

GUAM PUBLIC UTILITIES COMMISSION  
SPECIAL MEETING  
MAY 7, 2012  
SUITE 202, GCIC BUILDING, HAGATNA



MINUTES

The Guam Public Utilities Commission [PUC] conducted a special meeting commencing at 7:00 p.m. on May 7, 2012, pursuant to due and lawful notice. Commissioners Johnson, McDonald, Perez, and Pangelinan were in attendance. The following matters were considered at the meeting under the agenda made *Attachment "A"* hereto.

**1. Approval of Minutes**

The Chairman announced that the first order of business was approval of the minutes of the meeting conducted on March 26, 2012. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the minutes subject to correction.

**2. Port Authority of Guam**

The Chairman announced that the next order of business was PAG Docket 11-01, Petition for Tariff Rate Relief, ALJ Report re: Sensitivity Analysis.

Counsel indicated that the ALJ Report concerned a sensitivity analysis issue that the Commission had ordered the Port to undertake in the Rate Order approved on January 11, 2012. A Sensitivity analysis was required to look at the impact of the buildup and the relationship between Japan and the United States, and how the buildup might affect the long term ability of the Port to gain revenues from its operations. In March of this year the Port sent a letter to ALJ Mair and requested that the requirement of a sensitivity analysis be substituted with a management audit. The Port's reasoning was that it has had difficulty getting information from the federal government about the impacts of the buildup and when the buildup would occur, or how it would affect the Port.

The ALJ indicates that a management audit is desirable at the present time. He agrees with the Port's recommendation. The management audit will examine staffing pattern analysis, comparison of PAG with other ports with similar operations, delegation of duties, types of position, number of personnel, job specifications, etc. The audit will evaluate the terminal functions of the Port, terminal management techniques, the warehousing system, purchasing and inventory control, and an analysis of all material handling equipment operations.

At some point the ALJ still believes that a sensitivity analysis may be necessary. The ALJ recommends approval of the Port's request; he believes the PUC should retain the right to require the Port at a later time to provide a sensitivity analysis. The proposed Order would amend the Rate Order to provide that the Port conduct a management audit rather than a sensitivity analysis. Upon motion duly made, seconded, and unanimously carried, the Commissioners approved the attached order made *Attachment "B"* hereto.

### **3. Guam Power Authority**

The Chairman announced that the next item of business was GPA Docket 11-09, GPA's 2011 Filing of a Multi-Year Base Rate Increase, Stipulation of the Parties, ALJ Report, and Proposed Order.

Counsel indicated that, rather than making a presentation in the usual manner (since the Commissioners have the ALJ Report and the proposed Decision) that the parties should provide an explanation as to the basic elements of the rate case. Mr. Joaquin Flores, the General Manager of GPA, gave a presentation. He indicated that the residential class would be affected by the change in the customer charge from \$6.00 to \$10.00 per month. The customer charge would continue to increase in a phased manner ending at \$15.00 per month. The lifeline block of the energy charge will not change until October 1 of this year. The "tail block" (usage above 500 kWh) will increase approximately 4 to 4 ½% covering fixed cost recovery and to flatten the subsidization within the residential class. There are no changes to the self-insurance fund. The implementation of the working capital fund surcharge will cost an increase of approximately \$4.66 effective in the April Bill. In the May bill, the WCF surcharge will increase to \$7.00 to cover the fuel portion of the working capital requirement.

Mr. Flores indicated that the bottom line was a 3.39% total increase on the bill for the 1,000 kWh residential customer. Including the WCF surcharge, the total overall increase in the bill is 5.2%. Furthermore, the tier blocks and energy charges are eliminated by a demand charge recovery on rates. The increases in commercial bills vary from 3% to 4.8%. GPA's CFO, Randy Wiegand, indicated that the driving force of the rate case was to assign costs to the customers that cause the load. GPA conducted a load study and looked closely at the characteristics of different rate classes and demand charges. Charges are geared to assigning costs to customers who cause the cost. Generation transmission costs are allocated to customers based on percentage of use at the time of the peak. Customers should bear a share of the costs driving the peak. The allocation in this rate increase is heavier towards the residential customer than other customers. This rate case also adjusts the lifeline rate to narrow the amount of subsidy that other classes have been paying.

