

IN THE PUBLIC UTILITIES COMMISSION
FOR THE
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Petition of the
Commonwealth Utilities Corporation
For Rate Relief in its Power, Water and
Wastewater Utilities

DOCKET 25-__

CUC's Testimony of:
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Subject: Testimony as to the
Reasonableness of Proposed Power,
Water and Wastewater Rate Plan

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Prefiled Testimony of
Kevin O. Watson
Executive Director
Commonwealth Utilities Corporation

for

Section I – Introduction and Background**Q. Please state your name, title, and responsibilities.**

A. My name is Kevin O. Watson, and I am the Executive Director for the Commonwealth Utilities Corporation ("CUC"). I am responsible for the overall management of the electric, water, and wastewater operations, including planning, operations, financial oversight, and ensuring compliance with applicable regulatory requirements.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the following information for the CPUC:

- A general overview of CUC's mission and background on the utility
- A description of CUC's overall operational performance
- An overview of CUC's financial condition and challenges
- A discussion of CUC's capital needs
- An overview of CUC's net metering program
- A discussion of CUC's rate and tariff issues and objectives
- A discussion of CUC's policy and strategic initiatives

Q. Please describe your background and work history with CUC.

A. I received my MPA in Public Sector Management from California State University Northridge and my BS in Business Management from the University of Phoenix. I have over 40 years' experience managing utilities, including 20 years in California public utilities and 14 years in the private sector. I have worked in utilities all across the USA and overseas, including Egypt, where I trained hundreds of operators and engineers. My CV is presented in **Appendix A** to this testimony.

I started with CUC January 6, 2023 as the Drinking Water and Wastewater Division Manager. In June of 2023 I was promoted to Deputy Executive Director and on June 1, 2024 I became the Executive Director.

Utility Overview

Q. What is the mission of CUC?

A. As a government-owned utility, CUC's mission is to provide safe, reliable, and affordable electric, water, and wastewater services to the CNMI community. CUC is not driven by profit but instead by our commitment to public service, and the staff works every day to balance the affordability of our service with the long-term sustainability of our infrastructure.

Q. Please provide an overview of the utility.

A. CUC serves approximately 17,450 electric customers, 10,500 water customers, and 2,800 wastewater customers on the islands of Saipan, Tinian and Rota. CUC does not provide wastewater service on Tinian and Rota. CUC's electric system includes 3 power plants on Saipan with available generating capacity of approximately 40 MW, plus 12 MW of generating capacity rented from Aggreko. CUC's Tinian power plant provides 18.2 MW of capacity, while the Rota power plant provides 7.8 MW of capacity. CUC Witness Richard Cano will discuss the overall status and condition of CUC's generation system.

The Aggreko capacity began operation in late 2019, due to a chronic lack of funds available to CUC to maintain the engines in its existing plants. This lack of funds was caused primarily by the inability of the Commonwealth Health Care Corporation, beginning in 2011, to pay its bills to CUC. As of July 2025, the CHCC accounts Receivable balance is approximately \$70,000,000, funds CUC did not have to devote to critical maintenance and upkeep of the engines. Subsequent legislation has reduced this to approximately \$30,000,000. CUC witness Betty Terlaje discusses the CHCC A/R balance and its effect on CHCC finances in greater detail.

To put CHCC A/R balance in perspective, CUC's annual power division non-fuel operating expense is approximately \$54 million in fiscal year 2026. This means that CHCC's A/R balance represents approximately 1.3 years of non-fuel operating expense! The lack of funds for power plant maintenance directly resulted in the failure of several of CUC's engines on

1 Saipan. As a result of this, in order to avoid rotating blackouts on Saipan in 2019, CUC was
2 compelled to rent 12 MW of generating capacity from Aggreko.

