

**Public Utilities Commission
Interstate Navigation Company Application to Change Rates
Docket 4373 – (December 5, 2019 Settlement on ROE filing)
Sixth Set of Data Request of the Commission to Interstate**

December 30, 2019

Comm. 6-1. Please provide the current balance of the Fuel Reserve.

RESPONSE: As of the January 15, 2020 Monthly Fuel Surcharge filing, Interstate had a negative reserve account with an accumulated balance of \$277,595.

Prepared by David G Bebyn CPA

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Comm. 6-2. **Please provide the balance of the Fuel Reserve for each of the past 36 months.
Please show deposits, interest, and withdrawals.**

RESPONSE: See Attached.

Prepared by David G Bebyn CPA

Balance of the Fuel Reserve
for Each of the Past 36 Months
Interstate Navigation Company

Attachment for COMM 6-2

	Deposits	Withdrawals	Balance
Beginning Balance			392,056
1		13,400	378,656
2		8,602	370,054
3		7,607	362,447
4		12,559	349,888
5		15,776	334,112
6		17,628	316,484
7		28,639	287,845
8		37,516	250,329
9		26,722	223,607
10		20,424	203,183
11		15,481	187,702
12		15,977	171,725
13		23,715	148,010
14		14,960	133,050
15		15,064	117,986
16		19,357	98,629
17		46,028	52,601
18		68,116	(15,515)
19	379,747	77,018	287,214 *
20		75,226	211,988
21		51,410	160,578
22		38,470	122,108
23		19,675	102,433
24		14,346	88,087
25		15,290	72,797
26		13,860	58,937
27		19,256	39,681
28		26,085	13,596
29		38,205	(24,609)
30		39,758	(64,367)
31		62,358	(126,725)
32		58,802	(185,527)
33		33,600	(219,127)
34		25,060	(244,187)
35		15,215	(259,402)
36		17,887	(277,289) per January 15, 2020 filing

* Deposit due to FY 2017 ROE settlement. Per agreement with Division amount \$300,000 grossed up for tax benefit.

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Comm. 6-3. Is the Fuel Floor the same as the Base Price of fuel that is embedded in the ticket prices?

RESPONSE: Typically, it is. However, as part of the December 2015 compliance filing to deal with a large positive fuel reserve, the fuel floor was set lower than the actual price of fuel. The current \$1.50 floor was set lower than the market rate not to just stop the accumulation of the fuel reserve, but also so that it would over time result in an elimination of the positive fuel reserve.

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Comm. 6-4. Please confirm that the current Base Price of fuel is \$1.50 per gallon (http://www.ripuc.org/eventsactions/docket/4373-Interstate-ErrataOrd22427_6-3-16.pdf).

RESPONSE: I can confirm that the current Base Price of fuel is \$1.50 per gallon per order 22427.

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Comm. 6-5. What was the average monthly cost of fuel for each of the past 12 months?

RESPONSE: See Attached

Prepared by David G Bebyn CPA

Average Monthly Cost of Fuel
for Each of the Past 12 Months
Interstate Navigation Company

Attachment for COMM 6-5

		Average Fuel Price per Gallon	
1	\$	2.29	
2	\$	2.37	
3	\$	2.44	
4	\$	2.52	
5	\$	2.41	
6	\$	2.24	
7	\$	2.34	
8	\$	2.35	
9	\$	2.35	
10	\$	2.36	
11	\$	2.35	
12	\$	2.42	per January 15, 2020 filing

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Comm. 6-6. Please provide the rationale for raising the Base Price of fuel from \$1.50 to \$2.40 per gallon.

RESPONSE: This is the same rational that was used to set the Base Price at the \$3.25 per gallon Base Price which was built into Interstate’s original Base Rates in Docket #4373 per order 21069. It was intended to set the Base Price to prevent large fuel surcharges which could fluctuate by wide margins from month to month. Subsequent to Order 21069 (June 2013) the market rate of fuel significantly fell below the Base Price of \$3.25. This significant reduction led to the accumulation of a reserve of nearly a half a million dollars. Pursuant Paragraph IV.B.4. of the Settlement Agreement in Order No. 21069 in Docket No. 4373 entitled “Disposition of Balance in Reserve Account” Interstate consulted with the Division to propose a mutually acceptable method of crediting customers for that balance. The agreed upon method with the Division was then filed with the Commission for review and approval with the December 10, 2015 Compliance Filing and we reduced the Base Price of Fuel to \$1.50 and correspondingly reduced passenger and vehicle base rates.

Dropping the Base price to \$1.50 lead to the repayment of the reserve by August 2018. As part of the settlement of the FY 2017 ROE settlement, the Division and Interstate agreed to use part of the ROE settlement to fund the fuel reserve so Interstate would not have to start filing fuel surcharges once again. Therefore, the FY 2017 ROE settlement transferred \$300,000 (\$379,747 grossed up for the tax benefit) to the fuel reserve since the base rate of \$1.50 was significantly below the market rate. However, this reserve deposit only lasted 9 months. Interstate has now requested a change in the Base Price of fuel to the current market price to prevent negative accumulations, just as the December 10, 2015 Compliance Filing dropped the Base price to prevent positive accumulations.

