

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

TRADITIONAL SERVICE RATES)
INTERSTATE NAVIGATION COMPANY –)
GENERAL RATE FILING)

Docket 4373

DIRECT TESTIMONY OF RICHARD LA CAPRA

ON BEHALF OF

THE TOWN OF NEW SHOREHAM

March 22, 2013

1 **I. INTRODUCTION**

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

3 A. My name is Richard La Capra. I am a consultant specializing in
4 energy and regulated industry economics issues. My business address is
5 5 Carmine Street, New York, New York 10014.

6 **Q. WOULD YOU PLEASE SUMMARIZE YOUR PROFESSIONAL**
7 **QUALIFICATIONS?**

8 A. Yes. I have been working in the areas of energy planning and
9 regulatory pricing for over thirty years. My current resume is
10 appended as part of my testimony as Exhibit 1.

11
12 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE RHODE ISLAND**
13 **PUBLIC UTILITIES COMMISSION?**

14 A. Yes, I have filed testimony in Docket 4111 on behalf of the Town of New
15 Shoreham and testified during the evidentiary hearing.

16

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

19 A. My testimony will address the general rate case filing of the Interstate
20 Navigation Company ("Interstate" or "the Company").

21

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

2 A. Interstate filed with the Commission a petition to increase its tariff rates
3 and charges by \$1,302,177 or 13.19%. In the course of the filing the
4 Town had addressed several concerns about the filing with Interstate and
5 the Division of Public Utilities ("the Division"). During this period, the
6 Division and the Company entered into settlement discussions which
7 resulted in the proposed settlement document attached as Exhibit 2. The
8 purpose of my testimony is to recommend that the Commission accept the
9 basic terms of the proposed settlement and consider three terms not
10 addressed by the settlement. These terms are:

11 1) The final Order include the requirement that the Company
12 maintain, at a minimum, its current level of service during the non-summer
13 months;

14 2) The final order allow the Company greater flexibility for
15 pricing the services which in the settlement grants the Company the
16 authority to increase non commuter and non freight rates up 10% or
17 decrease non commuter and non freight rates by up to 20% without filing
18 a rate case. The Town suggests that the Company be allowed to increase
19 or decrease the above rates, both by 20%.; and

20 3) The Commission order the formation of a collaborative
21 consisting of the Division, the Town and the Company to review the
22 system of freight charges and, if needed, select and retain an outside
23 expert to review the options for streamlining and simplifying the

1 Company's current freight tariffs. Consistent with the Town's first
2 recommendation, any changes to the set of freight tariffs should be
3 revenue neutral.

4

5 **Q. HAS THE TOWN AUTHORIZED APPROVAL OF THE SETTLEMENT**
6 **AND EACH OF THESE ADDITIONS TO THE SETTLEMENT**
7 **AGREEMENT?**

8 A. Yes, by order of the New Shoreham Town Council on March 4, 2013, and
9 further order on March 20, 2013, it approved accepting the Division-
10 Company Settlement with the additional terms noted.

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12 **II. DISCUSSION OF THE TOWN'S RECOMMENDATIONS NOT COVERED**
13 **IN THE PROPOSED SETTLEMENT**

14

15 **Q. WHAT IS THE BASIS OF THE TOWN'S RECOMMENDATION THAT**
16 **THE PROPOSED SETTLEMENT AGREEMENT BE APPROVED?**

17 A. The Town's interest is in having a financially viable Company for ferry
18 service. The traditional ferry is essentially the lifeline of the island. The
19 Town has reviewed the financial and commercial terms included in the
20 settlement agreement and believes it is fair to all sides. In short, the
21 agreement allows the Company to continue to provide regular service,
22 earn a healthy return on equity and expand its fast ferry operations.

23

1 **Q. IS THE TOWN PROPOSING ANY CHANGES TO THE PROPOSED**
2 **SETTLEMENT AGREEMENT AS FILED?**

3 A. No, the Town is in agreement with all the financial and commercial terms
4 of the agreement as filed. The Town is proposing three additional items
5 that do not conflict with the proposed agreement, namely that the final
6 order include the requirement that the Company maintain, at a minimum,
7 its non-summer month level of service; that the Company be allowed
8 further flexibility in its non-commuter/freight pricing; and lastly, that the
9 Commission authorize a collaborative review of the Company's system
10 of freight charges.