3
4 Regarding CUC's water system, on Saipan and Tinian the primary source of water is wells,
5 which tap into fresh water aquifers that lie below each island. Saipan utilizes several sources
6 to supply the fresh water needs of the island, which is estimated to average approximately 10.0
7 mgd. These sources include approximately 138 production wells, 1 fresh water spring and 2
8 Maui wells. In addition to the production and treatment facilities, Saipan's water system
9 includes approximately 14 water storage tanks and 380 miles of water mains. Tinian
10 possesses approximately 1 mgd of capacity, with the primary source as a Maui well, and
11 approximately 33 miles of water mains. All connections in Tinian are provided with 24 hour
12 water service. Rota residents are serviced by one spring, with a capacity of 0.56 mgd. There
13 are also three wells. All connections on Rota are provided with 24 hour water service.
14 Additionally, Rota contains one reservoir, a.k.a. storage tank, and 60 miles of water mains.

15
16 Unlike the water system, wastewater service is limited to the island of Saipan. Saipan's
17 wastewater system consists of 37 lift stations and two wastewater treatment plants. The
18 Agingan WWTP has a capacity of 3.0 mgd and was constructed in 1992, while the Sadog Tasi
19 WWTP has a capacity of 4.8 mgd and was constructed in 1994. There are approximately 65
20 miles of sewer lines in service at this time. Further background on CUC's water and
21 wastewater system can be found in the testimony of Rodolfo "Steve" Rodriguez, CUC's Deputy
22 Director for Water and Wastewater.

23
24 **Q. How is the utility governed?**

25 A. CUC is government-owned and is overseen by a Board of Directors, who set general
26 operational and managerial policy for the Utility. CUC is subject to regulation by the CPUC. To
27 the best of its ability, CUC makes decisions with the public interest in mind and in alignment
28 with government policy objectives.

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31 **Current Operational Performance**

1 **Q. How is the utility performing in terms of service reliability and compliance?**

2 A. Overall, I would characterize CUC's service reliability as stable, although constant challenges
3 remain due to the age of CUC's infrastructure. CUC has been successful in meeting most
4 regulatory requirements for safety and environmental compliance, and staff is actively
5 addressing areas where upgrades are needed.
6

7 **Q. What are the utility's most critical challenges at present?**

8 A. CUC's most significant challenges include aging generating units, fuel supply volatility, water
9 distribution system loss, and inflow/infiltration in wastewater lines. As I indicated above,
10 primarily due to non-payment of utility bills, CUC face financial constraints that limit the speed
11 at which capital repairs and improvements can be implemented.
12
13

14 **Financial Condition**

15
16 **Q. How would you characterize the financial condition of the utility?**

17 A. I would describe CUC's financial condition as extremely challenging at this time. CUC's
18 revenues are derived primarily from customer rates. CUC maintains cash reserves and debt
19 service coverage in line with bond covenants, but the utility's financial position is strained by
20 rising costs of fuel, chemicals, labor, and maintenance. CUC desires to maintain as affordable
21 a rate structure as possible, so expenses are continually scrutinized and minimized.
22

