



State of Rhode Island and Providence Plantations

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May 23, 2005

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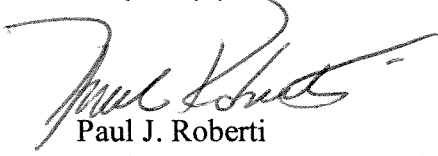
In Re: Island Hi-Speed Ferry, L.L.C., Docket No. 3669

Dear Ms. Massaro:

Enclosed for filing on behalf of the Division of Public Utilities and Carriers in the above-captioned matter, please find an original and nine (9) copies of the Direct Testimony of John Stutz.

Thank you.

Very truly yours,



Paul J. Roberti
Assistant Attorney General

encl.

Cc: Service List

**STATE OF RHODE ISLAND AND
PROVIDENCE PLANTATIONS**

BEFORE THE PUBLIC UTILITIES COMMISSION

In Re: ISLAND HI-SPEED FERRY, LLC

DOCKET No. 3669

DIRECT TESTIMONY

OF

JOHN STUTZ

On behalf of:

The Rhode Island Division of Public Utilities and Carriers

May 23, 2005

TABLE OF CONTENTS

1. INTRODUCTION AND SUMMARY	1
2. DETAILED TESTIMONY	2

Schedule JS-1: Background and Qualifications

Schedule JS-2: Impact of IHSF's Proposals

1 **1. INTRODUCTION AND SUMMARY**

2

3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.**

4 A. My name is John K. Stutz. My business address is the Tellus Institute (Tellus), 11
5 Arlington Street, Boston, Massachusetts 02116-3411. I am a vice president at Tellus.

6

7 **Q. HAVE YOU PREPARED A SUMMARY OF YOUR EDUCATION,**
8 **EMPLOYMENT, AND PROFESSIONAL QUALIFICATIONS?**

9 A. Yes, it is provided in Schedule JS-1.

10

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

12 A. Island Hi-Speed Ferry (IHSF or the Company) has proposed to sell a season pass and
13 offer discounts to passengers traveling in groups. My testimony addresses these
14 proposals.

15

16 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

17 A. The IHSF proposals are reasonable and appropriate given the regulatory framework
18 established for IHSF. I recommend that they be approved.

19

1 **2. DETAILED TESTIMONY**

2
3 **Q. PLEASE DESCRIBE THE CHANGES PROPOSED BY IHSF.**

4 A. Block Island currently has two types of ferry service: high-speed, passenger-only service
5 during the “tourist season” provided by IHSF as well as Block Island (BI) Express; and
6 slower, passenger, vehicle, and freight service provided year round by Interstate
7 Navigation Company (Interstate). Currently, IHSF is subject to a price floor of \$26.00 per
8 roundtrip. IHSF has petitioned the Commission, requesting that it be allowed to sell a
9 season pass for \$500, and offer a volume discount to passengers traveling in groups of
10 twenty-five or more. The group rates proposed by IHSF are \$20.30 per roundtrip for the
11 months of May, June, September and October, and \$23.20 for the months of July and
12 August.

13
14 **Q. HAVE YOU ANALYZED THE CHANGES PROPOSED BY IHSF?**

15 A. Yes, I have. My analysis is presented in Schedule JS-2. On the first three lines of the
16 schedule I show IHSF’s current roundtrip rate, the proposed rates, and the resulting
17 discounts. Because there is a fixed charge of \$500 for the pass, the associated rate
18 depends on how many roundtrips are taken. In the schedule I show the rates for one
19 roundtrip per week during IHSF’s 23-week season—the assumption used by IHSF in its
20 petition—and for two roundtrips per week—a possibility discussed by Interstate.

21 The last three lines of the schedule provide a comparison with Interstate’s rates.
22 The “margin” referred to in the schedule is the difference between IHSF’s current or
23 proposed charge and the comparable rate for Interstate. As one would expect, IHSF’s

1 proposed changes reduce the margins. However, in all but the 2 roundtrips per week case,
2 IHSF's rates remain significantly higher than Interstate's.

