

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:)

GWA DOCKET 19-07)

THE PETITION OF THE GUAM)
WATERWORKS AUTHORITY FOR)
APPROVAL OF A MULTI-YEAR LEASE)
AGREEMENT FOR HEAVY)
EQUIPMENT)

PUC COUNSEL REPORT

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] pursuant the Guam Waterworks Authority's ["GWA"] Petition for Approval of a multi-year lease agreement between GWA and Morrico Equipment, LLC ["Morrico"].¹
2. GWA requests that the PUC approve its contract with Morrico for the five (5) year lease of heavy equipment.

BACKGROUND

3. GWA must use heavy equipment, operated by its employees, to perform many of the smaller capital improvement projects ["CIPs"] and smaller repairs to GWA's water and waste-water systems. GWA has an ageing heavy equipment fleet that requires frequent repairs which cause substantial portions of the fleet to be inoperable for extended time periods. This creates a shortage of operable heavy equipment causing delays in the performing and completion of GWA's smaller CIPs and repair operations.²
4. GWA incurs additional costs for short-term heavy equipment rentals to overcome heavy equipment shortfalls caused by the increased repair requirements of GWA's ageing heavy equipment fleet.³
5. On May 31, 2018, GWA, in an effort to alleviate it's shortages in operable heavy equipment and to mitigate the costs of short-term heavy equipment rentals, issued

¹ GWA Petition for Approval of Multi-Year Lease Agreement for Heavy Equipment, GWA Docket 19-07, filed on November 29, 2018.

² Consolidated Commission on Utilities ["CCU"] Resolution No. 04-FY2019, Relative to the Approval of a Multi-Year Lease Agreement for Heavy Equipment, issued on November 27, 2018, line 15, page 1.

³ Id., at line 25, page 1.

GWA-IFB-2018-12 (Heavy Equipment Lease). GWA only received one (1) bid from Morrico in response to this solicitation and GWA determined that Morrico's five (5) year lease option was the best option and it awarded the contract to Morrico.⁴

6. GWA's heavy equipment lease contract with Morrico requires Morrico to lease three (3) four (4) wheel drive backhoes, three (3) heavy duty trailers, and three (3) tandem dump trucks inclusive of full service and maintenance programs for the full term of the lease. This contract will cost GWA nineteen-thousand-three-hundred-forty-seven-dollars (\$19,347) per month, for a total of one-million-one-hundred-sixty-thousand-eight-hundred-twenty-nine-dollars (\$1,160,829) for the entire five (5) year term.⁵
7. On November 27, 2018, the Consolidated Commission on Utilities ["CCU"] adopted Resolution No. 04-FY2019 which authorized GWA's management to enter into the heavy equipment lease contract with Morrico, expend the amount of one-million-one-hundred-sixty-thousand-eight-hundred-twenty-nine-dollars (\$1,160,829) for the entire five (5) year term of the lease, subject to the PUC's approval of the contract.⁶

ANALYSIS

9. Apparently, based on the information provided with GWA's petition, GWA's in house capability to maintain an effective operable rate for its heavy equipment fleet is being overcome by increasing maintenance needs of its ageing heavy equipment fleet. GWA had various options to resolve this issue, such as improving its in-house maintenance capability, outsourcing it, or obtaining new heavy equipment. GWA did not provide any information concerning the viability or comparative costs associated with these options. Instead, GWA has determined that resolving the shortage of operable heavy equipment by renting the nine (9) pieces of heavy equipment described above from Morrico. Additionally, GWA has determined that shorter lease periods, such as one (1) to four (4) years, which may result in costs below the PUC's review threshold, were less prudent than the five (5) year contract term because the longer five (5) year term is the highest and best use of rate-payer funds.⁷

⁴ GWA Petition, GWA Docket 19-07, at line 30, page 1.

⁵ CCU Resolution No. 04-FY2019, pages 2-3.

⁶ Id., page 3.

⁷ Id., line 20, page 2.

10. The PUC's Contract Review Protocol for GWA mandates that for multi-year contracts with fixed terms and fixed annual costs, GWA must obtain PUC approval if the total costs during the entire contract term exceeds the one-million-dollar (\$1,000,000) review threshold.⁸ Here, the must approve GWA's heavy equipment lease contract with Morrico because the total cost of its five (5) year term is one-million-one-hundred-sixty-thousand-eight-hundred-twenty-nine-dollars (\$1,160,829) which exceeds the review threshold amount.
11. A very rudimentary internet search of the base prices for new equipment substantially similar to the equipment GWA will be leasing from Morrico indicates that is likely that the cost of purchasing such equipment is substantially similar to, or slightly higher than the costs of the GWA's lease contract with Morrico. However, these base prices do not include the costs of shipping such equipment to Guam, nor do they include the costs of the full service and maintenance programs for the full term of the lease inclusive in the contract price. Hence, the contract's cost advantage over owning the equipment is that GWA does not have to bear the costs of shipping, maintaining, and servicing the rented equipment over the five (5) year term.
12. GWA operational capability will be enhanced by its plan to organize the heavy equipment it rents from Morrico under the contract into three teams consisting of a one (1) backhoe, one (1) dump truck, and one (1) trailer and the necessary crews to man and operate them. GWA can deploy these teams quickly throughout Guam to conduct small CIPs and line repair and installation projects.⁹
13. Based on the foregoing, GWA's heavy equipment lease contract with Morrico is reasonable, prudent, and necessary.

RECOMMENDATION

14. Counsel recommends that the PUC approve GWAs heavy equipment lease contract with Morrico.

⁸ PUC Order re Contract Review Protocol for GWA, PUC Administrative Docket 00-004, filed on October 27, 2005 at paragraph 4(c), page 2.

⁹ GWA Petition, GWA Docket No. 19-07, line 15, page 2.

15. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 22nd day of December, 2018.



Anthony R. Camacho, Esq.
PUC Legal Counsel