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October 26, 2005

BY FEDERAL EXPRESS PRIORITY OVERNIGHT AND EMAIL
Luly Massaro
Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

Re: Interstate Navigation Company Application for Approval of New Rates Designed to Generate Additional Revenues in the Amount of $2,438,522 or 27.15 %; Docket No. 3762

Dear Luly:

Enclosed please find for filing in the above matter an original and nine (9) copies of the Position Memorandum of the Town of New Shoreham. A copy of this filing is being emailed to you and to the Service List.

Thank you for your assistance in this matter.

Very truly yours,

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%	)	**DOCKET NO. 3762**

POSITION MEMORANDUM OF THE TOWN OF NEW SHOREHAM

I. INTRODUCTION

Pursuant to Rule 1.20(k) of the Commission's Procedural Rules, the Town of New Shoreham (the "Town") submits its Position Memorandum regarding Interstate Navigation Company's July 31, 2006 application for approval to increase its conventional ferry base revenue requirements by $2,438,522, or 27.15%, effective as of January 1, 2007.[1]

The Town intervened in this matter on September 6, 2006. As the Commission is aware, Interstate's conventional ferry service has been considered a lifeline type of service. It "…represents the only means of regular and abundant daily passenger and freight exchange between Block Island and the Rhode Island mainland…."[2]

[1] Interstate used a test year of December 1, 2004-November 30, 2005, an annual period that does not correspond to the calendar-year based rate year. The test year also does not correspond to Interstate's fiscal year. These disconnects complicate the review of Interstate's revenue requirements.
[2] Report and Order, *In re: Interstate Navigation Company Ferry Services Between Providence, Newport and Block Island,* Division Docket No. 99-MC-107 (Feb. 29, 2000) at 10.

The Town regards Interstate as a valuable partner in serving the needs of Block Island and the many persons that depend upon reliable ferry service at a reasonable cost for their livelihoods and for the public convenience. At the same time, the Town observes that Interstate has routinely sought rate increases substantially larger than the rate increases awarded by this Commission after a review of the record.[3]

Based on its review of Interstate's filing and discovery responses provided to date, the Town opposes Interstate's rate request as excessive and unreasonable in multiple respects. As a result of the Commission's May 11, 2006 Order in Docket No. 3742, Interstate was under an obligation to file its high speed ferry operating results for the 2006 summer season (ending in early October) with the Commission by January 7, 2007, so that the Commission could then determine how any net profit would be utilized: to fund the purchase of a high speed ferry, subsidize lifeline conventional rates, or otherwise enhance service to customers.[4] The timing of Interstate's rate filing has unduly complicated the ability of the parties to address this issue as well as the Commission's implementation of the requirements imposed in Docket No. 3742.[5] Nevertheless, the Town has addressed this critical rate case issue in its Position Memorandum.

The Town's Position Memorandum also addresses other revenue requirements issues based on its review of Interstate's filing and discovery responses received to date. rate request. Information needed to fully evaluate Interstate's rate filing is not available at

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[3] *See, e.g.*, Report and Order, *In re: Interstate Navigation Company Petition for General Rate Increase*, Docket No. 3573 (July 28, 2004) at 1, 36.

[4] Order, Docket No. 3742 (May 11, 2006) at 3 and attached Stipulation at 1,2.

[5] The Commission might well conclude that Interstate's July 31, 2006, rate filing is patently deficient because it has failed to address within the above framework the presentation of high speed ferry results and the disposition of any profits in accordance with Interstate's prior commitment. Rule 2.5(b) requires a company to file its complete direct case and not defer relevant information until late in the proceeding. Given Interstate's intent to engage in high speed operations during the requested rate year commencing on January 1, 2007, it was incumbent on Interstate to fully address its Docket No. 3742 obligations in its rate filing.

this time. The Town reserves its right to modify and supplement its positions on the issues discussed below and to raise additional issues after discovery is completed, a record is more fully developed and it has had an opportunity to review the Division's pre-filed testimony.

II. REVENUE REQUIREMENTS ISSUES

The Town has several main concerns regarding Interstate's rate application.

