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December 29, 2017

Luly E. Massaro, Clerk
Public Utilities Commission and
Division of Public Utilities and Carriers
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 FYE 2016 Earnings Report of Interstate Navigation Company, which contains a proposal for a Capital Reserve regarding the credit balance.

We apologize for the delay.

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

Very truly yours,

Mike

Michael R. McElroy

MRMc:tmg

cc: Service List – Docket No. 4373

Interstate/Earnings and Promotions/Massaro7

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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File an original & nine (9) copies w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick RI 02888	Luly.massaro@puc.ri.gov; Cynthia.WilsonFrias@puc.ri.gov; Alan.nault@puc.ri.gov;	401-780-2107

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December 28, 2017

Michael R. McElroy, Esq.
Attorney for Interstate Navigation Company
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Providence R.I. 02904

Subject: Interstate Navigation Company FYE May 31, 2016 Earnings Report to the Public Utilities Commission (PUC).

Dear Mike,

This letter is the Interstate Navigation Company FYE May 31st 2016 "Earnings Report". This report provides the earned "Return on Equity" (ROE) informational calculation required to be filed with the Division of Public Utilities and Carrier (DPUC) and 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.

<u>The Parameters on How to Calculate Earned ROE</u>

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.

The description of how the ROE is calculated is shown on page 5 of the "Settlement Agreement" in Section III.D.1.b. and is as follows:

> **"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."** See page 5.

While rate base is calculated each year by using Interstate's average rate base, the common equity ratio is set based on the capital structure approved in Docket No. 4373 which is shown on pages 4 and 5 of the "Settlement Agreement" in Section III.D.1.b, as follows:

> **"...Interstate shall use the capital structure and associated costs of capital approved by the Commission in this Docket No. 4373."** See page 4.
>
> **"...there will be no adjustments to actual results to recognize or annualize prospective known and measurable changes."** See page 5.

Further descriptions of items included in the earnings for the ROE calculation are shown on pages 6, 8 and 9 of the "Settlement Agreement" in Section IV., and are as follows:

Section IV.A.

> **"All earnings reports required by Section III, above, will include pre-tax profits earned by Interstate's Fast Ferry Athena. The actual 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.

Section IV.D.1.

> **"For the purpose of all earning reports required by Section III, above, Interstate will amortize the actual cost of this rate case over three years. The amortization will be complete on May 31, 2016, and no amortization will be recognized as an expense subsequent to that date."** See page 8.

Section IV.D.3.

> **Sale of MV Nelseco. "The net proceeds from the sale of the MV Nelseco will be amortized on the Company's books of account over five years. The amortization will be included in earnings reports required by Section III, above, and the unamortized balance of the proceeds will be deducted from the Company's rate base in said earnings reports."** See page 9.

Lastly, there is a need to include a calculation of the earnings over 12%. The settlement agreement caps the return on equity at 11% and details the procedure to share these earnings with customers as described in Section III.D.2., and is as follows:

> **"Earnings in excess of 12% will be shared 50% for the stockholders and 50% for the ratepayers. Prior to proposing a method of crediting earnings above**

the 12.00% threshold applicable to the ratepayers, 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 Commission subsequent to consulting with the Division and the Commission will make the ultimate determination." See page 5.

FY 2014 and FY 2015 ROE Calculations

In preparing my previous filings for the FY 2014 ROE and FY 2015 ROE, I utilized the same GAAP 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. This methodology however updated the capitalization. As a result, the Division challenged the FY 2014 calculation and recommended the recognition of $135,000 in excess earnings due to the ratepayers. The Division further recommended that the ultimate disposition of these excess earnings be determined at a later time. Interstate agreed to recognition of $135,000 in excess earnings due to the ratepayers and agreed to maintain a record of excess earnings with the ultimate disposition of excess earnings to be determined at a later time.

