



CUC response to GCG report re renewed petition for approval of  
cda-cuc loan conversion to stock deal of 5-7-09

now provided its detailed comments to the Commission. (Letter comments of  
July 27, 2009, "CDA-CUC Debt Conversion to Preferred Equity—Docket 09-01").

1. GCG's report recites its technical and legal experts' analysis, including the extensive benefits to ratepayers in eliminating a \$177 million debt, and related debt service, and removing a significant impediment to CUC's ability to borrow. It recommends approving the deal:

We find the Agreement to be consistent with the earlier memorandums of agreement between CDA and CUC. Further we are of the opinion that the Agreement is fair and equitable to CUC and beneficial to CUC's ratepayers. Accordingly, we recommend that the CPUC consider the following:

1. Approval of the Agreement and the proposed Preferred Stock Certificate
2. Authorizing CUC to ~~the~~ issue preferred stock to CDA in an amount of \$45.0 million under the stated terms and conditions of the Agreement; and
3. Requiring CUC to inform DOI of the Agreement and pending approval by the CPUC.
4. Requiring CUC in the development its Business Plan, pursuant to CUC Docket No. 09-01 (2008), Stipulation of Dec. 12, 2008, identify the long-term rate, financial, and other implications of the Agreement.
5. Requiring CUC to track all internally funded electric, water, or wastewater system CIP investments for the purpose of offsetting up to \$16.2 million of the outstanding preferred stock through the "dollar for dollar" offset contained in the Agreement. The tracking system used by CUC shall be provided to the CPUC for review and approval.
6. Requiring CUC to annually prepare a report for CPUC review on its internally funded CIP investments.
7. As a condition to approving the Agreement requiring CDA to file in Superior Court Civil Action 01-0149 a full release and satisfaction of judgment against CUC.

GCG Letter report of July 27, 2009, p 6 (typographical editing added).

8. CUC has no objection to the GCG recommendations, and urges the Commission to approve the deal as indicated.
9. CUC will notify DoI of the Agreement, this case, and the GCG position, before the Commission's September meeting.
10. While CUC has asked for rates to cover the preferred stock dividend requirements of the deal, CUC recognizes that the provisions of the deal postponing dividend payments provide the time for the Commission and its staff to examine CUC's cost of service, including the new obligations. CUC believes that GCG will recognize and recommend recognition of the obligations.
11. *CUC does, however, ask the Commission's understanding and indulgence with respect to the recommended additional reporting requirements. CUC is*

presently very significantly understaffed, with direct consequences for the reporting sought here. As indicated in the Governor's Executive Order today (No. 2009-07, July 30, 2009, Directive 10), CUC is just being freed of the artificial legislative limitation on hiring such professionals as the engineers and accountants who can track and report on these matters. The constraint against hiring foreign nationals has injured CUC's administrative staffing as badly as it has hurt plant staffing:

CUC has lost 2 senior accountants plus a related specialist in the last 30 days, with a federally-mandated interim financial plan due in September. The IT and billing department is down to one staffer, having advertised for 4 weeks to no avail.

(EO 2009-07, para. 6.j, p 6.)

12. CUC has undertaken extensive, extra-effort searches to find qualified US and permanent resident people in, near and outside of the CNMI to fill professional positions at the pay rates CUC is constrained to offer. While the response among the CNMI's resident foreign national population has been good, that for the US citizens and permanent residents was absent to poor. With no assistance from the Legislature, CUC finally sought, and received, the Governor's help today.
13. Presently, CUC's Administration is doing everything it believes it responsibly can to manage and report on the power, water, and wastewater businesses, including their accounting – to the financial community, to the Legislature, to this Commission and to the US District Court. It is, unfortunately, a very long stretch just to meet present reporting requirements. CUC believes the situation will improve as soon as seasoned professionals can be hired.
14. CUC requests that the public notice for the Commission's next decisional meeting on this CDA matter unambiguously address the CDA-CUC deal and its potential rate effects, so that the Commission and the public can be satisfied that full notice has been given.
15. Finally, CUC offers to work with GCG and their counsel before and at the pre-hearing collaborative sessions in drafting an appropriate order for the Commission in this matter.

**Conclusion and relief requested**

16. *For the above-stated reasons, CUC requests that:*

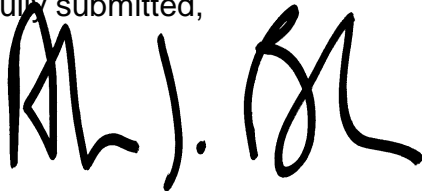
a. *The Commission:*

- i. Continue this docket to resolve the matter of the CDA-CUC "loan";
- ii. Accept parties to the docket, including CUC and, if it so requests, CDA;
- iii. Entertain the parties' legal and factual arguments;
- iv. Hold hearings or take written evidence and/or comments on the matter;
- v. Issue the following approvals *at its September 3 meeting*:
  1. Approve the Preferred Stock Agreement ("PSA");
  2. Specifically authorize the issue of the aforesaid preferred stock under the stated terms and conditions; and
- vi. Set rates that will provide CUC with a reasonable opportunity to meet its current operating obligations AND the PSA's financial requirements;
- vii. Provide for reporting appropriate to the situation, with due recognition given to CUC's staff resources.

b. *Public notice* be given of this docket; and

c. *CUC* be awarded such further relief as the facts and the law merit.

Respectfully submitted,



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Dated: July 30, 2009

