

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: INTERSTATE NAVIGATION FILING TO :  
ADJUST 2012 RATES BASED ON THE : DOCKET NO. 3762  
CONSUMER PRICE INDEX :

REPORT AND ORDER

In Docket No. 3762, the Public Utilities Commission (“Commission”) approved a multi-year rate plan for Interstate Navigation Company (“Interstate” or “Company”), the result of a Settlement that provided for a two year rate freeze through December 31, 2008. For the post-settlement period, the Settlement included the following provision:

On or before November 15, 2008, 2009, and 2010, Interstate is authorized to file with the Commission a percentage change in rates, to be effective on the following January 1, equal to the percentage change in the average Consumer Price Index (“CPI-U Northeast”) from the twelve months ended September 30 of the prior year to the twelve months ended September 30 of the current year. Notwithstanding the foregoing, rates applicable to commuters, commuter vehicles, and freight shall not be increased for any rate increases authorized pursuant to this paragraph.<sup>1</sup>

At its hearing on December 12, 2006, the Commission reviewed the Settlement and asked questions regarding the Settlement as a whole and the above-referenced provision in particular.<sup>2</sup> At its Open Meeting on December 27, 2006, the Commission approved the Settlement.

On October 31, 2011, Interstate submitted a filing to the Commission “requesting an automatic CPI rate increase for its traditional ferry service to become effective on January 1, 2012, as provided in the Rate Plan approved [by Order No. 18957] and

---

<sup>1</sup> *Order No. 18957, Appendix A (Amended Settlement Agreement), p. 7.* In Order No. 20406 (issued July 11, 2011), the Commission approved Interstate’s Request to Extend the Rate Plan by one year through December 31, 2012.

<sup>2</sup> *Order No. 18957, pp. 25-26*

extended [by Order No. 20406] in Docket No. 3762.”<sup>3</sup> Interstate provided testimony and supporting schedules of Walter Edge, its consultant. Mr. Edge explained that he used the twelve-month period ending September 30, 2011 CPI-U Northeast and compared it to the September 30, 2010 CPI-U Northeast and using the Bureau of Labor Statistics database found that the percentage change was 4.0%.

Before calculating the increase, Mr. Edge explained that he had to back out from the applicable rates the ROE Increase that had been allowed in Order No. 20383 pursuant to the Settlement Agreement in absolute dollars and then increase the remaining applicable rates by 4 percent. He then added back the ROE absolute dollar rate increase amount. The purpose of this additional calculation was to avoid an over-collection of the ROE below the floor amount approved by the Commission.<sup>4</sup> The impact of the proposal is an across-the-board increase of 4.0% on most rate classes. If approved, the adult round trip fare from Point Judith to Block Island, will increase by \$0.70, or 4%, from \$17.90 to \$18.60, and the child round trip fare will increase by \$0.35, or 4%, from and \$8.90 to \$9.25. Autos will increase by \$1.90, or 4%, from \$48.75 to \$50.65 for a one-way ticket. Pick-up trucks, vans and SUV’s will increase by \$2.30, or 4%, from \$58.80 to \$61.10 for a one-way ticket.<sup>5</sup> These increases do not affect the Commuter Rate, the Commuter Vehicle Rate or the Freight Rates.

---

<sup>3</sup> Filing Letter dated 10/28/2011.

<sup>4</sup> Pre-Filed Testimony of Walter Edge, p.3. The ROE increase allowed in Order No. 20383 will sunset on March 31, 2012. On or before February 1, 2012, Interstate will file Compliance Tariffs with the Commission for effect April 1, 2012 to reduce the rates by 1.75%. Order No. 20383, Ordering Paragraph 5.

<sup>5</sup> Pre-Filed Testimony of Walter Edge, p. 2, WEE-A, Attachment 1. In accordance with its practice, Interstate’s rates have been rounded to the nearest nickel.

