



State of Kosrae
Federated States of Micronesia

KOSRAE UTILITIES AUTHORITY

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November 18, 2020

**Honorable Carson Sigrah
Governor, Kosrae State Government
Kosrae State, FM 96944**

Dear Governor Sigrah,

I am honored to submit to you on behalf of the KUA Board of Directors and staff the KUA Annual Reports for Fiscal Year 2020 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, 2020.

The FY2020 operation has been stable financially with the continuing efforts to provide satisfactory power services to the island and its customers. The challenges and critical issues experienced to affect the operation were minimal but continue to observe the impacts to adversely affect the operation caused by Covid19 pandemic. The management and the staff are prepared to control if any changes in the pandemic conditions that will significantly affect the operation which will necessitate immediate actions to control services to customers and protect our workforce during severe pandemic conditions. The staff have been working and collaborating with R&D Dept., Nat'l Gov't, World Bank and ADB for the approved Projects in regard to bidding requirements and specification and selecting

consultants to assist with proposal evaluation and selection of submitted bids from interested suppliers and contractors.

Energy Development Projects that are in the planning stage and funded by World Bank and ADB are the 1.05 Mw capacity Grid-connected Solar PV system to increase renewable energy into the power system and Mini-Hybrid System for Walung Community that face land issues as required by the ADB and remained to be resolved. The other pending projects funded by World Bank are the Battery Storage System for the solar energies and the Energy Information System (Scada) to integrate energy sources and for maintenance improvement of the power system. The project preparation concerning specification and bidding process are expected to be completed before the end of December 2020 and implementation will commence early next year. The current Covid19 pandemic will be affecting the project schedule of works due to travel restrictions and other requirement by FSM to control the spreading of the pandemic.

The financial situation is summarized in the attached unaudited Financial Statements Reports for Fiscal Year 2020. These unaudited figures represented the results of operation during FY2020. The operating revenues were \$2,721,369 from energy sales, rental lights, service orders and others with non-operating income of \$181,061 from outside grants, investment and interest income resulted in total revenues of \$2,902,430 and total operating expenses of \$2,681,950 resulting in net income of \$220,480. The bulk of the operating revenues, approximately 52% were spent on fuel and the remaining were Personnel Cost at 17%, Depreciation expenses at 14%, Operational and Administrative expenses at 6%, Maintenances at 2% and 9% for capital reserves. The actual revenues were 91% of the FY2020 approved budget due mainly to projection on fuel adjustment charges, Kosrae State Gov't sales, service orders to performed to customers and rental lights and actual revenues were slightly reduced by 2% compared to the previous fiscal year. The total expenditures were decreased by 12% due mostly to fuel cost, and other sectors except depreciation cost. The net income shown in the Financial Statements were resulted from the non-operating revenues from grants and interest income from the KUA investments at Raimond

James Associates and TCD's from FSM Bank. 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 FY2020 were slightly decreased by approximately .07% from 1,882 from previous fiscal year to 1,869 numbers of customers. The customers based is comprised of approximately 74% residential with total energy sales of 37.3%, 15% commercial customers with kwh sales of 34.1%, 4% Kosrae State Government with sales representing 17.4%, 6% non-state government accounts with kwh sales of 7% and 1% industrial with 4.2% kwh sales. The Residentials and the NKSG had a slight decrease in sales and the other customer sectors were slightly increased compared to the previous fiscal year. The total energy sales to all customer sectors were 5,690,232 kwh, approximately 5.5% increase in total energy sales from the previous year. The Cash Power Meter customers consisting of approximately 82% had contributed 51% revenue collection which had maintained a steady cash flow to support the daily needs of the operation.

