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September 6, 2005

BY HAND

Luly Massaro
Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

Re: Interstate Navigation Company General Rate Filing
Docket No. _____

Dear Luly:

Enclosed please find for filing in the above matter an original and nine (9) copies of the Motion to Intervene of the Town of New Shoreham. A copy of this filing is being made available to parties today at the procedural conference in this matter and also is being emailed to you and to the Service List.

Thank you for your assistance in this matter.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Alan D. Mandl" with a small flourish at the end.

Alan D. Mandl, Bar No. 6590

Enclosures
cc: Service List

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

_____))
INTERSTATE NAVIGATION COMPANY)
APPLICATION FOR APPROVAL OF NEW)
RATES DESIGNED TO GENERATE ADDITIONAL)
REVENUES IN THE AMOUNT OF \$2,438,522 OR)
27.15%, FILED 7/31/06)
_____)

DOCKET NO. 3762

MOTION TO INTERVENE OF THE TOWN OF NEW SHOREHAM

Pursuant to Sections 1.13 and 1.16 of the Commission's Procedural Rules, the Town of New Shoreham (the "Town") hereby moves to intervene in the above-captioned matter. In support of its Motion, the Town states as follows:

1. The Town relies upon the services provided by Interstate Navigation Company ("Interstate") as the principal means by which its residents travel between Block Island and mainland Rhode Island. Interstate also furnishes the means by which motor vehicles, such as cars and trucks, access Block Island and return to the mainland. Goods are shipped by Interstate and providers of services to the Town and its residents also rely upon Interstate's ferries. In addition, Interstate also transports a substantial number of seasonal residents and visitors who also depend upon reliable and economical services from Interstate.

2. The substantial rate increase proposed by Interstate would directly impact Town residents as well as the economic well-being of the Town. The Town has been accorded intervenor status in past Interstate rate-related proceedings before the

Commission, which has recognized the Town's direct interest in the lifeline service provided by Interstate. Intervention in this proceeding has been authorized by the Town Council.

3. Based upon a preliminary review of Interstate's rate filing, the Town has identified a number of material concerns.

The Amount of the Proposed Rate Increase

4. Interstate, at this early stage, has not demonstrated to the Town's satisfaction that its proposed rate increase is just and reasonable. Interstate has proposed multiple adjustments to test year results that must be subjected to discovery. The failure of Interstate to review or change a large number of accounts also requires investigation as to whether any material adjustments are needed. While Interstate has had a recent history of large legal, accounting and regulatory costs, it appears to the Town at this stage that the end to sparring with a competitor should result in a substantial reduction in such costs going forward. It also is unclear at this early stage whether test year costs include any substantial items of an extraordinary or non-recurring nature, which should be amortized over a long period of time or excluded altogether from cost of service. Interstate's wage increase calculations appear flawed to the extent that they treat the addition of Homeland Security payroll as a basis for determining the average rate of salary increases to be applied to total payroll. The reduction in competition faced by Interstate may reduce its risk and, in turn, its cost of capital. These are but a few of the many cost of service issues that need to be investigated.

Interstate's Rolling of Fuel Costs into Base Rates

5. Interstate's proposal to add substantial fuel costs to its base rates is

unreasonable. Even assuming that an increase in the fuel portion of base rates is warranted, the level requested by Interstate is unreasonably high, especially in light of the absence of a true-up mechanism. Its proposal patently unreasonable because it could enable the Company to reap windfall gains if fuel prices drop. Interstate has not proposed to refund any over-collections for fuel if its actual fuel costs are below the amount built into base rates. R.I.G.L. §39-12-13, which authorizes the Administrator to implement a “diesel price emergency surcharge program,” does not address base rates at all. The Town is interested in assuring that reasonable alternatives to Interstate’s fuel cost proposal which limit cost impacts on year round customers be considered in this proceeding.

Treatment of High Speed Ferry Operations

6. Despite past promises to credit ratepayers with any net profits from its high speed ferry operations, Interstate has omitted entirely from its rate filing any high speed ferry revenue credit for the first year of operations or for the rate year. This omission has not been justified.