In its filing, Interstate requested the Commission find good cause under R.I. Gen. Laws § 39-3-12 not to hold a hearing on the proposed increase. Neither the Town of New Shoreham nor the Division of Public Utilities and Carriers (“Division”) objected.

On December 2, 2011, the Division submitted a Memorandum from John Bell, Public Utilities Analyst, stating that based on its review of Interstate’s filing, the Company calculated the rates correctly and consistently with the intent of the Settlement. Additionally, Mr. Bell noted that “Interstate used the correct inflation factor and applied it to all rate categories except for commuters, commuter vehicles, freight or fast ferry service.”<sup>6</sup> Therefore, the Division recommended the Commission approve the filing.<sup>7</sup>

On December 5, 2011. The Town of New Shoreham submitted a letter from Nancy O. Dodge, Town Manager stating that the Town would defer to the Division’s review regarding the accuracy of Interstate’s filed schedules and “assuming the correct inflation factor and the appropriate backing out of the ROE adjustment factor, the Town has no objection to the proposed rates as they appear on Schedule WEE-A.”<sup>8</sup>

Between November 21, 2011 and November 25, 2011, the Commission caused a Notice to Solicit Comments to be published in the *Providence Journal*, *Narragansett Times* and the *Block Island Times*, providing interested parties and members of the public an opportunity to offer written comments regarding Interstate’s filing by December 9, 2011. No comments relevant to the proposed increase were submitted in response to the Notice. The Commission did receive a letter from Christopher Warfel, President of Entech Engineering, Inc. He requested that the Commission review the freight rates

---

<sup>6</sup> Memorandum from John Bell to Luly Massaro, Commission Clerk, 12/2/2011.

<sup>7</sup> *Id.*

<sup>8</sup> Letter from Nancy O. Dodge to Public Utilities Commission, 12/5/2011.

applicable to solar panels as part of its review of the proposed CPI increase, recognizing that the proposed increase does not apply to freight rates.<sup>9</sup>

At its open meeting held on December 21, 2011, the Commission reviewed the record and approved Interstate's proposed rate adjustment for effect on January 1, 2012. The Commission also specifically found that good cause exists under R.I. Gen. Laws § 39-3-12 to grant the request of the parties to approve the rate change without a hearing. The Commission's general policy is that when there is a rate increase, a hearing is required. In general, when the Commission has found good cause to waive a hearing under R.I. Gen. Laws § 39-3-12, it has either been when there is a rate decrease and the decrease should go into effect as soon as possible, or in the cases of the Providence/Newport Ferry run by RIPTA or the Jamestown/Newport Ferry rate changes, it has been because those services are purely discretionary.

In this case, Interstate is seeking a rate increase based on a previously approved calculation and therefore, would generally be found to require a hearing. However, the increase does not apply to certain lifeline services (commuter rates, commuter vehicles and freight). One could argue that it will affect summer workers on Block Island who do not have a Block Island license. However, such arguments will not change the calculation previously approved by the Commission.

By analogy, under its current Alternative Regulation Plan, approved in August 2005, Verizon was authorized to reduce its Lifeline subsidy from \$9 per month in 2005 to \$8 per month in 2006 to \$7 per month in 2007, effectively raising rates by \$1 per month. These changes were incorporated without additional hearings following the 2005 Order. The prior Alternative Regulation Plan allowed Verizon to raise rates by \$1 per month

---

<sup>9</sup> Letter from Mr. Warfel dated 12/6/11.

each year of the three year plan. Verizon did so on two occasions, each time without a hearing following the issuance of the Alternative Regulation Order. The basis for waiving a hearing in those instances was the fact that the public and the parties had the opportunity to comment or provide evidence on proposals.