A. Excessive Fuel Costs Have Been Rolled Into Base Rates and Create a Substantial Risk of Over-Recovery

Interstate has proposed to roll into base rates fuel costs based on Mr. Edge's projected fuel costs of $2.81 per gallon, compared to test year costs of $1.979 per gallon. Total test year fuel costs were $1,054,361 and $667,710 of that total was recovered in base rates. Rate year fuel costs are estimated by Interstate at $1,499,173 and all of that is proposed to be recovered through base rates.

The Town recognizes that the fuel surcharge concept makes sense in an era of fuel cost volatility. The Town also recognizes that, for reasons stated by Interstate, the current fuel surcharge month to month adjustment has the effect of making summer passengers pay lesser fuel surcharges than off season passengers. Fuel costs are tied to the number of trips and less directly related to the number of passengers per trip. Since capacity utilization is higher in the summer season, summer passengers pay lower fuel surcharges than winter passengers.

While to Town supports an increase in the level of fuel costs rolled into base rates in order to promote ratepayer equity, it opposes Interstate's proposal to derive base rates based on Mr. Edge's fuel cost projections. His proposal puts all fuel costs in base rates and relies upon a projected level of fuel costs well above what Interstate has experienced.

His proposal ignores the availability of a fuel surcharge to capture cost increases above $1.20 per gallon of up to $3.00 per gallon (giving Interstate coverage of up to $5.81 per gallon, assuming that $2.81 per gallon is built into base rates).

Mr. Edge's proposal creates a substantial risk that Interstate would overcollect from ratepayers if fuel costs are below the projected level. Historic costs have not approached the level projected by Mr. Edge-they appear to have peaked at $2.40 per gallon in June 2006 and the test year average was below $2.00. Mr. Edge has not supported his estimates of fuel costs based on either Interstate's actual experience or with any comparisons to respected industry fuel price forecasts.

Under these circumstances, it would be unreasonable to increase the base rate portion of fuel above $1.979, the test year average. This cost is below Interstate's recent fuel costs, but far above the current level of $1.05 now in base rates. The Town reserves the right to consider other approaches that may be suggested by the Division (or by Interstate on rebuttal) that might better balance the risk of over-recovery versus the benefits of allocating more fuel costs across all rates rather than limiting the impacts to passengers only.[6]

In order to better address the equities of the fuel surcharge, the Commission also should consider requiring Interstate to base its fuel surcharge figures on a 12 month moving average of fuel costs and passenger counts with quarterly adjustments to keep the accumulated surcharge (or any over-recovery) in balance with accumulated costs. If this type of proposal is consistent with applicable law, it deserves consideration.

[6] The Town agrees with Interstate that ratepayer equity would be improved if more fuel costs were collected through base rates and less through the fuel surcharge. See, Edge Direct Testimony at 23, 24.

B. Rate Year Legal and Accounting Costs are Unreasonable

Rate year cost of service has been inflated by the inclusion of extraordinary, non-recurring costs associated with Interstate's protracted regulatory and legal battles with Island High Speed Ferry over several years.[7] Given the Division's approval of Interstate's acquisition of IHSF's Rhode Island assets, these costs should not be built into the justification for expected rate year levels of legal and accounting costs, which Interstate has based upon past years when these costs mushroomed.[8]

Interstate has made no adjustment to strip these costs from its rate year cost estimate calculation. Interstate also has claimed during discovery that it has not separated these costs from other legal and accounting expenses of a more routine nature. As stated by Mr. Edge, these expenses were $377,844 for in 2003, $355,755 in 2004, $377,736 in 2005 and $342,259 in the test year. He used a three year average of $363,399 for rate year cost of service.[9]

Interstate must bear the burden of its own failure to properly identify and remove these costs in developing its rate year revenue requirements. Based on Interstate's failure of proof regarding the reasonableness of rate year legal and accounting costs, the Town recommends that the Commission require Interstate to amortize the estimated rate year figure (adjusted to remove non-recurring costs and to reflect the removal of direct high speed costs from the historic periods used to develop the rate year level) over a three year period. These adjustments and this amortization are appropriate under these

[7] See Schedule WEE-10.
[8] Interstate's approach is contrary to Rule 2.6(c)(1), which requires the normalization of expenses in developing rate year figures. Merely averaging several years of expenses skewed upward by the ongoing disputes with IHSF and high speed ferry activities does not constitute normalization.
[9] Edge Direct Testimony at 18-19.

