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13 **IN THE PUBLIC UTILITIES COMMISSION**
14 **FOR THE**
15 **COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**
16

17 **In the Matter of the**) **RATE CASE No. 09-02**
18 **Commonwealth Utilities Corporation**)
19 **Applicant,**)
20)
21) CUCs Prefiled Testimony of:
22) Antonio S. Muna, Executive Director,
23)
24)
25) **Subject: Policy; Provisional Rate**
26) **Increase; Cash Management; Other**
27) **Responses to GCG Report**
28)
29 Filing date: March 23, 2009
30
31

32 Direct Testimony of
33 Antonio S. Muna, Executive Director
34
35

36 **Introduction and Purpose**
37

38 Q: Please state your name and business address for the record.
39

40 A: My name is Antonio S. Muna. I am Executive Director of the Commonwealth
41 Utilities Corporation ("CUC"). My office is located at the Joeten DanDan Building,
42 3rd Floor. The mailing address is PO Box 501220 CK, Saipan MP 96950. My
43 telephone and fax numbers are: 670.235-7025, 5131, respectively. My email
44 address is tmuna@cucgov.net.
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Q: Are you an adult resident of Saipan, Commonwealth of the Northern Mariana Islands?

A: Yes, I am.

Q: Are you the same Antonio S. Muna who testified on behalf of CUC in Docket No. 0901?

A: Yes, I am.

Introduction and summary

Q: Please state the content and purpose of your testimony.

A: I am testifying in response to Georgetown Consulting Group, Inc.'s testimony report of March 13, 2009. In the course of this testimony I use the terms "we" or "us" to refer to CUC's official position.

We agree with most of the conclusions and recommendations. There are some issues of cash management and stepped rate increases that will require discussion. Timing of a rate increase, or a stepped rate increase, may be critical.

Q: Could you please provide a table of contents to this testimony?

A: Yes:

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CUC 0902 Water/Wastewater Case Testimony
March 23, 2009

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Q: Who prepared this testimony?

A: This pre-filed testimony was prepared by me or under my direct supervision and control.

Q: If you were called to testify “live” to the matters contained within this testimony and were asked the same questions, what would your answers be?

A: My answers would be as they appear in this pre-filed testimony.

Q: Do you swear and declare that this testimony is true and correct to the best of your knowledge, information and belief?

A: Yes, I do. And I repeat this declaration at the conclusion of this written testimony.

1 **Qualifications**

2
3 • Qualifications in general

4
5 Q: Thank you. I would now like to ask you a few questions about your education,
6 training and experience as they relate to your testimony. Then I would like to
7 address the specific preparation you undertook for this testimony.

8
9 A: Please continue.

10
11 Q: Could you please explain your present position?

12
13 A: Yes. My title is Executive Director. I am fully responsible for the management
14 and operations of CUC. I have held this position since May 5, 2008.

15
16 Q: And, could you describe briefly the positions you held before this present one
17 and how they relate, if at all, to your testimony today.

18
19 A: Yes. I have an extensive background in private sector and government
20 accounting and budgetary affairs. I served as CNMI's Director of Management
21 and Budget under this Administration. I was a partner for over a decade in a
22 local accounting firm.

23
24
25 * Specific preparation for this testimony

26
27
28 Q: I would now like to focus more closely on what you did to prepare for this case,
29 and the testimony you are providing in it.

30
31 A: Yes. I have both general and specific comments on my work relating to this
32 case.

33
34
35 Q: Please discuss your connection with this case generally.

36
37 A: I am responsible for the management, operations and capital investment of CUC.
38 The proverbial "buck" stops with me.

39
40 I took on this job on May 5, 2008. It has been all-consuming ever since. I
41 supervise, and have depended on, a small team of senior managers.

