

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*

July 10, 2008

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

Re: Interstate Navigation Company – Change in Fast Ferry Rates and Terms and Conditions that apply to children under 3 years of age

Dear Luly:

As you know, this office represents Interstate Navigation Company d/b/a the Block Island Ferry (Interstate). Interstate operates both a conventional ferry service and a fast ferry service.

As stated on page 6, paragraph III E of the Amended Settlement Agreement filed with this Commission on December 22, 2006, and approved by this Commission in Order No. 18957, effective January 1, 2007 in joint Dockets 3762 and 3764:

“The Fast Ferry service is a purely discretionary service. Therefore, Interstate shall be authorized to apply to the Commission from time to time to change Fast Ferry Rates and Terms and Conditions and, with Commission approval, to implement such changes on thirty (30) days’ notice. The Division, except in extraordinary circumstances, will not object to any such changes, will not recommend any suspension by the Commission beyond the thirty (30) days’ notice, and will not request compliance with any traditional rate filing requirements other than the thirty (30) day notice. Also, the previously agreed methodology for the calculation of Fast Ferry fuel surcharges will not change.”

Enclosed for your convenience is a copy of the above quoted paragraph.

Interstate’s current Fast Ferry passenger rates currently allow children under 3 years of age to be transported free of charge. (See the enclosed #1 “Current Fast Ferry Passenger Rates,” Note a.)

The Coast Guard has made a determination that even children under 3 years of age who sit on a parent's lap will be counted against the fast ferry's maximum 250 passenger capacity. This means that when the fast ferry is filled to its 250 passenger capacity, fare paying fast ferry passengers may be left on the dock while Interstate is at the same time transporting children under 3 years of age free of charge.

Interstate therefore proposes to change its Fast Ferry passenger rates and terms and conditions to eliminate free transportation for children 3 years of age and under. These children will now be charged the approved child rate, which will now apply to all children up to and including 12 years of age.

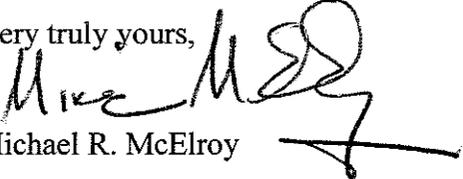
Enclosed for your convenience and marked as #2 are the proposed modifications to Interstate's fast ferry passenger rates. The modifications are shown by strikethroughs. As you will see, none of the rates are changing except that "Note a." is being revised to delete the reference to children under 3 years of age being transported free of charge.

Finally, enclosed and marked as #3 are Interstate's Revised Fast Ferry Passenger Rates effective August 10, 2008, (i.e., in 30 days). The only change is the above described deletion of free passage for children under 3 years of age.

I am enclosing an original and nine copies of this letter and its enclosures. I am also sending a copy of this letter to Paul Roberti of the Attorney General's Office and the Block Island Town Clerk, as well as its Town Manager and legal counsel.

Because we have proposed that this revised fast ferry passenger child rate will become effective in 30 days on August 10, 2008, I would appreciate it if you would set this matter down for ruling by the PUC at an Open Meeting prior to that date.

If you need any further information, please do not hesitate to call.

Very truly yours,

Michael R. McElroy

MRMc:tmg

cc: Paul Roberti, Esq.
Block Island Town Clerk (certified mail RRR)
Nancy Dodge, Esq.
Katherine Merolla, Esq.
Susan E. Linda
Walter E. Edge, Jr.

be no adjustments to actual results to recognize or annualize prospective known and measurable changes. The return on common equity will be calculated by dividing the net income available for common equity by the common equity applicable to rate base. The common equity applicable to rate base shall be calculated by multiplying the common equity ratio required by this subsection by Interstate's average rate base. Any accumulated earnings as calculated in the Final Accumulated Earnings Report over 150 basis points (1.50%) above the allowed return on equity of 11.0% shall be shared 50% for customers and 50% for the Company. The customers' share will be credited to customers through the procedure described in subsection 2 below.

2. Customers' Share of Accumulated Earnings

Prior to proposing a method of crediting customers for the customers' share of earnings above the earnings thresholds, Interstate will consult with the Division to propose a mutually acceptable method. The agreed upon method will then be filed with the Commission for review and approval. If the parties cannot reach agreement, Interstate shall file its proposal directly with the Commission subsequent to consulting with the Division and the Commission will make the ultimate determination.

E. Fast Ferry Rates and Terms and Conditions

The Fast Ferry service is a purely discretionary service. Therefore, Interstate shall be authorized to apply to the Commission from time to time to change Fast Ferry Rates and Terms and Conditions and, with Commission approval, to implement such changes on thirty (30) days' notice. The Division, except in extraordinary circumstances, will not object to any such changes, will not recommend any suspension by the Commission beyond the thirty (30) days' notice, and will not request compliance with any traditional rate filing requirements other than

the thirty (30) day notice. Also, the previously agreed methodology for the calculation of Fast Ferry fuel surcharges will not change.