circumstances in light of Interstate's reliance upon extraordinary and non-recurring costs relating to its past disputes with IHSF and its inclusion of costs directly related to high speed operations.[10]

The Town therefore tentatively recommends that the Commission adopt a rate year cost of service expense of $121,133 in place of $363,399 and reduce cost of service by $242,266.[11]

C. Ratemaking Treatment of Fast Ferry Operations

1. First Season Operations

When Interstate sought its high speed ferry CPCN, it claimed that this CPCN was needed, in part, to keep its lifeline service-related rates from increasing. According to the Division's Report and Order in Docket No. D-05-06 (January 23, 2006) at 61, "The core of Interstate's argument rests on the expected profitability of its fast ferry services (approximately $500,000 annually) and the Company's promise to 'pour all of that profit into the lifeline ferry service to control rates on its conventional ferry service for the benefit of its ratepayers.'" (quoting Interstate's Post Hearing Memorandum, p.10). Interstate made a subsequent commitment in Commission Docket No. 3742 (May 11, 2006) to provide the Commission with its 2006 summer season high speed ferry operating results by January 7, 2007. The Commission provided that Interstate and other parties could make recommendations regarding the use of any net profits (presumably from one or more of the three options to which Interstate committed in that docket).

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[10] See, Commission Rules 2.6(c)(1) (normalization) and 2,8(e) (allocations of costs of other operations).

[11] The Town's review of rate case materials suggests that professional fees also include lobbying expenses and other expenses relating to the acquisition of real estate unrelated to conventional ferry operations. These types of expenses should be removed from the amount to be amortized over a three year period.

For its part, Interstate ignored its Division Docket No. D-05-06 and Commission Docket No. 3742 commitments and has proposed to exclude any summer 2006 season high speed ferry earnings from the present rate case and retains any benefits for itself. At the same time, however, it has embedded in its revenue requirements costs associated with its high speed activities, including legal and accounting costs. High speed operations also make use of the same docking facilities, equipment and management, as well as the same Homeland Security measures that Interstate has included in rate year cost of service.

Interstate has promised to supplement its rate filing with additional information regarding its fast ferry first season and projected operating results. This type of information should have been included in a complete application, not after discovery is past and testimony is due. The Town therefore recommends that the Commission take the full suspension period to resolve this matter in order to enable consideration of the ratemaking treatment of fast ferry first year operating results as contemplated in Docket No. 3742. Since the 2006 summer season ended in early October, it is within the control of Interstate how soon it provides the Commission and the parties with this critical information.

At this time, the Town recommends that any summer 2006 season high speed earnings be credited to ratepayers as an offset to any conventional service revenue requirement. That recommendation is consistent with Interstate's representations when it applied for a high speed CPCN.

2. Ratemaking Treatment of Ongoing High Speed Operations

a. The Commission Should Require a Baseline Fully Allocated Cost of Service for High Speed Operations

The Town believes that the most consistent and clearest approach to the high speed and traditional ferries is to treat them on a fully consolidated basis with an allocation of costs between the two services. In this way, the passengers of the high speed service will clearly absorb their fair share of the costs and the full benefit is divided appropriately between Interstate and the ratepayers. A fully allocated cost approach also ensures that conventional rates are not subsidizing high speed operations in the event that they are marginal or unprofitable. By conducting a fully allocated cost study, the Commission can best insure that conventional services do not subsidize high speed services.

A fully allocated cost study also would enable the Commission to test the adequacy of Interstate's high speed rates, which are not now and never have been based upon Interstate's costs of providing high speed service.

Interstate's proposal to book only its self-described "direct costs" of high speed operations is filled with problems and results in conventional services cross-subsidizing high speed services. Interstate has left in conventional cost of service rate setting multiple costs associated with high speed operations that should be treated as direct costs and removed from the development of rate year revenue requirements (for example, the costs associated with its high speed CPCN). Given the uncertainty whether high speed operations will be profitable and the level of such profitability, it cannot be said that an earning credit would make conventional ratepayers whole.

