

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DIVISION OF PUBLIC UTILITIES AND CARRIERS
89 JEFFERSON BOULEVARD
WARWICK, RHODE ISLAND 02888**

IN RE: Interstate Navigation Company :
Application to Incur Debt with : Docket No. D-04-21
The Washington Trust Company in the :
Principal Amount of \$3,100,000 :

REPORT AND ORDER

On June 17, 2004, the Interstate Navigation Company (“Interstate”) filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking authority to incur debt with The Washington Trust Company (“WTC”) in the principal amount of \$3,100,000.¹ The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Rule 14 of the Division’s Rules of Practice and Procedure.

In response to the application filing, the Division conducted a duly noticed public hearing on July 15, 2004. The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For Interstate:	Michael R. McElroy, Esq.
For the Division’s Advocacy Section:	Leo J. Wold, Esq. Special Assistant Attorney General

¹ Interstate Exhibit 1.

Interstate proffered one witness in support of its application. The witness was identified as Mr. Walter E. Edge, Jr., a partner in the consulting firm of Bacon & Edge, 1 Worthington Road, Cranston, Rhode Island. Mr. Edge proffered pre-filed direct testimony with Interstate's application on June 17, 2004.

Mr. Edge testified that Interstate is purchasing the *MV Anna C* from Nelseco Navigation Company at a cost of \$3,100,000. He related that this borrowing would be used exclusively for this purpose. He also related that Interstate's purchase of the *MV Anna C* was recently approved by the Public Utilities Commission ("Commission") in Docket No. 3573.²

With respect to the financing arrangements with the WTC, Mr. Edge testified that Interstate has two options. The first option would be a floating or variable loan at prime (as stated in the Wall Street Journal) minus 1%. Mr. Edge noted at the hearing that the prime rate is currently at 4.25%. The second option would be a fixed rate at '*the Bank's prevailing Cost of Funds at time of election, plus 190 basis points*'. Mr. Edge noted at the hearing that the current fixed rate is 6.74%.³

Mr. Edge did identify two issues for Division consideration. First, he testified that in the Docket 3573 rate case, Interstate told the Commission that it intended to borrow only \$2,600,000 to purchase the *MV Anna C*. He noted that Interstate had planned to use \$500,000 from its cash reserve to complete

² Interstate Exhibit 2.

³ In his original pre-filed testimony, Mr. Edge noted that the fixed rate was 7.22% on June 3, 2004. *Id.*, p. 3.

the purchase. However, according to Mr. Edge, Interstate is now faced with higher than expected costs associated with two other projects, also addressed in Docket No. 3573 rate case, that turned out to be higher than first predicted. He described the two other projects as dredging associated with the Montville Shipyard, which is now estimated to cost \$300,000 more than estimated in the rate case; and also the expense associated with renovations of the *MV Carol Jean*, which is now expected to be greater than the \$3,000,000 approved by the Commission in Docket No. 3573. Because of these now higher costs, Mr. Edge related that Interstate has decided to borrow the entire \$3,100,000 and use the \$500,000 of cash reserves for the other two projects.⁴

The second issue relates to Interstate's cost of capital. Mr. Edge related that the Commission's Docket No. 3573 decision approved a cost of capital that included a fixed rate for 6.4% on the anticipated \$2,600,000 loan. He noted that due to this limitation, Interstate would have a small shortfall if it were to lock in the entire debt at the current fixed rate of 6.74%.

Mr. Edge also discussed the terms of the loan. He described the loan as a 10-year loan with a 15-year amortization. He noted that the amortization period matches the depreciation period allowed for the *MV Anna C* in Docket No. 3573. He explained that the 10-year term would result in a balloon payment at the end of the term. Mr. Edge opined that this balloon payment would probably be rolled over into a 5-year loan at that time.⁵

⁴ Id.

⁵ Id., p. 4.

Mr. Edge related that other terms are the same as Interstate's current loan obligations to the WTC, including terms that: (1) Interstate still offer its vessels as collateral; (2) that prepayment penalties remain the same; and (3) that Interstate's financial covenants remain the same.

Predicated on its evaluation of its variable and fixed rate options, Mr. Edge testified that Interstate is requesting that the Division allow it to select the floating (variable) rate option at this time, and also have the flexibility to lock in the rate when it appears most beneficial to Interstate and its ratepayers.⁶

Mr. Edge also testified that if the Division approves Interstate's request to select a floating rate now and the flexibility in determining when to lock in a fixed rate, Interstate would be allowed three separate conversion opportunities under the WTC loan agreement. As an example, Mr. Edge related that Interstate "...could convert \$1,000,000 if the fixed rate increases to 7.5%, \$1,000,000 if the fixed rate increases to 7.75%, and the remainder if the fixed rate increases to 8.0%".⁷ He contended that the savings from the use of the floating rate would help to cover the additional costs relating to locking in at a higher rate before the next rate filing.⁸

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, and after a thorough cross-examination of Interstate's witness, the

⁶ Id.

⁷ Id., p. 5.

⁸ Id.

Advocacy Section stated for the record that it was satisfied from the evidence presented, that Interstate 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 Interstate's application seeking approval to incur \$3,100,000 in long-term debt with the WTC, under the terms identified in its filing, is reasonable and in the best interest of ratepayers.

Now, therefore, it is

(17918) ORDERED:

That the Interstate Navigation Company's June 17, 2004 application, which seeks Division approval under R.I.G.L. §39-3-15, to incur \$3,100,000 in additional debt with The Washington Trust Company, is hereby approved as filed.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 16, 2004.

John Spirito, Jr., Esq.
Hearing Officer

Thomas F. Ahern
Administrator

