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August 8, 2009

Harry M. Boertzel, Esq.
Administrative Law Judge
The Commonwealth Public Utilities Commission

Re: CUC Water & Wastewater Lifelines Rates – Docket 09-02

Dear Judge Boertzel:

This letter is in response to your directive that GCG file a report on interim lifeline rates consistent with your Hearing Examiner's Report dated June 15, 2009 in which you state:

It is necessary and important for the Commission (CPUC) to establish a lifeline rate for water and wastewater service to assist low income customers. Interim lifeline rates should be prepared for the Commission's consideration during the August 2009 regulatory session (in advance of the September 4, 2009 second phase wastewater rate increase).

Your Hearing Examiner's Report and the subsequent Decision and Order by the CPUC adopted the recommendations regarding lifeline rates in a stipulation entered into by CUC and GCG dated June 3, 2009. In that stipulation the parties agreed as follows:

The Parties also recognize the need and importance for CPUC to establish a lifeline rate for water and wastewater service to assist low income customers. The Parties recommend that a lifeline tariff be prepared for CPUC consideration and implementation as a part of a full cost of service study which is expected to be completed once CUC's wastewater system attains financial independence. The parties, under the hearing examiner's oversight, agree to propose interim water and wastewater lifeline rates in preparation for CPUC consideration during the August 2009 regulatory session.

The Parties recommend, based upon the representations and commitments presented in this stipulation, that CPUC authorize the increases in CUC's

wastewater rate rates shown below effective June 5, 2009, which would cover 30% of the anticipated wastewater revenue deficiency and the rates shown below effective September 4, 2009, offset by any substitute funds tendered by the CNMI Government and/or other entities, which would cover an additional 30% of the anticipated wastewater revenue deficiency.

The remaining 40% of the revenue deficiency shall be examined by CPUC during the first quarter of FY10 to determine what combination of rate relief and revenue enhancement activities would be reasonable and necessary to fund the deficiency.

Lifeline rates would apply only to residential customers for both water and wastewater. The recent rate increases for both water and wastewater were based on getting the rates to 60% of the cost for the services.¹ The remaining 40% deficiency in the cost of service is scheduled to be heard before the CPUC sometime in the first quarter of FY 2010. The period in the interim would provide CPUC with a reasonable period to examine the opportunity for revenue enhancement activities (revenue cycle improvements, accounts receivable collection, unmetered and unbilled service) to cover the remaining 40% revenue deficit.

As described above, current rates are 40% below cost for both water and wastewater.² This situation already therefore represents a significant discount to cost based rates and has been implemented in part to avoid rate shock. This current discount to cost represents, we feel, a surrogate for a life line rate. For example in Guam for residential water customers the “lifeline rate” is \$2.74 per gallon for the first 5000 gallons and \$5.03 per gallon for the remaining usage. This amounts to a discount for the first 5000 gallons of approximately 45% - or approximately the same discount to cost that current water and wastewater customers are receiving on Saipan. In addition, Saipan has an inverted rate structure for both water and wastewater rates that provide significant discounts for the initial block of usage. The stipulation entered into on June 3, 2009 recommended the following rates for wastewater that were implemented by the CPUC:

¹ For wastewater the second half of the proposed increase to implement the 60% rate increase is scheduled to be implemented on September 4, 2009.

² As previously indicated wastewater rates are currently 70% below cost and will be increased to be 40% below cost in September 2009.

