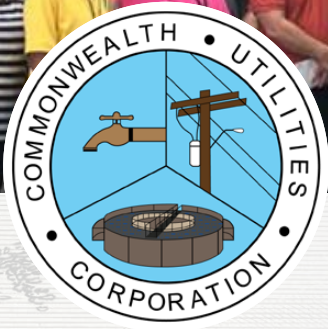




FISCAL YEAR 2020 CITIZEN-CENTRIC REPORT

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Mission Statement

The Commonwealth Utilities Corporation (CUC) is dedicated to excellent customer service and effective **Power, Water & Wastewater** services for the people of the Commonwealth of the Northern Mariana Islands (CNMI) at the lowest reasonable cost while providing safety to the employees and community.

Vision Statement

We will continue to use teams and continuous quality improvement...

- To become the preeminent, trusted power, water and wastewater utility.
- To provide excellent customer service.
- To protect and enhance the environment.
- To deliver value to all our stakeholders.

We will accomplish this using insightful planning, state-of-the-art technology, and effective communication. We are committed to treat our customers and each other with fairness, honesty, and respect. Our commitment will be rewarded through recognition, development, and equitable compensation.

The **Commonwealth Utilities Corporation (CUC)** is an independent agency that is **self-funded** and **regulated** by the **Commonwealth Public Utilities Commission** operating on the islands of **Saipan, Rota, and Tinian**.

Locales of Responsibility

There are 14 islands within the Commonwealth of the Northern Mariana Islands (CNMI). CUC is responsible for providing power, water and sewer services to the three main islands of Saipan, Tinian, and Rota. Presently, Saipan is the only island where CUC provides wastewater treatment services.

Utility Planning Criteria

- Resiliency
- Sustainability & Affordability
- Reliability
- Environmental Compliance
- New Technologies
- Renewable Energy
- Support Economic Growth
- Employee Development

Executive Summary

Since the start of the pandemic in March, 2020, CUC was at that time coming out of the broad impact of Typhoon Yutu, resetting plans for spending FEMA mitigation funds to enhance resiliency and targeting spending to emphasize preventive maintenance initiatives in all three divisions of Power, Water and Wastewater services. That all changed with the Governor's Executive Order on March 23rd, recommending that all government and independent agencies reduce staffing to minimal levels and allow staff to avoid exposure to COVID-19 by staying home till May 23rd and locking down curfew hours and closure of the international airport to restrict access from off-island sources.

This Is Still the Same CUC As In Prior Years

As the Fiscal Year (FY) 2020 ends as of September 30, 2020, CUC finds itself in the same fiscal condition as do other public institutions that have been starved for funding basic services. What is different for CUC from other public institutions in the CNMI is that we are the ultimate safety net for sustaining a reasonably safe and healthy quality of life because of the value and life sustaining purpose of having access to power, that runs both water and wastewater services.

CUC has remolded itself to fit within the capacity of an 80-hour work week that has relied heavily on the support and team spirit of CUC employees to agree to rescheduling work days using flex time, 10-hour work schedules, and no overtime. Management, along with staff support, working with operations has reduced spending, prioritized repair activities, focused on revenue generating opportunities and terminated contractual agreements where it did not damage strategic planning efforts. Capital spending continues in all areas despite the loss of maintenance funding in the short term.

Board of Directors

- Miranda V. Manglona, *Chairperson*
- Weston Thomas Deleon Guerrero, *Vice Chairman*
- Jovita SN. Paulino, *Secretary*
- Matthew J. Holly, *Treasurer*
- Ignacio L. Perez, *Member*

Management

- Gary P. Camacho, *Executive Director*
- William B. Gilmore, *Deputy Executive Director*
- Greg P. Cruz, *Chief Financial Officer*
- Betty G. Terlaje, *Chief of Administration*
- Alvin A. King, *Resident Manager, Rota*
- Evelyn B. Manglona, *Resident Manager, Tinian*

Corporate Core Values

Core values are tied to work performance, commitment to professionalism, practiced daily, promoted without compromise and communicated through action.

Services that Make Up the Commonwealth Utilities Corporation (CUC)



Administration CUC's leadership team is focused on COVID-19 impacts to normal operations, billings and collections, prioritizing purchases, prioritizing work orders from customers, projecting budget allowances for each division, working with our vendors to assure them of payments within a defined allowance period, keeping the Board informed and aware of key metrics and financial health of CUC, and finally, reassuring staff that good safety practices are required, masks are required, and the 80 hour work week is protected with CUC as the ultimate safety net for the CNMI.



