State of Kosrae

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Federated States of Micronesia

**KOSRAE UTILITIES AUTHORITY**

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*November 08, 2017*

*Honorable Lyndon Jackson*

*Governor, Kosrae State Government*

*Kosrae State, FM 96944*

*Dear Governor Jackson,*

*I am honored to submit to you on behalf of the KUA Board of Directors and staff the KUA Annual Reports for Fiscal Year 2017 as mandated by Section 7.1212 (2) of the Kosrae State Law 5-38. The submission includes an Operation Summary Reports with unaudited Financial Statement Summary Reports for the fiscal year ending September 30, 2017.*

*The operation during FY2017 proceeded fairly smooth with occasional power interruptions and downtime problems with the aging engine/generator units and overhead distribution lines due to weather condition. Overall, KUA has maintained the power services to the island with no major power problems that critically affected the island. The management and the Board envisage that with the actual commencement of the Power Improvement Projects funded by JICA/Japan Gov't and undertaking procurement of new Equipments and Energy Master Plan funded under the WB grants, significant power improvements will be realized after completing these projects to minimize power problems experienced during the past fiscal years.*

*Major tasks and activities during FY2017 has been focused more on the ongoing Energy Improvement Projects to increase renewable energies into the power system and improve system efficiency to achieve energy targets stated in the State SDP and Nat'l Energy Plan and Policy. These improvement projects will significantly contribute in moving toward meeting the energy goals for Kosrae State as well as FSM. The ongoing construction of the new Power Plant with two new gensets, Upgrading of the Primary Distribution Power Lines in Lelu, Installation of new Underground Power Cables at Airport/Dock Area ad LED Street Lights Installation will greatly enhance the existing Power System. Additional renewable energies are also in the pipelines funded from the World Bank and Green Climate Fund to increase capacity of the Solar PV into the Grid-lines and other renewable sources to reduce fuel required for the operation.*

*The fiscal operation has been stable and is summarized in the attached unaudited Financial Statements Reports for Fiscal Year 2017. These unaudited figures represented the results of operation during the past fiscal year. The operating revenues for FY2017 were $2,537.680.69 with other non-operating income of $46,865.98 resulted in total revenues of $2,584,546.67 and total operating expenses of $2,604,111.80 resulting in net loss of ($19,565.13). The bulk of the operating revenues, approximately 53.9% were spent on fuel and the remaining were Personnel Cost at 18.2%, Depreciation expenses at 14.5%. Operational and Administrative expenses at 8.7% and Maintenances at 4.7%. The actual revenues were 90% of the FY2017 approved budget projection due mainly to overstated projected fuel prices with unrealized collection of fuel adjustment charges and revenues collected is slightly increased by 3% compared to the previous fiscal year. The total expenditures were increased by 13% due mostly to fuel prices and also other operating expenses. KUA has continued to depend on outside donors to fund major projects to improve aging power facilities and fixed assets. The management has continued to control and monitor expenditures to ensure that the expenses are justified and operation is within the approved budget. The attached summary Financial Statements are provided for your review and information.*

*The number of active customers served during FY2017 were slightly increased by approximately 2% from 1,785 from previous fiscal year to 1,823 numbers of customers. The customers based is comprised of approximately 76.8% residential with total energy sales of 38.6%, 13.7% commercial customers with kwh sales of 30.8%, 4.5% Kosrae State Government with sales representing 17.4%, 4.4% non-state government accounts with kwh sales of 7.8% and .6% industrial with 5.4% kwh sales. The commercial and residential sales had a slight increase in sales and the other customer sectors had declined in sales compared to the previous fiscal year. The total energy sales to all customer sectors were 5,421,105, approximately 1.8% increase in total energy sales from the previous year. The Cash Power Meter customers consisting of 83.6% contributed to the steady cash flow to support the daily needs of the operation.*

*The timely responses and services to customers request were affected by heavy equipment problems for repairs, shortfall of inventory materials and extensive times spent on issues relating to the major projects and activities currently taken place. The staff with the Board support have taken action to procure one unit Bucket Truck and one unit Auger Truck to support the services and materials required to meet these customers request and to support the ongoing projects.*

*Major Projects and activities undertaken during FY2017 with support from the Kosrae State Gov't, FSM National Gov't and Donor Countries are as follows:*

*1. The Energy Improvement Projects funded by JICA/Japan has commenced during FY2017. The Ground Breaking for the new Power Plant took place on March 8, 2017 and actual*

*construction had followed after delivery of the building materials . More than 50%*

*completed on the building structure at the end of the current fiscal year. The two new gensets*

*were tested in Japan with attendance of the KUA Operation Manager and delivery will be around early November 2017. Commissioning of the new Power Plant is still anticipated*

*within the contractual schedule during March or April of 2018. The other components of the*

*JICA projects are the installation of the two underground cables at airport/dock area and the*

*Lelu Power Distribution Line Upgrades which will start early part of the new fiscal year,*

*2018. These improvement projects are expected to contribute to the system efficiency to support*

*targets for the state energy plan.*

*2. The Management and Board have continued to work with FSM Steering Comm. and World Bank for the procurement and acquisition of equipments, street lighting, hardware and other components funded under the grant. The approved components under the grants are one unit genset with 600kwp, 400 LED Streetlights, 500kvp capacity Transformer, one unit Bucket Truck and funding for a State Energy Plan. Proposed Projects for the unallocated fund for Kosrae are also submitted for consideration. The bidding process for some of the approved components were finalized and contracted out and some are still in the process for bidding. The genset was awarded to Energy Power System Australia and delivery for this unit is 13 months which will be ready and shipped at the end of next year 2018. The Streetlights were awarded and contracted to South Austral pty, Australia and ETA is Oct. 30, 2017. The Transformer was awarded to Dateline Exports Inc., Oregon and already delivered to Kosrae. The Bucket Truck is still in the bidding process and selection will be awarded after bids are received and evaluated. These projects will contribute to the system efficiency of the existing power system.*

