

**REBUTTAL TESTIMONY of
WALTER E. EDGE JR. MBA CPA
for
INTERSTATE NAVIGATION COMPANY
d/b/a The Block Island Ferry**

**Regarding Applications for
Water Carrier Certificates of Public Convenience and Necessity
To Operate a Fast Ferry (1) between Point Judith and Block Island (Old Harbor),
and (2) between Newport and Block Island (Old Harbor)**

**For
INTERSTATE NAVIGATION COMPANY
DOCKET NO. D-05-06**

May 2005

1 **Q. Please state your name and business address for the record.**

2 A. My name is Walter E. Edge Jr. MBA CPA and my business address is 21 Dryden
3 Lane, Providence Rhode Island 02904.

4

5 **Q. Are you the same Walter E. Edge Jr. that has previously filed direct testimony**
6 **in this docket?**

7 A. Yes, I am.

8

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. I have been asked by Interstate Navigation Company (Interstate) to provide my
11 observations and comments as they relate to the prefiled direct testimonies of Mr.
12 Frederick L. Nolan III and Mr. Lawrence R. Kunkel expert witnesses for IHSF in this
13 docket.

14

15 **Q. What are your observations and comments relating to Mr. Nolan's direct**
16 **testimony?**

17 A. My first observation is that Mr. Nolan's testimony is for the most part an interesting
18 history, as he sees it, of the high speed market place regarding "off-season charters and the
19 resale values of high speed ferries". It should be noted however that in my direct
20 testimony I did not use either of these two concepts in my calculations of the projected
21 profit and loss for the first full year of Interstate's proposed Fast Ferry service. The fact
22 is that it is irrelevant to my calculations that Mr. Nolan believes that there is little market
23 for off-season charters and that the resale market for used high speed ferries has become
24 weak. That assumption, even if true, does not change the fact that without using either
25 concept my initial projections show an almost \$500,000 profit for Interstate's fast ferry in
26 the first full year of operations. That \$500,000 will be available to subsidize Interstate's
27 lifeline rates.

28

29 Mr. Nolan's comment that I have made "rosy revenue projections" (Nolan page 3 line 4)
30 is simply not supported by the evidence on the record.

1 **Q. But Mr. Edge didn't you mention off-season charters and the resale values in**
2 **your Direct Testimony?**

3 A. Yes I did. I mentioned both concepts as possible additional options for Interstate's
4 management should the actual results of Interstate's Fast Ferry service (revenues and
5 expenditures) not favorably compare with my original projections. I believe that my
6 initial projections however are conservative and Interstate will meet or exceed the profit
7 level that I have projected and therefore the alternative options will not be needed.

8

9 Nothing in either Mr. Nolan's or Mr. Kunkel's testimony suggests any changes to my
10 revenue or expenditure calculations for Interstate's fast ferry other than the fact that my
11 projected revenue amounts may be too conservative (low) and Interstate may actually get
12 more revenue should IHSF customers chose to travel to Old Harbor on Interstate's fast
13 ferry. This would result in even a greater subsidy for the life line rates. I estimated only
14 a very small number of new customers will travel on Interstate's fast ferry. My estimated
15 revenues were for the most part the result of a portion of Interstate's own current
16 customers identified by the survey, who have already chosen not to travel to New Harbor
17 on the IHSF boat, but rather have continued to travel on Interstate's conventional boats,
18 switching to Interstate's fast ferry.

19

20 **Q. Mr. Edge, do you have any additional comments relating to Mr. Nolan's**
21 **testimony?**

22 A. Yes. On page 6 of Mr. Nolan's testimony he points out that the \$30,000 per month
23 charter rate if available "would only support roughly 50% of the monthly fixed costs of the
24 vessel Interstate is proposing". I believe that Mr. Nolan is commenting on the fact that
25 the debt service payments (fixed costs) for the vessel are about \$60,000 per month
26 (\$720,000/12) while the monthly charter amount is only \$30,000 per month. What Mr.
27 Nolan has failed to realize is that my first year of operations projections have included all
28 of the debt service costs for the entire year and still there is a \$497,000 profit. The
29 \$30,000 rental amount would therefore not have to cover any of the fixed debt service
30 costs. Mr. Nolan's point is useless.

1 **Q. Anything else?**

2 A. Yes, on page 7 Mr. Nolan states that “the limited markets and routes in which fast
3 ferries can be justified have been identified and established”. I believe that Interstate’s
4 passenger survey and my calculations suggest differently. I believe and there is no factual
5 testimony challenging my belief that the Interstate proposed fast ferry from Point Judith to
6 Old Harbor to Newport and return will be viable, profitable and is justified.

