

JUL 10 1974

Response prepared after meeting July 9 with AECOM in time for him to sign + have copy with him in meeting with Ambassador Willson July 10 or 11.

10/4

Mr. Stanley S. Carpenter
Director
Office of Territorial Affairs
Department of the Interior
Washington, D. C. 20240

Dear Mr. Carpenter:

In response to your letter of June 27, 1974, concerning the reprogramming of the FY 1976 budget to make more money available for Marianas power, the Administration held a series of meetings with District and Headquarters officials to determine the proper course of action. With the concurrence of the Marianas District, we propose that the following course of action be adopted:

1. A total of \$3.6 million for Marianas power should be sought in the FY 1975 Supplemental request now under consideration. This would make available to the District:

FY 1975 Regular Budget	\$ 709,000
FY 1975 Supplemental Request	<u>3,600,000</u>
	\$4,309,000

The Marianas has also programmed \$400,000 in its FY 1976 budget so that the total amount available for power through FY 1976 would be \$4,309,000 + \$400,000 = \$4,709,000 in constant dollars. The District feels that this is sufficient to meet its needs.

2. A concentrated effort should be made to secure the power barge "Impedance" from the Army Corp of Engineers. The barge, now undergoing complete overhaul in the Philippines, has a generating capacity of 30,000 KW. It could be put in place on Saipan as early as February 1975 at relatively little cost. The additional capacity would allow all large commercial users to be hooked up. If the barge was secured on a three-to-five year lease, the District would have ample time to build up its permanent capacity in an orderly fashion.

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3. The District will use its FY 1975 and FY 1976 funds to add generating capacity and to replace transmission lines. The District feels that diesel rather than steam generation is probably more suitable for its long range needs. The recent fuel crisis has pushed up the price of bunker fuel faster than the price of diesel oil so that the steam plant seems to have lost its comparative cost advantage over diesel generators. Cases were cited in Hawaii where conversions are being made from steam to diesel, especially in plants of a size similar to Saipan's needs.

The capacity added by the barge and the lower capital costs of diesel generators would free up funds for the replacement of transmission lines. The deteriorating distribution system is almost as great a contributor to Saipan's power problem as is lack of capacity. The system needs to be replaced as soon as possible.

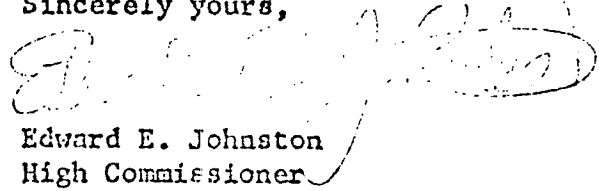
4. The District will continue to study the feasibility of operating its power system on a commercial basis. The District has already received what it considers to be firm offers from a Japanese firm and an Australian firm to take over its power system. One offer includes capital funding of more than \$10 million for generators and distribution.

The Marianas District feels that private operation of its utility system could be the optimum solution to its long range utility needs. The District will press for a definite commitment by sometime this fall. Should such an offer be forthcoming, this reprogramming exercise could be largely redundant. There would still be time by say, October or so, to amend the supplemental request and have all or a portion of the \$3.6 million for power revert to its original intended use. The barge would still be needed as an interim measure. And some capital improvement funds would likely be required for transformers and shore-side equipment.

5. Funds for power would be made available within the \$15 million FY 1975 Supplemental request by deferring two of the proposed five interisland ships until FY 1977. The ships, of course, are sorely needed but it is felt that such a move would be far less disruptive to the plans of the other districts than would be the case if the FY 1976 CIP budget request, now almost completed, were used as a source of funding. An amended FY 1975 Supplemental Request will be prepared in time for review by the Congress of Micronesia during budget hearings to be held just after the close of the Special Session.

The course of action outlined in this letter will be discussed with Ambassador Williams and Senator Saif on Guam. We seek your concurrence and the support of the Department in this matter.

Sincerely yours,



Edward E. Johnston
High Commissioner

cc: District Administrator, Marianas
Budget Office
H.C. r.f.
H.C. s.f.