*3. The energy projects for Kosrae submitted for the Green Climate Fund (GCF) include 13.8 kV Distribution Network for re-routing of new distribution lines and 500kvp Solar PV and associated Integration/Control System. The ADB as the GCF accredited entity for the FSM Energy Projects has approved TA grants to assist with the project development of the submitted projects. The TOR were prepared and issued during June and hopefully contract can be negotiated and concluded end of September with contract signing in October 2017. The appraisal of the submitted projects is anticipated to commence soon after contract is finalized and approved. This Kosrae energy project will complement the power infrastructure for proposed inner road under the Coastal Erosion Plan, relocation of distribution network at eroded road sites and increase Solar PV capacity into the power gridlines.*

*4. The other priority Projects that are under review for funding from outside donors during the FY2017 are storage system facility for the renewable energies to stabilize the power system, integration and control system, resizing of network transformers to improve system efficiency, harnessing waves and hydro power and capacity building program for the employees. The staff is seeking funding thru EU, World Bank and other sources to finance a storage system facility and resizing of the transformers are considered under the unallocated WB grants for Kosrae. These projects are essential to improve the operation.*

*5. The series of consultative meetings between KSG and KUA has continued to discuss and resolve pending issues with the Utwe Water System concerning the water leakages on the main pipes and low water pressures before transferring the system to KUA. Other pending issues are the Transfer Agreement between the two parties and proposed amendments for the existing legislation creating KUA to authorize setting water rates. The initial working capital of $300k was approved to start off the operation, but drawdown of fund is pending awaiting endorsement of the Transfer Agreement. Two water specialists were recruited during FY2017 to manage the Utwe Water System and to assess the other public water system at the other municipalities and recommend improvements for these water system.*

*The World Bank Consultant contracted by Pacific Power Association to assess training priority needs of the Pacific Island Utilities for the increase use of renewable energies by the utilities in all levels of policy development, renewable energy regulation, utility management and O&M to minimize problems and improve operation. The management and supervisors had reviewed and identified type of trainings that KUA need for the development of renewable energies that KUA proposes for the power system and funds have to be secured from the donor countries to implement these trainings. Also the Hybrid Power System by JICA with partnership with FSM has commenced for the capacity building trainings for the FSM Power Utilities to upgrade skill levels in areas of hybrid power system.*

*The merchant services with Bank of Guam was established during the fiscal year to provide convenient payment services to customers by utilizing credit/debit cards. This merchant service has made it easier for Credit/Debit Cards holders to pay billings and cash power need for the customers without payment fees. Since the initiation of this merchant services, increasing number of customers have been using this card payment services for their power needs. For the on-line payment program to promote and contribute remittances to the island, KUA has continued the program thru PayPal and increasing number of customers are using the on-line payment services thru KUA website to assist families here with their power needs.*

*The two centralized Solar PV System and five PV roof top sites have continued to contribute to the power demand for the island. The average energy penetration into the gridlines mainly from the two centralized PV system is approximately 6% during the fiscal year with average fuel savings of approximately 4% per month. Additional renewable energy sources are anticipated after completion of the WB State Energy Plan to identify potential sources to be tapped and approval of GCF proposed renewable energy projects submission for funding. The new Power Plant with the new genset are expected to contribute significantly to the fuel savings for utilizing the high efficient engine units.*

*The construction of the new Power Line Extension are pending awaiting funding to be available for the procurement of hardware and other materials for the project. The funding for the Okat/Melo and Malem Inner Road Line Extension was approved but processing of disbursing the funds to purchase materials have been delayed. The survey for the assessment cost to restore the Utwe line extension has not been made to determine the funding needed for the project. These are pending Line Extension Project that will be implemented after securing the fund.*

*The staff have continued to conduct energy auditing to assist customers to determine power consumption and recommend efficiency measures to reduce cost by using high efficient appliances and equipments, efficient lightings and proven practices and methods of managing their power consumption. Proposal for outside funding to improve public building lightings thru GEF were also considered to be implemented for all Government buildings to reduce power consumption and save cost.*

*The KUA Board of Directors and staff believe that these highlighted activities and projects are essential measures in achieving the goals and objectives stated in the Kosrae Strategic Development Plan and to lead toward achieving at least 30% of renewable energies and 50% system efficiency improvements by year 2020.*

*I would like to conclude this report by expressing our appreciation to you and the* *Leaders of the Kosrae State Government for the continued support and assistance rendered during fiscal year 2017. We are looking forward to continue working with you, the Kosrae State Legislature and the respective Kosrae State Leaders to ensure that KUA continues to provide safe, reliable and satisfactory power services to the people of Kosrae and to support the developmental goal of the Kosrae State Government.*

*Thank you and should you have any questions concerning other aspects of the KUA operation, please let us know.*

*Respectfully Submitted,*

*Fred N. Skilling, General Manager*

*Kosrae Utilities Authority*

 *Cc: Speaker Tulensa Palik, Kosrae State Legislature*

 *Lt. Gov. Carson Sigrah*

 *Members of the KUA Board of Directors*