Wastewater Rates

Residential Customers - Monthly Service Charge

<u>Current Rates</u>	<u>5-Jun-09</u>	<u>4-Sep-09</u>
\$3.00	\$5.60	\$8.20

Residential Customers - Metered or Estimated

Consumption	<u>Current Rates</u>	<u>5-Jun-09</u>	<u>4-Sep-09</u>
<u>Gallons</u>	<u>\$/kGal.</u>	<u>\$/kGal.</u>	<u>\$/kGal.</u>
0 to 5,000	Included	Included	Included
Over 5,000	\$0.50	\$0.93	\$1.37

Non-Residential--Metered or Estimated

Consumption	<u>Current Rates</u>	<u>5-Jun-09</u>	<u>4-Sep-09</u>
<u>Gallons</u>	<u>\$/kGal.</u>	<u>\$/kGal.</u>	<u>\$/kGal.</u>
All	\$0.50	\$0.93	\$1.37

The following water rates were adopted by the CPUC on April 2, 2009 based on a stipulation entered into between CUC and GCG:

COMMONWEALTH UTILITIES CORPORATION
Current and Proposed Rates

Water Rates

Monthly Service Charge

<u>Meter Size - Inches</u>	<u>Current Rates</u>	<u>3-Apr-09</u>	<u>3-Jun-09</u>
5/8 - 3/4	\$6.00	\$8.43	\$10.86
1	\$7.00	\$9.84	\$12.67
1-1/2	\$11.00	\$15.46	\$19.91
2	\$14.00	\$19.67	\$25.34
3	\$35.00	\$49.18	\$63.35
4	\$55.00	\$77.28	\$99.55
6	\$75.00	\$105.38	\$135.75
8	\$110.00	\$154.55	\$199.10
10	\$155.00	\$217.78	\$280.55
12	\$200.00	\$281.00	\$362.00

Metered Service - Residential & Commercial Customers

<u>Consumption</u>	<u>Current Rates</u>	<u>3-Apr-09</u>	<u>3-Jun-09</u>
<u>Gallons</u>	<u>\$/kGal.</u>	<u>\$/kGal.</u>	<u>\$/kGal.</u>
0 to 3,000	\$1.00	\$1.41	\$1.81
3,001 to 15,000	\$2.40	\$3.37	\$4.34
15,001 to 30,000	\$3.00	\$4.22	\$5.43
30,001 to 60,000	\$3.50	\$4.92	\$6.34
Over 60,000	\$4.00	\$5.62	\$7.24

Unmetered Service - Residential & Commercial Customers

<u>Consumption -</u>	<u>Current Rates</u>	<u>3-Apr-09</u>	<u>3-Jun-09</u>
<u>Gallons</u>	<u>\$/kGal.</u>	<u>\$/kGal.</u>	<u>\$/kGal.</u>
0 to 3,000	\$0.50	\$0.70	\$0.91
3,001 to 15,000	\$1.20	\$1.69	\$2.17
15,001 to 30,000	\$1.50	\$2.11	\$2.72
30,001 to 60,000	\$1.75	\$2.46	\$3.17
Over 60,000	\$2.00	\$2.81	\$3.62

* Residential customers who do not receive metered service are deemed to consume 6,000 gal. of water/month.
Commercial customers who do not receive metered service are deemed to consume 18,000 gal. of water/month.

As can be seen from the tariffs above for both water and wastewater, the current rates have significant discounts for the initial blocks that are very similar to a lifeline discount

in addition to the fact as pointed out above that current rates have been set at 60% of the cost of service.

We therefore recommend no change in rates for lifeline rates at this time. When the CPUC is reviewing and implementing rate changes to recover the additional 40% of revenue requirements an interim lifeline rate could be reviewed again at that time. We say interim because CUC and GCG have stipulated and the CPUC has adopted the stipulation that recommends that a lifeline tariff be prepared for CPUC consideration and implementation as a part of a full cost of service study which is expected to be completed once CUC's wastewater system attains financial independence.