The problem with using the format from the prior Interstate ROE filings which Mr. Edge prepared under the Rate Plan for Dockets Nos. 3762 and 3764 is that Mr. Edge included calculations for "GAAP basis" and "Rate making basis" in order to calculate Return on Equity. The "GAAP basis" updated the capitalization while the "Rate making basis" did not.

FY 2016 ROE Calculations and Schedules

In preparing this filings for FY 2016 ROE, I have redesigned my schedules to calculate earned ROE and any earning above the earnings cap. The FY 2016 schedules conform with all the requirements mentioned above, which include maintaining the capital structure and associated cost of capital approved by Commission in Docket No. 4373. These requirements break down into six essential calculations as follows:

1. A calculation of the average rate base as required by page 5 of the "Settlement Agreement" in Section III.D.1.b. Schedule DGB-ROE-2.

2. A calculation of the net income available for common equity as required by page 5 of the "Settlement Agreement" in Section III.D.1.b. This calculation will be adjusted for items to be included in the earnings for the ROE calculation which are shown on pages 6, 8 and 9 of the "Settlement Agreement" in Section IV. Interest calculated based on debt supporting rate base will be used instead of actual interest to maintain the requirement of keeping the capital structure of Docket 4373 as required by pages 4 and 5 of the "Settlement Agreement" in

Section III.D.1.b. Lastly since the return on common equity is after-tax, a tax with a rate of 34% is also applied. The tax rate is consistent with the capital structure of Docket 4373. Schedule DGB-ROE-1.

3. A calculation of common equity applicable to rate base as required by page 5 of the "Settlement Agreement" in Section III.D.1.b. The equity ratio used in the calculation maintains the equity ratio used in the capital structure of Docket 4373 as required by pages 4 and 5 of the "Settlement Agreement" in Section III.D.1.b. Schedule DGB-ROE-1.

4. A calculation of return on common equity as required by page 5 of the "Settlement Agreement" in Section III.D.1.b. This calculation uses the net income available for common equity from calculation 2 above and the common equity applicable to rate base from calculation 3 above. Since calculations 2 and 3 above maintain the capital structure of Docket 4373, this calculation meets the requirement of pages 4 and 5 of the "Settlement Agreement" in Section III.D.1.b. Schedule DGB-ROE-1.

5. A calculation of the earnings in excess of the ROE ceiling is presented using the net income available for common equity from calculation 2 and earnings at the ROE ceiling. The ROE ceiling is calculated using the common equity applicable to rate base from calculation 3 above and multiplying it by 12% as required by page 5 of the "Settlement Agreement" in Section III.D.2. This report complies with page 9 of the "Settlement Agreement" in Section IV.D.3. Since calculation 3 above maintains the capital structure of Docket 4373, this calculation meets the requirement of pages 4 and 5 of the "Settlement Agreement" in Section III.D.1.b. Schedule DGB-ROE-1.

6. Lastly, a calculation of ratepayers share of earnings in excess of the ROE ceiling is presented using the earnings in excess of the ROE ceiling from calculation 5 above and multiplying it by 50% as required by page 5 of the "Settlement Agreement" in Section III.D.2. Schedule DGB-ROE-1. The excess earnings are included on the report on the balance of excess earnings. Schedule DGB-ROE-4.

I have completed four compliance schedules and three attachments as follows:

1. A "Earnings Report – Based on Capital Structure-Docket 4373" schedule for FYE May 31, 2016. Schedule DGB-ROE-1.

2. An "Average Rate Base" schedule for FYE May 31, 2016. Schedule DGB-ROE-2.

3. A "Earnings Report – Based on Capital Structure-Docket 4373A" schedule for FYE May 31, 2016 using the capital structure from Docket No. 4373-A. Schedule DGB-ROE-3, 3a and 3b.

4. A "Ratepayers Portion of Accumulated Earnings Above 12% ROE Ceiling" schedule for FYE May 31, 2016. Schedule DGB-ROE-4.

5. Attachment 1 "Deferred Regulatory Revenue-Nelseco Sale" showing the Unamortized Balance of the Sale of MV Nelseco for FYE May 31, 2016. This report complies with page 9 of the "Settlement Agreement" in Section IV.D.3.

