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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 Supplemental Testimony of:
22) Charles H. Warren,
23) Chief Financial Officer, April 2010
24)
25)
26) **Subjects: Revisions to MFRs; Interim**
27) **Financial Plan; Financing CUC**
28) **Obligations**
29)
30) Filing date: April 1, 2010
31
32
33

34 **Direct Testimony of**
35 **Charles H. Warren, Chief Financial Officer, CUC**
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 Charles H. Warren. I am the Chief Financial Officer of
43 Commonwealth Utilities Corporation ("CUC"). My office is located at the Joeten

DanDan Building, 3rd Floor. The mailing address is PO Box 501220 CK, Saipan MP 96950. My telephone number is 670.235.7025 and my fax number is 670.235.5131. My email address is chwarren.cpa@gmail.com.

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

A: Yes, I am.

Q: Have you testified previously before the Commission?

A: No, I have not.

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

A: I am testifying to three matters today, as shown in the table of contents. I am also available to respond to the questions of Commission staff on matters touching on financial and bookkeeping matters of our business.

Q: Are you providing any exhibits?

A: Yes. I am providing my resume, Exhibit ____ (CHW-01) and I am co-sponsoring the IFP, Mr. Muna's Exhibit ____ (ASM-02).

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

A: Yes:



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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, any 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.



Qualifications

* Qualifications in general

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

A: Please continue.

1 Q: Could you please explain your present position?
2

3 A: Yes. My title is Chief Financial Officer of CUC. I have held this position since
4 February 2010. My duties include virtually all aspects of the financial
5 management and accounting of CUC. The billing and collection functions are
6 also under my supervision. Because I just started at CUC a little over a month
7 ago, I am slowly picking up the financial functions, which were assumed by the
8 Executive Director in the absence of a CFO. Ultimately I will be responsible for
9 the financial and administrative and general (A & G.) functions of CUC. I am
10 also already involved in working closely with our staff in this area.
11

12 Since arriving at CUC I have been increasingly associated with the conduct of
13 CUC's presentation in this rate case, including developing discovery responses
14 for my responsibility area.
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.
20

21  Q: Please begin by describing your education and training.
22
23

24 A: Yes. Please see my resume, Exhibit ___ (CHW-01). I am a Certified Public
25 Accountant. I received a BS in Accounting (cum laude) from San Diego State
26 University, and an MBA from Golden Gate University. I have since sat for and
27 passed the CPA exam. I am licensed to practice in the State of California.
28

29 Q: And, could you describe briefly the positions you held before this present one
30 and how they relate, if at all, to your testimony today.
31

32 A: Yes. I have held various senior Vice President and above positions over the
33 past 20 years. I was Vice President Finance for Medical Imaging Centers of
34 America from 1988-1991; Executive Vice President of The Kaufman Group from
35 1991-1992; President of Computer Processing Unlimited from 1992-1995; Vice
36 President of The ServiceOne Health Group from 1995-1997; General Manager
37 of American Load Cells from 1997-1999; and Consultant to RC Investments from
38 1999-2002.
39

40 For the past 8-1/2 years I have resided in American Samoa. From 2005 to the
41 present I have served as a Board Member (including Chairman from 2005-2008)

1 of the American Samoa Medical Center Authority. From 2002-2010 I was Chief
2 Financial Officer of GHC Reid & Co. Ltd., and that firm's family of companies
3 and charities.

4
5 During my tenure with these firms I was responsible for the following functions:
6 stewardship of all company assets; overall financial planning; monthly financial
7 reporting; development of financial policies and procedures; planning and
8 directing treasury and financing activities; budgeting and forecasting; external
9 auditing; financial analysis; tax planning; analysis of key operational indicators;
10 sourcing and implementing an enterprise resource management system that fully
11 integrated revenue, cost, and inventory systems (GHC Reid); installing a dealer
12 management system that fully integrated revenue, cost, vehicle servicing, and
13 inventory systems (Samoa Motors, Inc.); installing a cost accounting system, in
14 conjunction with an enterprise resource management system, providing the
15 ability to develop costing models by line of business, customer class, and
16 individual customer (Peter E. Reid Stevedoring, Inc.); as a board member
17 overseeing fiscal management, fiscal reporting, staff development and
18 continuous quality improvement (Am. Samoa Medical Center Authority);
19 assisting in business growth and development; managing sales, marketing
20 production and finance; (American Load Cells); development of information
21 systems (Computer Processing Unltd.); and management of financial operations
22 of 18 branch businesses in 7 states (Medical Imaging of America).