Major Projects and activities undertaken during FY2020 with support from the Kosrae State Gov't, FSM National Gov't and Donor Countries are as follows:

- 1. The new Power Plant has been the main power supplier to the island during the warranty period. The Warranty period with Yachiyo Engineering Firm was extended to year 2021 approved by JICA to monitor and inspect any defects observed in the Power Plant Building Structure caused by movement of the ground as detected during the initial start of the project. These engine units have significantly improved fuel efficiency, but currently require these two units to run in parallel due to the present demand. Hopefully, one unit will be sufficient to supply the island after completion and utilization of the Battery Storage Facility.***

2. KUA has now achieved targeted firm capacity of 1.8 Mw Diesel power as stated in the Kosrae Energy Master Plan to supply the present power load with reserved power for any increase in power demand. Management will focus on development and implementation of more renewable energy projects to supply power to the island to replace fossil fuel required to run the engine units. The other new Cat unit is on standby reserve for any increase in power demand in the near future.

3. KUA has secured funding from World Bank under IDA 18 grants to support the Energy Management System (Scada) and a Battery Storage Facility System for Kosrae Power System. Preparation of the Owner Engineer to assist KUA on these projects were undertaken and review and selection were awarded to ITP Inc.. Contract for ITP were processed and hopefully they will be on board during early part of the new calendar Year, 2021. ITP will be assisting KUA in reviewing the projects specifications for the Scada and Battery Storage System and supervising the progress of the project implementation until completed.

4. The ADB grants for the centralized 1.05 MW capacity power and the Mini-grid hybrid system for Walung were undertaken with selection and awarding of Project Consultants to prepare bidding documents and review project specification. The RFP were prepared and issued and several companies from Ireland, Spain, Australia and U.S. submitted their proposal. The Hydro-Electric Corporation Trading namely Endura were selected and approved by ADB. Bidding were issued and evaluation and screening of the submitted proposal will be reviewed by the project steering committee. Selection and award of the project will be finalized before the end of 1st. qrt. of FY2021. The land issue with the Walung project remain unresolved which may delay or be considered for other options to utilize the grant funding from ADB.

5. The Warehouse to store KUA materials and inventories were constructed inhouse by the Distribution Crew and completed with remaining minor works inside the structure to be done. This new structure will be utilized for storage of inventories, repair services and trainings for the employees. The construction of the heavy equipment

shelter has started during 1st. qrt. of the current fiscal year and hopefully completed early part of the second quarter.

6. The RUS application for the proposed Heat Recovery Solution Project was updated and re-submitted to RUS/USDA Office in DC before the dateline. The package is among many applications for the high cost energy grants submitted for consideration by RUS/USDA. We have not heard any favorable news and decision from the RUS Office. This proposal is part of the renewable energy projects that will support the renewable energy targets of achieving at least 30% by next year.

7. The Hybrid Power Generation System Training Programs approved by JICA to five Pacific Countries for the Diesel Generation and Renewable Energy have continued during FY2020 for the proper management of both hybrid power system and Diesel Generation. Due to Covid19 Pandemic, the trainings were conducted online thru virtual conference.

8. ADB has continued their support for the Utwe Water System operation and thus extended Water Specialist (Rada) contractual services for another year.

9. The Installation of public street and yard lights both LED and Solar were continued during the fiscal year 2020 to provide safety and security to the public and customers funded by World Bank. The KUA Board also approved funding for procurement of more street lights to service customers, since the listing requesting lights were more than the available lights. The management also met with Congressmen Palik requesting funds to pay for the energy usage of these lights.

10. Capacity Building and Trainings have continued to be priority focus for the operation. The Energy Master Plan has stated out the road map for KUA to pursue and develop during the next 20 years. Training areas that need to be focused on are the renewable energy developments, Hybrid Power System, Maintenances and Repairs of these Power System and also management and operation of these new power technologies. Several trainings in these areas were undertaken during the current fiscal year thru online virtual conference.

The KUA Board of Directors and staff have highlighted major projects and activities that were undertaken and in progress during FY2020 in line without attempt to support the goals and objectives stated in the Kosrae Strategic Development Plan and the Energy Master Plan to lead toward achieving at least 30% of renewable energies and 50% system efficiency improvements by Year 2023.

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 2020. 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. Arthy Nena
Members of the KUA Board of Directors***