The Town estimates that the high speed service should absorb about $840,000 of $7.1 million in non-fuel, non-depreciation operating costs that should be allowed to Interstate. This estimate is based on allocating labor and other operating costs not directly associated with the individual boats on the basis of total boat trips for most of such costs and on the basis of total revenues for general administration.[12]

	Test Year Costs	Allocation to Traditional Service	Allocation to High Speed Service	Basis for Allocation
Employment	3,174,120	2,687,890	486,230	15% of Employment
Operating	3,012,838	2,667,701	345,137	11% of Operating
Vessel Maintenance	279,546	279,546	0	
Total	6,466,504	5,635,138	831,367	

Notes:

1. Employment cost allocation derived by allocation of employees and compensation on the basis of:
    a. Employees on Carol Jean, Anna C and Block Island and related maintenance staffs allocated to Traditional Service
    b. Employees at the docks allocated to Traditional and High Speed service based on their respective percentages of total voyages
    c. Other employees with administrative functions allocated between the two services based on their proportion of revenues
2. Operating costs allocation derived allocation of all other non-fuel, non-depreciation costs using the same logic as the allocation method for employment costs

The Town's estimate reflects a fully allocated cost approach which recognizes that fast ferry operations are supported by the same docks and facilities used by

[12] Actual implementation of a fully allocated costing approach would require the Commission to take into account the treatment of plant and return requirements as well as additional operating and maintenance costs that Interstate incurs solely in connection with its high speed operations.

Interstate's conventional services and that management, employees and contractors perform work for both conventional and high speed activities.

The Town estimates that, based on the projections provided by Interstate, that Interstate will earn approximately $230,000 over an allowable return without any allocation of costs. By absorbing $840,000 in costs and raising high speed rates by $610,000, Interstate will be in a position to earn its allowable return on both services and allocate the fare increases fairly between both the traditional and the discretionary high speed service.

While the Town would prefer to have a consolidated filing for rate purposes including both services, as outlined above, the Town believes that the same effect could be achieved through the application of a high speed revenue credit of $840,000. This revenue credit would compensate conventional services for bearing the share of fully allocated costs that should be assigned or allocated to high speed operations.[13] In addition, it would be consistent with Commission Rule 2.8(e).

The Town favors the fully allocated cost approach because it also would ensure that as costs increase, the high speed operation will bear its fair share. It is anomalous to have a major rate increase proposed for conventional operations and no increase for high speed operations. There is no reason why conventional ratepayers should absorb all of these cost increases, especially in the absence of any assurance of an offsetting revenue credit.[14] Under Interstate's approach, it embeds all allocable and some directly assignable

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[13] The Town acknowledges that some refinements can be made where information allows for more direct assignments of costs. For example, a better breakout of the high speed portions of legal and accounting expenses incurred during the test year and relied upon to estimate rate year expenses levels would enable the direct assignment of these expenses to high speed operations.

[14] It is not uncommon that when a cost of service is offset by a revenue credit from other utility operations supported by the same facilities and employees, a portion of post test year adjustments is imputed to the other utility operations on the assumption that they will be recovered through the other utility operations.

high speed costs in conventional ferry cost of service. Should Interstate's fast ferry operations not be as profitable as expected, there will be little or no revenue credit and conventional service ratepayers will have effectively subsidized high speed operations.[15]

The Town has taken the consistent position that siphoning-off summer customers from the traditional service to "unregulated" services that do not contribute directly to supporting lifeline winter costs is a very serious matter. Interstate has consistently taken the same position in situations where third-parties have proposed competing services. It is time for Interstate to maintain the consistency of its prior positions and make sure that:

1. All passengers carried by Interstate contribute clearly and directly to supporting the winter lifeline service
2. All passengers in all classes of service share in any rate increases
3. The original concept of a minimum price differential is maintained between the traditional lifeline service and any discretionary high speed service.

As in other utility rate cases, the overall revenue requirement should be directly assigned and allocated based upon reasonable cost allocation principles. Through this approach, conventional service ratepayers would be relieved of a portion of embedded cost requirements that support high speed operations.

b. Alternatively, the Commission Should Require High Speed Operations to Bear Their Direct Costs, Plus a Reasonable Allocation of Joint and Common Costs

Alternatively, if the Commission prefers to treat the high speed operations as a separate division of Interstate, with its rate set through separate proceedings on a basis other than fully allocated costs, the Commission should establish a detailed basis for charging high speed operations with their direct costs, plus a reasonable portion of joint

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See, e.g., Boston Edison Company, M.D.P.U. 906 (1982)(retail revenue requirement reduced to reflect that a portion of post test year adjustments would be recovered through wholesale power rates).

