of the Fast
25 Ferry service the revenues and expenses from the Fast Ferry operation will become part of
26 the cost of service calculation to determine Interstate's rates. Since the Fast Ferry
27 revenues will exceed the Fast Ferry expenses, the increase needed in rates will be less than
28 if Fast Ferry did not exist. At that time (which will be later than if there were no Fast
29 Ferry) the benefit of running the Fast Ferry will be passed to the current ratepayer base.

*2.3M
Approved*

1 **Q. What if Interstate does not file a rate increase request immediately after the**
2 **first year of the Fast Ferry operations?**

3 A. At that point one of two things can happen, both of which are advantageous to the
4 current customer base (and the life line customers). By not filing, Interstate causes a
5 temporary freeze in the current base rates until a filing is made. Secondly the Commission
6 may choose, after reviewing Interstate's annual report, to call Interstate in for a possible
7 rate review and rate reduction. In either case the life line ratepayers benefit from the Fast
8 Ferry operations.

9

10 **Q. What if Interstate losses money on the Fast Ferry operation, how would that**
11 **impact the current customer base?**

12 A. It would have no impact. Interstate would simply not file for a rate increase relating
13 to the loss from the Fast Ferry operation and therefore the loss would not be passed on to
14 the ratepayers. In other words Interstate is willing to take the business risk of the Fast
15 Ferry not being profitable.

16

17 **Q. Mr. Edge, isn't it possible that a large loss from the Fast Ferry operation could**
18 **result in a financial hardship for Interstate which in turn could adversely impact on**
19 **Interstate's current ratepayers even if there is no increase in current rates?**

20 A. Based upon my analysis, I do not expect a large loss from the Fast Ferry operations.

21

22 **Q. Nevertheless, what if there is a large loss from the Fast Ferry operations, what**
23 **will Interstate do?**

24 A. Interstate will determine why there was a loss. If it is decided that the Fast Ferry
25 operation can not be profitable, then Interstate Navigation's management intends to sell or
26 charter the new Fast Ferry. Our research has shown that the resale value of these fast
27 ferry boats, due to the high demand for this quickly growing mode of transportation, is
28 often greater than the original cost for a period of time. Therefore, Interstate is confident
29 that even the worst case loss scenario will not adversely impact the current ratepayers.

30

1 **Q. Is Interstate prepared to take any other steps to protect the current rate payers?**

2 A. Yes. Interstate is prepared to lease the new Fast Ferry from a related entity, either
3 Nelseco Navigation Company or some other company owned and operated by the Linda
4 family. Interstate believes that this approach would best protect the current ratepayers
5 (the ratepayers would only be exposed to the lease payments rather than the \$6,000,000
6 purchase price) but this approach would involve related party activity.

7
8 Also, although Interstate prefers to use the new Fast Ferry exclusively for its own
9 operations, it is possible that the new Fast Ferry could be leased to other operators.
10 Interstate has determined that these leases can be very profitable. The Commission's
11 review of Hi-Speed's winter leases should support this claim.

12
13 **Q. Will this new Fast Ferry adversely impact Hi-Speed's operations?**

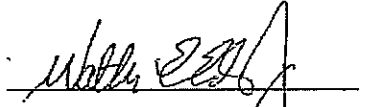
14 A. I believe not. Hi-Speed Ferry provides transportation from Point Judith to New
15 Harbor (not Old Harbor) and to passengers in a previously un-served or underserved
16 "niche market". Interstate intends to offer its Fast Ferry service predominantly to its own
17 customer base and those few individuals (and their traveling companions) that wish to go
18 to Old Harbor and due to age or physical impairment are unable to travel to Old Harbor
19 through New Harbor.

20
21 As for the Newport runs, Island Hi-Speed Ferry does not run from Newport to Block
22 Island therefore the Newport runs should have no impact on Hi-Speed's operation. When
23 Hi-Speed Ferry started its operation it suggested to the Commission that it was offering a
24 "niche market" of Block Island travelers a choice of high speed service from Point Judith
25 to Block Island through New Harbor instead of Interstate's conventional fleet and as we
26 know many travelers have accepted that choice. Hi-Speed said that it was not targeting
27 Interstate's customers and that it would have very little or no impact on Interstate's
28 operations.


1 That said, the current Interstate travelers, who chose to stay with Interstate, that wish to
2 travel from Point Judith or Newport to Block Island (through Old Harbor) are entitled to
3 have a choice as well of a Fast Ferry or Interstate's conventional fleet. Interstate believes
4 that this choice requires Interstate to provide a Fast Ferry service to Block Island.
5 Interstate believes that this new Fast Ferry service will have more of a positive impact on
6 Interstate's current operations (and have reflected that impact in this filing) than it will
7 impact Hi-Speed Ferry's operations to New Harbor. It is important to point out that Hi-
8 Speed Ferry has been operating successfully for a number of years now and they have
9 developed a loyal customer base that Interstate does not intend to service.

10
11 **Q. Does this conclude your testimony?**

12 **A. Yes**

13 
14 Walter E. Edge Jr. MBA CPA

15
16 Sworn to and subscribed before this 3rd day of December, 2004.

17 
18 Notary Public
19

Michael R. McElroy
Notary Public
My Commission Expires: 6/16/05

Projection of Revenues and Expenditures

WEE-1

First Full Year of Operations

Interstate Fast Ferry

Revenues:

Interstate's Current Customers:

Source

Passenger (Point Judith - Block Island) - Net	\$ 1,014,000	WEE-2
Vehicle (Point Judith - Block Island) - Net	63,000	WEE-3
Freight (Point Judith - Block Island) - Net	15,368	WEE-4
Passenger (Newport - Block Island) - Net	40,000	WEE-2
Vehicle (Newport - Block Island)	-	
Freight (Newport - Block Island)	-	

Total estimated Revenue Interstate's Current Customers

1,132,368

Projected New Customers:

Passenger (Point Judith - Block Island)	290,000	WEE-5
Vehicle (Point Judith - Block Island)	57,540	WEE-6
Freight (Point Judith - Block Island)	10,000	WEE-7
Passenger (Newport - Block Island)	100,000	WEE-5
Vehicle (Newport - Block Island)	-	
Freight (Newport - Block Island)	-	

Total Revenue New Customers

457,540

Other Revenues (Bar, bike, etc)

150,000

WEE-8

Interstate Charter Revenue

*

Total Revenue

1,739,908

Expenses:

Salaries and wages (\$6,000 per week X 13.7 weeks)	82,048
Payroll taxes	8,205
Fuel (\$18,750 per week X 13.7 weeks)	256,875
Maintenance (estimate)	25,000
Insurance, advertising, bar and other expense	150,000

Debt service:

Principal	300,000
Interest	420,000

Total Expense

1,242,128

Net profit available for regulated business

\$ 497,781

* Assumes no lease revenue although Interstate believes that there may be opportunities to lease the Fast Ferry in the off season

Projection of Increased Passenger Revenues - Current Customers
 First Full Year of Operations
 Interstate Fast Ferry

WEE-2

Interstate Navigation Current Customers:

Point Judith:

	<u>Low</u>	<u>High</u>
Estimated Passenger Revenue (June -September)	\$ 2,600,000	\$ 2,600,000

Survey Results:

Respondents who would use Fast Ferry	0.35	
Respondents and party who would use Fast Ferry		<u>0.43</u>
Projected net Revenue *	<u>\$ 910,000</u>	<u>\$ 1,118,000</u>
Average		<u>\$ 1,014,000</u>

Newport:

Estimated Passenger Revenue (June -September) **	<u>\$ 40,000</u>
--	------------------

* Given that the Fast Ferry Rate (\$29.00) would be about twice the current rate (\$14.30) the revenue could be doubled. However, there will be lost revenue from Interstate's current business equal to the gross-up amount. Therefore, the Projected net Revenue is net of the lost revenue.

** There will be no conventional service but rather three Fast Ferry trips per day from Newport to BI. Therefore, assuming the same number of passengers on the first trip of the day would result in a net increase in revenue of \$40,000 per year. Interstate currently collects about \$40,000 of passenger revenue in Newport from June through September.

Projection of Increased Vehicle Revenues - Current Customers
 First Full Year of Operations
 Interstate Fast Ferry

WEE-3

Estimated Vehicle Revenue (June -September)	\$ 700,000
Survey Results:	
Respondents who would take their auto on the Fast Ferry	<u>0.06</u>
	42,000
Projected increase in price (two and a half times greater)	<u>2.50</u>
	105,000
Less lost revenue from current service	<u>(42,000)</u>
	<u><u>\$ 63,000</u></u>

Alternative approach -check:

Number of weeks expected operation	13.7
Days in a week	<u>7</u>
Total days available	95.9
Round trips per day	<u>3</u>
Total round trips	287.7
Number of cars per round trip	<u>2</u>
Total number of cars	575.4
Round trip rate	<u>\$ 200</u>
	\$ 115,080
Lost revenue (40%)	<u>(46,032)</u>
Net Revenue	<u><u>\$ 69,048</u></u>

Note: At this time there will be no vehicle traffic from Newport.

Projection of Increased Freight Revenues - Current Customers
First Full Year of Operations
Interstate Fast Ferry

WEE-4

Freight Revenue (June -September)	\$ 307,366
Percentage estimated to use Fast Ferry	<u>0.05</u>
	<u>\$ 15,368</u>

Note: Although possible, it is not expected that there will be freight revenues collected from the Newport to Block Island Fast Ferry runs.

Projection of Passenger Revenues - New Customers
First Full Year of Operations
Interstate Fast Ferry

WEE-5

New Customers:

Point Judith:

Estimated New Passengers	10,000
Price per ticket *	<u>\$ 29</u>
Estimate revenue from new customers	<u>\$ 290,000</u>

Newport: **

Second trip per day (75% of first trip)	\$ 60,000
Third trip per day (50% of first trip)	<u>40,000</u>
	<u>\$ 100,000</u>

* Adult rate used for estimated revenue. Additional revenues would be collected if there are children tickets sold in addition to the adult tickets.

** There will be no conventional service from Newport to BI but rather three Fast Ferry trips per day. Therefore, assuming the same number of passengers on the first trip of the day would result in a net increase in revenue of \$40,000 per year calculated on WEE-2. I believe that it would be inappropriate to assume that the level of usage would remain the same for the second and third runs. Therefore, I have estimated that the level of usage will decrease to 75% of the first run for the second run and to 50% of the first run for the third run.

Projection of Vehicle Revenues - New Customers
First Full Year of Operations
Interstate Fast Ferry

WEE-6

Estimated New Customer Vehicle Usage 288

Vehicle Rate \$ 200

\$ 57,540

Estimated number of new customers:

Number of weeks expected operation	13.7
Days in a week	<u>7</u>
Total days available	95.9
Round trips per day	<u>3</u>
Total round trips	<u>287.7</u>

Note: At this time there will be no vehicle traffic from Newport.

Projection of New Fast Ferry Freight Revenues
First Full Year of Operations
Interstate Fast Ferry

WEE-7

Estimated new Freight Revenue

\$ 10,000

Note: Although possible, it is not expected that there will be freight revenues collected from the Newport to Block island Fast Ferry runs.

Projection of Other Revenues (Bar, bike etc.)
First Full Year of Operations
Interstate Fast Ferry

WEE-8

Total Other Revenues for Interstate 2004	A	\$ 612,134
Total Passenger, Vehicle and Freight 2004	B	\$ 6,384,709
Percentage of other revenue (A/B)		<u>0.095875</u>
Additional Fast Ferry Passenger, Vehicle and Freight		<u>\$ 1,589,908</u>
Calculated Other revenue		<u>\$ 152,432</u> (use \$150,000)

**FINANCE TESTIMONY
of
WALTER E. EDGE JR. MBA CPA**

**For
INTERSTATE NAVIGATION COMPANY**

**Before
RHODE ISLAND DIVISION OF
PUBLIC UTILITIES AND CARRIERS**

Docket No. D-06-_____

August 2006

1 **Q. Will you please provide your full name and your employer for the record?**

2 A. Yes, my name is Walter Edward Edge Jr., MBA CPA. I am the president of B&E
3 Consulting LLC.

4
5 **Q. Are you the same Walter E. Edge Jr. who has previously filed expert accounting and
6 rate testimony for Interstate Navigation Company (Interstate) in previous dockets?**

7 A. Yes, I am.

8
9 **Q. Mr. Edge, what is the purpose of your testimony?**

10 A. As part of this testimony, I will provide some background information relating to Interstate's
11 proposed purchase of Island Hi-Speed Ferry's (IHSF) Rhode Island fast ferry business for
12 \$5,612,500. I will provide a short description of how the acquired fast ferry operation will be
13 merged financially into the current Interstate traditional operation from a bookkeeping point of
14 view. Further, I will address the financial impact of the proposed total financing which includes
15 the purchase of the MV *Athena*, the IHSF CPCN, and other considerations. I will also provide
16 the reasoning behind Interstate's selection of the financing terms for the \$5.6 million loan.
17 Lastly, I will present the information required by the Rules of the Division of Public Utilities and
18 Carriers (Division), so that the Division can review and evaluate the proposed financing package.

19
20 **Q. Mr. Edge did Interstate request proposals from other banks for this new financing?**

21 A. No. Interstate had previously (in 2002) negotiated with six banks to obtain the best
22 financing package available for its debt. The banks were as follows:

- 23 1. The Washington Trust Company
- 24 2. Fleet Bank
- 25 3. First Federal Savings Bank (First Fed)
- 26 4. Sovereign Bank of New England
- 27 5. Citizens Bank
- 28 6. Bank Rhode Island (Bank RI)

29
30 The Washington Trust Company was the winning bank and the Division recommended that
31 Interstate keep its loans with Washington Trust. The terms of this new borrowing to acquire
32 IHSF are similar to the \$3.1 million current debt which was approved by the Division to acquire
33 the M/V *Anna C* in Docket No. D-04-21.

1 **Q. How will the proceeds of this borrowing be used?**

2 A. Interstate is purchasing the entire Rhode Island operation of IHSF which includes the
3 purchase of the MV *Athena*, the IHSF CPCN to operate between Point Judith and Block Island
4 (New Harbor), the IHSF customer list, the IHSF berthing permit in Point Judith, and a perpetual
5 non-compete agreement, at a total cost of \$5,612,500. The proceeds of this borrowing in the
6 amount of \$5,600,000 will be used exclusively for this purchase.

7
8 **Q. Mr. Edge, what rate options are included in the Washington Trust commitment letter?**

9 A. First, it is important to point out that the Washington Trust is allowing Interstate to borrow
10 the money in up to three tranches (basically three parts) each of which will be allowed the
11 following rate options: (1) a floating rate at 30 day LIBOR plus 175 basis points (7.075% as of
12 8/17/06) or at prime (as stated in the Wall Street Journal) minus 1% (7.25% as of 8/17/06)
13 adjusted daily, (2) a fixed rate at the Federal Home Loan Bank of Boston's (FHLB) Ten Year
14 Cost of Funds (COF) Rate at time of election plus 190 basis points (7.40% as of 8/17/06) or
15 based upon 30-day Libor plus 175 basis points, with a swap to a fixed rate (7.20% as of 8/17/06).

16
17 After closing, from time to time, Interstate may elect to fix any floating rate tranche of the loan at
18 a fixed rate based upon the FHLB COF Rate based upon the remaining number of years until
19 maturity of the loan at time of election, plus 190 basis points.

20
21 **Q. What other terms are in the commitment letter?**

22 A. The loan is a 10 year loan with a 25 year mortgage style amortization. (Note: Washington
23 Trust has calculated that in the first year of the loan Interstate will pay \$81,420 of principal and
24 \$409,003 of interest, assuming solely for this calculation that Interstate elects to fund at prime
25 minus 1% and the prime rate does not change for the entire year.) The ten year term will result
26 in a balloon payment due at the end of the ten years. It is expected that this balloon payment
27 will probably be rolled over into a ten to fifteen year loan at that time.

28
29 WT has also agreed to have interest only payments in the winter and larger payments in the
30 summer. Although not in the commitment letter, the bank has assured Interstate that this
31 condition of seasonal payments will be in the final loan documents.

1 Other terms are as follows:
2

- 3 1. The collateral for the loan is a first preferred ships mortgage position on the *Athena*,
4 third priority preferred ships mortgage with respect to the *Nelseco*, *Manitou*, *Carol Jean*
5 and *Block Island* and a fourth priority preferred ships mortgage with respect to the *Anna*
6 *C*.

7
8 Also, Interstate will give the bank a security interest in its business assets, a collateral
9 assignment of its licenses, contracts and permits, and a conditional assignment of leases
10 with respect to the Point Judith and Block Island docking facilities. For the most part,
11 this is the same collateral that the bank already has on the current debt with the addition
12 of the new boat.

- 13
14 2. There are no prepayment penalties for tranches that have a floating interest rate keyed to
15 the prime rate. The prepayment penalty for any fixed interest rate tranches keyed to cost
16 of funds will be the so-called "make whole" penalty (not a yield maintenance type
17 penalty). This is the same penalty that is on Interstate's current debt.

- 18
19 3. Financial covenants have been changed to facilitate the deal as follows:
20

- 21 ➤ Borrower to maintain Debt Service Coverage (DSC) of 1.25X (previously
22 requirement was 1.35X). The DSC will be calculated as net income plus
23 depreciation/amortization and interest expense, divided by current maturities of long
24 term debt plus interest expense.
25 ➤ The DSC after routine capital expenditures must be 1.15X.
26 ➤ Interstate must maintain a global loan-to-value (LTV) ratio of 75% based upon the
27 aggregate debt of Interstate, including the proposed facility, and the appraised values
28 of the six collateral motor vessels.
29 ➤ Interstate will be required to establish a one year interest reserve in the approximate
30 amount of \$400,000, which may be placed in an interest bearing account.
31

32 **Q. What other conditions did Washington Trust request of or provide to Interstate for
33 this loan?**

34 A. Interstate allowed the bank to complete a business valuation of the IHSF business.
35 Washington Trust has established a maximum global LTV of 75% based on the aggregate debt
36 of Interstate Navigation, including the proposed facility, and the appraised values of the six
37 vessels that WTC will hold a preferred ships mortgage on.

1 WT has required that fees at closing will be the responsibility of Interstate and Interstate was
2 required to provide up front a \$10,000 check to cover bank costs which will be applied at the
3 closing.

4
5 **Q. What does Interstate want to do at this time?**

6 A. Interstate evaluated the rate options in the commitment letter and determined the following:

- 7 1. Interstate believes that it may be best initially for this start-up operation to select the
8 floating prime minus one rate for all three tranches.
- 9 2. Interstate currently intends at some point to convert to a fixed rate loan at the Federal
10 Home Loan Bank of Boston's Ten Year Cost of Funds Rate plus 190 basis points, but
11 wants the flexibility at this point, as it gets a better handle on the profitability of the
12 operations to close any of the tranches using any of the options in the commitment letter.

13
14 **Q. The Washington Trust commitment letter provides for one fixed rate conversion per**
15 **tranche. Is Interstate requesting the Division allow that the entire loan be converted at**
16 **one time to a fixed rate?**

17 A. Yes, if Interstate believes it would be appropriate when the loan closes to do so. Interstate
18 wants the option of locking in each tranche and locking in the fixed rates when it believes that it
19 is appropriate. Interest rates have been climbing quickly but they may be leveling out. We may
20 be reaching that point where all the debt should be locked in to fixed rates at closing. However,
21 Interstate has used the rate choice flexibility allowed by the Division with a previous financing
22 and locked in the final two thirds of the borrowing at a rate less than the rate locked in at the
23 initial closing. Although there are no guarantees, a daily review of interest rates significantly
24 reduces the risk.

25
26 Therefore, Interstate is requesting approval from the Division to finance \$5,600,000 with
27 Washington Trust on the terms set forth in the commitment letter as attached here to. Interstate
28 at this time intends to initially use the variable rate of prime minus 1% (currently 7.25%).
29 However, Interstate will evaluate all of its options at the closing and select the best deal for the
30 Company and the ratepayers. Also, Interstate will maintain a vigilant eye on interest rates and
31 utilize its options to lock into fixed rates at the appropriate time.

1 **Q. Mr. Edge, how does this financing impact the ratepayers?**

2 A. There is no immediate impact on the traditional service ratepayers (or the fast ferry rate
3 payers if the PUC continues the rates currently in place for Interstate's 2006 fast ferry lease).

4
5 **Q. When will the traditional ratepayers see an impact of the fast ferry operations?**

6 A. If Interstate's projections of revenues and expenses are correct (see attached proforma WEE-
7 I), the traditional ratepayers should see a positive impact from the fast ferry operations when the
8 1st rate filing, after the completion of a full year of fast ferry service, is made.

9
10 **Q. What happens if the fast ferry projections are not achieved?**

11 A. Interstate intends to account for the fast ferry operations as a separate division and account
12 for all direct revenues and direct costs separately. Should the fast ferry division have a loss
13 (which I believe is unlikely) the owners of Interstate have agreed to absorb any loss in the first
14 year of operations. Nevertheless, Interstate believes that the fast ferry operations will subsidize
15 the traditional operation and Interstate has agreed in writing that any net profits generated from
16 the fast ferry service will be used to either fund the purchase of Interstate's proposed larger car
17 carrying fast ferry, to subsidize its life line traditional rates, or otherwise to enhance its service to
18 customers.

19
20 **Q. Are the terms of the borrowing in the best interest of Interstate and its ratepayers?**

21 A. Absolutely. WT has shown a very positive response to Interstate's proposal to eliminate
22 competition and increase profits. In fact, the financial terms of Interstate's current debt have
23 been relaxed in order to facilitate this borrowing as noted above. Further, the bank believes that
24 Interstate's purchase of the IHSF operation will result in an overall financially stronger company
25 and therefore a more secure borrower of the bank. I believe that the financing options of three
26 tranches, each having the option of a variable rate with fixed rate conversion or initial fixed rates
27 provides Interstate with maximum financing flexibility.

1 **Q. Is there an impact of this financing on the debt/equity ratio or any of the other**
2 **information required by the Division's rules?**

3 A. Yes. Because the fast ferry service will be a division of Interstate, any borrowing by the
4 Fast Ferry Division will impact Interstate's overall debt/equity ratio. As of May 31, 2005, per
5 the financial statements in the 2005 annual report, Interstate had a debt to equity ratio of about
6 2.9 to 1 (debt \$11,351,659 to equity \$3,934,068) which is a little over 25% equity. This level of
7 equity, although lower than normal for Interstate, is still adequate.

8
9 The addition of the fast ferry borrowing in the amount of \$5,600,000 changes the debt equity
10 ratio to about 4.3 to 1 with debt of \$16,951,659 and equity of \$3,934,068. A 4.3 to 1 debt
11 equity ratio is not very good, even for a capital intensive utility such as Interstate. However, I
12 believe that the poor debt equity ratio will be only a short term problem.

13
14 **Q. Why?**

15 A. Interstate has never distributed dividends and does not intend to start doing so in the near
16 future. Therefore, if Interstate's fast ferry projections are correct, and Interstate can earn its
17 authorized rate of return in the traditional business, Interstate's equity should increase at a rate of
18 about \$500,000 per year (\$100,000 from the fast ferry service and about \$400,000 from the
19 traditional service) while Interstate's outstanding debt will decrease with the payment of
20 principal. Using this assumption, I calculate that by the end of three years, Interstate's debt
21 equity ratio should improve to about 2.5 to 1 (\$14,000,000 to \$5,500,000) or nearly 30% equity.
22 A 30% equity level is very good for this utility.

23
24 **Q. Have the total assets and liabilities of Interstate changed since the May 31st 2005**
25 **annual report?**

26 A. Not materially, however Interstate has invested in some additional assets and has continued
27 to make its debt service payments. Interstate's total assets at May 31st 2005 were \$15,980,047.
28 Current assets were \$1,297,204. Liabilities are about \$12,045,979. Of that \$1,594,357 is
29 current liabilities. The current ratio is .8 to 1 which is good.

1 **Q. Will Interstate require an increase in rates on its traditional operation to pay the debt**
2 **service on this new debt?**

3 A. No. Interstate has projected that the new fast ferry division will more than pay for all of its
4 direct expenses to include all debt service payments. My projection shows an anticipated
5 surplus of \$254,754 after paying all of the fast ferry direct expenses. Interstate does not plan to
6 request any rate increases to its traditional life line rates solely to pay the debt service on this
7 loan. In fact, this fast ferry operation should provide a subsidy to the life line business. If the
8 fast ferry service loses money in the first year of operations, Interstate's owners intend to cover
9 the shortfall with its authorized return from its traditional service.

10
11 **Q. Would Interstate file for a rate increase for its traditional rates if the fast ferry had a**
12 **profit but the overall Interstate rate of return earned was less than authorized?**

13 A. Yes. In fact, Interstate has recently filed for about a 30% increase in its traditional rates in
14 an effort to collect fuel costs in base rates and to true-up the traditional service return on rate
15 base in advance of the fast ferry subsidy. I would expect that Interstate would file for a rate
16 increase to its traditional rates if, even with the fast ferry subsidy, Interstate does not earn its
17 authorized rate of return. That rate increase would probably address both the traditional and fast
18 ferry rates.

19
20 **Q. Is there a need for expedited approval?**

21 A. Yes. The closing for the purchase of IHSF is scheduled for November 1st 2006 and it is a
22 "time is of the essence" closing. Interstate must have approval of the financing in place so that
23 the loan documents can be completed and executed by the closing. Therefore, Interstate
24 respectfully requests that the Division give its approval by September 30th 2006 or sooner if
25 possible.

26
27 **Q. Are there any other issues that you would like to discuss?**

28 A. Yes. Interstate is aware that unless it leases out the *Athena* in the winter the fast ferry
29 service will have debt service payments and no fast ferry revenue stream to pay them in the
30 winter. However, Interstate has negotiated a ships lease with IHSF for the first winter of its first
31 year of operations. That lease is reflected in Schedule WEE-1.

1 **Q. Have you attached Washington Trust's commitment letter?**

2 A. Yes. It is attached as WEE-2, together with related e-mails.

3

4 **Q. Have you provided a calculation of the projected fast ferry revenues and expenses?**

5 A. Yes I have. Please see the attached Schedule WEE-1.

6

7 **Q. Mr. Edge, would you please explain the entries that appear on your Schedule WEE-1?**

8 A. Yes. First however, it is important to point out that the projections on Schedule WEE-1
9 attached to this testimony are significantly different than the original projections that Interstate
10 used in its CPCN filing. Major differences in the size, design and usage of the Athena compared
11 to the size, design and usage of Interstate proposed new fast ferry has resulted in significantly
12 different projections.

13

14 The proposed new vessel described by Interstate in its fast ferry CPCN filing was a larger vessel
15 with more passenger capacity. Further, it was designed to have a small freight/car deck. The
16 fast ferry service that was to be provided under the CPCN with the new Fast Ferry was from
17 Point Judith to Block Island to Newport and return. The Athena on the other hand, is a smaller,
18 passenger only vessel that will operate strictly from Point Judith to Block Island (Old Harbor)
19 and return. Therefore, the revenues and expenses for these two fast ferry services are
20 significantly different.

