

current System to include the purchase new system hardware; and third, the acquisition of a cargo handling Toplifter.”²

B. Slater Nakamura Report

On January 20, 2014, Slater Nakamura provided the Administrative Law Judge (the “ALJ”) with its report on the rate investigation related to PAG’s Interim Rate Petition, and detailed its findings and recommendations. In its report, Slater Nakamura advised that the rate relief sought appeared insufficient to cover operating costs and capital investments.³ The consultants maintained that PAG must “significantly increase revenues to cover reasonable maintenance costs”⁴; and should PAG resist “significantly” increasing its rates, “or make significant operational changes to reduce expenses, it will continue to experience significant financial problems and will incur substantially higher costs in future years for the deferred maintenance.”⁵ And with respect to PAG’s consideration of upwardly adjusting salaries, Slater Nakamura submitted that “any increase in PAG expenses will further limit the PAG’s ability to cover operating costs and maintenance of facilities.”⁶

Based on its investigation, Slater Nakamura made the following findings. First, the consultants found that the requested increase to PAG’s Terminal Tariff is “just and reasonable”⁷ and, as a result, recommended the approval of the requested tariff rates⁸ and further

² Petition, Tab 2 (“Direct Testimony of Joanne M.S. Brown”), p. 3 (July 17, 2013).

³ Report of Investigation of PAG Interim Tariff Petition (“Slater Nakamura Report”), submitted by Slater Nakamura, L.L.C., p. 11 (Jan. 20, 2014).

⁴ Slater Nakamura Report, p. 13.

⁵ Slater Nakamura Report, p. 13.

⁶ Slater Nakamura Report, p. 13.

⁷ Slater Nakamura Report, p. 17.

⁸ Slater Nakamura Report, p. 18.

recommended that PAG immediately seek approval of its Five Year Tariff adjustment plan to include reasonable cargo and revenue projections, and sufficient proposed tariff increases to cover operating expenses and capital needs.⁹ In addition, the consultants further recommended that PAG “review its plan to adjust salaries to the 50th market percentile to determine the impact on the financial stability of the Port” and that a report should be furnished to the Commission by June 2014.¹⁰

C. January 30, 2014 Order Approving Interim Rate Petition

On January 30, 2014, the PUC issued an Order approving the 5.65% increase to PAG’s Terminal Tariff rates. In the Order, the PUC further requested that PAG seek approval of its Five Year Rate Plan as soon as possible, and that PAG file a report with the PUC detailing the status of its Five Year Rate Plan by May 15, 2014.¹¹ Among other things, the Order also requested that PAG file a report with the PUC detailing its review of the impact of adjusting salaries to 50th market percentile on PAG’s financial stability by June 1, 2014.¹²

D. May 15, 2014 Status Report

On May 15, 2014, PAG filed a report with the PUC indicating the status of its Five Year Rate Plan, and requesting an extension of the June 1, 2014 deadline regarding its salary review.

⁹ Slater Nakamura Report, p. 18.

¹⁰ Slater Nakamura Report, p. 18.

¹¹ PUC Order, PAG Docket 13-01, p. 4 (Jan. 30, 2014).

¹² *Id.*

DISCUSSION

A. Five Year Rate Plan

In the May 15, 2014 report, PAG indicated that the forthcoming rate plan is dependent on approval of PAG's Master Plan, the costs associated with its Service Life Extension projects, the Terminal Operating System, and any "compensation structural adjustment." According to PAG, approval of the Port's Master Plan is currently pending before the Governor of Guam as Bill No. 328-32.¹³ Bill No. 328-32 approves and adopts the Capital Improvement Plan in the Jose D. Leon Guerrero Commercial Port of Guam Master Plan Update (MPU) 2013 Report, with certain conditions and recommendations. Bill No. 328-32 further contains approval and adoption of PAG's Commercial Port and Vicinity Land Use Designation also contained in the Master Plan Update. The bill also explains that the 2013 update "supersedes and complements the previously approved" 2007 update. Bill No. 328-32 (COR), p. 2 (May 1, 2014). In conversations with the ALJ, PAG has indicated that it would likely file its Five Year Rate Plan by October 1, 2014.

B. Impact of Adjusting Salaries to 50th Market Percentile

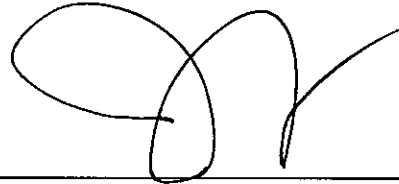
With respect to this report, PAG has requested an August 29, 2014 extension to submit its report. In conversations with the ALJ, PAG has indicated that its management is currently reviewing the market baselines for PAG's salaries from its 2008 study and comparing it to the market environment of 2014. PAG has further indicated that its Board may reconsider updating PAG's compensation plan to baselines consistent with present-day market rates.

¹³ Bill No. 328-32 was signed into law on May 21, 2014 as Public Law 32-155.

RECOMMENDATION AND CONCLUSION

Based on the circumstances presented by PAG, the ALJ finds the request reasonable and, therefore, recommends approval of PAG's request to extend the deadline for submission of PAG's report detailing its review of the impact of adjusting salaries to 50th market percentile on its financial stability. At PAG's request, such report shall be due on August 29, 2014. A proposed Order is submitted herewith for the Commissioners' consideration.

Respectfully submitted this 27th day of May, 2014.



JOEPHET R. ALCANTARA
Administrative Law Judge

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