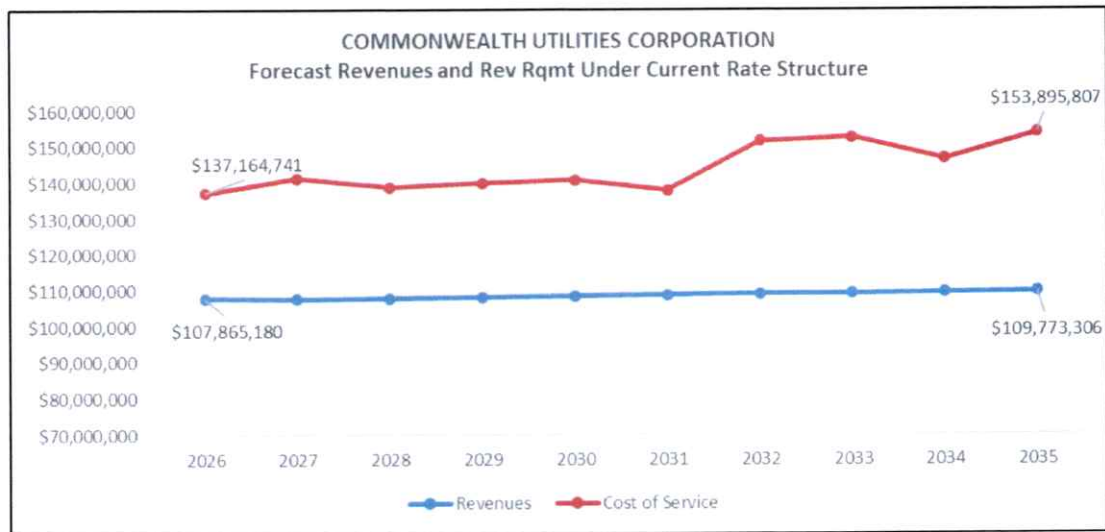
23 The comprehensive utility rate study prepared by Economists.com and referenced in their
24 testimony outlines CUC's financial condition and overall financial challenges in great detail.
25 However, there is one chart that more than any other in this 180-page document serves to
26 illustrate the challenges CUC is facing. This chart is reproduced as **Chart KOW-1**. It shows
27 that CUC's calculated cost of service in the fiscal year 2026 is estimated to be \$137,164,741
28 while its revenues are \$107,865,180. This represents a net loss of \$29,299,561. The chart
29 forecasts revenues and expenses for the next ten years, and the net loss is similar to or in
30 excess of this amount every year. No business can sustain this level of losses on an ongoing

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basis. Further, this does not even take into account the continual challenges CUC has faced in collecting payment from its large customers like CHCC and the central government.

The testimony of Economists.com and Betty J. Terlaje address CUC's current and forecast financial performance in more detail. I agree with their assessment and conclusions.

Chart KOW-1



Q. What is your proposed solution to this financial crisis?

A. I recommend that the CPUC adopt the rate plan presented in CUC's rate application. Rates must reflect the true cost of service in order to sustain operations. Without immediate action from the CPUC in adopting the proposed rate plan, CUC is facing a catastrophic financial crisis. This includes an inability to fund deferred maintenance, unreliable service levels, and non-compliance with environmental and safety regulations.

Capital Investment Needs

Q. What are CUC's major capital investment needs?

A. CUC must invest in power generation upgrades, water pipeline replacements, wastewater treatment compliance projects, and modernization of control systems. These investments are

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critical to maintaining reliability and meeting regulatory requirements. CUC recently issued a request for proposal (RFP) for a solar battery energy storage system on Saipan, Tinian and Rota. The RFP requests bids for approximately 60 MW of solar capacity with 48 MW and 192 MWH of battery energy storage (BESS) on Saipan, 10 MW of solar capacity and 8 MW and 32 MWH of BESS on Tinian, and 3 MW of solar capacity and 2 MW of BESS on Rota. The RFP requests that the electricity be provided on a purchased power arrangement where CUC only pays for the power delivered over a 25-year period contract period. CUC witness Yvonne Ogumoro will discuss the Solar BESS system and its benefits to the CUC system and the people of the CNMI in greater detail.

CUC's witness Rofolfo Rodriguez outlines CUC's water and wastewater identified estimated capital needs, which total approximately \$630,025,097. Many of these projects are required to meet stipulated order requirements.

Q. How will these projects be funded?

A. Funding sources include revenue bonds, government development loans, federal grants, and ratepayer contributions through approved cost recovery mechanisms.

As outlined in the testimony of Economists.com, CUC's proposed rate plan includes the issuance of \$62,000,000 in long-term debt to fund power system CIP. However, the water and wastewater CIP is expected to be entirely grant funded. Given CUC's current financial condition, it would be very difficult for CUC to obtain financing to fund these projects on its own, not to even mention the magnitude of the rate increases that would be required to service the debt associated with these projects.