21

22 It is also important to point out that the projections on Schedule WEE-1 attached to this
23 testimony are different than the projections made by Interstate to justify the 2006 lease of the
24 Athena. The most significant difference between the projections made by Interstate for the
25 Athena lease and projections on the attached Schedule WEE-1 are the debt service payments to
26 purchase of the Athena versus the 2006 lease payments for the Athena. The debt service
27 payments are much higher. The second difference is the fact that Interstate now has actual
28 ridership numbers from this summer (through July) and Interstate has made a better estimate of
29 the ultimate 2006 seasonal ridership on the Athena. The actual ridership has been less than
30 Interstate's original projections.

31

1 The last major difference between the lease projections and Schedule WEE-1 is the cost of
2 salaries and wages. Included with the lease of the Athena, Interstate also obtained the use of
3 IHSF captains and engineers to run the boat and provide valuable training. At the same time
4 Interstate was paying the IHSF captains and engineers, Interstate also paid its own captains and
5 engineers to ride the fast ferry and learn the fast ferry business. After purchasing the fast ferry
6 Interstate will no longer use the IHSF captains and engineers, so the labor costs will be less.

7
8 **Q. What are the main entries on Schedule WEE-1?**

9 A. Schedule WEE-1 reflects Interstate's current best estimate of passenger revenue for the
10 summer of 2006, utilizing actual passenger information through July, 2006. (Note: I calculated
11 the passenger revenue by taking the total one way ridership, divided that number by 2 to arrive at
12 the total round trips. I then multiplied the round trips by the adult round trip rate. This
13 calculation, although reasonable, is not exactly correct because of children tickets (which would
14 generate less revenue) and one way tickets (that would generate greater revenue).) I believe that
15 the calculation is conservative and probably slightly understates the actual revenue.

16
17 Added to the calculated round trip passenger revenue is Interstate's best estimate of other
18 revenues (bike, bar, etc.), fuel surcharge revenue and charter revenue. It should be noted that
19 Interstate is currently not collecting its full fuel costs through the fuel surcharge as a result of
20 Interstate's original over estimate of fast ferry ridership. Since the actual ridership is much less
21 than projected, Interstate is not collecting the entire \$195,000 of fuel cost this year. Interstate
22 expects that this situation will be corrected next year when actual ridership figures are available.

23
24 Expenses on Schedule WEE-1 reflect Interstate's original staffing, fuel, maintenance, and all
25 other operating expense projections. These projections have been modified slightly to reflect
26 more current information.

27
28 Debt service payments for the first year were calculated for Interstate by the bank assuming a
29 twenty five year amortization, an interest rate of prime less 1 percent (7.25%) and using a
30 mortgage style payment method.

1 Q. Are you still projecting a profit for the fast ferry operations?

2 A. Yes. The net profit is shown at the bottom of Schedule WEE-1 as \$254,754.

3
4 Q. Does that conclude your testimony?



5 A. Yes.

6
7 **VERIFIED STATEMENT**

8
9 Pursuant to R.L.G.L. § 39-3-17, I, Susan E. Linda, President and Secretary of the
10 Interstate Navigation Company, being first duly sworn, hereby verify under oath that the
11 information contained in the foregoing testimony of Walter E. Edge, Jr., C.P.A., is true and
12 accurate.

13
14 
15 Susan E. Linda
16

17 Sworn to and subscribed by Susan E. Linda on this 22nd day of August, 2006.

18
19 
20 Notary Public
21 

MICHAEL R. McELROY ESQ.
NOTARY PUBLIC
My Commission Expires 6-16-09

Projection of Revenues and Expenditures (purchase of IHSF)
 First Full Year of Operations
 Interstate Fast Ferry

Schedule WEE-1

Proforma
 1st year

Revenues:

Calculated Round Trip Ridership (May - July 2006) *	19,388 times \$29.00	\$ 562,252
Projected Round Trip Ridership (August - October 2006)	21,500 times \$29.00	<u>623,500</u>
Total Projected Passenger Revenue		1,185,752
Other Revenues (Bar, bike, etc)		75,000
Fuel Surcharge Revenue		195,000
Charter Revenue		<u>212,025</u>
Total Revenue		1,667,777

Expenses:

Salaries and wages (\$6,000 per week X 21 weeks)		126,000
Payroll taxes (10% of S&W)		12,600
Fuel (195,000 gallons * 2.20/gallon)		429,000
Maintenance:		
Annual engine top end and overhauls	Two year average	138,000
Dry Docking	Estimate	10,000
General Maintenance	Estimate	25,000
Insurance	Estimate	30,000
Advertising	Estimate	15,000
Berthing Point Judith		4,000
Bar expense		33,000
General and Administrative Expense		
Legal and accounting		
General office supplies		
Gross Receipts Taxes		
Fees (coast guard, banking, etc)		
Total G&A Expense Estimate		100,000

Debt service on \$5,600,000:

Principal	(\$5,600,000/25)	81,420
Interest	(\$5,600,000*.075)	409,003
Total Expense		<u>1,413,023</u>

Estimated net profit \$ 254,754

* See testimony page 10, lines 10-15.



Schedule WEE-2

April 7, 2006

The Interstate Navigation Company
a/k/a Interstate Navigation Co., Inc.
P.O. Box 482
New London, CT 06320
Attention: Ms. Susan Linda, President

Re: Loan Commitment

Dear Susan:

This letter supersedes our letter to you dated April 4, 2006. We are pleased to advise you of our commitment to make a new \$5,600,000 loan to The Interstate Navigation Company, substantially in accordance with the terms and conditions set forth on the Term Sheet which is attached hereto.

This Commitment is based upon our present understanding of the transaction. As additional facts and circumstances become known to us, we may impose additional terms and conditions. The terms and conditions of this Commitment are not limited to the Term Sheet. Those matters which are not covered by or made clear in the Term Sheet are subject to the mutual agreement of the parties.

This Commitment is conditional upon:

- (a) The preparation, execution, and delivery of legal documentation in form and substance satisfactory to the Lender and its legal counsel, Brown Rudnick Berlack Israels LLP, which substantially incorporate the terms and conditions outlined or referred to in this Commitment;
- (b) The absence of any material adverse change in the financial condition, business, operations, or control of the Borrower since the date of the financial statements most recently delivered to the Lender;
- (c) The receipt of evidence that the Borrower has obtained all necessary approvals from the Rhode Island Division of Public Utilities and Carriers with respect to (i) the credit facility outlined herein, (ii) Borrower's acquisition of the Rhode Island business and assets of Island Hi-Speed Ferry, (iii) landing the high-speed vessel "Athena" at Old Harbor, Block Island; and (iv) charging rates for the high-speed vessel "Athena" that are currently charged by Island Hi-Speed Ferry.
- (d) The review and approval by Lender's counsel of the Borrower's organizational documents;
- (e) The receipt by Lender of satisfactory verification from the DPUC that Borrower has the only Rhode Island license to land a high-speed ferry at Old Harbor from Point Judith;

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corporate headquarters 23 Broad Street, Westerly, Rhode Island 02891 telephone 401.348.1200 www.washtrust.com



(f) The review and approval by Lender and Lender's counsel of a satisfactory non-compete agreement with the principal(s) of Island Hi-Speed Ferry;

(g) Lender's ability to sell a \$2.5 million participation interest in the proposed loan facility on terms and conditions satisfactory to Lender; and

(h) Lender's receipt of a business valuation appraisal of Island Hi-Speed Ferry supporting a business valuation of at least \$5,600,000.

By your acceptance of this Commitment, you agree to be responsible for all costs and expenses incurred by us including, but not limited to, legal fees and disbursements and other expenses incurred by us in connection with processing the transactions contemplated herein, whether or not the transactions do, in fact, close.

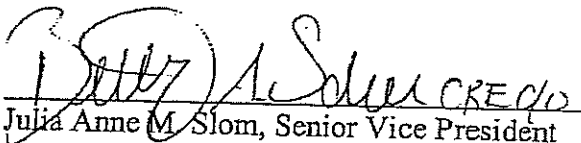
This Commitment supersedes your loan application, any outstanding commitment letters and all other prior dealings with the Lender in connection with the transactions contemplated herein. Prior receipt of any document will not constitute approval of that document unless expressly stated otherwise in the Term Sheet.

The terms of this Commitment may not be waived, modified, or in any way changed by implication, correspondence, or otherwise unless such waiver, modification, or change is made in the form of a written amendment to this Commitment agreed to by all parties. Also, this Commitment may not be assigned without the Lender's prior written consent.

If for any reason the transactions contemplated hereby do not close by July 15, 2006, time being of the essence, this Commitment shall lapse and shall be of no further force or effect unless the time for closing is extended in writing by the Lender.

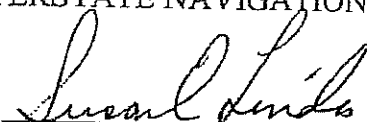
This Commitment shall become effective only upon your written acceptance hereof which must be returned to us not later than April 31, 2006, time being of the essence.

Very truly yours,


Julia Anne M. Slom, Senior Vice President

ACCEPTED AND AGREED TO THIS 11th DAY OF APRIL, 2006.

THE INTERSTATE NAVIGATION COMPANY A/K/A
INTERSTATE NAVIGATION CO., INC.

By: 
Susan Linda, President

TERM SHEET

BORROWER: The Interstate Navigation Company, a/k/a Interstate Navigation Co., Inc.

LOAN AMOUNT: \$5,600,000.00

PURPOSE: To purchase the Rhode Island business of Island Hi-Speed Ferry (the "Seller"), including the motor vessel "Athena", the Seller's certificate to operate the high-speed ferry, the Seller's customer list and berthing permit.

LOAN TERM/
STRUCTURE: Ten (10) year term and twenty-five (25) year amortization.

REPAYMENT
SCHEDULE: If the interest rate is floating, as provided below, accrued interest shall be payable monthly and principal repayment shall be customized to a modified 25-year mortgage-style amortization schedule with a loan term of ten (10) years as indicated above, resulting in a balloon payment at the end of the term.

If the interest rate is fixed, as provided below, principal and accrued interest shall be repaid on a 25-year mortgage-style amortization schedule with a loan term of ten (10) years as indicated above, resulting in a balloon payment at the end of the term.

COLLATERAL: This loan shall be secured by (a) a first priority Preferred Ship Mortgage from Borrower to Lender with respect to the motor vessel Athena, (b) a third priority Preferred Ship Mortgage from Borrower to Lender with respect to the motor vessels named Nelseco, Manitou, Carol Jean and Block Island (existing third priority ship mortgage on these vessels securing the Borrower's \$400,000 line of credit will be subordinated), (c) a fourth priority Preferred Ship Mortgage from Borrower to Lender with respect to the motor vessel Anna C., (d) a security interest in all of the Borrower's business assets, (e) a Collateral Assignment of Licenses, Contracts and Permits from Borrower to the Lender with respect to all Borrower's contracts, agreements, licenses, permits and warranties including, without limitation, those related in any manner to the operation of the high speed ferry service and (f) the Conditional Assignments of Leases from Borrower to Lender with respect to the Narragansett and Block Island docking facilities.

INTEREST: (a) At Closing, the Borrower shall have the following pricing options on up to three (3) tranches of the outstanding Loan balance:

(1) A floating rate at Borrower's option of 30-day Libor plus 175 basis points, or at Prime (as stated in the Wall Street Journal) minus one percent (1%); or

(2) A fixed rate based upon the the Federal Home Loan Bank of Boston's ("FHLB") Ten Year Cost of Funds Rate at time of election, plus 190 basis points, or based upon 30-day Libor plus 175 basis points, with a Swap to a fixed rate.

(b) After closing, from time to time, the Borrower may elect to fix any floating rate tranche of the Loan at a fixed rate based upon the FHLB Cost of Funds Rate based on the remaining number of years until maturity of the Loan at time of election, plus 190 basis points.

PREPAYMENT
PENALTIES:

If the loan is subject to the floating interest rate, it shall not be subject to any prepayment penalties. Should the Borrower elect the fixed rate, any prepayment will be subject to a so-called "make whole" penalty sufficient to compensate Lender for any net loss sustained or incurred as a result of such prepayment. Borrower will pay all fees associated with unwinding any swap agreements.

TITLE ABSTRACTS:

Prior to the closing, the Borrower shall submit to the Lender's counsel for approval current U.S. Coastguard abstracts of title with respect to each of the vessels securing the loan.

LENDER'S COUNSEL:

Michael K. Davis, Esquire
Brown Rudnick Berlack Israels LLP
121 South Main Street
Providence, Rhode Island 02903
Phone: (401) 276-2644
Fax: (401) 276-6244

ORGANIZATIONAL
DOCUMENTS:

The Borrower shall provide such organizational documents, votes, certificates, consents, and other materials as may be required by the Lender, and such documents must be satisfactory in form and content to Lender and Lender's counsel.

BORROWER'S COUNSEL
OPINION:

The Borrower shall deliver at closing an opinion of the Borrower's counsel, in form and substance satisfactory to the Lender's counsel, that the Borrower is legally existing and in good standing with all requisite power and authority to enter into and perform its obligations under the loan documents, and that the same have been duly authorized, validly executed, and delivered.

FINANCIAL COVENANTS: Borrower shall maintain the following ratios, to be measured at each fiscal year end based on accountant-prepared financial statements: Debt Service Coverage (calculated as net income plus depreciation/amortization and interest expense, divided by current maturities of long term debt for the year plus interest expense) of 1.25 or greater; debt service coverage after routine annual capital expenditures of 1.15 or greater; maximum, global loan-to-value ratio of 75% based on the aggregate debt of Borrower, including the proposed facility, and the appraised values of the six collateral motor vessels . Debt Service Coverage requirements in Borrower's existing loan arrangements with Lender will be reduced to 1.25.

INTEREST RESERVE: Borrower shall establish at closing and maintain in a blocked account with Lender a reserve account with an initial principal balance equal to one year's interest accrual on the Loan. The interest reserve shall be maintained with Lender until Borrower maintains Debt Service Coverage of 1.25 or greater based upon year end financials after at least one full year of high-speed ferry operation.

NON-ASSIGNABLE: The Borrower shall have no right to assign any rights under this Commitment Letter.

50221710 v4 - DAVISMK - 080037/0091

Schedule WEE-3

Subj: **Interstate Commitment Letter**
Date: 7/11/2006 10:07:59 P.M. Eastern Daylight Time
From: jaslom@washtrust.com
To: McElroyMik@aol.com

Mike

As you know, the original commitment letter for Interstate Navigation to provide financing for their acquisition of Island High Speed Ferry will expire shortly. As we have discussed, purchase of the business is scheduled for late fall and we anticipate ratifying our existing approval and commitment for this transaction and expect to extend the commitment accordingly.

JMS

Julia Anne M. Slom
Senior Vice President, Commercial Real Estate Group
The Washington Trust Company
23 Broad Street
Westerly, RI 02891
Telephone: 401 348-1430
Fax: 401 348-1326

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Walter Edge

From: Bethany A. Schneider [baschneider@washtrust.com]
Sent: Friday, August 18, 2006 8:45 AM
To: mcElroyMik@aol.com
Subject: Interstate

Hello

The rates (as of 08/17/06) are as follows:

Prime - 1% = 7.25%

LIBOR + 1.75% = 7.075%

FHLB 10/25 = 1.90% = 7.40%

Swap equivalent of LIBOR + 1.75% = 7.20%

Principal and interest for the first year of the loan assuming that Prime - 1% does not change is as follows:

Principal: \$81,420

Interest: \$409,003

As I mentioned on the phone to you, we expect to have final re-approval by the 29th of August. Let me know how you would like to proceed after that - we can reissue the commitment letter if you would like. I just don't want to start spending money (legal costs) until we have to.

Thanks

Bethany

Bethany Schneider
Portfolio Manager, Commercial Real Estate
The Washington Trust Company
23 Broad Street
Westerly, RI 02891
Phone: 401-348-1538
Fax: 401-348-1326

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TOWN-35 Please explain (a) how Interstate will account for each component of the IHSF asset purchase (M/V Athena, Customer List, Non Compete, goodwill, CPCN and Berthing Permit) and (b) how the amount of each component was assigned or allocated.

Response: (a) Each component will be accounted for as set forth in the purchase and sales agreement. (b) The amount of each component was assigned based upon negotiations between the parties.

Prepared by WEE

TOWN-36 Please identify for the M/V Athena and all other plant that would be directly used in connection with Interstate's high speed operations during the rate year the following:

- a. depreciation expense
- b. return requirements (interest expense, return on equity)
- c. property taxes

Response: Assuming we obtain Division and Commission approval for Interstate's 2007 fast ferry operation, Interstate has proposed that it will be regulated as a separate Division of Interstate on a cash basis. As a result, depreciation expense and return on equity will not be funded. Interstate, however, will charge interest and principal as direct expense to the fast ferry Division in calculating profit and or loss.

The funding for the rate year interest expense for the fast ferry operation is specifically shown in the Mr. Edge's Financing Testimony in D-06-51 Schedule WEE-1, (See the attachment to TOWN-34). There is no property tax expense in connection with Interstate's fast ferry operation since the fast ferry is exempt from property tax, as are all of Interstate's conventional ferries.

Prepared by WEE

TOWN-37 Please provide the most recent actual passenger statistics for Interstate by month (a) during the test year and (b) since the test year, for conventional operations.

Response: The monthly statistics (through May 31, 2006) were previously provided by Interstate to the Commission under a claim of privilege in response to COMM 1-23 on September 11, 2006. Additional monthly statistics for 2006 (through July 31, 2006) are being furnished to the Commission herewith, under a claim of privilege.

Prepared by WEE

TOWN-38 Please provide the most recent actual passenger statistics for Interstate by month since the test year for high speed operations.

Response: See Town – 37. The monthly statistics filed with the Commission under claim of privilege contain both conventional and fast ferry statistics.

Prepared by WEE

TOWN-39 Please provide Interstate's rate year passenger statistics estimates for (a) conventional operations and (b) high speed operations. Provide any assumptions and workpapers. Identify high speed passenger estimates attributable to (a) existing high speed passenger loads and (b) projected transfers in ridership from the conventional ferry to the high speed ferry.

Response: Rate year statistics:

(a) Conventional: Not available. As indicated in WEE-1, the rate year revenues are not calculated based on passenger statistics.

(b) Fast Ferry: These statistics are specifically shown in the Mr. Edge's Financing Testimony in D-06-51. See the attachment to TOWN-34.

Fast Ferry passenger estimates:

(a) Not yet known, except as shown in Mr. Edge's testimony in D-06-51.

(b) Not known.

Prepared by WEE

TOWN-40 Please explain when Interstate recognizes as revenue its advance reservations of vehicles and how it accounts for advance reservations.

Response: Interstate recognizes vehicle revenues basically in the month that they receive the booking. Adjustments are made for financial presentation purposes at six months ended November 30th and at year end May 31st. Included in the deferred revenue amount at year end is part of the April bookings and all of the May bookings. The deferred revenue amount at November 31st includes about one half of the November bookings. The deferred revenue at year end (May 31st) is earned June July, August and September.

Interstate believes that it's January, February and March bookings are earned by May 31st. Bookings from June through October are recognized as earned in the month that they are taken. December revenue and about one half of November revenue is earned in December.

Prepared by WEE

TOWN-41 Please identify the owners of (a) Interstate Nav and (b) Interstate Navigation and (c) any other entity involved in the transportation of passengers to Block Island. Identify the ownership and voting interests of each owner in each of these entities.

Response: See attached. Note however that we do not know if the Interstate Nav. information shown as of 2/04 remains current. Also note that we do not have information regarding the owners of any other entity transporting passengers to Block Island.

Prepared by WEE

Interstate Nav. Company, a Connecticut corporation

Shareholdings as of 2/04:

Class A Voting Common Stock

John P. Wronowski 20 shares

SUBTOTAL Class A: 20 shares

Class B Nonvoting Common Stock

Craig Hewitt 22-2/3

Bryon Hewitt 22-2/3

Mary Jo McInerney 22-2/3

Estate of Burke Hewitt 32

Adam Wronowski 20

Serena Linda 20

Katerina Linda 20

Nerissa Linda 20

Athena Linda 20

Joshua Linda 20

Todd Linda 20

Raymond & Susan Linda 40

Derek Tyrseck 20

Thomas Tyrseck 60

John P. Wronowski, as custodian
for Jessica I. 30

Anna C. Wronowski, as Trustee
of the Carol Jean Wronowski Trust 20

SUBTOTAL Class B: 410

TOTAL OF BOTH CLASSES: 430

Directors, also holding the offices listed below:

- John P. Wronowski, President
- Richard E. MacMurray, Vice President & Assistant Secretary
- Adam C. Wronowski, Vice President & Secretary

Interstate Navigation Company, a Connecticut corporation

Shareholdings as of 12/31/04:

	<u>Class A Voting</u>	<u>Class B Non Voting</u>
Susan Linda	96	0
Anna C. Wronowski	0	412
Raymond & Susan Linda	16	282
Craig Hewitt	5-1/3	100-2/3
Mary Jo McInerney	5-1/3	100-2/3
Bryon Hewitt	5-1/3	100-2/3
Derek S. Tryseck	8	151
Thomas Tyrseck	8	151
Trust for Carol Jean Wronowski	16	160
Adam Wronowski	16	231
John Peter Wronowski as Custodian for Jessica Wronowski	<u>0</u>	<u>71</u>
TOTAL:	<u>176</u>	<u>1,760</u>

Officers:

- Susan Linda, President, Secretary & Treasurer
- Joshua Linda, Vice President

Directors:

- Susan Linda
- Joshua Linda
- Raymond Linda

TOWN-42 Please provide a detailed description of any right to land under discussion or secured by Interstate to date from Payne's Dock to operate high speed ferry service from New Harbor.

Response: None.

Prepared by WEE

TOWN-43 What approvals, if any, not presently held by Interstate does Interstate need in order to land the M/V Athena (a) in Old Harbor at (b) Interstate Nav. docking facilities?

Response: (a) None.
(b) None.

Prepared by WEE

TOWN-44 Please provide any management audits or studies conducted by or on behalf of Interstate since 1/1/03.

Response: No such management audits or studies have been conducted.

Prepared by WEE

TOWN-45 Please provide any internal accounting guidelines used by Interstate for the classification of any expense as a miscellaneous deferred debit.

Response: Interstate has no miscellaneous deferred debits. The only deferred debit is deferred federal income taxes.

Prepared by WEE

TOWN-46 Please provide any internal accounting guidelines used by Interstate for the classification of any receipts as a miscellaneous deferred credit.

Response: Interstate has no miscellaneous deferred credits. The only deferred credit shown on the test year balance sheet is deferred revenue. See response to Town 40.

Prepared by WEE

TOWN-47 Please provide an itemization of test year end miscellaneous deferred debits.

Response: As stated in response to Town – 45, Interstate has no miscellaneous deferred debits. Interstate’s only deferred debit on the test year balance sheet is deferred federal income taxes which represents timing differences due to a short period loss carry forward (which resulted from a change in the year end from September to May) and any variance between book and tax depreciation.

Prepared by WEE

TOWN-48 Please provide an itemization of test year end miscellaneous deferred credits.

Response: There are no miscellaneous deferred credits on the test year balance sheet. However, the deferred revenue on the November 30th balance sheet is only \$8,688 which represents about one half of the November vehicle bookings. See response to Town – 40.

Prepared by WEE

TOWN-49 Please provide itemizations of the most recent month end balances of miscellaneous deferred debits and miscellaneous deferred credits.

Response: None.

Prepared by WEE

TOWN-50 Please provide any insurance premium refunds received after the test year.

Response: None.

Prepared by WEE

TOWN-51 Please provide any insurance recoveries received after the test year.

Response: None.

Prepared by WEE

TOWN-52 Please explain how Interstate booked bad debt expenses in the test year and how they were estimated for the rate year.

Response: The bad debt expense represents the direct write off of uncollectible freight income. This write-off is done monthly and represents minor balances. For the rate year, I left this account at test year levels which appear to be consistent with the results of the past five years.

Prepared by WEE

TOWN-53 Please provide any internal or independent evaluation of Interstate's fuel procurement practices, including, without limitation, any evaluation of fuel prices from sellers other than the Company's current supplier.

Response: None.

Prepared by WEE

TOWN-54 Please itemize any test year fines or penalties included in test year cost of service and identify the accounts.

Response: The only penalties were a credit card late fee of \$39 and Penalty to Commissioner of Revenue for \$94. These amounts were charged to the penalties account. See Attached.

Prepared by DGB

Interstate Navigation Company
General Ledger
For the Period From Jun 1, 2005 to Dec 31, 2005

Filter Criteria includes: 1) IDs from 4100 to 9300. Report order is by ID. Report is printed with Truncated Transaction Descriptions and in Detail Format.

Account ID	Date	Reference	Jrnl	Trans Description	Debit Amt	Credit Amt	Balance
	12/31/05			Ending Balance			18,181.63
8790	6/1/05			Beginning Balance			
Personal Property Tax	7/1/05			Beginning Balance			
	7/1/05	2004/0200406	PJ	Town of Montville/Tax	1,357.81		
	7/8/05	304507762	PJ	City of New London - 1	110.09		
	7/17/05	304511297	PJ	City of New London -	107.05		
	7/17/05	42878	PJ	City of New London -	64.67		
	7/17/05	42877-	PJ	City of New London -	761.34		
	7/17/05	304511298	PJ	City of New London - 1	186.75		
	7/17/05	304511296	PJ	City of New London - 1	43.90		
	7/17/05	304507761	PJ	City of New London - 2	571.05		
	7/17/05	304511232	PJ	City of New London - 2	281.98		
	7/28/05	304511296/	PJ	City of New London	2.20		
				Current Period Change	3,486.84		3,486.84
	8/1/05			Beginning Balance			3,486.84
	8/4/05	M-090450	PJ	Town of New Shoreha	202.31		
	8/15/05	4348	CDJ	City of New London - B	2.00		
				Current Period Change	204.31		204.31
	9/1/05			Beginning Balance			3,691.15
	10/1/05			Beginning Balance			3,691.15
	11/1/05			Beginning Balance			3,691.15
	12/1/05			Beginning Balance			3,691.15
	12/31/05	09028548	PJ	Town of Narragansett -	623.90		
	12/31/05	090285505-	PJ	Town of Narragansett -	1,740.08		
				Current Period Change	2,363.98		2,363.98
	12/31/05			Ending Balance			6,055.13
8800	6/1/05			Beginning Balance			
Penalties	7/1/05			Beginning Balance			
	7/19/05	424631190442	PJ	Chase Card Services - L	39.00		
				Current Period Change	39.00		39.00
	8/1/05			Beginning Balance			39.00
	9/1/05			Beginning Balance			39.00
	9/16/05	11891	CDJ	Commissioner of Reven	94.00		
				Current Period Change	94.00		94.00
	10/1/05			Beginning Balance			133.00
	11/1/05			Beginning Balance			133.00
	12/1/05			Beginning Balance			133.00
	12/31/05			Ending Balance			133.00
8810	6/1/05			Beginning Balance			
Cash Over/Short	6/30/05	JUNPJSTATS	GENJ	TO RECORD PJ STAT		546.18	
	6/30/05	JUNBISTATS	GENJ	TO RECORD BI STAT		16.42	
				Current Period Change		562.60	-562.60
	7/1/05			Beginning Balance			-562.60
	7/31/05	JULBISTATS	GENJ	TO RECORD BI STAT	159.34		
	7/31/05	JULPJSTATS	GENJ	TO RECORD PJ STAT		940.71	
	7/31/05	JULNEWPST	GENJ	TO RECORD NEWPO		237.70	
				Current Period Change	159.34	1,178.41	-1,019.07
	8/1/05			Beginning Balance			-1,581.67
	8/31/05	AUGBISTAT	GENJ	TO RECORD BI STA	19.92		
	8/31/05	AUGPJSTAT	GENJ	TO RECORD PJ STAT	51.92		
	8/31/05	AUGNEWPS	GENJ	TO RECORD NEWPO		122.34	
				Current Period Change	71.84	122.34	-50.50
	9/1/05			Beginning Balance			-1,632.17
	9/30/05	SEPBISTATS	GENJ	TO RECORD BI STAT	65.92		
	9/30/05	SEPPJSTATS	GENJ	TO RECORD PJ STAT		31.42	
	9/30/05	SEPNEWPST	GENJ	TO RECORD NEWPO		69.30	
				Current Period Change	65.92	100.72	-34.80
	10/1/05			Beginning Balance			-1,666.97
	10/31/05	OCTBISTAT	GENJ	TO RECORD BI STAT		57.23	
	10/31/05	OCTPJSTATS	GENJ	TO RECORD PJ STAT	43.67		
				Current Period Change	43.67	57.23	-13.56
	11/1/05			Beginning Balance			-1,680.53
	11/30/05	NOVBISTAT	GENJ	TO RECORD NOV BI		0.81	
	11/30/05	NOVPJSTAT	GENJ	TO RECORD PJ STAT		10.60	
				Current Period Change		11.41	-11.41

TOWN-55 Please state whether Interstate plans to offer any news ancillary services during the rate year that are intended to generate additional revenues. If so, please identify these services and the estimated level of revenues.