6. Attachment 2 "Analysis of Revenue and Expenses – Interstate Fast Ferry". This report complies with page 6 of the "Settlement Agreement" in Section III.D.1.b and was previously filed with Interstate's May 31, 2016 Annual Report.

7. Attachment 3 Revised FY 2015 ROE Report using the same calculation methodology as this FY 2016 report.

Results

My calculations on Schedule DGB-ROE-1 resulted in a return on equity of 116.5% which is higher than the 12% on page 5 of the "Settlement Agreement", Section III.D.2. My calculations resulted in earnings in excess of the 12% ceiling in the amount of $1,578,852. Section III.D.2., of the "Settlement Agreement" states that "Earnings in excess of 12% will be shared 50% for the stockholders and 50% for the ratepayers." Thus, this provision in the settlement states that excess earnings of $789,426 (50% of $1,578,852) for FY 2016 should be used to benefit ratepayers.

The Division, in its review of FY 2014 ROE filing, grossed up the earnings by income taxes to provide an excess revenue which was to be shared 50/50. Interstate agreed to reserve the Division's number but did not agree with the Division's final calculation. Section III.D.2., of the "Settlement Agreement" does not mention anything about sharing "excess revenue" but only "Earnings in excess of 12%". Net income is a company's total earnings (or profit). In a basic sense net income is the excess of revenues over expenses. However, for generally accepted accounting principles (GAAP), net income includes all expenses. Net income is calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses. Earnings before tax (EBT) reflects how much operating profit has been realized before accounting for taxes. Considering EBT as bottom line net income or earnings is not consistent with GAAP.

Schedule DGB-ROE-1 shows that adjusted pre-tax operating income on total operations was $2,820,113. The adjusted pre-tax operating income on Fast Ferry operations, which is included in the calculation for ROE, was $1,455,803. Therefore, essentially half of the adjusted pre-tax operating income was generated from the Fast Ferry operations. The settlement agreement had set profit subsidy to the Traditional Service at $481,981. The increase in Fast Ferry income was primarily due a combination of higher ridership and lower costs from fuel expenses. The increase from Traditional Service income had several causes. FY 2016 was the first year for the 10% revenue increase from Docket No. 4373-A, however, additional anticipated dock and vessel expenses were delayed. In addition, the Newport High Speed Ferry, which is included in the Traditional Service, went from generating a loss to having its first profitable year.

The last item which impacted the increase from Traditional Service income was that the 10% revenue increase from Docket No. 4373-A included an adjustment to the capital structure. Mr. Edge, in the filing for Docket No. 4373-A, provided a revision to the Capital Structure. Mr. Edge pointed out that while Fast Ferry assets were excluded from rate base, the Retained Earnings balances used in Docket No. 4373 had no adjustment to reflect the accumulated depreciation and amortization of Fast Ferry assets which were included in the annual report balances. Schedule DGB-ROE-3 recalculates earnings in excess of the 12% ceiling based upon the capital structure from Docket No. 4373-A. If Docket No- 4373-A was used, only excess earnings of $731,794 (50% of $1,463,589) for FY 2016 should be shared with ratepayers.

While the Settlement Agreement does not make any explicit allowance for adjusting the capital structure, I prepared Schedule DGB-ROE-3 to demonstrate that there are some inadequacies in the rate base and capital structure which are due to the Fast Ferry operations. These issues may not be addressed in this ROE compliance filing, but should be noted for the future. If the Fast Ferry assets are to continue to be excluded from rate base some provision must reflect the accumulated depreciation and amortization of Fast Ferry assets which were included in the Retained Earnings balance. Otherwise, if no adjustment is made for Retained Earnings and all Fast Ferry profit is considered to support the Traditional Service then the Fast Ferry assets should be included rate base just like the assets are from the Traditional Service.

