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November 1, 2011

Jeffrey Johnson, Chairman
Guam Public Utilities Commission
Suite 207, GCIC Building
Hagåtña, Guam 96932

Re: Review FY2012 Construction Budget Review – GPA Docket 11-11

Dear Chairman Johnson,

This letter is a summary review of the Guam Power Authority's ("GPA") September 15, 2011 petition seeking Public Utilities Commission ("PUC") approval of a Fiscal Year Construction Budget for 2012. As with a similar filing made last year, it is unclear exactly what specific actions GPA is requesting of the PUC with this filing. In a separate letter, we responded to the CIP ceiling request (GPA Docket 11-10). Regarding these two dockets, we were specifically requested by your Counsel to:

As you have done for prior fiscal years, I would request that you review the GPA petitions in the above dockets. It does not appear to me that the CIP petition includes any requests out of the ordinary, but I would appreciate your evaluation. As for the Construction Budget, at least some of the projects are not yet approved under the contract review protocol, such as the New Office project. Smart Grid has been approved for the amount of \$3.277M. I am including some of the relevant PUC Orders approving projects under the contract review protocol.

Regulatory Background

As stated, we are unclear why this filing was made under Docket 94-04 for "review and approval".¹ While the Contract Review Protocol (the "Protocol") approved by the PUC on February 15, 2008, section 6, requires GPA to file a construction budget annually on or before September 15 of each year, there is no requirement that the PUC approve it. Further, we note that GPA frequently modifies the construction budget for a given year and does not seek PUC approval for the modifications. In addition, the Protocol requires the establishment of an annual Capital Improvement Project ("CIP") cap or limit for internally funded projects.² The Protocol (Docket 94-04) also requires that all internally-funded construction or projects that will exceed \$1.5 million need specific approval,

¹ Filed September 15, 2011.

² Contract Review Protocol, section 1 (f)

including justification documents as listed in the Protocol.³ Lastly, all projects funded by debt need PUC approval whether or not the total cost exceeds the \$1.5 million threshold.⁴

While the transmittal letter seeks PUC approval of the construction budget in the amount of \$57,905,000, GPA does not make any new request regarding specific project approval that would be required under the Protocol, whether funded by internal revenues or debt. There is no supporting documentation accompanying the filing that would be required under the Protocol for determining and recommending approval of projects not yet approved. As your Counsel notes, most of the revenue bond-funded projects within the filing have already been approved by the PUC. Additional information obtained during limited discovery indicates that GPA will be making subsequent filings for the approval of projects for which PUC approval is required under the Protocol, as we discuss below. Please note that this report should be read in conjunction with our previously filed report on the GPA petition for the CIP cap on internally funded projects.

Summary of GPA Construction Filing

In this filing, GPA segregates its construction budget into three categories. The first category relates to internally funded CIPs, excluding the line extensions which are exempt from review in the CIP annual review and approval process. This category, as filed, also excludes General Plant classification of internally funded plant. Both internally funded CIPs as well as General Plant are reviewed in our report on the internally funded CIP cap. The second category of the construction budget relates to those projects funded by bond proceeds from the “1999 Revenue Bonds.” The third category relates to projects funded by the more recently issued 2010 Revenue Bonds. We would note that the filing omits certain projects funded by the 2010 subordinate bond funds.

The transmittal letter requests review and approval of a \$57,905,000 GPA construction budget. The following Table 1 summarizes the “construction” costs as filed:

TABLE 1
Filing Summary

INTERNALLY FUNDED:	FY2012	FY2013	FY2014
ENGINEERING CIPs:	\$ 933,000	\$ 2,271,000	\$ 4,302,000
TOTAL INTERNAL Construction	\$ 933,000	\$ 2,271,000	\$ 4,302,000
EXTERNALLY FUNDED:			
2010 REVENUE BOND:	\$ 47,170,000	\$ 50,326,000	\$ -
1999 REVENUE BOND:	9,802,000	2,644,000	-
TOTAL EXTERNAL CIP:	\$ 56,972,000	\$ 52,970,000	\$ -
Total	\$ 57,905,000	\$ 55,241,000	\$ 4,302,000

³ Contract Review Protocol, section 1 (b).

⁴ Contract Review Protocol, section 1 (d).