23
24
25 Q: Could you explain briefly your knowledge and experience of commerce among
26 Pacific Island communities?

27
28 A: Yes. As I mentioned, I lived in American Samoa for 8-1/2 years. Of the
29 businesses I have just mentioned, 6 (GHC REID & CO. LTD., PETER E. REID
30 Stevedoring Inc., Samoa Motors, Inc., SLC Manufacturing, Inc., Lealaifuafeva
31 Peter E. Reid Charitable Foundation, American Samoa Medical Center
32 Authority) were active in the South Pacific during my tenure with them. In order
33 to function it was critical that the firms with which I worked understand, and act
34 appropriately in, the communities in which we did business.

35
36 I was deeply involved in the commercial life of American Samoa, and the region.
37 For both 2006 and 2007 I was named to Pacific Magazine's "227/370" "Pacific
38 People You Need to Know".



39
40
41 Q: Did you do utility-related work before your present position?

1 A: No I did not. But I have worked in the heavily-regulated industries of medical
2 equipment and supply and the delivery of medical services. It has given me a
3 great respect and understanding for the power, authority and influence that a
4 regulator has on the regulated firms.
5

6 In order to bring myself up to speed on ratemaking and utility reporting I will be
7 attending next month NARUC's Western Rate "School" held every year in May.
8 (NARUC is, of course, the National Association of Regulatory Commissioners,
9 the professional association for the state regulatory commissions. The course
10 has been delivered for over two decades by the Institute for Public Utilities of
11 Michigan State University.) This is an intensive course for senior utility
12 managers, commissioners and regulatory staff covering the theory and practice
13 of modern utility regulation.
14

15 Q: Please explain your other professional affiliations.
16

17 A: I served on the board of, and as treasurer for, Catholic Social Services in Pago
18 Pago, American Samoa. I was also president of the Rotary Club of Pago Pago.
19

20 Q: Do you have a qualifications exhibit?
21

22 A: My resume is attached as Exhibit ____ (CHW-01).
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 Q: What are your general comments?
35

36 A: It is obvious that CUC, as an enterprise, has much to improve and correct. But it
37 is also obvious that CUC is capable of this. These provided me with a strong
38 incentive to join CUC.
39

40 Q: Please discuss your connection with this case generally.
41

1 A: As I mentioned, I am responsible for the financial and accounting areas of CUC,
2 which heavily support this case and the other witnesses, particularly
3 Economists.com. In that capacity, and upon my arrival at the office on February
4 15, I immediately began working with the other witnesses and counsel.
5

6 Q: Please discuss your connection with this case specifically, including your
7 preparation at the office.
8

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

10
11 Of course, my day-to-day work familiarizes me with the areas of the other
12 witness' testimony.
13

14 I have met extensively with CUC senior management, with my department's
15 witness in this case, Arlene Lizama, and with Betty Terlaje, of our billing and
16 collections unit. I have spoken repeatedly about this case, about CUC's
17 financial position, present and future, about CUC's accounting, and about CUC's
18 financial plans with Economists.com, primarily Dan Jackson. I have worked with
19 our counsel to insure that CUC provides the best responses possible at this time
20 to the Commission Staff's (Georgetown's) data requests and needs. I have
21 worked with my staff to develop the MFRs for the Commission. I regularly meet
22 with CUC's managers and my staff.
23

24 I have also visited CUC's power plants and principal water and wastewater
25 facilities on Saipan. I have observed CUC's distribution facilities, power and
26 water, and our vehicle fleet. I have visited our spare parts storage facilities. I
27 have visited many of the JoeTen DanDan offices of each of our responsibility
28 areas. I have observed our billing/collections office, the customer service office,
29 there.
30

31 I have reviewed most of CUC's responses to the information requests sent to us
32 in this rate proceeding. I have not had time to review such material from the
33 years 2008-09, sent in response to requests from the Commission's consulting
34 Staff, Georgetown Consulting Group ("GCG" or "Staff"). I have reviewed some
35 of the Georgetown Staff Reports filed during the period 2008-10.
36

37 I have discussed this case with the Executive Director, with the Assistant
38 Executive Director, and with those who report to me. I have discussed the case
39 with Economists.com and with our counsel, in order to place matters in the
40 proper factual and legal contexts.
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And I have, of course, formed my own opinions as to the matters relating to this case, based upon the above experience and training.



