

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**IN RE: INTERSTATE NAVIGATION COMPANY )  
PETITION FOR APPROVAL TO PURCHASE ASSETS ) Docket No. D-06-53  
REQUEST FOR APPROVAL TO FINANCE ) Docket No. D-06-51**

**STIPULATION AND SETTLEMENT**

Interstate Navigation Company (“Interstate”), Island Hi-Speed Ferry (“IHSF”), and the Advocacy Section (“Advocacy Section”) of the Rhode Island Division of Public Utilities and Carriers (“Division”) (collectively, the “Parties”), hereby agree to this stipulation and settlement which constitutes a settlement of all issues concerning the purchase of IHSF’s Rhode Island assets by Interstate, as well as all issues concerning the financing of that purchase, set out in these dockets.

**Recitals**

On August 23, 2006, Interstate filed a petition with the Division seeking approval of a loan from the Washington Trust Company in the amount of \$5,600,000 to facilitate the purchase of all of IHSF’s Rhode Island assets.

On August 31, 2006, Interstate filed with the Division five petitions seeking Division approval of various actions necessary for Interstate to purchase the Rhode Island assets of IHSF. Specifically, Interstate sought approval of:

1. Interstate’s purchase of the Rhode Island assets of IHSF and lease of the M/V *Athena* to IHSF for November 15, 2006, to May 1, 2007. The purchase price for all assets concerned, including the M/V *Athena*, is \$5,612,500, as itemized in the Purchase and Sale agreement filed with the petition, with a closing scheduled for November 1,

2006. In addition, Interstate requests a lease back (charter) of the M/V *Athena* from Interstate to IHSF for the period November 15, 2006, until May 1, 2007, at the rate of \$1,285.00 per day; the charter is to provide cash flow to Interstate to help service the debt Interstate will incur to purchase the Rhode Island assets of IHSF.

2. The elimination of all restrictions on Interstate's Fast Ferry certificate of public convenience and necessity ("CPCN"). Because IHSF will no longer be operating a high speed ferry from Point Judith to Block Island, and because the restrictions imposed on Interstate's fast ferry CPCN were intended to protect IHSF, Interstate seeks the elimination of all restrictions on Interstate's fast ferry CPCN, including, but not limited to, restrictions relating to scheduling and marketing.
3. The elimination of all restrictions on IHSF's Fast Ferry CPCN. Because the restrictions on IHSF's fast ferry CPCN were imposed to protect Interstate, the lifeline carrier, and because IHSF will no longer be operating, and Interstate will now own IHSF's fast ferry, CPCN, the restrictions are no longer necessary.
4. Transfer of IHSF's Fast Ferry CPCN to Interstate and approval to continue to hold the IHSF CPCN (Point Judith to New Harbor) in abeyance (dormancy).
5. To continue to hold the Newport leg of Interstate's Fast Ferry CPCN in abeyance (dormancy).

The history of the relationship between Interstate and IHSF was summarized in Division Report and Order No. 18597, dated May 5, 2006, in consolidated Dockets D-05-06, D-06-16, and D-06-17. In that Report and Order, the Division allowed Interstate to amend its fast ferry CPCN to enable Interstate to run the M/V *Athena* between Point Judith and Old Harbor, and eliminated and amended the restrictions on Interstate's CPCN, but only for the 2006 operating

season (Docket No. D-05-06). The Division also allowed IHSF to hold its fast ferry CPCN to New Harbor in abeyance (dormancy), but only through May 15, 2007 (Docket No. D-06-16). Finally, the Division approved a charter of the M/V *Athena* from IHSF to Interstate for the summer of 2006 at the rate of \$1,285.00 per day.

Interstate and IHSF have now consummated a Purchase and Sale Agreement whereby Interstate has agreed to acquire all of the Rhode Island assets of IHSF, including, but not limited to, the M/V *Athena* and IHSF's fast ferry CPCN, with a "time is of the essence" closing to occur on November 1, 2006.

Shortly after the closing occurs, Interstate will lease back to IHSF the M/V *Athena* for IHSF's use on its Puerto Rico high speed operation from November 15, 2006, through May 1, 2007, at a rate of \$1,285.00 per day. This charter will provide cash flow to Interstate that will help Interstate service the \$5,600,000 debt Interstate expects to incur with the Washington Trust Company to finance the \$5,612,500 purchase of IHSF.

In response to Interstate's petitions, the Advocacy Section conducted a review of the requests through discovery methods aided by outside consultants. Other parties conducted similar discovery leading up to the hearing on these dockets. After due consideration of the pre-filed testimony, exhibits, data responses and other documentation filed by Interstate, the Parties now have agreed to a comprehensive settlement of the issues raised in both dockets relating to the purchase of IHSF's Rhode Island assets by Interstate.

