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

16
17 **Petition of the**) **RATE CASE No. 10-01**
18 **Commonwealth Utilities Corporation**)
19 **For rate relief in its power, water and**)
20 **wastewater business**)
21) CUCs Prefiled Testimony of:
22) Antonio S. Muna, Executive Director,
23) January 2010
24)
25) **Subjects: Report on CUC**
26) **accomplishments in 2009; Policy;**
27) **Finance; Operations Overview;**
28) **LEAC; Status of CUC Accounting,**
29) **Reporting and Compliance**

30
31 Filing date: January 31, 2009
32
33

34 Direct Testimony of
35 Antonio S. Muna, Executive Director
36
37

38 **Introduction and Purpose**
39

40 Q: Please state your name and business address for the record.
41

42 A: My name is Antonio S. Muna. I am Executive Director of the Commonwealth
43 Utilities Corporation ("CUC"). My office is located at the Joeten DanDan

1 Building, 3rd Floor. The mailing address is PO Box 501220 CK, Saipan MP
2 96950. My telephone and fax numbers are: 670.235-7025, 5131, respectively.
3 My email address is tmuna@cucgov.net.
4

5
6 Q: Are you an adult resident of Saipan, Commonwealth of the Northern Mariana
7 Islands?

8
9 A: Yes, I am.
10

11
12 Q: Are you the same Antonio S. Muna who has testified previously before the
13 Commission?

14
15 A: Yes, I am.
16

17
18 Q: Please state the content and purpose of your testimony.
19

20 A: I am testifying to six matters today, as stated in the table of contents.
21

22 The purpose of my testimony is to help provide the foundation for the
23 Commission’s determination, this first one, from a CUC rate case presentation.
24 It my sincere hope that the Commission might proceed in its regulation and
25 oversight with confidence that CUC management is doing everything it can to
26 meet Commission requirements, US Federal District Court requirements, and
27 supply our customers with reliable, cost-effective services. I am not presenting
28 exhibits.
29

30
31 Q: Could you please provide a table of contents to this testimony?
32

33 A: Yes:
34



37
38 **Table of Contents.**

39
40
41 **Qualifications.** [4](#)
42

43 **Testimony.** [8](#)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44

* **Topic 1: Recent positive events at CUC...** [9](#)

* **Topic 2: The big picture at CUC: on a total company basis we are improving our services and infrastructure and covering costs...**..... [12](#)

* **Topic 3: The principal issue: Recovering costs on a total system basis or on a business-line basis...**..... [15](#)

* **Topic 4: Projecting sales to continue at today’s levels...**..... [16](#)

* **Topic 5: CPUC review of settlement for Agingan Sewage Outfall construction overruns, for about \$ 2 million...**..... [17](#)

* **Topic 6: Materials supported by my testimony..**..... [20](#)

* **Conclusion.** [21](#)

Q: Who prepared this testimony and the exhibits sponsored through it?

A: This pre-filed testimony was prepared by me or under my direct supervision and control. Likewise, the exhibits which I reference and sponsor were 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, and the exhibits which you sponsor through it, are 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, during the first term. I was a partner for
22 over a decade in a local accounting firm.

23
24 In particular, I have advised and reviewed the financials of well over 100
25 businesses. I have worked deeply with accrual accounts, cash management,
26 and the related reporting to the federal government.

27
28 I do not claim a specialty in regulatory accounting. I do understand that typical
29 regulatory accounting for electric and water/wastewater utilities follows accrual
30 accounting and the uniform system of accounts ("USA").

31
32 As the receiver for the failed, and revived, Bank of Saipan, and as an advisor to
33 my many business clients, I also understand the primacy of cash management
34 during a period of inadequate revenues.

35
36
37 * Specific preparation for this testimony

38
39
40 Q: I would now like to focus more closely on what you did to prepare for this case,
41 and the testimony you are providing in it.

1
2 A: Yes. I have both general and specific comments on my work relating to this
3 case.
4

5 Q: Could you please explain your intentions regarding this submission's
6 conformance with Commission rules, orders and procedures?
7

8 A: Yes. As Executive Director I have instructed the rate case team that we file this
9 case in conformance with Commission Rules 20 and 21, including the
10 documents, certifications and testimony required by ordering provision #3 of the
11 Commission's 11/20/09 rate case decision (Docket 09-2). CUC's intention is to
12 submit a complete filing. We have tried to do this. If we have in some way
13 failed, our intention is to amend, and amend again, until we have gotten the
14 procedure and the content correct. This is our first experience with this rate
15 case procedure. We have undertaken the work while trying to meet some
16 pressing EPA requirements over a relatively limited period of time. But, as I say,
17 our intention was to get it right the first time.
18