The Chairman asked whether the subsidy was 60%. Mr. Wiegand stated that the subsidy was presently at about 75%. On behalf of Georgetown Consulting Group, Attorney Blair then made a statement. He indicated that GPA has done a tremendous job of structuring rates and dealing with rate design issues that have been neglected for twenty years. Georgetown supports GPA's efforts for across the board rate increases-- over the years increases have exacerbated the inter class subsidy problems such as the lifeline. The effort here has been to reduce some of the imbalances in the rate design. Georgetown joins in the recommendations for approval by the PUC. The recommendation on the allocation between Navy and civilian customers has been taken off the table as a result of an error in the research data/billing model. The interim rates are established, but they can be changed when the data is corrected.

Mr. John Masterson, NAVFAC Counsel, endorses the proposed Order and the rate package as indicated in the stipulations. General Manager Flores said that GPA acknowledged the sentiments of the Commission, through the ALJ, in attempting to ameliorate this rate case to the extent possible. GPA had cut \$3.6M in its direct labor cost to help bring the revenue requirements down. The revenue requirement has been reduced to \$9M. Substantial deliberations by the parties and compromise were required. Commissioner Perez asked Mr. Flores whether the WCF Charge should be amortized. Mr. Flores stated that the one year amortization was for the incremental amount due to the fuel increase in the budget projected for FY12. There is also a four-year amortization on the principal and interest outstanding for the working capital fund. Only the increment of the fuel piece goes up or down. Commissioner Perez asked what fiscal years the rate case covered. The Chairman indicated that the original request was for a five-year package with a 31% increase.

After discussion, Cora Montellano, GPA Assistant CFO, indicated that the percentage increases for the first three years were initially 11.8%, 1.8%, and 10.6%. Commissioner Perez clarified that the revenue requirement for FY2012 was \$9M. Originally the requested increase was \$21M. The Chairman asked whether the prior balance of bond overrun funds were included in the docket to help the rate case. GPA officials indicated that they were. The Chairman asked whether GPA would get 48 days of cash on hand at the end of FY2013. General Manager Flores indicated that that was the projection. The Chairman sought to establish what the charges were for the lifeline block, which is the first 500 kWh estimated billing. It appeared to him that such charges were at .03644 per kwh, and the Tail Block Charge, the next 500 kWh at .09168 per kwh. CFO Wiegand indicated that the Government subsidizes the lifeline rate, and there is even a small subsidy in the Tail Block Charge.

The Chairman asked the General Manager where GPA was on the demand side management programs for the residential community. The GM stated that DSM

involves air conditioning, water heating, and electric cooking. GPA has \$270k to install solar water heaters in a rebate program from the ARRA funds. It is a first-come, first-served program, with a flat rebate check of \$3,000.00 per home. GPA hasn't gotten the program off the ground, but is just setting it up now. In response to the Chairman's question, GM Flores indicated that perhaps 25 people are on board with net metering.

Commissioner Perez asked how the decrease in the subsidization for lifeline and tail block rates would affect customers. CFO Wiegand indicated that for FY13, the first cut in the lifeline rate would decrease the subsidy from 75% to 50%. Commissioner Perez confirmed that, in 2014, the lifeline rate would equal 60% of the tail block rate, 70% in 2015, and 80% in 2016. CFO Wiegand indicated that in 2014, the subsidy would be shrinking for both lifeline block and the tail block. The Chairman asked how the 80% number was arrived at to reach the tail block charge. Attorney Blair stated that it was the original lifeline rate. Commissioner Pangelinan asked about pricing flexibility for large power customers and who was eligible. GM Flores stated that Airport, Guam Waterworks, and Department of Education were examples. Also included were large hotels in excess of 12 kW. CFO Wiegand indicated that this rate would allow GPA to attempt to keep customers on the grid – it will give GPA flexibility to offer an arranged reduction in the bill for the customer. GPA will bring the proposal to the PUC, and the PUC decides whether there should be flexibility on the rate.

Commissioner Perez asked whether the government agencies were paying their bills. CFO Wiegand said that they were. According to Assistant CFO Montellano, DOE is on a payment schedule. The Chairman asked whether there would be a Phase 2 for GPA issues. CFO Wiegand stated that there would be and the issues involved would be load research, self-insurance, the LEAC term (3 or 6 months), procedures relating to the working capital fund, etc. Commissioner Perez asked Counsel about the 20% requirement for the lifeline rate. Counsel explained that an issue was brought up by the parties in the rate case as to the 20% requirement. Once the 20% threshold was met, could the parties institute increases without again satisfying the 20% requirement; or, did the 20% requirement have to be met each time before an increase in the lifeline rate was made. Counsel indicated that the ALJ ruling was that the 20% increase requirement had to be met each time the lifeline rate was increased, the so-called "ratchet" approach.

