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January 9, 2015

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

Re: Interstate Navigation Company – Docket No. 4373 – Earnings Report

Dear Luly:

Pursuant to Order No. 21069 in Docket No. 4373, enclosed are an original and nine copies of the Earnings Report of Interstate Navigation Company.

If you have any questions, please feel free to call.

Very truly yours,



Michael R. McElroy

MRMc:tmg
cc: Service List

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January 9, 2015

Mr. Michel R. McElroy, Esq.
Attorney for Interstate Navigation Company
21 Dryden Lane
Providence R.I. 02904

Subject: Interstate Navigation Company FYE May 31, 2014 Earnings Report to the Public Utilities Commission (PUC).

Dear Mike,

I have completed the Interstate Navigation Company FYE May 31st 2014 "Earnings Report". This report provides the earned "Return on Equity" (ROE) informational calculation required to be filed with the Public Utilities Commission (PUC). This filing requirement is part of the "Settlement Agreement" which is attached as "Appendix A" to the PUC's Order in Docket No. 4373. The method for calculating the earned ROE is described in Section III.D.1.a. of the "Settlement Agreement" as follows:

"This annual earnings report will calculate the earned ROE from the Company's financial statements on the basis of Generally Accepted Accounting Principles (GAAP)." See page 4.

Further description of the ROE calculation is shown on page 6 of the "Settlement Agreement" in Section IV A., and is as follows:

"All earnings reports required by Section III, above, will include pre-tax profits earned by Interstate's Fast Ferry Athena. The annual pre-tax profit earned by the Fast Ferry Division will be calculated employing the debt service method, as shown on the "Analysis of Revenues and Expenses – Interstate Fast Ferry" in the 2012 Annual Report of Water Carriers filed with the Commission. 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. See page 6.

I used the above noted requirements and completed two compliance schedules and one attachment as follows:

1. A "Calculation of a GAAP Basis Return on Equity (ROE)" schedule for May 31, 2014. Schedule DGB-1.
2. Attachment A showing Capitalization from Interstate's May 31, 2014 Annual Report.
3. "Analysis of Revenue and Expenses" for Interstate's Fast Ferry operations for the FY's 2012, 2013 and 2014. Schedule DGB-2.

In preparing my schedules I reviewed the prior Interstate ROE filings which Mr. Edge prepared under the Rate Plan for Dockets Nos. 3762 and 3764. My schedules utilize the same format that Mr. Edge used in his WEE-1 and WEE-2 in those prior filings. The only change is that I used actual fast ferry profits for FY 2014 to calculate the company wide adjusted profit. The ROE calculation in the prior Dockets allowed Interstate to remove the actual fast ferry profits and add back the fast ferry profit approved in the filing.

The results of my calculations are as follows:

- A. The Traditional Service generated an adjusted loss of (\$497,876) after removing the actual profit from the Fast Ferry operations of \$968,215 (Schedule DGB-2), adding back depreciation (\$168,000) and amortization (\$94,167) relating to the Fast Ferry assets, and deducting the principal paid (\$130,034) on debt used to acquire the Fast Ferry operation. The calculation is $\$470,339 \text{ (DGB-1)} - \$968,215 \text{ (DGB-2)} = (\$497,876)$. This Traditional Service ROE (in this case a loss) divided by my adjusted equity of \$4,898,985 (DGB-1) represents a Traditional Service ROE loss of (10.2%). See DGB-1 footnote.
- B. The settlement calculation next requires that I add back the actual fixed Fast Ferry pre-tax profits developed by employing the debt service method (Schedule DGB-2). My calculations resulted in a Company-wide adjusted income for FY 2014 of \$470,339 (DGB-1) which when divided by my calculation of an adjusted capitalization \$4,898,985 resulted in a ROE Profit of 9.6%. This 9.6% Profit is less than the gain of 12% ROE earnings ceiling established in the "Settlement Agreement" Section III.D.2.

If I can be of any additional assistance please do not hesitate to contact me directly.