As a result of the FY 2014 ROE filing, Interstate agreed to maintain a record of excess earnings with the ultimate disposition to be determined later. Schedule DGB-ROE-4 presents the balance of the excess earning as of the end of FY 2016. Interstate agreed to carry forward a balance of $135,000 from FY 2014. In conjunction with this filing for FY 2016, the previously filed FY 2015 has been revised and resubmitted. The revised FY 2015 uses the same methodology used in this filing. The revised FY 2015 excess earnings to be shared with ratepayers is $126,890. The originally filed FY 2015 ROE generated a small loss, however, I believe it is appropriate to revise FY 2015 since I revised the calculation methodology for FY 2016. The revised FY 2015 ROE schedules and attachments are attached to this report. See Attachment-3. FY 2014 was already agreed upon by both Interstate and the DPUC. Therefore, as previously mentioned in this report, excess earnings of $789,426 for FY 2016 is to be shared with ratepayers. This results in a total accumulated balance of excess earnings to be shared with ratepayers of $1,051,316 at the end of FY 2016.

Capital Reserve Proposal

The last issue I would like to cover is the applying of the excess earnings to the benefit of ratepayers as described in Section III.D.2. of the Settlement Agreement. That provision allows for Interstate to consult with the Division to propose a mutually acceptable method. I am proposing to the Division that the total accumulated balance of $1,051,316 at the end of FY 2016 be placed in a reserve for capital projects. These capital projects would include fixed asset purchases and/or major overhauls of the vessels, buildings, or docks. The ratepayers would be credited when Interstate excludes the depreciation on the appropriate potion of any asset paid for from this reserve. The depreciation would be pro-rated if only a portion of the asset was paid for from this reserve. In addition, any portion of assets purchased from the reserve would be excluded from rate base.

I believe that this Capital reserve makes sense for several reasons. First, there are a few potential capital projects which could funded or partially funded with this reserve. One of these projects is the repowering of the Carol Jean and the Anna C, which we expect will cost well over $1,000,000. Interstate has recently been notified that it has been awarded a grant from the EPA which should cover a small portion of the cost. Another project is the potential addition of a new Fast Ferry for the Pt Judith run. The current fast ferry run has been running at full capacity on the high demand runs during the summer. In addition to the above potential projects, having this reserve would allow Interstate to purchase assets potentially without the need for financing, saving the ratepayers interest and borrowing costs. Lastly, the reserve avoids mismatching crediting ratepayers both in time and by service. If the credit flowed back in rates there is mismatching in crediting one set of ratepayers who contributed to the excess earnings to another set who would receive the benefit. In addition to the timing, there is also the question of which service (Fast Ferry or Traditional Service) contributed to the excess earnings.

We hope that the Division and Commission agree that Funding a Capital reserve is the appropriate arrangement. If I can be of any additional assistance please do not hesitate to contact me directly.

Sincerely

David G. Bebyn CPA
President

Earnings Report - Based on Capital Structure-Docket 4373
For Fiscal Year Ended May 31, 2016
Interstate Navigation Company

Schedule DGB-ROE-1

		Total
Calculation of Net Income available for Common Equity		
Revenues	Annual Report	$ 15,123,755
Operation and Maintenance Expenses *	Annual Report	10,971,655
Total Depreciation Expense	Annual Report	1,310,820
Pre-Tax Operating Income		2,841,280
Adjustments:		
Fast Ferry Depreciation & Amortization	$168,000 + $94,166 annually	262,166
Fast Ferry Principal	Annual Report-FF Schedule	(146,960)
Fast Ferry Interest	Annual Report-FF Schedule	(336,956)
Excess HL Expenses over settlement of $315K	Annual Report-HL Schedule	20,583
Amortization of Gain on Nelseco	See Attachment-1	180,000
Total Adjustments		(21,167)
Adjusted Pre-Tax Operating Income		2,820,113
Interest on Debt Supporting Rate Base	Rate Base** X Wtd Debt Cost***	153,107
Adjusted Pre-Tax Income		2,667,006
Income Taxes		906,782
Net Income available for Common Equity		$ 1,760,224
Calculation of Common Equity Applicable to Rate Base		
Common Equity Supporting Rate Base	Equity Ratio**** X Rate base	$ 1,511,428
Calculation of the return on Common Equity and Percentage above ROE Ceiling		
Return on Common Equity	Net Income / CE supp RB	116.5%
ROE Ceiling from Settlement		12.0%
Percentage of Earnings Above 12%	Return on CE - ROE Celing	104.5%
Calculation of Earnings in Excess of ROE Ceiling		
Earnings	Net Income available for CE	$ 1,760,224
Earnings at ROE Ceiling from Settlement	CE supp RB X 12%	181,371
Earnings in Excess of 12%		$ 1,578,852
Per Settlement Section III. D. 2. on page 5		
Customer Share	50% of Earnings in Excess of 12%	$ 789,426