[15] The high speed rates were never based on Interstate's costs, direct or fully allocated. Their reasonableness, for purposes of a revenue credit approach in this case, has not been established.

and common costs. Interstate has neither made nor proposed any allocation of joint and common costs to its high speed operations. In fact, Interstate has buried in its revenue requirements justifications legal and accounting costs attributable to high speed activities. It also has tried to inflate return on equity to reflect the risks of fast ferry operations.[16]

The Commission has experience with joint and common cost allocations and the Town is confident that a reasonable level can be determined in this proceeding.

Application of this type of direct cost approach can only be justified if a portion of joint and common costs is attributed to high speed operations, direct costs are separately identified and weeded out of conventional cost of service and conventional rates are reduced by a revenue credit from high speed operations.[17]

c. Assuming that the Commission Requires a Crediting of High Speed Earnings to Reduce Conventional Service Revenue Requirements, the Acquisition Premium Incurred by Interstate Due to its Acquisition of IHSF's Rhode Island Assets and all Costs Associated With Interstate's Purchase of These Assets Should be Borne by Interstate Shareholders and Should Not Reduce any Revenue Credit

In addition, the Commission must take steps to insure that a revenue credit is not illusory. The Commission should direct that high speed earnings for revenue credit purposes cannot be reduced or offset by the substantial $1.4 million asset acquisition premium incurred by Interstate in paying well over book value for IHSF's Rhode Island assets. Costs associated with the asset acquisition process also should be removed from any derivation of rate year legal and professional costs and directly assigned to high speed operations. These costs also should be amortized.

[16] Edge Direct Testimony at 30.
[17] The past competition from IHSF has ended. Competition from New London comes from parties related to Interstate itself.

D. Payroll Expenses Are Overstated

Interstate has overstated rate year payroll expenses by including in the percentage increase in payroll expenses the additional payroll attributable to Homeland Security requirements. This increment to payroll in a prior year was not due to salary or wage adjustments for existing employees and therefore should not have been included in determining average increases in salary and wage levels.

The Town recommends that the payroll adjustment be recalculated to exclude the payroll increase attributable to the addition of the Homeland Security payroll. Mr. Edge's proposed adjustment of $272,619 should be reduced to approximately $136,300.[18]

Mr. Edge has not supported his assumption that future wages would match a goal of keeping payroll increases no greater than 5% and has not justified the allowance of a 5% payroll increase. In fact, the payroll increases in 2004 and the test year were well below 5% on average (2.45% - a rate much more consistent with overall levels of inflation).

The above adjustments should be complemented by similar adjustments to payroll taxes and fringes, as these rate year estimates were based on Mr. Edge's overstated rate year payroll estimate. Similarly, crew expenses, which were increased from $127,604 in the test year to $141,454 for the rate year should be reduced by about $7,000 to $134,000.[19]

E. Point Judith Wharfage Increases are Speculative

The estimated increase in Point Judith Wharfage expenses (a doubling of the

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[18] Edge Direct Testimony at 15. The revised percentage increase would be 2.45% in place of 5% used by Mr. Edge. As a result, his projections should be reduced in half.
[19] See Edge direct Testimony at 14-15.

current expense) has not been imposed yet by DEM and remains speculative at this time. Absent a definite increase imposed by DEM, this adjustment of $39,124 should be rejected.

The Commission also may wish to inquire whether any proposed increase reflects the utilization of Point Judith wharfage for high speed operations in addition to conventional ferry operations.

F. Old Harbor Wharfage

The lease expenses charged to Interstate are claimed to be reasonable. They reflect a month to month arrangement with a related party, which has replaced a long term lease that carried a much lower lease expense, apparently pending further discussions between the related parties about rental and other unspecified issues.