11
12 **Q. HAS THE COMPANY SUGGESTED THAT IT INTENDS TO ALTER ITS**
13 **CURRENT NON-SUMMER SCHEDULE?**

14 A. No, the Town is not aware of an impending change but does heavily rely
15 on the present, relatively light, winter ferry schedule. Currently, the winter
16 schedule has only one ferry from the island in mid-week (Tuesdays and
17 Wednesdays), so any need to attend to a mainland appointment on those
18 days requires an overnight stay. Any further lessening of weekday winter
19 service would be a hardship to island residents.

20 Further, the test year and rate year levels of revenues and expenses are
21 based on the current schedule and, as such, the projections of revenue
22 requirement by service as incorporated into the settlement agreement
23 would be inaccurate if the frequency of trips were changed. Certainly, the

1 Company would be free to add routes or trips which it determines to be
2 profitable, but reducing service from the minimal winter schedule would
3 invalidate the cost basis of the settlement and be a burden on island
4 residents.

5 The Town proposes this addition to the order, not as a change to the
6 agreement but rather as an administrative assurance that this was, as the
7 Town believes, the intent of the agreement

8

9 **Q. WHAT IS THE TOWN'S POSITION ON THE POST RATE YEAR**
10 **PERIOD PRICING FLEXIBILITY AS PRESENTED IN THE PROPOSED**
11 **SETTLEMENT?**

12 A. The Town agrees with the Company having pricing flexibility and has
13 made that known in conversations with the Company, through
14 Council, and with the Division. Further, the Town would recommend
15 allowing a \pm 20% bandwidth within which it can lower or raise its non-
16 commuter, non-freight rates. Currently, the settlement allows for an ability
17 to increase rates up to 10% on certain tariffs after the rate year. The
18 Town recommends that the Company be allowed to increase tariffs other
19 than commuter, freight and truck rates an additional 10%, beginning May
20 24th, in any year after it has elected to apply the first 10% increase.

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22

1 **Q. IS THE TOWN PROPOSING TO ALLOW THE COMPANY AN**
2 **ADDITIONAL 10% OVER THE CEILING FOR ALL THE RATES SHOWN**
3 **IN EXHIBIT #3 OF THE PROPOSED SETTLEMENT?**

4 A. No. The Town is proposing allowing the Company to increase its rates
5 that do not affect every day life on the island. This would, therefore,
6 exclude tariffs applied to commuters and freight. The Company would
7 have the ability to increase other rates by up to 10% after the first 10%
8 increase has been in place for at least one year. The important
9 distinction the Town wants to highlight is that the truck rate is also a rate
10 which applies to freight. In fact, most of the freight to the island is taken
11 over by truck. Since the Town is accepting the settlement, it is, by
12 extension, agreeing to allow the Company to increase its trucks rates
13 by 10% without a rate case after the rate year. The settlement, however,
14 seems to recognize the unique impact on the island from increased
15 freight charges by exempting them from the 10% increase in the ceiling
16 rate, but applies that exemption only to the loose freight. The loose freight
17 tariff(s) actually apply only to a minority percentage of goods being
18 brought to the island. Most goods are brought to the island by truck and
19 as such, the truck rates have a more significant effect on island prices
20 than the loose freight. Consequently, the Town's proposal to allow an
21 additional 10% increase does not include commuter or freight rates (as
22 with the settlement) but recognizes that the truck rate is essentially the
23 primary cost of moving freight and thus excluded from the increase.

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Q. DOES THE TOWN BELIEVE THAT THE COMPANY CAN INCREASE REVENUES, WITHOUT DEPRESSING DEMAND, THROUGH PRICING FLEXIBILITY AND WITHOUT FURTHER INCREASING COMMUTER, FREIGHT OR TRUCK RATES?

A. Yes, the Town believes that Company may have revenue enhancing opportunities which will not affect its volume of traffic. This would become clearer, if after it applies the first 10% increase, it experiences no adverse sales effects.

