

Providence, Rhode Island and Mr. Scott Lajoie, Vice President of Commercial Banking with BankRI. Mr. Bebyn submitted pre-filed direct testimony with A&R Marine's application on July 10, 2014. Messrs. Antaya and Lajoie were proffered by A&R Marine to answer any questions from the Division relative to the proposed borrowing and/or the status of A&R Marine's efforts to initiate ferry services in September, 2014.

Mr. Bebyn's Pre-filed Direct Testimony

Mr. Bebyn testified that the instant borrowing is necessary for A&R Marine to make improvements to the Bristol Dock, anticipated to cost \$700,000; for equipment purchases, expected to cost \$200,000; and the balance of \$100,000, for use as a working capital infusion.²

Mr. Bebyn next testified that the instant borrowing would be through a U.S. Small Business Administration (SBA) loan authorization and that BankRI will be the Lender. The loan was identified as a non-balloon payment type loan with a term of 10 years and 3 months from the date of the loan. Mr. Bebyn related that the debt service on the loan is designed to include 3 payments of interest only on the disbursed principal balance beginning one month from the date of the note. Mr. Bebyn added that the interest rate is 5.25% per year "which reflects the Prime Rate in effect on the first business day of the month which the SBA received the loan application, plus 2.00%." Mr. Bebyn also explained that that under the terms of the loan, "the interest rate will be adjusted every 60 months (the 'change period') to reflect the Prime Rate in

² A&R Marine Exhibit 1, Bebyn Testimony, p. 2.

effect on the first calendar day of the change period as published in the Wall Street Journal plus 2.00%.”³

Mr. Bebyn also testified that the loan agreement requires A&R Marine to give BankRI a security interest in its business assets, a collateral assignment of its licenses, contracts and permits, and a conditional assignment of all leases; A&R Marine must also demonstrate that at least \$700,000 of cash has been invested in the business. Mr. Bebyn added that the collateral for the loan also includes a first preferred ship’s mortgage position on the vessels *Herbert C. Bonner* and *Chibachuweset*, which are owned by A&R Marine and A&R Marine Construction, Inc. (an affiliated company), respectively, and which are recorded with the U.S. Coast Guard. Lastly, Mr. Bebyn noted that Stephen Antaya, and his wife, Donna Antaya, will also be providing personal guarantees.⁴

Mr. Bebyn testified that in his professional opinion he believes the terms of the borrowing are in the best interest of A&R Marine and its ratepayers.⁵

Mr. Bebyn next moved to a discussion about the planned financing’s impact on A&R Marine’s capital structure and ratepayers. In a schedule attached to his pre-filed testimony, Mr. Bebyn indicates that as of July 3, 2014, A&R Marine’s total capitalization was composed of 100% equity. He relates that after the \$1 million loan, A&R Marine’s total capitalization will change to 54.94% debt and 45.06% common equity. Mr. Bebyn testified that the

³ A&R Marine Exhibit 1, Bebyn Testimony, p. 3.

⁴ A&R Marine Exhibit 1, Bebyn Testimony, pp. 3-4.

⁵ A&R Marine Exhibit 1, Bebyn Testimony, p. 4.

proposed borrowing will change A&R Marine's "...debt/equity ratio to about 1.22 to 1 with debt of \$1,000,000 and equity of \$820,061." Mr. Bebyn testified that for most businesses a ratio of less than 1 to 1 is very good. In this case, Mr. Bebyn opined that given that A&R is a capital intensive utility, he believes that a 1.22 to 1 debt/equity ratio "is still good."⁶

Mr. Bebyn also conceded that A&R Marine will require an increase in rates to pay the debt service on this new debt. However, he was unable to measure the overall impact on rates at this time. He noted that A&R Marine's initial rates have been modeled after Prudence Ferry, Inc.'s, which have been in effect for about 20 years.⁷

In his closing comments, Mr. Bebyn explained that A&R Marine must have approval of the financing very soon so that the loan can close before the end of July. He testified that if the loan does not close in July, A&R Marine "may not be able to do the work necessary to commence ferry service to Prudence Island on September 15, 2014."⁸

Mr. Antaya did respond to a number of questions from both the Division's Advocacy Section and the hearing officer. Most of the questions were related to the two vessels that A&R Marine will be using and the efforts that the Company is making to repair and construct the necessary docks in Bristol and on Prudence Island.

⁶ A&R Marine Exhibit 1, Bebyn Testimony, p. 4.

⁷ A&R Marine Exhibit 1, Bebyn Testimony, pp. 4-5.

⁸ A&R Marine Exhibit 1, Bebyn Testimony, p. 5.

Mr. Lajoie responded to questions regarding the terms of the proposed loan. He also indicated that the loan from BankRI does not condition the borrowing on A&R Marine operating as the only ferry company providing services between Bristol and Prudence Island.

The Division's Advocacy Section did not proffer any witnesses in this docket. After an examination of the application filing and related pre-filed testimony, the Advocacy Section stated for the record that it was satisfied from the evidence presented that A&R Marine had met the requisite burden of proof set forth in R.I.G.L. §39-3-15, et seq. and that the proposed borrowing was in the public interest.

FINDINGS

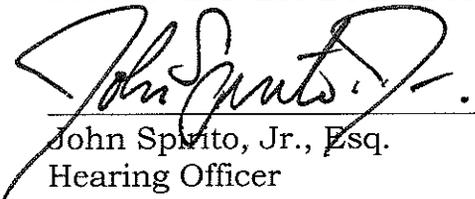
Predicated on a careful examination of the record in this matter, the Division finds that A&R Marine's application seeking approval to borrow \$1,000,000 from BankRI, under the terms identified in its filing, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(21524) ORDERED:

That A & R Marine Corporation's July 10, 2014 application, which seeks Division approval under R.I.G.L. §39-3-15, to incur \$1 million of debt with BankRI, is hereby approved as filed.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 24, 2014.


John Spivito, Jr., Esq.
Hearing Officer

APPROVED: 
Thomas F. Ahern
Administrator