Response: None are planned at this time.

Prepared by WEE

TOWN-56 Please provide a copy of Interstate's test year and most recent fuel contracts.

Response: None.

Prepared by WEE

TOWN-57 Please state whether Interstate Navigation's management makes any personal use of vehicles owned or leased by Interstate Navigation and the cost of which is included in cost of service. If so, please explain if records of such use are maintained, how they are verified for accuracy and whether the cost of such personal use (vehicle costs, repair costs, cost of gasoline, insurance) is reimbursed to the Company or treated as employee income. Provide test year entries and rate year estimates.

Response: Interstate provides company vehicles only to the Company's President and Vice President for company business and commuting to and from work. However, Interstate believes that any personal use of these vehicles is a corporate fringe benefit provided to these two officers who have each worked for the Company for decades. Therefore, Interstate does not require a separate accounting by the President or Vice President of personal use, if any, of these vehicles.

Prepared by WEE

TOWN-58 For each month during and since the test year, please provide Interstate's cost of purchases of fuel for (a) conventional and (b) high speed operations and explain how any assignment or allocation is made as between conventional and high speed operations.

Response: All such purchases and allocations are detailed in the monthly Fuel Surcharge filings which are public documents available with the Division. Per the Division order, these are separate monthly fuel surcharge filings and separate surcharge Division approvals for each such filing.

Prepared by WEE

TOWN-59 For each month during and since the test year, provide the per gallon cost of such fuel purchases and provide a breakdown of all cost components, such as fuel, taxes and any other charges included in the cost of fuel. Refer to the response to DIV 1-3 to the extent it answers this request. Explain whether the Company includes any finance charges in the cost of fuel.

Response: All of these items are detailed on the monthly Fuel Surcharge filings. As noted in the response to Town-58, these filings are public documents, available with the Division. There are no finance charges in the cost of fuel.

Prepared by WEE

TOWN-60 Please provide Interstate's fuel surcharge filings with the Division during and since the test year.

Response: These files are voluminous and copying them for data responses would be unduly burdensome. As noted in the response to Town-58, these filings are public documents available for inspection and copying at the Division.

Prepared by WEE

TOWN-61 Please provide Interstate's monthly fuel revenues during and since the test year.

Response: Not available. These fuel revenue numbers are included in the passenger and vehicle revenue totals and are not broken out separately.

Prepared by WEE

TOWN-62 Please provide for each vessel used to provide conventional ferry service and included in rate base the (a) test year passenger capacity; (b) number of test year trips; and (c) passenger load factor during the test year by month and overall.

Response:

(a) The test year passenger capacities of each of the conventional service ferries are listed on pages 6-7 of Mr. Edge's direct testimony in this docket.

(b) The total number of conventional service trips for the test year was 3,533 one way trips.

(c) Not available.

Prepared by WEE

TOWN-63 To the extent that more current information is available, please provide the information requested in the preceding request for the post test year period to date for conventional and fast ferry operations.

Response: Conventional operations:

- (a) No change.
- (b) The total number of conventional service trips for the period of December 2005 through September 2006 was 2677 one way trips.
- (c) Not available.

Fast Ferry operations:

- (a) The passenger capacity of the high speed ferry is 250.
- (b) The total number of high speed service trips for the period of May 2006 through September 2006 was 1,212 one way trips. Note that May operations started May 26, 2006.
- (c) Not available.

Prepared by WEE

TOWN-64 Please provide for the first year of operations for Interstate's high speed operations (a) passenger capacity of the M/V Athena; (b) number of trips during this period; (c) passenger load factor during this period by month and overall.

Response:

(a) The passenger capacity of the M/V Athena is 250.

(b) See the response to TOWN-63 (b).

(c) Not available.

Prepared by WEE

TOWN-65 Referring to the response to DIV 1-1, please describe in detail (a) the step by step process by which Interstate creates and maintains its books and records so as to account for its revenues and expenses; (b) how soon after the end of a month the accounting entries for that month are made; and (c) who is responsible for the timely preparation on monthly and other periodic revenue and expense records on an audited and un-audited basis.

Response: a) Interstate like all other companies prepares its books and records by use of a general ledger and subsidiary records such as cash receipts, cash disbursement, and sales journals. Interstate also maintains account receivable and account payable subsidiary ledgers. Non-cash activity is recorded by general journal entry. All accounting activity is recorded using Peachtree accounting software.

b) Cash disbursements and cash receipts are recorded during the month as the transaction is incurred. Journal entries and closing entries are done by the outside accountant on a quarterly basis. Revenues which are recorded by deposit are allocated to the customer classes by the outside accountant generally quarterly.

c) The outside accountant prepares semi-annual unaudited financial statements. The Company has been working toward quarterly and eventual monthly financial statements since the last rate filing. Interstate does not have the staff to provide statement on a monthly basis at this time.

Prepared by WEE

TOWN-66 Please explain why Interstate has not submitted its annual financial report to the Division for the year ended May 31, 2006, by August 31, 2006, as required, and when Interstate intends to file that report.

Response: Interstate has difficulty filing its annual report each year by the required deadline because the deadline falls in the middle of its most busy time (summer). Each year Interstate has requested and has been granted an extension of time in order to file its annual report (Note: the extension was overlooked this year).

The oversight was the result of Interstate's involvement in the acquisition of IHSF and the filing of its conventional rate case. In addition, Interstate's outside accountant was out of work with an illness during the summer which further slowed down the process. As stated in the Commission's scheduling meeting, Interstate will have the annual report ASAP but definitely by November 1st.

Prepared by WEE

TOWN-67 Please provide Interstate's most recent audited and unaudited monthly income statements and balance sheets.

Response: Unaudited income statements and balance sheets are prepared only on a semiannual and annual basis. There are no audited statements.

Prepared by WEE

TOWN-68 Please describe any quarterly or other periodic filings made by Interstate for the payment of taxes of any sort during and since the test year. Explain how the Company determines periodic revenues to the extent that revenues are needed to compute applicable taxes.

Response: Interstate pays payroll taxes, gross receipts taxes and federal income taxes.

Payroll taxes are calculated by an outside payroll company and all appropriate payroll tax payments are made timely and in the correct amount.

GRT is paid in three parts, a true-up due March 1st, a first estimate (40%) of the projected gross receipts tax for the current calendar year which is due on March 15th and the remainder (60%) of the current CY tax which is due on June 15th. Interstate calculates the true-up based upon actual revenue for the previous calendar year and the two estimated payments are based upon the previous year actual gross receipts tax payments.

Federal income taxes are paid annually, there are no quarterly estimates.

Prepared by WEE

TOWN-69 Please refer to the response to DIV 1-2. Does Interstate have any plans to increase the frequency of its accumulation of revenues and billing units for passenger, vehicle and cargo revenues? Who within management is responsible for the preparation of this information?

Response: Not unless and until the company is in a position to hire additional office staff to facilitate the process. Interstate has tried to improve the timing of information without incurring additional costs for the ratepayers. If the Town wishes to suggest that Interstate hire a full time controller and the Commission approves the funding for the position then Interstate will consider establishing the position. Interstate's President and Treasurer, Susan E Linda, is responsible for all financial reporting.

Prepared by WEE

TOWN-70

Please state when Interstate commenced discussions regarding the purchase of IHSF's Rhode Island assets. Provide a month by month itemization of all associated costs.

Response: The exact date discussions commenced is not available, but it was a number of years ago. Interstate has not separately tracked the costs associated with the purchase of IHSF's R.I. assets, so the itemization requested is not available.

Prepared by WEE

TOWN-71 Please provide a copy of the Old Harbor lease with
Interstate Nav.

Response: See attached.

Prepared by WEE

TCORS

Tobin • Carberry • O'Malley • Riley • Selinger, P.C.

• Counsellors at Law •

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September 28, 2004

Michael R. McElroy, Esq.
21 Dryden Lane
P.O. Box 6721
Providence, RI 02940

RE: Interstate Navigation
Our File #2489.92620

Dear Mike:

This will follow up our discussions relative to the use of the Block Island facility by Interstate Navigation Company and others. As you know, the present lease expires on September 30, 2004. As I have discussed, Interstate Nav. is willing to continue to allow Interstate Navigation to use the premises on a month-to-month basis, while we continue to finalize lease arrangements and resolve other matters.

We are in the process of completing a survey of the property. Once that survey is completed, we will outline for discussion areas of exclusive use for Interstate Navigation and Block Island Ferry Services and also areas of non-exclusive use for each including maintenance responsibilities.

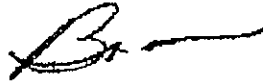
Generally, I can say that the coordination of operations at the facility during the summer went well. The operation of the Nelseco is the major operating problem. Obviously, this is not a problem presently, since the boats are not operating. Our plan would have the Nelseco unload passengers at the ramp and not use the dock.

With regard to rent, Interstate Nav's rent will be \$237,500 net, net, net payable \$19,791.66 monthly in advance. Except as modified herein, the terms and conditions of the existing lease will continue. Either party may cancel this arrangement upon thirty (30) days written notice.

Michael R. McElroy, Esq.
September 28, 2004
Page 2

I am hopeful that we can amicably resolve long term lease arrangements including use of the premises and loading and unloading and other matters. Would you please acknowledge that Interstate Navigation is amenable to the terms set forth herein.

Very truly yours,



Robert D. Tobin

RDT:dmb

Approved by:

Interstate Navigation Company

By: 

3247770

Schacht & McElroy

Robert M. Schacht
Michael R. McElroy

Attorneys at Law

(401) 351-4100
fax (401) 421-5696

Members of Rhode Island
and Massachusetts Bars

21 Dryden Lane
Post Office Box 6721
Providence, Rhode Island 02940-6721

email: RMSchacht@aol.com
McElroyMik@aol.com

June 12, 2000

Luly Massaro, Clerk
Division of Public Utilities and Carriers
100 Orange Street
Providence, RI 02903

Re: Interstate Navigation Company

Dear Luly:

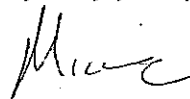
As you know, this office represents Interstate Navigation Company.

Pursuant to R.I.G.L. § 39-3-28, enclosed for filing with the Division of Public Utilities and Carriers is a copy of an agreement between Interstate Nav. Company and Interstate Navigation Company regarding the lease of docking space and related facilities in Block Island, which I hereby verify is a true copy of the original.

For your convenience, I am enclosing an original and five copies of the agreement. Please stamp the enclosed form letter indicating the day and time of filing.

If you have any questions, please feel free to call.

Very truly yours,



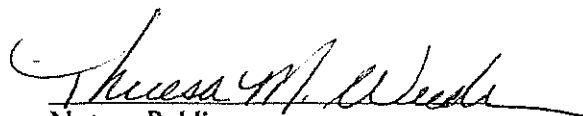
Michael R. McElroy

MRMc:tmw

D8y:Masarro 10

cc: Susan Linda
Walter E. Edge, Jr.
Robert Tobin, Esq.

Sworn to and subscribed before me by Michael R. McElroy this 12th day of June, 2000.


Notary Public
Theresa M. Weeder
My Comm. Expires 9/26/01

RECEIVED
00 JUN 13 PM 1:18
PUBLIC UTILITIES COMMISSION

LEASE AGREEMENT

THIS LEASE is between **Interstate Nav. Company**, a Rhode Island corporation, with an address at P.O. Box 33, New London, Connecticut ("Landlord") and **Interstate Navigation Company**, c/o Susan E. Linda, P.O. Box 482, New London, Connecticut ("Tenant").

ARTICLE I

Premises and Term

Section 1.1 - Description of Leased Premises. The premises leased by the Landlord to the Tenant ("Leased Premises") are described as follows:

Old Harbor Ferry Terminal consisting of docks, bulkheads, ramps, dolphins, ferry slips, buildings and related facilities (excluding, however, the Visitors Center, also known as the Town Hospitality Center), and parking lots subject to the reserved rights of Landlord as more fully set forth herein.

Section 1.2 - Term. The term of this Lease shall be for five (5) years and shall commence on October 1, 1999 ("Commencement Date") and end on September 30, 2004 ("Termination Date") unless sooner terminated or extended as provided in this Lease.

ARTICLE II

Rent

Section 2.1 .Definition of Lease Year. "Lease Year" shall mean, in the case of the first Lease Year, the twelve full calendar months plus the partial month, if any, following the Commencement Date. Thereafter, "Lease Year" shall mean each successive twelve calendar month period following the expiration of the first Lease Year, except that in the event of the termination of this Lease on any day other than the last day of a Lease Year, then the last Lease Year shall be the period from the end of the preceding Lease Year to such date of termination.

Section 2.2 .Basic Rent. The Tenant shall pay to the Landlord an annual Basic Rent as set forth below, which shall be paid in one payment on the first day of August in each Lease Year, as set forth below:

October 1, 1999 – September 30, 2000: One Hundred Twenty Thousand Dollars (\$120,000).

The base rent shall be adjusted annually thereafter by the increase in the cost of living. The cost of living increase shall be calculated as follows:

- (1) As promptly as practicable after the end of each year of this Lease, the Landlord shall compute any increase in the cost of living for the preceding one year period

based upon the "Revised Consumers Price Index - Cities (1967 = 100)" (the "Index"), published by the Bureau of Labor Statistics of the United States Department of Labor.

- (2) The "base Index number" shall be the Index number indicated for the City of Boston, entitled "all items," for the month of September, 1999. The "current Index number" shall be the corresponding Index number for the month of September, 2000 and annually thereafter.
- (3) The current Index number shall be divided by the base Index number, and the integer 1 shall be subtracted from such quotient. Any resulting positive number shall be deemed to be the percentage of increase in the cost of living.
- (4) Landlord shall give Tenant notice of any such increase within a reasonable time after obtaining the necessary data for computing it and shall furnish Tenant with a copy of such data. Landlord's computation shall be conclusive and binding (if mathematically correct), but shall not preclude any adjustment that may be required by a published amendment of the index figures upon which such computation was based if Tenant notifies Landlord of any claimed error therein within 60 days after such notice is given and shall furnish Tenant with a copy of such amendment. Any dispute between the parties as to any such computation shall be resolved by arbitration using the Expedited Commercial Arbitration Rules of the American Arbitration Association.

Section 2.3 - Property Taxes. In addition to the Basic Rent payable under Section 2.2, the Tenant shall pay all real property and personal property taxes assessed and levied against the Leased Premises, and its personal property, including trade fixtures and inventory located on the Leased Premises. In the event that the taxes provided for under this Section are billed to the Landlord, these taxes shall be paid in full as Additional Rent within ten (10) days after demand therefor by the Landlord. The tax bill submitted by the Landlord to the Tenant shall be sufficient evidence of the amount of the taxes assessed or levied against the personal property to which such bill relates. Tenant shall have the right to use the quarterly payment option provided by the Town. Tenant shall also have the right to contest such taxes, provided Tenant makes arrangements to pay the taxes during the contest. Any refunds obtained as a result of such contest shall be paid to Tenant.

Section 2.4 - Additional Taxes. If any new city, state, or federal taxes are imposed upon Landlord as a result of Tenant's operations, excluding therefrom any tax related to the rental income, Tenant shall pay such taxes as Additional Rent within ten (10) days of billing by Landlord.

Section 2.5 - Operating Expenses. In addition to the Basic Rent due and payable under Section 2.2, Tenant shall be responsible for all other operating expenses associated with their use of the Premises, including electricity, water and sewer, telephone, natural gas and any other applicable utility charges, janitorial services, trash and recycling, and facility repairs and maintenance, etc.

Section 2.6 - Additional Rent. Any and all payments payable by the Tenant under this Lease other than Basic Rent shall be deemed Additional Rent and the Landlord reserves the same rights and remedies against the Tenant for default in making any such payments as the Landlord shall have for default in the payment of Basic Rent; including, but not limited to, the right to seek and recover such payments as rent under any applicable provisions of the United States Bankruptcy Code.

Section 2.7 - Late Charges. If any Basic Rent or Additional Rent for any month is not paid by the tenth day of said month, the Tenant agrees to pay a late charge of five percent (5%) of the overdue installment due Landlord. This late charge shall be paid on the first day of the next calendar month.

Section 2.8 - Place of Payment. Payment of Basic Rent and Additional Rent shall be made to the Landlord at the address set forth in Section 12.6 or to such other address as the Landlord shall designate by notice to the Tenant. All such payments shall be paid to Landlord without notice or demand and without abatement, deduction, counterclaim or set-off whatsoever.

ARTICLE III

Use of Premises

Section 3.1 - Use of Premises. The Tenant covenants and agrees that during the term of this Lease, the Leased Premises shall be used and occupied solely for operating a passenger, vehicle and freight water carrier business, including but not limited to loading and unloading passengers, vehicles and freight from vessels owned or leased solely by it, berthing, administrative offices, ticketing, storage and related uses in connection with the water carrier business conducted by Tenant. Tenant shall not permit anyone other than Tenant, Landlord and those who have Landlord's permission as hereinafter provided to use the docking areas.

Section 3.2 - Landlord's Reservation of Rights To Use The Premises. Landlord reserves the right for itself and for any business owned or controlled by John P. Wronowski, to utilize the leased premises for the purpose of loading and unloading passengers, vehicles or freight, berthing and parking in common with the operation conducted by Tenant. Landlord and Tenant recognize the need to coordinate Landlord's schedule with Tenant's operation. Tenant shall provide Landlord with its operating schedule every six months. Landlord agrees not to schedule its arrival or departures within fifteen minutes of Tenant's scheduled arrival or departures. Landlord will not operate its vessels on routes which Tenant or Nelseco Navigation Company is servicing.

Section 3.3 - Routes and Vessels. Tenant agrees that it may operate its vessels to and from the following areas only:

- 1) Point Judith, Rhode Island to Block Island, Rhode Island; and
- 2) Newport, Rhode Island to Block Island, Rhode Island.

Tenant may request approval of different routes with at least thirty (30) days written notice which approval shall not be unreasonably withheld. However, Landlord may in its sole discretion refuse to approve any request for routes between Long Island, New York and Block Island.

Section 3.4 - Unlawful Purpose. The Tenant will not use or allow the Leased Premises or any part thereof to be used or occupied for any unlawful purpose or in violation of any Certificate of Occupancy or certificate of compliance covering the use of the Land, Building or Leased Premises or any part thereof or in violation of any permit or license affecting the Land, Building or Leased Premises or any part thereof and will not suffer any act to be done or any condition to exist on the Land, Building or Leased Premises or any part thereof or any article to be brought thereon which may be dangerous (unless safeguarded as required by law) or which may, in law, constitute a nuisance, public or private, or which may make void or voidable any insurance then in force with respect thereto.

Section 3.5 - Compliance With Laws. Throughout the term of this Lease, the Tenant, at its sole cost and expense, will promptly comply with all present and future laws, ordinances, orders, rules, regulations and requirements of all Federal, State and municipal governments, departments, commissions, boards and officers and all orders, rules and regulations of the National Board of Fire Underwriters, the local Board of Fire Underwriters or any other body or bodies exercising similar functions, foreseen or unforeseen, ordinary as well as extraordinary, which may be applicable to Tenant's use or occupancy of the Leased Premises.

Section 3.6 - Waste. Landlord acknowledges that Tenant, as part of Tenant's permitted use of the Leased Premises, may use, handle and store regulated, toxic or hazardous materials ("Hazardous Materials"), and as a result of such handling and storage, Tenant may produce regulated, toxic and hazardous waste ("Hazardous Waste") on the Leased Premises. Tenant agrees to comply, at its sole cost and expense, with all federal, state and local laws and regulations regarding the generation, use, treatment, storage, disposal and transportation of Hazardous Materials and Hazardous waste. In the event Tenant improperly disposes or otherwise spills any petroleum products, Hazardous Materials or Hazardous Waste in the Leased Premises or Building or on the Land ("Spill"), it shall be Tenant's responsibility to clean up and remove such Spill in accordance with all applicable federal, state and local laws and regulations. Tenant shall indemnify and hold Landlord harmless from all losses and damages arising out of its use, handling, storage and disposal of Hazardous Materials and Hazardous Waste and any Spill including, without limitation, all costs and expenses to contain and remove any contamination to the environment and all costs and expenses, (including but not limited to court costs and attorney's fees), arising out of any related investigation, administrative proceeding, litigation, fine or order. Tenant's indemnity, as set forth above, shall survive the termination or expiration of this Lease.

Section 3.7 - Floor Loading. The Tenant shall not place any load on any floor of the Leased Premises in excess of its floor load capacity. The Landlord makes no representation as to the weight bearing capacity of the Leased Premises. Shelving, machinery, fixtures, equipment, materials and the like which may be placed on the Leased Premises by the Tenant shall be at the Tenant's own risk.

Section 3.8 - Entry by Landlord. In addition to the reservation of rights contained in Section 3.2, the Tenant shall permit the Landlord or its authorized representatives to enter the Leased Premises at all reasonable times, upon reasonable notice, for the following purposes: (a) inspecting the same; (b) making any necessary repairs thereto and performing any work therein that may be necessary by reason of the Tenant's failure to make any such repairs or perform any such work or to commence the same after written notice from the Landlord; (c) showing the Building to prospective buyers; or (d) showing the Leased Premises to prospective tenants during the last six (6) months of the term of this Lease; provided, however, that no notice shall be necessary in the case of emergency or entry to perform repairs necessary to preserve the Leased Premises or Building. Nothing herein shall be deemed or construed as a duty upon the part of the Landlord to do any such repairs upon the Tenant's default in failing to perform the same.

ARTICLE IV

Quiet Enjoyment

The Tenant shall, upon paying the Basic and Additional Rent reserved hereunder and observing and performing all of the terms, covenants and conditions on the Tenant's part to be observed and performed, peaceably and quietly, have and hold the Leased Premises, without hindrance or molestation by any person or persons lawfully claiming by, through or under the Landlord, subject, however, to the terms of this Lease, including the right to use the Premises reserved by Landlord, and to any fee mortgage (subject to a non-disturbance agreement as hereinafter set forth), but it is understood and agreed that this covenant and any and all other covenants of the Landlord contained in the Lease shall be binding upon the Landlord and the Landlord's successors only with respect to breaches occurring during the Landlord's and the Landlord's successors' respective ownership of the Landlord's interest hereunder.

ARTICLE V

Condition, Alterations and Maintenance

Section 5.1 - Representation. The Tenant acknowledges that the taking of possession of the Leased Premises by Tenant shall be conclusive evidence that the Leased Premises were in satisfactory condition at the time such possession was taken. The parties hereby agree that the Landlord and the Landlord's agents have not made and the Tenant has not relied upon any representations, warranties, either expressed or implied, or promises with respect to the physical condition of the Leased Premises, Building or Land, the rents, leases, expense of operation or any other matter or thing affecting or related to Buildings, Land or Leased Premises except as herein expressly set forth, and no rights, easements or licenses are acquired by the Tenant by implication or otherwise except as expressly set forth in the provisions of this Lease.

Section 5.2 - Alterations and Improvements by Tenant. The Tenant shall make no material changes, alterations or additions to the Leased Premises without the prior written permission of the Landlord which shall not be unreasonably withheld or delayed. The Tenant shall submit plans and specifications for any such improvements to the Landlord and obtain the Landlord's written

consent prior to commencing any such work. Any improvements at said areas shall be at the Tenant's sole cost. All such work shall be performed in a good and workmanlike manner and shall be in compliance with all applicable governmental regulations. Tenant shall indemnify Landlord against any claims from any contractors who perform work or furnish materials to or on the Leased Premises.

Section 5.3 - Maintenance by Tenant. The Tenant shall, throughout the term of this Lease, take good care of and maintain the Leased Premises and the fixtures and appurtenances therein in good condition and, at its sole cost and expense, make all necessary repairs thereto, as and when needed to preserve them in good working order and condition, reasonable wear and tear and damage from the elements, fire or other casualty excepted. When used in this Article, the term "repairs" shall include all necessary replacement and renewals. Notwithstanding the foregoing, all damage or injury to the Leased Premises or to any other part of the Building or other improvements on the Land, or to the fixtures, equipment and appurtenances, thereto, whether requiring structural or nonstructural repairs, caused by or resulting from carelessness, omission, neglect or improper conduct of the Tenant, its servants, employees, invitees or licensees, shall be repaired promptly by the Tenant at its sole cost and expense, to the satisfaction of the Landlord. The Tenant shall also repair all damage to the Land, Building, the Leased Premises, or improvements thereto, caused by the moving of the Tenant's fixtures, furniture or equipment. All these repairs shall be done in a good and workmanlike manner. There shall be no allowance to the Tenant for a diminution of rental value and no liability on the part of the Landlord by reason of inconvenience, annoyance or injury to business arising from the Tenant or others, excluding the Landlord, making or failing to make any repairs, alterations, additions or improvements in or to any portion of the Building or in and to the fixtures, appurtenances or equipment thereof.

Section 5.4 - Trash Removal. Tenant agrees to place all trash generated in the Leased Premises in containers provided by Tenant's contractor and keep the area surrounding the Leased Premises free from boxes, cartons, rubbish and abandoned vehicles. Tenant further agrees to keep the Leased Premises free and clear of all vermin.

Section 5.5 - Liens. With regard to any alterations or repairs to the Leased Premises made by the Tenant or services rendered for Tenant in the Leased Premises, the Tenant shall indemnify and hold the Landlord harmless from any claims for material, labor, services or workmen's compensation claims in connection therewith, and the Tenant shall have no authority on behalf of the Landlord to give anyone the right to place a lien on the Land or any part thereof, and should any such lien be placed, the Tenant shall have the same removed immediately, but not later than thirty (30) days after notice thereof, and upon failure to do so, the Landlord may take whatever steps are necessary to have the same removed, and the cost thereof shall be paid upon demand by the Tenant to the Landlord as Additional Rent.

