

BEFORE THE PUBLIC UTILITIES COMMISSION

**PETITION OF)
GUAM WATERWORKS AUTHORITY)
FOR RATE RELIEF)
_____)**

**GWA DOCKET 13-01
ORDER RE: ANNUAL
TRUE UP FOR FY2014
RATES**



INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the “PUC”) pursuant to the PUC’s Rate Decision dated October 29, 2013, and the October 22, 2013 Stipulation between the Guam Waterworks Authority (“GWA”) and Lummus Consultants International Inc. (“Lummus”). Pursuant to the Rate Order and October 22, 2013 Stipulation, GWA is required to provide the PUC with certain updated information annually.

The protocol for the Guam Waterworks Authority (“GWA”) to apply for rate increases is to submit a Five-Year Financial Plan (“the Financial Plan”) to the Guam Public Utilities Commission (“PUC” or “Commission”).

BACKGROUND

On June 5, 2013, the Guam Waterworks Authority submitted its proposed Five-Year Financial Plan to the Commission for approval. The rate plan provided for substantial increases in each of the five years, as follows:

- 16% in FY14;
- 14.5% in FY15;
- 17.5% in FY16;
- 10% in FY17; and
- 9% in FY18

The primary reason for the substantial increases was to pay debt service on the issuance of approximately \$450M in bonds required for GWA to comply with the November 2010 Order of the United States District Court in Civil Case No. 02-00035 by upgrading and refurbishing GWA's existing water and wastewater infrastructure as required under the Clean Water Act and the Safe Drinking Water Act.

The Financial Plan, with emphasis on the first year, Fiscal Year 2014, was referred to Lummus for review. After careful review, Lummus recommended that the 16% increase for Fiscal Year 2014 be reduced to 15%. This recommendation was adopted by the PUC.

On May 30, 2014, GWA submitted its annual "true up" report (hereinafter referred to as the "Annual True Up"). GWA's second year of the Financial plan (Fiscal Year 2015) was again referred to Lummus for review. After engaging in review of information provided and collaborative discussions with GWA, Lummus issued its letter report and Appendix thereto on November 25, 2014. Its observations relative to GWA's requested 14.5% rate increase included:

- GWA's filing supports a 14.50% increase for FY2015. However, as a result of regulatory delays in receiving and evaluating data in support of GWA's FY2015 true-up and additional unavoidable delay due to the GPUC's meeting schedule, the earliest date that GWA can implement a FY2015 rate increase is December 1, 2014. In light of these delays Lummus Consultants recommends that an effective rate increase of 15.82% be implemented over a compressed 10-month period beginning on December 1, 2014. GWA did not agree to a reduction in recovery and recommends that the full increase be recovered over the ten months starting December 1, resulting in an effective increase of 17.4%.
- GWA and Lummus Consultants developed and agreed to a Joint Stipulation Agreement with regard to the FY2015 rate increase and to work together during the next 90 days to develop an enhanced

reporting paradigm for the purpose of expediting the rate case and true-up review process. The Joint Stipulation Agreement submitted for PUC approval is attached hereto.

- With regard to the 2013 Stipulation, Lummus Consultants and GWA each prepared an analysis indicating the extent to which each of the 12 points in that Stipulation were met in FY2014. The results of these analyses were discussed in teleconference calls with GWA and modifications have been made to some of the original stipulations and mutually agreed upon. A report on the performance of GWA relative to the original Stipulation has been provided with the Lummus Consultants report.

In discussions with GWA, Lummus Consultants learned that the GPA and/or the CCU submits monthly GWA Financial Statements (Schedules A through O) to the PUC and believes that being copied on these monthly submissions could assist in expediting the true up process.

On November 25, 2014, Lummus provided the ALJ with a report regarding its review of the Annual True Up. The report contained a Stipulation between GWA and Lummus, as well as updates on GWA's October 22, 2013 Stipulation, and a report discussing lag in the regulatory review process.

DETERMINATIONS

In the Annual True Up, GWA submits that the proposed rate increase for FY2015 is essentially a 14.5% increase in Basic and Non-lifeline rates across all water and wastewater customer classes.¹ GWA maintains that “[t]he main thrust of the Rate Plan will continue to be the key focus for FY2015” and which include “water supply reliability, water quality, leak detection, line repair, meter replacement and complying with requirements of the 2011 Federal Court Order.”²

¹ Annual True Up, p. 3.

² Annual True Up, p. 2.

In addition, it appears that the Legislative Surcharge, which is restricted to paying for health care benefits and annuities of GWA's retirees and must be adjusted annually, will increase by 3.7%.³

In the Lummus Report, Lummus indicates that the parties have agreed on the 14.5% rate increase GWA requested for FY2015, with similar resolution on other issues. Accordingly, the result of its review has been reduced to a stipulation agreed upon by Lummus and GWA, as well as a report regarding updates to the October 22, 2013 Stipulation. Lummus also provided a discussion regarding ways to reduce regulatory lag during the review process.