Testimony

Q: Could you proceed with your testimony?

A: Yes. I have three topics to address today.

Q: Do you have any exhibits to present regarding your testimony.

A: Yes. Just my resume.

Q: Can you answer questions on other financial and accounting aspects of CUC's case?

A: Yes. I can discuss the CDA deal and the finality of the swap. As for other matters, probably, and I will be happy to do so. It depends on the questions. As I stated above, I have arrived during the conduct of the case.



* **Topic 1: Revisions to MFRs**

Q: Could you please summarize your MFR testimony?

A: Yes. The Commission's format for the minimum filing requirements, or MFRs, does not meet the output format for CUC's accounting system. We are working to bring the two into synch.

Q: What is the status of CUC's capability to provide completed MFRs to the Commission?

A: It has been very difficult with historical data. The Commission Staff data requests for FY 2007, FY 2008 and FY 2009 data have required close to 100 hours of staff time to develop. I believe we have provided the requested information in the best format we could. Given the large discontinuity between CUC-before and CUC-now I hope we can leave this output as it is and focus on delivering good information to the Commission in the future.

1 For future periods I have worked with our staff to set our accounting system up
2 to produce the required allocations among the three CUC business lines and in
3 the required categories. We should not face such a daunting task in the future.
4 We should be able to provide timely MFR reports to the Commission.
5

6 Q: To whom have you supplied the MFRs?
7

8 A: We provided the MFRs to Georgetown in response to their discovery requests.
9 We also provided them to Economists.com, so that they might use them in the
10 rate case, as they deemed correct and appropriate.
11



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16 * **Topic 2: Interim Financial Plan**
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19 Q: Mr. Muna has testified that CUC provided its updated Interim Financial Plan to
20 the EPA, on March 26, 2010. Were you part of that effort?
21

22 A: Yes. I participated in that effort. But, given that most of the IFP was completed
23 before I arrived at CUC, and that Mr. Muna supervised the final work, you could
24 characterize my participation as that of a knowledgeable observer, but an
25 observer nonetheless. My corporate responsibility area is responsible for it.
26 The lion's share of the work, however, was done by my staff and Deloitte. To the
27 extent my department was involved, I am co-sponsoring the IFP with Mr. Muna,
28 his Exhibit ___ (ASM-02). If there are further questions on the IFP I will try to
29 answer them, or find the answers. In the future I should be more directly
30 involved.
31

32 Q: What is the relationship of the IFP to CUC's budgeting and finances?
33

34 A: The IFP is, in effect, CUC's present budget and financial plan. It should be used
35 for the enterprise's internal planning and evaluation and it should be used by
36 Economists.com for its rate case calculations.
37

38 Q: Is the IFP now CUC's final word on its finances, short and long term?
39

40 A: There is never a final word in financial planning and evaluation. The IFP is a
41 living document. It is the best we have right now, but, as CUC progresses we

1 will need to make changes.
2

3 Q: Can you give examples of such changes?
4

5 A: Yes.
6

7 One example is that CUC just received word of \$11 million in federal grants. But
8 the IFP does not address the specifics of the use of these funds, or their
9 implications. Among the implications would be effects on operations. Some new
10 plant might mean that we can eliminate expensive maintenance of old facilities.
11 But some new plant might require the attention of more highly paid, highly
12 trained employees and the application of more expensive supplies.
13

14 Another example is that world markets control CUC's oil expenses. To the
15 extent that our estimates of oil purchases fail to match the prices we cannot
16 control, the IFP must adjust and adapt. Similarly our rates must adjust and
17 adapt. Over the long term, we may need to determine ways to use energy more
18 efficiently and find other sources for it – be they geothermal and ocean current,
19 or solar, wind or other technologies. There are financial implications in each
20 decision we make.
21



24
25 * **Topic 3: Financing CUC obligations, including the Agingan Point
26 Settlement with GPPC**
27