Power Generation There are three operational power plants under CUC control. Power Plant #4 is the oldest with five engines that have more than 45 years of service. Power Plants #1 & #2 are similar in age with six in the former and four in the latter with more than 40 years of service. Together, they could generate 68 Megawatts (MW) of power and we are averaging 40 MW per day. Power Plant #3 was decommissioned; however, efforts are in play to re-establish its operation to provide back-up power to the well field surrounding the international airport on Saipan. Presently, Power Generation is in the process of rebuilding three of its engines to provide breathing room to focus efforts on pursuing a new power plant to replace all three facilities using diesel, PV/Solar and other alternative energy systems. For that, CUC must get ready. On Rota, power generation averages 1.2 MW per day at peak load, whereas, Tinian averages 1.9 MW per day.



Power Transmission & Distribution (T&D) Super Typhoon Yutu (2018) was a spring board of opportunity for CUC with the amount of new concrete poles installed, transformers replaced and now, planned improvements to install underground service on both Tinian and Saipan to assure key service providers have access to immediate power reserves as resiliency measures are added regularly to incorporate improved technological equipment, sensing tools, and durable transmission infrastructure. CUC performs T&D services on Rota, whereas, Telesource is the service provider for both power and T&D on Tinian.



Water Division For the first time, 24-hour water was available island-wide in July of 2018, providing water to 60,000 residents in 14 Tank Service Areas (TSA) using 131 wells to meet demand. Since Super Typhoon Yutu, Water Division has been focused on improving preventive maintenance, instituting a new pressure management program, developing a water audit program, pushing a program to exercise and maintain an expanding base of backup generators to assure there is 70% coverage following any environmental event, and responding to the recent emphasis on *per-fluorooctanoic acid* (PFOA)/ *perfluorooctane sulfonate* (PFOS) contaminants in the water system due to firefighting foam materials used at the international airport. Non-revenue water loss is averaging 63% for FY2020 and plans to reduce that loss will be seen as the new programs are rolled out and capital improvements continue to replace out dated asbestos concrete pipes which is the bulk of the old water supply system.

The Federal Emergency Management Agency (FEMA) is on track to fund the installation of backup generating units and containment facilities to assure power will be available for a minimum of 70% of the island. Tinian received a new power backup unit for its primary well head and Rota has two new generating units purchased by CUC.



Wastewater Division Saipan is presently the only island with a sewage treatment. Tinian and Rota rely exclusively on septic systems. Funding to upgrade both wastewater treatment plants on Saipan to put them close to their original design condition was released by the Environmental Protection Agency (EPA) at the end of FY2020 and bidding to begin these improvements should be out by the second quarter of FY2021. Efforts to consider wastewater treatment on Tinian may come down to the United States military with potential interest and new commercial development in downtown San Jose, Tinian. New homesteads being authorized on Tinian may also drive a decision for development of a modular treatment process for each homestead. Sewer connections are growing as CUC finds new areas in existing neighborhoods to connect and as new home construction is completed for properties getting FEMA assistance for replacement housing. For Rota and Tinian, CUC does not provide wastewater treatment services at this time but there is interest developing to introduce a small modular system for each homestead.

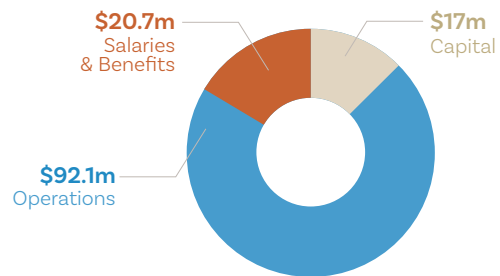
CUC's Finances

The **Commonwealth Utilities Corporation (CUC)** has a FY2020 total budget of **\$129,844,214**, which represents a **6.3%** increase over 2019's approved budget. As the pie chart at the right indicates, the bulk of expenditures continue to lie with the **Power Division** that includes **Power Generation and Power Transmission & Distribution**. Two thirds of Power Division's budget reflect fuel costs totaling **\$58.6 million** out of **\$90.4 million** of planned spending. Fuel expenditures to date with the impact of COVID-19 on tourism are only **\$37.9 million** as of the end of September 2020. **Power Generation** is spending considerable amount of budget (**\$10 million**) on the rehabilitation, repair and maintenance of its 40 plus year old engines. Plans to proceed with a new power plant proposal are developing as well.

