

**STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS**

BEFORE THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

**IN RE: INTERSTATE NAVIGATION COMPANY :
APPLICATION FOR A CERTIFICATE OF : DOCKET No. D-05-06
PUBLIC CONVENIENCE AND NECESSITY :**

SURREBUTTAL TESTIMONY

OF

JOHN STUTZ

On behalf of:

The Advocacy Section of the Rhode Island Division of Public Utilities and Carriers

July 8, 2005

1 Q. DR. STUTZ, DID YOU PROVIDE DIRECT TESTIMONY IN THIS
2 PROCEEDING?

3 A. Yes. That testimony includes a statement of my background and qualifications.
4

5 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

6 A. The purpose is to respond to Mr. Kunkel's rebuttal testimony.
7

8 Q. IS INTERSTATE'S REQUEST TO ENTER THE HIGH-SPEED FERRY
9 MARKET IRRATIONAL?

10 A. No. Interstate has expertise in the ferry business. Mr. Edge, Interstate's witness in this
11 proceeding, showed that Interstate's proposed high-speed ferry could obtain revenues
12 from a number of sources. Support for about two-thirds of these revenues came from a
13 survey of Interstate's customers. Based on his comparison of revenues to costs, Mr. Edge
14 concluded that Interstate's proposed high-speed ferry service was likely to be profitable.
15 Entering an area in which Interstate has expertise and in which it expects to earn a profit
16 is rational. The fact that the area Interstate plans to enter is crowded creates a risk. It does
17 not make entry irrational.
18

19 Q. PLEASE DISCUSS THE ECONOMIC IMPACT OF A DECISION TO GRANT
20 OR DENY INTERSTATE PERMISSION TO PROVIDE HIGH-SPEED FERRY
21 SERVICE.

22 A. To the extent that the Division finds it appropriate to consider economic impacts
23 associated with Interstate's petition, impacts on both IHSF and Interstate, and on those

1 making use of the services they provide should be considered. The likely impact will
2 depend on a number of factors.

3 Assume that permission is granted. If the portion of passenger traffic to and from
4 Block Island carried by high-speed boats increases, or if IHSF is able to offer service to
5 Old Harbor, IHSF and Interstate may be able to co-exist. If the portion does not increase
6 and only Interstate offers high-speed service to Old Harbor, then IHSF could go out of
7 business. On the other hand, assume that permission is denied. If the portion of passenger
8 traffic carried on high-speed boats increases or if IHSF is able to offer service to Old
9 Harbor, Interstate is likely to lose passenger revenues. All else equal, this could create a
10 need for Interstate to raise the rates it charges to provide service—including
11 monopoly/lifeline freight, vehicle and off-season passenger service. With a denial IHSF
12 would still face competition from Block Island Express. Given the poor current financial
13 performance reported by Mr. Kunkel, it is not clear that IHSF will remain in business
14 even if Interstate's petition is denied.

15
16 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL?**

17 **A.** Yes, it does.