

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: INTERSTATE NAVIGATION COMPANY :
GENERAL RATE FILING : DOCKET NO. 4373

ORDER

On June 20, 2013, the Public Utilities Commission (PUC or Commission) issued Order No. 21069 in this docket approving a Settlement Agreement and associated rate change for Interstate Navigation Company d/b/a The Block Island Ferry (Interstate).¹ Fuel charges constitute a large and fluctuating expense in Interstate's cost of service, hence the existence of a statutorily allowed fuel surcharge in the event fuel costs exceed a certain level. In 2013, fuel costs were higher than the expense then embedded in the base ticket price. The future outlook of fuel forecasts suggested that the expense would continue to be high. Therefore, the approved Settlement included a fuel price of \$3.25 per gallon, including taxes (Base Price). However, because the base expense was being increased and because it is difficult to accurately predict fuel prices, a provision was included in the Settlement to protect ratepayers from excessive ticket prices in the event fuel costs dropped.

Paragraph IV.B.2 of the Settlement stated:

In any month in which the average price of fuel purchased for traditional ferry services, including all applicable taxes, is less than the Base Price, Interstate will accrue a reserve equal to the volume of fuel purchased in that month times the difference between the actual average price and the Base Price. The reserve balance will be maintained in a separate account on the Interstate balance sheet, or in a readily identifiable sub-account.

During the period October 2014 through October 2015, the average fuel cost was below the Base Price, resulting in the accrual over that thirteen month period of a positive balance of \$432,679.

¹ Order No. 21069 (Jun. 30, 2013); [http://www.ripuc.org/eventsactions/docket/4373-Interstate-Ord21069\(6-20-13\).pdf](http://www.ripuc.org/eventsactions/docket/4373-Interstate-Ord21069(6-20-13).pdf).

Paragraph IV.B.4 of the Settlement stated:

If a credit balance exists in the reserve account of over \$150,000 for any rolling three month period pursuant to [paragraph IV.B.2], Interstate will consult with the Division to propose a mutually acceptable method of crediting customers for that balance. The agreed upon method will then be filed with the Commission for review and approval.

Accordingly, because fuel prices had dropped and Interstate had accrued over \$430,000 in the reserve account, on December 10, 2015, after consulting with the Division of Public Utilities and Carriers (Division) and Town of New Shoreham and accepting the Division's proposed methodology to credit customers, Interstate filed with the PUC revised tariffs reducing passenger and vehicle rates between 7.0% and 8.8% below current rates.² The calculation of the proposed rates was the result of a two-part agreement. First, the parties agreed to reduce the Base Price of fuel that is embedded in ticket prices from \$3.25 per gallon to \$1.50 per gallon. Second, the parties agreed to reduce the passenger and vehicle base rates by applying funds from the reserve account to offset the \$1.50 per gallon. In the future, once the funds in the reserve account are depleted, Interstate may again charge the \$1.50 per gallon or an amount agreed to by the parties.

In order to calculate the new rates, David Bebyn, Interstate's consultant, calculated the reduction in revenues that would result from reducing the Base Price of fuel from \$3.25 per gallon to \$1.50 per gallon. It resulted in a reduction of revenue of \$733,842. Next, he applied the reduction to the rate classes whose rates include a Base Price of fuel. Because freight and bicycles do not pay the fuel surcharge when rates are above the Base Price of fuel, he did not propose decreasing those rates. The result was an 8% reduction of ticket prices for adults and children while all cars, pickups, and SUVs will be reduced by 8.0%. Ticket prices for larger trucks and oversized vehicles would be reduced by 6.90% and commuter rates by 9.0%.

² Interstate Navigations's Compliance Filing; http://www.ripuc.org/eventsactions/docket/4373-Interstate-ComplianceFiling_12-10-15.pdf.

On December 19, 2015, the PUC caused a Notice to Solicit Comments to be published in the Block Island Times.³ No comments were received. On January 8, 2016, the Division filed a Memorandum recommending approval of the proposal.⁴

On January 15, 2016, the PUC considered the filings at an Open Meeting and unanimously approved the requested rate reduction and proposed use of the reserve fund. When the PUC sets rates in a rate case, those rates are based on costs that are “known and measurable.” Oftentimes, the PUC relies on historical averages or projections. Fuel costs are historically volatile. Here, they had been increasing almost every month prior to the PUC decision and were projected to remain high.

Including a low base fuel price in rates would have set artificially low ticket prices with a high fuel surcharge applicable during the month following the incurrence of the high cost. This creates a mismatch between ticket cost and ticket price. It also tends to affect year-round residents more than tourists because there are fewer numbers of tickets over which to spread the fuel cost during the winter months. Therefore, the PUC approved a higher base price, to better match the cost to the cost causer. However, because of the known volatility of fuel and in order to ensure Interstate did not realize a windfall from the reduction of an expense over which it has no control, the parties agreed and the PUC approved the creation of the reserve fund. Ratepayers are now reaping the benefits of that decision through lower rates.

³ Notice to Solicit Comments; http://www.ripuc.org/eventsactions/docket/4373-notice_2015.pdf.

⁴ Bell Mem.; http://www.ripuc.org/eventsactions/docket/4373-DPU-Memo-FuelDecrease_1-9-16.pdf.

Accordingly, it is hereby

(22402) ORDERED:

Interstate's proposed reduction in Traditional Ferry Service Rates due to Fuel Reserve and associated tariffs are hereby approved for effect on January 16, 2016.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JANUARY 16, 2016 PURSUANT TO AN OPEN MEETING DECISION ON JANUARY 15, 2016. WRITTEN ORDER ISSUED MAY 5, 2016.

PUBLIC UTILITIES COMMISSION




Margaret E. Curran, Chairperson


Paul J. Roberti, Commissioner


Herbert F. DeSimone, Jr., Commissioner

Notice of Right of Appeal: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within 7 days from the date of the Order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or Order.