Internally Fund CIPs:

The engineering CIP funds are a part of the overall internally funded CIP for which GPA sought PUC approval in its concurrent request for an FY2012 CIP cap. More detailed discussion of these costs is found in our report on the CIP cap in Docket 11-10. As previously reported, we did not see any projects scheduled for FY2012 within this category of capital expenditures that required specific PUC approval.

1999 Revenue Bond Projects:

Table 2a (below) shows the details of projects funded with the “1999 Revenue Bond” construction program as shown in the September 15, 2011 filing:

**TABLE 2a
 1999 Bond Projects**

Priority	Capital Improvement Project Name	FY2012 Projected	FY2013 Projected	FY2014 Projected
1	Marbo to Pagat 34.5 KV Line	\$ 5,087,000	\$ -	\$ -
2	34.5 kV Transmission Line Along Rt. 2A	\$ 860,000	\$ -	\$ -
3	DCS Boiler Controls Replacement Cabras 1	\$ 1,100,000	\$ 1,100,000	\$ -
4	DCS Boiler Controls Replacement Cabras 2	\$ 1,100,000	\$ 1,100,000	\$ -
5	Barrigada Village Upgrade	\$ 819,000	\$ 444,000	\$ -
6	Old Dededo Kaiser Upgrade - Phase II	\$ 415,000	\$ -	\$ -
7	Old Dededo Kaiser Upgrade - Phase III	\$ 421,000	\$ -	\$ -
TOTAL 1999 REVENUE BOND PROJECTS		\$ 9,802,000	\$ 2,644,000	\$ -

We did not perform any exhaustive discovery on these items in this limited review, since these same projects were identified in the similar filing from one year ago as shown in the Table 2b (below).

**TABLE 2b
 1999 Bond Projects**

Priority	Capital Improvement Project Name	FY2011 Projected	FY2012 Projected	FY2013 Projected
1	Marbo to Pagat 34.5 KV Line	\$ 3,533,000		
2	34.5 kV Transmission Line Along Rt. 2A	\$ 860,000		
3	DCS Boiler Controls Replacement Cabras 1		\$ 1,100,000	\$ 1,100,000
4	DCS Boiler Controls Replacement Cabras 2		\$ 1,100,000	\$ 1,100,000
5	Barrigada Village Upgrade	\$ 200,000	\$ 819,000	\$ 444,000
6	Old Dededo Kaiser Upgrade - Phase II	\$ 490,000	\$ 415,000	
7	Old Dededo Kaiser Upgrade - Phase III	\$ 650,000	\$ 421,000	
TOTAL EXISTING BOND PROJECTS		\$ 5,733,000	\$ 3,855,000	\$ 2,644,000

During our review of last year, GPA stated that all of the above have prior approvals from the PUC. However, additional information contained within that filing and through informal discovery

indicated that there will be additional filings brought before the PUC regarding the above projects. In the discovery related to the September 2010 construction project filing, GPA responded:⁵

Q: If I am interpreting the data you submitted in response to my earlier questions, all of the projects have already received PUC approval. Is that correct?

A: Yes

Q: Also in the list, I note that the expenditures of some of the projects are expected to be in excess of the PUC approval plus 120%. Is that correct?

A: Yes

Q: GPA is not currently requesting additional approvals related to revised cost estimates at this time. If so, you need to provide the requisite information on these projects.

A: We will.

We are unaware of any filings related to these projects since we issued our report in October 2010 on the September 2010 GPA filing. Regarding the September 2011 filing, we requested that a summary of projects be provided and an indication of which projects have been approved and the response indicates that all of these projects have received PUC approval. We did not expand our discovery on the 1999 revenue bond funded projects, since there is no change in this list (other than cost and GPA indicates that it will provide additional information on the cost issues).

As we indicated in our report on Fiscal 2010 construction, the reprogramming of these 1999 revenue bond funds may require approvals not only by the PUC, but also the Legislature. The 1999 revenue bonds that were approved by the PUC and the Legislature had very specific restrictions on the uses of the bond funds. It appears that there are changes in the uses of the existing bonds, since the bonds were approved by the Legislature. We believe that GPA will be required to seek approval from both the PUC (a requirement of the contract review protocol) and from the Legislature (to get approval for modified uses of the existing bond funds). We are currently uncertain as to whether GPA has made any applications to neither the Legislature nor the PUC on this matter. The PUC might consider requesting an update on this process to identify the changes that will need approval and to clarify the situation.

