



BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

GUAM POWER AUTHORITY
REGULATORY REVIEW
(Re: GPA Focused Management
Audit of Operations)

DOCKET 02-04

DECISION AND ORDER

Background

This matter comes before the Commission upon the Guam Power Authority's ["GPA"] request that the PUC approve the scope of work for Phase II of the Virchow Krause ["VK"] management and organizational assessment of GPA. The requirement that the PUC approve the VK Phase II Work Plan is rooted in numerous prior proceedings of the Commission. The ALJ Report filed on February 12, 2008,¹ recognized that the Commission's consultant, the Georgetown Consulting Group Inc. ["GCG"] and GPA had stipulated that, as part of GPA's FY08 Base Rate case, GPA "should undertake a focused management audit of its operations under an engagement scope and process approved by PUC..." The Stipulation was entered as a PUC order in the FY08 Rate Decision, Docket 07-10, filed on February 15, 2008.² In a subsequent ORDER of the Commission filed May 30, 2008, the joint petition of GPA and the Guam Waterworks Authority ["GWA"] for approval of the scope and focus of the management audit was granted, subject to rulings of the Administrative Law Judge ["ALJ"] on GCG's recommendation that the audit examine issues relating to GPA's compensation program under Public Laws 28-159 and 29-113; and approval of the detailed work-scope by the ALJ.³

In a letter dated October 3, 2008, GPA, through its General Manager Joaquin C. Flores, agreed with GCG as to conditions imposed for the approval of the scope of the management audit. GPA concurred "that the audit will examine the issues related to GPA's compensation program under P.L.'s 28-159 and 29-133, and that this will be

¹ Administrative Law Judge Report filed on February 12, 2008 Docket 07-10 (Guam Power Authority Petition for Base Rate Relief). Although some filings concerning this management audit have been made in Docket 07-10, which is GPA's Petition for Base Rate Relief, the Commission will henceforth use Docket 02-04 for all filings related to GPA's Focused Management Audit by Virchow Krause. The use of Docket 02-04 is in accord with prior Orders of the Commission issued on May 30, 2008 and October 20, 2008.

² FY08 Rate Decision in Docket 07-10, Guam Power Authority Petition for Base Rate Relief [filed February 15, 2008].

³ Guam Public Utilities Commission Order dated May 30, 2008, in Docket 02-04.

accomplished as part of Phase II of the management audit.”⁴ By Order issued October 20, 2008, ALJ David A. Mair approved the scope and focus of the management audit for GPA and GWA operations, in accordance with the agreements by GPA in its October 3, 2008 letter concerning the scope of the audit. GPA was authorized to proceed with its management audit engagement.⁵

On January 7, 2009, VK submitted its draft Report, Organizational and Management Assessment, Results of Phase I and 4a Diagnostic Review.⁶ VK gave a joint presentation concerning its Phase I report to the Consolidated Commission on Utilities and PUC Commissioners at the CCU conference room on January 13, 2009.

On March 4, 2009, the Guam Power Authority [“GPA”] filed the proposed Phase II Virchow Krause Work Plan for the Comprehensive Management and Organizational Assessment.⁷ In its March 4, 2009 Filing, GPA requests that the PUC expedite its review and approval of the VK Phase II Work Plan.

On March 27, 2009, GCG submitted its Report in response to GPA’s March 4, 2009 Petition seeking PUC approval of the work plan for Phase II of VK’s comprehensive Management and Organizational Assessment of GPA.⁸ VK has identified characteristics of mainland electric utility companies which allow them to operate as “highly effective” utilities. VK proposes to use information gathered from these “highly effective” utilities for the purpose of reviewing and analyzing the practices employed by GPA. In developing the work scope for Phase II, VK has identified six (6) characteristics of highly effective utilities in accordance with which GPA will be evaluated, including: Effective Corporate Governance, Effective Strategic Planning/Policy Development, Effective Execution of Strategy and Policy, Financial Strength, Effective Operations, and Customer Service.⁹ GCG believes that the management assessment, as outlined by VK, can significantly assist GPA in restructuring its operations and deploying industry best practices and efficiency in the delivery to rate payers of reliable and cost-effective electric service.¹⁰ In general, the GCG report concludes that the proposed VK work scope for management and organizational assessment of GPA is a well thought out and reasonable approach to GPA’s Phase II responsibilities.¹¹ GCG recommends PUC approval of the work scope,

⁴ Letter from Joaquin C. Flores, General Manager, Guam Power Authority to Harry Boertzel, Esq., ALJ, Guam Public Utilities Commission dated October 3, 2008.

⁵ Order issued by ALJ David A. Mair on October 20, 2008.

⁶ E-mail from Randall V. Weigand dated January 12, 2009 to PUC Legal Counsel concerning VR Report for the Management and Organizational Assessment.

⁷ Filing of Virchow Krause Phase II Proposed Work Plan, Docket No. 07-10, filed March 4, 2009.

⁸ Report of Georgetown Consulting Group, Inc. re: Virchow Krause Management Assessment Work Plan (Phase II), Docket 07-10, dated March 27, 2009.

