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

Re: Evaluation of the CUC Filed Interim Financial Plan (IFP) & Implementation of Water & Wastewater Rates for CUC– Docket 09-02

Dear Judge Boertzel:

In a transmittal dated October 15, 2009, you directed Georgetown (GCG) to file not later than October 22, 2009 an executive summary, which states its position regarding water and wastewater rate relief. This filing is necessary to enable the Commonwealth Public Utilities Commission [CPUC] to issue the public notices required by 4 CMC § 8418. GCG's supporting testimony will be filed with CPUC on or before November 4, 2009.

We have reviewed prior Orders of the CPUC in Docket 09-02 as well as the CUC filing made on September 29, 2009 in Federal District Court of an interim financial plan (IFP), intended to enable CUC to comply with Federal requirements for the restoration of its water and wastewater systems pursuant to Federal District Court's Stipulated Order dated March 11, 2009 in USA v. CUC and CNMI. EPA has reviewed CUC's IFP filing and has determined that it is incomplete and not in compliance with the requirements of the Stipulated Order. CPUC directed GCG to review and report on: 1) the interim financial plan; and 2) the need for an increase in CUC's water and wastewater rates to finance Federal requirements under the IFP in FY10 (October 2009 through September 2010). By separate report, GCG will examine key deficiencies in the IFP and make recommendations for key components in the financial management plan required by the Stipulated Order. In addition, we note that 4 CMC § 8122[b] mandates that CUC shall establish rates, meter, bill and collect fees in a fair manner so that it will be financially independent by October 1, 2009 or as soon thereafter as reasonably possible. Further, 4 CMC § 8411[c] mandates that CUC water and wastewater rates must be set at levels that are at least adequate to cover its full cost of service, including its financial obligations, operating expenses, debt service, capital improvement needs of these divisions.

Our initial review, done in the compressed time available for this proceeding, leads us to the following conclusions at this time:

1. GCG recommends that during its November 2009 regulatory session, CPUC consider the implementation of water and wastewater rate relief recommended herein as an interim measure which will be supported by supporting testimony that will be filed November 4, 2009. In preparing our November 4, 2009 testimony we will attempt to incorporate any additional data that we receive from CUC prior to our submission and as a consequence the final rate recommendations in our testimony may differ from our estimates contained herein. We recommend that further review and deliberation on water and wastewater rate relief matters occur during the March 2010 regulatory session, when CPUC will be able to consider an EPA approved IFP and its impact on CUC's FY10 revenue requirements.
2. CUC does not currently meet the requirements of 4 CMC § 8122[b] or 4 CMC § 8411[c] and while it continues to make progress toward meeting these legislative mandates there is a substantial chasm between CUC's current financial capabilities and these legislatively directed financial management mandates.
3. CUC has fully implemented the Water Department rate increases ordered in the CPUC Decision and Order dated April 2, 2009. CUC did not implement the wastewater rates required to be implemented on July 1, 2009 and September 4, 2009 by CPUC Decision and Order dated June 20, 2009.¹ As of this date, CPUC has not been notified of this breach and violation of CPUC Order which we view as serious.²
4. Our review of information contained in CUC's IFP filing with EPA, as well as recently provided Water Department billing cycle information, indicates that there have been significant changes in sales of water services since our original filing and recommendations made in this docket in testimony submitted on March 6, 2009 which adversely impact our previous findings. In particular:
 - a. Revenues have not materialized to the extent forecast earlier. This is a result of declines in the number of Water Department customers and commodity sales and the impacts of the current world-wide recession.
 - b. Additional levels of debt have been identified for the Wastewater Department that was not disclosed in the earlier proceeding.
 - c. Changes in personnel and operating expenses have occurred related to the initial implementation of certain Stipulated Order requirements and the passage of time.
 - d. The IFP does not include capital improvement projects (CIPs) that CUC either has in process or scheduled for 2010 through 2012. We requested and received estimates of these CIPs from CUC on October 21, 2009.
 - e. The IFP as filed by CUC suggests that the CPUC and EPA should accept and sanction significant cash subsidies over a period of at least four (4)

¹ CUC did implement required changes for large hotels.