19 Q: Please discuss your connection with this case generally.
20

21 A: As I testified earlier in this case, I am responsible for the management,
22 operations and capital investment of CUC. In the absence of a Chief Financial
23 Officer ("CFO") (we are looking to hire a CFO), I serve as the CFO for CUC.
24 The proverbial "buck" stops with me. Given the issues discussed in this filing, I
25 wish to emphasize my personal responsibility for the management of CUC.
26

27 I took on this job on May 5, 2008. It has been all-consuming ever since. I
28 supervise, and have depended on, a small team of senior managers.
29

30
31 Q: Please describe how you assembled the team that has produced this rate case
32 filing.
33

34 A: Yes. But first, I want to thank the many CUC employees who helped put this
35 case together, not limited to those who are appearing through their written,
36 prefiled testimony. This filing is a group effort. Many of our employees put in
37 extra, uncompensated time so that we could adequately begin this new era of
38 regulated, cost-based operations. I want to thank the work of our consultants, as
39 well. We rely heavily on their utility industry knowledge and experience.
40

41 During the period of our fall collaborative discussions with the Commission's
42 Hearing Examiner and Georgetown Consulting Group consulting staff I

1 concluded that CUC had come to the point where it needed, effectively, an
 2 internal rate case capability. There were a number of reasons for this, many of
 3 them related to how we might most efficiently improve our information-gathering
 4 and -reporting capability. But another was that we simply needed to be able to
 5 see ourselves internally, as an enterprise, from a regulatory, full-cost-recovery
 6 basis.

7
 8 So, I hired the firm that I thought best qualified, through their experience with us
 9 and with the CNMI, and with my assessment of the quality of their previous work
 10 here, Economists.com, particularly our witnesses Robert Young and Daniel V.
 11 Jackson. My charge to them was to help us put together our first complete rate
 12 filing at the Commission, and, along the way, help us learn to function better as
 13 a regulated utility company

14
 15 With our professional hires in the last two years I also believed that we had the
 16 capability internally to proceed with this case. Thus, we are presenting the
 17 following CUC staff witnesses: Arlene L. Lizama, Accounting Officer; Robert J.
 18 Lorenz, Chief Engineer, Water and Wastewater Division; Utu Abe Malae,
 19 Assistant Executive Director; Wallon Young, Deputy Director for Power Systems
 20 Rehabilitation.



22 Q: Please explain the areas in which each witness will testify.

23
 24
 25 A: Yes. I will prepare in the next few days an exhibit which may serve as a table of
 26 contents, or database, which presents the testimony areas by witness, by
 27 subject, and by exhibit number. We have divided this case up as follows:

Witness	Subject
Daniel V. Jackson	Water and Wastewater Rates
Arlene L. Lizama	Back-up data for Economists.com
Robert J. Lorenz	Water and Wastewater business
Utu Abe Malae	CUC Operations
Antonio S. Muna	Policy and finance
Robert E. Young	Electric rates and related issues

1 Wallon Young Fong Electric production
2
3

4 Q: Please discuss your connection with this case specifically, including your
5 preparation at the office.
6

7 A: I have done a number of things to prepare for this testimony.
8

9 As I just mentioned, I have been responsible for CUC's management since May
10 2008. I have done everything that such a job would require since then. I have
11 also spoken in detail about CUC's operations and challenges to and with leaders
12 of our community, elected officials, and federal regulatory and program staff.
13

14 I have regularly received detailed briefings from senior managers as to their
15 respective responsibility areas. I have visited our power plants on Saipan, Rota
16 and Tinian. I have, of course, visited our Saipan power plants repeatedly.
17

18 I have also visited and inspected CUC's water and wastewater facilities. I have
19 interacted on virtually a daily basis with the managers of that side of our
20 business.
21

22 In both my capacities as Executive Director and de facto CFO, I have overseen
23 the compilation and presentation of financial data for the auditing of CUC's
24 financial statements for each of the years 2007 and 2008, and the development
25 of the unaudited financials for the year 2009. (CUC's financial year is the same
26 as the Government's, running from October 1 through September 30.) I have
27 also managed CUC's cash, on a daily basis.
28

29 I have also supervised CUC's budgeting, from the pro forma budgets provided
30 annually to the Administration to the detail developed over the past few months
31 for the submission of the Interim Financial Plan to the EPA and to the
32 Commission. I supervised the development of the unified budget that underlies
33 this rate case presentation.
34

35 I have reviewed almost every one of CUC's responses to the information
36 requests sent to us in the rate proceedings of the years 2008-09 by the
37 Commission's consulting Staff, Georgetown Consulting Group ("GCG" or "Staff").
38 I also reviewed and evaluated the GCG Staff Reports filed during the period
39 2008-09.
40

41 I have discussed this case with my senior staff and our counsel, in order to place
42 matters in the proper factual and legal contexts. Over the last year I have

1 spoken with other utility executives, including senior managers at Guam Power
2 Authority.