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Comm. 6-7. Why is it appropriate to apply the rate reduction to only non-commuter passenger rates?

RESPONSE: This is appropriate because commuter passenger rates did not contribute to the excess revenues that the proposed rate reduction is addressing. Subsequent to the original filing in Docket 4373 when rates were set in Order #21069, Interstate filed as part of Docket 4373 a rate change application which increased certain traditional ferry rates. The limited rate increase was approved in Order #22076 and made no increase to commuter passenger rates. However, it raised non-commuter passenger rates by 10%. The new reduction proposed only has non-commuter rates decreasing by about 10%, because the commuters would receive an unwarranted benefit over non-commuters if they received a reduction at this time.

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Comm. 6-8. Please provide a listing of the approved return on equity (ROE) and earned ROE from the rate year to FY 2019.

RESPONSE: See Attached.

Prepared by David G Bebyn CPA

Approved Return on Equity (ROE)
and Earned ROE
Interstate Navigation Company

Attachment for COMM 6-8

	Approved Return on Equity	Approved Return on Equity (ROE) (Up to 12% Ceiling)	earned return on equity (ROE)
FY 2014	\$ 163,506	\$ 178,000	\$ 448,000
FY 2015	\$ 183,052	\$ 199,279	\$ 453,059
FY 2016	\$ 166,602	\$ 181,371	\$ 1,760,223
FY 2017	\$ 157,598	\$ 171,569	\$ 1,708,337
FY 2018	\$ 149,923	\$ 163,213	\$ 1,695,113

Public Utilities Commission
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Comm. 6-9. Please provide by year, since the last rate case, the annual overearnings broken down by the amount that was or will be returned to ratepayers or used for the benefit of ratepayers and the amount that was retained by the company.

RESPONSE: See Attached. Although overearnings are shared between the “for the benefit of ratepayers” and the owner’s share, Interstate has not distributed any dividends. The company’s retained portion benefits the ratepayers by funding ongoing capital projects. Please see the response to Comm 6-12 for further details.

Prepared by David G Bebyn CPA

Annual Overearnings by Year
Interstate Navigation Company

Attachment for COMM 6-9

	Earned Return on equity (ROE)	Approved Return on Equity (ROE) (Up to 12% Ceiling)	Earnings in Excess of 12% (sharing)	Owner Share	Ratepayer Share
FY 2014	\$ 448,000	\$ 178,000	\$ 270,000	135,000	135,000
FY 2015	\$ 453,059	\$ 199,279	\$ 253,780	126,890	126,890
FY 2016	\$ 1,760,223	\$ 181,371	\$ 1,578,852	789,426	789,426
FY 2017	\$ 1,708,337	\$ 171,569	\$ 1,536,768	768,384	768,384
FY 2018	\$ 1,695,113	\$ 163,213	\$ 1,531,900	723,070	808,830 *

* Per the approved settlement agreement, the Ratepayer share for FY 2018 includes Tax Savings from tax on ROE below ceiling - Response to COMM1-1 in Docket # 4793

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Docket 4373 – (December 5, 2019 Settlement on ROE filing)
Sixth Set of Data Request of the Commission to Interstate

December 30, 2019

Comm. 6-10. What is the status of the FY 2019 Annual Report, due on or before August 31, 2019?

RESPONSE: The FY 2019 Annual Report cannot be completed until the FY 2019 financial statements are completed. The expenditure side of Interstate's general ledger has been posted, but it still needs some adjustments for year end accruals. The income side of the general ledger is the main part of the hold up. Interstate maintains two different programs to handle its main general ledger and its billing system. The billing system handles the ticket generation and collections which must be manually posted to the accounting system. The first seven months, which includes the summer period for FY 2019, has been posted to the accounting system. However, along with posting the remaining five months, these accounts still need to be reconciled for year-end accruals as well.

Interstate could greatly benefit from a change to an accounting system that integrated the billing system into its accounting program. Interstate's Board at its June 2019 annual meeting authorized me to investigate such a system. My client, the Block Island Utility District, has recently implemented with my help a new accounting system that incorporates the billing module. Fortunately for the Utility District, that program was readily available from National Information Solutions Cooperative (NISC) that develops and supports software and hardware solutions for electric utility cooperatives that number in the thousands.

Unfortunately, in the case of Interstate, there are not thousands of regulated ferry operations. Furthermore, many of these smaller operations do not service a mix of passenger, vehicle and freight. Some of the companies we have reached out to such as, The Prudence Island Ferry and The Cross Sound Ferry, utilize Interstate's current approach of a separate billing and accounting systems. The Maine DOT which runs many smaller ferry services, utilizes an integrated municipal system which would not be available to Interstate. We have reached out to a few other ferry prospects, Casco Bay Lines in Maine and the Bay Ferries Limited which runs the Maine to Nova Scotia ferry, but we have not hear back from them to date. In addition, we are exploring the possibility of having a custom designed integrated accounting and billing system written for Interstate, however that would be a last resort since that would be the most costly and time consuming option.

