



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

) **GWA DOCKET 13-01**  
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) **PETITION OF**  
) **GUAM WATERWORKS AUTHORITY** ) **RATE DECISION**  
) **FOR RATE RELIEF** )  
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**INTRODUCTION**

This matter comes before the Guam Public Utilities Commission (the “PUC”) pursuant to the Petition for the Approval of the Guam Waterworks Authority’s 5 Year Financial Plan, filed by the Guam Waterworks Authority (“GWA”) on June 5, 2013.

**BACKGROUND**

On March 1, 2013, GWA filed its Five Year Financial Plan relative to fiscal years 2014 through 2018 (hereinafter referred to as the “Rate Plan”). On June 5, 2013, GWA filed its Petition for approval of the Rate Plan. On June 5, 2013, Administrative Law Judge (“ALJ”) David A. Mair transmitted the Rate Plan to Lummus Consultants International Inc. (“Lummus”), the PUC’s consultants for water and wastewater matters, for their independent review.

In accordance with the Ratepayers’ Bill of Rights, duly noticed public hearings were held in the village of Hagåtña on October 21, 2013, and in the villages of Asan and Dededo on October 23, 2013. On October 22, 2013, GWA and Lummus entered into a Stipulation agreeing to certain terms and conditions, as well as agreeing to certain proposed rates. On October 25, 2013, ALJ Joephet R. Alcantara filed an ALJ Report detailing his review of the instant rate investigation.

## DETERMINATIONS

Based on the record before the Commission, the ALJ found that Lummus thoroughly reviewed GWA's proposed rate increases contained in the Rate Plan, and that GWA appropriately demonstrated its need to increase its rates, particularly to: fund projects in order to comply with the "2011 Federal Court Order, regulatory mandates and policy statements"<sup>1</sup>; improve "service levels, meeting reserve requirements and contractual obligations such as the 2005 and 2010 Revenue bond covenants"<sup>2</sup>; as well as "to cover the cost of internally financed capital projects of approximately \$50M" and "to cover costs of operation such as sludge disposal, power, chemicals, payroll and Navy water purchases."<sup>3</sup>

The ALJ further found that during this rate investigation, there have been substantial discussion and negotiation between GWA and Lummus which has culminated in a slight reduction of the rate increases originally proposed by GWA by way of Stipulation. As a result, the ALJ recommended that the PUC approve the Stipulation entered into between Lummus and GWA. The ALJ, therefore, recommended that the Commission determine that the proposed rates, as well as the recommendations, set forth in the Stipulation are "just" and "reasonable" as required under 12 G.C.A. §§ 12015 and 12017.

Accordingly, the ALJ recommended that the PUC approve implementation of the 15% rate increase for FY2014, effective November 1, 2013. The ALJ further recommended that the PUC approve the subsequent rate increases, in particular: (1) 14.5%

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<sup>1</sup> Rate Plan, p. 1.

<sup>2</sup> Rate Plan, p. 1.

<sup>3</sup> Petition, p. 2.

for FY2015; (2) 16.5% for FY2016; (3) 7% for FY2017; and (4) 4% for FY2018; and that these remaining rate increases should be implemented on October 1<sup>st</sup> of each fiscal year, subject to an annual true-up to reflect the actual data for the prior year.

In addition, the ALJ further recommended that GWA be ordered to perform the additional obligations set forth in the Stipulation as agreed between the parties, which include conducting the proposed studies indicated in the Stipulation.

The Commission hereby adopts the findings contained in the October 25, 2013 ALJ Report and, therefore, issues the following:

### **ORDERING PROVISIONS**

After careful review and consideration of the above determinations, the October 25, 2013 ALJ Report, the testimonies presented at the public hearings, the Stipulation, and the record herein, for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission hereby ORDERS that:

1. The Stipulation of the parties, attached hereto as "Exhibit A" is approved.
2. In accordance with the Stipulation, GWA is authorized to implement the 15% rate increase for FY2014, effective November 1, 2013.
3. In accordance with the Stipulation, GWA is further authorized implement the following rate increases for subsequent fiscal years, in particular: (1) 14.5% for FY2015; (2) 16.5% for FY2016; (3) 7% for FY2017; and (4) 4% for FY2018; and that these remaining rate increases shall be implemented on October 1<sup>st</sup> of each fiscal year, subject to an annual true-up to reflect the actual data for the prior year.
4. All findings, recommendations, and determinations contained in the Stipulation are adopted and approved; the parties are instructed to fully implement such

determinations and rate relief in accordance with the provisions contained in the Stipulation, and shall undertake all duties and obligations agreed to in the Stipulation;

5. With respect to GWA's miscellaneous fees and charges, GWA shall examine the costs of providing each service and shall file with the PUC any proposed modifications to such fees and charges, during FY2014 in order to implement any such fees and charges by FY2015;

6. With respect to GWA's fire protection system, GWA shall perform a study in order to determine the cost of providing fire protection service for sprinkler systems or private hydrants directly connected to the distribution system; GWA shall complete this study no later than FY2015 in order to implement any fees related to such fire protection service by FY2016;

7. With respect to its fee for Residential Sewer Service, GWA shall perform a study related to switching from fixed fees for its Residential Sewer Service to consumption-based fees; GWA shall complete such a study by December 30, 2015;

8. With respect to adopting a third block water rate to encourage conservation, as outlined in the Stipulation, GWA shall complete its assessment of a third block rate by December 30, 2016.

9. GWA shall continue to file annual true-ups no later than June 1<sup>st</sup> of each year.

10. GWA is ordered to pay the Commission's regulatory fees and expenses, including and without limitation, consulting and other fees, and the fees and expenses associated with conducting the rate investigation and hearing process. Assessment of the

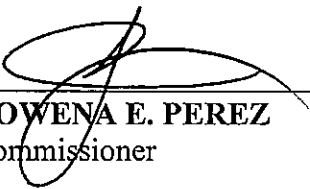
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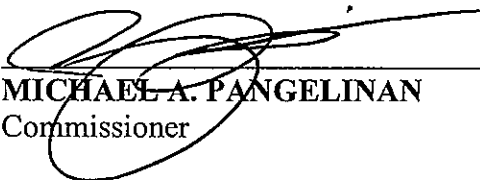
PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the PUC.

**SO ORDERED** this 29<sup>th</sup> day of October, 2013.

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**JEFFREY C. JOHNSON**  
Chairman

  
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**JOSEPH M. MCDONALD**  
Commissioner

  
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**ROWENA E. PEREZ**  
Commissioner

  
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**MICHAEL A. PANGELINAN**  
Commissioner

  
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**PETER MONTINOLA**  
Commissioner

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**FILOMENA CANTORIA**  
Commissioner

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**FINAL STIPULATION – FOR SUBMISSION TO THE GPUC**

**JOINT STIPULATION RELATIVE TO RATE RELIEF – PETITION OF  
GUAM WATERWORKS AUTHORITY DOCKET NUMBER 09-03**

The Guam Waterworks Authority (“GWA”) and Lummus Consultants International, Inc. (“Lummus Consultants”), who serves as independent regulatory consultant to the Guam Public Utilities Commission (“GPUC”), hereafter collectively referred to as “the Parties,” hereby enter into this evidentiary Stipulation and make the following recommendations to the GPUC for its consideration:

The Parties make the following recommendations in this Stipulation.

1. GWA has and is continuing to experience very high levels of unaccounted for water (“UAW”) losses. GWA and Lummus Consultants agree that GWA needs to make very significant reductions in these losses in the short run in order to achieve long term savings. In light of this, GWA has set aggressive goals over the five year plan that equate to annual reductions of 3% per year in UAW losses. GWA will reprioritize its meter replacement program and its leak detection and repair program (“LD&R”) as a result of this Stipulation. GWA will increase spending levels on these two programs, particularly in the early years of the 5 year program, so that associated O&M savings (principally chemicals and power costs) can be realized as soon as possible.