For purposes of this report and for the benefit of readers we include relevant references below from the PUC Act and the CUC Act as well as relevant portions of CUC regulations that we obtained through informal discovery from CUC.³

³ The PUC Act requires just and reasonable rates. 4 CMC sec. 8446(a) (PL 15-35 sec.8433(a)), The PUC Act does not mention lifeline rates. However it recognizes such rates by implication. It recognizes that each class' contribution to cost recovery may be proportionately different, because cost recovery is calculated by "considering together" the various rate blocks:

Establish and modify from time to time, reasonable rates and charges for services, which when all rates for respective blocks of usage are considered together, shall be at least adequate to cover the full cost of such service

4 CMC sec. 8411(c) (Pl 15-35 sec 8409(c)). When the PUC Act was enacted, a savings clause in the public law preserved all prior CUC enactments and regulations until the PUC changed them. PL 15-35 section 3(b)(Commonwealth Utilities Corporation). As discussed below, the CUC Act allows for lifeline rates and CUC's regulations provided specifically for them.

The CUC Act allows for lifeline rates. CUC shall develop rates. 4 CMC sec. 8123(m). Within three years the CUC Board shall adjust the rate structure so that the revenues recover the costs associated with each service. 4 CMC sec. 8141(c). CUC shall meter and bill at the full cost of production. 4 CMC sec. 8143.

With respect to CUC's "services", the statute allows for residential, commercial, industrial and other rate classes, each of which shall have uniform rates, except for increasingly higher marginal rates, as consumption increases. 4 CMC sec. 8141(d). The Board may also provide "lifeline utility services " at lower rates than the cost of service for the benefit of low income customers. 4 CMC sec. 8141(d) There is no distinction among the services – electricity, water or wastewater.

Article 8 of the CUC statute, on water usage rates, was unchanged in PL 16-17. PL 16-17 section 10, last sentence. That article provides for special, low agricultural water rates. 4 CMC section 8182.

50-30-815 Water Rates

All water service shall be charged as follows:

(a) All customers shall pay a monthly service charge based on the size of the service connection, as set forth in the service charge chart in subsection (f) below.

(b) Customers who receive metered water service, as determined by the corporation, will also pay for the number of gallons of water consumed as registered on a water meter. The consumption charge shall be pursuant to the rate schedule in subsection (d) below.

(c) Customers who do not receive metered water service, as determined by the corporation, will also pay for the number of gallons of water consumed. Residential customers who do not receive metered water are deemed to consume 6,000 gallons per month. Commercial customers who do not receive metered water are deemed to consume 18,000 per month. The consumption charge shall be pursuant to the rate schedule in subsection (e) below.

(d) Rate schedule for residential and commercial customers receiving metered service:

Usage Rate

0 to 3,000 gallons \$1.00 per 1,000 gallons

3,001 to 15,000 gallons \$2.40 per 1,000 gallons

15,001 to 30,000 gallons \$3.00 per 1,000 gallons

30,001 to 60,000 gallons \$3.50 per 1,000 gallons

Above 60,000 \$4.00 per 1,000 gallons

(e) Rate schedule for residential and commercial customers receiving other than metered service:

Usage Rate

0 to 3,000 gallons \$0.50 per 1,000 gallons

3,001 to 15,000 gallons \$1.20 per 1,000 gallons

15,001 to 30,000 gallons \$1.50 per 1,000 gallons

30,001 to 60,000 gallons \$1.75 per 1,000 gallons

Above 60,000 \$2.00 per 1,000 gallons

(f) Monthly service charge:

Meter Size Monthly Charge

5/8 inch, 3/4 inch \$6.00 per month

1 inch \$7.00 per month

1½ inch \$11.00 per month

2 inch \$14.00 per month

3 inch \$35.00 per month

4 inch \$55.00 per month

6 inch \$75.00 per month

8 inch \$110.00 per month

10 inch \$155.00 per month

12 inch \$200.00 per month

Modified, 1 CMC § 3806(d), (f).

History: Amdts Adopted 27 Com. Reg. 25142 (Oct. 24, 2005); Amdts Emergency and Proposed 27 Com. Reg. 24650 (July 20, 2005) (effective for 120 days from July 8, 2005); Amdts Adopted 17 Com. Reg. 13720 (Sept. 15, 1995); Amdts Proposed 17 Com. Reg. 13510 (June 15, 1995); Amdts Adopted 15 Com. Reg. 10492 (Feb. 15, 1993); Amdts Proposed 14 Com. Reg. 9383 (July 15, 1992); Amdts Proposed 12 Com. Reg. 6781 (Jan. 15, 1990); Adopted 10 Com. Reg. 5602 (Aug. 15, 1988); Proposed 10 Com. Reg. 5474 (Mar. 15, 1988).