3
4 And I have, of course, formed my own opinions as to the matters relating to this
5 case.
6

7
8 **Testimony**
9

10 Q: Could you proceed with that testimony?

11
12 A: Yes. I have six major points to address today.

13
14 Q: Do you have any exhibits to present regarding your testimony?

15
16 A: No. I am not sponsoring exhibits. I can, however, respond to questions on
17 many of the other witness' exhibits and on the workpapers for the Agingan
18 Outfall proposed settlement.
19

20
21 Q. As a preliminary matter, I want to ask you Mr. Muna to generally describe your
22 approach to the rate relief provision of the Commission's last rate order, your
23 understanding of Ordering Provision 3 of CPUC November 20, 2009, Order in
24 Docket 09-2?

25
26 A. I believe that today's rate filing complies with that order. Ordering Provision 3
27 states "Accordingly CUC is ordered and directed to file a rate application
28 regarding its need for additional FY10 rate relief for its three operation divisions,
29 including the accompanying documents." CUC witness Dan Jackson's
30 testimony and exhibits contain the application for rate relief for CUC's Water and
31 Wastewater Divisions.
32

33 But there was not the same need for electric rate relief. Based on review of the
34 Electric Division's operations, my opinion is that electric rate relief is not required
35 at this time. CUC witness Robert Young's testimony includes changes to the
36 Non-Fuel Electric Rate resulting from the transfer of funds from CUC Water and
37 Wastewater Divisions for electricity usage.
38

39 Q. Ordering Provision 3 of CPUC November 20, 2009 Order in Docket 9-2
40 contained other requirements on CUC. Please discuss your view of how this
41 filing complies with the balance of the requirements in Ordering Provision 3.
42

1 A. I believe it does. Ordering Paragraph 3 states further that CUC must present
2 testimony on "the establishment of wastewater service charges for all customer
3 classes." CUC witness Jackson's testimony complies with this requirement.
4

5 CUC witness Jackson's testimony discusses targeted lifeline rates for water and
6 wastewater customers and CUC witness Young's testimony discusses targeted
7 lifeline rates for electric customers, thus complying with the next requirement of
8 Ordering Provision 3 requiring CUC testimony on "targeted electric, water and
9 wastewater lifeline rates."
10

11 Mr. Jackson's testimony presents CUC's position on "whether CUC's
12 government wastewater rate is just and reasonable" the next requirement of
13 Ordering Provision 3. This filing contains a copy of the revised Interim Financial
14 Plan filed with the EPA. Additionally, Mr. Jackson's testimony contains the FY
15 2010 billing determinants for CUC water and wastewater customers and Mr.
16 Young's testimony contains the FY 2010 billing determinants for CUC electric
17 customers.
18

19 I also certify that CUC has paid in full all outstanding Commission invoices in
20 Dockets 09-1 and 09-2.
21

22 Finally, CUC audited financial statements for FY 2007 and the draft audited
23 financial statements for FY 2008 are included with this filing.
24
25
26
27



28
29 * **Topic 1: Recent positive events at CUC..**
30
31

32 Q: Please describe the key accomplishments of the CUC during calendar year
33 2009.
34

35 A: The CUC staff made significant improvements to the CUC system during 2009
36 that increased the reliability of the electric system and reduced the unit cost of
37 providing electricity to our customers.
38

39 Improvements to engines at Power Plant 1 doubled the amount of CUC
40 generating capacity on the island of Saipan from 26 MW in January of 2009 to
41 58 MW in December of 2009. For Power Plant 1, the improvement was 500%.
42 In January of 2009, Power Plant 1 could only produce 8 MW. By December of

1 2009, thanks to the heroic contributions of CUC staff, Power Plant 1 produced
2 42 MW by December of 2009. In addition, engine overhauls and improved
3 maintenance resulted in an 18% increase in engine efficiency (measured in kWh
4 per gallon) between January and December of 2009. In January of 2009, Power
5 Plant 1 was only able to produce power with 3 of its 8 engines. The efficiency of
6 Power Plant 1 was 12.05 kWh per gallon. In December of 2009, Power Plant 1
7 produced power from 5 engines with a combined efficiency of 14.5 kWh per
8 gallon.
9

10 We plan to overhaul three engines in 2010. For the first time in many years,
11 Power Plant 1 will have all 8 engines available to serve the electric needs of our
12 customers with efficiency close to the levels when the plants were new.
13