7
8 **Q. Mr. Edge, do you disagree with any other comments in Mr. Nolan’s testimony?**

9 A. Yes I do. Interstate does not have “a monopoly over the available infrastructure in
10 both Point Judith and Block Island’s Old Harbor”. Mr. Nolan is misinformed.

11
12 Interstate does not have the right to allow IHSF to use “Interstate’s docks in Old Harbor”.
13 Interstate leases the right to use the landing area in Old harbor on a month to month lease
14 and can not authorize others to use the docking facilities without the owner of the
15 property’s approval.

16
17 **Q. What comments do you have relating to Mr. Kunkel’s testimony?**

18 A. Just a few.

19 1. I believe that Mr. Kunkel has significantly exaggerated the “risk to the survival” of
20 Interstate’s lifeline service as a result of the introduction of Interstate’s fast ferry
21 service into the market. As my pro-forma calculations clearly show, Interstate’s
22 fast ferry service will actually help control rates for Interstate’s lifeline business. I
23 believe that the two Interstate services will flourish, and although the customers
24 who chose Interstate’s fast ferry will benefit from the faster more convenient
25 service, the Interstate life line customers will be the overall financial beneficiaries
26 of the new Interstate fast ferry. Further, Interstate’s management has offered to
27 protect the ratepayers of the lifeline service from losses that may occur in the first
28 year of operations.

29

1 2. Mr. Kunkel chooses to ignore the fact that Interstate's life line service has no
2 competition in providing the transport of vehicles and freight. Interstate's
3 proposed small car/freight deck on the fast ferry will not significantly detract from
4 Interstate's lifeline vehicle and freight business. Even if Interstate's boats carried
5 no passengers other than islanders, the lifeline service would have to remain in
6 place to transport lifeline supplies such as fuel, building materials, food, etc.

7
8 3. I marvel at the fact that Mr. Kunkel argues that the proposed Interstate fast ferry is
9 a direct competitor of IHSF as "fast ferry service to Block Island" (Kunkel page 3
10 line 22) but then concludes that the only way to level the playing field is to "simply
11 allow the incumbent fast ferry carrier to travel to Old Harbor instead of New
12 Harbor" (Kunkel page 7 lines 20-21). When it is convenient to Mr. Kunkel it is
13 "fast ferry service to Block Island" but when it is not convenient to Mr. Kunkel it
14 is fast ferry service to Old Harbor vs. New Harbor. When IHSF was trying to
15 point out the differences in the two ferry services in order to get their own
16 certificate from the Division the two harbors on Block Island were different
17 destinations (and the Division agreed in it order). Now that Interstate wants to
18 provide a service to the other harbor, not serviced by IHSF, all of a sudden Mr.
19 Kunkel believes that the two destinations are the same - both simply Block Island.

20
21 4. I take some offense at Mr. Kunkel's assertion on page 6 lines 4 through 7 that
22 Interstate's decision to enter the fast ferry market is "absurd, economically
23 irrational and contrary to public interest". Mr. Kunkel often thinks that decisions
24 that he does not agree with are absurd but that does not make them so. My
25 schedules clearly show that Interstate's decision to enter the fast ferry market
26 given its current operations and the lack of any fast ferry competition from Point
27 Judith and Newport to Old Harbor is economically rational.

1 Interstate's fast ferry proposal is in direct response to the public survey that
2 Interstate took that showed that about 35% or more of Interstate's current
3 customers wanted a fast ferry service to Old Harbor, therefore the proposal is in
4 the public interest. Further since all the profits will be funneled to the lifeline
5 service, the lifeline customers (public) interest will be served. The only public
6 interest that Interstate's decision could be contrary to is that of the IHSF owners
7 and its consultants. Mr. Kunkel's assertion on page 8 that IHSF would be forced
8 into bankruptcy implies that even IHSF customers (part of the public) would prefer
9 to take the proposed Interstate fast ferry and therefore their interests would also be
10 served.

11
12 5. I strongly disagree with Mr. Kunkel's response to the question on page 6 lines 19
13 through 21. The Interstate proposal to enter the high speed market is prudent and
14 in the public interest.