Commission Comment: The 1990 amendments proposed to amend this section in its entirety. A notice of adoption for the 1990 proposed amendments was never published and, therefore, the Commission has not incorporated the proposed changes.

The 1993 amendments proposed new sewer rates for residential, commercial and government consumer classes. See 14 Com. Reg. at 9383 (July 15, 1992). The notice of the adoption published on February 15, 1993 stated:

After considering the comments received, the following water rates are adopted:

Consumer Class Cost of Total Gallons Consumed

Government \$0.0300

The above rate increase shall be effective retroactively to October 1, 1992.

15 Com. Reg. 10492 (Feb. 15, 1993).

The 1997 amendments revoked this section and amended and readopted it in its entirety. The 1997 amendments added new subsections (a), (b), (c) and (e) and redesignated and amended subsections (d) and (f) accordingly. The 2005 amendments added the opening sentence and republished this section in its entirety with numerous amendments.

The CUC electric regulations provide for a stepped rate structure, so that increasing usage produces incrementally higher rates for each block. The blocks are the first 500 kwh, the second 500 kwh, then a block of 1000 - 2000 kwh, with a fourth block of consumption over 2000 kwh.

50-10-2135

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(c) Electric Non-Fuel Rates.

(1) CUC shall institute an electric non-fuel rate schedule for each customer classification, under which consumers shall be billed, based on the number of kilowatt-hours (kWh) of electricity consumed during a billing period. The electric non-fuel rates were determined by the electric rate study conducted by Economists.com (see exhibit 1 "Schedule of Electric Charges and Rates," page 1 of 2). So as not to create a financial hardship or adversely affect the amount billed, a billing period shall contain not less than 28 days nor more than 32 days. If the billing period is outside these parameters, CUC shall compute a prorated bill based on a 30-day billing period. This provision shall supersede those in § 50-10-1315 pertaining to billing period.

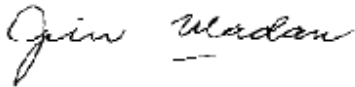
(2) The electric non-fuel rates shall pass through monthly, to all consumers of CUC electricity, approximately one-twelfth of all CUC annual operating costs associated with electric service; excluding the cost of production fuel and lubricating oils and those costs that are recovered through the monthly customer charge.

(3) For residential customers, an inverted block rate schedule, with four rate levels, shall be established. Each successive rate level shall have a higher rate per kWh than the previous level, as distinguished by ascending levels of consumption. Total usage will be applied first to the lowest level of the block rate (001 to 500 kWh). For any usage that is above 500 kWh and up to 1,000 kWh shall be billed at the second rate level. Any usage that is above 1,000 kWh and up to 2,000 kWh shall be billed at the third rate level. Any and all usage above 2,000 kWh shall be billed at the fourth level. The inverted block method provides an effective means of promoting conservation when CUC lacks sufficient generating capacity to provide constant reliable electric service to all of its customers. Further, the first (lowest) rate level within the schedule provides a lifeline rate for consumers that use 500 kWh or less of electricity during a billing period. Refer to exhibit 1, pages 2 of 2, for examples of how CUC would compute the monthly non-fuel charges for residential customers.

(Emphasis added.)

If you wish to discuss the report, please do not hesitate to call us.

Cordially,

A handwritten signature in cursive script that reads "Jamshed K. Madan". The signature is written in black ink and is positioned above the printed name.

Jamshed K. Madan

Cc: Anthony Muna, Exec. Director, CUC
Alan Barak, Esq, Counsel CUC
Robert Torres, Esq. Counsel GCG
Larry Gawlik