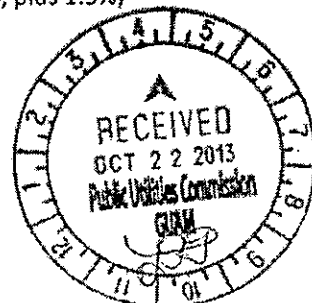
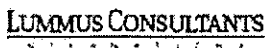
Because of this aggressive LD&R program, GWA will lower its projection of chemical and power costs by the following percentages in each of the 5 years of the financial and rate plan:

- FY2015 ----- 1%
- FY2016 ----- 2%
- FY2017 ----- 3.5%
- FY2018 ----- 5%

These adjustments will be monitored closely with each annual true-up and readjusted if necessary to reflect actual experience in the prior year(s).

2. To further reduce UAW losses, GWA and Lummus Consultants agree that water and sewer metered sales (and thereby related revenues) should be based on a continuation of the 7.50% increase agreed to in the 2013 true-up stipulation and that it should continue throughout the five years of the current plan. Furthermore, due to the installation of 26,000 more replacement meters in FY2013 and FY2014, water and sewer metered sales starting in FY2014 should be increased 3% and 1.5% in FY 2015. The resulting impact on metered sales is that by FY2015 sales will have increased 12.0% above levels achieved in FY2013. The cumulative effect of these increases is as follows:

- FY2014 ----- 10.5% (7.5% in FY2013, plus 3%)
- FY2015 ----- 12.0% (7.5% in FY2013, 3% in FY2014, plus 1.5%)
- FY2016 ----- 12.0%
- FY2017 ----- 12.0%



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- FY2018 ----- 12.0%

These adjustments will be monitored closely with each annual true-up and readjusted if necessary to reflect actual experience in the prior year(s).

3. GWA and Lummus Consultants agree that the increase in salaries and benefits should be lowered to a 3% increase in FY2014. Additionally, for each subsequent year of the 5 year plan the annual increase will be limited to a maximum of 3% unless GWA provides additional justification for higher increases in subsequent reviews. The cumulative effect of these decreases on salaries and benefits in the current five-year plan is as follows:

- FY2014 ----- (-3.0%)
- FY2015 ----- (-6.0%)
- FY2016 ----- (-9.0%)
- FY2017 ----- (-12.0%)
- FY2018 ----- (-15.0%)

These adjustments will be monitored closely with each annual true-up and readjusted if necessary to reflect actual experience in the prior year(s) and economic recovery and growth.

4. While there is considerable uncertainty as to the level of growth in new customers, the Parties agree that, for purposes of forecasting revenues from System Development Charges (SDCs), at least some growth is likely to occur during the 5 year rate plan. Therefore, revenues from SDCs will be forecasted to increase by 5% per year starting in FY2014 and continue for the remainder of the 5 year plan. On a cumulative basis the total increase in SDC revenues will be as follows:

- FY2014 ----- 5%
- FY2015 ----- 10%
- FY2016 ----- 15%
- FY2017 ----- 20%
- FY2018 ----- 25%

These adjustments will be monitored closely with each annual true-up and readjusted if necessary to reflect actual experience in the prior year(s).

5. GWA and Lummus Consultants have reviewed the proposed 5 year rate plan and collectively propose an additional reduction of \$1.4 Million in O&M expenses to be achieved through active management of such costs during the rate plan period. Lummus Consultants applauds the efforts of GWA to said reductions and agrees to the proposed changes in the plan. The resulting savings are projected to be achieved in the following manner: (1) FY2014 - \$500k, (2) FY2015 - \$500k, and (3) FY2016 - \$400k which equates to a total combined reduction of \$1.4M Million.

The adjustments will be monitored closely with each annual true-up and readjusted if necessary to reflect actual experience in the prior year(s).

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6. GWA and Lummus Consultants agree that miscellaneous fees and charges are significantly below cost, and therefore, these need to be increased to reflect the actual costs involved in providing each service. GWA will perform an analysis to estimate the total costs of providing each service in FY2014 and will file proposed changes in these fees/charges with the PUC in FY 14 in order to begin charging approved fee changes in FY2015. The revenue projections for these services will be adjusted upward to reflect these increased fees. Because the actual increases will not be known prior to FY2015, it is assumed that the current projections of revenues for these fees in FY2015 and the remainder of the five year period will be 25% higher than currently estimated.

