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September 19, 2016

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

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

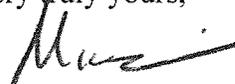
Dear Luly:

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

We apologize for the delay.

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

Very truly yours,


Michael R. McElroy

MRMc:tmg

**Docket No. 4373 – Interstate Navigation Co. – Limited Rate Change Application
Service List as of 12/17/15**

***Requested to receive hard copy of all pleadings.**

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September 16, 2016

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

Subject: Interstate Navigation Company FYE May 31, 2015 Earnings Report to the Public Utilities Commission (PUC).

Dear Mike,

I have completed the Interstate Navigation Company FYE May 31st 2015 "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, 2015. Schedule DGB-1.
2. Attachment A showing Capitalization from Interstate's May 31, 2015 Annual Report.
3. "Analysis of Revenue and Expenses" for Interstate's Fast Ferry operations for the FY's 2013, 2014 and 2015. Schedule DGB-2.

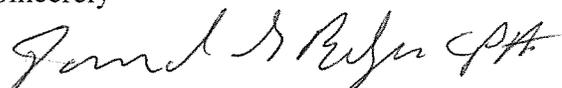
In preparing my schedules I utilized the same format as my filing of the FY 2014 ROE. These schedules utilize the same format that Mr. Edge used in his WEE-1 and WEE-2 in prior Interstate ROE filings which Mr. Edge prepared under the Rate Plan for Dockets Nos. 3762 and 3764. The only change is that I used actual fast ferry profits for FY 2015 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 (\$355,098) after removing the actual profit from the Fast Ferry operations of \$856,264 (Schedule DGB-2), adding back depreciation (\$168,000) and amortization (\$94,167) relating to the Fast Ferry assets, and deducting the principal paid (\$136,680) on debt used to acquire the Fast Ferry operation. The calculation is $\$501,166 \text{ (DGB-1)} - \$856,264 \text{ (DGB-2)} = (\$355,098)$. This Traditional Service ROE (in this case a loss) divided by my adjusted equity of \$5,310,854 (DGB-1) represents a Traditional Service ROE loss of (6.7%). 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 2015 of \$501,166 (DGB-1) which when divided by my calculation of an adjusted capitalization \$5,310,854 resulted in a ROE Profit of 9.4%. This 9.4% 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 2015

	Amount	Source
Interstate Profit/ (Loss) (Traditional and Fast Ferry Combined) for FYE May 31, 2015	\$ 375,679	Annual Report Page 6a
Add Back: Depreciation on Athena	168,000	
Amortization of other assets purchased from IHSF	94,167	
Deduct: Principal Paid on Athena and other assets purchased from IHSF	<u>(136,680)</u>	
Interstate Adjusted Profit/(Loss)	501,166	
Less: Actual Fast Ferry Division Profit	<u>(856,264)</u>	Schedule DGB-2
Traditional Services Adjusted Profit	(355,098)	*
Add: Actual Fast Ferry Profit for FYE May 31, 2015	<u>856,264</u>	Schedule DGB-2
Interstate Company Wide Adjusted Profit/ (Loss)	<u>\$ 501,166</u>	
Capitalization at May 31, 2015	\$ 3,074,222	Annual Report Page 5a (Attachment A)
Add Back: Accumulated Depreciation on Athena	1,433,040	
Accumulated Amortization of other assets purchased from IHSF	<u>803,592</u>	
Adjusted Capitalization at May 31, 2015	<u>\$ 5,310,854</u>	
ROE	<u>9.4%</u>	A/B

* ROE on Traditional Service (6.7%) loss

Interstate Navigation Company

Name of company

ATTACHMENT A

May 31, 2015

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	\$ 1,022,520	\$ 1,063,997
Payables – Associated Companies	37,820	37,820
Payables – Other	315,991	523,929
Accrued & Withheld Payroll Taxes	23,368	30,708
Accrued Payroll and Vacation Pay	46,726	58,638
Accrued Pension	34,020	36,120
Accrued Expenses – Other	70,499	63,351
Deferred Income Tax	133,605	89,782
Deferred Credits	-	124,203
Unearned Revenue	991,593	818,916
Total Current Liabilities	\$ 2,676,142	\$ 2,847,464
LONG-TERM DEBT		
Notes Payable less Notes Payable Within One Year (entered above as current liability)	\$ 10,090,085	\$ 9,027,261
CAPITALIZATION:		
Common Equity		
Common Stock	\$ 19	\$ 19
Other Paid-in Capital	400,532	400,532
Unappropriated Retained Earnings	3,529,248	3,678,950
Total Common Equity	\$ 3,929,799	\$ 4,079,501
Treasury Stock	(1,005,279)	(1,005,279)
Total Capitalization	\$ 2,924,520	\$ 3,074,222
Total Capitalization and Liabilities	\$ 15,690,746	\$ 14,948,947
	(0)	0

Analysis of Revenue and Expenses
Interstate Fast Ferry

	Actual FYE 5/31/13	Actual FYE 5/31/14	Actual FYE 5/31/15
Revenues:			
Passenger Revenue	\$ 1,742,187	\$ 2,099,181	\$ 2,167,076
Other Revenues (Bar, bike, etc)	94,856	90,460	113,976
Charter Revenue	75,000	329,500	58,563
Total Revenue	1,912,043	2,519,141	2,339,615
Expenses:			
Salaries and wages	217,014	270,930	169,866
Payroll taxes	13,844	20,676	12,678
Fuel	437,947	359,890	371,137
Maintenance:			
Vessel Maintenance-Athena	181,701	152,123	121,918
Lube Oil	17,574	11,617	13,243
Other Vessel Expenses	8,745	6,729	5,685
Insurance	42,470	52,368	33,177
Advertising	74,439	80,018	166,321
Bar expense	35,706	37,261	36,903
General and Administrative Expense		-	-
Legal and accounting	147	77	-
General office supplies	761	-	-
Gross Receipts Taxes	23,901	28,834	27,151
Boat Charter	39,625	39,625	39,625
Fees (coast guard, banking, etc)	3,112	4,265	2,400
<u>Debt service on \$5,600,000:</u>			
Principal	117,260	130,035	136,680
Interest	365,629	356,478	346,567
Total Expense	1,579,875	1,550,925	1,483,351
Net Income Before Taxes	332,168	968,215	856,264