Sincerely



David G. Bebyn CPA
President

Schedule DGB - 1

Calculation of a Generally Accepted Accounting Principles (GAAP) Basis Return on Equity (ROE)

Interstate Navigation Company

For the Fiscal Year Ended May 31st 2014

	Amount	Source
Interstate Profit/ (Loss) (Traditional and Fast Ferry Combined) for FYE May 31, 2014	\$ 337,114	Annual Report Page 6a
Add Back: Depreciation on Athena	169,092	
Amortization of other assets purchased from IHSF	94,167	
Deduct: Principal Paid on Athena and other assets purchased from IHSF	<u>(130,034)</u>	
Interstate Adjusted Profit/(Loss)	470,339	
Less: Actual Fast Ferry Division Profit	<u>(968,215)</u>	Schedule DGB-2
Traditional Services Adjusted Profit	(497,876)	*
Add: Actual Fast Ferry Profit for FYE May 31, 2014	<u>968,215</u>	Schedule DGB-2
Interstate Company Wide Adjusted Profit/ (Loss)	<u>\$ 470,339</u>	A
Capitalization at May 31, 2014	\$ 2,924,520	Annual Report Page 5a (Attachment A)
Add Back: Accumulated Depreciation on Athena	1,265,040	
Accumulated Amortization of other assets purchased from IHSF	<u>709,425</u>	
Adjusted Capitalization at May 31, 2014	<u>\$ 4,898,985</u>	B
ROE	<u>9.6%</u>	A/B

* ROE on Traditional Service (10.2%) loss

Interstate Navigation Company

Name of company

May 31, 2014

Year-end date of report

BALANCE SHEET
CAPITALIZATION AND LIABILITIES

Description	Balance at Beginning of Year	Balance at End of Year
CURRENT LIABILITIES:		
Notes Payable Within One Year	\$ 943,145	\$ 1,022,520
Payables – Associated Companies	37,820	37,820
Payables – Other	152,639	315,991
Accrued & Withheld Payroll Taxes	17,963	23,368
Accrued Payroll and Vacation Pay	38,521	46,726
Accrued Pension	35,417	34,020
Accrued Expenses – Other	94,443	70,499
Deferred Income Tax	189,613	133,605
Unearned Revenue	1,193,974	991,593
Total Current Liabilities	\$ 2,703,535	\$ 2,676,142
LONG-TERM DEBT		
Notes Payable less Notes Payable Within One Year (entered above as current liability)	\$ 10,444,730	\$ 10,090,085
CAPITALIZATION:		
Common Equity		
Common Stock	\$ 19	\$ 19
Other Paid-in Capital	400,532	400,532
Unappropriated Retained Earnings	3,192,134	3,529,248
Total Common Equity	\$ 3,592,685	\$ 3,929,799
Treasury Stock	(1,005,279)	(1,005,279)
Total Capitalization	\$ 2,587,406	\$ 2,924,520
Total Capitalization and Liabilities	\$ 15,735,671	\$ 15,690,746
	0	(0)

Analysis of Revenue and Expenses
Interstate Fast Ferry

	<u>Actual FYE 5/31/12</u>	<u>Actual FYE 5/31/13</u>	<u>Actual FYE 5/31/14</u>
Revenues:			
Passenger Revenue	\$ 1,856,580	\$ 1,742,187	\$ 2,099,181
Other Revenues (Bar, bike, etc)	93,769	94,856	90,460
Charter Revenue	<u>157,400</u>	<u>75,000</u>	<u>329,500</u>
Total Revenue	2,107,749	1,912,043	2,519,141
Expenses:			
Salaries and wages	186,355	217,014	270,930
Payroll taxes	10,576	13,844	20,676
Fuel	421,293	437,947	359,890
Maintenance:			
Vessel Maintenance-Athena	163,225	181,701	152,123
Lube Oil	11,276	17,574	11,617
Other Vessel Expenses	10,759	8,745	6,729
Insurance	32,432	42,470	52,368
Advertising	63,332	74,439	80,018
Bar expense	29,108	35,706	37,261
General and Administrative Expense			-
Legal and accounting	56	147	77
General office supplies	325	761	-
Gross Receipts Taxes	26,347	23,901	28,834
Boat Charter	39,625	39,625	39,625
Fees (coast guard, banking, etc)	3,074	3,112	4,265
<u>Debt service on \$5,600,000:</u>			
Principal	110,040	117,260	130,035
Interest	<u>375,065</u>	<u>365,629</u>	<u>356,478</u>
Total Expense	1,482,888	1,579,875	1,550,925
Net Income Before Taxes	<u>624,861</u>	<u>332,168</u>	<u>968,215</u>

Docket No. 4373 – Interstate Navigation Co. – General Rate Filing
Service List as of 12/27/12

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