1
2
3 Q: Please discuss your connection with this case specifically, including your
4 preparation at the office.
5

6 A: I have done a number of things to prepare for this testimony.
7

8 As I just mentioned, I have been responsible for CUC's management since May
9 2008. I have done everything that such a job would require since then. I have
10 also spoken in detail about CUC's operations and challenges to and with leaders
11 of our community, elected officials, and federal regulatory and program staff.
12

13 I have regularly received detailed briefings from senior managers as to their
14 respective responsibility areas. I have visited all of our principal water and
15 wastewater facilities.
16

17 I have reviewed almost every one of CUC's responses to the information
18 requests sent to us by the Commission's consulting Staff, Georgetown
19 Consulting Group ("GCG" or "Staff").
20

21 I have discussed the case with my senior staff and our counsel, particularly
22 Deputy Director Bruce Megarr, in order to place matters in the proper factual and
23 legal contexts. I reviewed and evaluated the Staff's Report of March 13, 2009
24 ("Staff Report"). I have formed my own opinions as to the matters relating to this
25 case and to the Staff Report.
26

27 **Testimony**

28
29 Q: You stated earlier, in your introduction, that you are testifying in response to the
30 GCG Report. Could you proceed with that testimony?
31

32 A: Yes.
33
34

35 • **Provisional rates for CUC**

36
37 Q: Do you believe that uncertainties and the prospect for rate shock counsel
38 against going immediately to 100% full cost recovery rates?
39

40 A: Yes. Indeed, even 50% provisional rates give us pause. GCG addresses this
41 subject at pp 6-10 of its March 13 testimony.

1
2 Taking into consideration the uncertainties discussed above we consider at this time that
3 appropriate rate relief would be in the range of 50 to 75 percent of the full recovery rates
4 determined in Tables 1 and 2 of the Appendix. We recommend that at this time the CPUC
5 consider the approval of water and wastewater rates that would provide for no less than 50
6 percent of the full recovery rates determined in Tables 1 and 2 of the Appendix in order to make
7 progress on the mandates of legislation and federal requirements.
8

9 P 10 lines 33 – 38. While, on principal CUC agrees with a strategy that avoids
10 rate shock and moves us toward the rate levels which the federal court would
11 demand under the Consent Order, we see difficulties in so dramatically
12 increasing rates. Perhaps a schedule of predictable step increases is the best
13 strategy. It would avoid rate shock, but give the federal court and our
14 Water/Wastewater Divisions an ability to plan.
15

16 We would like to avoid a public response that addresses the frustration of
17 increased rates without an appreciation of the “good deal” that customers got for
18 years of extremely below-cost rates (albeit with poor service and product quality,
19 which is to be expected from below-cost rates). At this point, we do not see how
20 the CNMI, and, in particular, our customers, can sustain a 50% rate increase.
21 But we are open to discussions and problem-solving.
22

23 For the purposes of problem-solving, we would like to explore a stepped rate-
24 setting approach. The goal would be to see rates meet the full expense needs
25 of the Water and Wastewater division within an appropriate period.
26

27 We need to look at rate structure, as well. It should reflect both the fixed and the
28 variable nature of the many costs required to collect, treat, and deliver of water
29 and to collect, treat and dispose of wastewater. Some of our services might
30 better be represented by fixed fees or customer charges. These could capture
31 basic ongoing system maintenance and predictable replacement and
32 rehabilitation. We might see a monthly “transmission fee” for water and a
33 monthly “collection fee” for wastewater. Costs that are uniquely the result of the
34 federal Consent Order could similarly be labeled.
35

36 We think that good water and wastewater services are worth appropriate
37 charges. Few other industries provide a product meeting such demanding
38 quality control regulation as domestic water. Few are required to provide that
39 product to the customer’s door 24 hours a day; 365 days per year.
40

41 We are aware of the 800-pound gorilla in the living room, the federal Consent
42 Order. We are also aware of the extent to which the Guam federal court has
43 gone in its efforts to enforce a similar order over the Guam landfill – threatened

1 jail time for contempt, and multimillion dollar fines extracted directly from Guam's
2 treasury, without Legislative appropriation, and appointment of an expensive
3 receiver. CUC has begun to comply with the March 11 Order by developing a
4 detailed budget and work plan. We have given that to both GCG/Commission
5 and to the CNMI Legislature. We have outlined the expected financial impact of
6 compliance. We have also worked very hard, and continue to work very hard
7 with the Administration to secure millions of dollars of federal grant money to help
8 us meet our court-ordered requirements and minimize the costs to our
9 customers.