14 CUC witnesses Utu Abe Malae and Wallon Young Fong can discuss the details
15 of the generation improvements completed by the CUC staff at Power Plant 1 for
16 2009 and the details of what we plan to accomplish in 2010.
17

18 Q. Please describe how the improvements at Power Plant 1 have affected CUC
19 customers.
20

21 A. First and foremost, improvements at Power Plant 1 significantly reduced the cost
22 of generating electricity on Saipan in two areas. First is the reduced
23 consumption of fuel oil due to increased efficiency of repaired CUC engines.
24 Second is the termination of the Aggreko contract for temporary power
25 generation.
26

27 Q. Mr. Muna, can you provide an estimate of the savings to CUC customers
28 resulting from the increased efficiency of Power Plant 1 engines?
29

30 A. In December of 2009, Power Plant 1 produced about 17 million kWh at an
31 average efficiency of 14.5 kWh per gallon. If Power Plant 1 currently operated
32 at 12.05 kWh per gallon like it did in January of 2009, the monthly fuel costs
33 would have been almost \$550,000 per month, or about \$6.6 million higher than
34 they were in December of 2009 based on current fuel prices.
35

36 Assuming annual sales of 240 million kWh, this represents a savings to CUC
37 customers of about 2.75 ¢/kWh.
38

39 Q. Can you provide a similar estimate of the savings associated with termination of
40 the Aggreko contract?
41

42 A. CUC payments to Aggreko for the lease of its temporary engines were \$500,000

1 per month, or \$6 million annually. Assuming annual sales of 240 million kWh,
2 this represents a savings of about 2.5/kWh. This means that CUC electric rates
3 would be about 5.75/kWh higher than they are currently if the CUC still had the
4 Aggreko engines and the engine efficiency of Power Plant 1 was still 12.05 kWh
5 per gallon like it was in January 2009.
6

7 I would like to personally thank the CUC staff for their efforts overhauling CUC
8 engines and the Department of Interior's Office of Insular Affairs for their grants
9 that covered a significant portion of the CUC's engine overhaul cost.
10

11 Q. Would you please highlight other key accomplishments in the Electricity Division
12 of the CUC during 2009?
13

14 A. We made improvements in many areas of CUC operations. In addition to the
15 improvements in the island of Saipan's generation system discussed above, we
16 also completed the following projects which improved the quality of the CUC's
17 electric system:
18

19 * Reduced duration of feeder outages by over 95% by revising the feeder
20 re-energizing procedure. Under the old feeder re-energizing procedure the
21 typical duration of a feeder outage after a trip was 60 to 90 minutes. Most feeder
22 trips are now re-energized within 3 minutes. CUC witness Mr. Malae can
23 provide the details of this improvement.
24

25 * We made repairs to the substation transformer at Power Plant 2, which
26 improved the reliability of power to the Kiya Substation, hence, the entire
27 southern part of Saipan.
28

29 * CUC line crews installed 350 fiberglass pole top pin insulators, which improved
30 the reliability of power to the Kagman and Dandan Homesteads.
31

32 * We began to offer prepaid meters to CUC customers, which allows them to
33 easily monitor and control their electricity use, spending only what they can
34 afford. Because CUC customers with prepaid meters have real time access to
35 their electricity costs, it dramatically reduces customer complaints concerning
36 electricity usage. To date, the CUC installed 102 prepaid meters at the request
37 of our customers.
38

39 * CUC line crews maintained and restored 125 streetlights towards end of 2009
40 resulting in improved security in those areas.
41

42 * Sixteen linemen successfully completed the two-year Pacific Linemen Training

1 program, which is the only ongoing apprenticeship program we are aware of in
2 the CNMI.

3
4 Q. Would you please highlight the key accomplishments in the Water and
5 Wastewater Divisions of the CUC during 2009?
6

7 A. CUC staff was also busy during 2009 making improvements which improved the
8 quality of our customer's water and wastewater service. Water and Wastewater
9 Division accomplishments include:
10

11 * Completed sanitary survey of entire water system on Saipan in partnership with
12 DEQ and corrected all noted deficiencies.

13
14 * Cleaned and disinfected 16 of 17 CUC reservoirs in Saipan, both reservoirs on
15 Rota and one on Tinian.

16
17 * Increased the percentage of CUC customers on Saipan that have 24/7 water
18 service from 60% to 70%.

19
20 * Thanks to the efforts of the Water Task Force, we added six new water wells
21 and closed two on the island of Saipan. The CUC currently has 145 water wells
22 on the island of Saipan.