² CUC has discussed this matter with GCG beginning October 20, 2009 when the matter arose in discussions with Mr. Muna.

years from the Electric Department to the Water and Wastewater Departments for power expenses and administrative and general expenses. We have not reviewed fully this proposition but believe it violates the mandates of 4 CMC § 8411[c] and EPA requirements pursuant to the Federal District Court Order that there be no cross subsidy between the departments. This issue will be addressed in later testimony which will be submitted initially in our November 4, 2009 testimony and which can be further considered during the March 2010 regulatory session.

5. For the Water Department based on an initial review an estimated across the board increase of 51% in revenues would be required to accomplish the objectives laid out above to meet the Federal Stipulated Order requirements. This estimate will be further refined by GCG in its November 4, 2009 testimony and further once CUC files an IFP, which meets the full requirements of the Stipulated Order in preparation for the March 2010 regulatory session. Our current initial estimate of the specific tariffs required to meet this estimated revenue increase are as follows

Proposed Water Rates

Monthly Service Charge	
Meter Size - Inches	3-Dec-09
5/8 - 3/4	\$16.40
1	\$19.13
1-1/2	\$30.06
2	\$38.26
3	\$95.66
4	\$150.32
6	\$204.98
8	\$300.64
10	\$423.63
12	\$546.62

Residential & Commercial Customers*

Consumption Gallons	3-Dec-09 \$/kGal.
0 to 3,000	\$2.73
3,001 to 15,000	\$6.56
15,001 to 30,000	\$8.20
30,001 to 60,000	\$9.57
Over 60,000	\$10.93

* Residential customers who do not receive metered service are deemed to consume 6,000

gal. of water/month and will be charged metered rates. Commercial customers who do not receive metered service are deemed to consume 18,000 gal. of water/month and will be charged metered rates. Government customers are also billed under this tariff.

6. For the Wastewater Department, given the additional expense associated with the debt service for loans not included in the March 2009 analysis, unaccounted for electricity costs, the low number of wastewater customers, and the requirement that there be no cross subsidy, the revenues increase required to meet the requirements stated above will be a significant 184% increase in revenues. This is in addition to CPUC previously ordered increases, which have not been implemented. It will be imperative in our November testimony and in our testimony in preparation for the March 2010 regulatory session to look at ways to reduce this considerable rate shock, if possible. The specific tariff to meet the wastewater revenue requirement will be as follows

Proposed Wastewater Rates

Residential Customers	<u>3-Dec-09</u>
Monthly Customer Charge	\$23.30
Consumption Charges:	
Gallons	<u>\$/kGal.</u>
0 to 5,000	
Over 5,000	\$3.88
Non-Residential Customers	
Consumption Charges:	
Gallons	<u>\$/kGal.</u>
All Consumption	\$3.88
Government	
Consumption Charges:	
Gallons	<u>\$/KGal.</u>
All Consumption	\$82.00

7. Georgetown also recommends that interim lifeline rates be established effective December 1, 2009 for CUC's low income "residential" water and wastewater customers. In this proceeding we recommend that a lifeline rate be established for

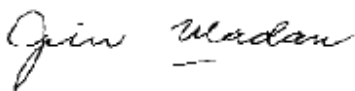
water customers for the first 5000 gallons of water consumed at the current rates in effect for both the monthly service charge and the current charges for the first 5000 gallons of consumption. For wastewater customers there is no volumetric charge for the first 5000 gallons and we recommend that the current customer charge be maintained for the lifeline rate. CUC shall be required to gear up for the implementation of this program. The adjustment of lifeline rates should be considered in the future when there are additional rate changes being considered.

8. To assist us in completing our continued review of CUC's Water and Wastewater Department rates and its recent IFP filing for the upcoming November 2009 regulatory session we request that CUC be required to immediately provide to GCG the following information:
 - a. FY 2008 final audited financial statements
 - b. FY 2009 unaudited financial statements
 - c. Latest FY 2009 detailed monthly financial report
 - d. FY 2010 detailed operating and capital budgets

9. GCG recommends that the CPUC consider appropriate changes to or enforcement of the current CUC Rules and Regulations based upon an initial review that GCG will undertake and recommendations resulting there from presented in our November 4, 2009 testimony. Additional review and consideration of changes should be considered during the March 2010 regulatory session.

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

Cordially,



Jamshed K. Madan

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