

*Via Electronic Transmission*

April 6, 2005

Luly Massaro  
Clerk  
Division of Public Utilities and Carriers  
89 Jefferson Blvd.  
Warwick, RI 02888

**In Re: Interstate Navigation Company, Docket No. D-05-6**

Dear Ms. Massaro:

Enclosed for filing in the above-captioned matter, on behalf of the Advocacy Section, is an original and four (4) copies of the Direct Testimony of Dr. John Stutz.

Thank you.

Very truly yours,

/s/  
Paul J. Roberti  
Assistant Attorney General

Encl.  
cc: Service List

**STATE OF RHODE ISLAND AND  
PROVIDENCE PLANTATIONS**

**BEFORE THE DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**IN RE: INTERSTATE NAVIGATION COMPANY :  
APPLICATION FOR A CERTIFICATE OF : DOCKET No. D-05-06  
PUBLIC CONVENIENCE AND NECESSITY :**

**DIRECT TESTIMONY**

**OF**

**JOHN STUTZ**

**On behalf of:**

**The Advocacy Section of the Rhode Island Division of Public Utilities and Carriers**

**April 4, 2005**

## **TABLE OF CONTENTS**

1. INTRODUCTION AND SUMMARY .....	1
2. DETAILED TESTIMONY .....	3

Schedule JS-1: Background and Qualifications

Schedule JS-2: Impact of Ferry Charges on the Cost of a Stay on Block Island

Schedule JS-3: Interstate's Annual Passenger Traffic

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 DESCRIPTION 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. Interstate Navigation Company d/b/a the Block Island Ferry (Interstate) has filed an  
13 application for Water Carrier Certificates of Public Convenience and Necessity (CPCN)  
14 with the Division of Public Utilities and Carriers (the Division). Interstate is seeking  
15 authority to operate a fast ferry carrying passengers, vehicles, and freight between Point  
16 Judith and Block Island (Old Harbor), and between Newport and Block Island.

17 Interstate's request is supported by testimony filed by Walter Edge, Susan and Joshua  
18 Linda, and a number of others. My testimony addresses the CPCN request on behalf of  
19 the Advocacy Section of the Rhode Island Division of Public Utilities and Carriers (the  
20 Advocate).

21

22 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

23 A. I have reviewed the standard for granting a CPCN provided by the Division in a recent

1 decision. I have also reviewed and analyzed the testimony and discovery responses  
2 provided by Interstate. Based on my review and analysis, I recommend that the requested  
3 CPCN be granted by the Division.

4

1 **2. DETAILED TESTIMONY**

2  
3 **Q. PLEASE DISCUSS THE STANDARD FOR GRANTING A CPCN.**

4 A. As the Division explained in its Report and Order in Docket No. 98 MC 18 dealing with  
5 the request of Island Hi-Speed Ferry LLC (IHSF) to operate a fast ferry to Block Island  
6 (the IHSF Order), there are two parts to this standard:

- 7 • That public convenience and necessity require the proposed services;
- 8 • That the Applicant is fit, willing, and able to provide the proposed  
9 services.

10  
11 **Q. IN THE IHSF ORDER, DID THE DIVISION OFFER GUIDANCE ON THE**  
12 **INTERPRETATION OF CONVENIENCE AND NECESSITY?**

13 A. Yes, it did. The Division stated that the standard is not one of absolute convenience or  
14 absolute necessity, but rather, is a blend of the two. The Division noted the possibility of  
15 conflict between the public’s need for service and the impacts on existing businesses.  
16 Citing a Supreme Court decision, the Division explained that public service is the basic  
17 issue to be considered in granting a certificate of public convenience and necessity. It  
18 noted that protecting existing investments from even wasteful competition is secondary to  
19 the fundamental obligation of securing adequate service for the public.

20  
21 **Q. WILL INTERSTATE’S PROPOSED FAST FERRY PROVIDE SERVICES**  
22 **WHICH ARE NOT CURRENTLY AVAILABLE?**

23 A. Yes, as Interstate explains in its testimony, the proposed fast ferry would provide a

1 number of services which are not currently available:

- 2 • Faster and more comfortable service to Old Harbor, providing an  
3 additional option for passengers such as the elderly who require  
4 greater comfort, those who desire fast travel with their vehicle, and  
5 those who simply prefer a fast trip which terminates at Old Harbor.
- 6 • Faster and more comfortable service to and from Newport, providing a  
7 better option for “day trips” to and from Block Island.

8 If one examines the revenue projections provided in Mr. Edge’s Schedule WEE-3,  
9 one sees that shifts in Interstate’s current passenger traffic to fast ferry service is the  
10 major anticipated effect of the proposed fast ferry. Demand for fast service among  
11 Interstate’s existing customers is supported by the results of a survey. Demand for  
12 improved service to and from Newport is supported by the experience of the Company’s  
13 testimony, particularly that of Ms. Linda.

14  
15 **Q. DO YOU FIND THE CLAIMED DEMAND FOR ADDITIONAL SERVICES**  
16 **REASONABLE?**

17 A. Yes, I do. My analysis presented in Schedule JS-2 supports the notion that, when one  
18 considers the full cost of a trip to Block Island, the increase in costs associated with use  
19 of the fast ferry for passengers and vehicles are modest. The schedule shows that ferry  
20 charges currently account for about 3.5 percent of the cost of a long weekend (i.e., two  
21 nights and three days), or a week-long stay, for two adults and a child. I used Interstate’s  
22 current rates to develop my calculation. One could increase these charges substantially, to  
23 cover fast ferry service, and they would still be less than 10 percent of the total cost.