Net Metering Status

Q. What is the status of CUC's Net Metering program today?

A. Net Metering was suspended over a decade ago due to cost-shifting, revenue loss, and lack of grid controls. The CNMI government asked CUC to reopen rooftop solar connections, but

1 before doing so CUC must ensure fair cost sharing, ensure grid reliability, and secure funding
2 for the needed grid control systems.
3
4
5

6 **Q. Why does CUC seek reform before reopening Net Metering?**

7 A. Full-retail credit lets solar customers avoid paying for grid infrastructure they still rely on. That
8 shifts costs onto non-solar customers and undermines revenue recovery while grid needs have
9 increased. The fact that base rates have not changed since 2012 only magnifies the problem
10 further.
11

12 **Q. How many megawatts of customer-sited solar are on the system, and what is expected
13 soon?**

14 A. As of July 2025, CUC's customers have installed approximately 6.4 MW of solar, and the
15 CNMI government is expected to add another 1.5 MW. Within a year CUC expects to more
16 than as 7.9 MW in total, or approximately 20% of Saipan's 40 MW peak demand.
17

18 **Q. When all of the net metering load is energized on Saipan, what will be the loss of Base
19 Rate revenue from net metering?**

20 A. As shown on **Table KOW-2**, CUC is forecast to lose between \$1.4 million and \$1.7 million
21 annually in Base Rate revenue from net metered customers. The actual amount depends on
22 the amount of energy produced by the net metered solar customers.
23
24

Table KOW-2

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CUC Net Metering Customers Analysis of Rate Impact

Class	Number	kW	kWh at Capacity Factor			Base Rate \$/kWh	Base Rate Revenue Loss at CF		
			18%	20%	22%		18%	20%	22%
Residential	57	313.2	493,854	548,726	603,599	0.097	\$47,904	\$53,226	\$58,549
Commercial	29	1,652	2,604,645	2,894,050	3,183,455	0.113	294,325	327,028	359,730
Government	13	137	215,683	239,647	263,612	0.124	26,745	29,716	32,688
New Customers added by Government Legislation									
CHCC	1	176	277,517	308,352	339,187	0.113	31,359	34,844	38,328
PSS ¹	20	4,100	6,464,880	7,183,200	7,901,520	0.113	730,531	811,702	892,872
New Govt.	10	1,479	2,331,456	2,590,507	2,849,558	0.124	289,101	321,223	353,345
Totals	130	7,856	12,388,035	13,764,483	15,140,931		\$1,419,965	\$1,577,739	\$1,735,513

Q. Please describe the reforms to the existing net metering program under consideration by CUC.

A. CUC is considering a fair, equitable charge for maintaining the grid due to solar implementation. Details are still under review and subject to change. Possible net metering legislation may be forthcoming. CUC anticipates filing a revised net metering program with CUC later this year

Q. Why is CUC concerned about high penetration of net-metered solar right now?

A. Because customer-sited PV is approaching a level that materially changes how CUC's grid operates. As stated above, within a year CUC expects as much as 7.8 MW of customer PV, which represents 20% of Saipan's 40 MW peak. CUC also currently lacks the sophisticated grid control and management systems in place at other utilities with high penetration of roof top solar like Hawaiian Electric, and most California and Arizona electric utilities, such as supervisory control and data acquisition (SCADA), advanced distribution management systems (ADMS), distributed energy resource management systems (DERMS), which makes managing two-way power flows associated with high penetration of customer installed solar more challenging. Without reform and basic controls over the net metering program, CUC faces a combination of reliability risks and higher costs.

Q. If Solar penetration increases to the levels you reference above, what will be the effect on CUC's grid?

A. CUC is likely to experience a number of problems on its electric grid, including but not limited to:

- Load shape and ramping ("duck curve") midday net load collapses, followed by steep evening ramps forcing fast-start capacity and require more operating reserves.
- Feeder voltage regulation stress, reverse power flow from PV which raises voltage at feeder ends.
- Thermal and backfeed limits, conductors, transformers, and fuses that may result in overloads in reverse direction up to the substation bus.
- Protection and safety coordination, inverter-based solar energy with low fault current that now must ride through many disturbances (IEEE 1547-2018), which can blind traditional overcurrent schemes.
- Power quality excursions, rapid irradiance changes (cloud transients) which cause voltage flicker; aggregated inverter harmonics and rapid voltage swings stress sensitive customers/equipment.
- Operational visibility and controls gap. CUC's grid was designed for one-way flow from power plants to customers. With high solar penetration, CUC must perform feed time-series hosting studies and feeder-level telemetry/controls to manage overload/voltage/protection interactions.

