

# 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

November 2, 2006

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

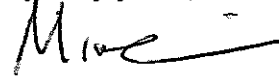
Re: Interstate Navigation Company  
Docket No. 3762

Dear Luly:

As you know, this office represents Interstate Navigation Company. Enclosed please find an original and nine copies of Interstate Navigation Company's Responses to the Town of New Shoreham's Third Set of Data Requests.

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

Very truly yours,



Michael R. McElroy

MRMc:tmg  
In26:06-Massar016

cc: Susan E. Linda  
Joshua Linda  
Walter E. Edge, Jr.  
Service List

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

**TOWN-90** If the M/V Athena is operated as part of a separate fast ferry division, as proposed by Interstate, with its own balance sheet and income statement, would Interstate treat the excess of the purchase price of IHSF assets over book as a negative amortization or other accounting entry that would reduce or eliminate net revenues from fast ferry operations? Please explain.

What amortization period, if any, would be used, and what is the basis for the selection of this amortization period?

**Response:** The premise in this data request is wrong. There is no “excess of the purchase price of IHSF assets over book”. Nevertheless, Interstate intends, if approved by the Commission, to calculate net revenues on a cash basis using debt service on the \$5,600,000 loan as a deduction against revenue rather than depreciation/amortization and interest expense.

Prepared by WEE

**TOWN-91** If fast ferry operations were rolled into a single cost of service with conventional operations, what specific ratemaking treatment of the IHSF asset purchase acquisition premium would Interstate seek, and on what basis?

**Response:** Once again, there is no “asset purchase acquisition premium”. Therefore, Interstate has not addressed this question because and it sees no reason to roll the fast ferry service into a single cost of service. However, if this was considered by the Commission, Interstate would request full recovery of the purchase price of all of the IHSF assets.

Prepared by WEE

**TOWN-92** Please refer to Interstate's response to TOWN-1 (Chart of Accounts). Please identify test year end and current employee loans outstanding where such loans are to an employee-owner and provide the balances borrowed, loan balances due and terms of the loan(s).

**Response:** Yes. There is only one outstanding employee - owner loan. It is to Raymond and Susan Linda in the amount of \$21,971.15 payable at \$350 per week. The loan should be paid in full by December 31<sup>st</sup> 2007.

Prepared by WEE

**TOWN-93** Does Interstate have a written policy regarding loans to employees? If so, please provide a copy.

**Response:** No.

Prepared by WEE

**TOWN-94** Does Interstate's Board of Directors approve capital and operating budgets in advance? If so, provide the written materials given to the Board of Directors in connection with its consideration of the most recently approved capital and operating budgets.

**Response:** No.

Prepared by WEE

**TOWN-95** Please refer to Interstate's response to TOWN-4. Please provide Interstate's best estimate of all costs relating to high speed ferry pre-operational and operational activities (a) during and (b) since the test year, together with supporting work-papers and assumptions. If Interstate cannot provide such an estimate, please provide the test year and rate years expenses for each account included in cost of service and to which cost relating to high speed pre-operational and operational activities (including the costs associate with the pending IHSF asset purchase and financing) were booked.

**Response:** Interstate has no estimate of costs relating to high speed ferry preoperational activities. Interstate has provided in the full filing "the test year and rate year expenses for each account included in cost of service and to which cost relating to high speed pre-operational and operational activities ... were booked." However, there were no operational activities of Interstate's fast ferry operations in the test year. Interstate has agreed to provide the interim year revenues and expenses relating to the fast ferry operations when those operations are completed for the year. See Schedule WEE FF-IY-1 update of Schedule WEE-1 to be provided. In addition, Interstate intends to file a rate year Schedule WEE-FF-RY-1 for the fast ferry operations at the same time that it files Schedule WEE FF-IY-1.

Prepared by WEE

**TOWN-96** Does Interstate pay any overtime associated with its high speed ferry operations? If so, is such overtime considered a direct cost of high speed ferry operations?

**Response:** Yes. Yes.

Prepared by WEE



**TOWN-97** Do any Interstate employees or contractors work solely on high speed operations? If so, are their costs treated as direct costs of high speed operations?

**Response:** Yes. Yes.

Prepared by WEE

**TOWN-98** Do any Interstate employees or contractors perform services for both high speed and conventional ferry operations? If so, do they allocate their time between these different operations?

**Response:** Yes. No.

Prepared by WEE

**TOWN-99** Where Interstate employees or contractors perform services for both high speed and conventional operations, does Mr. Edge treat their costs solely as costs of conventional operations and regard none of these costs as direct costs of the high speed operation?

**Response:** Yes. However, if an employee who is assigned to the fast ferry operations were to fill in on the conventional service, Mr. Edge would have charged all of that employee salary to the fast ferry operations.

Prepared by WEE

**TOWN-100** Would Interstate treat insurance or workers' compensation claims arising out of its high speed operations direct costs of its high speed operations?

**Response:** Yes, but they would be covered by insurance, except for the deductible.

Prepared by WEE

**TOWN-101** Please refer to Interstate's response to TOWN-7. If "ratemaking philosophy encourages the matching theory of the ratepayers that get the benefit absorb the costs" as stated by Mr. Edge, does Interstate agree that an alternative to Interstate's proposal regarding the treatment of high speed operations be: including all costs associated with high speed service (including the book value of the M/V Athena) in a single cost of service; (2) performing a fully allocated cost study that assigned fully allocated costs to the high speed service category; (3) requiring that high speed services cover fully allocated costs; and (4) allocating profits from high speed services to year round services as a matter of rate design to help keep down year round rates?