3
4 **Q. WHAT IS THE APPROPRIATE BASIS FOR ADDRESSING IHSF'S REQUEST?**

5 A. In deciding whether to approve the request to sell season passes and offer groups
6 discounts, it is appropriate to focus on the principles established by the Commission for
7 the regulation of IHSF.

8 **Q. PLEASE DESCRIBE THOSE PRINCIPLES.**

9 A. In its decision in Docket No. 3495 the Commission made the following determinations:

- 10 • IHSF is not a traditional public utility because it does not provide
11 lifeline service.
- 12 • The appropriate form of regulation for IHSF is a price floor.
- 13 • IHSF should have the flexibility to set its own rates as long as these
14 rates are not anti-competitive.

15 The Commission noted that the price floor it approved for IHSF was not linked directly to
16 Interstate's rates. However, it stated that, if IHSF's activities cause a massive defection of
17 customers from Interstate to IHSF sufficient to affect lifeline service, it would consider
18 raising IHSF's price floor.

19
20 **Q. HAVE YOU CONSIDERED THE IMPACT OF THE PROPOSED RATE**
21 **CHANGES ON INTERSTATE?**

22 A. Yes, I have. This point is addressed in the testimony of Mr. Edge on behalf of Interstate.
23 Mr. Edge estimates that the IHSF proposals will cost Interstate \$123,449 in revenues. In

1 the settlement in Docket No. 3573, Interstate's required revenues were set at \$8,804, 337.

2 Thus, Mr. Edge's estimate of the loss is about 1.4 percent of Interstate's revenues.

3

4 **Q. IS IT POSSIBLE THAT INTERSTATE'S LOSSES COULD BE LESS THAN MR.**
5 **EDGE'S ESTIMATES?**

6 A. Yes. Mr. Edge's estimates reflect a substantial amount of judgment:

- 7
- The assumed loss of \$54,744 in group ticket sales rests on the
8 assumption half of those who would have used Interstate will be
9 willing to pay 67 to 91 percent more per roundtrip to travel with IHSF.
 - Mr. Edge assumes that half of Interstate's commuter tickets are sold to
10 islanders who travel off island more than once a week, and that all of
11 these will shift to IHSF, creating a loss of \$50,000.
12

13 In both of these instances, the use of "half" is a matter of judgment: there is no evidence
14 offered to support it. Were a lesser fraction assumed, the estimated losses would be
15 smaller. Similarly, Mr. Edge assumes that the proposed season pass would "wipe out"
16 Interstate's revenue of \$18,705 from the sale of Discount Commuter Books, without
17 offering any evidence that the loss would be total.

18

19 **Q. SHOULD IHSF'S PROPOSALS BE APPROVED?**

20 A. Yes. The proposals are an instance of the flexibility in setting rates that the Commission
21 determined IHSF should have. Based on Interstate's own analyses, the proposed rate
22 changes are not likely to produce a "massive defection" of customers sufficient to affect
23 lifeline service. Thus, the request should be approved.

1

2 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

3 A. Yes, it does.

BACKGROUND AND QUALIFICATIONS

Education and Employment

Dr. Stutz received a B.S. from the State University of New York at Stonybrook in 1965 and a Ph.D. from Princeton University in 1969. Both degrees are in mathematics. After completing his Ph.D., he taught and did research at the Massachusetts Institute of Technology, the State University of New York at Albany where he received tenure, and Fordham University where he held the position of associate professor of mathematics and was co-director of the program in mathematics and economics. He left Fordham to help found Tellus where he has been employed since 1976.

Tellus is a non-profit institute. It provides research and consulting services to clients in the public and private sectors in the areas of energy, environmental policy, solid waste management, water resource planning, and sustainable development.