For example, the substantially reduced non-commuter automobile rate was based on the Company's belief that its pricing caused a contraction of demand. If results from 2013 and/or 2014 show that the reduced traffic of 2012 was an anomaly¹, then there could be further increases to this rate, up to more traditional levels, without concern for losing customers. Note than the Company's proposed non-commuter car rate is almost 30% below its current level (= \$49.80/\$38.95).

Also, the Company has maintained an average pricing system for passengers and automobiles despite the fact that there are clearly times of shortage and times of significant excess in ferry capacity. Most pricing systems, certainly those in regulated industries, recognize peak and off-peak pricing regimes. It is reasonable to expect that summer schedule

¹ There are several alternative explanations for the 2012 decreases other than auto ferry pricing, such as the June 2012 auto traffic reductions due to a much smaller Block Island Race Week, a somewhat problematic and unclear reservation system, and an atypically smaller number of later summer-early fall weddings.

1 demand, particularly for automobiles, are a function of rental schedules
2 and day of the week rather than simply price elasticity. Thus, as another
3 element to stabilize most prices for a longer term without threatening the
4 Company's earnings, the Town strongly encourages allowing the
5 Company greater pricing flexibility.

6

7 **Q. WHAT IS THE TOWN'S POSITION ON THE INCREASE IN THE**
8 **FREIGHT CHARGES AS PUT FORTH IN THE PROPOSED**
9 **SETTLEMENT?**

10 A. Price increases are, of course, not very welcome, but the Town
11 understands that it has been some time since there has been an
12 increase in freight charges. As a result of the Town's review of the
13 Company's original filing as modified by discussions between the Division
14 and Company, the Town will reluctantly accept the proposed 34%
15 increase. This is a very difficult issue for the Town since, as noted, the
16 cost of moving goods to the island by both loose freight and truck uniquely
17 affects the town's residents and businesses, essentially raising the cost of
18 virtually everything.

19 As a consequence of the Town's unique situation with respect to freight
20 costs, it would strongly recommend that the Commission allow a review of
21 ways to overhaul the handling and pricing of freight to/from the island
22 without delaying the current case. At present there are roughly some
23 400 rates and categories of freight. Island residents have, almost

1 without exception, described the system as confusing and often arbitrary.
2 Further, it seems burdensome for the Company to administer.

3
4 The system of freight categories and rates has apparently evolved in
5 response to the growing and varied types of freight. As the types and
6 number grew, recording and pricing by specific item has resulted in these
7 hundreds of rates with confusing distinctions, such as the four individual
8 rates for batteries; - Car (#04-00) at \$0.71; Marine (#04-02) at \$3.56; Used
9 Marine (#04-03) at \$1.78 and "Batteries Electric" (#04-01) at \$1.78; or
10 "Push Lawnmower" (#390-02) at \$5.37; "Walk Behind Lawnmower" (#390-
11 07) at \$10.70; and "Riding Lawnmower" (#390-04) at \$10.70. Similarly,
12 there are rates for five different types of brick, a half cord and a full cord
13 of wood, and dozens of different rates for beverages, auto parts and
14 tools.

15 The Company has recognized the difficulty with this proliferation of freight
16 categories and rates and began an attempt to eliminate, alter, combine
17 and clear up inconsistencies². The allocation of time and resources
18 needed to perform a broad study to modernize the Company's freight
19 categories and tariffs as part of a major rate case, understandably, took a
20 backseat the overall revenue requirements and cost allocation studies.

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22 The Town has thus reluctantly accepted the increase in freight charges as
23 proposed in the settlement, so its recommendation for a review is focused

² See Testimony of Walter Edge p.33 ll 15-23

1 on prospectively streamlining and simplifying the current rate structure, not
2 reducing the total revenues from freight; - i.e., any changes to the current
3 system would be revenue neutral³. The best approach to assessing
4 how to improve the current system is the commonly used collaborative
5 evaluation. Specifically, the Town requests that the Commission
6 authorize the formation of a collaborative comprised of the Company,
7 Division and Town which will first address the issues and concerns of
8 freight handling and pricing and then budget and bid for the services of a
9 mutually agreed upon expert in the field of marine shipping to assess and
10 recommend ways to meet the collaborative objectives. Through this
11 collaborative process, all parties can be reasonably assured that the
12 freight system is providing the Town with adequate, modern and clearly
13 priced service within the revenue requirement approved in this filing.