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The ALJ believes that the 20% increase required in the statute must be satisfied before any subsequent increase in the lifeline rate could be made. Counsel Blair indicated that a second issue was whether, once the 20% threshold had been reached by GPA, the increase had to be immediately implemented or could be phased in over a period of time. Judge Horecky ruled that even if the 20% threshold had been met, the increase could be phased in over time. As response

to a question from public member Gabe Simon, GPA Legal Counsel Botha indicated that the lifeline rate will increase successively for four years. CFO Wiegand indicated that the lifeline was 20% when set in the early 90s, and it had grown to 75% as indicated by the cost of service and load study last year. Commissioner Perez moved to accept the Order as written, but wished to include language requiring GPA, in the next rate filing, to report on the impact of rates on the lifeline and tail block rates and to provide data showing what the impact has been. Counsel indicated that he could add such a provision. Upon motion duly made, seconded, and unanimously carried, the Commissioners approved the 2013 Rate Decision made *Attachment "C"* hereto.

The Chairman indicated that the next item of business was GPA Docket 11-13, GPA's Petition for Approval of Contract for Smart Grid Project, PUC Counsel Report, and Chairman's Order. Counsel indicated that this matter was before the Commission for ratification. The Chairman has already signed an order approving the Smart Grid Contract for Network Communications with Tropos Networks, Inc. Counsel had asked the Chairman to sign this order because GPA's contract with Tropos indicated that GPA would save \$130k on the contract if it was approved by a date certain deadline. Of course, that factor alone would not require approval of the contract. But, Counsel reviewed the contract and issued a Counsel Report. Counsel believed that there was sufficient justification to proceed with the contract.

GPA went out to bid its network communications. There were seven bidders. National companies were involved in the bid, which seeks to provide a telecommunications backbone for the Smart Grid system. It allows communications with the GPA data center, the metered data management. The communications network will provide communications for other smart grid components. There will be substation automation improvements, distribution automation, distribution management, etc. Network communications is an essential element of the Smart Grid program. The Commission has previously ruled that the Smart Grid program should be expedited; review of procurements is not required, only filing of final contracts for PUC review. This contract will cost approximately \$5.243M; it is funded by bond funds approved by the PUC in the 2010 bond issue. For Smart Grid, it will cost \$34M- -\$17M from a federal grant from the Department of Energy, and \$17M provided through bond funds. So, this contract will not increase any ratepayer impact- -it won't impose any more rate obligations.

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GPA has presented a strong justification for this contract. It's critical to the success of the Smart Grid program. GPA is being assisted by its PMO Black and Veach. In light of the Commission's desire to expedite approval of these contracts, it appears the contract is reasonable and prudent. The first phase of the project implements the tier 1 backbone network from the substations to the

data center. The second tier is the network from the Smart Meters, the AMI network, to the substations. The contract is standard form, signed by the parties. This is essentially more of a telecommunications system than a power system involving radio communications, Wi-Fi, and interoperability of Metro Ethernet transport. The contract should be approved. It is critical and GPA will not be able to undertake Smart Grid without this communication system. The Commission should ratify the Chairman's Order.

The Chairman asked whether the original price for the contract has been reduced from \$6.8M down to \$5.2. CFO Wiegand indicated that such was the case. Commissioner Perez asked about Tropos. GM Flores said that they were a company headquartered in Canada. Commissioner Perez asked what date was looked at for commencement. GPA officials indicated that it was approximately June 15, and Tropos is already doing reconnaissance work and repeater stations and all the hardware deployment it needs to do. Upon motion duly made, seconded, and unanimously carried, the Commissioners ratified the Chairman's Order approving the Smart Grid Contract between GPA and Tropos.

#### **4. PUC Website**

The Chairman announced that the next item for consideration was the PUC Website. Administrator Palomo indicated that, upon her meeting with the two proposed website developers as requested by the Commission, she recommends Ideal Advertising as the most qualified bidder, as it has a greater working potential to conform to the PUC's request for implementation of a webpage, communications on an as-needed basis, for the PUC website, to stay current and accurate. Ideal has expertise in this field. Commissioner Perez asked whether Administrator will get the support that she's been wanting. The Administrator replied that she would. Upon motion duly made, seconded, and unanimously carried, the Commissioners moved to approve the selection of Ideal Advertising as the website services provider for the PUC.