Professional Qualifications

Dr. Stutz has extensive experience in the utility industry, particularly as an expert witness. Since 1977 he has appeared before the Federal Energy Regulatory Commission (FERC) as well as Public Utility Commissions in 39 states, the District of Columbia, and three provinces in Canada. In total, he has appeared in 187 proceedings as shown in the attached table. Most of his appearances have been in electric utility proceedings. However, he has also testified on gas and telecommunications matters. Much of Dr. Stutz's testimony has addressed ratemaking issues. Since 1979, he has appeared as a witness on ratemaking in 129 proceedings. His testimony has addressed a variety of topics, including marginal costs, embedded cost-of-service studies, service quality standards, and numerous aspects of rate design.

Since the early 1980s Dr. Stutz has testified regularly on behalf of the Staff of the Rhode Island Division of Public Utilities and Carriers. He provided testimony on behalf of the Division Staff in two matters related to regulation of ferry service: Commission Dockets No. 3495 and 3573.

Dr. Stutz's articles and comments on utility-related subjects have appeared in the *Public Utilities Fortnightly*, *The Electricity Journal*, and elsewhere. His paper with Thomas Austin is cited, in the second edition of Bonbright's *Principles of Public Utility Rates*, as a source of information on electric ratemaking in general and COSS in particular. He was the lead author of *Aligning Rate Design Policies with Integrated Resource Planning*, a report commissioned and published by the National Association of Regulatory Utility Commissioners (NARUC). As NARUC's preface states, Tellus was selected to prepare this report largely because of Dr. Stutz's expertise.

In addition to his utility-related activities, since 1988 Dr. Stutz has worked for the United States Environmental Protection Agency, the Organisation for Economic Cooperation and Development, and various state and local agencies, on issues related to solid waste management and its impact on the environment.

Dr. Stutz's Testimony Before Regulatory Commissions

STATE	APPEARANCES		STATE	APPEARANCES	
	<u>Ratemaking</u>	<u>Planning</u>		<u>Ratemaking</u>	<u>Planning</u>
Alabama	1		Minnesota	2	
Arizona	5		Mississippi	1	
Arkansas	1		Nevada	4	3
Canada	11		New Jersey	7	
Colorado	6	4	New York		5
Connecticut	3	3	New Mexico	6	
Delaware	2		New Hampshire	2	
District of Columbia	1		North Carolina	3	
FERC		3	Ohio	5	1
Florida	1	3	Oregon	1	
Georgia		1	Pennsylvania	2	4
Hawaii		1	Rhode Island	24	3
Illinois	1	3	South Carolina	1	
Iowa	1		Tennessee	1	
Kansas	1		Texas	7	1
Kentucky	1		Utah	2	
Louisiana	2		Vermont	3	1
Maine	11	5	Virginia	1	
Maryland	2		Washington		1
Massachusetts	1	4	West Virginia	3	
Michigan	2	12	Wisconsin	1	
				<u>Total</u>	<u>Total</u>
				<u>Ratemaking</u>	<u>Planning</u>
				129	58

**IMPACT OF IHSF'S PROPOSALS
(\$ Per Roundtrip)**

	----- Season Pass -----		-----Group Discount -----	
	1 Trip/Week	2 Trips/Week	High Season	Shoulder Season
1. Current Roundtrip Rate ⁽¹⁾	26.00	26.00	26.00	26.00
2. Proposed Roundtrip Rate ⁽²⁾	21.74	10.87	23.20	20.30
3. Discount (1-2)	4.26	15.13	2.80	5.70
4. Comparable Interstate Rate ⁽³⁾	10.00	10.00	12.15	12.15
5. Current Margin (1-4)	16.00	16.00	13.85	13.85
6. Margin With IHSF Proposal (2-4)	11.74	.87	11.05	8.15

(1) Based on the 10-trip ticket price.

(2) Based on prices in IHSF petition. Rates for the pass are \$500 divided by 23 (1 trip per week of the IHSF season) and by 46 (2 trips per week).

(3) Interstate's Islander Commuter and the group fare as referenced in Mr. Edge's testimony.