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March 30, 2016

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

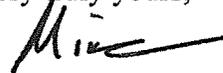
Re: A & R Marine Corp., d/b/a Prudence Bay Islands Transport
Rate Change Application – Docket No. 4586

Dear Luly:

As you know, this office represents A & R Marine Corp., d/b/a Prudence & Bay Islands Transport (A & R).

Enclosed for filing are the original and nine (9) copies of the rebuttal testimony of David G. Bebyn, CPA.

Very truly yours,



Michael R. McElroy

MRMc:tmg

cc: Christy Hetherington, Esq.
Andrew M. Teitz, Esq.
Kevin P. Gavin, Esq.
Stephen Antaya
David Bebyn, CPA
Service List

A&R Marine Corp. – Docket No. 4586 - General Rate Filing
Updated 2/23/16

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**REBUTTAL TESTIMONY
of
DAVID G. BEBYN CPA**

**For
A&R MARINE CORP. d/b/a PRUDENCE & BAY ISLANDS TRANSPORT**

Docket No. 4586

MARCH 2016

1 **Q. Will you please provide your full name and your employer for the record?**

2 A. Yes, my name is David George Bebyn CPA. I am the president of B&E Consulting LLC.

3

4 **Q. Are you the same David Bebyn who filed direct and supplemental testimony in this**
5 **docket?**

6 A. Yes.

7

8 **Q. Have you reviewed the direct testimony filed by the witnesses from the Division and the**
9 **Town of Portsmouth?**

10 A. Yes. I would like to address aspects of each of those, starting with Mr. Effron on behalf of
11 the Division. I am also attaching revised schedules that document A&R's revised position in this
12 Docket.

13

14 **Direct Testimony of David Effron**

15

16 **Q. Please summarize your response to Mr. Effron's direct testimony.**

17 A. Mr. Effron had three cost of service recommendations, together with a proposed
18 modification to the rate design. The first adjustment was to lower the proposed fuel floor rate to
19 \$1.50 per gallon which would lower the Company's fuel expense by \$21,170. The second
20 adjustment was to increase the depreciation lives which would lower the Company's
21 depreciation expense by \$44,022. The third adjustment was to reduce the Company's rate of
22 return, which would lower its return on Rate Base by \$34,914. Lastly, Mr. Effron recommended
23 rate design changes that would not include a resident discount, but instead would increase the
24 frequent user discount.

25

26 **Q. Can you address the first recommendation – lowering the fuel floor?**

27 A. Yes. I believe that Mr. Effron's recommendation to lower the fuel floor to \$1.50 is
28 reasonable in light of the reduction in fuel prices since the filing of my direct testimony. A&R
29 accepts this adjustment.

30

31

1 **Q. Mr. Bebyn does A&R agree with the second recommendation to lower the depreciation**
2 **lives thus reducing the depreciation expense?**

3 A. Partially. Mr. Effron correctly points out that vessels have an estimated service life of 15-30
4 years as presented in the PUC Annual Report. However, vessel improvements have a service life
5 of 5-10 years. Mr. Effron proposed using a twenty year life for both the vessels and the vessel
6 improvements. I believe my originally filed depreciation life of fifteen years for both is actually
7 conservative. Given that the vessel purchase costs and the vessel improvement costs are running
8 about 50/50, using the average of the midpoint of service life for vessels (22.5 years) and the
9 midpoint of service life for vessel improvements (7.5 years) would be consistent with the 15
10 years I used in my testimony.

11
12 **Q. What is your opinion of the proposed service life for the Dock?**

13 A. Mr. Effron proposed a service life of 25 years for dock because this is the midpoint of the
14 estimated service life of 20-30 years as presented in the PUC Annual Report. While I agree that
15 it would be optimal to use the midpoint, there are other factors I used in setting the recommended
16 service life. The dock was primarily purchased with debt. This debt has an amortization period of
17 15 years. In order to synchronize the debt principal repayment with the depreciation allowance as
18 much as possible, I used the low range of 20 years for the service life. However, because the
19 Company has a very low debt to equity ratio, this synchronization is not critical for the
20 Company. As a result, A&R is in agreement with using a service life of 25 year for the dock.
21 This results in a \$16,205 reduction in depreciation expense as calculated on Mr. Effron's
22 Schedule DJE-3 page 2 in his direct testimony.

23
24 **Q. Mr. Bebyn does A&R agree with the third recommendation to lower the rate of**
25 **return?**

26 A. No. Mr. Effron uses a hypothetical capital structure consisting of 50% equity and 50% debt
27 instead of the actual capital structure. Furthermore, he concedes that Interstate's rate of return of
28 11% is tied into Interstate's capital structure. The rate in and of itself is an independent
29 component of capital structure. This rate should be based the fundamental conditions in capital
30 markets and the business and financial risks of the Company in question. Risk and availability to
31 debt is even more critical to a smaller company such as A&R where its owner and his wife had

1 to personal guarantee the debt taken out by the Company. Furthermore, substantial operating
2 losses in the past year had to be covered by the owner's contribution of capital. It would have
3 been better to calculate an actual rate of return, however it would have been cost prohibitive and
4 an undue expense to the ratepayers for A&R to hire an expert to provide calculations and testify
5 on this issue.