23
24 * Installed 108 sample taps in distribution system, increasing the ability of CUC
25 staff to collect samples for water quality monitoring and testing.
26

27 * We participated in Water and Environmental Research Institute of the Western
28 Pacific (WERI) sponsored training, delivered by Hawaiian Engineering to 21
29 members of the CUC Water and Wastewater Division staff on pressure reducing
30 valves and pump repair and maintenance.
31

32 * Repaired or replaced collapsed sections of the sewer collection line that
33 collapsed in San Jose, in As Terlaje and in Chalan Kanoa.
34



37
38 * **Topic 2: The big picture at CUC: on a total company basis we are
39 improving our services and infrastructure and covering costs.**

40
41 Q: How are CUC's finances?
42

1 A: We are still challenged. I have been managing our cash on a daily basis. But if
2 you look at CUC on a total company basis, we are moving responsibly toward
3 full cost recovery.
4

5 There is presently no alternative to careful cash management. Liquidity is
6 everything to us right now. Because we have no credit, we rely on the cash
7 which our business generates.
8

9 The drop in world oil prices, coupled with the last LEAC rates and the new water
10 and wastewater rates, has provided us with assistance. We can provide 24/7
11 power at affordable prices. We are looking to offer power to large self-
12 generating customers, like the hotels. We have tried to improve our ability to
13 collect revenues.
14

15 On the other hand, a substantial challenge is the public perception that merely
16 challenging a part of a CUC utility bill entitles the customer to a rate-paying
17 holiday, and a free CUC staff investigation, until the matter is resolved. There
18 are over 2,000 bill protests outstanding. Many of these customers have refused
19 to pay their bills.
20

21 Our wastewater division continues to undercharge for its service. But this case
22 offers ways to correct that situation. This Commission has recognized that rates
23 have historically been set below true cost of service; and it has moved to correct
24 that. We still lack all the revenues needed to pay for the all the staff, supplies,
25 materials and spare parts that our water and wastewater business requires, and
26 the US District Court demands. Many customers refuse to pay their bills,
27 demanding relatively expensive meter investigations.
28
29

30 Q: What are the principal issues before you, at CUC?
31

32 A: We continue to face some important issues:
33

- 34 • There is not enough money to do the job; and, meanwhile our customers are
35 suffering through difficult economic times. But things have improved in terms of
36 funding our work.
37
- 38 • We are working hard to reduce the number of large accounts in arrears and the
39 amounts involved.
40
- 41 • We face continued financial and operational reporting requirements from the
42 Commission, and from the US District Court, pursuant to Stipulated Orders 1 and

1 2. The Governor's disaster emergency declarations help insure that we are
2 adequately staffed to run our facilities, hiring CNMI-based foreign workers who
3 are skilled, eager to work hard and ready to work for the modest salaries we can
4 afford.

5
6 • We are working to reduce our inventory to industry standard levels. is not
7 turning over fast enough. As I reported to the Commission in June, we were
8 carrying \$9 million in inventory. We are working to speed up turnover, sell off
9 excess, and sell the scrap.

10
11 • The CDA loan which we carry on our books continues to make us, on paper,
12 insolvent. It precludes our securing credit. But a utility company relies on short-
13 and long-term credit, particularly to match the expenditures for its capital
14 investments with their service lives. The Commission approved our agreement
15 with CDA. The conversion of the debt to equity should help us qualify for a line
16 of credit. Presently the matter is before the CDA Board. Their attorney will be
17 moving to nonsuit the Superior Court case once they approve.

18
19 • Our vehicle fleet is aging, expensive to maintain, and in large part unreliable.
20 There are short- and long-term fixes to such a situation. A financial plan is
21 necessary to integrate the short- and long-term strategies. We had hoped to
22 replace many vehicles. But, I determined that we just did not have the money to
23 do so. Our staff is doing an excellent job coping with continued use of our
24 distressed vehicles. Rate relief in this case will help us.

25
26
27 Q: What is your opinion of CUC's operations?
28

29 A: We are working hard to improve operations; we are achieving success. I, and
30 my management team, are very aware that we cannot ask our customers, most
31 of whom are the owners of CUC, to support our efforts with proper rates if we fail
32 to deliver to them the best possible service.
33

34 We have taken important steps to improve our operations. We have reported
35 these to the Commission and the Legislature. But our staff has shrunk, through
36 attrition and through some firings of incompetent, or worse, employees.
37

38 There are hard-working, dedicated people at CUC. They need the resources,
39 the management support, and sometimes the additional training, to do their jobs.
40

41 I am pleased to report that we will soon have in place a full senior management
42 team. CUC has just offered the position of Chief Financial Officer to Charles