1           As to the day tripping, there is a savings in travel time and consequent increase in  
2 the time for a visit to Block Island or Newport. This, plus the increase in comfort, makes  
3 the attractiveness of fast ferry service between Newport and Block Island clear.

4  
5 **Q.   WHAT STANDARD HAS THE DIVISION APPLIED TO DETERMINE IF AN**  
6 **APPLICANT FOR A CPCN FOR FAST FERRY SERVICE TO BLOCK ISLAND**  
7 **IS FIT, WILLING AND ABLE?**

8 A.   In the IHSF Order, the Division considered whether, based on the available evidence, it  
9 was satisfied that the applicant was capable of procuring necessary funds, obtaining  
10 necessary permits, and employing key personnel needed to operate a successful service.

11  
12 **Q.   HAS INTERSTATE PROVIDED EVIDENCE THAT IT IS FIT, WILLING AND**  
13 **ABLE?**

14 A.   Yes, it has. Its fitness is addressed by the experience of the Linda's in the business, as  
15 described in the testimony of Joshua Linda and noted in Susan Linda's response to Staff  
16 1-22. The willingness of the applicants is clear from their testimony. Ability, particularly  
17 the ability to finance the new boat, has been addressed in Ms. Linda's testimony and in  
18 discovery responses, in much greater detail than was required when IHSF was granted its  
19 CPCN.

20  
21 **Q.   HAS INTERSTATE MET THE DIVISION'S STANDARD FOR BEING FIT,**  
22 **WILLING AND ABLE?**

23 A.   Yes, in my view it has.



1 **Q. DO YOU RECOMMEND THAT REQUESTED CPCN BE GRANTED?**

2 A. Yes, I do.

3

4 **Q. IN MAKING THIS RECOMMENDATION, HAVE YOU CONSIDERED THE**  
5 **LIKELY ECONOMIC IMPACT OF THE PROPOSED FAST FERRY ON**  
6 **INTERSTATE AND ON IHSF?**

7 A. Yes, I have. Fast ferry service provides potential economic benefits to Interstate. To see  
8 why it is useful to look at a bit of background data. As shown in Schedule JS-3, for the  
9 period through 2001, the trend in Interstate’s passenger traffic was upward. Based on the  
10 slope of the line fitted to the data for 1996 to 2001, an average of 5,155 passengers were  
11 added each year. Since 2001 all of the gains made between 1996 and 2001 were lost.  
12 The proposed fast ferry is, in part, a response to that loss. Interstate expects addition of a  
13 fast ferry to boost the revenue per “existing” passenger, and to add revenues based on  
14 new service. There is, of course, some risk to Interstate associated with its fast ferry  
15 proposal. Interstate has addressed this risk, offering to lease rather than buy initially, and  
16 pointing out that winter leasing and the resale market offer options if the service does not  
17 prove profitable.

18 In its revenue projections, Interstate shows some new passenger traffic. Part of  
19 this traffic may come at the expense of IHSF. In considering this point, it is important to  
20 note that IHSF and Interstate will land at different points on Block Island. Interstate’s  
21 acceptance of the same “rate floor” as IHSF, were it to lead to comparable pricing for  
22 passenger service for both fast ferry services by the Commission, would prevent  
23 Interstate from attracting IHSF customers who are satisfied with IHSF’s service by

1 offering lower fares. Finally, I would note that, in the IHSF Order, the Division made it  
2 clear that even wasteful competition may be acceptable if it is accompanied by expanded  
3 and improved public service, as is likely the case here.

4

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 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 185 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 127 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	10		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	23	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	
				Total	Total
				<u>Ratemaking</u>	<u>Planning</u>
				127	58

**IMPACT OF FERRY CHARGES ON THE  
COST OF A STAY ON BLOCK ISLAND**

	<b>Long Weekend Stay (3 days, 2 nights)</b>	<b>One Week Stay (7 days, 7 nights)</b>
<b>Lodging<sup>1</sup></b>	\$500	\$1,500
<b>Food<sup>2</sup></b>	\$225	\$600
<b>Transport<sup>3</sup></b>	\$60	\$60
<b>Ferry Charges<sup>4</sup></b>	\$32	\$83.90
<b>Miscellaneous<sup>5</sup></b>	\$60	\$160
<b><i>Total</i></b>	\$877.00	\$2,403.90
<b>Ferry Charges as Percent of Total</b>	3.65	3.49

## Notes:

<sup>1</sup>\$200 per weeknight, \$250 per weekend night

<sup>2</sup>\$30 per adult per day, \$15 per child per day

<sup>3</sup>150 miles at 40 cents per mile plus round trip ferry charges (without increase):

<sup>4</sup>Adult @ \$12.80, child @ \$6.40, and vehicle @ \$51.90. No vehicle transport for weekend

<sup>5</sup>\$20 per day

### INTERSTATE'S ANNUAL PASSENGER TRAFFIC