2010 Revenue Bond Projects

The FY2012 bond projects detailed in GPA's petition (Attachment 2) with a total amount of \$106.3 million for the FY2012 and 2013 are funded exclusively by the proceeds of the 2010 revenue bonds. We have also attached GPA's table to this review as **Appendix A**. Most of the projects have already been approved by the PUC in prior decisions. A series of bond-funded projects was approved on July 27, 2010, without restrictions. There have been subsequent PUC orders that permit further use of the revenue bonds for additional projects. In addition to the projects on Appendix A, we note that there are additional projects that were approved by the PUC, with the funding source being the subordinate debt issued in 2010.

We requested and received additional information regarding PUC approval dates, moneys expended in FY2011 and budgets in FY2012 and FY2013. GPA complied with our request and we have

⁵ Response to informal discovery, October 2010.

attached a modified exhibit to this report as **Appendix B**. You will first note that the total amounts for FY2012 and FY2013 bond proceeds vary from that which was originally filed. This is not particularly surprising, since **Appendix A** was prepared before the end of FY2011. **Appendix B** is the best view of the current and projected uses during FY2011 of revenue bond proceeds. We would recommend that this exhibit be updated on a quarterly basis and filed with the quarterly construction filings so that the PUC can keep track of the uses of the bond proceeds. As noted above, this list is for the revenue bond funds only. The list does not include the projects related to the three million dollars of "excess" bond funds resulting from the subordinate debt issued in 2010, which the PUC approved on April 18, 2011. We would suggest that these five items be included in this table, since these are also funded by debt and require monitoring to ensure that the proposed costs do not exceed the 120% overrun restriction in the Protocol.

We requested whether GPA believed any of the projects listed in the uses of the proceeds of the 2010 revenue bonds would require approvals of any type and GPA indicated that it was anticipating seeking PUC approval. Specifically:

Q. Is GPA requesting PUC approval of any bond-funded project not already approved by the PUC at this time? If so, which one(s)? Provide full justification.

A. Yes. GPA is requesting approval of the GPA New Main Office & Operation Facility Improvements as well as authorization for the remaining amounts under the Smart Grid program. GPA received CCU approval to submit the contract review documents and business case for the GPA New Main Office & Operation Facility Improvements to the PUC in December 2010. GPA will be submitting the Smart Grid contract review petition by November 2011.

Q. Are there any bond-fund projects that GPA can foresee exceeding the 120% threshold for re-submission under the terms and conditions of the contract review protocol? If so, please provide list.

A. Yes, the Automatic Generation Control bond funded projected is anticipated to exceed the cost threshold. The initial AGC cost included in the bond fund listing was underestimated. A revised contract review justification and benefit cost analysis will be submitted once preliminary assessments are completed and a more comprehensive project scope and estimate are developed by the contractor.

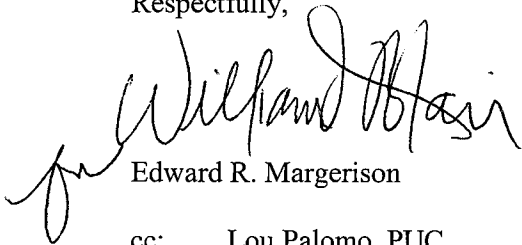
We have highlighted these three projects on the attached **Appendix B**. In addition, we have highlighted the Hagåtña Refurbishment project. The PUC approved this project in December 2008 as part of the revenue funded projects for FY2009.⁶ This project has slipped in time and GPA has changed the source of funds from internal revenue to revenue bonds. We are unaware of any action by GPA to seek PUC approval for the use of the funds or whether such filing should have been made. If there has not been a filing related to the change in funding source for this project, the PUC should determine whether one is required. We could not find any record of a similar occurrence of this type in our records.

⁶ PUC Order, December 24, 2008, ¶ 5.

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We do not believe that any immediate action is required at this time by the PUC to “approve” the three-year construction program or even the FY2012 construction budget. GPA has acknowledged that additional filings are required for new debt projects before a debt-funded construction budget can be “approved”. As stated earlier, every project that is debt funded requires specific PUC approval. As a result, the bond funded construction budget is approved on a project-by-project basis as opposed to a specific dollar amount as implied by this filing. We have already recommended approval of the internally funded FY2012 budget in our response in Docket 11-10. If you wish to discuss any and all of the above, please do not hesitate to call.