1 Warren, who has accepted, and would report for service on or about Feb 17,
2 2010. The contract must be routed. We now have in place Utu Abe Malae,
3 Assistant Executive Director for Operations, Bruce Megarr, Deputy Director for
4 Water and Wastewater, and Wallon Young Fong, Deputy Director for Electric
5 Power Systems Rehabilitation.
6

7 Testifying in this case are Mr. Malae, Mr. Fong, and for Water and Wastewater,
8 Captain Robert J. Lorenz, USPHS, PE, Chief Engineer of the Water and
9 Wastewater Division. Also testifying is Arlene Lizama, our Chief Accountant.
10 Each of these individuals will be available to the Commission staff for further
11 discussions regarding our rate filing.
12

13 Q: Is CUC presenting additional witnesses?
14

15 A: Yes. Our lead witnesses are the principals of Economists.com, Dan V. Jackson,
16 Managing Director, and Robert E. Young, Managing Director. They will, of
17 course, also be available for discussions with the Commission staff. CUC has
18 asked the firm to make this filing available electronically to the Commission and
19 its staff. Due to the size of the testimony and supporting files, direct email may
20 be difficult. But downloads from a remote site should provide immediate access.
21



22
23
24 * **Topic 3: The principal issue: Recovering costs on a total system basis or
25 on a business-line basis**
26

27 Q: Please address your next point, how to recover needed revenue, through a total
28 system approach or on a line-of-business approach.
29

30 A: Yes, I will address the principal issue of this filing is whether electricity should
31 be included as a "cost" in wastewater system for ratemaking issues, or whether
32 such costs should be addressed on a total system basis.
33

34 Water rates remain flat in either scenario. But the results are significantly
35 different for wastewater customers.
36

37 Q: Is full cost recovery for CUC still the right strategy?
38

39 A: Yes. I urge the Commission to set rates which are targeted to enable CUC to
40 achieve full cost recovery and reliable, cost-effective service.
41

42 Q: What is your analysis of the Economists.com recommendations?

1 A: Mr. Jackson presents the data and the policy options on this important issue.
2 CUC and the Commission face a fundamental policy decision. It rests on how to
3 view full cost recovery – either on a line of business basis or a total company
4 basis.

5
6
7 a. Line of Business: Scenario I, charging for electricity in the wastewater
8 system produces a combined first year increase in water/wastewater
9 average bills from \$60 to \$119 by year end 2010. This reflects the
10 relatively small number of wastewater customers over which to spread a
11 rate increase.

12
13 b. Total Company: Scenario II, the total system approach, where these
14 electric costs are left with the electric system, produces a more modest
15 w/ww increase, from \$60 to \$77 by year end 2010. This scenario,
16 however avoids a 2 cent/kwh decrease for electric customers.

17
18 Scenario I would produce “rate shock” and potentially a “death spiral” in our
19 wastewater business as higher and higher rates forced more and more
20 customers off our system. Scenario II avoids those negatives but, as a matter of
21 financial and economic principle, it keeps the lines of businesses from standing
22 alone.

23
24 Q: Are you recommending any base rate electric rate increase independently of this
25 policy question?

26
27 A: No. We seek no change in the electric base rates.

28
29 Q: Are you recommending either Scenario I or Scenario II?

30
31 A: I think the Commission can tell by my above remarks and by Mr. Jackson’s
32 testimony, that CUC and I prefer to avoid rate shock and avoid burdening our
33 customers with “death spiral” rates, particularly our small households and small
34 businesses. Scenario II would avoid this pain.

35
36 But, I believe, on advice of counsel, that either Scenario is legally acceptable. I
37 believe that this must be the Commission’s decision.



41
42 * **Topic 4: Projecting sales to continue at today’s levels.**

1 Q: Please address the sales projections used for this case.
2

3 A: Yes.
4

5 Q: Why are sales levels important?
6

7 A: The rates are set on our best projection of the number of kWh sold during the
8 test period. The greater the sales, the lower the rate, all other things being
9 equal. This is because the rate is set to collect a certain amount of money.
10

11 If we get it wrong, and project CUC's sales too high, then we undercollect the
12 revenues required to run the business. For the electric side, and the LEAC, this
13 involves the ability to buy oil. Because CUC lacks credit, I must have the
14 required cash on hand every week to buy oil.
15 CUC's sales have been falling. It is very important that we not overproject sales
16 for this case. At this time, we are projecting sales levels for electricity to continue
17 at the level of September 2009. Mr. Young describes this.
18

19 For water and wastewater, however, Mr. Jackson presents a detailed 10-year
20 forecast, which shows modest decreases in water sales for the next two years
21 and a slight upward trend thereafter.
22



24
25 * **Topic 5: CPUC review of settlement for Agingan Sewage Outfall**
26 **construction overruns, for about \$ 2 million.**
27