#### **5. Administrative Matters**

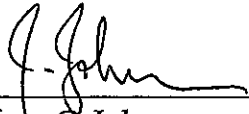
The Administrator has indicated another issue regarding the PUC office rental; GCIC mentioned that PUC needs to determine if it wanted to be on a yearly rental lease or a three year rental lease. For a three year, GCIC is offering a yearly reduction of \$340. The Administrator indicated PUC is currently paying approximately \$2,127. The Chairman computed that such was roughly a 1% discount. He asked the Administrator to request that GCIC Management provide a 3% per year discount. The Administrator indicated that she would.

The Administrator brought another matter concerning the status of the PUC with telephone services. She was contacted by PDS. In addition, GCIC offered PUC its building phone services. A discussion ensued concerning the number of

telephone lines that PUC presently has in its office (three phone lines, one fax line). The Chairman indicated that two lines would be sufficient, and we can get bids from PDS, GTA, and MCV. Upon motion duly made, seconded, and unanimously carried, the Commissioners approved the request that the Administrator seek three bids from the aforementioned companies for telephone/fax lines.

Counsel indicated that selection of the telecommunications consultant for the PUC was still pending and Commissioner Perez indicated that it should be extended. Counsel also reported that the Bill for Commissioner compensation should be introduced soon in the Legislature. The Commissioners then agreed that the next meeting would be scheduled for June 11, 2012.

There being no further business, the Commissioners moved to adjourn the meeting.

  
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Jeffrey C. Johnson  
Chairman

**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION  
SPECIAL MEETING  
SUITE 202, GCIC BUILDING  
414 W. SOLEDAD AVE. HAGATNA, GUAM  
6:00 p.m. May 7, 2012**

**Agenda**

- 1. Approval of Minutes of March 26, 2012, and April 11, 2012.**
- 2. Guam Power Authority**
  - **GPA Docket 11-09, GPA's 2011 Filing for Multi-Year Base Rate Increases, Stipulation of the Parties, ALJ Report, Proposed Order**
  - **GPA Docket 11-13, GPA Petition for Approval of Contract for Tropos Contract for Network Backhaul/Smart Grid Project, PUC Counsel Report, Proposed Order**
- 3. PUC Website**
  - **Procurement of Small Purchase for Website Services; continued Counsel Report and Commission action**
- 4. Administrative Matters**
  - **Counsel Report on Status re: RFP 11-02 (PUC Consulting Services regarding Telecommunications); Commission Action**
- 5. Other Business**



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

<b>IN RE:</b>	<b>PETITION FOR TARIFF RATE</b>	)	<b>PAG DOCKET 11-01</b>
	<b>RELIEF BY THE PORT</b>	)	
	<b>AUTHORITY OF GUAM</b>	)	<b>AMENDED ORDER</b>
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**INTRODUCTION**

This matter comes before the Guam Public Utilities Commission (the “PUC”) pursuant to the March 30, 2012 request by the Jose D. Leon Guerrero Commercial Port, Port Authority of Guam (hereinafter referred to as “PAG”), to file a management audit report of PAG’s operations in lieu of a sensitivity analysis, which is required by the PUC’s January 11, 2012 Order.

**DETERMINATIONS**

1. On January 11, 2012, the PUC issued an Order approving the proposed tariff and rates indicated in “Appendix A” of the November 2, 2011 Report filed by Slater Nakamura, Inc., consultant for the PUC.

2. The January 11, 2012 Order also contained a provision requiring that PAG conduct a sensitivity analysis to determine the impact of the recent events in Japan and the United States, along with the current throughput of materials, on the ability of PAG to generate the revenue it needs to service its debts, and to file a report on such sensitivity analysis within six (6) months of the PUC’s approval of the rate Petition.

3. By letter dated March 30, 2012, PAG requested that the Port be permitted to file a management audit instead of a sensitivity analysis. In the request, PAG asserted that it was unable to produce a sensitivity analysis as the necessary data has been unavailable.