Section 5.6 - Landlord's Liability. The Landlord, as landlord, shall not be liable for any damage or injury to any person(s), including bodily injury or death, or to any property of the Tenant including Tenant's vessels. Tenant shall be solely responsible for the security of its own vessels.

ARTICLE VI

Insurance and Indemnification

Section 6.1 - Extended Coverage. The Tenant, throughout the entire term of this Lease, will keep the Leased Premises insured against loss or damage by fire and against loss or damage by other risks now embraced by "All Risk of Direct Physical Loss" including coverage for bulkheads and piers and coverage for flood damage so-called, and such other risks, or hazards as are customarily insured against at the time in connection with buildings and facilities of similar type, with due regard to the type of construction, use and occupancy of the Leased Premises. The Landlord shall be the loss payee under the policy and Tenant shall provide a certificate of insurance and a copy of the policy to Landlord.

Section 6.2 - Liability Insurance. At all times subsequent to the commencement date of this Lease and during its full term, the Tenant shall keep its operations at Leased Premises insured at its sole cost and expense against claims for personal injury or property damage under a policy of commercial general public liability insurance with a combined single limit of \$10,000,000.00 for bodily injury, personal injury and property damage, containing broad form contractual liability coverage, and with aggregate limits applying per location. Such policy shall name the Tenant and the Landlord as the insureds and contain a waiver of subrogation against Tenant and Landlord. In addition, Tenant shall keep its vessels insured under a Marine Hull Policy and Landlord shall be named as an additional insured on the liability portions of said policy.

Section 6.3 - Qualifications of Insurers. All insurance required to be maintained by Tenant under this Article shall be by valid and enforceable policies of insurers of recognized responsibility who are authorized to do business in Rhode Island and Connecticut, shall name the Landlord as an additional insured and shall contain an endorsement that the same cannot be cancelled or reduced in coverage without at least ten (10) days prior written notice to Landlord.

Section 6.4 - Certificates of Insurance. At or prior to the date of commencement of this Lease, the Tenant shall provide the Landlord with certificates of insurance certifying that all insurance required to be carried by the Tenant under the terms of this Lease is in full force and effect. No less than ten (10) days before the expiration of any such insurance policy, the Tenant shall furnish the Landlord with a new certificate of insurance certifying that such policy has been renewed or replaced.

Section 6.5 - Indemnification. In addition to all other indemnities provided by Tenant in this Lease, the Tenant shall defend, indemnify and save harmless the Landlord and its agents and employees against and from all liabilities, suits, actions, damages, liability and expense, penalties, claims and costs which may be imposed upon or incurred by or asserted against the Landlord or its agents or employees by reason of, or in any way arising out of, the Tenant's use or occupancy of the Leased Premises or any part thereof or occasioned wholly or in part by any act or omission of the Tenant, its agents, contractors, employees, servants, invitees, licensees or concessionaires on or about the Land, Building or Leased Premises, including, but not limited to, any of the following:

- (a) Any work done in, on or about the Leased Premises or any part thereof by or on the request of the Tenant, its agents, contractors, sub-contractors, servants, employees, sub-tenants, licensees, invitees or concessionaires;
- (b) Any negligence or otherwise wrongful act or omission on the part of the Tenant or any of its agents, contractors, sub-contractors, servants, employees, sub-tenants, licensees, invitees or concessionaires;
- (c) Any failure on the part of the Tenant to perform or comply with any of the covenants, agreements, terms, provisions, conditions or limitations contained in this Lease on its part to be performed or complied with.

In case any action or proceeding is brought against Landlord by reason of any such claim, Tenant, upon written notice from Landlord, shall, at Tenant's expense, resist or defend such action or proceeding by counsel approved by Landlord in writing, which approval Landlord shall not unreasonably withhold. Tenant's indemnity, as stated above, shall survive the expiration or other termination of this Lease.

ARTICLE VII

Damage and Condemnation

Section 7.1 – Damage. In the event that the Leased Premises or any part thereof shall, while the Lease continues, be damaged or destroyed by fire or other casualty, Tenant shall forthwith repair, rebuild or restore the Leased Premises as speedily as practicable to a state substantially similar to that before said damage or destruction. The Landlord shall, upon its receipt of insurance proceeds, make the same available to Tenant in a commercially reasonable manner for the purpose of repair and restoration. If the damage shall be such as to render the Leased Premises partially or totally unusable, a proportionate reduction of Basic Rent and Additional Rent shall be made from the occurrence of such casualty, until the Leased Premises are restored to a useable condition, provided, however, there shall be no abatement of Basic Rent and Additional Rent if the damage was caused by the negligence of the Tenant, its agents, servants, employees or invitees.

Section 7.2 - Taking of All. If at any time during the term of this Lease all or materially all of the Leased Premises or so much of the Leased Premises that the remaining area can no longer properly be used for the purpose for which the same was being used prior to such taking shall be taken by condemnation or eminent domain or for any public or quasi-public use under any statute, then this Lease shall terminate and expire on the date that the Tenant shall be deprived of possession by the taking authority, and the Basic Rent and Additional Rent provided to be paid by the Tenant shall be apportioned and paid to the date such possession is taken. In such event, any award received or sum accepted by a compromise disposition or otherwise as a result of such condemnation or taking shall be distributed to the Landlord provided, however, Tenant shall be entitled to receive the net book value of any leasehold improvements. Landlord shall consult with Tenant regarding any condemnation action hereunder. The Tenant shall also have the right to file

and receive compensation for moving expenses and costs or loss to which the Tenant might be put in removing the Tenant's equipment, provided the same does not reduce or diminish the Landlord's award.

Section 7.3 - Taking of Less Than All. If at any time during the term of this Lease any lesser portion of the Leased Premises or Building than that described in Section 7.2 shall be taken in any eminent domain or condemnation proceeding, then this Lease shall continue and, if any portion of the Leased Premises shall have been taken, then Basic Rent and Additional Rent shall be proportionately reduced for the remainder of the term based upon the proportion of the area taken.

ARTICLE VIII

Assignment and Subleasing

Section 8.1 - Definition of Assignment. For the purposes of this Article VIII, the definition of the term "Assignment" shall include, but not be limited to, the following:

- (a) the transfer of a majority or controlling interest in the Tenant (except that such a transfer as a result of death shall not be an "Assignment");
- (b) the merger or consolidation of the Tenant into another corporation;
- (c) the division of the Tenant into two or more separate corporations; and
- (d) any other transfer of the control or operation of the Tenant by operation of law.

Section 8.2 - Assignment and Subletting. Unless the Landlord consents, Tenant shall have no right to sublet or assign the Leased Premises or allow vessels other than those owned or leased by Tenant to use the premises.

ARTICLE IX

Default

Section 9.1 - Default. Each of the following shall be an Event of Default by Tenant:

- (a) Failure of the Tenant to pay any Basic Rent or Additional Rent for ten (10) days after the same shall become due and payable;
- (b) Neglect or failure by the Tenant to perform or comply with any of the agreements, terms, covenants or conditions of this Lease, other than those referred to subsection (a) above, for a period of thirty (30) days after notice from the Landlord to the Tenant specifying the items in default, or in the case of a default which cannot with due diligence be cured within such thirty (30) day period, failure of the Tenant within such thirty (30) day period

to commence to cure the same and thereafter to prosecute the curing of such default with due diligence and to completion;

- (c) Any assignment made of the property of Tenant or any guarantor of Tenant's obligations hereunder for the benefit of creditors;
- (d) The appointment of a receiver, trustee or assignee for the Tenant or any guarantor with respect to all or substantially all of its assets;
- (e) The declaration of bankruptcy or insolvency by the Tenant or any guarantor of Tenant's obligations hereunder;
- (f) The commencement of any bankruptcy proceedings by or against the Tenant or any guarantor of Tenant's obligations hereunder, provided, however, the commencement of an involuntary proceeding against Tenant or any Guarantor shall not be an Event of Default if dismissed within sixty (60) days following commencement; or
- (g) The abandonment of the Leased Premises by Tenant.

Section 9.2 - Landlord's Remedies. Upon the occurrence of an Event of Default by Tenant, this Lease shall, at the option of Landlord, terminate and come to an end on the date specified in a notice of cancellation from Landlord to Tenant, and Tenant shall quit and surrender the Leased Premises to the Landlord as if the term hereunder ended by the expiration of the time fixed herein, but Tenant shall remain liable for all sums accruing prior to the termination of this Lease.

If an Event of Default occurs and Landlord elects not to terminate this Lease, then (a) Landlord shall have the immediate right, pursuant to legal process, if any be applicable, to either pay any sums or do any act on behalf of Tenant, in order to cure a default by Tenant, and any sums expended by Landlord, together with interest thereon shall be immediately due and payable by Tenant to Landlord, or (b) Landlord may, pursuant to legal process, if any be applicable, reenter the Leased Premises and Landlord may remove all persons and property from the Leased Premises and such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of, Tenant without Landlord being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby.

In addition, if an Event of Default occurs, then whether or not Landlord terminates this Lease, Landlord may elect to re-enter or take possession pursuant to legal proceedings or pursuant to any notice provided for by law. Upon Landlord's election to re-enter or to take possession it may make such alterations and repairs as may be necessary in order to relet the Leased Premises or any part thereof, for such term or terms (which may be for a term extending beyond the Lease Term) and at such rentals and upon such other terms and conditions as Landlord in its commercially reasonable discretion may deem advisable and upon each such reletting all rentals received by Landlord from such reletting shall be applied first, to the payment of any indebtedness other than Basic Rent and Additional Rent due hereunder from Tenant to Landlord, second, to the payment of the cost of any such alterations and repairs, third, to the payment of Basic Rent and Additional

Rent due and unpaid hereunder, and any amount remaining shall be held by Landlord and applied in payment of future Basic Rent and Additional Rent as the same may become due and payable hereunder. If such rentals received from such reletting during any month be less than the Basic Rent and Additional Rent to be paid during that month by Tenant hereunder, then Tenant shall pay any such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Landlord may recover from Tenant, from time to time, all damages it may incur by reason of Tenant's default, including the cost of recovering the Leased Premises, reasonable attorneys' fees and the present value, at the time of such termination, of the excess, if any, of the amount of Basic Rent and Additional Rent and charges equivalent to rent reserved in this Lease above rental value of the Leased Premises for the remainder of the stated term, all of which amount shall be immediately due and payable from Tenant to Landlord.

Section 9.3 - Non-Waiver. The Landlord's failure to act upon breach of any of the covenants of this Lease by the Tenant shall in no way constitute a waiver of the rights of the Landlord, at any time in the future, to act upon such default; nor shall any such failure to act prevent the Landlord from acting in the event of any other or further breach of the Tenant's covenants. No provision of this Lease shall be deemed to have been waived unless such waiver be in writing signed by the Landlord. No payment by the Tenant or receipt by the Landlord of a lesser amount than the Basic Rent or Additional Rent then due shall be deemed other than on account of the earliest rent then unpaid, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction, and the Landlord may accept such check or payment without prejudice to the Landlord's right to recover the balance of such rent or pursue any other remedy provided for in this Lease.

Section 9.4 - Waiver by the Tenant. The Tenant hereby waives any demand for Basic Rent and Additional Rent, re-entry for condition broken, or other formalities to which the Tenant may be entitled after an Event of Default. Tenant hereby expressly waives any and all rights of redemption granted by or under present or future laws in the event of Tenant being evicted or dispossessed for any reasonable cause or in the event of Landlord obtaining possession of the Leased Premises by reason of the violation by Tenant of any of the provisions of this Lease or otherwise under the terms of this Lease. The acceptance of Basic Rent and Additional Rent or failure to re-enter by the Landlord after such default shall not be held to be a waiver of its right to terminate this Lease, and the Landlord may re-enter and take possession thereof the same as if no rent had been accepted after such default. Tenant expressly waives any right of defense which it may have to claim a merger and neither the commencement of any action or proceeding nor the settlement thereof or entering of judgment therein shall bar Landlord from bringing subsequent actions or proceedings from time to time.

Section 9.5 - Self-Help. If the Tenant fails, within thirty (30) days' after written notice from Landlord, to proceed with due diligence to perform any of its obligations and covenants contained in this Lease, Landlord may, but shall not be required to, and in addition to any other rights of Landlord hereunder or at law or in equity, perform the same and the expenses thereof incurred by the Landlord shall be collectable as Additional Rent after rendition of a bill or statement therefor.

Section 9.6 - Landlord's Default. Landlord shall in no event be in default in the performance of any of its obligations in this Lease contained unless and until Landlord shall have failed to perform such obligation within thirty (30) days, or such additional time as is reasonably required to correct any such default, after notice by Tenant to Landlord properly specifying wherein landlord has failed to perform any such obligation.

Section 9.7 - Provisions Not Exclusive. Any and all rights and remedies herein created for the Landlord shall be cumulative, and the use of one remedy shall not be taken to exclude or waive the right to the use of another. The foregoing rights and remedies are not intended to be exclusive but as additional to all rights and remedies the Landlord would otherwise have by law.

Section 9.8 - Attorney's Fees. In the event that either party to this Lease brings an action against the other to enforce any covenant of this Lease, including actions for rent or other payments due and actions in summary process, the prevailing party, as determined by the entry of a judgment by a court of competent jurisdiction, shall be indemnified by the other party against all legal costs and charges, including reasonable attorney's fees.

ARTICLE X

Subordination and Relationship of the Parties

Section 10.1 - Subordination. The Tenant agrees that this Lease shall be and hereby is automatically subordinate to any present or future mortgage on the Leased Premises provided the Tenant receives from such mortgagee a non-disturbance agreement agreeing to honor the terms of the Lease provided Tenant is not in default hereunder in the event of a foreclosure of the mortgage. Without limiting the foregoing, the Tenant agrees, if so requested in writing by the Landlord, to sign any documents required to evidence such waiver and surrender any and all right of prior lien which the Tenant has, might have, or ought to have by virtue of this Lease over any mortgage or mortgages which now are or shall hereafter be placed upon the Leased Premises, the Building or Land or any part thereof provided the Tenant receives from such mortgagee a non-disturbance agreement agreeing to honor the terms of the Lease provided Tenant is not in default hereunder in the event of a foreclosure of the mortgage.

Section 10.2 - Estoppel Certificate. Tenant shall, from time to time upon written request by Landlord, execute and deliver to Landlord within ten (10) days of such written request, a written declaration in recordable form: (1) ratifying this Lease; (2) expressing the commencement and termination dates thereof; (3) certifying that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended (except by such writings as shall be stated); (4) that all conditions under this Lease to be performed by Landlord have been satisfied, or stating those alleged to remain unsatisfied; (5) that there are no defenses or offsets against the enforcement of this Lease by Landlord, or stating those claimed by Tenant; (6) the amount of advance rent, if any, paid by Tenant; (7) the date to which rent has been paid; and (8) those elements necessary to record a statutory notice of lease.

Section 10.3 - No Joint Venture. Notwithstanding any obligation from one party to the other herein, the parties hereto state that they have not created and do not intend to create by this Lease a Joint Venture or Partnership relation between them; it being their sole purpose and intent to create only a Landlord-Tenant relationship.

Section 10.4 - Modification for Mortgagees. In the event that any present or future financial institutions or insurance companies which hold a mortgage on the Leased Premises or any part thereof shall request any modification of this Lease, then the Tenant agrees to execute the same, provided that such modification does not materially increase the liability of the Tenant nor materially decrease the rights of the Tenant or the responsibility of the Landlord hereunder.

ARTICLE XI

Termination and Surrender

Section 11.1 - Condition of Premises. Upon expiration or other termination of this Lease, the Tenant shall:

- (a) Quit and surrender the Leased Premises, broom cleaned and in good condition, reasonable wear and tear excepted.
- (b) Remove from the Leased Premises its goods and effects and those of all persons claiming under the Tenant, such goods and effects to include but not be limited to all movable partitions erected by it, appliances, shelving and all other equipment, stock and materials which the Tenant may have installed in or brought upon the Leased Premises, provided, however, that the Tenant shall, at its own expense, repair all damage to the Leased Premises by reason of such removal.

All repairs, alterations, other improvements or installations made to or upon the Leased Premises which are so attached to the realty that the same will be, by law, deemed to be a part of the realty shall be the property of the Landlord and remain upon and be surrendered with the Leased Premises upon the termination of the term of this Lease. Notwithstanding the foregoing, all trade fixtures, lighting fixtures and signs, whether by law deemed to be a part of the realty or not, installed by the Tenant or anyone claiming under the Tenant at any time, shall remain the property of the Tenant or such persons claiming under the Tenant and may be removed by the Tenant or such persons claiming under the Tenant at any time or times during the term of this Lease.

Section 11.2 - Holding-Over. If the Tenant remains on the Leased Premises beyond the expiration of this Lease or any renewal or extension thereof without the written consent of the Landlord, such holding-over shall be deemed to create a tenancy at sufferance at a daily rate equal to the per diem rental rate in effect for the last Lease Year (the sum of Annual Basic Rent and Annual Additional Rent divided by three hundred sixty-five (365)) and the Landlord shall have, in addition, all of the rights and remedies reserved to it under this Lease. Tenant shall also pay over to Landlord and indemnify and save Landlord harmless from and against all liabilities, suits, actions, damages, costs and expenses, penalties and claims arising out of Tenant's holding over in

the Leased Premises including without limitation all third party claims against Landlord. Tenant's indemnity, as stated above, shall survive the expiration or other termination of this Lease or the tenancy at sufferance as stated above.

ARTICLE XII

Concluding Provisions

Section 12.1 - Arbitration. Any disagreement between the parties with respect to the interpretation or application of this Lease and their obligations hereunder shall be determined by arbitration. Such arbitration shall be conducted at New London, Connecticut upon the request of either the Landlord or the Tenant in accordance with the rules of the American Arbitration Association, and judgment may be entered upon any award rendered therein in any court of competent jurisdiction. The expense of arbitration proceedings conducted hereunder shall be borne equally by the parties. The parties agree that arbitration shall be a condition precedent to the institution of any action in any court of law. The parties agree, however, that if Tenant fails to pay rent, Landlord may apply to a court for possession of premises.

Section 12.2 - Broker. The Landlord and the Tenant hereby represent and agree that they have neither communicated nor dealt with any real estate broker or agent in connection with the Leased Premises or the transaction contemplated herein and that no other broker or agent is entitled to any commission or any other remuneration on account of this transaction. The Landlord and the Tenant agree that if either has communicated or dealt with any real estate broker or agent who makes a claim for commission in connection with this transaction, then the party so communicating or dealing shall indemnify and hold the other party harmless against any costs or expenses, including the cost of defense, resulting from any such claim.

Section 12.3 - Amendments. This Agreement shall not be amended, modified, altered or changed in any respect whatsoever except by further agreement, in writing, duly executed by each of the parties hereto.

Section 12.4 - Successors. Except as limited by Article VIII, this Agreement shall be binding upon and inure to the benefit of the parties hereto and to their respective heirs, successors, personal representatives and assigns.

Section 12.5 - Construction. The parties agree that this document shall not be construed more severely against one of the parties than the other.

Section 12.6 - Captions. The captions of this Agreement are for convenience and reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or of any provision hereof.

Section 12.7 - Notice. Any notice, demand, offer or other written instrument ("Notice") required or permitted to be given, made or sent under this Lease shall be in writing, signed by or on behalf of the party giving such Notice and shall be hand delivered or sent, postage prepaid, by Registered or Certified Mail, Return Receipt Requested, addressed as follows:

TO LANDLORD: Interstate Nav. Company
2 Ferry Street
New London, CT 06320
Attention: Richard McMurray

With a copy to:

Tobin, Carberry, O'Malley, Riley & Selinger, P.C.
43 Broad Street
P.O. Box 58
New London, CT 06320
Attention: Robert D. Tobin

TO TENANT: Interstate Navigation Company
14 Eugene O'Neill Drive
Box 482
New London, CT 06320
Attention: Susan E. Linda

With a copy to:

Michael R. McElroy, Esq.
21 Dryden Lane
P.O. Box 6721
Providence, RI 02940-6721

Either party may change its address set forth in this Section by giving notice to the other party in accordance with this Section.

Notice shall be effective upon hand delivery or, if by certified mail, the date of receipt or rejection evidenced on the return receipt or, if no return receipt, three (3) business days from posting.

Section 12.8 - Counterparts. This Agreement shall be executed in two or more counterparts each of which shall be deemed an original.

Section 12.9 - Partial Invalidity. The invalidity of one or more of the phrases, sentences, clauses, Sections or Articles contained in this Agreement shall not affect the remaining portions so long as the material purposes of this Agreement can be determined and effectuated. If any portion of this Agreement may be interpreted in two or more ways, one of which would render the portion

invalid or inconsistent with the rest of this Agreement, it shall be interpreted to render such portion valid or consistent.

Section 12.10 - Joint and Several Liability. If this Lease is executed by more than one person or entity as Tenant, each of such persons and entities shall be jointly and severally liable for the performance of all of the Tenant's obligations set forth in this Lease.

Section 12.11 - Waiver of Jury Trial. The parties hereby waive trial by jury in any action, proceeding or counterclaim brought by either party.

Section 12.12 - Notice of Lease. The Parties agree that they will not record this Lease, but both parties shall, upon the request of either, execute and deliver a notice or short form of this Lease in accordance with any applicable statutes. All governmental charges attributable to the execution or recording of such notice or short form Lease shall be paid by the party requesting such recording.

Section 12.13 - Number and Gender. Any reference to the masculine gender shall be deemed to include the feminine and neuter genders, and vice versa, and any reference to the singular shall include the plural, and vice versa, unless the context otherwise requires.

Section 12.14 - Force Maieure. Except as otherwise specifically provided elsewhere in this Agreement, in any case where either party hereto is required to do any act (other than the Tenant's obligations to pay Basic Rent and Additional Rent and to maintain insurance under this Lease and Tenant's option to extend this Lease), the time for such performance shall be extended by the period of delays caused by fire or other casualty, labor difficulties, shortages of labor, materials or equipment, government regulations or other causes beyond the reasonable control of such party.

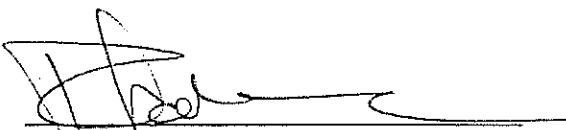
Section 12.15 - Governmental Approval. The parties consent to the filing of this Lease with the Rhode Island Division of Public Utilities and Carriers. Tenant shall do such filing and provide Landlord with appropriate notice thereof.

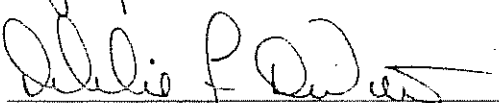
Section 12.16 - Entire Agreement. All understandings and agreements heretofore had between the parties are merged in this Agreement which alone fully and completely expresses their understanding.

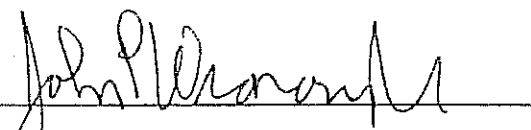
Signed this 9 day of June, 2000.

WITNESSES:

LANDLORD:
INTERSTATE NAV. COMPANY





By: 

Its

TENANT:
INTERSTATE NAVIGATION COMPANY

[Signature]

By: [Signature]
Its Pres

[Signature]

STATE OF CONNECTICUT)
) ss.
COUNTY OF NEW LONDON)

The foregoing instrument was acknowledged before me this 9 day of June, 2000, by John P. Wronowski, President of Interstate Nav. Company, Inc., a Rhode Island corporation on behalf of the corporation.

[Signature]

Commissioner of the Superior Court
Notary Public
My Commission Expires On: 9/30/2001

STATE OF CONNECTICUT)
) ss.
COUNTY OF NEW LONDON)

The foregoing instrument was acknowledged before me this 9th day of June, 2000, by Susan E. Linda, President of Interstate Navigation Company, a officer on behalf of the company.

[Signature]

Commissioner of the Superior Court
Notary Public
My Commission Expires On: 9/30/2001

EXHIBIT A

Rules and Regulations

1. No excavation or other form of ground penetration into any outside surfaces shall occur without the prior written consent of the Landlord, which shall not be unreasonably withheld or delayed.
2. The Tenant may install additional locks or bolts upon any of the doors or windows of the Leased Premises, provided that Tenant turns over to Landlord keys for any such locks or bolts. The Tenant shall not make any changes in existing locks or the mechanism thereof. Upon the termination of its tenancy, the Tenant shall turn over to the Landlord all keys to the Leased Premises, the Building, restrooms, storage rooms, or any other keys that the Tenant may have pertaining to the Leased Premises. In the event of the loss of any keys furnished to the Tenant by the Landlord, the Tenant shall pay to the Landlord the cost of replacing the same.
3. No Tenant shall cause or permit any unusual or objectionable odors to be produced upon or permeate from the Leased Premises.
4. Tenant shall keep the Leased Premises free of pests or vermin at Tenant's cost and expense.
5. The above rules and regulations are imposed for the Landlord's benefit, and Landlord shall have the sole discretion as to enforcement, in whole or in part, of the same, and no action shall be brought by the Tenant against the Landlord for any alleged violation of such rules and regulations by any other Tenant.

TOWN-72 Please provide documentation of past increases in Point Judith lease expenses requested by the State since Interstate's last rate case. Provide a copy of the lease.

Response: No increases since the last rate case. Interstate's Point Judith leases are attached.

Prepared by WEE

Schacht & McElroy

Robert M. Schacht
Michael R. McElroy

Attorneys at Law

(401) 351-4100
fax (401) 421-5696

Members of Rhode Island
and Massachusetts Bars

21 Dryden Lane
Post Office Box 6721
Providence, Rhode Island 02940-6721

email: RMSchacht@aol.com
McElroyMik@aol.com

October 11, 2005

Certified Mail RRR# 7002 2030 0001 7498 6171

Director
Department of Environmental Management
235 Promenade Street
Providence, RI 02908

- Re:
1. Interstate Navigation Company Election of Option to Renew Indenture of Lease dated as of January 1, 1984, as amended by First Amendment to Indenture of Lease dated July 2, 1991, as amended by letter dated May 8, 1998, (Lot 217 and related properties and appurtenances)
 2. Interstate Navigation Company Election of Option to Extend Indenture of Lease dated January 1, 1997, as amended by Letter dated May 8, 1998, (Lot 219A and related properties and appurtenances); and
 2. Interstate Navigation Company Election of Option to Extend Indenture of Lease dated September 9, 1997, as amended by letter dated May 8, 1998, (Lot 219 and 220 and related properties and appurtenances)
 3. Interstate Navigation Company Election of Option to Renew Indenture of Lease Dated August 16, 1994 (Lots 261, 262, 263, and 264)

Dear Sir or Madam:

This office represents Interstate Navigation Company (Interstate). Interstate hereby gives formal notice that it renews and extends the following leases:


1. Interstate hereby elects to renew for the period from January 1, 2007, to and including December 31, 2011, that certain indenture of lease by and between Interstate and the State of Rhode Island and Providence Plantations acting by and through the Department of Environmental Management dated as of the 1st day of

January, 1984, as amended by first amendment to indenture of lease by and between the aforesaid parties dated July 2, 1991, and as further amended by letter dated May 8, 1998, from this office to Malcolm Grant and James T. Beattie of the Department of Environmental Management concerning certain property, including Lot 217 and piers 3, O, and P, together with other properties, appurtenances, bulkheads, and rights of way, located at Galilee in the Town of Narragansett, Rhode Island.