28 Q: Please summarize the special item regarding this settlement and your request to
29 the Commission.
30

31 A: Yes. We seek Commission approval of the \$2.5 million settlement of a contract
32 dispute over the sewage outfall for the Agingan Sewage Treatment Plant, at the
33 SW tip of Saipan, between PIC and Koblerville. CUC is finalizing a settlement
34 over a construction project. We seek the Commission's determination that the
35 settlement amount and other terms are prudent, and that amortizing the
36 settlement in the rates would be just and reasonable. I have asked Mr. Jackson
37 to calculate the rate effect of the proposed settlement.
38

39 This project is a long pipe, drilled through Saipan's southern reef. It pumps
40 treated sewage down into the 2,000-foot-deep Saipan-Tinian Channel, over 100
41 feet down and into a current that disperses it into the deeps of the Philippine
42 Sea.

1 The project commenced before the Commission became active, or issued its
2 December 19, 2008, contract protocol order. So, technically, this "change order"
3 settling a cost overrun, might not be necessary. However CUC has two reasons
4 for bringing its negotiated settlement to the Commission for approval. First,
5 while not a new contract in excess of \$350,000 (the Protocol's cutpoint), the
6 project's cost overrun is almost as large as the contract price. Second, the only
7 way to pay for the settlement is through CUC rates, requiring Commission
8 approval. (Amounts related to the original price and not, of course, subject to
9 pre-review.)
10

11 Q: So, are you bringing a totally completed deal to the Commission?
12

13 A: No. But GPPC and CUC have virtually completed the settlement document and
14 are prepared to enter into a deal that would avoid years of very costly litigation.
15 I recommend the deal for Commission approval. But it will not become a deal
16 without that approval.
17

18 Q: Could you provide the background to this settlement?
19

20 A: Yes. Until this project's completion, the Agingan Sewage Treatment Plant, just
21 south of PIC, on Saipan's SW tip, dumped treated sewage into Saipan's surface
22 waters. Dispersal of the effluent was poor, creating an environmental hazard.
23

24 The United States Environmental Protection Agency ("EPA") ordered CUC to
25 build a wastewater outfall at the plant site, one that would inject the sewage into
26 deep waters and cause it to be dispersed, and therefore diluted, widely, the
27 "Agingan Outfall".
28

29 A feasibility study by a team of environmental consulting firms recommended
30 that the Agingan Outfall could be constructed by a pipe installation from a barge,
31 for \$7.7 million, or by directional drilling through the rock island surface and
32 coral reef at Saipan's tip, for \$6,558,000.00. The final construction cost estimate
33 at the time of bidding was \$5,850,000.00.
34

35 Q: Please continue.
36

37 A: CUC bid the mandated project out, but lacked the funds to pay for it. Only one
38 qualified firm offered to construct the outfall, finance it themselves, and wait for
39 the EPA to reimburse them. EPA offered \$2,064,368.00. GPPC bid
40 \$2,839,800.00, plus the financing expense, at 16%. EPA approved the award to
41 GPPC, relying in part on the "the contractor's ability to finance-build the project."
42 In March of 2005, CUC entered into construction contract CUC-WW-05-C008

1 with GPPC. EPA ultimately provided \$2,332,368.00 in grant funding.
2

3 Q: There were cost overruns?
4

5 A: Yes. GPPC met a number of expensive problems during construction. Pilot
6 holes failed. The rock was unstable and the ground was soft in places. There
7 were voids in the drill path. All these resulted in delays and significant extra
8 costs.
9

10 CUC had hired local engineer Efrain Camacho to protect its interests, as our
11 construction manager. He observed GPPC's difficulties, but, nonetheless,
12 approved in writing cost overruns of \$1.6 million. GPPC claimed other
13 expenses. But CUC, GPPC and the CM disagreed on these and other claims.
14 Costs increased, and GPPC constructed a needed anchor for the outfall.
15 Despite the extra costs through the end of the project GPPC finished the
16 construction, and delivered to CUC a functioning outfall on September 8, 2008.
17 The CM recommended acceptance.
18

19 Q: So CUC settled with GPPC, as advised by the CM?
20

21 A: No. CUC technical staff and the one of the Attorney General's assigned
22 counsel, with construction litigation experience, disputed the CM's
23 recommendation. CUC never paid interest, and never paid even some of the
24 UN-disputed amounts. GPPC filed an administrative contract dispute in
25 December 2008. The matter sat. GPPC has since threatened a lawsuit.
26

27 Q: How did settlement proceed?
28

29 A: I decided to try settlement discussions before the dispute turned into a very long,
30 very expensive legal battle. My objective was to develop a deal that would likely
31 be cheaper than what we might resolve in litigation. As I approached the
32 situation I assessed the pros and the cons.
33