**ATTACHMENT B**

4. On May 2, 2012, the ALJ filed an ALJ Report addressing PAG's March 30, 2012 request.

5. In the May 2, 2012 ALJ Report, the ALJ found that Slater Nakamura, Inc., a consultant for the PUC, recommended that PAG conduct a sensitivity analysis since "the single most important event" "driving much of the planned expansion" "is the proposed military build-up for Guam."

6. The ALJ further found that the Cornell Group, Inc., a consultant for PAG, noted that "the planned military build-up may be delayed by two or more years, and may affect the funding, revision of tariffs and the expansion of the port" and that "the cost of operation at the port is high compared to the revenue generated by the port."

7. Based on local media reports, the ALJ found it highly likely that the U.S. intends to move forward with the realignment of U.S. Marines from Okinawa to Guam, that thousands of military personnel will be transferred to Guam in the coming years, and that the total cost of the realignment may be reduced significantly.

8. The ALJ therefore found that in light of the ongoing plans for an impending military buildup, some sensitivity analysis should be performed so that PAG may ascertain the impact of such military buildup, including any deferment thereto, on PAG's ability to generate the revenue needed to service its debts.

9. In addition, the ALJ further found that an assessment of PAG's operation costs compared against its current revenue would be useful at this juncture, and therefore recommended that the PUC grant PAG's request to substitute a management audit, in lieu of a sensitivity analysis, yet reserve its right to require PAG to conduct such sensitivity analysis at a later time.

The Commission hereby adopts the findings made in the May 2, 2012 ALJ Report and, therefore, issues the following:

### **ORDERING PROVISIONS**

Upon consideration of the record herein, PAG's March 30, 2012 request, the May 2, 2012 ALJ Report, and for good cause shown, on motion duly made, seconded and carried by the affirmative vote of the undersigned Commissioners, the Commission hereby ORDERS that:

1. PAG's request to substitute a management audit of PAG's operations in place of the sensitivity analysis report required under the PUC's January 11, 2012 Order is approved.

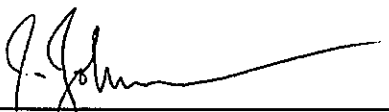
2. Accordingly, by August 22, 2012, PAG shall file a management audit, which shall include: (1) a staffing pattern analysis comparison with other ports of similar operations, including identification of required delegation of duties and procedural requirements (e.g., types of positions, number of personnel, job specifications and comparable salaries); (2) an evaluation of port and terminal functions and operations; (3) an analysis of terminal management techniques, warehousing system and purchasing and inventory control to include spare parts inventory control; (4) an analysis of all material handling equipment operations including the training and certification requirements of personnel to operate the equipment and maintain it to the highest degree of reliability and dependability (preventive maintenance program); and, (5) recommendations with respect to improvement.

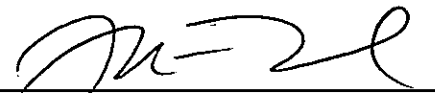
3. The PUC reserves its right to require that PAG conduct a sensitivity analysis to determine the impact of the deferment of the U.S. military buildup, along with the current throughput of materials on the ability of PAG to generate the revenue it needs to service its debts, and thus file a report on such sensitivity analysis.

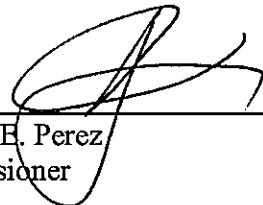
4. All other provisions ordered by the PUC in its January 11, 2012 Order shall remain in effect.

5. PAG is further 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 conducting the rate relief investigation. 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.

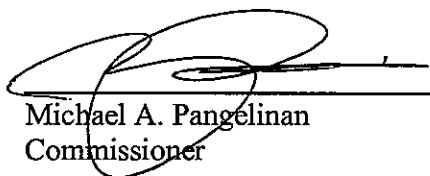
SO ORDERED this 7<sup>th</sup> day of May, 2012.

  
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Jeffrey C. Johnson  
Chairman

  
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Joseph M. McDonald  
Commissioner

  
\_\_\_\_\_  
Rowena E. Perez  
Commissioner

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Filomena M. Cantoria  
Commissioner

  
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Michael A. Pangelinan  
Commissioner

P124032.JRA



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

IN RE: PETITION FOR TARIFF RATE ) PAG DOCKET 11-01  
RELIEF BY THE PORT )  
AUTHORITY OF GUAM )  
ALJ REPORT )

## INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the “PUC”) pursuant to the March 30, 2012 request by the Jose D. Leon Guerrero Commercial Port, Port Authority of Guam (hereinafter referred to as “PAG”), attached and incorporated hereto as “Exhibit A,” to file a management audit report of PAG’s operations in lieu of a sensitivity analysis, which is required by the PUC’s January 11, 2012 Order.