Respectfully,



Edward R. Margerison

cc: Lou Palomo, PUC
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Appendix A

Guam Power Authority
Projected Uses of FY 2010 Revenue Bonds

Priority	Capital Improvement Project Name	FY2012 Projected	FY2013 Projected	FY2014 Projected
1	Smart Grid	\$ 5,000	\$ 7,000	\$ -
2	Underground Fuel Pipeline Conversion- Post Office to Airport Access	\$ 1,300	\$ 100	\$ -
3	Cabras 1&2 Improvements - FP, APH Cold End Basket, AC, Generator H2 & CO2 Upgrades, Interior FP, Heater Retubing, Service Cooler, Motor, Transformer, Compressor Replacement, Transformer Protection	\$ 5,759	\$ 1,000	\$ -
4	Cabras 3&4 Improvements - Fuel Slide Valve, Traveling Screen, Homogenizer, Fuel Oil Pumps, Governor Upgrade, Smoke Stack, Cylinder Liner, Bearing Renewal, Fire System Upgrade, Air cololer, Cyliner Heads	\$ 6,340	\$ 1,900	\$ -
5	System Stability/Relay Coordination	\$ 200	\$ 26	\$ -
6	Distribution System Performance Improvements	\$ 400	\$ 400	\$ -
7	GPA New Main Office & Operation Facility Improvements	\$ 10,500	\$ 24,000	\$ -
8	Hagatna 34.5/115 kV Refurbishment and Upgrade	\$ 1,640	\$ -	\$ -
9	Upgrade Fire Protection Dededo Diesel	\$ 280	\$ -	\$ -
10	Upgrade Fire Protection Yigo CT	\$ 350	\$ -	\$ -
11	Ambient Air Quality Monitoring	\$ 900	\$ 1,000	\$ -
12	Fuel Metering	\$ 750	\$ -	\$ -
13	Dededo Substation Upgrade	\$ 1,250	\$ 3,402	\$ -
14	P003 Underground Extension to Port Authority	\$ 2,426	\$ 2,330	\$ -
15	Transmission Line Reclosing and Load Profiling	\$ 550	\$ 550	\$ -
16	Tumon Bay Lateral Conversion	\$ 2,750	\$ 3,833	\$ -
17	Upgrade Fire Protection Tenjo Diesel	\$ 300	\$ 150	\$ -
18	Upgrade Fire Protection Marbo CT	\$ 300	\$ 170	\$ -
19	Upgrade Fire Protection System Cabras 1&2	\$ 800	\$ -	\$ -
20	Tumon Substation Upgrade	\$ 1,250	\$ 280	\$ -
21	Upgrade Fire Protection Manenggon Diesel	\$ 400	\$ 150	\$ -
22	Upgrade Fire Protection Talofoto Diesel	\$ 300	\$ 60	\$ -
23	Agat Village Pole Hardening & Hybrid	\$ 2,000	\$ 1,800	\$ -
24	GAA to GIAT Fiber Optic Installation (U/G)	\$ 205	\$ 205	\$ -
25	Macheche to GAA Fiber Optic Installation (U/G)	\$ 240	\$ 240	\$ -
26	Macheche to Harmon Fiber Optic Installation (U/G)	\$ 230	\$ 230	\$ -
27	Automatic Generation Control	\$ 500	\$ 500	\$ -
28	Agana Substation Capacity Upgrade	\$ 250	\$ 1,000	\$ -
TOTAL 2010 REVENUE NEW BOND PROJECTS		\$ 47,170	\$ 50,326	\$ -