The Commission should require Interstate and its related party to explain what is going on here. By hiking lease expenses under a month to month arrangement, these parties are effectively evading a Commission requirement that these leases expenses be reviewed as to their prudency. Are these lease increases effectively disguised dividends? As stated in discovery , there is a substantial overlap in economic ownership between Interstate Navigation and Interstate Nav. Interstate Navigation pays no dividends to its economic owners (only salaries to its voting owners). This creates a *prima facie* issue whether the lease payments to Interstate Nav include, in effect, dividends to the economic owners of Interstate Navigation and, thus, should come under a prudence review by the Commission.[20] Any disputes between the lessor and Interstate affecting Old Harbor

[20] The minutes of Board meetings reflect that Interstate Navigation has routinely refused the requests of non-voting owners (who have voting control of Interstate Nav.) to pay out dividends. These circumstances heighten the likelihood that Interstate Nav. would increase lease charges in order to extract more funds from Interstate.

leasing arrangements or related issues should be fully explained to the Commission and Division in this proceeding.

It is premature for the Town to suggest a cost of service adjustment regarding the Old Harbor lease expenses.

G. Homeland Security Expenses

The original concept for the separate Homeland Security fund in the prior rate case was that the whole area was new and uncertain. A separate restricted fund was created in light of this uncertainty. With several years experience, this rationale is no longer valid and the Homeland Security expenses should be rolled into the general cost structure.

Based on its review of discovery responses, the Town is concerned that Interstate may be charging to Homeland Security accounts costs that are not in the nature of mandated expenditures. Also, the Town is concerned that the rate year level embeds one-time capital expenditures that cause rates to be higher than necessary. An increase of $149,000 has been proposed by Interstate.

The Homeland Security fund should be dismantled for ratemaking purposes, but expenses should be tracked internally through separate accounts or sub-accounts. The Commission should direct Interstate to provide in future proceedings or as a compliance filing in this case a detailed explanation showing the nexus between specific Homeland Security requirements and the costs charged to its Homeland Security accounts. The Commission should also require Interstate to demonstrate that its Homeland Security expenditures are reasonable and prudent in relationship to the costs incurred by other ferry operations. Ratepayers should not be burdened with unnecessary and charges.

H. Point Judith Renovations

Interstate does not appear to have credited against its revenue requirements calculations the grant awarded to it by the federal government. The Town believes that the grant amount was about $47,000. If Interstate has not properly credited this grant against the cost of the Point Judith renovations included in the WEE-12 rate base calculation, the revenue requirement should adjusted downward through a rate base reduction.

I. Projected Vessel and Terminal Maintenance

Mr. Edge has made rate year estimates for vessel and terminal maintenance of $223,610 and $71,466, respectively.[21] He also made a separate adjustment of $50,000 for an emergency repairs allowance.

The Town opposes the emergency repairs allowance. To the extent that emergency repairs have been required, they are reflected in the test year cost of service and should not be added in again through an extra adjustment. Cost of service should be reduced by $50,000.

The Town does not oppose a reasonable level of expenses for vessel and terminal maintenance. At this time, it takes no position on whether the rate year levels proposed by Mr. Edge are reasonable. It is concerned that Interstate does not appear to have formal maintenance and capital expenditure plans or budgets.[22] The Commission should require Interstate to formalize its maintenance and capital planning process and budgeting. This requirement is all the more important now that Interstate has acquired a high speed vessel with competing demands for funds. This very basic planning process should not be

[21] Edge Direct Testimony at 22.
[22] Interstate response to Town- .

unduly burdensome for Interstate, given its long history of operating conventional ferries, management's ability to create an analysis of capital and expenses for vessels and terminals for rate case purposes and its recent due diligence in acquiring a high speed vessel.[23]

J. Rate Case Expenses

The Commission should require that rate case expenses be amortized over no less than a 3 year period rather than the 2 year period proposed by Interstate. In the last rate case, these expenses were amortized over a 5 year period. Further, it has been 3 years since Interstate's last base rate case. The precise amount of the adjustment will be known after Interstate performs a true-up of rate case expenses relative to its estimate.

K. Return on Equity

The Commission should allow a 10.50% return on common equity in place of the 12% sponsored by Mr. Edge. Mr. Edge used 10.50% as his starting point and then increased this rate by 50 basis points on account of competition, 50 more basis points due to Interstate's size and yet another 50 basis points because of Interstate's entry into the fast ferry business. None of these adjustments are sustainable.

Interstate has no year round conventional ferry competition. It now has the only high speed service from mainland Rhode Island to Block Island. It promised to insulate conventional operations from the risks of fast ferry operations, not build them into conventional rates.