**Response:** 1) No.  
2) No.  
3) No.  
4) I don't understand the question specifically "as a matter of rate design".

Prepared by WEE

**TOWN-102** Please refer to the response to TOWN-8. Given that Interstate has rejected a proposed use of one time net revenues suggested by a resident at a Town Council meeting and suggested in this request, please answer that part of TOWN-8 that asked “how Interstate proposes to treat such net revenues for ratemaking purposes.”

**Response:** This has been answered over and over again. See response to Town -10.

Prepared by WEE

**TOWN-103** Please refer to the response to TOWN-9. Mr. Edge attached a WEE-1 to his response to DIV 1-6. Please answer the Town's question. If no inputs, assumptions and work-papers supporting this schedule exist, please explain.

**Response:** As stated in the response to DIV 1-6 the support for the attached Schedule WEE-1 is included in Interstate's financing filing with the Division (which the Town has). In that filing, I have submitted all the inputs and assumptions used to prepare Schedule WEE-1 attached to DIV 1-6. The Schedule WEE-1 itself is the work-paper.

In addition all of the assumptions needed to prepare the Schedule WEE-1 are included on the face of the schedule. Many of the revenues and expenses are simply estimates based on the combined knowledge of Interstate's personnel and its consultants.

As stated in the response to Division 1-6, Interstate intends to provide a new WEE-1 (see response to Town – 95) which will include the actual revenues and expenditures for the summer for the fast ferry operations. This new Schedule WEE-1 will be far more informative than the old Schedule WEE-1.

Prepared by WEE

**TOWN-104** Please refer to the responses to TOWN-6 and TOWN-11. Does Mr. Edge agree that the test year results include costs “that would not exist if there were no Interstate fast ferry operations?”

**Response:** Yes.

Prepared by WEE



**TOWN-105** Please refer to the response to TOWN-16. Please provide the requested Homeland Security Reports.

**Response:** As stated in the response to Town – 16, Interstate has not prepared these reports at this time. Interstate is hopeful that the Division and the Commission will agree that the information provided in this docket will suffice as a replacement for FY 2005 and FY 2006 Homeland Security reports. The 2007 report will be filed when it is due.

Prepared by WEE

**TOWN-106** Please refer to the response to TOWN-22. Is it Interstate's position that high speed operations do not cause the company to incur Homeland Security costs above and beyond those incurred for year round operations, assuming there was no high speed operation?

**Response:** No.

Prepared by WEE

**TOWN-107** Please provide a responsive answer to TOWN-24.

**Response:** See the response to Town – 85 for the amounts requested in Town – 24.

Prepared by WEE

**TOWN-108** Please refer to the response to TOWN-29. Please provide:

- a. a description of the stock swap/purchase negotiations involving Interstate Nav., Thames Towboat and other companies, the current status of such negotiations and the effect of such transactions on capital structure or ownership and voting rights for Interstate Navigation;
- b. an update on any sales of treasury stock by current stockholders since test year end;
- c. whether any owners of Interstate affiliates who are also owners of Interstate have sold any treasury stock to such affiliates since the Interstate's last rate case (2004);
- d. test year legal expenses associated with the Filippi Marina litigation and a description of the nature of the legal dispute;
- e. the effect of the Old Harbor property assessment appeal decision lowering the assessment from \$7 million to \$3.5 million upon test year and rate year property taxes;
- f. the timing of federal funding of Point Judith terminal renovations and the treatment of such funding for purposes of developing the proposed revenue requirement;
- g. an explanation of the possible purchase of the Southland, which was described as not PUC regulated, and the current status; and
- h. an explanation of the possible purchase of Barnaby's Dock, and the current status.

**Response:**

- a) These are non regulated entities and not subject to discovery.
- b) None.
- c) None.
- d) The legal expenses were not separately broken out from Interstate's general legal expense bill. The dispute involved a CRMC permit for the construction of a marina next to Interstate's docking facility in Old Harbor. Interstate opposed the granting of the permit on navigation and safety grounds.
- e) Since the appeal was successful prior to the issuance of the property tax bill there was no effect upon the test year or the rate year property tax as filed.

- f) Funds were paid directly to the contractor in draw downs during the construction. They had no impact on the proposed revenue requirement.
- g) There are no current negotiations on going to purchase the *M/V Southland*. The *M/V Southland* is operated at a berth at State Pier #3 that is shared with Interstate's fast ferry operations.
- h) The deal is dead. Interstate wanted to acquire this property which adjoins the Point Judith terminal property and use it for offices, but could not get zoning approval.

Prepared by WEE

**TOWN-109** Please refer to the response to TOWN-30. Please provide details on when Interstate applied for Homeland Security port security grants and the amounts, dates and purposes of any grants awarded to Interstate. Identify the projects for which grant funds were sought but not awarded and provide all written communications to and from the grantor of such grants concerning such grant application(s).

**Response:** In January 2003, Interstate applied for a Homeland Security port security grant of \$70,000. In July 2003, Interstate was notified that it had been awarded a grant of \$46,000 (this grant required Interstate to put up \$17,000 of matching funds). A grant payment of \$13,800 was applied on January 23, 2004 and the final payment of \$32,200 was applied on November 3, 2004.

In February 2004, Interstate applied for a Homeland Security port security grant of \$190,000. Interstate was not awarded this grant.

Interstate can not provide the underlying communications because they are "sensitive security information" controlled by 49 CFR 1520, which prevents release. Moreover, release of this information would jeopardize Interstate's Homeland Security program and Interstate's ratepayers.

Prepared by WEE