10
11
12 Q: What about the uncertainties discussed in the GCG Report?

13
14 A: One of the uncertainties affecting the projection of expenses and revenues has
15 been resolved:

16
17 Finally, there is a degree of uncertainty surrounding the Federal Stipulated Order. It has not yet
18 been entered by the court and the timetable specified in the order is not yet effective. This means
19 that CUC may have a slightly longer timeframe to implement the requirements of the Federal
20 Stipulated Order than originally thought.

21
22 P 10 lines 27-31. The consent order time frames are no longer uncertain. Judge
23 Munson entered the consent orders on March 11, 2009. CUC is subject to the
24 constraints of the Consent Order. So, every decision we now make is infused
25 with our knowledge of the federal court's requirements.

26
27 While our overall finances are "improving", the improvement is relative:

28
29 There is a short fall of approximately \$7.0 million exclusive of allowances for the full costs of
30 electricity and the cost resulting from the Federal Stipulated Order,

31
32 P 16 line 42 p 17 line 2. The impact of this undercollection is that the W/WW
33 Divisions are unable to operate the way a sound business would. GCG also
34 recognizes that water/wastewater operations are further subsidized by the (still
35 below-cost) electric business merely because some of our electrical facilities are
36 un-metered. P 17 lines 11-16. [There is a typo, in which "water and wastewater
37 department" should read ["electric department."]] This exacerbates the problem.

38
39 GCG finds that CUC's water division operates at a \$6 million deficit and the
40 wastewater division at a \$3.8 million deficit. Table p 24. We do not disagree. In
41 large part CUC's customers receive these services because the electric rates
42 subsidize them. Another substantial contribution to our ability to function is
43 federal support. This is an unhealthy situation, one which the federal Consent

1 Order recognizes, and which it demands that the CNMI correct. It is not
2 surprising, therefore, that CUC lacks the prospect of paying even its regulatory
3 expenses without rate relief.
4

5 Q: Does CUC understand the impact of failing to develop cost-based rates, fees and
6 charges?
7

8 A: Yes. Even more serious would be the demonstrated effect of the CNMI's failing
9 to institute cost-based rates adequate to the tasks of CUC's rehabilitation and
10 functioning of its water and wastewater systems. The federal court in Guam has
11 reached through the utility to that government's budget, ordering a wholesale
12 transfer of funds to required environmental remediation for a landfill.
13

14 Perhaps in a wealthier economy the rates could be adjusted immediately to
15 generate a financially healthy company, one capable of delivering cost effective
16 service. With predictable sales, a proper rate could generate projected
17 revenues. But we have already seen the effect of rationalizing electric rates – a
18 substantial drop in sales. We expect conservation as rates increase. In
19 particular, we expect to see an end to wasteful practices. But there is a point
20 where every family and every business MUST use our water. At that point, cost-
21 based rates could be prohibitive. And the public, our customers, may react
22 strongly and irrationally to steep price rises.
23

24
25 Q: Could you comment on the quality of the internally-generated work of the CUC
26 staff, as opposed to hired contractors?
27

28 A: Yes.
29

30 Offsetting this bleak picture of necessarily-increasing rates is the excellent work
31 of many of our water and wastewater division staff. The last year has seen them
32 effectively attack and correct problems that have stymied high-priced contractors.
33 They believe, and I believe, that we have developed, and can continue to inject,
34 substantial efficiencies into our two services. We are building a fine team in the
35 Water and Wastewater Divisions, and I urge the Commission to help us continue
36 that effort.
37

38 The proposed rate increase is addressed by GCG at p 30 lines 11 - 22 of its
39 March 13 testimony:
40

41 However, our investigation did identify significant shortfalls in projected financial operating results
42 which cannot be simply ignored. The results indicate that a 135 percent increase in water

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March 23, 2009

1 revenues is needed, coupled with a 289 percent increase in wastewater revenues would result in
2 full cost recovery. However, taking into consideration the uncertainties discussed herein we
3 consider at this time that appropriate rate relief would be in the range of 50 to 75 percent of the full
4 recovery rates determined in Tables 1 and 2 of the Appendix. We recommend that at this time the
5 CPUC consider the approval of water and wastewater rates that would provide for no less than 50
6 percent of the full recovery rates determined in Tables 1 and 2 of the Appendix. We recommend
7 rates be increased across-the-board for water and wastewater utilities, respectively. We further
8 recommend that such rates, upon approval, be implemented on a provisional basis and that
9 CUC's circumstances be reviewed every six months.