The testimony of Lee Leito and Jonathan Camacho will discuss the effect of high customer solar penetration on CUC's grid and describe the type of equipment CUC will need to install to provide high quality power to CUC's customers and ensure the safety of our line crews.

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Rate Case/Tariff Issues**Q. What are the primary drivers of cost increases in this filing?**

A. The testimony of Economists.com provides significant detail on CUC's need for, and factors behind, its proposed rate plan. However, I would characterize the primary factors driving the rate plan as follows:

- CUC's current rates do not cover operating costs, and a rate adjustment is needed to stop the negative cash flow
- CUC's operating expenses are forecast to continue to increase in the next five years, and CUC's rates must cover these increased costs
- CUC requires significant capital investment in its power, water and wastewater systems. CUC proposes issuing \$62 million in debt to fund electric system improvements. The debt principal and interest would be covered by the proposed rate plan. CUC assumes that all water and wastewater CIP is covered by grants, but to the extent that capital expenditures must be funded by CUC, rates must be sufficient to cover such expenses.
- CUC must cover uncollectibles and payments to the Office of the Public Auditor
- CUC proposes phasing out the government rate over a 5 year period and implementing commercial charges for government customers.

The bottom line is that CUC requires rate increases for the very same reasons that utilities all across the USA are implementing increases – to cover increased costs, make necessary capital improvements to the system, and assure that cash flow is sufficient to maintain financial health.

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Q. How will customers be affected, and what measures are being taken to mitigate impacts?

A. Economists.com's testimony outlines the impact on customers of CUC's proposed rate plan. For brevity's sake I will not reproduce their schedules here. However, I do want to emphasize that CUC is proposing a five year implementation of its proposed rate plan. This will minimize the impact of the rate increases and allow families to gradually adjust their budgets over a period of several years to meet the increased obligations. CUC proposes this even though it means that operating losses will continue for the next three years. CUC is willing to make this sacrifice for the sake of minimizing the burden of this rate plan on ratepayers.

Policy and Strategic Initiatives**Q. What long-term strategies is the utility pursuing?**

A. This question could be the subject of an entirely different set of testimony. However, I will briefly summarize some of our strategies as follows:

- CUC is moving toward revising its net metering program, which includes issuing an RFP to acquire utility scale solar with BESS on Saipan Tinian and Rota
- CUC seeks to fund and encourage grid modernization
- CUC seeks to reduce water losses and conserve this precious and diminishing water resource
- CUC intends to fulfill all obligations of the stipulated order
- CCUC intends to improve both the quality and reliability of water service
- CUC intends to ensure its system takes appropriate resilience measures to adapt to climate risks such as storms and droughts.

Closing Statement

1 **Q. Do you have any final comments for the CPUC?**

2 A. Yes. CUC is committed to delivering safe, reliable, and affordable services while planning for
3 long-term sustainability. The requested rate plan is essential for CUC to continue fulfilling its
4 mission. I thank the CPUC for its oversight and support.
5
6

7 **Q. In closing, we have a couple of housekeeping questions. Did you prepare this**
8 **testimony and exhibits, or were they prepared under your supervision and control?**

9 A. Yes.
10

11 **Q. Are the statements in your testimony true and correct to the best of your knowledge,**
12 **information and belief?**

13 A. Yes.
14

15 **Q. If you were testifying live, under oath, today, would you say what appears in this, your**
16 **prefiled testimony filing?**

17 A. Yes.
18

19 **Q. Does this conclude your prefiled testimony?**

20 A. Yes, it does. However, we reserve the right to make any necessary adjustments during the
21 course of these proceedings.
22

23 **DECLARATION**
24

25 The proceeding prefiled testimony, and the exhibits referred to therein, are true and correct to the
26 best of my knowledge, information and belief. Signed under penalty of perjury.
27

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29 
30 Kevin O. Watson

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9 September 12 2025

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