## BACKGROUND

On June 28, 2011, PAG filed a Base Rate Case Petition requesting that the PUC approve an increase of rates in PAG's terminal tariff by 3.95%, as well as other tariff rate adjustments detailed in the schedule attached thereto. On November 14, 2011, the ALJ filed an ALJ Report regarding PAG's June 28, 2011 Petition. The ALJ recommended that the PUC approve the proposed terminal tariff and rates indicated in the report submitted by Slater Nakamura, Inc. ("Slater Nakamura"), consultant for the PUC.

In addition, based on the recommendations of Slater Nakamura, the ALJ further recommended that the PUC also order PAG to conduct a sensitivity analysis to determine the impact of the recent events in Japan and the United States, along with the current throughput of materials on the ability of PAG to generate the revenue it needs to

service its debts, and to file a report on such sensitivity analysis within six (6) months of the PUC's approval of the rate Petition.

By letter dated March 30, 2012, PAG requested that the Port be permitted to file a management audit instead of a sensitivity analysis. In the request, PAG maintains it is unable at this time to produce a sensitivity analysis as the necessary data is unavailable.

### **DISCUSSION**

#### **A. Proposed Management Audit**

In its March 30, 2012 request, PAG requests that a management audit of PAG's operations be substituted for a sensitivity analysis report. PAG recommends that the scope of work for the management audit should consist of the following: (1) a staffing pattern analysis comparison with other ports of similar operations, including identification of required delegation of duties and procedural requirements (e.g., types of positions, number of personnel, job specifications and comparable salaries); (2) an evaluation of port and terminal functions and operations; (3) an analysis of terminal management techniques, warehousing system and purchasing and inventory control to include spare parts inventory control; (4) an analysis of all material handling equipment operations including the training and certification requirements of personnel to operate the equipment and maintain it to the highest degree of reliability and dependability (preventive maintenance program); and, (5) recommendations with respect to improvement.

PAG seeks such substitution based on its lack of information necessary to produce the sensitivity analysis. In particular, PAG maintains that "the data to be used to

assist [ ] in preparing this sensitivity analysis would probably not be available, since [PAG has] been asking for such information since 2010 from [ ] federal stakeholders . . . .”

**B. Sensitivity Analysis**

In its recommendation to the PUC, Slater Nakamura, a consultant for the PUC, found that “[t]he single most important event that is driving much of the planned expansion of PAG is the proposed military build-up for Guam.” Slater Nakamura’s Report of the Tariff Investigation (“Slater Nakamura Report”), pp. 3, 25 (Nov. 2, 2011). However, “no sensitivity analysis was presented by the PAG to evaluate the impact of recent events in both Japan and the United States that may further delay the build-up.” Slater Nakamura Report, pp. 3, 25. Slater Nakamura therefore recommended that PAG “conduct a sensitivity analysis to determine the impact of the recent events in Japan and the United States and the current throughput of materials on the ability of the PAG to generate the revenue needed to service its debt.” Slater Nakamura Report, p. 27.

Indeed, in the Final Report on the Comprehensive Tariff Study prepared by the Cornell Group, Inc. (“Cornell”), a consultant for PAG, Cornell indicated that “[t]he planned military build-up may be delayed by two or more years, and may affect the funding, revision of tariffs and the expansion of the port.” Cornell’s Comprehensive Review of Tariff (“Cornell Report”), p. 10 (Dec. 30, 2010). In addition, Cornell also indicated that “[t]he cost of operation at the port is high compared to the revenue generated by the port . . . .” Cornell Report, p. 10.

Furthermore, it presently appears that the U.S. intends to move forward with the realignment of U.S. Marines from Okinawa to Guam. “5,000 Marines Coming to

Guam,” MARIANAS VARIETY, April 30, 2012, p. 1, col. 2. Guam’s media reports indicate that “[t]here will be between 4,700 to 5,000 forces transferred to Guam in the coming years” but that “[t]he total cost of the Guam realignment has been reduced significantly.” *Id.* at 1-2.