* Operation and Maintenance Expenses above include amortization of Rate Case Expense in compliance with Settlement Section IV.D.1. on page 8

** Rate Base	5,777,631	See Schedule DGB-ROE-2
*** Weighted Debt Cost	2.65%	See Schedule DGB-ROE-2
**** Equity Ratio	26.16%	See Schedule DGB-ROE-2

Average Rate Base
For Fiscal Year Ended May 31, 2016
Interstate Navigation Company

Average Rate Base Per Settlement Section III. D. 1. on page 5 & Section IV. D. 3. on page 9

		5/31/2015	5/31/2016	Average
Net Plant	Annual report page 5	$ 9,339,230	$ 8,613,649	$ 8,976,440
Athena				
Plant In Service	Annual report page 12	4,200,000	4,200,000	4,200,000
Accumulated Depreciation	Annual report page 12	1,433,040	1,601,040	1,517,040
Net Plant - Athena		2,766,960	2,598,960	2,682,960
Net Plant Excluding Athena		6,572,270	6,014,689	6,293,480
Accumulated Deferred Income Taxes	AR page 5a	(89,782)	(54,412)	(72,097)
Deferred Gain on Nelseco	See Attachment-1	(533,752)	(353,752)	(443,752)
Rate Base		$ 5,948,736	$ 5,606,525	$ 5,777,631

Settlement Capital Structure per Docket 4373

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	73.85%	3.59%	2.65%
Common Equity	26.16%	11.00%	2.88%
Total Capital	100.01%		5.53%

Earnings Report - Based on Capital Structure-Docket 4373A
For Fiscal Year Ended May 31, 2016
Interstate Navigation Company

Schedule DGB-ROE-3

		Total
Calculation of Net Income available for Common Equity		
Revenues	Annual Report	$ 15,123,755
Operation and Maintenance Expenses *	Annual Report	10,971,655
Total Depreciation Expense	Annual Report	1,310,820
Pre-Tax Operating Income		2,841,280
Adjustments:		
Fast Ferry Depreciation & Amortization	$168,000 + $94,166 annually	262,166
Fast Ferry Principal	Annual Report-FF Schedule	(146,960)
Fast Ferry Interest	Annual Report-FF Schedule	(336,956)
Excess HL Expenses over settlement of $315K	Annual Report-HL Schedule	20,583
Amortization of Gain on Nelseco	Attached Schedule	180,000
Total Adjustments		(21,167)
Adjusted Pre-Tax Operating Income		2,820,113
Interest on Debt Supporting Rate Base	Rate Base** X Wtd Debt Cost***	116,708
Adjusted Pre-Tax Income		2,703,405
Income Taxes		919,158
Net Income available for Common Equity		$ 1,784,247
Calculation of Common Equity Applicable to Rate Base		
Common Equity Supporting Rate Base	Equity Ratio**** X Rate base	$ 2,672,154
Calculation of the return on Common Equity and Percentage above ROE Ceiling		
Return on Common Equity	Net Income / CE supp RB	66.8%
ROE Ceiling from Settlement		12.0%
Percentage of Earnings Above 12%	Return on CE - ROE Celing	54.8%
Calculation of Earnings in Excess of ROE Ceiling		
Earnings	Net Income available for CE	$ 1,784,247
Earnings at ROE Ceiling from Settlement	CE supp RB X 12%	320,658
Earnings in Excess of 12%		$ 1,463,589
Per Settlement Section III. D. 2. on page 5		
Customer Share	50% of Earnings in Excess of 12%	$ 731,794