10
11 P 30 lines 11 - 22. As the testimony reflects, both CUC and GCG are hampered
12 by inadequate data and the reality of systems damaged through years of neglect.
13 But, given the constraints they have developed a financial profile of CUC that is
14 realistic and as accurate as can be prepared at this time. Due to the reasons we
15 discuss above, the recommendation is a reasonable and prudent step toward
16 cost-based rates and systems that will serve our customers and meet statutory
17 and federal court requirements.

18
19
20 Q: What role will rate design have for the water and wastewater rates?

21
22 A: It could be important.

23
24 An important discussion for CUC and GCG will be rate design. Government is a
25 substantial customer. Its usage characteristics may justify its taking more
26 responsibility for our revenue generation in the short term. This would have the
27 effect of softening the impact of the rate increase somewhat on our residential
28 class customers.

29
30 We are realists, however. The need to move our rates up, to reflect true costs as
31 other, similar utility systems do, will affect everyone.

32
33 We must emphasize that, bad as this is, and as demanding as the Consent
34 Order is, the Commission cannot correct the situation overnight. The CNMI is a
35 small community, suffering from the loss of one key industry and the substantial
36 reduction of the other. Our population is shrinking, and many of those who stay
37 cannot afford to pay much more for essential services. Two decades of
38 mismanagement got us to this situation. The objective conditions of our society
39 will not allow us to correct things immediately.

40
41
42 • Managing cash
43

1
2 Q: Do you agree with GCG's recommendation that you immediately stop managing
3 the cash for the three divisions?
4

5 A: No.
6

7 We must disagree with this one projected remedy, which is to somehow remove
8 cash management control from the Executive Director, as this is neither practical
9 nor desirable in the short term. We understand the reasons for the
10 recommendation. But the big financial picture demonstrates that this cash
11 management strategy is the only reason that the W/WW Divisions can function.
12

13 GCG addresses this subject at p 17 lines 17 – 27 of its March 13 testimony:
14

15
16 Q. ARE THERE OTHER ISSUES ASSOCIATED WITH THIS LACK OF FULL COST
17 RECOVERY AND ACCOUNTABILITY?
18

19 A. Yes. Currently, the CUC Executive Director in addition to other duties serves as the cash
20 management supervisor for CUC. The Executive Director literally on a day-to-day basis makes
21 decisions about what bills get paid or delayed and what projects get authorized or deferred across
22 all three utilities. All cash is co-mingled and payments are made without regard to the source of
23 funds, the purpose of payments, or formal and rational resource allocation protocol. This is not an
24 appropriate way to operate any business, much less water and wastewater utility and we
25 recommend that the CPUC require that this practice cease with the order in this proceeding.
26
27

28 CUC has been coping with the cash situation. With rates not collecting anything
29 near our cash needs, CUC has tried to categorize and fully capture operational,
30 capital and extraordinary expenses so that we can predict cash needs. This is
31 time-consuming, given the poor state of CUC financial reporting. We have hired
32 Deloitte, Touche to help fix our financial reporting.
33

34 Further the Water and Wastewater Divisions have been developing a zero-based
35 budget. Given the paucity of reliable data; and access to it, such an undertaking
36 is the only option; albeit inexact and time-consuming.
37

38 There are at least two substantial reasons NOT to order that the Executive
39 Director refrain from managing cash. First, such an order would go beyond
40 regulation and inject the Commission into day-to-day management of the
41 corporation.
42

43 Second, it would be counterproductive. Presently there is simply not enough
44 money coming in to do the many things that CUC must do merely to keep its

1 combined system running. This task, an unwelcome task, is necessary. Without
2 it, CUC's system will fail for lack of funding key needs – e.g., the failure of
3 bearing in a truck-sized diesel engine does not wait for negotiations among
4 division managers as to whose project loses funding in order to keep power
5 flowing. Someone with the whole picture of the corporation must make these
6 decisions, and make them quickly.