15
16 6. I would like to refute Mr. Kunkel's irrefutable market realities. First, Interstate is
17 not entering into the fast ferry market to Block Island. It is improving and
18 expanding a long standing ferry service that it has provided to Old Harbor for
19 decades. Failure of the Interstate fast ferry service, although doubtful, will not
20 have dire consequences for the life line mono-hull service, in spite of Mr. Kunkel's
21 erroneous assertion. Although Mr. Kunkel and his client would like the "window
22 of opportunity" to be closed, I do not believe that it is, and I believe that
23 Interstate's fast ferry service will be successful and significantly help the lifeline
24 service.

25
26 7. Mr. Kunkel's "loyalty incentive program" would probably not fly in a regulated
27 environment.

1 8. Mr. Kunkel's solution to the DPUC problem of addressing public need of servicing
2 Old Harbor is to let the "incumbent fast ferry carrier travel to Old Harbor instead
3 of New Harbor". This is unrealistic because it is simply not doable by the PUC,
4 the Division or Interstate.

5

6 9. I believe that Mr. Kunkel described Interstate's situation very well on page 8 of his
7 testimony when he was describing the IHSF situation. Interstate is already in a
8 "competitive crossfire", with BI Express on one side and IHSF on the other.
9 However, the difference is that Interstate is currently out gunned by the fast ferry
10 operations that provide faster and more luxurious service. In order to protect the
11 lifeline service and give Interstate the proper guns for the fight, Interstate needs to
12 compete on an even playing field and needs a fast ferry.

13

14 **Q. Does this conclude your testimony?**

15 A. Yes

16

17

REBUTTAL TESTIMONY of
JOSHUA LINDA, VICE PRESIDENT
INTERSTATE NAVIGATION COMPANY
d/b/a The Block Island Ferry

Regarding Application for
Water Carrier Certificates of Public Convenience and Necessity
To Operate a Fast Ferry (1) between Point Judith and Block Island (Old Harbor), and
(2) between Newport and Block Island (Old Harbor)

For
INTERSTATE NAVIGATION COMPANY
DOCKET No. D-05-06

May 2005

1 **Q. Please state your name and position.**

2 A. My name is Joshua Linda and I am Vice President of Interstate Navigation Company.

3

4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to respond to the direct testimony of Frederick L. Nolan, III
6 of Island Hi-Speed Ferry.

7

8 **Q. Please respond to Mr. Nolan's claim that winter charter availability for high speed
9 ferries is non existent in New York.**

10 A. First of all, I would like to say that Interstate Navigation did not factor in winter charter
11 revenues when we estimated revenues for this new service. As far as New York harbor charter
12 availability goes, we were aware that the demand for fast ferries in this market had dried up and
13 we did not consider a winter charter here a strong possibility.

14

15 **Q. What about Carribbean winter charters?**

16 A. The possibility of securing a winter charter in the Carribbean seems good because of the
17 addition of the open car deck on our proposed vessel. This feature will enhance the appeal of
18 our vessel in passenger/cargo trade between the islands which I understand is in high demand.

19

20 **Q. What about Florida winter charters?**

21 A. The possibility of a charter with the operator of the casino vessel off of Tampa Florida is still
22 viable. Even though the casino vessel owner has acquired two vessels to shuttle passengers, I
23 understand that additional chartered vessels may be needed in the future.

24

25 **Q. What is your response to Mr. Nolan's statements about the resale value of high speed
26 ferries?**

27 A. I would like to say that high speed vessels in general have a good record of strong resale
28 values. The Voyager III, which Mr. Nolan mentioned, did sell for less than what it was built
29 for by about \$772,000 less than its initial construction cost and not \$1,300,000 as Mr. Nolan
30 stated in his testimony.

31

1 **Q. Mr. Linda, are you aware of any reasons why the Voyager III sold at a discount?**

2 A. Yes, I do. The discount was largely due to the fact that the owner was pressed to sell the
3 vessel to reduce debt.

4
5 **Q. Do you know of any situations where the resale price was greater than the original
6 cost?**

7 A. Yes. The *Millennium*, which was built in 1998 for \$4.3 million, was sold for \$6.5 million to
8 a new owner and then sold again for about \$5.5 million to another buyer.

9

10 **Q. What about the glut of fast ferries that has softened the market?**

11 A. As Mr. Nolan stated, there are currently quite a few small harbor ferries for sale in New York
12 Harbor. These ferries are very small harbor ferries that have little capacity and very low
13 freeboard. Besides these vessels, there are no suitable ferries for sale or summer leases that
14 would suit Interstate's needs on the Block Island run.

15

16 **Q. Does that conclude your testimony?**

17 A. Yes

18

19

20