2. Interstate hereby elects to extend for the period from January 1, 2007, through and including December 31, 2011 that certain indenture of lease by and between Interstate and the State of Rhode Island and Providence Plantations acting by and through the Department of Environmental Management dated January 1, 1997, as amended by letter dated May 8, 1998, from this office to Malcolm Grant and James T. Beattie of the Department of Environmental Management, concerning certain property, including Lot 219A, together with other properties, appurtenances, bulkheads, and rights of way located at Galilee in the Town of Narragansett, Rhode Island.
3. Interstate hereby elects to extend for the period from January 1, 2007, through and including December 21, 2011, that certain indenture of lease by and between Interstate and the State of Rhode Island and Providence Plantations acting by and through the Department of Environmental Management dated September 9, 1997, as amended by letter dated May 8, 1998, from this office to Malcolm Grant and James T. Beattie of the Department of Environmental Management, concerning certain property, including Lots 219 and 220, together with other properties, appurtenances, bulkheads, and rights of way located at Galilee in the Town of Narragansett, Rhode Island.
4. Interstate Navigation Company and the State of Rhode Island and Providence Plantations, acting by and through the Department of Environmental Management, have entered into an Indenture of Lease dated August 16, 1994, for lots 261, 262, 263, and 264 at Galilee in the Town of Narragansett, Rhode Island. Interstate hereby gives you notice in writing by certified mail of its exercise of its option to extend said Lease from January 1, 2007 to and including December 31, 2011.

If you have any questions or if you need any further information or documentation in order for the aforesaid elections to extend and renew the aforesaid leases to be effective, please let me know.

Very truly yours,
Interstate Navigation Company
By its attorney

By: 
Michael R. McElroy, Esq.

Schacht & McElroy
21 Dryden Lane
P.O. Box 6721
Providence, RI 02940-6721
Tel: (401) 351-4100
Fax: (401) 421-5696

MRMc:tmg
In23:Pt Judith-Director
cc: Susan Linda
Mary Kay, Esq.



RHODE ISLAND
DEPARTMENT OF ENVIRONMENTAL MANAGEMENT

235 Promenade Street, Providence, RI 02908-5767

TDD 401-831-5508

OFFICE OF LEGAL SERVICES



Grace J. Smith, Paralegal

Tel. (401) 222-6607

Fax (401) 222-3378

gsmith@dem.state.ri.us

November 28, 2001

Michael R. McElroy, Esquire
Schacht & McElroy
21 Dryden Lane
P.O. Box 6721
Providence, RI 02940-6721

Re: Interstate Navigation Company
Lease Renewal for Lots 261, 262, 263 and 264 at the Port of Galilee

Dear Mr. McElroy:

The State Properties Committee approved the renewal of the Lease for Interstate Navigation Company for lots 261, 262, 263 and 264 at the Port of Galilee at the meeting held on November 20, 2001. I have enclosed a copy of the State Properties Committee Memorandum indicating said approval for the five year term of January 1, 2002 to December 31, 2006. The renewal was granted subject to an adjustment of the rental rate in accordance with the terms of Paragraph 12 of the Lease per a new appraisal of land in the Port of Galilee to be completed by December 31, 2001. We will notify you of any adjustment in the rental rate once the new appraisal is completed.

Should you have any questions please do not hesitate to contact me. Thank you.

Very truly yours,

Grace J. Smith

Grace J. Smith
Paralegal

cc: Malcolm J. Grant
Donald J. McGovern
Mary E. Kay, Esq.

**INTER-OFFICE MEMORANDUM
DEPARTMENT OF ADMINISTRATION
STATE PROPERTIES COMMITTEE**

TO: Jan H. Reitsma
Director
Environmental Management

Date: 11/20/01

FROM: Anne L. Lanni
Executive Secretary
Administration – State Properties Committee

SUBJECT: Interstate Navigation Company - Lots 261, 262, 263 and 264- Port of Galilee

At the State Properties Committee meeting held on Tuesday, November 20, 2001, the request of the Department for approval of Option to Renew in connection with Interstate Navigation Company's land lease for Lots 261, 262, 263 and 264, in the Port of Galilee, was granted. The exercise of the option will renew the Lease for an additional term of five years from January 1, 2002 to December 31, 2006, subject to an adjustment of the rental rate, per a new appraisal to be completed by December 31, 2002.

Cc: Mary Kay

NOV 27 2001

Schacht & McElroy

Attorneys at Law

(401) 351-4100
fax (401) 421-5696

21 Dryden Lane

Post Office Box 6721

Providence, Rhode Island 02940-6721

email: RMSchacht@aol.com
McElroyMik@aol.com

October 26, 2001

Certified Mail RRR # 7000 1670 0001 4592 6066

Director
Department of Environmental Management
235 Promenade Street
Providence, RI 02908

Re: Interstate Navigation Company
Election of Option to Renew Indenture of Lease Dated August 16, 1994

Dear Sir or Madam:

This office represents Interstate Navigation Company.

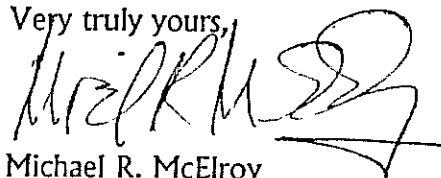
Interstate Navigation Company and the State of Rhode Island and Providence Plantations, acting by and through the Department of Environmental Management, have entered into an Indenture of Lease dated August 16, 1994, for lots 261, 262, 263, and 264 at Galilee in the Town of Narragansett, Rhode Island.

Although pursuant to paragraph 12 of said lease entitled "Option to extend lease," Interstate Navigation Company has already elected all of its options to extend by letter dated May 31, 1996 (copy enclosed), as recently requested by your legal counsel, Interstate Navigation Company hereby again gives you notice in writing by certified mail of its exercise of its option to extend the aforesaid lease from the first day of January 2002 to and including the 31st day of December 2006.

This letter shall not in any way constitute a waiver or release of Interstate Navigation Company's rights under the options exercise letter dated May 31, 1996.

If you have any questions, please feel free to call.

Very truly yours,



Michael R. McElroy
Attorney for Interstate Navigation Co.

MRMc:tmw / DBah:DEM7

cc: Susan Linda
Mary Kay, Esq.

Schacht & McElroy

Robert M. Schacht
Michael R. McElroy

Attorneys at Law

(401) 351-4100
fax (401) 421-5696

Members of Rhode Island
and Massachusetts Bars

21 Dryden Lane
Post Office Box 6721
Providence, Rhode Island 02940-6721

email: RMSchacht@aol.com
McElroyMik@aol.com

Fax & Mail ✓

May 8, 1998

Malcolm Grant
Associate Director
Department of Environmental
Management
235 Promenade Street
Providence, RI 02908

James T. Beattie, Chief
Coastal Resources Division
Department of Environmental
Management
235 Promenade Street
Providence, RI 02908

RE: INTERSTATE NAVIGATION COMPANY--GALILEE PIER P AND PIER Q.

Dear Mal and Jim:

This is to confirm our recent discussions and Jim's verbal authorization for Interstate to proceed with the relocation of floating Pier P at Interstate's expense to alongside the north side of Pier Q.

In an effort to accommodate docking of the Narragansett Harbormaster on the north side of Pier P, and to resolve any other conflicts that may exist with regard to the north side of Pier P and our recent leasing of the north end south sides of Pier Q, we have agreed to the following solution for immediate implementation.

1. As you know, Interstate currently leases the south side of Pier P (the floating dock), but not the north side of Pier P.
2. Interstate currently leases both the north and the south sides of Pier Q.
3. Interstate will relocate at Interstate's sole cost and expense Pier P (the floating pier) to the north side of Pier Q, immediately alongside. We currently have a crew on site making repairs to our docks and ramps, and as soon as they

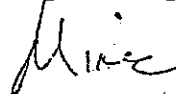
are finished with those repairs (probably Tuesday), they will relocate Pier P.

4. This means that Interstate will relinquish its rights to the north side of Pier Q so that Pier P can be properly used on the north side of Pier Q. In exchange, Interstate will have exclusive use of all space beginning with the north half of State Pier #3 continuing in a northerly direction through and including the southern half of Pier Q, and Pier P will be relocated to the north side of Pier Q with Interstate relinquishing its rights and obligations to the north side of Pier Q and relinquishing its rights and obligations to the relocated Pier P once it is moved.
5. Pier Q is about 111 feet long; Pier P is about 124 feet long. This means that Pier P may stick out past Pier Q somewhat. I discussed with Jim making the two piers exactly the same length by shortening Pier P a little, but Jim decided to keep Pier P the same length as it currently is.
6. This arrangement should give more room to maneuver small boats on the north side of Pier P once it is relocated.

We will proceed immediately given the short amount of time until Memorial Day, but please ask Mary Kay and/or Jim to prepare lease amendments to reflect this new arrangement, unless you wish to use this letter for that purpose.

If you have any questions, please feel free to call.

Very truly yours,


Michael R. McElroy

MRMc:tmw

D8g:grant9

cc: Susan Linda
Mark Jones

Schacht & McElroy

INDENTURE OF LEASE

THIS AGREEMENT AND INDENTURE OF LEASE Entered into as of the First Day of January, 1984, by and between THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS, acting by and through the Department of Environmental Management, hereinafter called the "STATE" or the "LESSOR", and INTERSTATE NAVIGATION COMPANY, a Connecticut Corporation having its principal office in the City of New London, Connecticut, hereinafter called the "LESSEE".

The expression "Lessor" or "Lessee" wherever used in this Indenture of Lease shall be construed as including and referring to the respective parties hereto, and their respective successors and assigns, whenever such construction is required or consistent with the provisions of this lease, and all the covenants, agreements, or conditions, rights, powers and provisions hereinafter contained on the part of the respective parties hereto shall extend to and be binding upon their respective successors and assigns.

WITNESSETH

The Lessor does hereby demise and lease unto the Lessee those certain parcels of land and portions of Piers "3", "O" and "P" with other appurtenances located at Galilee, in the Town of Narragansett, Rhode Island, bounded and described as follows:

LOT 217

Beginning at a point, the junction of the north side of State Pier 3 and the bulkhead, and running northerly along the bulkhead 135' to a point; thence turning an interior angle of 90° and running 101.5' to the edge of sidewalk along Great Island Road; thence turning an interior angle of 90° and running parallel to the Great Island Road and along westerly edge of sidewalk in a southerly direction 135' to a point; thence turning an interior angle of 90° and running westerly 101.5' to point of beginning. Said lot being designated as Lot 217, containing 13702.5 square feet.

In addition the north face of State Pier 3, and a portion of said pier, beginning at the bulkhead on the north side of the pier; thence running along the pier 180', westerly to a point, thence turning southerly and perpendicular to the north face a distance of 25 feet to the center line of the pier; thence turning 90° and running easterly down the center line of the pier 185'; thence turning 90° and running northerly to point of beginning. Said area containing 4500 sq. ft.

In addition the entire pier "D" and the south face of pier "P" and 205' of the north face of Pier "3".

The use of a strip of land fifteen (15) feet wide within that parcel of land described above and adjacent to the said bulkhead is to remain in the control of the LESSOR for public passage, but the LESSEE shall have the right of passage over and through same. Neither the LESSOR nor the LESSEE shall obstruct said strip with any construction or obstacle, whether the same be temporary or permanent, except as may be necessary for the repair of the bulkhead and its adjuncts and for the continued use of the ramp.

TO HAVE AND TO HOLD said premises, rights privileges of preferential use or occupancy and the appurtenances thereto, unto and for the use of Lessee, for and during the TERM of TEN(10) YEARS from the First Day of January, 1984 to and including the 31st Day of December, 1993 upon the following covenants and conditions:

1. USE OF THE LEASED PREMISES: (a) The LESSEE shall use the leased premises only for the purpose of conducting its business as a common carrier.

(b) The LESSEE shall conduct its business in such a manner as to prevent pollution of the harbor, fouling of the air and the creation of any other nuisance.

2. USE OF STATE PIER NO. "3"; the Lessor covenants with the Lessee that it will refrain from leasing, or otherwise granting exclusive use of the 25 feet of the channelward end of the west side of Pier "3" (25' by 50') not demised by this lease. If Lessor determines that emergency or extraordinary circumstances so warrant it may permit Lessee to utilize said portion of State Pier "3" for a period of limited duration (as determined by Lessor). Lessor shall inspect said pier area periodically and shall make every reasonable effort to insure that boats utilizing said area do not tie up to said pier in such a way that they extend beyond the pier and obstruct LESSEE's access to the demised premises.

3. RENT: (a) Except as hereinafter provided, commencing on January 1, 1984, the Lessee shall pay unto the Lessor an Annual Rental of Six Thousand, Eight Hundred Twenty Six Dollars (\$ 6,826.00) for the land parcel and pier area leased and Ten Thousand Five Hundred Dollars (10,500.00) for use of dockage space, making a total of Seventeen Thousand, Three Hundred Twenty Six Dollars (17,326.00) for each and every year of the first five years

of this lease and in the same proportion for any less time, in advance and in the quarterly installments of Four Thousand, Three Hundred Thirty One and 50/100 Dollars (4,331.50) on the first business day of each and every quarter until said rent is paid in full. The annual rent for the second five (5) years of the original lease shall be fixed by the Director of Environmental Management and with the approval of the State Properties Committee (or the respective successors in their functions). The Lessee, paying the rent and performing on its part the agreements herein contained, may peaceably hold and enjoy said premises and appurtenances during the term of this lease without any lawful let or hindrance by the Lessor or any person claiming by, through or under it. Notwithstanding the foregoing, Lessor agrees that for the first quarter only of the first year (from January 1, 1984, up to and including March 31, 1984) the rental fee shall be reduced by Two Hundred 00/100 Dollars (200.00) for a total of Four Thousand, One Hundred Thirty One and 50/100 Dollars (\$4,131.50)

4. OPTION TO RENEW LEASE: The Lessee, in consideration of the mutual covenants and conditions herein contained, shall have the option to renew this lease for a further period of Ten (10) years from the First Day of January, 1994, to and including the 31st Day of December, 2003, upon the same terms and conditions, as are herein contained, except as to an option for further renewal, the amount of annual rent and insurance requirements. The rent and insurance requirements for each Five (5) years of the renewal period shall be fixed by the Director of Environmental Management and with the approval of the State Properties Committee (or the respective successors in their functions). The Lessee, in order to exercise such option, must have given notice in writing by certified mail to the Lessor at least one (1) year before the expiration date of this lease, of intention to take up such option.

5. PRIOR TERMINATION: (a) If, during the term of this lease, the Lessor, through the Department of Environmental Management, determines that the leased premises are desired by the Lessor for an alternate public use, and upon written notice given Twelve (12) months in advance by the Lessor to the Lessee to vacate, this lease shall be terminated and thereupon declared at an end; and both the LESSOR and the LESSEE shall be fully released and

discharged of all and any of the terms, covenants and conditions of this lease, provided the LESSEE has paid to the LESSOR all accrued rental and other charges that may be due under this lease.

(b) In the event the LESSEE shall fail to pay the required quarterly installment of rent within fifteen (15) days subsequent to the first business day of each and every quarter (and it shall not be required that any demand be made for same), or in case of failure on the part of the LESSEE to perform all the covenants and agreements contained in this lease, and such failure shall continue for more than fifteen (15) days or longer than is reasonably necessary and requisite to correct the failure after written notice has been given by the LESSOR to the LESSEE specifying the existence and nature of the default, the LESSOR shall be at liberty to enter upon and take immediate possession of the premises and declare this lease at an end.

(c) In the event that this lease is terminated under either (a) or (b) above, or otherwise as referred to hereinafter in paragraph no. 13, the LESSEE shall be given six (6) months time to remove all furniture, trade fixtures, or other personal property, and any buildings, erected by the LESSEE on the leased premises; and any waiver of this provision by the LESSOR shall not be considered a waiver of subsequent breaches committed by the LESSEE.

6. FAILURE TO REMOVE PROPERTY AND FIXTURES: If this lease is terminated under (a) or (b) of paragraph no. 5 above, or otherwise as referred to hereinafter in paragraph no. 13, or if the LESSEE moves out or is dispossessed; or if at the expiration of this lease, the LESSEE fails to remove within six (6) months after such termination, moving out, dispossession, or expiration, all of its furniture, trade fixtures, or other personal property, and any buildings or other structures erected by the LESSEE on the leased premises, such remaining furniture, trade fixtures, or other personal property, buildings or other structures shall be deemed abandoned by the LESSEE and shall become the property of the LESSOR.

7. ASSIGNMENTS & SUBLETTING: The LESSEE shall not assign this lease or sublet the whole or any part of the premises.

8. BUILDING ERECTION, REPAIRS & ALTERATIONS: The LESSEE shall have the right to erect a building, or buildings on the leased land; to bring into the demised premises water and other utilities; to construct a ramp or ramps

for the loading of vessels, to rebuild Pier "O", Pier "P", or both of them, install paving, and to make any repairs or alterations to such installations necessary for the conduct and operation of its business, provided, however, it shall have first submitted the plans and specifications therefore to the Department of Environmental Management and the written approval to such erection, repairs or alterations shall have been obtained. No building shall be erected within a distance of twenty-five (25) feet from the bulkhead.

9. LAWS: The LESSEE shall comply with all laws, ordinances, rules, regulations, orders and requirements of the Federal, State and local government and LESSOR, including but not limited to any building codes now in effect or hereinafter enacted.

10. MAINTENANCE OF THE PREMISES: The LESSEE shall keep the demised premises, including any building, or buildings, piers, or other appurtenances and structures thereon, clean and in good repair at LESSEE'S expense during the continuance of this lease; and, at the expiration or sooner termination thereof, the LESSEE will quietly and peaceably surrender up possession of the premises to the LESSOR in as good condition as they now are, or may be put in; ordinary wear and tear, and damage by the elements, excepted. The LESSOR may at all reasonable times enter to view and inspect the premises and any building or buildings, or other appurtenances thereon, and to order such repairs as may be reasonably considered necessary at LESSEE'S expense. The LESSEE shall be responsible for and make all repairs, at its own expense, including, but not limited to the bulkhead, pilings, pier "O", the south side of pier "P", the north side of Pier 3 (25' x 180') as well as 205' of the north face of Pier 3, and other appurtenances, owned by the LESSOR, of any damages incurred.

LESSEE shall also install and maintain a series of effective baffles located beneath the north side of Pier 3 and also beneath the south side of Pier "P" to minimize shoaling in adjacent harbor areas.

All necessary maintenance dredging between the north face of Pier 3 and the south face of Pier "P" shall be the sole responsibility of the LESSEE, except that LESSEE shall obtain prior written approval from LESSOR and any other appropriate authorities before undertaking said dredging.

11. The failure of the LESSOR to insist in any one or more instances upon the strict and literal performance of any of the agreements, terms, or

conditions of this lease or to exercise any option of the LESSOR herein contained, will not be construed as a waiver for the future of such term, condition, agreement or option. The receipt by the LESSOR of rent with knowledge of the breach of any term, condition, or agreement will not be deemed to be a waiver of such breach. The receipt by the LESSOR of rent after the giving of any notice required to be given to the LESSEE by law or by the terms of this lease will not in any way affect the operation of such notice

12. FIRE AND EXTENDED COVERAGE INSURANCE: The LESSEE shall obtain and maintain throughout the operation of this lease Fire and Extended Coverage Insurance in an amount not less than the current replacement value of the property of the LESSEE on the leased premises for the benefit of LESSOR and LESSEE, as their interests may appear, in any building, buildings or other structures existing or hereafter erected by the LESSEE, including State Pier 3 and Piers "O" and "P", in accordance with this Lease. LESSEE shall furnish a certificate of the said insurance policy to the LESSOR on or before the execution of this Lease Agreement, each renewal thereof and as often as may be reasonably required by LESSOR. Said Certificate shall name the LESSOR as an insured on the policy.

13. ABATEMENT OF RENT: In the event of damage by fire or the elements to any building, or buildings, or other appurtenances, including those erected by the LESSEE in accordance with this lease; or in the event of flood or other loss thereof; or other unavoidable casualty so that the said premises shall be made unfit entirely or in part for occupation and use as herein contemplated, a just abatement of the rent determined by LESSOR may be made until the same be properly repaired or restored by the LESSEE: provided, however, that if the LESSEE shall not elect to so repair or restore same within a reasonable time after such occurrence, this lease shall then be terminated and any insurance monies therefor due shall be used to pay the LESSOR for any accrued rent or other charges that may be due under this lease; and, provided such accrued rent or other charges due under this lease have been paid with said insurance monies, the LESSEE shall be given six (6) months time to remove all its furniture, trade fixtures, machinery, equipment or other personal property, and all of its buildings, or other structures, existing or hereafter erected by the LESSEE on the leased premises as permitted under the terms of

this lease.

14. LIABILITY AND OTHER INSURANCE: LICENSEE agrees that at its own cost and expense it will procure and continue in force comprehensive liability insurance on an occurrence basis running to the benefit of LESSOR and LESSEE, covering any and all claims occurring in, upon or about the licensed Premises during the term of this License with minimum limits of Five Hundred and 00/100 Dollars (\$500,000.) for injury or death of any one person, One Million 00/100 Dollars (1,000,000.) for bodily injury or death of more than one person in one occurrence, and Five Hundred Thousand and 00/100 Dollars (\$500,000) for property damage. Such insurance shall be written with a company or companies of recognized responsibility authorized to engage in the business of general liability insurance in the State of Rhode Island and there shall be delivered to the State before June 10th of each year and as LESSOR may request a certificate of such insurance or any renewals or replacements thereof with proof of the payment of premium therefore. Said certificate shall name LESSOR as an insured on the policy.

15. PIERS AND APPURTENANCES: The existing piers built by the LESSOR and any pier or appurtenances hereafter built by the LESSEE, with the approval of the LESSOR, are to be the property of the LESSOR, provided however, that the LESSEE shall have the exclusive use of same and the right to rebuild as set forth in paragraph 8 of this lease during the term of this lease.

16. TAXES: All real estate and other taxes levied against property of the LESSEE on the leased premises shall be paid by the LESSEE during the term of this lease.

17. SIGNS: The LESSEE shall have the right to erect and maintain appropriate business signs on the premises so long as such signs do not affect the safety of the public, nor conflict with State Laws or local ordinances, and said signs and erection have first been approved by the Department of Environmental Management.

18. NOTICES: All notices required to be given by the LESSEE to the LESSOR shall be addressed to the Director, Department of Environmental Management, 83 Park Street, Providence, Rhode Island, 02903, and any notices from the LESSOR to the LESSEE shall be addressed to Interstate Navigation

Company, Box 482, New London, Connecticut, 06321, or to such other addresses as the parties hereto may respectively designate by notice in writing.

19. APPROVAL: This Agreement shall be effective only subsequent to its approval by the State Properties Committee as designated below.

20. INDEMNITY: LESSEE agrees that LESSEE shall, at all times, protect and save, hold harmless and indemnify the LESSOR, its agents, servants and employees against and from: 1) any penalty, damages or charges, including attorneys' fees for any violation of any law or ordinance whether occasioned by negligence or willful act of LESSEE or of LESSEE'S agents, employees, servants, invitees or visitors; 2) all claims, loss, costs, damage or expenses including attorneys' fees arising out of or from any accident, incident, or occurrence in any way connected to the use in, on or about the premises by LESSEE, or by LESSEE'S agents, employees, servants, invitees or visitors, or arising out of or from any act or negligence of the LESSEE, or of the LESSEE'S agents, employees, servants, invitees or visitors; and, 3) all claims, loss, costs, damage or expenses including attorneys' fees arising out of or from any failure of the LESSEE in any respect to comply with and perform all the requirements and provisions of this lease.

21. LIEN: Notwithstanding any other provisions herein contained the LESSOR shall have a lien upon all personal property of the LESSEE including any and all of its buildings and or any other structures existing or hereafter erected by the LESSEE on the leased premises, to secure the payment of all rent due or to become due under the provisions of this lease, as well as the payment of any and all other obligations of the LESSEE in this lease contained.

22. ACCESS: LESSEE shall not block the access road/fire lane on or about the demised premises, nor shall it permit its agents, servants, invitees or visitors to block said access road/fire lane with trucks or other vehicles, or in any other manner.

23. SEWERS: The LESSEE shall maintain the connection from the leased premises to the sewer system built by the State of Rhode Island, Department of Environmental Management, and the expense of such connection, use, maintenance and repair shall be borne by the LESSEE.

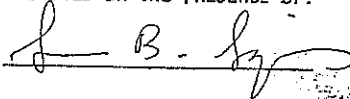
24. SUBORDINATION: This agreement is subject and subordinate to any leases, covenants, licenses, easements and agreements which may now affect the real property of which the demised premises form a part, and to all renewals modifications, consolidations, replacements and extensions thereof.

25. LITTORAL RIGHTS RETAINED BY LESSOR: Except for that access specifically set forth above necessary for a use authorized under this lease, nothing contained in this Agreement shall be construed as conveying LESSOR'S littoral rights arising out of LESSOR'S ownership of the demised parcel(s) and parcels adjacent thereto.

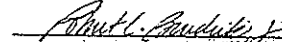
26. LESSEE agrees to pay as due all utility service including phone and electricity to the demised premises

IN WITNESS WHEREOF, the STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS has caused these presents to be executed in its name and behalf by ROBERT L. BENDICK, JR., Director of the Department of Environmental Management, hereunto duly authorized, and INTERSTATE NAVIGATION COMPANY, has caused it to be executed in its name and behalf by JOHN H. WRONOWSKI, its PRESIDENT, he being hereunto duly authorized, each party signing counterparts the day and year first above written.

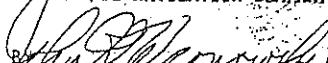
EXECUTED IN THE PRESENCE OF:



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

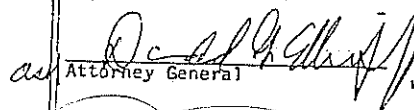

ROBERT L. BENDICK, JR.
Director - Department of Environmental Management

INTERSTATE NAVIGATION COMPANY


JOHN H. WRONOWSKI, PRESIDENT

WITNESS

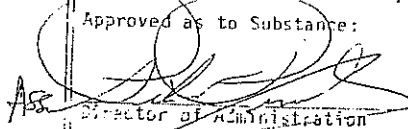
Approved as to Form:


as Attorney General

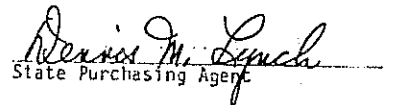
Approved:


State Properties Committee

Approved as to Substance:


AS Director of Administration

Approved as to terms and conditions:


State Purchasing Agent

CERTIFICATE

I, SUSAN EVE LINDA, of the Town of ONCAVILLE
CARAMEL ASST
State of ~~Rhode Island~~, Secretary of INTEGRATED AVIATION COMPANY, being duly
elected and qualified and having custody of the corporate records and seal,
do certify that the following is a true extract from the minutes of a special
meeting of the Board of Directors held on 1ST day of AUGUST
1984 at the office of the corporation.