IV. SPECIFIED ACCOUNTING REQUIREMENTS

A. Fast Ferry

1. Prospective Earnings

All earnings reports required by Section III, above, will include pre-tax profits earned by Interstate's Fast Ferry Division. The actual pre-tax profit earned by the Fast Ferry Division will be calculated employing the debt service method, as shown on Schedule WEE-1RY in this Docket No. 3762. The debt service will include annual interest and principal repayments on all debt used by Interstate to acquire the operations of Island Hi-Speed Ferry in 2006. For the purpose of the reports required by Section III.D.1.a, above, the annual Fast Ferry pre-tax profit will be fixed at \$208,357. However for the purpose of the cumulative five year average ROE in Section III.D.1.b above and for the purpose of calculating the Earnings Below Floor in Section III.B.3 above, the annual Fast Ferry pre-tax profit will be the actual pre-tax profit calculated employing the debt service method, as shown on Schedule WEE-1RY in this Docket. However the pre-tax profit used in calculating the cumulative five year average ROE in Section III.D.1.b above and Earnings Below Floor will not be less than zero. Any acquisition premium and any costs associated with the acquisition of the Fast Ferry will be excluded from Interstate's rate base and from the establishment of rates for traditional service. The Fast Ferry pre-tax profit calculations shall not be affected by this exclusion.

2. 2006 Earnings

All earnings reports required by Section III, above, will include profits earned by Fast Ferry operations in 2006, deemed to be \$365,750 on a pre-tax basis, amortized over a three

#1
CURRENT
FAST
FERRY PASSENGER
RATES

PASSENGER RATES

1. ROUTE:

Between Galilee and Block Island
Between Block Island and Galilee

2. FARES:

a. Individual Tickets

Adult one-way	\$15.50
Adult round trip	\$29.00
Child one-way	\$ 8.75
Child round trip	\$13.50

b. Frequent User Cards

Adult	10 round trips (or 20 one-way)	\$260.00
Child	10 round trips (or 20 one-way)	\$120.00

c. Season's Pass

Not requested

d. Volume Discount

May, June, September and October	Adult	\$20.30
July and August	Adult	\$23.20

NOTE a. The passenger rates for children will apply to children four (4) years of age up to and including children (12) years of age when accompanied by an adult. For children thirteen years of age and older, the adult passenger fares published apply. Children under three (3) years of age when accompanied by an adult will be transported free of charge.

NOTE b. Applicable municipal landing fees will be added.

NOTE c. All Tickets are open ended. However, passengers will be asked for a return date and time, which will be printed on the boarding pass (for seating purposes). If the passenger's travel plans change, they must redeem the issued boarding pass at an Interstate ticket office for a new one, subject to seating availability on a particular departure. This means that passengers who change travel plans on busy weekends, for example, travel on a standby, first come first serve basis.

Because Frequent User Card holders will be allowed to proceed directly to the gate for boarding, it is recommended that at times of heavy traffic volume they check in at the ticket office before boarding, or call in advance to reserve a seat. All tickets, including Frequent User Cards, must be used during the season they are issued.

NOTE d. The season's Passes note is not needed at this time.

NOTE e. Volume Discounts are available only to passengers traveling in groups of 25 or more persons.

BICYCLE RATES

One-way	\$3.00
Round Trip	\$6.00

#2

Modifications to
Ferry Passenger
Rates shown
by STRIKE-Throughs

PASSENGER RATES

1. ROUTE:

Between Galilee and Block Island
Between Block Island and Galilee

2. FARES:

a. Individual Tickets

Adult one-way	\$15.50
Adult round trip	\$29.00
Child one-way	\$ 8.75
Child round trip	\$13.50

b. Frequent User Cards

Adult	10 round trips (or 20 one-way)	\$260.00
Child	10 round trips (or 20 one-way)	\$120.00

c. Season's Pass

Not requested

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NOTE d. The season's Passes note is not needed at this time.

NOTE e. Volume Discounts are available only to passengers traveling in groups of 25 or more persons.

BICYCLE RATES

One-way	\$3.00
Round Trip	\$6.00

#3

PASSENGER RATES

Revised Fast
Ferry Passenger
Rates effective
8/10/08

1. ROUTE:

Between Galilee and Block Island
Between Block Island and Galilee

2. FARES:

a. Individual Tickets

Adult one-way	\$15.50
Adult round trip	\$29.00
Child one-way	\$ 8.75
Child round trip	\$13.50

b. Frequent User Cards

Adult	10 round trips (or 20 one-way)	\$260.00
Child	10 round trips (or 20 one-way)	\$120.00

c. Season's Pass

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May, June, September and October	Adult	\$20.30
July and August	Adult	\$23.20

NOTE a. The passenger rates for children will apply to children up to and including children (12) years of age when accompanied by an adult. For children thirteen years of age and older, the adult passenger fares published apply.

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BICYCLE RATES

One-way	\$3.00
Round Trip	\$6.00