



STATE OF RHODE ISLAND

DIVISION OF PUBLIC UTILITIES & CARRIERS

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Memo To: Luly Massaro, Commission Clerk

From: : John Bell, ^{JB.} Chief Accountant

Date : October 14, 2020

Subject : Interstate Navigation's Fiscal Year 2019 Earnings Report
Docket No. 4373

On September 11, 2020, the Interstate Navigation Company ("Interstate") filed its annual "Earnings Report," for the period ending May 31, 2019, as required by the settlement agreement in Docket 4373. The report shows net income available for common equity of \$1,694,411, which results in a return on equity ("ROE") of 116.3%. The settlement agreement requires earning in excess of a 12% ceiling to be shared 50/50 between shareholders and ratepayers. The earnings above the 12% ceiling totaled \$1,519,533 which resulted in \$759,767 available for ratepayers. In addition, under the FY 2017 ROE settlement, the tax savings on the ROE below the ceiling is also added to the excess earnings. The tax savings amounted to \$42,880, which resulted in a total of \$802,647 available to be used to benefit ratepayers.

In its filing, Interstate proposed to transfer the FY 2019 excess earnings of \$802,647 to the capital reserve. The capital reserve was established as the result of a Commission approved settlement agreement between Interstate and the Division related to the FY 2017 ROE excess earnings. Adding the \$802,647 excess earning to the reserve will bring the balance to \$2,846,493 at the end of FY 2019. Interstate further proposed to utilize the balance of the fund towards the costs of a recent repowering and renovation of the M/V *Anna C* which totaled approximately \$3.5 million. The repowering of the M/V *Anna C* was one of the specific projects listed in the FY 2017 ROE settlement as a potential use of the capital reserve.

The Division reviewed Interstate's calculation of the FY 2019 ROE and the related amount available to be used to benefit ratepayers. The Division found the calculation accurate and found no exceptions. In addition, the Division does not object to Interstate's proposal to use the capital reserve to cover a portion of the repowering costs of the M/V *Anna C*. As mentioned above, this was one of the projects considered when the capital reserve was first established. In addition, using the reserve towards a capital project reduces Interstate's rate base which in turn will mitigate future rate impacts.

As mentioned in Interstate's filing, the settlement agreement for the FY 2018 earnings incorporated changes that provide customers additional benefits. These changes included a 10% reduction in non-commuter passenger rates effective February 21, 2020, and as additional protection, the ratepayer's share of excess earnings was increased from 50 to 75%. With the rate reduction, the Division anticipates that the ROE in future earnings filings should be lower than recent years. However, if the trend of excess earnings continues, the ratepayers will benefit from the increased level of sharing. In addition, the Division will monitor future earnings to determine whether additional rate changes are warranted.