7
8 We expect things to change. We look forward to a day when the Executive
9 Director may directly supervise not the expenditures, but the Deputy Directors of
10 the electric and water/wastewater divisions, who will themselves work within
11 approved budgets. But right now we lack a manager for the electric division, lack
12 the funding for the position, lack the cost-based budget for water/wastewater,
13 and lack the cash reserve cushions of normal utility companies.
14

15
16 Q: What are your views on the commingling of funds, which GCG addresses?
17

18 A: GCG wants the commingling to cease immediately:
19

20 CPUC should require that CUC not co-mingle funds and that each utility be operated on a stand-
21 alone basis. The CPUC should require that CUC no longer co-mingle funds at that time it
22 approves rates sufficient for the water and wastewater system to operate financially independent.
23 This is a matter that CUC shortly will have no discretion over. Paragraph 48 (d) (iv) of the Federal
24 Stipulated Order requires that water and wastewater revenues from any source only be applied to
25 expenses and investments in water and wastewater operations.
26

27 See P 11 lines 6 – 35. While we agree in principal with the recommendation, we
28 have to disagree as a practical matter for the next year or two. To make this
29 change right now would create a disaster. There simply is no money available
30 for the water and wastewater systems, because the rates for these systems are,
31 and have been for 20 years, set way below cost. If we separated the CUC's lines
32 of business right now, the water and wastewater systems would collapse – we
33 would not be able to buy materials, supplies and spare parts, and we would
34 increasingly have to lay off our employees.
35

36 Q: How can you supply funds to the water/wastewater operation if those divisions
37 lack the funds to do their jobs, and meet federal requirements, if you cannot
38 commingle funds?
39

40 A: There may be accounting solutions to this quandary. Perhaps the electric side of
41 the business could "loan" the water/wastewater business the funds needed for
42 immediate operations. This would have the effect of "backloading" the change to
43 water/wastewater cost-based rates, which must provide that the

1 water/wastewater customers pay back the loans later, after rates have stabilized.
2 Our accounting software does allow for enterprise-related separations. We hope
3 to move toward using this feature within months, thereby hastening our
4 compliance with the Consent Order.
5

6 There may be some interim operational solutions. For example, quarterly
7 working budgets might be established, with authority delegated to the Division to
8 spend money below a certain ceiling.
9

10 Obviously, CUC is bound by the terms of the federal EPA Consent Order. But
11 we cannot do the impossible, and we do not expect the courts to make us do the
12 impossible. So, our joint challenge is to move CUC's business to properly
13 separated units.
14

15 GCG suggests a solution that fails to respond to the real problem of CUC – the
16 need for cost-based rates/revenues, three capital systems that have been put in
17 decent shape, and the financial tools to respond flexibly to changing conditions.
18 No conceivable realistic order in this proceeding in the next months can establish
19 the conditions that remove the Executive Director from managing CUC's cash.
20 We need to look for other, interim solutions.
21
22

- 23 • CDA, the debt converted to preferred stock, and getting to a
24 resolution
25

26 Q: Does the CDA situation affect CUC's ability to finance its water and wastewater
27 activities?
28

29 A: Yes, it impedes us.
30

31 The CDA matter needs to be resolved. It will not be until a government decision-
32 maker forces a decision. The CPUC is such a decision-maker. It can determine
33 that, as CUC has recognized, the legislatively-authorized deal between CDA and
34 CUC is done, the debt to CDA eliminated, and ratemaking approvals should be
35 required for the conversion to equity and the rates needed to pay the preferred
36 stock dividends. GCG properly identifies the issue, p 17 line 44 p 19 line 4. But
37 it fails to recommend action.
38

39 If no one demands action there will be no action. The Commission may need to
40 act.
41

- Forecasting sales

Q: Can CUC start forecasting its water and wastewater services, including sales?