⁹ Id at pgs. 2-3.

¹⁰ Id at p. 2.

¹¹ Id at p. 4.

however, subject to the condition that certain language in the Phase II work scope be explicitly modified to meet the requirements of 12 GCA §12001.2(d).¹²

GCG raises the concern that GPA and VK have not adequately addressed the requirements of 12 GCA §12001.2(d) in the Phase II work scope. In the VK Phase II Proposed Work Plan, there are indications that VK does plan to determine whether GPA business units are overstaffed, understaffed or adequately staffed to carry out its mission critical responsibilities; and, furthermore, to conduct a productivity analysis of GPA staff by using comparative analysis techniques for 12 to 20 US mainland public power utilities with similar key operating characteristics to those of GPA.¹³

The PUC is of the opinion that VK must stringently comply with the requirements of 12 GCA §12001.2(d) in comparing GPA staffing patterns and manpower levels to at least four (4) mainland utilities providing similar services to a comparable number of customers. The VK Work Plan for Phase II must specifically quote the statutory language, and VK must undertake the express statutory requirements. The statute places this responsibility upon the Public Utilities Commission to conduct such staffing pattern and manpower level comparison. Here PUC has agreed to allow VK to undertake the statutorily mandated staffing and manpower comparison in the context of its overall management organizational assessment. However, if VK does not strictly comply with the aforementioned statutory requirements, GPA will not be able to obtain any rate relief in Phase II of the rate proceedings in Docket 07-10. 12 GCA §12001.2(d) makes it clear that the PUC must, in determining approval of any rate increase, take into account the results of the study comparing the staffing pattern and manpower levels of GPA to at least four other utilities in the United States mainland. No rate increase can be granted to GPA unless the PUC has such staffing pattern and manpower level study available and takes it into account before approving any rate increase.

Should this requirement not be strictly complied with, GPA faces the prospect that it will, in no event, even if justified, be entitled to Phase II rate relief in its base rate case, Docket 07-10.

¹² 12 GCA §12001.2(d) provides as follows in pertinent part: "The Public Utilities Commission ("PUC") shall annually conduct a study comparing the staffing pattern and manpower levels of the Public Utilities under their purview to the staffing patterns and manpower levels of *at least* four (4) other utilities in the United States Mainland which provides similar services to a comparable number of customers... The PUC must, in determining approval of any proposed rate increase, take into account the results of such studies and order reductions or other adjustments in the operations of the Public Utility requesting a rate adjustment, as recommended or suggested by such studies prior to granting approval for a rate increase. It is the intention of *I Liheslaturan Guåhan* that the PUC mandate reduction in unnecessary levels or areas of expenditure in Public Utilities *prior to*, or in conjunction with, approval of any rate increase. Any Public Utility that has received an order from the PUC to reduce expenditures in any area of operations shall comply with such order, and failure to do so is a grounds for disapproval of a rate increase proposal..."

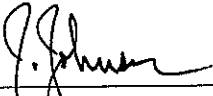
¹³ See Virchow Krause Phase II Proposed Work Plan, pages 36 and 40 – 41.

Ordering Provisions

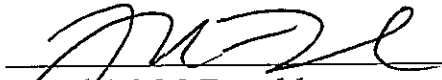
After consideration of the record herein, prior Orders of the Administrative Law Judge in this Docket and in Docket 07-10, the March 4, 2009, filing by GPA of the Virchow Krause Phase II Proposed Work Plan and GPA's request for approval thereof, and the Report of GCG, for good cause shown and on motion duly made, seconded, and carried by the affirmative vote of the undersigned Commissioners, the Commission hereby orders:

1. The scope of work contained in the Virchow Krause Phase II Proposed Work Plan is hereby approved, subject to the conditions stated in paragraphs 2 and 3 below.
2. Within thirty days of the issuance of this Order, GPA and VK should explicitly modify the language in its Phase II work scope to expressly reference the requirements of 12 GCA §12001.2(d) and to include in the work scope specific language that VK shall conduct a study comparing the staffing pattern and manpower levels of the Guam Power Authority to the staffing patterns and manpower levels of *at least* four (4) other utilities in the United States Mainland which provide similar services to a comparable number of customers.
3. As previously agreed to, VK will, in Phase II of the management audit, examine issues related to GPA's compensation program under Public Laws 28-159 and 29-113.
4. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and expenses is authorized pursuant to 12 GCA §§12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

Dated this 30th day of March, 2009.

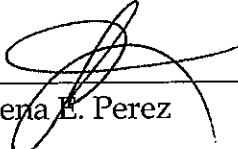


Jeffrey C. Johnson
Chairman

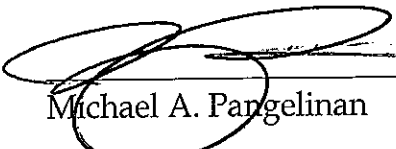


Joseph M. McDonald

Filomena M. Cantoria



Rowena E. Perez



Michael A. Pangelinan