* Operation and Maintenance Expenses above include amortization of Rate Case Expense in compliance with Settlement Section IV.D.1. on page 8

** Rate Base	5,777,631	See Schedule DGB-ROE-2
*** Weighted Debt Cost	2.02%	See Schedule DGB-ROE-2
**** Equity Ratio	46.25%	See Schedule DGB-ROE-2

Average Rate Base
For Fiscal Year Ended May 31, 2016
Interstate Navigation Company

Average Rate Base Per Settlement Section III. D. 1. on page 5 & Section IV. D. 3. on page 9

		5/31/2015	5/31/2016	Average
Net Plant	Annual report page 5	$ 9,339,230	$ 8,613,649	$ 8,976,440
Athena				
Plant In Service	Annual report page 12	4,200,000	4,200,000	4,200,000
Accumulated Depreciation	Annual report page 12	1,433,040	1,601,040	1,517,040
Net Plant - Athena		2,766,960	2,598,960	2,682,960
Net Plant Excluding Athena		6,572,270	6,014,689	6,293,480
Accumulated Deferred Income Taxes	AR page 5a	(89,782)	(54,412)	(72,097)
Deferred Gain on Nelseco	Attached Schedule	(533,752)	(353,752)	(443,752)
Rate Base		$ 5,948,736	$ 5,606,525	$ 5,777,631

Capital Structure per Docket 4373-A (See Schedule DGB-ROE-3b)

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	53.75%	3.75%	2.02%
Common Equity	46.25%	11.00%	5.07%
Total Capital	100.00%		7.09%

Rate of Return - Rate Year Per Docket 4373A
Interstate Navigation Company

Proposed Capital Structure of the Rate Year Pre Docket 4373-A

	5/31/2014	5/31/2015	Amount	% of Total	Rate	Weighted Return
Current Long Term Debt:						
Refi Loan 1 - Fixed rate 7 year	$ 5,251,397	$ 4,471,530	$ 4,861,464	44.79%	3.57%	0.0160
Building Loan - Fixed rate 10/20 year (New)	986,003	957,203	971,603	8.95%	4.65%	0.0042
Total Debt	6,237,400	5,428,733	5,833,067	53.75%		0.0202
Common Stock	17,600	17,600	17,600	0.16%	11.00%	0.0002
Other Paid-in Capital	382,951	382,951	382,951	3.53%	11.00%	0.0039
Treasury Stock	(1,005,279)	(1,005,279)	(1,005,279)	-9.26%	11.00%	-0.0102
Equity (See Calc below)	5,503,713	5,745,924	5,624,819	51.83%	11.00%	0.0570
Total Equity	4,898,985	5,141,196	5,020,091	46.25%		0.0509
Total Capital structure	$ 11,136,385	$ 10,569,929	$10,853,157	100.00%		0.0710

Equity	3,529,248	3,509,292
Accumulated Amort on FF Intang	709,425	803,592
Accumulated Deprec on FF Asset	1,265,040	1,433,040
	5,503,713	5,745,924

Capital Structure Adjusted for Accumulated Deprecition included in Retained earnings-Docket 4373A

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	53.75%	3.75%	2.02%
Common Equity	46.25%	11.00%	5.09%
Total Capital	100.01%		5.53%

Settlement Capital Structure - Docket 4373

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	73.85%	3.59%	2.65%
Common Equity	26.16%	11.00%	2.88%
Total Capital	100.01%		5.53%

Ratepayers Portion of
Accumulated Earnings Above 12% ROE Ceiling
For Fiscal Year Ended May 31, 2016
Interstate Navigation Company

Schedule DGB-ROE-4

			Total
FY 2014 Results	Previously agreed to with Division	$	135,000
FY 2015 Results	(Revised December 2017)		126,890
FY 2016 Results			789,426
Balance at May 31, 2016		$	1,051,316

As result of the FY 2014 filing Interstate's agreed to maintain a record of excess earnings due to the ratepayers with the ultimate disposition to be determined at a later time.