Accordingly, the ALJ finds that in light of the impending military buildup, some sensitivity analysis should be performed so that PAG may ascertain the impact of such military buildup, including any deferment thereto, on PAG’s ability to generate the revenue needed to service its debts. The ALJ, however, also recognizes that critical information needed for a sensitivity analysis may not always be readily available, especially when many political components remain in flux. In addition, the ALJ finds that an assessment of PAG’s operation costs compared against its current revenue is useful at this critical juncture. As a result, the ALJ recommends that the PUC grant PAG’s request to substitute a management audit, in lieu of a sensitivity analysis, yet reserve its right to require PAG to conduct such sensitivity analysis at a later time.

#### **CONCLUSION AND RECOMMENDATION**

Based on the findings above, the ALJ hereby recommends the following: that the PUC grant PAG’s request to substitute a management audit, in lieu of a sensitivity analysis, which was originally ordered by the PUC in its January 11, 2012 Order. The ALJ further recommends, however, that the PUC reserve its right to request that PAG submit a sensitivity analysis if it believes one is necessary.

Accordingly, the ALJ recommends that PAG submit the management audit by August 22, 2012. This management audit shall include: (1) a staffing pattern analysis

comparison with other ports of similar operations, including identification of required delegation of duties and procedural requirements (e.g., types of positions, number of personnel, job specifications and comparable salaries); (2) an evaluation of port and terminal functions and operations; (3) an analysis of terminal management techniques, warehousing system and purchasing and inventory control to include spare parts inventory control; (4) an analysis of all material handling equipment operations including the training and certification requirements of personnel to operate the equipment and maintain it to the highest degree of reliability and dependability (preventive maintenance program); and, (5) recommendations with respect to improvement. The ALJ recommends that all other provisions ordered by the PUC in its January 11, 2012 Order should remain in effect. A proposed Amended Order is attached to this ALJ Report for the PUC's convenience.

Dated this 1<sup>st</sup> day of May, 2012.

  
**DAVID A. MAIR**  
Administrative Law Judge

P124031.JRA

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF: )

Guam Power Authority's 2011 Multi-Year )  
Base Rate Filing )

GPA Docket 11-09

FY 12 RATE DECISION

*Background and Procedural History of this Docket*

1. On November 3, 2011, GPA filed its Petition for Approval of Multi-Year Base Rate Increases for: a] 11.8% for the period from March 1, 2012 through September 30, 2012; b] 1.3% for the period from October 1, 2012 through September 30, 2013; c] 10.6% for the period from October 1, 2012 through September 30, 2014; d] 0% for the period from October 1, 2014 through September 30, 2015; e] 0% for the period from October 1, 2015 through September 30, 2016.
2. GPA's Petition requested numerous other changes, including raising of the self-insurance fund cap to \$20 million, PUC approval of certain financial targets proposed by GPA for evaluating rate increases, implementation of a quarterly LEAC true-up process, PUC approval of a revised Tariff M for backup and standby rates and approval for a Payment in Lieu of Taxes (PILOT) surcharge to cover payments in the General Fund of \$3.5M in FY 2012 and \$875,000 annually in FYs 2013-2016.
3. GPA also requested a change in the manner in which it allocates its demand charges so that such charges are more reflective of the cost-of-service to serve customers. GPA seeks authority to move toward "cost-based customer charges" in its rates. GPA believes that these changes will more fairly allocate costs so that the customer that caused the cost is responsible for paying the cost.
4. On November 29 and December 2, 2011, the ALJ conducted a scheduling conference. The ALJ adopted the schedule proposed by the parties (attached to the ALJ Report as Exhibit "1").
5. On February 8, 2012, the ALJ issued an ORDER RE: PRELIMINARY ISSUES deferring four issues until Phase II of this proceeding: Payment in Lieu of Taxes [PILOT]; Self Insurance and all issues relating thereto; Clarification of Procedures and Requirements relating to the Working

Capital Fund; and LEAC Period [whether the LEAC period should be reduced from six months to three months].