A: Yes. We agree that a good sales forecast is needed:

Recent reductions in number of CUC customers, the loss of garment industry customers, and lower kGal sales have all impacted CUC water and wastewater CUC. Prior to December 2009 regulatory session, we recommend that CUC and GCG collaboratively develop a reliable sales forecast so that the uncertainty associated with kGal sales can be eliminated and full provisional water and wastewater rates can be developed for review and consideration by the CPUC.

P 11, lines 6 - 11. We agree. While the loss of the garment industry implies fewer problems with our waste transport system, it means fewer customers over which to spread fixed costs. A reliable sales forecast for our water and sewer systems is critical not only to O&M, but to planning our capital programs.

This will be more difficult than the task appears from review of other utility systems and other commission review efforts. This will be our first solid attempt at forecasting our water and wastewater treatment loads. We must develop an appropriate forecast with (1) incomplete metering data due to faulty meters (which are being replaced) from (2) only a limited portion of our customer base. Of course, as time passes we will have more measured experience, i.e., more data, from which to project. Simple time trending will not work to give us accurate forecasts. Our developing a mathematical model, like the industry standard models that use regression equations to capture continuing characteristics of a utility system, will be difficult and, in our judgment, not cost-effective.

Having recited these cautions, we feel strongly that we can, and should, move forward with GCG in developing a reliable pair of forecasts for our water and wastewater systems, a set for each island.

Q: Can you address “decoupling” sales from your revenues?

A: Yes. “Decoupling” is a method that can be used to separate sales from important investment decisions so that utility management does the right thing for the customers without harming the firm’s finances. Choosing the right ratemaking mechanisms can increase CUC’s, and the CNMI’s, long-term resource self-reliance. We wish to raise a policy issue, and a practical issue, for the Commission’s consideration and request that it provide direction to CUC and GCG.

1 We believe that the goal of our forecasting efforts should be improving *service* to
2 our customers, rather than merely projecting sales levels to use for ratemaking.
3 “Service” does not equate with selling more and more water or treating
4 increasing quantities of sewage.

5
6 We urge the Commission to consider alternative rate-setting mechanisms that
7 will provide CUC, its employees and customers, with the proper price signals for
8 promoting conservation, efficiency, recycling and reuse. For investor-owned
9 electric utilities, this “decoupling” approach separates utility earnings from sales.
10 With CUC, it could allow, for instance, for rate-basing the investment in water
11 conservation measures and calculating an annual recovery without addressing
12 the earnings erosion stemming from success. CUC could continue on a course
13 of full-cost recovery without beginning a potentially destructive focus on
14 increasing sales.

15
16 We believe that the present, as we just begin to recover from decades of
17 mismanagement and subsidies, offers an excellent opportunity to put CUC on a
18 course that will recognize our isolated island economy and extract every bit of
19 value from the resources that we have and can develop. This is a unique
20 opportunity to encourage that self-reliance.

21
22
23 • Cost of service study

24
25 Q: Is CUC in the position to begin a cost of service study?

26
27 A: Not really. GCG suggests we try this.

28
29
30 Collaboration—in considering a potential future changes to water and wastewater rates, CUC
31 should work in collaboration with GCG to prepare a more detailed review and potentially a
32 customer class of service allocation of CUC revenues and expenses which then shall be filed with
33 the CPUC no later than November 13, 2009.

34
35 P 11 lines 12 - 16.