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Comm. 6-11. What is the status of the FY 2019 Earnings Report, due on or before November 15, 2019?

RESPONSE: The Earnings Report requires data provided by the annual report. See response to Comm 6-10. Once the annual report is completed it will take only a week or so to complete the FY 2019 earnings report.

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Comm. 6-12. Does Interstate agree that for every year during which it has earned in excess of its approved ROE and has failed to provide timely earnings reports, that it has had the benefit of retaining those earnings that should have been returned to ratepayers? If not, why not?

RESPONSE: Not necessarily. In my nearly 25 years of experience with Interstate, I have never known Interstate to distribute a dividend to its owners. In addition, this proposed settlement does address a reduction in rates to reduce the amount of the overearning. Furthermore, Interstate has identified nearly \$9 million in capital needs for the next 5 years. These include an Anna C repowering (\$3.2 million) and repowering the Islander and the Athena (\$1.5 million each). Interstate will have to utilize the owner's share of the overearnings to complete this work. Lastly, this proposed settlement in paragraph 6 attempts to mitigate the overearnings to the owners by proposing a 25% owner and 75% ratepayer split instead of the existing 50% owner and 50% ratepayer split.

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Comm. 6-13. Does Interstate agree that the PUC could reduce Interstate's ROE for failure to provide its Annual Reports or Earnings Reports each year? If not, what recourse would Interstate suggest?

RESPONSE: We are unaware of any legal authority that would support such action by the Commission. The problem should be solved when the integrated accounted/billing software becomes available and is installed. Interstate respectfully asks that the Commission and the Division staff assist Interstate to the extent possible in locating an acceptable software package.

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Comm. 6-14. Referencing paragraph 6 of the Settlement, please explain why this Settlement sets the terms of overearnings based on the PUC's 2018 Order. What order and amounts would be funded into each of the accounts? Assume there is only \$300,000 of the ratepayers share of earnings. Please reconcile paragraphs 1 and 6.

RESPONSE: Paragraph 6 deals with overearnings based upon the results of the FY 2020 ROE. Paragraph 1 only deals with overearnings for FY 2018. It is hoped that going forward, any overearnings would not need to be credited to the fuel reserve because the proposed settlement will raise the base fuel price so the reserve would not require a transfer to cover any negative accumulations. Any future funding to the fuel reserve would have to be agreed upon at that time by the Division and Interstate. The result in the future would be, \$0 would go to the fuel reserve while the capital reserve would receive 100%. The importance of Paragraph 6 is that it changes to the owner's and ratepayer's share of the ROE. Instead of the current 50/50 split, ratepayers would receive a 75/25 split.

Assuming there is only \$300,000 of the ratepayers share of earnings in the future, the \$300,000 would be funded to the capital account unless Division and Interstate wished to address any negative fuel reserve accumulations at that time. Assuming the new base price is close to the market price, small monthly fuel surcharges could also prevent the negative accumulations in the first place.

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Comm. 6-15. Because the funds are put into the Capital Reserve to be used for the fixed asset purchases that will not be put into rate base, will that increase the likelihood of overearnings? If so, how? If not, why not?

RESPONSE: This settlement proposes a reduction in rates to reduce the amount of the overearnings. Some of that overearning occurred due to some major assets having become fully depreciated such as the Islander and Carol Jean repowering. In addition, Interstate has identified nearly \$9 million in capital needs for the next 5 years. These include an Anna C repowering (\$3.2 million) and repowering the Islander and the Athena (\$1.5 million each). Interstate expects to utilize the owner's share of the overearnings together with the ratepayer's share to complete this work.

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Comm. 6-16. Has Interstate considered whether the various rate changes made over the past six years have resulted in rates moving away from their cost of service? If not, why not?

RESPONSE: Yes, we have considered this. This is why Interstate tailored this proposed rate reduction so that no decrease was proposed to the commuter rates as mentioned in the response to Comm 6-7 above. Furthermore, for the same reasons, freight and bikes were frozen since they were frozen in the Limited Rate Change rate increase on filed March 24, 2015.

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Comm. 6-17. Was the Town of New Shoreham (Town) involved in these Settlement discussions? Was the Town provided an advance copy of the Settlement? If not, why not? If the Town was involved, what was their position?

RESPONSE: The Town has not participated in any of the ROE settlement discussions. They did not participate in the FY 2014, FY 2015, FY 2016, FY 2017 or FY 2018 ROE settlement discussions or the related Commission approvals. Because the Town is a party in this Docket, copies of the proposed settlements were served on the Town (including the Town Manager and the Town legal counsel) and they have not filed any objections.

Prepared by David G Bebyn CPA And Michael R McElroy, Esq.