Deferred Regulatory Revenue-Nelseco Sale
Interstate Navigation Company
5/31/16

G/L # 1990

Balance per General Ledger at 5/31/16	(353,752.00)
Balance per detailed analysis at 5/31/16	(353,752.00)
Variance	-

Analysis of Deferred Nelseco Sale Rev:

Balance at 5/31/15	(533,752.00)
	-
Additions	-
	-
Yearly Amortization	180,000.00
	-
Balance per detailed analysis at 5/31/16	(353,752.00)

Analysis of Revenue and Expenses
Interstate Fast Ferry

	Actual FYE 5/31/15	Actual FYE 5/31/16
Revenues:		
Passenger Revenue	$ 2,167,076	$ 2,505,271
Other Revenues (Bar, bike, etc)	113,976	132,910
Charter Revenue	58,563	116,200
Total Revenue	2,339,615	2,754,382
Expenses:		
Salaries and wages	169,866	174,705
Payroll taxes	12,678	13,266
Fuel	371,137	242,667
Maintenance:		
Vessel Maintenance-Athena	121,918	141,720
Lube Oil	13,243	9,336
Other Vessel Expenses	5,685	17,147
Insurance	33,177	33,139
Advertising	166,321	65,435
Bar expense	36,903	37,835
General and Administrative Expense	-	315
Legal and accounting	-	4,389
General office supplies	-	112
Gross Receipts Taxes	27,151	31,315
Boat Charter	39,625	39,625
Fees (coast guard, banking, etc)	2,400	3,656
Debt service on $5,600,000:		
Principal	136,680	146,960
Interest	346,567	336,956
Total Expense	1,483,351	1,298,578
Net Income Before Taxes	856,264	1,455,803
Federal Income Tax	248,093	455,432
Net Income	$ 608,171	$ 1,000,372

Attachment-3

Schedule DGB-ROE-1
(Revised Dec2017)

Earnings Report - Based on Capital Structure-Docket 4373
For Fiscal Year Ended May 31, 2015
(Revised Dec.2017)
Interstate Navigation Company

		Total
Calculation of Net Income available for Common Equity		
Revenues	Annual Report	$ 13,857,312
Operation and Maintenance Expenses *	Annual Report	11,392,201
Total Depreciation Expense	Annual Report	1,587,987
Pre-Tax Operating Income		877,124
Adjustments:		
Fast Ferry Depreciation & Amortization	$168,000 + $94,166 annually	262,166
Fast Ferry Principal	Annual Report-FF Schedule	(136,680)
Fast Ferry Interest	Annual Report-FF Schedule	(346,567)
Excess HL Expenses over settlement of $315K	Annual Report-HL Schedule	18,636
Amortization of Gain on Nelseco	See Attachment-1	180,000
Total Adjustments		(22,445)
Adjusted Pre-Tax Operating Income		854,679
Interest on Debt Supporting Rate Base	Rate Base** X Wtd Debt Cost***	168,225
Adjusted Pre-Tax Income		686,454
Income Taxes		233,395
Net Income		$ 453,060
Calculation of Common Equity Applicable to Rate Base		
Common Equity Supporting Rate Base	Equity Ratio**** X Rate base	$ 1,660,662
Calculation of the return on Common Equity and Percentage above ROE Ceiling		
Return on Common Equity	Net Income / CE supp RB	27.3%
ROE Ceiling from Settlement		12.0%
Percentage of Earnings Above 12%	Return on CE - ROE Celing	15.3%
Calculation of Earnings in Excess of ROE Ceiling		
Earnings	Net Income available for CE	$ 453,060
Earnings at ROE Ceiling from Settlement	CE supp RB X 12%	199,279
Earnings in Excess of 12%		$ 253,780
Per Settlement Section III. D. 2. on page 5		
Customer Share	50% of Earnings in Excess of 12%	$ 126,890

