December 5, 2012

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

Docket 11-09: Review and Evaluation of GPA's Petition to Roll-Back Savings to Customers from its Recent Refinancing

Dear Chairman Johnson,

Shaw Consultants International, Inc. (Shaw Consultants) is pleased to submit this letter report in response to Mr. Fred Horecky's request to evaluate and submit a short report with respect to GPA's petition to roll-back savings to customers from its recent restructuring/refinancing.

Introduction

In GPA's bond restructuring/refinancing petition to the PUC, GPA advanced a number of opportunities that could be achieved through the refinancing, one of which was the ability to roll-back all or a significant portion of its recent $9.1M rate increase that was granted by the PUC in May 2012. In the PUC's Order in Docket No. 12-03 dated September 25, 2012 authorizing the bond refinancing, it mandated that:

> Within thirty (30) days after the issuance of the bonds approved by this Order, GPA shall petition the PUC for a resetting of GPA's revenue requirement that takes into account the savings in debt service which results from the restructuring/refunding. With its Petition, GPA shall provide a summary of the debt service achieved and revised tariffs for review. The PUC will reduce GPA retail rates by the amount of reduction in debt service resulting from the bond transactions (i.e., somewhere on the order of $9 million) so that the rate reduction can take effect on the first day of the month following PUC's approval of GPA's revised tariffs.

On November 16, 2012, GPA submitted its roll-back proposal to the PUC, which was set forth in the testimony and exhibits of Randall Wiegand in Docket No. 11-09. This review is submitted in response to that request.

We have reviewed GPA's roll-back credit proposal with a focus on a number of key areas for analysis and evaluation. Each of these is discussed separately in the sections that follow. Our findings, conclusions and recommendations relative to each are summarized at the end of each section.

Discussion and Recommendations

What is the appropriate level of credit to be returned to GPA's customers?

The achieved savings to GPA under the bond refinancing is approximately $11.5M in the first year and $10.66M in each of the following five years. However, in its RBC petition, GPA and the CCU have proposed that the initial roll-back credit be approved at a level that would return an *annualized* amount of $9.1M to ratepayers over a 10-month period, from December 1, 2012 through September 30, 2013[1]. This translates to a roll-back of 10/12ths (83.3%), or approximately $7.6M, which is approximately 66% of the first year savings. GPA gives several reasons for the reduced roll-back, including: a potential drop in sales versus the projection used in the rate case; and negative feedback GPA has received from the rating agencies concerning the roll-back.

GPA's proposal to terminate the roll-back on September 30, 2013 coincides with the proposed effective date of the new rates in its next base rate case and that continued annual savings of approximately $10.66M resulting from its recent bond restructuring/refinancing be reflected as a reduction in revenue requirement in the next rate application.

The reason that GPA gave for requesting the RBC temporarily, i.e. only through September 30, 2013, was that it would allow it to have the time it required to prosecute a full rate case. In a follow-up request, Shaw Consultants asked how extending the roll-back for two more months, so as to provide a full year and refund the full impact of the recent $9.1M rate increase, would impede GPA's ability to prosecute a full rate case. GPA provided the following response:

> Our goal was to get our last rate case filed in a timely manner so as to ensure we have new revenues to offset increasing debt service which was to be effective 10/1/11. Due to a variety of delays on GPA's part, the rates didn't go into effect until May 1, 2012. Thus, GPA went through most of the year without having revenues to offset the debt service costs. GPA's debt service coverage ratio was less than 1 for the year prompting concern on the part of rating agencies and investors. We would like to avoid that situation by ensuring the next rate increase takes effect on October 1, 2013. In order to ensure that happens, the PUC has ordered us to file a case no later than April 1, 2013. Therefore, by October 1, 2013, GPA should have new rates in effect with the savings from the bond issuance rolled into base rate of the new rate petition.

We are not fully convinced that the rationale provided is sufficient to warrant truncating the roll-back at the end of 10 months. If the new rates do become effective on October 1, 2013, then there will be no negative effect on debt service costs. If the new rates become effective after October 1, 2013, GPA still has a cushion of approximately $2.4M[2].

[1] December 1, 2012 corresponds to the first month in which in which savings from the bond refinancing will be realized and September 30, 2013, which corresponds to the last day of the month before the currently proposed effective date of the Authority's planned next base rate increase.