Based upon Mr. Edge's testimony at 30 that each of these adjustments is worth $15,633, revenue requirements should be reduced by $46,899.

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[23] See, e.g., Edge Direct Testimony at 22.

L. Miscellaneous

1. Concerns Regarding Cost Controls

Interstate has not demonstrated in its filing or discovery responses efforts made to control its costs. It revealed in response to Town discovery that it does not maintain timely, documented systems for monitoring and managing its costs or for preparing internal and external cost reporting. This lack of cost management procedures is itself a concern because of the large rate increase that is being requested. Close attention needs to be paid to the large categories of expenses that Interstate has sought to include in its revenue requirement as well as the various *pro formas* that any lack credible basis.

2. Reservation of Rights

Because discovery has not been completed and the Town has not had an opportunity to review the Division's pre-filed testimony, it reserves the right to modify and supplement the positions taken on the above issues and to raise additional issues during this proceeding.

Respectfully submitted,

TOWN OF NEW SHOREHAM

By its attorney,

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

Dated: October 27, 2006

Allocation Methodology for Operating Costs

Operating			Traditional	Hi Speed
Terminal Maintenance	40,922	Trips	29,380	11,542
Lube	27,126	Traditional	27,126	0
Supplies	24,119	Traditional	24,119	0
Other Vessel Expense	11,998	Traditional	11,998	0
Wharfage	314,028	Trips	225,458	88,570
Building Maintenance	12,698	Trips	9,117	3,581
Rent	34,420	Trips	24,712	9,708
Charter	17,575	Traditional	17,575	0
General maintenance	35,201	Traditional	35,201	0
Bar Supplies	237,685	Traditional	237,685	0
Homeland Security	246,350	Trips	176,868	69,482
Utilities	91,481	Revenue	78,696	12,785
Auto Maintenance	6,034	Revenue	5,191	843
Auto Expense	14,795	Revenue	12,727	2,068
Local Transfer	130,846	Traditional	130,846	0
Travel	6,681	Revenue	5,747	934
Advertising	364,839	Revenue	313,851	50,988
Trash	28,135	Revenue	24,203	3,932
Other Traffic	44,091	Traditional	44,091	0
Office	43,015	Revenue	37,003	6,012
Dues & Subscriptions	11,369	Revenue	9,780	1,589
Professional Services	342,259	Revenue	294,427	47,832
Other Professional Fees	69,318	Revenue	59,631	9,687
Credit Card	120,484	Traditional	120,484	0
Bank Charges	1,168	Revenue	1,005	163
Finance Charges	1,267	Revenue	1,090	177
Freight	7,260	Traditional	7,260	0
Contributions	3,001	Revenue	2,582	419
Miscellaneous	29,345	Revenue	25,244	4,101
Telephone	77,635	Revenue	66,785	10,850
PUC Expense	33,061	Traditional	33,061	0
Insurance	217,490	Traditional	217,490	0
Bad Debts	1,558	Revenue	1,340	218
Damages	8,597	Traditional	8,597	0
Penalties	133	Traditional	133	0
Returned Items	5,298	Traditional	5,298	0
Chargebacks	1,348	Traditional	1,348	0
Refunds	70,159	Traditional	70,159	0
Municipal Tax	31,339	Traditional	31,339	0
Gross Receipts Tax	104,757	Traditional	104,757	0
Annual Report	125	Revenue	108	17
Sales and Use Tax	44,863	Traditional	44,863	0
CT Corporate Tax	250	Revenue	215	35
Permits & Licenses	3,736	Revenue	3,214	522
Payroll Service	6,190	Revenue	5,325	865
Computer Expense	58,789	Revenue	50,573	8,216
Rate Case Expense	30,000	Traditional	30,000	0
Total Operating	3,012,838		2,667,701	345,137

CERTIFICATE OF SERVICE

I hereby certify that on this 26th day of October, 2006, I served a copy of the foregoing Position Memorandum of the Town of New Shoreham in Docket No. 3762 upon all parties by mailing a copy of said Requests by Federal Express Priority Overnight, postage prepaid, and caused a copy of the same to be emailed to all parties.

Alan D. Mandl, Bar No. 6590