

Direct Testimony of

Lawrence R. Kunkel
President and Chief Economist
Kunkel Strategic Services, IBC

For
Island Hi-Speed Ferry

Regarding Petition of Island Hi-Speed Ferry for Modification of Rate Orders
Relative to the Offering of a Season's Pass and a Volume Discount

May 5, 2005

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

2

3 **A.** My name is Lawrence R. Kunkel and my business address is 83

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5 **B.** North Pearson Drive, Warwick, Rhode Island 02888.

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7 **Q. By whom are you employed and in what capacity?**

8 **A.** I am the President and Chief Economist of Kunkel Strategic

9 Service, IBC (KSS). KSS is an economic and strategic

10 management consulting firm that specializes in economic analysis,

11 antitrust, the economics of regulation, financial analysis and

12 corporate strategy.

13

14 **Q. Mr. Kunkel, are you the same Lawrence R. Kunkel who has**
15 **filed expert testimony on behalf of Island Hi-Speed Ferry in**
16 **other filings before the Division of Public Utilities and Carriers**
17 **(DPUC) and the Rhode Island Public Utilities Commission**
18 **(PUC)?**

19 **A.** Yes.

20

21 **Q. Mr. Kunkel, what is your educational background?**

1 **A.** I received my A.B Degree in Economics from Providence College
2 and my A.M. Degree in Social Sciences (Economics) from The
3 University of Chicago. While at The University of Chicago, I was
4 the Research Assistant to George Stigler, the 1982 recipient of the
5 Noble Prize in Economic. In addition, during my graduate studies
6 at the University of Chicago, I had the opportunity to study under
7 several other Noble Laureates in Economics.

8 **Q. Have you been qualified as an expert witness by the DPUC and**
9 **the PUC?**

10 **A.** Yes. I have been qualified as an economics and financial expert in
11 Division Docket 98-MC16 and in Commission Dockets 2803 and
12 3495.

13
14 **Q. What is the purpose of your testimony in this Docket?**

15 **A.** I have been asked by Island Hi-Speed Ferry to provide expert
16 testimony to support their Petition for modification of rate orders
17 (Commission Order No. 17619 and Order No. 17819) to allow the
18 company to offer a season’s pass and a volume discount. My
19 background and experience will be essential for the Division to
20 fully understand and appreciate the compelling economic

1 arguments as to why the granting of said Petition is both necessary
2 and in the public interest.

3
4 **Q. Mr. Kunkel, in your expert opinion, is the Petition necessary**
5 **given the market environment within which IHSF operates?**

6 **A.** Yes.

7
8 **Q. Please explain your answer.**

9 **A.** The high speed ferry market to Block Island is characterized by
10 excessive and wasteful competition. As a result, an extraordinary
11 level of excess ridership capacity is found in the market that
12 desperately needs to be absorbed. The Petition by IHSF is one
13 mechanism for helping to absorb some of this excess capacity. In
14 addition, the presence of a season's pass and volume discounts will
15 be beneficial in developing added ridership in the shoulder seasons
16 when excess capacity is at its maximum.

17
18 **Q. Mr. Kunkel, in your expert opinion, is the Petition in the**
19 **public interest?**

20 **A.** Yes.

1 **Q. Would you mind explaining your answer?**

2 **A.** In my expert opinion, the Petition is consistent with the spirit and
3 intent of Order No. 17619 and the effect of Order No. 17929. I
4 believe that the Petition provides sufficient protection to the
5 lifeline service inasmuch as the average differential would be
6 \$9.65 which is not materially different from the \$10.00 differential
7 required. As such, the Petition is in the public interest because (1)
8 it helps to protect the incumbent high speed carrier; (2) it offers the
9 public choice in its purchasing decisions; (3) it could prove to be
10 very beneficial to lower income seniors; (4) it will help to
11 strengthen the financial condition of IHSF if the result is increased
12 ridership and revenues; and (5) volume discounts are offered in
13 nearly all other industries and season's passes are very common
14 with seasonal tourist-related businesses.

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Q. Does this conclude your testimony?

A. Yes.

Signature

Subscribed and sworn to before me on this _____ day of
_____, 2005.

Notary Public
My Commission Expires: _____