These adjustments will be monitored closely with each annual true-up and readjusted if necessary to reflect actual experience in the prior year(s).

7. GWA and Lummus Consultants agree that customers currently receiving private fire protection service (sprinkler systems or private hydrants directly connected to the distribution system) should be charged for that service based on the total cost of providing that service. GWA should have a study performed and a report provided in order to estimate the total costs of providing fire protection service for various size connections; this should be completed no later than FY2015. The study time frame is intended to allow the Authority to begin charging for private fire protection service beginning in FY2016. Lummus Consultants recommends that the GPUC approve the necessary and reasonable expenditures needed to pay for such a study and report. While it is difficult to estimate the cost of such a study, it should cost less than almost all of the projects included in the 5 year plan. Because the revenues to be derived from these charges will not be known prior to FY2015, it is assumed that the revenues to be derived from private fire protection service will equal the estimated number of private fire protection customers, times \$200 per year starting in FY2016 and continue through FY2018. Examples are as follows:

- FY2016 - - - - - 100 Customers x \$200 = \$20,000
- FY2017 - - - - - 100 Customers x \$200 = \$20,000
- FY2018 - - - - - 100 Customers x \$200 = \$20,000

These adjustments will be monitored closely with each annual true-up and readjusted if necessary to reflect actual experience in the prior year(s).

8. GWA and Lummus Consultants agree that there is considerable uncertainty in estimating the total costs of large construction projects, particularly the further out in time the construction is planned to take place. The Parties also recognize that the current estimates include contingency factors that increase the expected costs considerably and, in some cases, be lower than projected today. The Parties agree that with each true-up, the cost estimates of all future projects will be re-assessed in light of changing economic conditions, market competitiveness for large construction projects in Guam and in the region, and realized actual costs for completed projects. To the extent that these assessments indicate that prior cost estimates beyond the then current true-up year are significantly higher or lower than experienced costs, then future cost estimates will be appropriately adjusted. Furthermore, to the extent that future cost estimates are adjusted during a true-up process, the size of associated bond levels will be adjusted proportionately.



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9. GWA and Lummus Consultants have agreed that GWA's improving financial position as a result of PUC rate approvals and GWA performance may allow for improved ratings from the rating agencies that would in turn result in lower interest rates for the 2015 and 2017 expected borrowings. Thus, for the purposes of estimating the debt service costs associated with the three major bond issues included in the 5 year financial plan, the interest rate on the first major bond issue ("FY2013 bonds") will be set at the level reflective of current financial market conditions, as determined by the bond underwriters (currently 7%). The applicable interest rates for the second ("FY2015 bonds") and third ("FY2017 bonds") bond issues will be set at 5.5% for remainder of the initial 5 year rate plan approved by the PUC. Similar to estimated cost estimates going forward, the assumed interest rates will be recalibrated with each true-up process, and the interest rates will be adjusted to reflect the then-current financial market conditions.
10. GWA and Lummus Consultants agree that the proposed New Financial Policies are reasonable and will, in the long run, improve GWA's financial position, leading to lower financing costs that also benefits ratepayers. However, with the addition of the reserve funds (Working Capital and Cash Reserve and the Working Capital Reserve Fund required for debt service requirements), the need for a large net surplus at the end of the 5 year plan is diminished. Therefore, for the purpose of estimating needed rate increases, the net surplus at the end of FY2018 will be adjusted down to be at a level of approximately \$1 Million (within the 5 year rate model). Thus, the new funds and the net surplus should be set as follows:
- Working Capital and Cash Reserve – as proposed (\$13.5Million at the end of FY2018)
  - Capital Improvement Fund – Working Capital Reserve for Debt Service – as proposed (\$11.185 Million). This fund replaces the \$9.5M Rate Stabilization Fund originally proposed. This change was necessary to comply with bond covenants and will be utilized to reduce rates during the 5 year planning period.
  - The rate model will be set to produce no more than a \$1 Million balance of net cumulative surplus at the end of the 5 year period (original proposal - a cumulative surplus of \$13.9 Million).