Pursuant to the Stipulation, Lummus and GWA have agreed that the original 14.5% rate increase is just and reasonable.

As this matter was not ready for the Commission's review prior to October 1, 2014, both GWA and Lummus have addressed the issue of compression of rates. GWA's position is that the full 14.5% increase should be assessed over the remaining ten (10) months of the fiscal year since the parties have determined such rate to be just and reasonable (beginning December 1, 2014).

Lummus, on the other hand, maintains that only eleven (11) months of the 14.5% increase should be assessed over the remaining ten (10) months. Lummus recommends the loss of one month's increase in revenues (or about \$600,000 according to Lummus) "as incentive for GWA to work with Lummus Consultants to improve the process and alleviate the delays and lags that have resulted."⁴ In the Stipulation, Lummus states that it "has again received relevant support for GWA's rate increase on a delayed

³ Annual True Up, p. 3.

⁴ Stipulation, p. 1.

basis and finds that GWA operates under deadlines by leaving Lummus Consultants with little time for a prudency review.”⁵

The parties have further stipulated that this decision should be left to the Commission.

In response to ongoing regulatory lag, the parties have agreed to craft a plan for submission to the PUC for review, to include the following: (1) justification for any substantial modification (4% variance or any modification beyond normal annual adjustment) to expenses or revenues than what has been projected and approved in a fiscal year; (2) subject to PUC approval, GWA will provide Lummus with its monthly financial statements, annual financial reports, and audits; and (3) Lummus and GWA will examine how information should be presented for purposes of true-up reviews.

On November 26, 2014, the ALJ issued an ALJ Report discussing his review of the relevant documents on record before the Commission. In the report the ALJ found that the joint findings contained in the Stipulation were reasonable. Accordingly, the ALJ recommended that the PUC adopt the findings set forth in the November 25, 2014 Stipulation.

Based on the administrative record established in this docket, along with the representations made by the parties in the November 25, 2014 Stipulation, the ALJ found that the rate increase proposed by GWA was just and reasonable. Accordingly, the ALJ recommended that the PUC approve the recommendations relating to rate relief as described in the Stipulation; in particular, the ALJ recommended that the PUC adopt the following: that the proposed rate increase for FY2015 is essentially a 14.5% increase in

⁵ Stipulation, p. 1.

Basic and Non-lifeline rates across all water and wastewater customer classes.⁶ However, as described in the November 25, 2014 Stipulation, the parties disputed how such rate relief should be assessed. This issue remained unresolved and was left to be determined by the Commission.

Lastly, there was also a delay in reaching a consensus on issues between GWA and Lummus, which resulted in late approval of the Fiscal Year 2015 rate increase. Frequent discussions between the two parties and timely responses to data requests are needed to provide transparency in fully understanding the issues.

The Commission hereby adopts the findings made contained in the November 25, 2014 Lummus Report, the November 25, 2014 Stipulation, and the November 26, 2014 ALJ Report, and therefore issues the following:

ORDERING PROVISIONS

Upon careful consideration of the record herein, and for good cause shown, on motion duly made, seconded and carried by the affirmative vote of the undersigned Commissioners, the Commission hereby ORDERS the following:

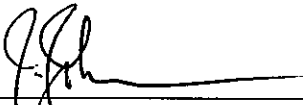
1. Approval is GRANTED for GWA to increase its rates for Fiscal Year 2015 by 14.5%, to be compressed at a rate of 17.4% effective December 1, 2014, this increase to be recovered over the 10-month period ending September 30, 2015.
2. GWA and Lummus are ordered to work together to develop an enhanced reporting framework that will expedite the review process over the next ninety days and report back to the Commission with their recommendations.

⁶ Annual True Up, p. 3.

3. Approval is granted for GWA and/or the CCU to copy Lummus with Schedules A through O of its monthly GWA Financial Statements.

4. GWA is ordered to pay the PUC's regulatory fees and expenses, including and without limitation, consulting and counsel fees, and the fees and expenses associated with this docket. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the PUC.

SO ORDERED this 1st day of December, 2014.




JERREY C. JOHNSON
Chairman



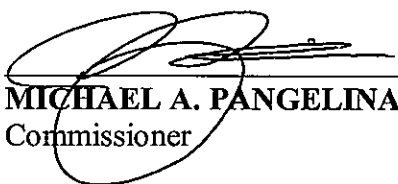
ROWENA E. PEREZ
Commissioner



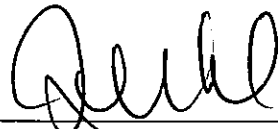
JOSEPH M. MCDONALD
Commissioner




FILOMENA M. CANTORIA
Commissioner



MICHAEL A. PANGELINAN
Commissioner



PETER MONTINOLA
Commissioner



ANDREW L. NIVEN
Commissioner