"Upon motion duly made and seconded, the following Resolution was
unanimously adopted and passed:

RESOLVED: That the President, JOHN B. MORGENTHAU, be and he is hereby
authorized and empowered on behalf of the corporation to negotiate and enter
into a lease agreement with the State of Rhode Island. The President be and
is further authorized and empowered to execute any and all instruments neces-
sary and incidental to effectuate this authorization."

I further certify that the foregoing Resolution is consistent with
the By-Laws of the corporation and its corporate powers.


WITNESS my hand and corporate seal this 9TH day of
AUGUST, 1984.

Susan Eve Linda
Asst. Secretary

STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

COUNTY OF PROVIDENCE

In the City of Providence, on the 17th day of August,
1984, personally appeared before me ROBERT L. BENDICK, JR., Director of the
Department of Environmental Management, to me known and known by me to be the
party executing the foregoing instrument for and on behalf of the STATE OF
RHODE ISLAND AND PROVIDENCE PLANTATIONS (as LESSOR), and he acknowledged said
instrument, by him executed, to be the free act and deed of said STATE OF
RHODE ISLAND AND PROVIDENCE PLANTATIONS and the free act and deed of him in
his said capacity.


NOTARY PUBLIC

STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS

COUNTY OF WASHINGTON

In the town of WESTERLY on the 9th
day of AUGUST, 1984, before me personally appeared JOHN H.
Wronowski, to me known and known by me
to be the party executing the foregoing instrument for and on behalf of
INTERSTATE NAVIGATION COMPANY (as LESSEE), and he acknowledged said instrument,
by him executed, to be the free act and deed of said INTERSTATE NAVIGATION
COMPANY and his free act and deed in his said capacity.


NOTARY PUBLIC



SPC-1
6/77

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration

STATE PROPERTIES COMMITTEE
285 Promenade Street
Providence, R. I. 02908

CERTIFICATE OF DISCLOSURE OF CORPORATION

Susan Linda, Asst. Secretary of Interstate Navigation Company
(state full name of corporation)

under oath make affidavit and say that in following, the officers

and directors of said business corporation, having been duly elected
(identify as business, non-business, professional)

and/or appointed thereto

President: John H. Wronowski

Vice President: _____

Treasurer: John H. Wronowski

Secretary: Anna C. Wronowski

Asst. Secretary: Susan Linda

State of Incorporation: Connecticut Principal Place of Business: New London

DIRECTORS

Name	Address
<u>John H. Wronowski</u>	<u>41 Dock Rd., Uncasville, CT</u>
<u>Anna C. Wronowski</u>	<u>41 Dock Rd., Uncasville, CT</u>
_____	_____
_____	_____

STOCKHOLDERS

<u>John H. & Anna C. Wronowski</u>	<u>41 Dock Rd., Uncasville, CT</u>
<u>Susan & Raymond Linda</u>	<u>Roure 32, Uncasville, CT</u>
<u>Thomas & Mary Ellen Trysek</u>	<u>Mysric, CT</u>
<u>Carol Jean Wronowski</u>	<u>41 Dock Rd., Uncasville, CT</u>
<u>Patricia & Burke Hewitt</u>	<u>41 Dock Rd., Uncasville, CT</u>
<u>John Krauth</u>	<u>Lakeside Drive, Waterford, CT</u>
Property under lease to/from the State of Rhode Island and Providence Plantations:	
Location: <u>Point Judith, Rhode Island</u>	
State Offices Occupying Property (if any): <u>N/A</u>	

In witness whereof I have hereunto set my hand and the seal of the said Interstate Navigation Company Asst. (hereunto duly authorized) this _____ day of Aug, ~~1983~~ 1984
by Susan Linda, its Secretary Susan Linda

STATE OF RHODE ISLAND
COUNTY OF WASHINGTON

Subscribed and sworn to before me at WESTERVILLE this 9TH day of AUGUST, 1984

[Signature]
Notary Public

Instructions for completion of this certificate are on reverse side of form.

FIRST AMENDMENT TO INDENTURE OF LEASE

This is the first amendment to the agreement and indenture of lease entered into as of the 1st day of January 1984, by and between the State of Rhode Island and Providence Plantations acting by and through the Department of Environment, hereinafter called the State or the Lessor, and Interstate Navigation Company, a Connecticut corporation having its principal office in the City of New London, Connecticut, hereinafter called the Lessee.

For consideration paid, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree to amend the indenture of lease dated January 1, 1984, as follows:

1. The paragraph entitled "To Have and To Hold," on page 2 of said lease, is modified so that the term of said lease is extended to and including the 31st day of December, 2006.

2. Paragraph 3, which begins on page 2 of said lease and is entitled "Rent," is modified so that the annual rental for all remaining years of the extended lease shall be as follows:

A. Annual lease payments shall be payable in quarterly installments.

B. The annual rental for all years through December 31, 1996 shall be \$19,601.24.

C. The annual rental for the period beginning January 1, 1997 and ending December 31, 2001, shall be computed as follows:

(i) Determine the average change in the Consumer Price Index (CPI) for the five (5) preceding years.

(ii) Add to this figure one-half of one percent (.5%) for each of the five preceding years.

(iii) Add the result to 100% and multiply times the rental for the previous period. This is the amount which will be in effect for the next five (5) year period of time.

Example: Assume the change in the CPI for the five (5) years 1992 through and including 1996 are as follows: 1992 - a 2% increase; 1993 - a 3% increase; 1994 - a 4% increase; 1995 - a 5% increase; 1996 - a 6% increase. The average increase is 4% (i.e. $2 + 3 + 4 + 5 + 6 = 20$ divided by 5 equals 4%). Add to this 2.5% for a total of 6.5%. Add this to 100% = 106.5%. Then multiply the previous rental (\$19,601.24) x 106.5% which yields a new rental for the next five year period of \$20,875.32 per year.

D. The rent for the next five year period of time and the option period, if said option is elected, shall be increased in the same fashion as set forth above.

3. Paragraph 4 entitled "Option to Renew Lease," shall be amended so that the dates set forth therein for said option shall be amended to a five year period from the 1st day of January, 2007 to and including the 31st day of December, 2011.

4. Paragraph 5(a) which begins on page 3 of the lease and continues onto page 4 is deleted in its entirety and the following language is substituted:

5(a) Nothing in this amendment shall be construed as limiting the ability of the State to terminate this lease for cause, waste or any other specified basis within the lease.

5. Paragraph 7 entitled "Assignments and Subletting," is hereby amended to read as follows:

"The Lessee shall not assign this lease or sublet the whole or any part of the premises without the prior written consent of the Lessor which consent will not be unreasonably withheld or delayed."

6. The following is added to paragraph 10 which is entitled "Maintenance of the Premises":

"It is agreed and understood that the Lessee's responsibility for repairing the bulkhead, pilings, pier "0", the south side of pier "P", the north side of pier "3", and the 205 feet of the north face of pier "3" and other appurtenances owned by the Lessor, is limited to damages to these facilities caused by the negligence of the Lessee and the Lessee's obligations of normal operation and maintenance of the facility. To the extent these facilities deteriorate and need repair or replacement due to ordinary wear and tear, reaching the end of their useful life, natural disaster, inadequate design or any other reason which is not due to the negligence of Lessee, then any such repair or replacement shall be the responsibility and at the expense of the Lessor.

The Lessee shall conduct yearly inspections by his engineer which will include sounding of depth of the water in front of the bulkhead, an inspection of the newly installed sheet pilings and the ramps and loading docks. It is expected that his report will be forwarded to the Department for review.

At the end of the useful life of the bulkhead, it will not be the obligation of Interstate Navigation to reconstruct the facility, however, if the end of the facilities useful life is materially hastened by failure on the part of Interstate Navigation to perform the proper maintenance on the facility, it would then be Interstate's obligation to repair and restore the facility.

Nothing in this section shall be construed as obligating the State of Rhode Island to repair or replace dolphins or pilings currently existing at the facility when they have reached the end of their useful life."

7. The "Notices" provision in paragraph 18 is amended so that copies of any notices that go to Lessee shall also be concurrently given to Michael R. McElroy, Esq., 21 Dryden Lane, Post Office Box 6721, Providence, Rhode Island 02940-6721.

L.D.
IN WITNESS WHEREOF, the State of Rhode Island, has caused this amendment to be executed in its name and behalf by Louis Durfee, Director of the Department of Environmental Management duly authorized, and Interstate Navigation Company has caused it to be executed in its name and behalf by John

H. Wronowski, its President, he being duly authorized, each party signing counterparts, this 2nd day of July, 1991.

WITNESS:

Reginald H. Mallard

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

By: Louis Durfee
Its: Director of Department of Environmental Management

INTERSTATE NAVIGATION COMPANY

John H. Wronowski

By: John H. Wronowski
Its: President

APPROVED AS TO FORM:

Richard B. Woolley
Asst. Attorney General

APPROVE AS TO SUBSTANCE:

Frank J. Digh
Director of Administration

APPROVED AS TO TERMS AND CONDITIONS:

Deann M. Lynch
State Purchasing Agent

APPROVED:

Deann M. Lynch
Chairman, State Properties Committee
Philip E. Tyler
Member, State Properties Committee

STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

COUNTY OF PROVIDENCE

In the City of Providence, on the 25th day of June, 1991, personally appeared before me Louise Durfee, Director of the Department of Environment, to me known and known by me to be the party executing the foregoing instrument for and on behalf of the STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS (as Lessor), and she acknowledged said instrument, by her executed, to be the free act and deed of the STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS and the free act and deed of her in her said capacity.

Josephine A. Ballant
Notary Public
Print Name: Josephine S. Ballant
My Commission Expires: 6/30/91

STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

COUNTY OF Providence

In the City of Providence, on the 18 day of June, 1991, personally appeared before me John H. Wronowski, to me known and known by me to be the party executing the foregoing instrument for and on behalf of INTERSTATE NAVIGATION COMPANY (as Lessee), and he acknowledged said instrument, by him executed, to be the free act and deed of said INTERSTATE NAVIGATION COMPANY and his free act and deed in his said capacity.

Michael R. McCreary
Notary Public
Print Name: Michael R. McCreary
My Commission Expires: 6/30/91

INDENTURE OF LEASE

(Models -
219A)

THIS AGREEMENT AND INDENTURE OF LEASE entered into this 16th day of JANUARY, 1997, by and between the STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS, acting by and through the Department of Environmental Management, hereinafter called the "STATE" or the "LESSOR", and INTERSTATE NAVIGATION COMPANY, a Connecticut Corporation having its principal office in the City of New London, Connecticut, hereinafter called the "LESSEE".

The expression "LESSOR" or "LESSEE" wherever used in this Indenture of Lease shall be construed as including and referring to the respective parties hereto, and their respective successors and assigns, whenever such construction is required or consistent with the provisions of this lease, and all the covenants, agreements, or conditions, rights, powers and provisions hereinafter contained on the part of the respective parties hereto shall extend to and be binding upon their respective successors and assigns.

WITNESSETH

That the LESSOR does hereby demise and lease unto the LESSEE these certain parcels of land at Galilee in the Town of Narragansett, Rhode Island described as follows, and referred to hereinafter as the "leased premises" or "premises" or "demised premises":

Those parcels of land consisting of Lot 219A containing a total of five thousand three hundred and ninety-one (5,391²) square feet of land, as shown on Exhibit "A" which is attached hereto and incorporated by reference herein.

TO HAVE AND TO HOLD said premises, with all rights, privileges, or preferential use and occupancy and the appurtenances thereto, unto and to the use of the LESSEE, for and during the term of ten (10) years and one (1) month from the 1st of December, 1996, up to and including the thirty-first day of December 2006, upon the following covenants and conditions.

1. USE OF THE LEASED PREMISES: (a) The LESSEE shall use the leased premises only for the purpose of conducting its business as a common carrier.

(b) The LESSEE shall conduct its business in such a manner as to prevent pollution of the harbor, fouling of the air and the creation of any other nuisance.

The demised premises may not be used for any other purpose unless such other use is approved in writing by the LESSOR.

2. RENT: The LESSEE shall pay onto the LESSOR, in advance, an annual rental fee of TWO THOUSAND SIX HUNDRED NINETY-FIVE (\$2,695.50) DOLLARS AND FIFTY CENTS commencing December 1, 1996 or when LESSOR makes the leased premises available to LESSEE, whichever is later, within a minimum quarterly installment of \$673.88 due on the first business day of each and every quarter. After December 31, 2006, if LESSEE exercises its option, LESSEE agrees that, upon the approval of the State Properties Committee of a new annual rental fee schedule, commencing the first business day following such approval by the State Properties Committee, LESSEE shall pay the rental fee so approved, in equal quarterly installments as indicated above, for each and every year remaining of this lease and in the same proportion for any less time until said rent is paid in full.

The LESSEE, paying the rent and performing on its part the agreements herein contained, may peaceably hold and enjoy said leased premises and appurtenances during the term of the lease without any lawful let or hindrance by the LESSOR, or any person claiming by, through or under it.

3. PRIOR TERMINATION: (a) The LESSOR may terminate this lease for cause, waste or any other specified basis within this lease.

(b) In the event the LESSEE shall fail to pay the quarterly installment of rent within fifteen (15) days subsequent to the first business day of each and every quarter (and it shall not be required that any demand be made for same), or in case of failure on the part of the LESSEE to perform all the covenants and agreements contained in this lease, and such failure shall continue for more than fifteen (15) days or longer than is reasonably necessary and requisite to correct the failure, after written notice has been given by the LESSOR to the LESSEE specifying the existence and nature of the default, the LESSOR shall be at liberty to enter upon and take immediate possession of the leased premises and declare this lease at an end.

4. ASSIGNMENT AND SUBLETTING: The LESSEE shall not assign this lease or sublet the whole or any part of the leased premises without the prior written consent of the LESSOR and the State Properties Committee which consent shall not be unreasonably withheld or delayed.

5. FAILURE TO REMOVE PROPERTY AND FIXTURES: If, upon termination of this lease under any of the provisions thereof, or if the LESSEE moves out or is dispossessed, the LESSEE fails to remove within six (6) months after such termination, moving out, dispossession, or expiration, all its furniture, trade fixtures, machinery and equipment or other personal property and all of its buildings existing or hereafter erected by LESSEE on the leased premises, such as remaining furniture, trade fixtures, machinery and equipment or other personal property and buildings shall be deemed abandoned by LESSEE and shall become the property of the LESSOR.

6. LAWS: The LESSEE shall comply with all laws, ordinances, rules, regulations, orders and requirements of the Federal, State and Local Governments and LESSOR.

7. MAINTENANCE OF THE PREMISES: The LESSEE shall keep the leased premises and any building, structure or other appurtenance thereon, clean and in good repair during the term of this lease, ordinary wear and tear thereof, damage by fire, the elements, natural disasters, and other unavoidable casualty excepted, provided that at the expiration or sooner termination thereof, the LESSEE will peaceably surrender up possession of the leased premises to the LESSOR in as good condition as they now are, or may be put in, ordinary wear and tear thereof, and damage by fire, the elements, natural disasters and other unavoidable casualty excepted. The LESSEE shall be responsible for and repair, at its own expense, any damage caused by LESSEE'S negligence or by the negligence of LESSEE'S agents, employees, servants, invitees, or visitors, to the buildings or other appurtenances including

those owned by the LESSOR on the leased premises, said damage to be repaired to the satisfaction of the LESSOR.

The LESSOR may at all reasonable times enter to view and inspect the leased premises and any building, structure or other appurtenances thereon, and to order such repairs as may be considered reasonably necessary.

8. INSURANCE: The LESSEE shall obtain liability insurance running to the benefit of both the LESSOR and the LESSEE for personal injuries in the sum of FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$500,000.00) for one person and ONE MILLION AND 00/100 DOLLARS (\$1,000,000.00) for any one occurrence and FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$500,000.00) for property damage for any one occurrence. Such insurance shall be written with a company or companies of recognized responsibility authorized to engage in the business of insurance in the State of Rhode Island. LESSEE shall provide LESSOR with a certificate of such insurance and proof of payment of premium therefore upon the execution of this agreement, each renewal thereof, annually on or before June 10th of each year of this lease and as often as LESSOR may reasonably request.

Said certificate shall name LESSOR as an insured on the policy and shall cover the entire scope of LESSEE'S use of the demised premises.

9. TAXES: All real estate and other taxes legally assessed against property of the LESSEE on the leased premises shall be paid by the LESSEE during the term of this lease.

10. LIEN: Notwithstanding any other provision herein contained the LESSEE shall have a lien upon all personal property of the LESSEE including any and all of its buildings or other structures existing or hereafter erected by the LESSEE on the leased premises, to secure the payment of all rent due

or to become due under the provisions of this lease, as well as the payment of any and all other obligations of the LESSEE in this lease contained.

11. NOTICES: All notices required to be given by the LESSEE to the LESSOR shall be in writing and addressed to the Commissioner of the Department of Environmental Management, 235 Promenade Street, Providence, R.I. 02908 and James T. Beattie, Administrator, DEM/Coastal Resources, 83 Park St., Providence, R.I. 02903 and any notices from LESSOR to the LESSEE shall be addressed to Interstate Navigation Company, P.O. Box 482, New London, Connecticut 06321 and Michael McElroy, Esq., P.O. Box 6721, Providence, R.I. 02940, or to such other addresses as the parties hereto may respectfully designate by notice in writing.

12. OPTION TO EXTEND LEASE: The LESSEE, in consideration of the mutual covenants and conditions herein contained, shall have the option to extend this lease for a period of FIVE YEARS from the first day of January 2007, to and including the thirty-first day of December 2011, upon the same terms and conditions, as are herein contained, except as to an option for further renewal. The amount of annual rent, the minimum insurance requirements and minimum liability insurance to be in effect for each term of the extended period shall be fixed by the Commissioner of the Department of Environmental Management with the approval of the State Properties Committee (or the respective successors in their functions). The amount of annual rent so fixed for each option period shall be based on the most recent appraisal of the value of the land and dock space in the Port of Galilee, conducted by an outside appraiser at the request of the LESSOR, which shall be calculated at the same rate as that charged to other LESSEES in the Port of Galilee conducting similar business activities at similar locations.

The LESSEE, in order to exercise such option, must have given notice in writing by certified mail to the LESSOR at least six (6) months before the expiration date of this lease, of intention to take up such option. LESSEE shall have the right to exercise any one or more of such options at any one time.

13. ABATEMENT OF RENT: In the event of damage by fire or the elements to any building or buildings, or other appurtenances existing or hereafter erected by the LESSEE on the leased premises, in accordance with this lease, or in the event of flood or other loss thereof, or other unavoidable casualty so that the LESSOR determines that said leased premises shall be made unfit entirely or in part for occupation and use as herein contemplated, LESSOR may grant a proportionate abatement of rent until the same be properly repaired or restored by the LESSEE, provided, however, that if the LESSEE shall not elect to so repair or restore same within a reasonable time after such occurrence, the LESSEE shall be responsible for removing the structure from the premises unless the Rhode Island Department of Environmental Management waives this provision and this lease shall then be terminated and insurance monies therefore due shall be paid to the LESSEE provided that any accrued rent or other charges that may be due under this lease have been paid, the LESSEE shall be given six (6) months time to remove all its furniture, trade fixtures, machinery, equipment or other personal property, owned by the LESSEE on the leased premises.

14. INDEMNITY: LESSEE agrees that LESSEE shall, at all times, defend, protect and save, hold harmless and indemnify the LESSOR, its agents, servants and employees against and from: 1) any penalty, damages or charges including attorneys' fees for any violation of any law or ordinance whether occasioned by negligence or willful act of LESSEE or of LESSEE'S agents, employees, servants, invitees or visitors;

2) all claims, loss, costs, damage or expenses including attorneys' fees arising out of or from any accident, incident, or occurrence in any way connected to the use in, on or about the premises by LESSEE, or by LESSEE'S agents, employees, servants, invitees, or visitors; 3) all claims, loss, costs, damage, or expenses including attorneys' fees arising out of or from any failure of the LESSEE in any respect to comply with and perform all the requirements and provisions of this lease.

15. NON-WAIVER: The failure of the LESSOR to insist in any one or more instances upon the strict and literal performance of any of the agreements, terms or conditions of this lease or to exercise any option of the LESSOR herein contained, will not be construed as a waiver for the future of such term, condition, agreement or option. The receipt by the LESSOR of rent with knowledge of said breach of any term, condition, or agreement will not be deemed to be a waiver of such breach. The receipt by the LESSOR of rent after the giving of any notice required to be given to the LESSEE by the law or by the terms of this lease will not in any way affect the operation of such notice.

16. BUILDING ERECTION, REPAIRS AND ALTERATIONS: a) The LESSEE shall have the right at its own expense to construct buildings and other improvements, to install paving and lighting, to install a sewage holding tank below ground, to bring into the leased premises water and other utilities; and to make any repairs or alterations to such installations necessary for the conduct and operation of its business; provided, however, it shall have first submitted the plans and specifications therefore to the Department of Environmental Management for approval, which approval shall not be unreasonably withheld or delayed by the LESSOR. No building or other structure shall be erected within a distance of five

(5) feet from all boundaries of the leased premises. Light poles, jersey barriers and sewage holding tanks shall not be considered structures.

b) If LESSOR shall give its consent, the consent shall be deemed conditioned upon LESSEE obtaining a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to LESSOR prior to the commencement of the work and the compliance by LESSEE of all conditions of said permit in a prompt and expeditious manner.

c) LESSOR may require that LESSEE remove any or all of said alterations, improvements, additions or utility installations at the expiration of the term, and restore the premises to their prior condition.

LESSOR may require LESSEE or provide LESSOR, at LESSEE'S sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure LESSOR against any liability for mechanics' and materialmen's liens and to insure completion of the work. Should LESSEE make any alterations, improvements, additions, or utility installations without the prior approval of LESSOR, LESSOR may require that LESSEE remove any or all of such at LESSEE'S expense.

d) LESSEE shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for LESSEE at or for use in the premises, which claims are or may be secured by any mechanics' or materialmen's lien against the premises or any interest therein. LESSEE shall give LESSOR not less than ten (10) days notice prior to the commencement of any work in the premises, and LESSOR shall have the right to post notices of nonresponsibility in or on the premises as provided by law.

If LESSEE shall, in good faith, contest the validity of any such lien, claim or demand, the LESSEE shall, at its own expense, defend itself and LESSOR against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the LESSOR or the premises, upon the condition that if LESSOR shall require, LESSEE shall furnish LESSOR a surety bond satisfactory to LESSOR in an amount equal to such contested lien or claim or demand indemnifying LESSOR against liability for the same and holding the premises free from the effect of such lien or claim. In addition, LESSOR may require LESSEE to pay LESSOR'S attorneys' fees and costs in participating in such action if LESSOR shall decide it is its best interest to do so.

17. FIRE AND EXTENDED COVERAGE INSURANCE: The LESSEE shall obtain and maintain throughout the operation of this lease Fire and Extended Coverage Insurance in an amount not less than the assessed valuation of the property of the LESSEE on the leased premises for the benefit of the LESSOR and LESSEE (as their interests may appear) for any building or other structures existing or hereafter erected by the LESSEE on the leased premises or appurtenances thereto, in accordance with this lease. LESSEE shall furnish a certificate of said insurance policy to the LESSOR on or before the commencement of the lease term, renewal thereof and as often as may be reasonably required by LESSOR.

18. APPROVAL: This agreement shall be effective only subsequent to its approval by the State Properties Committee as designated below.

19. ACCESS: LESSEE shall not block the access road/fire lane on or about the demised premises, nor shall it permit its agents, servants, invitees, or visitors to block said access road/fire lane with trucks or other vehicles, or in any other manner.

The parties hereunder agree that any rights to use the premises are, and at all times shall be, subject to a fifteen (15) foot right of way alongside the bulkhead for the LESSEES of Lot 219 for the use of Dock "Q" for the unloading of vessels.

20. SEWERS: The LESSEE shall maintain the connection from the leased premises to the sewer system of the Town of Narragansett, and the expense of such connection, use, maintenance and repair shall be borne by the LESSEE.

21. SUBORDINATION: This agreement is subject and subordinate to any leases, covenants, licenses, easements, and agreements which may now affect the real property of which the demised premises form a part, and to all renewals, modifications, consolidations, replacements and extensions thereof.

22. LITTORAL RIGHTS RETAINED BY LESSOR: Except for that access specifically set forth above necessary for a use authorized under this lease, nothing contained in this agreement shall be construed as conveying LESSOR'S littoral rights arising out of LESSOR'S ownership of the demised parcel(s) adjacent thereto.

23. INVENTORY OF PERSONAL PROPERTY: Within six (6) months of the beginning of the lease term, LESSEE shall furnish LESSOR with an inventory of all its furniture, trade fixtures, machinery, equipment or other personal property which it may elect to remove under paragraph 5 herein. Only such personal property as is listed on written inventories furnished by LESSOR shall be removable under paragraph 5.

24. SALE OF BUILDINGS BY LESSEE: IF, during the term of this lease, or any renewal thereof, or upon termination of this lease under paragraph 3(b) or upon expiration of this lease, LESSEE should desire to sell its building(s) on the demised premises and cancel and substitute a new LESSEE or assign or sublet this lease, the LESSEE must first obtain the

approval of the LESSOR and the State Properties Committee, or their respective successors. The sales price shall not be in excess of the fair market value of the building(s). The sales price for each building(s) may account for the good will of the operating business where such business is part of the conveyance, but the sales price may not take into account the value of any leasehold interest in the property of the LESSOR. Such sale of building(s) by the LESSEE shall be deemed to be a removal of the building(s) as required by paragraph 5 herein. Any substitute new lease, assignment, or sub-lease must first be consented to by the LESSOR and the State Properties Committee pursuant to the requirements of paragraph 4 herein.

25. UTILITIES: LESSEE shall pay when due the cost of all utility service to the demised premises, including but not limited to heat, gas, telephone, sewer and electricity.

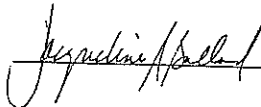
The LESSEE shall maintain the connection from the leased premises to the sewer system of the Town of Narragansett, and the expense of such connection, use, maintenance and repair shall be borne by the LESSEE. No processing of fish, shellfish, or seafood resulting in the discharge of process waste to the Town of Narragansett Wastewater facilities shall be allowed without the LESSEE obtaining and maintaining a valid wastewater discharge permit as issued by the Town. The issuance and subsequent validity, as well as the conditions of said permit shall depend upon the capacity and ability of the Town's wastewater infrastructure to accept, treat, and dispose of said process waste, as well as the LESSEE'S continued compliance with the applicable Federal, State and Local laws, rules, regulations, ordinances, and policies governing the discharge of wastewater. Failure to comply with the terms and conditions of this section shall be grounds for termination of this lease.

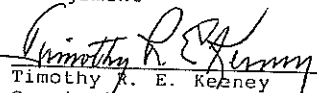
26. SIGNS: The LESSEE shall have the right to erect and maintain appropriate business signs on the premises so long as such signs do not affect the safety of the public, nor conflict with State laws or Town ordinances, and said signs and erection have been approved in writing by the Department of Environmental Management.

IN WITNESS WHEREOF, THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS has caused these presents to be executed in its name and behalf by Timothy R.E. Keeney, Commissioner of the Department of Environmental Management, hereunto duly authorized and Susan Linda, Vice President of Interstate Navigation Company, has caused these presents to be executed in name and behalf hereunto duly authorized, each party signing counterparts the day and year first written above.