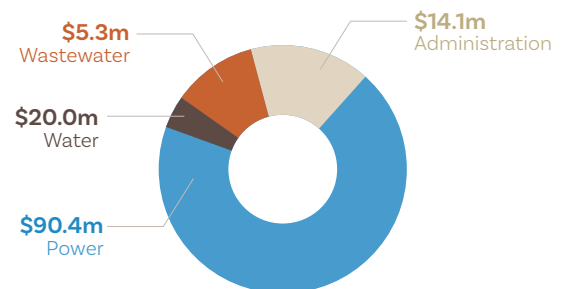
The **Water Division** is also spending approximately **\$9 million** out of its **\$20 million** budget on Capital Improvements to its Water and Wastewater infrastructure assets. Incorporated into the Water budget are the Water and Wastewater Engineering Division and the Laboratory Section. Engineering oversees all capital project activities of the named divisions, Stipulated Order 1 Federal Court requirements, and the implementation of a water audit that is intended to help determine the cause and correct the problems allowing for non-revenue water loss presently at 63% of production. Water Lab performs daily, weekly, and monthly tests of water to assure wells are clear of *E. coli*, turbidity and other potentially harmful substances. Despite the low capital expenditures for FY2020, those funds will be used for on-going prioritized grant funded projects within a seven-year expenditure authorization.

The **Wastewater Division** is the smallest area of expenditure at this time; however, capital spending in FY2021 will grow dramatically to bring the two wastewater treatment plants, *Sadog Tasi* and *Agingan*, back up to their original design parameters so that CUC will be prepared for the projected growth in resort and tourism activity anticipated over the next five years. In addition to treatment, Wastewater handles all collection system repairs and pipeline replacement programs supported and funded by EPA. At the present time, CUC is looking to extend sewers into previously unsewered areas of Saipan to eliminate septic systems that may need replacement, renewal or rehabilitation. Coming off a year where CUC's revenues were depleted and yet the team managed to avoid severe austerity measures through an organized effort to communicate the need to all levels of the organization, switching overtime for flex-time where possible, and increasing planning efforts to incorporate deliberate and measured work order requests that both contained and prioritized spending in all divisions. CUC must operate as a private business, and as such, must expect payment from customers just as any other private sector entity does because it is self-funded and does not accept appropriations from the local legislature.

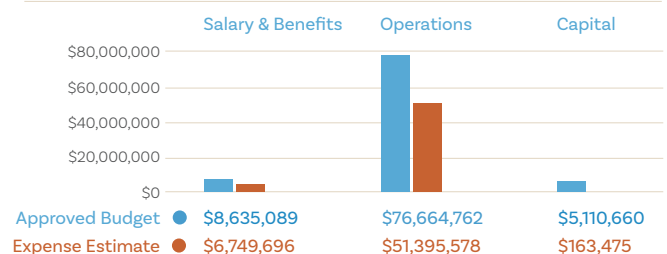
Approved FY2020 Budget (All Divisions)



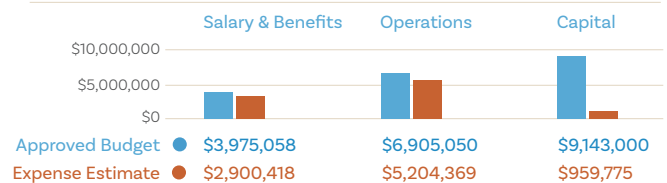
Approved FY2020 Budget



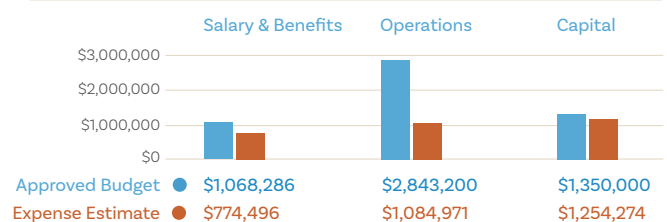
Power Generation and Transmission & Distribution (T&D)



Water Operations Budget



Sewer Operations Budget



What's Next for CUC?

CUC's Strategic Vision

Fiscal conditions rolling into FY2021 are very weak with collections down by 40 to 50 percent. Reimbursements from Federal Emergency Management Agency (FEMA) for mitigation activity and other grant support for capital improvement projects are providing some additional financial support to carry operations throughout the year where it is eligible. Regardless of the financial constraints, CUC is working with the U.S. Department of Energy to pursue a plan to proceed with the replacement of the power generation system which will provide a sizeable savings for a good number of years. The savings will offer an opportunity to shift emphasis to water to gain more traction in reducing its non-revenue water loss. There is also interest in water reclamation strategies that can improve the handling and reuse of treated water to reduce the demand on well production.