36
37 We agree in pursuing this task and in doing so in collaboration. But we offer a
38 caution on cost, and on diverting our focus. With present, below-cost rates we
39 simply lack the staff to participate in such a venture. Presently we lack the staffer
40 to collect the necessary information, the data, and the managerial professional to
41 develop the cost of service analysis. This latter task could be done by a
42 consultant, and, indeed, is often done by specialist consultants. Cost of service

1 studies can be expensive. Our study could even be done by the Commission's
2 consultant, GCG or its subcontractor. But relying on outsiders does not move
3 CUC toward the self-reliance that we believe will be necessary to keeping CNMI
4 decision-makers focused on a cost-based system.
5

6 There is probably no one solution, and definitely no one solution for all times, for
7 this matter. We look forward to developing a creative solution with GCG. In the
8 meantime, we must emphasize the "potentially" aspect of the recommendation.
9 As a work in progress perhaps we should start by developing milestones with
10 GCG for a longer term project that will get us to solid determinations for class-
11 based allocations.
12

13
14 • Facilitating cost-effective electronic bill payments

15
16 Q: Do you think that CUC can develop electronic methods to make bill payment
17 more efficient?
18

19 A: Yes. GCG addressed this issue:
20

21
22 Current payment mechanisms at CUC do not allow for customers to use automated account
23 debiting. This payment protocol is extraordinarily efficient and cost effective. Meanwhile, CUC
24 does allow customers to make payments using credit cards and CUC pays the credit card
25 company for processing. This is a costly payment method and the approach used by CUC is
26 inconsistent with normal regulatory treatment of the transaction costs. Normally, customers
27 making payment via credit cards are liable for the transaction fee; otherwise, those customers not
28 using credit cards for payment are directly subsidizing credit card customers. This matter should
29 be addressed during the December regulatory session.
30

31 P 11, lines 17 - 26. We agree. CUC, as a service to its customers, began
32 allowing for credit card payments, and agreed to cover the banks' charges for the
33 service. This was the old CUC, with a management that tended to operate on a
34 perception that customer complaints, from any group of customers, should be
35 satisfied immediately, even if fixing the "squeaky wheel" was unfair to other
36 customers.
37

38 Obviously, CUC's covering the charges for credit card payments was a service
39 funded by ALL ratepayers. It was a subsidy to that small group of customers
40 who were receiving the benefit, the convenience of electronic payments. There
41 may be some cost justification for charging all customers the 4 % or so that the
42 banks charge for this service. That is because there is a benefit to CUC to
43 instant payment and the lack of time needed for processing by customer service

1 reps. However, the credit card method simply shifts to another entity the work of
2 receiving and transferring payments, and, indeed, setting up the systems to allow
3 the convenience. We would like to determine whether the proper, fairer method
4 is to charge those customers who use credit card payment for the true cost of
5 that payment method, and how other commissions have treated this issue.
6

7 Our intention is to work with GCG to develop a fair, cost-based method for
8 developing, and then charging customers for, such convenient payment methods
9 as credit card charges, debit billings, electronic check payments and wire
10 transfers. For instance, to the extent that our customers bank at CUC's banks,
11 there should be a way to set up electronic intra-bank transfers at a minimal cost,
12 and at the customer's expense.
13

14
15 • Service rules

16
17 Q: Do you have any objection to clarifying CUC's service rules and regulations?
18

19 A: No objection. GCG advocates putting out clear rules and regulations:
20

21 Service rules and regulations should be reviewed and made consistent with current industry
22 practices.
23

24 P 11 lines 27 - 28. We agree. CUC intends to rejoin APPA and AWWA, and,
25 through membership in these organizations of publicly owned utilities and public
26 and private water systems, determine the best operating rules and regulations for
27 our customers. Deputy Director Megarr and his senior staff are individual AWWA
28 members.
29

30
31 • Uniform System of Accounts

32
33 Q: Should the Commission develop a uniform system of accounts for CUC's water
34 and wastewater businesses?
35

36 A: Yes. But first, by way of clarification: There is a typo at p 21 lines 23-24 which
37 GCG may want to correct in order to properly support any Commission decision
38 on rates, where its testimony says that the USA, the uniform system of accounts,
39 is "promulgated by NARUC". Of course, NARUC as an association of utility
40 commissions, may take positions approving ratemaking treatment, but the FASB
41 would approve or require the accounting constituting GAAP for the water and

1 wastewater industry, and the individual state commissions would each require
2 reporting formats.