14
15 Although this service represents only about 8% of the Company's
16 revenues, it is, like truck deliveries, a service which virtually all island
17 residents must use regularly and both the Town and Company should be
18 able to assure island residents that it has been given appropriate
19 attention.

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³ This, of course does not preclude any additional freight business that may result from a modernized system of handling and categorizing freight.

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III. CONCLUSIONS

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

- A. The Town recommends the Commission adopt the following actions;
- 1) Approve in full the Settlement Proposal filed by the Division on March 12, 2013;
 - 2) Require Interstate Navigation to put its new rates and charges into effect based on maintaining, at least, the current non-summer ferry schedule;
 - 3) Allow Interstate Navigation to raise rates, excluding commuter, freight, and truck rates by another 10%, one or more years after the first 10% increase, as provided for in the settlement, without filing a new rate case; and
 - 4) Order the formation of a collaborative consisting of Interstate, the Division and the Town to investigate ways to simplify and streamline its series of freight service categories and charges.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes it does.

Richard La Capra is consulting analyst in a wide range of regulated industry issues. Mr. La Capra founded La Capra Associates in 1980 with a goal of providing state-of-the art, innovative technical analysis to regulated industries

He has over thirty years of experience in consulting to the electric industry in various capacities. His experience encompasses financial, power supply, competitive bidding, contract and pricing issues. Mr. La Capra has negotiated comprehensive restructuring settlements and provided expert reports on the pricing, valuation, feasibility and siting of power plants. He has been involved in major bidding and procurement activities in both energy and transportation. His primary interest has been in the energy-related industries, but he has also presented expert testimony on telecommunications, water resources, and the taxicab industry. Mr. La Capra is a well sought-after lecturer for many industry conferences, and is the author of several articles that have been published in professional journals.

ACCOMPLISHMENTS

Mr. La Capra has provided expert testimony in 26 states and federal jurisdictions in the areas of transitioning to competitive markets, power supply requirements, competitive bidding, power supply requirements, and financial feasibility.

Some of his major assignments have included:

Assisting the financial reorganization of cooperative utilities, including reconfiguring their power supply assets and contracts, and restructuring \$100 million in debt;

Managing several asset bids for the potential purchaser or seller;

Designing and managing the auction process for distributing taxi medallions in the City of Boston;

Designing and managing the auction process for the sale of a small electric utility;

Designing and managing the auction process for the sale of the power supply infrastructure of a major university.

Negotiating transmission contracts, wheeling rates, and distribution leases for a number of utilities and independent power producers.

Providing advice to numerous State jurisdictions on the developmental rules and codes of conduct for emerging wholesale markets;

Providing advisory services to public and private utilities in the areas of pricing, power supply procurement strategies, negotiation of inter-utility contracts, and market hedging strategies;

Mr. La Capra has also served as Principal Consultant to the Electric Power Research Institute in the areas of electric utility pricing and customer research;

Managed developmental load research programs in six mid-western and eastern states;

Devised and presented professional development programs for the Electric Council of New England, the Center for Professional Advancement, the New England Rate Forum, the Electric Power Research Institute, the American Gas Association, the University of Michigan and the University of Missouri;

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Directed feasibility studies assessing privatization potential for publicly owned energy facilities;
and

Serves as Senior Economic Advisor to the City of Boston in the development of hackney carriage service standards and pricing, and the establishment of a market-based number of hackney medallions.

EMPLOYMENT

Charles T. Main, Inc.
Group Manager - Rates, Financial Services and
Utility Management Consulting Groups

American Electric Power Service Corporation
Rate and Load Research Supervisor

Pennsylvania-New Jersey-Maryland Power Pool
Planning Engineer

EDUCATION

Certificate in Advanced Finance, New York University

M.B.A., Fairleigh Dickinson University
Economics

B.S., Stevens Institute of Technology
Electrical and Mechanical Engineering