EXECUTED IN THE PRESENCE OF: STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

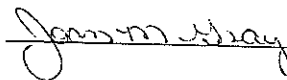
Department of Environmental Management

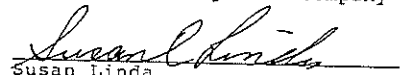



Timothy R. E. Keeney
Commissioner

LESSEE


Interstate Navigation Company




Susan Linda
Vice President

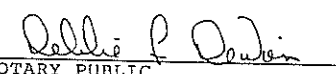
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
COUNTY OF PROVIDENCE

In the City of Providence on the 12th day of December, 1996, personally appeared before me Timothy R.E. Keeney, Commissioner of the Department of Environmental Management, to me known and known by me to be the party executing the foregoing instrument for and on behalf of the STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS (as LESSOR), and he acknowledges said instrument, by him executed, to be his free act and deed of said capacity.


NOTARY PUBLIC JACQUELINE S. BALLARD
My Commission expires: 8-17-97

~~STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS~~ Connecticut
COUNTY OF New London

In the City of New London on the 11th day of December, 1996, personally appeared before me Susan Linda, Vice President, Interstate Navigation Company, to me known and known by me to be the party executing the foregoing instrument and she acknowledges said instrument by her executed to be her free act and deed.


NOTARY PUBLIC
My Commission expires: 9/30/2001

Approved this 17th day of December, 1996, by
the State Properties Committee.

APPROVED AS TO TERMS AND CONDITIONS:

Dennis M. Lynch
Chairman, State Properties Committee

APPROVED AS TO FORM:

Richard M. Kell
Attorney General 12/17/96

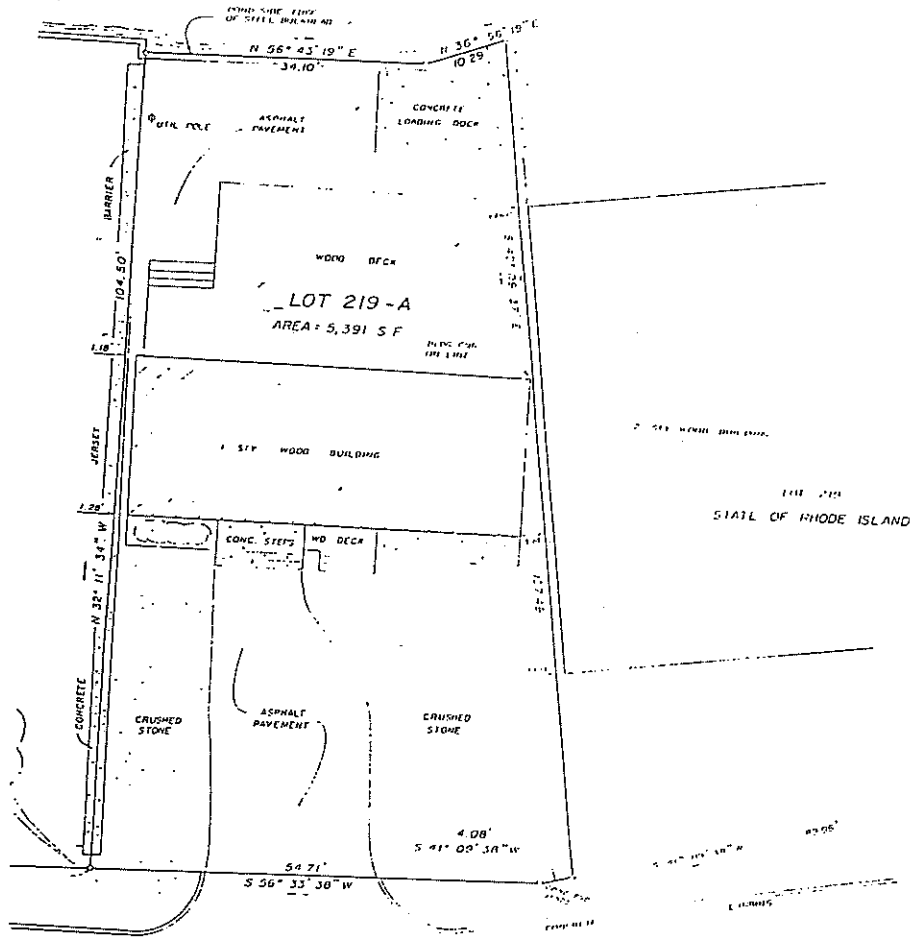
APPROVED AS TO SUBSTANCE:

P. L. K. Smith
Director of Administration

APPROVED:

Public Member
State Properties Committee

Note -
P.S. member not
needed - A.M.J.
is OK



AND

(R.I. STATE HIGHWAY)

ROAD

THIS SURVEY AND PLAN CONFORM TO A CLASS 1 STANDARD, ADOPTED BY THE RHODE ISLAND BOARD OF REGISTRATION FOR PROFESSIONAL LAND SURVEYORS.

BY: *Marc M. [Signature]*
REGISTERED PROFESSIONAL LAND SURVEYOR

Marc N.



Nyberg Associates, Inc.
Land Surveyors & Planners

Description for State of Rhode Island
Department of Environmental Management

That certain lot or parcel of land with all the buildings and improvements thereon, situated on the northwesterly side of Great Island Road at Galilee, in the Town of Narragansett, County of Washington, State of Rhode Island, and shown as "Lot 219-A" on that plan entitled "Survey Plan of Land, Lot 219-A, Owned by State of Rhode Island Department of Environmental Management, Narragansett, Rhode Island, October 16, 1996, Scale: 1 Inch Equals 10 Feet", by Marc N. Nyberg Associates, Inc., more particularly bounded and described as follows:-

Beginning at a point in the northwesterly line of said Great Island Road, said point being the most southwesterly corner of other land of the State of Rhode Island:-

- thence: S 41 degrees - 09' - 38" W, following the northwesterly line of said Great Island Road, four and eight one hundredths (4.08) feet;-
- thence: S 56 degrees - 33' - 38" W, continuing along the northwesterly line of said Great Island Road, fifty four and seventy one one hundredths (54.71) feet;-
- thence: N 32 degrees - 11' - 34" W, one hundred four and fifty one hundredths (104.50) feet to the pond side edge of a steel bulkhead at Point Judith Pond, the last line bounding southwesterly on other land of the State of Rhode Island;-
- thence: N 56 degrees - 43' - 19" E, following the pond side edge of said bulkhead cap, thirty four and ten one hundredths (34.10) feet;-
- thence: N 36 degrees - 56' - 12" E, continuing along said bulkhead cap, ten and thirty one hundredths (10.38) feet, the last two lines bounding northwesterly on said Point Judith Pond;-
- thence: S 40 degrees - 09' - 37" E, on a line one (1) foot distant and parallel to the southerly side of the building known as the Galilee Marine Trade Center, one hundred seven and forty nine one hundredths (107.49) feet to the point and place of beginning, the last line bounding northeasterly on other land of the State of Rhode Island.

Said parcel contains 5,391 square feet of land.

desdem.doc

11 Main Street • Slatersville, RI 02876 • (401) 762-2870 • FAX (401) 762-2871

ADP
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INDENTURE OF LEASE

THIS AGREEMENT AND INDENTURE OF LEASE entered into this 9th day of September, 1997, by and between the STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS, acting by and through the Department of Environmental Management, hereinafter called the "STATE" or the "LESSOR", and INTERSTATE NAVIGATION COMPANY, a Connecticut Corporation having its principal office in the City of New London, Connecticut, hereinafter called the "LESSEE".

The expression "LESSOR" or "LESSEE" wherever used in this Indenture of Lease shall be construed as including and referring to the respective parties hereto, and their respective successors and assigns, whenever such construction is required or consistent with the provisions of this lease, and all the covenants, agreements, or conditions, rights, powers and provisions hereinafter contained on the part of the respective parties hereto shall extend to and be binding upon their respective successors and assigns.

WITNESSETH

That the LESSOR does hereby demise and lease unto the LESSEE those certain parcels of land and Pier "Q" with other appurtenances, bulkheads, and rights-of-way located at Galilee in the Town of Narragansett, Rhode Island described as follows, and referred to hereinafter as the "leased premises" or "premises" or "demised premises":

Those parcels of land consisting of Lots 219 and 220 containing a total of sixteen thousand five hundred and three (16,503²) square feet of land as shown on Exhibit "A" which is attached hereto and incorporated by reference herein.

In addition, the entire Pier "Q" (as now or hereafter constructed, reconstructed, and designated).

TO HAVE AND TO HOLD said premises, with all rights, privileges, or preferential use and occupancy and the appurtenances thereto, unto and to the use of the LESSEE, for and during the term of eight (8) years and eleven (11) months from the 1st of February, 1998 up to and including the thirty-first day of December 2006, upon the following covenants and conditions.

1. USE OF THE LEASED PREMISES: (a) The LESSEE shall use the leased premises only for the purpose of conducting its business as a common carrier.

(b) The LESSEE shall conduct its business in such a manner as to prevent pollution of the harbor, fouling of the air and the creation of any other nuisance.

The demised premises may not be used for any other purpose unless such other use is approved in writing by the LESSOR.

2. RENT: The LESSEE shall pay unto the LESSOR, in advance, an annual rental fee of EIGHT THOUSAND TWO HUNDRED FIFTY-ONE DOLLARS AND FIFTY CENTS (\$8,251.50) commencing February 1, 1998 or when LESSOR makes the leased premises available to LESSEE (with no building or other structure on the premises) whichever is later, with a minimum quarterly installment of \$2,062.88 due on the first business day of each and every quarter. After December 31, 2006, if LESSEE exercises its option, LESSEE agrees that, upon the approval of the State Properties Committee on a new annual rental fee schedule, commencing the first business day following such approval by the State Properties Committee, LESSEE shall pay the rental fee so approved, in equal quarterly installments as indicated above, for each and every year remaining on this lease and in the same proportion for any less time until said rent is paid in full.

The LESSEE, paying the rent and performing on its part the agreements herein contained, may peaceably hold and enjoy said leased premises and appurtenances during the term of the lease without any lawful let or hindrance by the LESSOR, or any person claiming by, through or under it.

3. PRIOR TERMINATION: (a) The LESSOR may terminate this lease for cause, waste or any other specified basis within this lease.

(b) In the event the LESSEE shall fail to pay the quarterly installment of rent within fifteen (15) days subsequent to the first business day of each and every quarter (and it shall not be required that any demand be made for same), or in case of failure on the part of the LESSEE to perform all the covenants and agreements contained in this lease, and such failure shall continue for more than fifteen (15) days or longer than is reasonably necessary and requisite to correct the failure, after written notice has been given by the LESSOR to the LESSEE specifying the existence and nature of the default, the LESSOR shall be at liberty to enter upon and take immediate possession of the leased premises and declare this lease at an end.

4. ASSIGNMENT AND SUBLETTING: The LESSEE shall not assign this lease or sublet the whole or any part of the leased premises without the prior written consent of the LESSOR and the State Properties Committee which consent shall not be unreasonably withheld or delayed.

5. FAILURE TO REMOVE PROPERTY AND FIXTURES: If, upon termination of this lease under any of the provisions thereof, or if the LESSEE moves out or is dispossessed, the LESSEE fails to remove within six (6) months after such termination, moving out, dispossession, or expiration, all its furniture, trade fixtures, machinery and equipment or other personal property and all of its buildings existing or hereafter erected by LESSEE on the leased premises, such as remaining furniture, trade fixtures, machinery and equipment or other personal property and buildings shall be deemed abandoned by LESSEE and shall become the property of the LESSOR.

6. LAWS: The LESSEE shall comply with all laws, ordinances, rules, regulations, orders and requirements of the Federal, State and Local Governments and LESSOR.

7. MAINTENANCE OF THE PREMISES: The LESSEE shall keep the leased premises and any building, structure or other appurtenance thereon, clean and in good repair during the term of this lease, ordinary wear and tear thereof, damage by fire, the elements, natural disasters, and other unavoidable casualty excepted, provided that at the expiration or sooner termination thereof, the LESSEE will peaceably surrender up possession of the leased premises to the LESSOR in as good condition as they now are, or may be put in, ordinary wear and tear thereof, and damage by fire, the elements, natural disasters and other unavoidable casualty excepted. The LESSEE shall be responsible for and repair, at its own expense, any damage caused by LESSEE'S negligence or by the negligence of LESSEE'S agents, employees, servants, invitees, or visitors, to the buildings or other appurtenances including

those owned by the LESSOR on the leased premises, said damage to be repaired to the satisfaction of the LESSOR.

The LESSOR may at all reasonable times enter to view and inspect the leased premises and any building, structure or other appurtenances thereon, and to order such repairs as may be considered reasonably necessary.

8. INSURANCE: The LESSEE shall obtain liability insurance running to the benefit of both the LESSOR and the LESSEE for personal injuries and bodily injuries, including death in the sum of FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$500,000.00) for one person and ONE MILLION AND 00/100 DOLLARS (\$1,000,000.00) for any one occurrence and FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$500,000.00) for property damage for any one occurrence. Such insurance shall be written with a company or companies of recognized responsibility authorized to engage in the business of insurance in the State of Rhode Island. LESSEE shall provide LESSOR with a certificate of such insurance and proof of payment of premium therefore upon the execution of this agreement, each renewal thereof, annually on or before June 10th of each year of this lease and as often as LESSOR may reasonably request.

Said certificate shall name LESSOR as an insured on the policy and shall cover the entire scope of LESSEE'S use of the demised premises.

9. TAXES: All real estate and other taxes legally assessed against property of the LESSEE on the leased premises shall be paid by the LESSEE during the term of this lease.

10. LIEN: Notwithstanding any other provision herein contained the LESSEE shall have a lien upon all personal property of the LESSEE including any and all of its buildings or other structures existing or hereafter erected by the LESSEE on the leased premises, to secure the payment of all rent due

or to become due under the provisions of this lease, as well as the payment of any and all other obligations of the LESSEE in this lease contained.

11. NOTICES: All notices required to be given by the LESSEE to the LESSOR shall be in writing and addressed to the Director of the Department of Environmental Management, 235 Promenade Street, Providence, R.I. 02908 and James T. Beattie, Administrator, DEM/Coastal Resources, 83 Park St., Providence, R.I. 02903 and any notices from LESSOR to the LESSEE shall be addressed to Interstate Navigation Company, P.O. Box 482, New London, Connecticut 06321 and Michael McElroy, Esq., P.O. Box 6721, Providence, R.I. 02940, or to such other addresses as the parties hereto may respectfully designate by notice in writing.

12. OPTION TO EXTEND LEASE: The LESSEE, in consideration of the mutual covenants and conditions herein contained, shall have the option to extend this lease for a period of FIVE YEARS from the first day of January 2007, to and including the thirty-first day of December 2011, upon the same terms and conditions, as are herein contained, except as to an option for further renewal. The amount of annual rent, the minimum insurance requirements and minimum liability insurance to be in effect for each term of the extended period shall be fixed by the Director of the Department of Environmental Management with the approval of the State Properties Committee (or the respective successors in their functions). The amount of annual rent so fixed for each option period shall be based on the most recent appraisal of the value of the land and dock space in the Port of Galilee, conducted by an outside appraiser at the request of the LESSOR, which shall be calculated at the same rate as that charged to other LESSEES in the Port of Galilee conducting similar business activities at similar locations.

The LESSEE, in order to exercise such option, must have given notice in writing by certified mail to the LESSOR at least six (6) months before the expiration date of this lease, of intention to take up such option. LESSEE shall have the right to exercise any one or more of such options at any one time.

13. ABATEMENT OF RENT: In the event of damage by fire or the elements to any building or buildings, or other appurtenances existing or hereafter erected by the LESSEE on the leased premises, in accordance with this lease, or in the event of flood or other loss thereof, or other unavoidable casualty so that the LESSOR determines that said leased premises shall be made unfit entirely or in part for occupation and use as herein contemplated, LESSOR may grant a proportionate abatement of rent until the same be properly repaired or restored by the LESSEE, provided, however, that if the LESSEE shall not elect to so repair or restore same within a reasonable time after such occurrence, the LESSEE shall be responsible for removing the structure from the premises unless the Rhode Island Department of Environmental Management waives this provision and this lease shall then be terminated and insurance monies therefore due shall be paid to the LESSEE provided that any accrued rent or other charges that may be due under this lease have been paid, the LESSEE shall be given six (6) months time to remove all its furniture, trade fixtures, machinery, equipment or other personal property, owned by the LESSEE on the leased premises.

14. INDEMNITY: LESSEE agrees that LESSEE shall, at all times, defend, protect and save, hold harmless and indemnify the LESSOR, its agents, servants and employees against and from: 1) any penalty, damages or charges including attorneys' fees for any violation of any law or ordinance whether occasioned by negligence or willful act of LESSEE or of LESSEE'S agents, employees, servants, invitees or visitors;

2) all claims, loss, costs, damage or expenses including attorneys' fees arising out of or from any accident, incident, or occurrence in any way connected to the use in, on or about the premises by LESSEE, or by LESSEE'S agents, employees, servants, invitees, or visitors; 3) all claims, loss, costs, damage, or expenses including attorneys' fees arising out of or from any failure of the LESSEE in any respect to comply with and perform all the requirements and provisions of this lease.

15. NON-WAIVER: The failure of the LESSOR to insist in any one or more instances upon the strict and literal performance of any of the agreements, terms or conditions of this lease or to exercise any option of the LESSOR herein contained, will not be construed as a waiver for the future of such term, condition, agreement or option. The receipt by the LESSOR of rent with knowledge of said breach of any term, condition, or agreement will not be deemed to be a waiver of such breach. The receipt by the LESSOR of rent after the giving of any notice required to be given to the LESSEE by the law or by the terms of this lease will not in any way affect the operation of such notice.

16. BUILDING ERECTION, REPAIRS AND ALTERATIONS: a) The LESSEE shall have the right at its own expense to construct buildings and other improvements, to install paving and lighting, to install a sewage holding tank below ground, to bring into the leased premises water and other utilities; and to make any repairs or alterations to such installations; necessary for the conduct and operation of its business; provided, however, it shall have first submitted the plans and specifications therefore to the Department of Environmental Management for approval, which approval shall not be unreasonably withheld or delayed by the LESSOR. No building or other structure shall be erected within a distance of five

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2) all claims, loss, costs, damage or expenses including attorneys' fees arising out of or from any accident, incident or occurrence in any way connected to the use in, on or about the premises by LESSEE, or by LESSEE'S agents, employees, servants, invitees, or visitors; 3) all claims, loss, costs, damage, or expenses including attorneys' fees arising out of or from any failure of the LESSEE in any respect to comply with and perform all the requirements and provisions of this lease.

15. NON-WAIVER: The failure of the LESSOR to insist in any one or more instances upon the strict and literal performance of any of the agreements, terms or conditions of this lease or to exercise any option of the LESSOR herein contained, will not be construed as a waiver for the future of such term, condition, agreement or option. The receipt by the LESSOR of rent with knowledge of said breach of any term, condition, or agreement will not be deemed to be a waiver of such breach. The receipt by the LESSOR of rent after the giving of any notice required to be given to the LESSEE by the law or by the terms of this lease will not in any way affect the operation of such notice.

16. BUILDING ERECTION, REPAIRS AND ALTERATIONS: a) The LESSEE shall have the right at its own expense to construct buildings and other improvements, to install paving and lighting, to install a sewage holding tank below ground, to bring into the leased premises water and other utilities; and to make any repairs or alterations to such installations necessary for the conduct and operation of its business; provided, however, it shall have first submitted the plans and specifications therefore to the Department of Environmental Management for approval, which approval shall not be unreasonably withheld or delayed by the LESSOR. No building or other structure shall be erected within a distance of five

(5) feet from the west (water), east (road) or north (adjoining Lot 221) boundaries of the leased premises, unless approved by the LESSOR, which approval shall not be unreasonably withheld. Light poles, jersey barriers and sewage holding tanks shall not be considered structures.

b) If LESSOR shall give its consent, the consent shall be deemed conditioned upon LESSEE obtaining a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to LESSOR prior to the commencement of the work and the compliance by LESSEE of all conditions of said permit in a prompt and expeditious manner.

c) LESSOR may require that LESSEE remove any or all of said alterations, improvements, additions or utility installations at the expiration of the term, and restore the premises to their prior condition.

LESSOR may require LESSEE or provide LESSOR, at LESSEE'S sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure LESSOR against any liability for mechanics; and materialmen's liens and to insure completion of the work. Should LESSEE make any alterations, improvements, additions, or utility installations without the prior approval of LESSOR, LESSOR may require that LESSEE remove any or all of such at LESSEE'S expense.

d) LESSEE shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for LESSEE at or for use in the premises, which claims are or may be secured by any mechanics' or materialmen's lien against the premises or any interest therein. LESSEE shall give LESSOR not less than ten (10) days notice prior to the commencement of any work in the premises, and LESSOR shall have the right to post notices of nonresponsibility in or on the premises as provided by law.

If LESSEE shall, in good faith, contest the validity of any such lien, claim or demand, the LESSEE shall, at its own expense, defend itself and LESSOR against the same and shall pay and satisfy any such adverse judgement that may be rendered thereon before the enforcement thereof against the LESSOR or the premises, upon the condition that if LESSOR shall require, LESSEE shall furnish LESSOR a surety bond satisfactory to LESSOR in an amount equal to such contested lien or claim or demand indemnifying LESSOR against liability for the same and holding the premises free from the effect of such lien or claim. In addition, LESSOR may require LESSEE to pay LESSOR'S attorneys' fees and costs in participating in such action if LESSOR shall decide it is its best interest to do so.

17. FIRE AND EXTENDED COVERAGE INSURANCE: The LESSEE shall obtain and maintain throughout the operation of this lease Fire and Extended Coverage Insurance in an amount not less than the assessed valuation of the property of the LESSEE on the leased premises for the benefit of the LESSOR and LESSEE (as their interests may appear) for any building or other structures existing or hereafter erected by the LESSEE on the leased premises or appurtenances thereto, in accordance with this lease. LESSEE shall furnish a certificate of said insurance policy to the LESSOR on or before the commencement of the lease term, renewal thereof and as often as may be reasonably required by LESSOR.

18. APPROVAL: This agreement shall be effective only subsequent to its approval by the State Properties Committee as designated below.

19. ACCESS: LESSEE shall not block the access road/fire lane on or about the demised premises, nor shall it permit its agents, servants, invitees, or visitors to block said access road/fire lane with trucks or other vehicles, or in any other manner.

20. SEWERS: The LESSEE shall maintain any connection from the leased premises to the sewer system of the Town of Narragansett, and the expense of such connection, use, maintenance and repair shall be borne by the LESSEE.

21. SUBORDINATION: This agreement is subject and subordinate to any leases, covenants, licenses, easements, and agreements which may now affect the real property of which the demised premises form a part, and to all renewals, modifications, consolidations, replacements and extensions thereof.

22. LITTORAL RIGHTS RETAINED BY LESSOR: Except for that access specifically set forth above necessary for a use authorized under this lease, nothing contained in this agreement shall be construed as conveying LESSOR'S littoral rights arising out of LESSOR'S ownership of the demised parcel(s) adjacent thereto.

23. INVENTORY OF PERSONAL PROPERTY: Within six (6) months of the beginning of the lease term, LESSEE shall furnish LESSOR with an inventory of all its furniture, trade fixtures, machinery, equipment or other personal property which it may elect to remove under paragraph 5 herein. Only such personal property as is listed on written inventories furnished by LESSOR shall be removable under paragraph 5.

24. SALE OF BUILDINGS BY LESSEE: If, during the term of this lease, or any renewal thereof, or upon termination of this lease under paragraph 3(b) or upon expiration of this lease, LESSEE should desire to sell its building(s) on the demised premises and cancel and substitute a new LESSEE or assign or sublet this lease, the LESSEE must first obtain the

approval of the LESSOR and the State Properties Committee or their respective successors. The sales price shall not be in excess of the fair market value of the building(s). The sales price for each building(s) may account for the good will of the operating business where such business is part of the conveyance, but the sales price may not take into account the value of any leasehold interest in the property of the LESSOR. Such sale of building(s) by the LESSEE shall be deemed to be a removal of the building(s) as required by paragraph 5 herein. Any substitute new lease, assignment, or sub-lease must first be consented to by the LESSOR and the State Properties Committee pursuant to the requirements of paragraph 4 herein.

25. UTILITIES: LESSEE shall pay when due the cost of all utility service to the demised premises, including but not limited to heat, gas, telephone, sewer and electricity.

The LESSEE shall maintain any connection from the leased premises to the sewer system of the Town of Narragansett, and the expense of such connection, use, maintenance and repair shall be borne by the LESSEE. No processing of fish, shellfish, or seafood resulting in the discharge of process waste to the Town of Narragansett Wastewater facilities shall be allowed without the LESSEE obtaining and maintaining a valid wastewater discharge permit as issued by the Town. The issuance and subsequent validity, as well as the conditions of said permit shall depend upon the capacity and ability of the Town's wastewater infrastructure to accept, treat, and dispose of said process waste, as well as the LESSEE'S continued compliance with the applicable Federal, State and Local laws, rules, regulations, ordinances, and policies governing the discharge of wastewater. Failure to comply with the terms and conditions of this section shall be grounds for termination of this lease.

26. SIGNS: The LESSEE shall have the right to erect and maintain appropriate business signs on the premises so long as such signs do not affect the safety of the public, nor conflict with State laws or Town ordinances, and said signs and erection have been approved in writing by the Department of Environmental Management.

IN WITNESS WHEREOF, THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS has caused these presents to be executed in its name and behalf by Frederick Vincent, Acting Director of the Department of Environmental Management, hereunto duly authorized and Susan Linda, Vice President of Interstate Navigation Company, has caused these presents to be executed in name and behalf hereunto duly authorized, each party signing counterparts the day and year first written above.

EXECUTED IN THE PRESENCE OF:

STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS
Department of Environmental
Management

Mary C. Kay

Frederick Vincent
Frederick Vincent
Acting Director

LESSEE

Interstate Navigation Company

Jean M. ...

Susan Linda
Susan Linda
Vice President

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

COUNTY OF PROVIDENCE

In the City of Providence on the 22ND day of August, 1997, personally appeared before me Frederick Vincent, Acting Director of the Department of Environmental Management, to me known and known by me to the the party executing the foregoing instrument for and on behalf of the STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS (as LESSOR), and he acknowledges said instrument, by him executed, to be his free act and deed of said capacity.

Mary E. Kay
NOTARY PUBLIC Mary E. Kay
My Commission expires: 8/4/2001

STATE OF CONNECTICUT

COUNTY OF NEW LONDON

In the City of New London, on the 31st day of July, 1997, personally appeared before me Susan Linda, Vice President, Interstate Navigation Company, to me known and known by me to be the party executing the foregoing instrument and she acknowledges said instrument by her executed to be her free act and deed.

Doris F. Quinn
NOTARY PUBLIC
My Commission expires: 9/30/2001

Approved this 9th day of September, 1997, by
the State Properties Committee.

APPROVED AS TO TERMS AND CONDITIONS:

Devin M. Lynch
Chairman, State Properties Committee

APPROVED AS TO FORM:

Robert M. ...
Attorney General 9/15/97

APPROVED AS TO SUBSTANCE:

Robert M. ...
Director of Administration

APPROVED:

Stanley 9/9/97
Public Member
State Properties Committee

Marc N.