These adjustments will be monitored closely with each annual true-up and readjusted if necessary to reflect actual experience in the prior year(s).

11. GWA and Lummus Consultants agree that GWA should consider adopting the rate structure changes outlined below. However, before adopting such changes, GWA should undertake a study that would evaluate the proposed structural change, in addition to other changes that may be more advantageous to the GWA and to its customers. Lummus Consultants recommends that the PUC approve the necessary and reasonable expenditures necessary to obtain such a study and to provide a final report. While it is difficult to estimate the cost of such a study, it should cost less than almost all of the projects included in the 5 year plan. These suggested rate structure changes are expected to result in significant increases in rate revenues without raising the general level of rates to all customers. Additionally, if properly designed, these structural changes will result in a more equitable recovery of rates from those responsible for cost-incurrence.

- Currently GWA applies fixed or "flat" charges for Residential Sewer Service. The appropriate rate structure for these types of charges should be consumption based rather than fixed. Such a structure will enhance equity within the class and is likely to

## FINAL STIPULATION – FOR SUBMISSION TO THE GPUC

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enhance the level of rate revenues received from this class. In recognition of the timing needed to implement changes to rate structure, an assessment of this opportunity should be completed by December 30, 2015, for implementation of recommended changes by FY2016. Because the associated expected increases in rate revenues due to this structural change will not be known until the end of FY2016, for purposes of this Financial Plan it is assumed that rate revenues will not be significantly increased as a result of this change.

- For all residential customers, GWA and GPUC should consider adopting a rate to encourage conservation. For example, GWA, with the approval of the PUC, could add a high tail (3rd) block rate (for all consumption above 10,000 gallons per month). The second block level would be for use between 5,001 gallons and 10,000 gallons per month. GWA and GPUC could set the Residential 3rd block rate at 1.25 to 1.5 times the current second block rate. This type of approach to rate structure is expected to result in charging those using excessive amounts of water a much higher rate. (For example, most residential usage for a given customer in excess of 120,000 gallons per year is used for non-essential or discretionary purposes, such as lawn irrigation, pool filling or car washing, etc.). In recognition of the timing needed to implement changes to rate structure, an assessment of this opportunity should be completed by December 30, 2016, for implementation of recommended changes by FY2017. Because the associated expected increases in rate revenues due to this structural change will not be known until the end of FY2017, for purposes of this Financial Plan it is assumed that rate revenues will not be significantly increased as a result of this change.

12. As a result of the stipulated findings herein, and in order for GWA to meet the projected revenue requirements over the next five fiscal years, Lummus Consultants agrees that GWA should be awarded overall increases in customers' bills, including water and wastewater rates across all customer classes (including the Navy) as follows and a one-time adjustment to Lifeline rates of 7% in FY2017:

- a. FY2014 ----- 15.0%
- b. FY2015 ----- 14.5%
- c. FY2016 ----- 16.5%
- d. FY2017 ----- 7.0%
- e. FY2018 ----- 4.0%

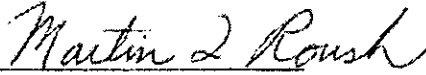
All increases should be implemented on October 1st of the given fiscal year except for FY2014 rates, which shall be implemented on Nov 1, 2013. Based upon the information received by Lummus Consultants at this time, these rates are "just" and "reasonable" pursuant to 12 GCA §§12015 and 12017. These rates will be monitored closely and adjusted with each annual true-up to reflect actual experience in the prior year(s) and new information for the upcoming years.

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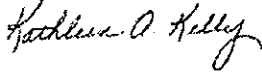
The parties hereby agree to the terms and covenants set forth in this Stipulation:

**The Guam Waterworks Authority**

  
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Martin L. Roush, P.E.  
GWA General Manager

Date: 10/10/2013

**Lummus Consultants International Inc.:**

  
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Kathleen A. Kelly  
Vice President

Date: October 18, 2013