The settlement agreement is as follows:

**Section 1.** Interstate may obtain financing in the amount of \$5,600,000. from the Washington Trust Company.

**Section 2.** Interstate may purchase the Rhode Island assets of IHSF, including: the M/V *Athena*, customer list, covenant not to compete, goodwill, CPCN, and berthing permit, for the total purchase price of \$5,612,500.00, utilizing a loan furnished by the Washington Trust Company. The terms of the loan are as described in the Washington Trust Commitment Letter and Term Sheet submitted in Docket D-06-51. Interstate may also charter the M/V *Athena* for November 15, 2006, to May 1, 2007, at \$1,285 per day.

**Section 3.** IHSF's CPCN will be transferred to Interstate and merged with the Interstate high speed ferry CPCN to authorize the provision of high speed ferry services by Interstate between Point Judith and Newport to any Block Island termini, including Old Harbor and New Harbor. Because Interstate would not be in a financial or operational position to commence a Newport high speed service until the summer of 2009 at the earliest, Interstate's combined high speed ferry CPCN will continue to be held in abeyance with respect to the Newport leg of its fast ferry service until October 31, 2008. However, Interstate shall be required to report to the Division by October 31 of each year as to the status of its plans to provide high speed service between Newport and Block Island. The continued authorization of that service on the CPCN will be decided after Interstate files its October 31, 2008, report, and annually thereafter. Interstate's combined high speed ferry CPCN shall be without restriction with respect to furnishing services between Point Judith and Block Island except that it shall be required, barring extraordinary circumstances, to provide services commencing no later than July 1 and concluding no earlier

than Labor Day of each year. Interstate's proposed schedule and termini for all fast ferry services, and any modifications thereto, shall be provided to the Division for review at least 45 days prior to the effective date of the scheduled services.

**Section 4.** The Parties believe that the maintenance of safe and reliable year round service to Block Island at reasonable rates for passengers, vehicles, and freight is of critical importance. The provision of high speed ferry services provides economic benefits to Block Island as well as benefits to customers who use that service. However, the Parties also agree that the provision of high speed service by competitors has posed, and would continue to pose, risks to the profitability of Interstate and its ability to maintain safe and reliable year round traditional service to Block Island at reasonable rates for passengers, vehicles, and freight. The Parties are confident that the proposed transaction can mitigate such risks.

Nevertheless, the Parties recognize that the proposed transaction is not without its own risks, including, but not limited to, generation of adequate revenues by the high speed service to cover the costs of that service (including the interest and principal repayments on approximately \$5.6 million of additional debt). Therefore, to protect the year round traditional service to Block Island at reasonable rates for passengers, vehicles, and freight, Interstate agrees that any losses incurred from the operation of high speed service will not affect the year round service, or rates, to Block Island for

passenger, vehicles, or freight, unless the Public Utilities Commission should direct otherwise.

**Section 5.** This Stipulation and Settlement should not be interpreted to restrict the rights of any party to recommend a particular treatment of the profits from the operation of high speed operations for ratemaking purposes or to restrict the authority of the Public Utilities Commission with regard to the treatment of the profits from the high speed operations for ratemaking purposes.

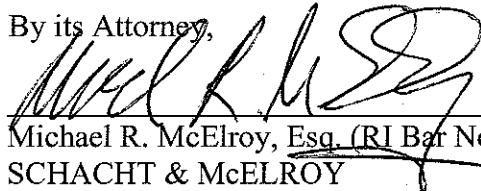
The Parties hereby submit this Stipulation and Settlement to the Division for approval.

IN WITNESS WHEREOF, this document has been executed by the appropriate representatives of the Parties identified below, each being fully authorized to do so. Dated at Warwick the 2nd day of October, 2006.

**RESPECTFULLY SUBMITTED**

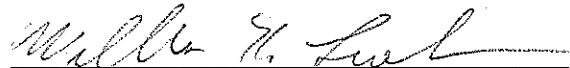
INTERSTATE NAVIGATION COMPANY

By its Attorney,

  
Michael R. McElroy, Esq. (RI Bar No. 2627)  
SCHACHT & McELROY  
21 Dryden Lane  
P.O. Box 6721  
Providence, RI 02940-6721


ADVOCACY SECTION, DIVISION OF  
PUBLIC UTILITIES AND CARRIERS

By its Attorney,

  
William K. Lueker, Esq. (RI Bar No. 6334)  
Special Assistant Attorney General  
Department of Attorney General  
150 South Main Street  
Providence, RI 02903

ISLAND HI-SPEED FERRY, LLC

By its Attorney,

  
Mark J. Hagopian, Esq. (RI Bar No. 3281)  
HAGOPIAN & HAGOPIAN  
60 South County Commons Way  
Suite G-5  
South Kingstown, RI 02884