FEMA Funding

There continues to be a sizable funding commitment by the FEMA to continue efforts to raise resiliency in the power distribution, water and wastewater mitigation plans on the island of Saipan for backup power generation. CUC plans to install a new 1.5 MW mobile customized generating unit at Power Plant #3 to power the entire Isley and Obyan Well Field surrounding the entire international airport and possibly the airport terminal if their generating station fails to start. CUC and the Commonwealth Ports Authority are currently in discussion about the property of where the Power Plant #3 is situated. This project will be funded by FEMA Hazard Mitigation Grant Program.

Plans for Tinian to extend underground power from Telesource Power Plant to the Tinian Health Center (hospital) are also proceeding to ensure critical facilities are hardened for future typhoon events.

EPA Funding

Additional funding from EPA has been received as anticipated from the Additional Supplemental Appropriation for Disaster Relief Act (ASADRA) grant authorized by the U.S. Congress with the support of U.S. Congressional Delegate Gregorio "Killili" Camacho Sablan totaling \$10.084 million which are targeted primarily for wastewater treatment plant rehabilitation for both Sadog Tasi and Agingan and sewer main rehabilitation. The intent is to return them to their original design specification and operating condition so that CUC can get an additional 25 to 40 years of life out of those two critical facilities. The standard annual funding of \$7.2 million will go for prioritized project requirements that have been scored and authorized by Bureau of Environmental and Coastal Quality (BECQ). During FY2020, CUC and BECQ worked together to reprioritize the multi-year capital funding list which is based on the original Water and Wastewater Master Plans for Saipan, Rota, and Tinian.

New Power Plant #1

CUC is concluding a lengthy preventive maintenance process to rebuild three of its large 8-13 MW gensets to extend their useful life to provide the transition time needed to build a new power generating facility. Consideration is being given to pursue one of three options: an IPP (Independent Power Producer) to build, operate and maintain for 20 years with turnover to CUC at that time; bond issue to cover the design, construction and roll out of plant; or a grant issued through one of the federal agencies. This initiative is a must for CUC just because of the significant expense and lack of reliability of existing equipment.

Rates and the Potential Failure to Invest in Critical Utility Operations

Independent utilities, such as CUC, rely fully on their own income based on a rate structure to fund the full cost of operations, maintenance, capital spending, fuel for its generating engines, and potential reserves. The income stream is defined by a rate structure built for each utility enterprise of power, water and sewer. Each is a separate utility that relies on coordination of administrative systems funded from each utility as shared overhead, economies of scale, backup support where charges are shifted between utilities based on hourly costs, and maintenance funding to assure our customers and EPA that we are serious in protecting the significant investment they have made and continue to make in CUC's power, water and wastewater systems. For EPA, this reflects \$160 million since 2010 with \$17.42 million in FY2021 and \$7 million more per year thereon.

The current financial plans to fund CUC's Master Plans and replace assets paid by both EPA and CUC investments focuses on correcting obsolete systems and promoting resiliency.

The present rate structure for all three utilities does not reflect the true cost of service for running an efficient and reliable utility enterprise. Rates are outdated and understate actual cost of services. Power, water and wastewater have been underfunded for years and barely cover their operational and local capital needs. The biggest area where it's lacking is in maintenance funding which threatens water and wastewater funding from EPA if CUC continues to ignore their obligation to protect the investment EPA is making in CUC.

The CNMI Office of Public Auditor's Report on CUC's Organizational Structure, dated March 17, 2017, stated that—

"To ensure that CUC continues to be an autonomous agency, independent of all appropriations, the legislature mandated that CUC be managed in a business-like manner with the ability to establish and adjust utility rates to sufficiently recover the full cost of operation and delivery of utility services. PL 4-47 identified such cost to include an adequate financial reserve for debt service and replacements of obsolete or damaged equipment."

Any change in this understanding of full cost recovery that includes funding for maintenance could have a chilling effect on CUC's SO1 and SO2 Federal Agreements that may have serious implications.

Feasibility Study on New Wastewater Treatment Facility in Northern Saipan

Despite the downturn in tourism due to the COVID-19 pandemic, there is life in the development arena and it appears to be happening for new resort projects in the northern portion of Saipan. In order to protect the existing capacity of the Sadog Tasi WWTP for the current approved resort properties and for any further infill of the Garapan and Lower Base areas, CUC needs to consider the possibility of installing a modular wastewater treatment system to support any new large property development(s) near Marpi.



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