3
4 We agree with the intent of the testimony – that the Commission require, and
5 CUC adopt, a system of accounts that follow GAAP, generally accepted rules of
6 accounting principles. We hired Deloitte, with its vast utility accounting
7 experience to help us in just this effort. It may be that the parties can develop a
8 USA for the Commission to adopt formally, as, for instance, a “General Order”.
9

10
11 • Issues from the recent electric docket

12
13 Q: Are there additional issues that you wish to address?

14
15 A: Yes. GCG raised 10 issues that arose in the electric docket. Here are those
16 issues with our brief responses:

- 17
18 1. Business Plan— the completion and presentation of the plan should take place
19 for CPUC review and action in a June/July 2009 regulatory session. We will work
20 toward that goal.
21 2. CDA Debt Restructuring—this remains one of the most critical issues facing
22 CUC. It must be resolved.
23 3. CIP program — This capital program needs to be formalized and presented to
24 the CPUC on an annual basis. We can do this right away.
25 4. O&M Staffing Levels—staffing levels. We have looked at this carefully, and can
26 present three scenarios: (1) existing; (2) Ordinary and necessary;
27 (3) Extraordinary and necessary, to deal with short term deferred maintenance
28 issues (probably contract workers).
29 5. Fleet Management Inventory and Maintenance — the impacts that an aging and
30 poorly maintained fleet is having on customer service. We can work on this right
31 away.
32 6. Maintenance Practices — the implementation of a computerized maintenance
33 management system to water and wastewater plant as a high priority by the
34 CPUC. The Consent Order requires this, and CUC may already have this
35 software capability in the Electric Division.
36 7. Unaccounted for Commodity Usage — it appears that a significant amount of
37 commodity is unaccounted for. We have been working on this and will continue
38 to do so.
39 8. Subsidization & Cost Recovery — a substantial cash subsidy from its electric
40 system. Further work is required to determine that all subsidies have been
41 identified. We agree.

- 1 9. Accounting and Allocation Practices — a system and methodology for
2 standardizing work orders and procedures to account for costs. We will do this.
3 10. Contract protocol order — GCG recommends the protocol as adopted on
4 December 19, 2009. We have no objection.
5 11. CPUC Administrative and Regulatory Expenses — essential that a funding
6 vehicle be created similar to the LEAC funding mechanism used in Docket 09-01
7 to require CUC payment of CPUC's regulatory and administrative expenses.
8 Perhaps an assessment model, rather than payment to invoices, can be
9 developed to more closely track our revenues.

10
11 GCG addresses these matters at p 12 line 1 through p 12 line 13 of its March 13
12 testimony. In general, as the added comments show, we agree with these
13 recommendations. We continue to have concerns about the effect on the
14 customers' bills. It IS important to move quickly to move costs, and therefore
15 rates, from the electric side of the business to the water/wastewater lines of
16 business. We look forward to determining the solution.
17
18

19 **Conclusion**

20
21 Q: Does that complete your testimony?

22
23 A: Yes, it does.

24
25 Q: Do you request that this pre-filed testimony and related exhibits be entered in the
26 record of this case as your declaration?

27
28 A: Yes, I do.
29
30
31

32 • Declaration of Antonio S. Muna

33
34 I declare under penalty of perjury that the foregoing is true and correct and that this
35 declaration was executed on March 23, 2009, at Saipan, Commonwealth of the
36 Northern Mariana Islands.

37
38 /s

39
40
41 _____
Antonio S. Muna, Executive Director,

CUC 0902 Water/Wastewater Case Testimony
March 23, 2009

Commonwealth Utilities Corporation

CERTIFICATE OF SERVICE

The undersigned, Assistant Attorney General, being a member of the CNMI bar, hereby certifies that he served the following person(s) with the following paper(s) by the following method(s) (Com. R. Civ. Pro. 5(d)):

Document served: The foregoing: Pre-Filed Testimony of Antonio S. Muna

Persons served:

Counsel for Staff, Robert T. Torres, Esq.
Staff: JK Madan; R Anderson; L Gawlik
AIJ Boertzel

Method and date: by causing electronic service of a copy to the above counsel through e-filing and, further, by emailing to the above persons at their email addresses on March 23, 2009.

/s/

Alan J. Barak, Assistant Attorney General (# F0350)

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