In this instance, the Settlement includes an automatic increase based on the calculation of the difference in the CPI-U Northeast on September of the current year versus the CPI-U Northeast on September of the prior year and requires no discretionary determination by the Commission. This provision was the subject of the Commission's hearing on December 12, 2006, at which time, the Commission devoted significant time at the hearing on this very provision. The subsequent Order extending the Rate Plan for one year found that the continuation of the Rate Plan was in the best interest of ratepayers, on the basis that the continuation would provide another year of stability for commuters and freight and also because Interstate was preparing to undertake a comprehensive review of the calculation of its freight rates.<sup>10</sup> Therefore, because the methodology for this proposed rate adjustment has been vetted by the Commission at an earlier time in this docket, there is no need to repeat the process.

The only matter remaining for Commission review is whether the Company followed the methodology correctly and calculated the rates in accordance with that previously approved methodology. Based on its own review and the Memorandum from the Division, the Commission finds that Interstate correctly determined the percentage change in the CPI-U Northeast from 2010 to 2011, correctly adjusted for the previously approved ROE increase, and accurately applied the percentage to its rates.

---

<sup>10</sup> Order No. 20406 (issued July 11, 2011).

With regard to Mr. Warfel's request that the Commission undertake a review of Interstate's freight rates applicable to solar panels, the Commission declined to do so as part of its review of the proposed CPI increase or as part of a separate docket at this time. The freight rates were approved as part of Interstate's last rate filing which was a comprehensive review of all rates. The Commission understands that freight rates are based on many factors such as square footage, weight, and fragility. It would be inappropriate for the Commission to review only one specific rate outside of a full review of Interstate's freight rates. That review does not need to take place now as the Commission expects there will be an opportunity for a full review in the near future. The Commission notes that the Extended Rate Plan is set to expire on December 31, 2012 and expects the Company will be filing a rate case in the Spring of 2012. One of the reasons for extending the Rate Plan was to allow the Company, at the request of the Town of New Shoreham, to undertake a comprehensive review of its freight rates. The Commission expects the results of this review will be included in Interstate's next general rate filing.

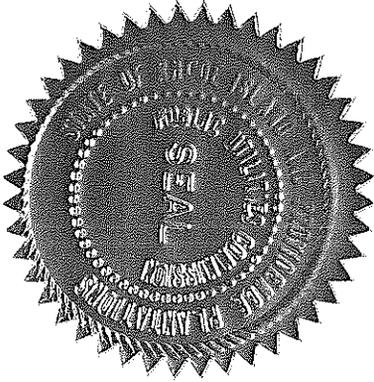
Accordingly, it is

(20609) ORDERED:

1. Interstate Navigation Company's Filing to Adjust Rates based on the annual change in the CPI-U Northeast made on October 31, 2011 is hereby approved for effect January 1, 2012.
2. Interstate Navigation Company shall comply with all findings and instructions contained in this Report and Order.

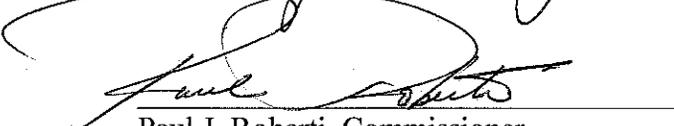
EFFECTIVE IN WARWICK, RHODE ISLAND ON JANUARY 1, 2012,  
PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 21, 2011.  
WRITTEN ORDER ISSUED JANUARY 5, 2012.

PUBLIC UTILITIES COMMISSION



\_\_\_\_\_  
\*Elia Germani, Chairman

  
\_\_\_\_\_  
Mary E. Bray, Commissioner

  
\_\_\_\_\_  
Paul J. Roberti, Commissioner

\*Chairman Germani concurs but is unavailable for signature.

**NOTICE OF RIGHT OF APPEAL** PURSUANT TO R.I.G.L. SECTION 39-5-1, ANY PERSON AGGRIEVED BY A DECISION OR ORDER OF THE COMMISSION MAY, WITHIN SEVEN DAYS (7) DAYS FROM THE DATE OF THE ORDER, PETITION THE SUPREME COURT FOR A WRIT OF CERTIORARI TO REVIEW THE LEGALITY AND REASONABLENESS OF THE DECISION OR ORDER.