Appendix B

GPA Bond Proceeds Series 2010

Priority	Capital Improvement Project Name	PUC Appr VIN	Date Approved	Docket No.	¶	Amount Approved	FY2011 - FY2014				Project Total
							FY2011 Expended	FY2012 Projected	FY2013 Projected	FY2014 Projected	
1	Smart Grid	Y	7/27/2010	10-01	2	\$ 3,278	\$ 527	\$ 6,113	\$ 9,432	\$ -	\$ 16,071
2	Underground Fuel Pipeline Conversion - Post Office to Airport Access*	Y	7/27/2010	10-01	12	\$ 2,150	\$ -	\$ 2,050	\$ 100	\$ -	\$ 2,150
3	Cabtras 1&2 Improvements - FP, APH Cold End Basket, AC, Generator H2 & CO2 Upgrades, Interior FP, Heater Refubing, Service Cooler, Motor, Transformer, Compressor Replacement, Transformer Protection	Y	12/15/2010	10-01	3	\$ 7,069	\$ 1,229	\$ 4,042	\$ 1,798	\$ -	\$ 7,069
4	Cabtras 3&4 Improvements - Fuel Slide Valve, Traveling Screen, Homogenizer, Fuel Oil Pumps, Governor Upgrade, Smoke Stack, Cylinder Liner, Bearing Renewal, Fire System Upgrade, Air cololer, Cylinder Heads	Y	12/15/2010	10-01	3	\$ 8,690	\$ 858	\$ 4,122	\$ 3,710	\$ -	\$ 8,690
5	System Stability/Relay Coordination**	Y	7/27/2010	10-01	9	\$ 1,893	\$ 450	\$ 768	\$ 675	\$ -	\$ 1,893
6	Distribution System Performance Improvements	Y	7/27/2010	10-01	5	\$ 1,000	\$ 174	\$ 326	\$ 500	\$ -	\$ 1,000
7	GPA New Main Office & Operation Facility Improvements	N									
8	Hagatha 34.5/115 kV Refurbishment and Upgrade	Y	12/29/2008	94-04	4	\$ 2,940	\$ 2,225	\$ 10,500	\$ 24,000	\$ -	\$ 34,500
9	Fire Protection Upgrades at Power Plants***	Y	7/27/2010	10-01	6	\$ 3,880	\$ 1,050	\$ 2,188	\$ 570	\$ -	\$ 3,808
11	Ambient Air Quality Monitoring	Y	7/27/2010	10-01	3	\$ 1,900	\$ -	\$ 900	\$ 1,000	\$ -	\$ 1,900
13	Dededo Substation Upgrade	Y	7/27/2010	10-01	4	\$ 4,655	\$ 9	\$ 2,491	\$ 2,155	\$ -	\$ 4,655
14	P003 Underground Extension to Port Authority	Y	7/27/2010	10-01	8	\$ 4,776	\$ 1	\$ 3,775	\$ 1,000	\$ -	\$ 4,776
15	Line Reclosing and Load Profiling	Y	7/27/2010	10-01	7	\$ 1,200	\$ 100	\$ 700	\$ 400	\$ -	\$ 1,200
16	Turnon Bay Lateral Conversion	Y	7/27/2010	10-01	10	\$ 6,583	\$ -	\$ 4,500	\$ 2,083	\$ -	\$ 6,583
20	Turnon Substation Upgrade	Y	7/27/2010	10-01	11	\$ 1,530	\$ -	\$ 1,250	\$ 280	\$ -	\$ 1,530
23	Agat Village Pole Hardening & Hybrid	Y	7/27/2010	10-01	2	\$ 3,800	\$ -	\$ 2,800	\$ 1,000	\$ -	\$ 3,800
27	Automatic Generation Control	Y	12/15/2010	10-01	3	\$ 1,000	\$ -	\$ 800	\$ 400	\$ -	\$ 1,200
28	Agana Substation Capacity Upgrade	Y	7/27/2010	10-01	1	\$ 1,250	\$ -	\$ 853	\$ 397	\$ -	\$ 1,250
TOTAL 2010 REVENUE NEW BOND PROJECTS						\$ 6,623	\$ 48,893	\$ 49,500	\$ -	\$ -	\$ 105,015

* Includes Fuel Metering at \$750K as approved by the PUC.
 ** Fiber Optic Projects have been folded into this project at \$1.35M with Relay Upgrades at 0.543M as approved by the PUC (GAA to GAT, Machechto to GAA, and Machechto to Harmon Fiber Optic Installation).
 *** Fire Protection Upgrades at Dededo Diesel, Yigo CT, Tenjo Diesel, Marbo CT, Cabtras 1&2, Manenggon Diesel, and Taloforo Diesel as approved by the PUC.