[2] $2.4M represents the difference between the first year savings of $11.5M and the amount the Authority proposes to refund if the refund period was a full 12 months ($9.1M).

While GPA's overall arguments are reasonable and somewhat persuasive, it comes down to a trade-off between strict adherence to the GPUC's Order on this issue versus some potential short term improvement in the Authority's financial position, should the Commission allows some flexibility in deciding this case. Shaw Consultants understands that GPA has financial issues and believes that it may be appropriate for GPA to retain some of its first year savings.

If the Commission decides to allow some flexibility with respect to its prior order, we recommend that it adopt one of the following compromise positions:

a) Allow the Authority to base the RBC calculations on an annualized roll-back amount as proposed over a 10 month period, but use the total savings of $11.5M, rather than the proposed $9.1M, as the base level for computing the credit. This would result in customers receiving total credits of $9.6M (10/12 x $11.5M), and the Authority retaining $1.9M of the savings during FY2013.

b) Allow the Authority to retain the $2.4M difference between a full roll-back of the savings ($11.5M) and the $9.1M that was granted in GPA's recent rate case. This could be accomplished in a couple of ways.

   - Require the Authority to compute its roll-back credits in such a manner that it would return the full $9.1M over the 10 month period; or
   - Extend the roll-back period for a full 12 months to recover the $9.1M.

Option a) is somewhat more favorable to customers (customers receive $9.6M, and the Authority retains $1.9M). Option b) is somewhat more favorable to the Authority (customers receive $9.1M and the Authority retains $2.4M).

What is the most appropriate or preferred method of adjusting rates to return the roll-back credit to customers relative to the savings to be realized in FY 2013?

For FY 2013, GPA proposed to provide the savings to customers that resulted from its bond refinancing in the form of a credit per kWh, rather than changing its base rates[3]. The reasons advanced by the Authority for not modifying base rates to incorporate the credit, were:

- While GPA has a desire to move the demand rates [higher] towards industry standards, it has worked hard with the PUC in its Emergency Petition to build in the needed adjustments and did not want to move them any lower;
- GPA has a residential lifeline rate for usage up to 500 kWh per month that they cannot modify at this time, in accordance with a decision by the Administrative Law Judge. Thus, if GPA decreased the residential tail block, customers that used 500 kWh per month or less would not realize any benefit from the refinancing; and
- GPA does not want to change the customer charges after finally moving them closer to the costs of providing basic service.

[3] After FY 2013, as indicated above, GPA has agreed to incorporate refunds in its next base rate increase. Thus, the issue of how to flow back the savings beyond FY 2013 would be fully considered and adjudicated as part of that case.

Shaw Consultants reviewed the Authority's rate structures across its customer classes and agrees with GPA's proposal to provide the credit across all kWh. We note though, that one option that GPA did not appear to consider is to calculate the refund for each class in proportion to the last increase each class received in GPA's recent rate case. In comparison with GPA's current proposal, if it had based the RBC in proportion to its last base rate increase, it appears that Civilian would have received a greater credit and conversely, the Navy may have been assessed a lower or even a negative decrease, i.e. being charged rather than credited. However, in the interest of simplicity and for ease of calculation and administration, we do agree with the proposed roll-back mechanism.

GPA's Analytics in support of the roll-back credit

Shaw Consultants reviewed the calculations underlying the credit for each, Civilian and the Navy as set forth in Appendix E of Exhibit RVW-4 and the supporting Excel spreadsheet file.

GPA's proposed roll-back credit is comprised of two components:

1. A refund of savings due to the refinancing
    a. The savings was split between the Navy and Civilian based on a rate base allocator per a PUC Order dated 6/10/11.
2. A charge to the Navy and a corresponding credit to the Civilian classes due to seven months of underpayment by the Navy stemming from a misallocation in the Authority's last cost of service study.

The composite dollar amount of the credit for each, the Navy and Civilian were divided by their respective kWh use for the applicable refund period. Under this procedure, the resulting credits were: 6.18 mills/kWh to the Civilian classes; and 4.14 mills/kWh to the Navy.

We conclude that the procedure GPA used to calculate the credit is appropriate and recommend that a consistent procedure be used should the Commission mandate a higher level of roll-back to customers as we have suggested.

If you have any comments or questions or require further discussion, please do not hesitate to contact us.

Sincerely,

Kathleen A. Kelly

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Vice President
Shaw Consultants International Inc.