Nyberg Associates, Inc.
Land Surveyors & Planners

Description for State of Rhode Island
Department of Environmental Management
Lots 219 & 220
Galilee, RI
June 18, 1997

That certain lot or parcel of land with all the buildings and improvements thereon, situated on the northwesterly side of Great Island Road at Galilee, in the Town of Narragansett, County of Washington, State of Rhode Island, and shown on that plan entitled "Survey Plan of Land, Lots 219 & 220 owned by State of Rhode Island Department of Environmental Management, Narragansett, Rhode Island, June 11, 1997, Scale: 1 inch equals 10 feet", by Marc N. Nyberg Associates, Inc., more particularly bounded and described as follows:-

Beginning at a point in the northwesterly line of said Great Island Road, said point being four and eight one hundredths (4.08) feet northeasterly of a concrete bound found at an angle point in the northwesterly line of said Great Island Road, said point being the most southeasterly corner of other land of the State of Rhode Island and the most southerly corner of the parcel hereby described:-

thence: N 40 degrees - 09' - 37" W , one hundred seven and forty nine one hundredths (107.49) feet to the pond side edge of a steel bulkhead cap at Point Judith Pond, the last line bounding southwesterly on other land of the State of Rhode Island;-

thence: N 36 degrees - 56' - 19" E , following the pond side edge of said bulkhead cap, fifty seven and eighteen one hundredths (57.18) feet;-

thence: N 32 degrees - 02' - 25" W , continuing along the pond side edge of said bulkhead cap, six and fifty three one hundredths (6.53) feet, the last two lines bounding on said Point Judith Pond;-

thence: N 58 degrees - 55' - 22" E , one hundred seven and thirty two one hundredths (107.32) feet;-

(2)

cont.
Description for State of Rhode Island
Department of Environmental Management
Lots 219 & 220
Galilee, RI

thence: S 32 degrees - 51' - 38" E , eighty seven and thirty six one hundredths (87.36) feet to a point in the northwesterly line of said Great Island Road, the last two lines bounding northwesterly and northeasterly on other land of the State of Rhode Island;-

thence: S 41 degrees - 09' - 38" W, following the northwesterly line of said Great Island Road, one hundred fifty three and twenty nine one hundredths (153.29) feet to the point and place of beginning.

Said parcel contains 16,503 square feet of land.

INDENTURE OF LEASE

THIS AGREEMENT AND INDENTURE OF LEASE entered into this *16th* day of August, 1994, by and between the STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS, acting by and through the Department of Environmental Management, hereinafter called the "STATE" or the "LESSOR", and INTERSTATE NAVIGATION COMPANY, a Connecticut Corporation having its principal office in the City of New London, Connecticut, hereinafter called the "LESSEE".

The expression "LESSOR" or "LESSEE" wherever used in this Indenture of Lease shall be construed as including and referring to the respective parties hereto, and their respective successors and assigns, whenever such construction is required or consistent with the provisions of this lease, and all the covenants, agreements, or conditions, rights, powers and provisions hereinafter contained on the part of the respective parties hereto shall extend to and be binding upon their respective successors and assigns.

WITNESSETH

That the LESSOR does hereby demise and lease unto the LESSEE these certain parcels of land at Galilee in the Town of Narragansett, Rhode Island described as follows; and referred to hereinafter as the "leased premises" or "premises" or demised premises.

Those parcels of land consisting of Lots 261, 262, 263 and 264 containing a total of thirty two thousand (32,000[±]) square feet of land, and shown on Exhibit "A" which is attached hereto and incorporated by reference herein.

TO HAVE AND TO HOLD said premises, with all rights, privileges, or preferential use and occupancy and the appurtenances thereto, unto and to the use of the LESSEE, for and during the term of two (2) years and five (5) months from the first day of August, 1994 up to and including the thirty-first day of December 1996, upon the following covenants and conditions:

1. USE OF THE LEASED PREMISES: (a) The LESSEE shall use the leased premises only for the purpose of conducting its business as a common carrier.

(b) The LESSEE shall conduct its business in such a manner as to prevent pollution of the harbor, fouling of the air and the creation of any other nuisance.

The demised premises may not be used for any other purpose unless such other use is approved in writing by the LESSOR.

2. RENT: The LESSEE shall pay unto the LESSOR, in advance, an annual rental fee of TWELVE THOUSAND EIGHT HUNDRED (\$12,800) DOLLARS commencing August 1, 1994, with a minimum quarterly installment of \$3,200 due on the first business day of each and every quarter. LESSEE agrees that, upon the approval of the State Properties Committee of a new annual rental fee schedule, commencing the first business day following such approval by the State Properties Committee, LESSEE shall pay the rental fee so approved, in equal quarterly installments as indicated above, for each and every year remaining of this lease and in the same proportion for any less time until said rent is paid in full.

The LESSEE, paying the rent and performing on its part the agreements herein contained, may peaceably hold and enjoy said leased premises and appurtenances during the term of the lease without any lawful let or hindrance by the LESSOR, or any person claiming by, through or under it.

3. PRIOR TERMINATION: (a) If, during the term of this lease, the LESSOR through its Department of Environmental Management determines that the leased premises, or any part thereof, are desired by the LESSOR for an alternate public use, and upon written notice given twelve (12) months in advance by the LESSOR to the LESSEE to vacate, this lease shall be terminated and thereupon declared at an end; to the extent of the premises is so desired and, both the LESSOR and the LESSEE shall be fully released and discharged of all and any of the terms, covenants and conditions of this lease, provided the LESSEE has paid to the LESSOR all accrued rental and other charges that may be due under this lease, and, in the event a portion of the demised premises is so desired, all terms, covenants, conditions of this lease shall remain in full force and effect, except that the LESSOR shall prorate the annual rental fee for each remaining year of the lease to compensate for the portion taken.

(b) In the event the LESSEE shall fail to pay the quarterly installment of rent within fifteen (15) days subsequent to the first business day of each and every quarter (and it shall not be required that any demand be made for same), or in case of failure on the part of the LESSEE to perform all the covenants and agreements contained in this lease, and such failure shall

continue for more than fifteen (15) days or longer than is reasonably necessary and requisite to correct the failure, after written notice has been given by the LESSOR to the LESSEE specifying the existence and nature of the default, the LESSOR shall be at liberty to enter upon and take immediate possession of the leased premises and declare this lease at an end.

4. ASSIGNMENT AND SUBLETTING: The LESSEE shall not assign this lease or sublet the whole or any part of the leased premises without the prior written consent of the LESSOR and the State Properties Committee.

5. FAILURE TO REMOVE PROPERTY AND FIXTURES: If, upon termination of this lease under any of the provisions hereof, or if the LESSEE moves out or is dispossessed, the LESSEE fails to remove within six (6) months after such termination, moving out, dispossession, or expiration, all its furniture, trade fixtures, machinery and equipment or other personal property and all of its buildings existing or hereafter erected by LESSEE on the leased premises, such as remaining furniture, trade fixtures, machinery and equipment or other personal property and buildings shall be deemed abandoned by the LESSEE and shall become the property of the LESSOR.

6. LAWS: The LESSEE shall comply with all laws, ordinances, rules, regulations, orders and requirements of the Federal, State and Local Governments and LESSOR.

7. MAINTENANCE OF THE PREMISES: The LESSEE shall keep the leased premises and any building, structure or other appurtenance thereon, clean and in good repair during the term of this lease, ordinary wear and tear thereof, damage by fire and other unavoidable casualty excepted, provided

that the expiration or sooner termination thereof, the LESSEE will peaceably surrender up possession of the leased premises to the LESSOR in as good condition as they now are, or may be put in, ordinary wear and tear thereof, and damage by fire and other unavoidable casualty excepted. The LESSEE shall be responsible for and repair, at its own expense, any damage caused by LESSEE'S negligence or by the negligence of LESSEE'S agents, employees, servants, invitees, or visitors, to the buildings and other appurtenances including those owned by the LESSOR on the leased premises, said damage to be repaired to the satisfaction of the LESSOR.

The LESSOR may at all reasonable times enter to view and inspect the leased premises and any building, structure or other appurtenances thereon, and to order such repairs as may be considered reasonably necessary.

8. INSURANCE: The LESSEE shall obtain liability insurance running to the benefit of both the LESSOR and the LESSEE for personal injuries in the sum of FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$500,000.00) for one person and ONE MILLION AND 00/100 DOLLARS (\$1,000,000.00) for any one occurrence and FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$500,000.00) for property damage for any one occurrence. Such insurance shall be written with a company or companies of recognized responsibility authorized to engage in the business of insurance in the State of Rhode Island. LESSEE shall provide LESSOR with a certificate of such insurance and proof of payment of premium therefore upon the execution of this agreement, each renewal thereof, annually on or before June 10th of each year of this lease and as often as LESSOR may reasonably request.

Said certificate shall name LESSOR as an insured on the policy and shall cover the entire scope of LESSEE'S use of the demised premises.

9. TAXES: All real estate and other taxes legally assessed against property of the LESSEE on the leased premises shall be paid by the LESSEE during the term of this lease.

10. LIEN: Notwithstanding any other provision herein contained the LESSOR shall have a lien upon all personal property of the LESSEE including any and all of its buildings or other structures existing or hereafter erected by the LESSEE on the leased premises, to secure the payment of all rent due or to become due under the provisions of this lease, as well as the payment of any and all other obligations of the LESSEE in this lease contained.

11. NOTICES: All notices required to be given by the LESSEE to the LESSOR shall be in writing and addressed to the Director of the Department of Environmental Management, 9 Hayes Street, Providence, Rhode Island 02908, and any notices from the LESSOR to the LESSEE shall be addressed to Interstate Navigation Company, P.O. Box 482, New London, Connecticut 06321, or to such other addresses as the parties hereto may respectively designate by notice in writing.

12. OPTION TO EXTEND LEASE: The LESSEE, in consideration of the mutual covenants and conditions herein contained, shall have the option to extend this lease for a period of FIVE YEARS from the first day of January, 1997, to and including the thirty-first day of December, 2001, and for two (2) additional successive terms of five years each at the option of the LESSEE

upon the same terms and conditions as are herein contained, except that the amount of annual rent, the minimum insurance requirements and minimum liability insurance to be in effect for each term of the extended period shall be fixed by the Director of the Department of Environmental Management with the approval of the State Properties Committee (or the respective successors in their functions). The amount of annual rent so fixed for each option period shall be based on the most recent appraisal of the value of the land and dock space in the Port of Galilee, conducted by an outside appraiser at the request of the LESSOR, which shall be calculated at the same rate as that charged to other LESSEES in the Port of Galilee conducting similar business activities at similar locations. The LESSEE, in order to exercise such option, must have given notice in writing by certified mail to the LESSOR at least six (6) months before the expiration date of this lease, of intention to take up such option. LESSEE shall have the right to exercise any one or more of such options at any one time.

13. ABATEMENT OF RENT: In the event of damage by fire or the elements to any building or buildings, or other appurtenances existing or hereafter erected by the LESSEE on the leased premises, in accordance with this lease, or in the event of flood or other loss thereof, or other unavoidable casualty so that the LESSOR determines that said leased premises shall be made unfit entirely or in part for occupation and use as herein contemplated, LESSOR may grant a proportionate abatement of rent until the same be properly repaired or restored by the LESSEE, provided, however, that if the LESSEE

shall not elect to so repair or restore same within a reasonable time after such occurrence, the LESSEE shall be responsible for removing the structure from the premises unless the Rhode Island Department of Environmental Management waives this provision and this lease shall then be terminated and insurance monies therefore due shall be paid to the LESSEE provided that any accrued rent or other charges that may be due under this lease have been paid, the LESSEE shall be given six (6) month's time to remove all its furniture, trade fixtures, machinery, equipment or other personal property, owned by the LESSEE on the leased premises.

14. INDEMNITY: LESSEE agrees that LESSEE shall, at all times, defend, protect and save, hold harmless and indemnify the LESSOR, its agents, servants and employees against and from: 1) any penalty, damages or charges including attorneys' fees for any violation of any law or ordinance whether occasioned by negligence or willful act of LESSEE or of LESSEE'S agents, employees, servants, invitees or visitors; 2) all claims, loss, costs, damage or expenses including attorneys' fees arising out of or from any accident, incident, or occurrence in any way connected to the use in, on or about the premises by LESSEE, or by LESSEE'S agents, employees, servants, invitees, or visitors; 3) all claims, loss, costs, damage, or expenses including attorneys' fees arising out of or from any failure of the LESSEE in any respect to comply with and perform all the requirements and provisions of this lease.

15. NON-WAIVER: The failure of the LESSOR to insist in any one or more instances upon the strict and literal performance of any of the agreements, terms or conditions of this lease or to exercise any option of

the LESSOR herein contained, will not be construed as a waiver for the future of such term, condition, agreement or option. The receipt by the LESSOR of rent with knowledge of the breach of any term, condition, or agreement will not be deemed to be a waiver of such breach. The receipt by the LESSOR of rent after the giving of any notice required to be given to the LESSEE by the law or by the terms of this lease will not in any way affect the operation of such notice.

16. BUILDING REPAIRS AND ALTERATIONS: a) The LESSEE shall have the right at its own expense to construct buildings and other improvements, to bring into the leased premises water and other utilities; and to make any repairs or alterations to such installations necessary for the conduct and operation of its business; provided, however, it shall have first submitted the plans and specifications therefore to the Department of Environmental Management and the written approval not to be unreasonably withheld by the LESSOR. No building or other structure shall be erected within a distance of five (5) feet from all boundaries of the leased premises.

b) If LESSOR shall give its consent, the consent shall be deemed conditioned upon LESSEE obtaining a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to LESSOR prior to the commencement of the work and the compliance by LESSEE of all conditions of said permit in a prompt and expeditious manner.

c) LESSOR may require that LESSEE remove any or all of said alterations, improvements, additions or utility installations at the expiration of the term, and restore the premises to their prior condition.

LESSOR may require LESSEE or provide LESSOR, at LESSEE'S sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure LESSOR against any liability for mechanics' and materialmen's liens and to insure completion of the work. Should LESSEE make any alterations, improvements, additions, or utility installations without the prior approval of LESSOR, LESSOR may require that LESSEE remove any or all of such at LESSEE'S expense.

d) LESSEE shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for LESSEE at or for use in the premises, which claims are or may be secured by any mechanics' or materialmen's lien against the premises or any interest therein. LESSEE shall give LESSOR not less than ten (10) days notice prior to the commencement of any work in the premises, and LESSOR shall have the right to post notices of nonresponsibility in or on the premises as provided by law.

If LESSEE shall, in good faith, contest the validity of any such lien, claim or demand, the LESSEE shall, at its own expense, defend itself and LESSOR against the same and shall pay and satisfy any such adverse judgement that may be rendered thereon before the enforcement thereof against the LESSOR or the premises, upon the condition that if LESSOR shall require, LESSEE shall furnish to LESSOR a surety bond satisfactory to LESSOR in an amount equal to such contested lien or claim or demand indemnifying LESSOR against liability for the same and holding the premises free from the effect of such lien or claim. In addition, LESSOR may require LESSEE to pay LESSOR'S attorneys' fees and costs in participating in such action if LESSOR shall decide it is its best interest to do so.

17. FIRE AND EXTENDED COVERAGE INSURANCE: The LESSEE shall obtain and maintain throughout the operation of this lease Fire and Extended Coverage Insurance in an amount not less than the assessed valuation of the property of the LESSEE on the leased premises for the benefit of the LESSOR and LESSEE (as their interests may appear) for any building or other structures existing or hereafter erected by the LESSEE on the leased premises or appurtenances thereto, in accordance with this lease. LESSEE shall furnish a certificate of said insurance policy to the LESSOR on or before the commencement of the lease term, renewal thereof and as often as may be reasonably required by LESSOR.

18. APPROVAL: This agreement shall be effective only subsequent to its approval by the State Properties Committee as designated below.

19. ACCESS: LESSEE shall not block the access road/fire lane on or about the demised premises, nor shall it permit its agents, servants, invitees, or visitors to block said access road/fire lane with trucks or other vehicles, or in any other manner.

20. SEWERS: The LESSEE shall maintain the connection from the leased premises to the sewer system of the Town of Narragansett, and the expense of such connection, use, maintenance and repair shall be borne by the LESSEE.

21. SUBORDINATION: This agreement is subject and subordinate to any leases, covenants, licenses, easements, and agreements which may now affect the real property of which the demised premises form a part, and to all renewals, modifications, consolidations, replacements and extensions thereof.

22. LITTORAL RIGHTS RETAINED BY LESSOR: Except for that access specifically set forth above necessary for a use authorized under this lease, nothing contained in this agreement shall be construed as conveying LESSOR'S littoral rights arising out of LESSOR'S ownership of the demised parcel(s) adjacent thereto.

23. INVENTORY OF PERSONAL PROPERTY: Within six (6) months of the beginning of the lease term, LESSEE shall furnish LESSOR with an inventory of all its furniture, trade fixtures, machinery, equipment or other personal property which it may elect to remove under paragraph 5 herein. Only such personal property as is listed on written inventories furnished by LESSOR shall be removable under paragraph 5.

24. SALE OF BUILDINGS BY LESSEE: If, during the term of this lease, or any renewal thereof, or upon termination of this lease under paragraph 3(b) or upon expiration of this lease, LESSEE should desire to sell its building(s) on the demised premises and cancel and substitute a new LESSEE or assign or sublet this lease, the LESSEE must first obtain the approval of the LESSOR and the State Properties Committee, or their respective successors. The sales price shall not be in excess of the fair market value of the building(s). The sales price for each building(s) may account for the good will of the operating business where such business is part of the conveyance, but the sales price may not take into account the value of any leasehold interest in the property of the LESSOR. Such sale of building(s) by the LESSEE shall be deemed to be a removal of the building(s) as required by paragraph 5 herein. Any substitute new lease, assignment, or sub-lease

must first be consented to by the LESSOR and the State Properties Committee pursuant to the requirements of paragraph 4 herein.

25. UTILITIES: LESSEE shall pay when due the cost of all utility service to the demised premises, including but not limited to heat, gas, telephone, sewer and electricity.

IN WITNESS WHEREOF, THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS has caused these presents to be executed in its name and behalf by Michael Annarummo, its Director of the Department of Environmental Management, hereunto duly authorized and Susan Linda, Vice President, of Interstate Navigation Company, has caused these presents to be executed in name and behalf hereunto duly authorized, each party signing counterparts the day and year first written above.

EXECUTED IN THE PRESENCE OF:

STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

Dept. of Environmental Management

Maureen Stone

Michael Annarummo, Director

LESSEE:

Interstate Navigation Company

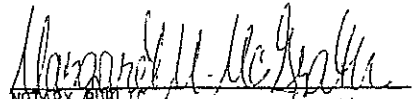
Reginald Smith

Susan Linda
Susan Linda, Vice President

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

COUNTY OF PROVIDENCE

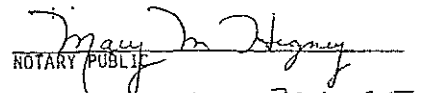
In the City of Providence on the 5 of August, 1994, personally appeared before me Michael Annarummo, Director of the Department of Environmental Management, to me known and known by me to be the party executing the foregoing instrument for and on behalf of the STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS (as LESSOR), and he acknowledges said instrument, by him executed, to be his free act and deed of said capacity.


NOTARY PUBLIC
My Commission expires: 6/24/95

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

COUNTY OF Washington

In the Town of New Shoreham, on the 1st day of August, 1994, personally appeared before me Susan Linda, Vice President, Interstate Navigation Company, to me known and known by me to be the party executing the foregoing instrument and she acknowledged said instrument, by her executed to be her free act and deed.


NOTARY PUBLIC
My Commission expires: 7-5-95

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

APPROVED AS TO FORM:

APPROVED AS TO SUBSTANCE:

William M. Ball
Attorney General 8/16/94

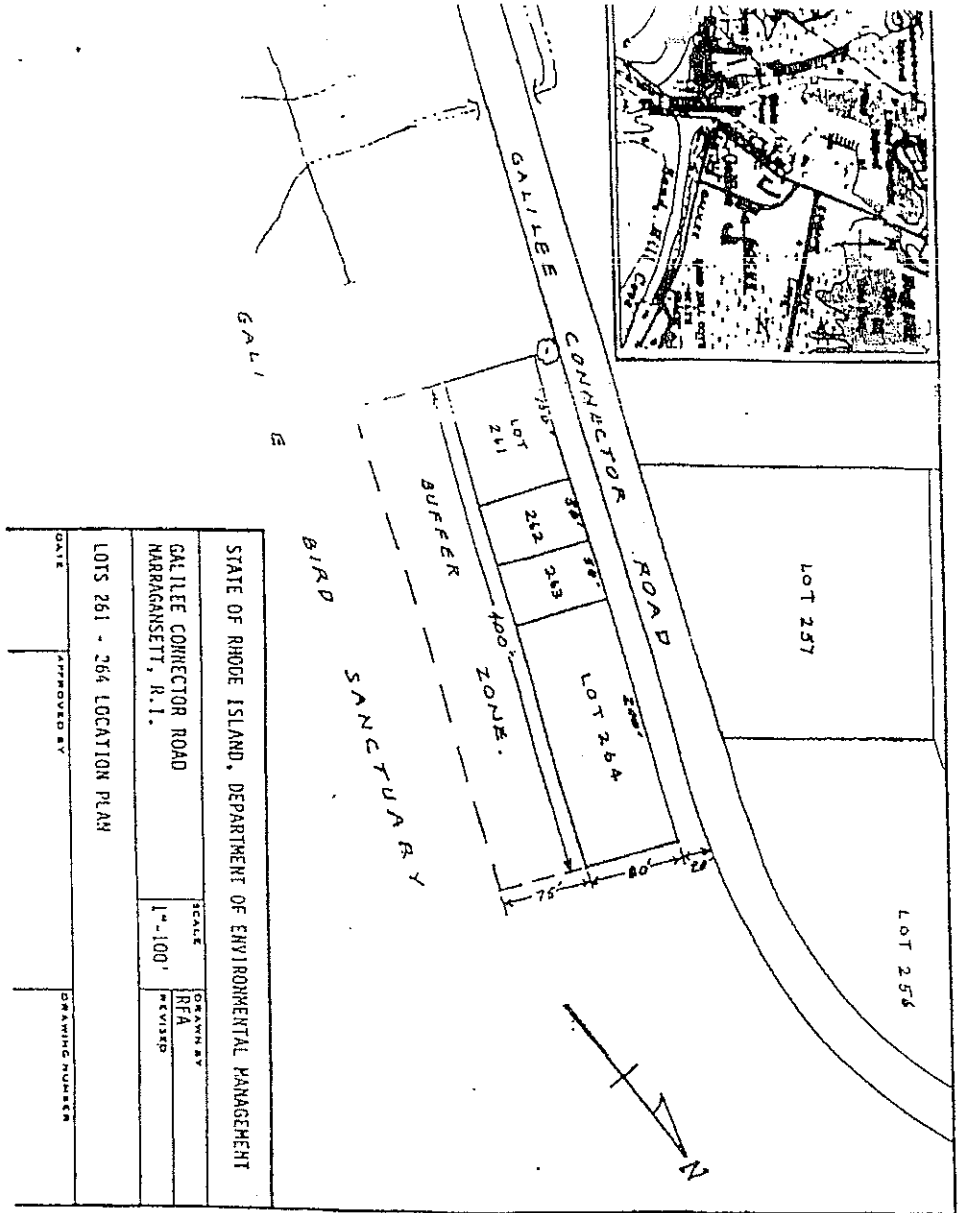
J. F. C. L.
Director of Administration

APPROVED AS TO TERMS AND CONDITIONS:

David M. Lynch
Chairman, State Properties Committee

APPROVED:

P. L. Anderson 16 Aug 1994
Member, State Properties Committee



LEASE OF LOTS 261 thru 264 TO INTERSTATE NAVIGATION COMPANY
EXHIBIT "A"

TOWN-73 Please refer to the response to DIV 1-17. Please explain why capital items for Homeland Security are not booked to a capital account and offset by ratepayer contributions so as to avoid their being embedded in cost of service as if they were recurring annual expenses.

Response: Commission order.

Prepared by WEE

Please note that there was no Town 74-79 provided to Interstate.

TOWN-80 Please explain how Interstate handles the following for purposes of accounting for conventional and high speed revenues:

- a. a passenger buys a round trip high speed ticket, but returns to his or her origination point by means of the conventional ferry;
- b. a passenger buys a conventional round trip ticket, but returns to his or her origination point of the high speed ferry

Response:

(a) Passengers are allowed to return on the conventional ferry, however no refund for the difference in ticket prices is granted.

(b) Passengers are allowed to return on the high speed ferry, if the additional difference in ticket prices is paid.

Prepared by WEE

TOWN-81 Please explain Interstate's practices regarding the interchangeability of high speed ferry tickets for use on conventional vessels.

Response: See the response to TOWN-80.

Prepared by WEE

TOWN-82 Please explain Interstate's practices regarding the interchangeability of conventional ferry tickets on high speed vessels.

Response: See the response to TOWN-80.

Prepared by WEE

TOWN-83 For the rate year, please provide an estimate of "lost" revenues (relative to test year revenues) attributable to conventional passengers switching to the high speed operation, and taking into account the proposed conventional rate increase requested by Interstate.

Response: Unknown.

Prepared by WEE

TOWN-84 Please provide rate year principal and interest expenses associated with the proposed issuance of debt to be used to acquire the RI assets of IHSF.

Response: The funding for the rate year principal and interest expense for the high speed operation is specifically shown in the Mr. Edge's Financing Testimony in D-06-51 Schedule WEE-1. See the attachment to TOWN-34.

Prepared by WEE

TOWN-85 Please provide the test year costs associated with Division Docket No. D-05-06.

Response: Legal \$74,668.51 and accounting/rate \$\$35,046.25.

Prepared by WEE

TOWN-86 If the fast ferry business were unsuccessful and Interstate needed to sell the M/V Athena, please explain whether the sales price would track the orderly liquidation value of \$3.65 million, as determined by Marine Safety Consultant, Inc.

Response: Interstate believes that the sales price would be at fair market value, because Interstate will not be liquidating its corporation.

Prepared by WEE

TOWN-87 Please explain whether the high speed operation will pay for its own insurance.

Response: The funding for the insurance for the high speed operation is specifically shown as an expense in Mr. Edge's Financing Testimony in D-06-51 Schedule WEE-1. See the attachment to TOWN-34.

Prepared by WEE

TOWN-88 Please provide a copy of Mr. Edge's pre-filed testimony in docket No. D-05-06.

Response: Attached to Town - 34.

Prepared by WEE

TOWN-89 Please explain how Interstate employees will be assigned during the rate year with regard to fast ferry and conventional operations, assuming that Interstate uses its own employees to staff fast ferry operations (e.g., whether some employees/management will work directly and solely on fast ferry operations, whether some employees/management will work directly and solely on conventional operations and whether some will divide their time between fast ferry and conventional operations. Indicate how the direct costs of fast ferry employees will be determined.

Response: In most cases, specific employees working on the fast ferry (i.e. captain, mates, engineers and deckhands) will be assigned primarily to fast ferry operations. Management is on salary and their work is not allocated to specific operations.

Prepared by WEE