6
7 **Q. What is A&R's position regarding the Division's proposed rate design?**

8 A. A&R believes the Division has presented a reasonable alternative. The Company would be
9 agreeable to utilizing this model when running the compliance schedules.

10
11 **Direct Testimony of Richard Rainer**

12 **Q. Please summarize your response to Mr. Rainer's direct testimony.**

13 A. Mr. Rainer had no cost of service recommendations, but has proposed a significant
14 modification to our proposed rate design. Instead of proposing any cost of service adjustments,
15 Mr. Rainer focused on the variance between the projected losses in the CPCN filing and current
16 filing. Lastly Mr. Rainer recommends a rate design change that would include a new municipal
17 rate for the Town of Portsmouth's trucks with no rate increase at all.

18
19 **Q. Please explain the difference in the projected losses in the CPCN and the current filing.**

20 A. Much of the difference in the initial cost projections and the costs as proposed in this filing
21 were the costs of acquisition and construction of assets in order to meet the tight deadlines of
22 becoming operational in time for when the previous ferry operator ended service. Many of the
23 details of these cost overruns were further discussed in data responses to the PUC. A&R
24 contacted the two local dock building companies capable of a project of this size, Reagan
25 Construction Corporation, and Specialty Diving Services, Inc. Reagan Construction was busy
26 with other projects and was unable to commit to finishing our project in the short timeframe we
27 had. Specialty Diving Services was the obvious choice. A&R worked alongside them to find
28 low cost but durable materials. Unfortunately the labor costs were higher than anticipated
29 because of unforeseen setbacks. Extra crew and overtime hours were both necessary to get the
30 dock to a point where we could unload passengers by the September 15, 2014 deadline.

1 **Q. What is A&R's position regarding the Town's proposed rate design?**

2 A. A&R believes the town has presented an unreasonable alternative. While the Company and
3 Division both agree to address the need for a discount for ratepayers who frequently use the ferry
4 service, these frequent users are bearing some of the increase. Mr. Rainer is asking that the Town
5 receive no increase at all. Furthermore, Mr. Rainer's testimony does not even calculate what
6 impact this would have on the remaining ratepayers. It would be unfair for A&R to grant no
7 increase to one class of ratepayer.

8
9 **Additional Matters**

10
11 **Q. Are there any additional costs to A&R that have been discovered during responding to**
12 **the various data requests?**

13 A. Yes. Wharfage and Insurance.
14

15 **Q. What additional expense does A&R have regarding Wharfage?**

16 A. In my prefiled testimony I calculated a monthly expense of \$300 per month to the Town of
17 Portsmouth. In responding to the Commission 1-11, the backup information provided shows that
18 the actual lease expense is \$625 per month. This is an additional annual expense of \$3,900.
19

20 **Q. What is the issue regarding insurance?**

21 A. What A&R obtained insurance on its vessel during the start-up of the Company, it only
22 insured the purchase price of the vessels. This was discovered during reviewing documentation
23 for the responses to the Commission's third set. The Company has subsequently contacted its
24 insurance provider to obtain a quote which covers the additional vessel improvements. In order
25 to meet the filing deadline for the rebuttal I estimated the increase based upon the rates provided
26 in the insurance documentation. The estimated cost for the additional coverage would be
27 \$16,760.
28
29
30
31

1 **Q. Are there any other additional expense?**

2 A. The Town has responded to its Commission data request. The Town states that it will tax
3 A&R \$325 for A&R's office trailer located on Prudence Island.

4

5 **Q. Does that conclude your Rebuttal testimony?**

6 A. Yes.

Rate Year Revenue Requirement
A&R MARINE CORP

Schedule DGB-1R
Rebuttal

	A&R PreFiled Position	Adjustments	A&R Rebuttal Position
Cost of Service	\$ 1,149,285	\$ (16,390)	\$ 1,132,895
Miscellaneous Revenue	32,548		32,548
Net Revenue Required	1,116,737	(16,390)	1,100,347
Tariff revenues, Present rates	552,328		552,328
Revenue Deficiency	\$ 564,409	\$ (16,390)	\$ 548,019
Percentage Increase	102.19%		99.22%

	<u>Adjustments</u>
<i>Cost of Service Adjustments</i>	
Fuel Floor	\$ (21,170)
Depreciation on Docks	(16,205)
Return on Rate Base	-
Increase Wharfage	3,900
Increase Insurance	16,760
Increase Property Tax	325
	<u>\$ (16,390)</u>