* Operation and Maintenance Expenses above include amortization of Rate Case Expense in compliance with Settlement Section IV.D.1. on page 8

** Rate Base	6,348,097	See Schedule DGB-ROE-2
*** Weighted Debt Cost	2.65%	See Schedule DGB-ROE-2
**** Equity Ratio	26.16%	See Schedule DGB-ROE-2

Schedule DGB-ROE-2
(Revised Dec2017)

Average Rate Base
For Fiscal Year Ended May 31, 2015
(Revised Dec.2017)
Interstate Navigation Company

Average Rate Base Per Settlement Section III. D. 1. on page 5 & Section IV. D. 3. on page 9

		5/31/2014	5/31/2015	Average
Net Plant	Annual report page 5	$ 10,529,909	$ 9,339,230	$ 9,934,570
Athena				
Plant In Service	Annual report page 12	4,200,000	4,200,000	4,200,000
Accumulated Depreciation	Annual report page 12	1,265,040	1,433,040	1,349,040
Net Plant - Athena		2,934,960	2,766,960	2,850,960
Net Plant Excluding Athena		7,594,949	6,572,270	7,083,610
Accumulated Deferred Income Taxes	AR page 5a	(133,739)	(89,782)	(111,761)
Deferred Gain on Nelseco	See Attachment-1	(713,752)	(533,752)	(623,752)
Rate Base		$ 6,747,458	$ 5,948,736	$ 6,348,097

Settlement Capital Structure per Docket 4373

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	73.85%	3.59%	2.65%
Common Equity	26.16%	11.00%	2.88%
Total Capital	100.01%		5.53%

Attachment-3

Attachment-1
2015-ROE
(Revised Dec.2017)

Deferred Regulatory Revenue-Nelseco Sale
Interstate Navigation Company
5/31/15

G/L # 1990

Balance per General Ledger at 5/31/15	(533,752.00)
Balance per detailed analysis at 5/31/15	(533,752.00)
Variance	-

Analysis of Deferred Nelseco Sale Rev:

Balance at 5/31/14	(713,752.00)
	-
Additions	-
	-
Yearly Amortization	180,000.00
	-
Balance per detailed analysis at 5/31/15	(533,752.00)

Attachment-3

Attachment-2
2015-ROE
(Revised Dec.2017)

Analysis of Revenue and Expenses
Interstate Fast Ferry

	Actual FYE 5/31/14	Actual FYE 5/31/15
Revenues:		
Passenger Revenue	$ 2,099,181	$ 2,167,076
Other Revenues (Bar, bike, etc)	90,460	113,976
Charter Revenue	329,500	58,563
Total Revenue	2,519,141	2,339,615
Expenses:		
Salaries and wages	270,930	169,866
Payroll taxes	20,676	12,678
Fuel	359,890	371,137
Maintenance:		
Vessel Maintenance-Athena	152,123	121,918
Lube Oil	11,617	13,243
Other Vessel Expenses	6,729	5,685
Insurance	52,368	33,177
Advertising	80,018	166,321
Bar expense	37,261	36,903
General and Administrative Expense	-	-
Legal and accounting	77	-
General office supplies	-	-
Gross Receipts Taxes	28,834	27,151
Boat Charter	39,625	39,625
Fees (coast guard, banking, etc)	4,265	2,400
Debt service on $5,600,000:		
Principal	130,035	136,680
Interest	356,478	346,567
Total Expense	1,550,925	1,483,351
Net Income Before Taxes	968,215	856,264
Federal Income Tax	283,897	248,093
Net Income	$ 684,318	$ 608,171