34 On one hand, the total claim looked unreasonable, because it was substantially
35 higher than CUC had agreed to pay. CUC believed that the extra costs came
36 because the contractor failed to follow the plans and specifications. While CUC
37 had not put the case out to consulting geotechnical engineers and a construction
38 attorney for evaluation, it did have the advice of CUC technical staff familiar with
39 the geology of the area and a senior Assistant AG who was an experienced
40 construction lawyer. They believed that GPPC deserved nothing more than the
41 contract price and some initial, modest change order compensation, because the
42 firm had failed to follow the plans and specs, particularly the requirement to dig

1 deep enough in order to avoid the voids, dumped debris, and other problems at
2 shallower depths. In essence, GPPC took the risk of its contract, with a price
3 that was too good to be true, and should abide by that contract.
4

5 On the other hand, CUC's own CM had approved the variances from plans and
6 specs, and had approved many change orders. Without GPPC's volunteering to
7 finance the job, the project would not have been built. Litigating would be very
8 expensive, and consume the time of staff better put to providing service. And
9 the project did come in about \$1 million less than the \$5 million original estimate.
10 CUC has met the EPA's requirements, received and paid out a reimbursement
11 grant, and has a functioning sewage outfall that improves the CNMI's waters.
12

13 On balance, I concluded, there was a lot to litigate about. Litigation would be
14 messy and costly. There was justification for settlement.
15

16 Q: Are you providing materials for the Commission's staff, Georgetown, to review?
17

18 A: Yes, I have had one of our counsel assemble a sheaf of workpapers from the
19 project, and the dispute, that fairly tell the story – pro-CUC and pro-GPPC. They
20 include what we believe to be the key documents, except for the most current
21 draft settlement agreement. Either we will have a final agreement to provide to
22 staff or, on the advice of counsel, we will agree to provide a negotiation draft on
23 a confidential basis. There are a few more cartons of documents at our offices.
24 I urge examination of the workpapers, then discussion with CUC personnel
25 before plunging into the remaining materials.
26

27 Q: What is the time frame on this settlement?
28

29 A: Nothing will happen while the Commission reviews the documents, including the
30 draft settlement. But that also means that GPPC could simply throw up its
31 collective hands and start litigating.
32

33 Q: If approved, will CUC customers pay the full settlement amount, with that 16%
34 interest rate?
35

36 A: Not necessarily. For instance, I would prefer to refinance an approved
37 settlement, by borrowing money at present very low interest rates. But that
38 strategy must await a Commission decision. I should note also that, should we
39 determine that we ought to pay right now at least the amounts which the original
40 contract supported, that would not come within the Commission's December
41 2008 Contract Protocol, because the contract and performance did precede the
42 order date for the Protocol. I will, of course, keep the Commission's staff

1 updated on the progress of negotiations and our actions.
2
3
4



5
6 * **Topic 6: Materials supported by my testimony.**
7

8 Q: Are you supporting any other matters in this case.
9

10 A: Yes, I have provided materials and direction for aspects of the Economists.com
11 presentation.
12

13 Q: Please explain.
14

15 A: I provided the financial projections for the IFP, and can answer questions about
16 them. I also provided the debt service information. I directed Economists.com to
17 undertake the study that has produced the request for a credit card convenience
18 fee.
19
20
21



22
23 * **Conclusion**
24

25
26 Q: Does that complete your testimony?
27

28 A: Yes, it does.
29

30 Q: Do you request that this pre-filed testimony and related exhibits be entered in
31 the record of this case as your declaration?
32

33 A: Yes, I do.
34
35
36

37 I declare under penalty of perjury that the foregoing is true and correct and that this
38 declaration was executed on January 31, 2010, at Saipan, Commonwealth of the
39 Northern Mariana Islands.
40
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7

Antonio S. Muna, Executive Director,
Commonwealth Utilities Corporation

CERTIFICATE OF SERVICE

The undersigned, Attorney, 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) (CPUC prov. RPP 4; Com. R. Civ. Pro. 5(d)):

Document served: The foregoing: Prefiled Testimony of Antonio S. Muna, Executive Director, January 2010

Persons served:

Staff: J. K. Madan (jkmadan@gmail.com); Larry Gawlik (Lrgawlik@aol.com)
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Administrative Law Judge, Harry Boertzel (hboertzel@hotmail.com)

Method and date: by causing electronic service of a copy to the above persons through their indicated email addresses on the above filing date.

/s/

Alan J. Barak, Attorney at Law (# F0350)

0 Testimony A Muna 10-01 on policy and rate case.wpd