28 Q: Could you please summarize your testimony on refinancing the GPPC
29 Settlement of the Agingan Point Outfall project?
30

31 A: Yes. In my view CUC would be well-advised to seek external, relatively low cost
32 financing to pay off the obligation to GPPC and put in place a long term
33 satisfaction of the resulting debt. It requires Commission action to proceed.
34

35 Q: Are you familiar with the Settlement?
36

37 A: Yes, I am. I have read Mr. Muna's testimony, reviewed his workpapers on the
38 deal and have discussed the Settlement with him, with counsel, and with Mr.
39 Jackson. I am aware of the principal amounts and of the history that gave rise to
40 a 16% interest rate.
41

1 Q: Assuming that the deal is valid and that the Commission would permit recovery
2 of it in the rates, would it be prudent to refinance the deal, rather than pay it off
3 as the Settlement schedules it?
4

5 A: Yes, it would. If CUC could borrow money at single digit rates, and, in particular,
6 at today's low single digit market rates, it should pay off the Settlement as soon
7 as possible. Assuming no prepayment penalties, this would substitute a much
8 lower total principal and interest figure, all other things being equal.
9

10 Q: How much can CUC finance externally at this time?
11

12 A: CUC has no external financing capability at this time. Apart from the wind-up of
13 the situation with CDA and the reporting of the debt-to-preferred-equity swap,
14 CUC is in no condition to approach the market for financing.
15

16 Q: How can CUC get to the financial market, assuming that adequate rates are set
17 in this case?
18

19 A: Two things need to happen. First, CUC needs to get the CDA debt off its books
20 and be able to demonstrate that it can continue to function while covering the
21 principal and interest of a new obligation. I understand that Mr. Muna has asked
22 the Commission to remove the impediment to getting the CDA matter resolved.
23 Second, the Commission's assent to CUC's reflecting its P&I for the deal in its
24 rates would address CUC'S ability to adequately service new debt.
25

26 Q: Would it matter to likely lenders whether the Commission approved the Agingan
27 Point/GPPC Settlement now, or waited to address it in a future rate case?
28

29 A: Now is better than later. My experience over the last two decades is that lenders
30 prefer certainty. It would be more certain from a lender's perspective if the
31 Commission, in the present case, were able to review the facts and come to an
32 explicit decision that the rates should support the settlement and any refinancing
33 on better terms.
34

35 Q: But the present settlement calls for a 16% interest rate. Are you asking the
36 Commission to approve of that level?
37

38 A: Not really. But we must start with what we have before us. I believe that the
39 Commission can make clear that the 16% rate is one which is inherited from a
40 unique construction financing situation and that our near-term objective is to
41 substitute a much lower interest rate. Unfortunately we are in a Catch-22

1 position: we cannot borrow any money now, so we face the inherited 16% rate;
2 we cannot get to a new loan without approval for that rate. I hope that the
3 Commission understands this and gives CUC the regulatory foundation to
4 approach lenders and retire the high-cost obligation.
5

6 Q. Do you have a specific ratemaking treatment in mind for a new financing?
7

8 A: I have nothing specific to offer at this point because we have no alternative right
9 now. I have advised against approaching lenders until we have our regulatory
10 approval (and the CDA swap) in place. But I would think that a new financing
11 should look at the period over which the Agingan Point Outfall will benefit our
12 customers and match the payback period more closely to it. Such a matching is
13 a sound business practice.
14



15
16
17 * **Conclusion**
18

19 Q: Does that complete your testimony?
20

21 A: Yes, it does.
22

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

26 A: Yes, I do.
27
28
29

30 I declare under penalty of perjury that the foregoing is true and correct and that this
31 declaration was executed on April 1, 2010, at Saipan, Commonwealth of the Northern
32 Mariana Islands.
33
34
35

36 _____
/s

37 Charles H. Warren,
38 Commonwealth Utilities Corporation
39
40
41

Testimony of Charles H. Warren
Docket no. 10-01

CERTIFICATE OF SERVICE

The undersigned, Attorney Alan J. Barak, 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 Supplemental Testimony of Charles H. Warren, April 2010

Persons served:

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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 CHW Suppl Testimony Charles H Warren 2010-04-01.wpd