7. The Commission should not accept Interstate’s qualified promises of net benefits from the high speed ferry operation and must guard against year round ratepayers being forced to cross subsidize high speed ferry operations. The Commission must closely examine Interstate’s high speed ferry operations in order to determine whether they should be (1) separated from year-round operations altogether and required to be self-funding; (2) made a part of the year-round regulated cost of service, with cost of service-based rate design principles applied to avoid a year round cross subsidy of the fast ferry operation; or (3) operated as a separate division of Interstate, bearing an

appropriate level of costs, with any net revenue credit applied as previously committed by Interstate.

8. Interstate has made three related filings with the Commission and Division that need to be coordinated with and/or made part of this proceeding. These filings with the Division impact, and may be impacted by this proceeding. Interstate has requested Division approval of its purchase of the Rhode Island assets of Island High Speed Ferry and of a long term debt financing of about \$5.6 million in order to acquire these assets. The impacts of this proposed asset purchase and long term financing on Interstate's year round costs and operations need to be evaluated by the Division and, in the event of Division approval, by the Commission. Any conditions imposed by the Division in connection with approvals would need to be considered in this proceeding.

9. Similarly, on August 29, 2006, Interstate made a high speed ferry tariff filing in which it seeks to extend the existing high speed ferry rates without an adequate demonstration that these rates are sufficient to cover fully allocated costs or other costs deemed relevant by the Commission. The rates that it has sought to perpetuate were never based on any type of cost of service prepared by Interstate. Absent a comprehensive investigation of the costs of providing high speed ferry service, ratepayers of Interstate's year round services are being placed at risk of cross-subsidizing Interstate's acquisition and operation of its former competitor's high speed business. The Town believes that any shortfall in high speed ferry revenues relative to expenses should be borne by stockholders and that any risks associated with continuing existing high speed ferry rates should be borne by stockholders.

10. Because Interstate has sought expedited approval by the Commission of an extension of existing high-speed ferry rates without any cost justification, the Commission may need to reserve to the year round rate proceeding and evaluation of the adequacy of the high speed ferry rates if it does not conduct a comprehensive investigation of that issue in the context of Interstate's high speed rate filing application..

Cost Allocation and Rate Design

11. The Town has an interest in ensuring that the costs of providing year round ferry service are reasonably allocated and assigned across classes of services.

12. The Town therefore has a direct, specific and substantial interests in ensuring that the above issues are fully evaluated by the Commission in determining just and reasonable rates for Interstate.

13. If permitted to intervene, the Town intends to conduct discovery, cross-examine witnesses sponsored by other parties and offer exhibits. The Town will carefully review any discovery requests issued by the Division to date in order to avoid any undue duplication. At this time, the Town has not determined whether retention of experts will be necessary, but reserves the right to offer one or more witnesses.

14. Intervention by the Town is in the public interest. Interstate's ferry service is a lifeline service to the community. The Town therefore has a critical interest in the outcome of this proceeding. The Town's participation as an intervenor will provide the Commission with diverse and local input regarding Interstate's rate filing. No other party can adequately represent the unique interests of the Town in this proceeding.

15. Copies of all notices, pleadings, correspondence and other filings should be served upon the following:

Alan D. Mandl, Esq., Bar No. 6590
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55 Old Bedford Road
Lincoln, MA 01773
Phone: (617) 228-4464
Email: amandl@smithduggan.com
Fax: (781) 259-1112

Nancy Dodge
Town Manager
Town of New Shoreham
PO Drawer 220
Block Island, RI 02807

For the reasons above, the Town requests that the Commission grant its Motion to Intervene.

Respectfully submitted,

TOWN OF NEW SHORHAM

By its attorneys,



Alan D. Mandl, Bar No. 6590
Smith & Duggan LLP
55 Old Bedford Road
Lincoln, MA 01773
(617) 228-4464
amandl@smithduggan.com

Dated: September 6, 2006

CERTIFICATE OF SERVICE

I hereby certify that on this 6th day of September, 2006, I served a copy of the foregoing Petition to Intervene of the Town of New Shoreham in Docket No. 3762 upon all parties by hand delivery or mailing a copy of said Petition by first class mail, postage prepaid, and caused a copy of the same to be emailed to all parties.


Alan D. Mandl, Bar No. 6590