6. During the proceedings, in March, the ALJ made a ruling on the interpretation of the "General Lifeline Rate" (as set forth in 12 GCA §12004), holding that there can be no increase in the general lifeline rates until the 20% requirement is met for each successive increase requested.
7. On March 7, 2012, the ALJ conducted a contested hearing at which time the parties (GPA, Navy, and GCG) presented argument and position statements concerning issues involving rate design and the allocation of rate base to Navy: whether "Other Revenues" should appropriately be allocated to the Navy in the GPA Transmission Level Cost of Service Study (TLCOS); the manner in which Independent Power Producer Debt Service Costs should be allocated; and whether GPA should be authorized to utilize a new allocation methodology, Average Excess Demand 12 Coincident Peak Methodology (AED/12 CP).
8. In accordance with the Ratepayer Bill of Rights, three public hearings were conducted on April 3, 4, and 5, 2012, at Hagatna, Agat, and Dededo respectively.
9. At the "evidentiary" public hearing conducted in Hagatna at the GCIC Building on April 3, 2012, GPA and Georgetown Consulting Group ("GCG") presented a Stipulation.
10. On April 24, 2012, the ALJ issued his Report herein, which report includes proposed findings on the contested rate design/allocation issues and recommendations on the requested rate increase by GPA. On April 30, 2012, the ALJ issued "ALJ Order Re: Allocation of Additional WCF Surcharge".

#### *Stipulation*

11. In the "evidentiary" hearing in Hagatna during the evening of April 3, 2012, GCG and GPA presented an overview of the Stipulation which had been entered into by the parties, including the Navy. The Stipulation is made *Attachment A* hereto.
12. The Stipulation essentially provides for a 6% increase in base rate revenue requirements, effective May 1, 2012. This increase would be effective for the

remainder of 2012 and 2013. In 2014, there would be a simplified base rate filing by GPA, indicating revenue requirements, and any comparisons or changes with regard to revenue requirements and other requirements set forth at the time of the filing. The PUC would then adjust rates, if appropriate.

13. At this time, GPA's target base rate increase for FY2014 is approximately 10.6%, which largely is based upon principal and interest payments which will become due on the 2010 Bond Issue. However, the amount of any such increase will be addressed in 2014. Thus, what was initially a five-year rate plan, has been reduced to a set two-year plan with an additional filing for the third year.

#### *Determinations*

14. GPA has complied with the requirements of the Ratepayer Bill of Rights in this Docket.
15. The Stipulation of the parties, made *Attachment A* hereto, should be approved; all provisions impacting rates in the Stipulation should be implemented in accordance with the agreements of the parties.
16. In accordance with the Stipulation, and the calculations of the parties therein, GPA should be awarded a single overall 6% base revenue requirement increase for the period covering FY2012 and FY2013 for meters read on and after May 1, 2012.
17. For FY2014, GPA will make an abbreviated base rate filing, no later than April 1, 2013, in accordance with certain revenue requirement filing procedures set forth in the Stipulation and based upon the targeted revenue requirements for FY 2014 shown on Attachment 1 to the Stipulation. There will be an expedited review of such filing, which shall be filed in accordance with Attachment 2 to the Stipulation. In its filing, GPA shall provide the PUC with data and relevant information concerning the impact on ratepayers of the approved changes on the lifeline block and the tail block. GPA shall assist the PUC in all necessary respects of its understanding of such changes.
18. For FY2015 and FY2016 there shall be no incremental base rate changes without a new base rate filing. However, any civilian revenue neutral rate

19. With regard to PUC standards for revenue requirements, the well-established standard of the PUC for GPA to target 1.75x debt service coverage ratios ("DSCR") on senior debt obligations should continue.
20. In making the calculation for the Debt Service Coverage Ratio, Independent Power Producer expenditures, only for the purposes of coverage calculations for revenue requirement determinations, will be treated as expenses and as not as a capitalized lease.
21. In Phase II of this Docket, the PUC will consider and provide additional guidance on the issue of the DSCR requirements on subordinate revenue bonds.
22. GPA should be provided adequate financial liquidity to run its day-to-day operations and to provide flexibility when it has a need to access the financial markets. The parties agree that a number of important steps have already been taken in this regard. At the end of FY2013, it is projected that GPA will have approximately 48 days of cash on hand.
23. In this rate case, GPA has agreed to and will reduce its budgeted labor and non-labor O&M expenses by approximately \$3.6M in FY2012 and FY2013.
24. Effective May 1, 2012, the PUC should award an overall 6% increase in base rate revenues of approximately \$9.1M.
25. Effective May 1, 2012, the civilian Working Capital Fund base rate surcharge should be increased to reflect the increase in the fuel portion of GPA's WCF requirement. The flat fee WCF surcharge charged to DoD should also be increased. The increase occurring on May 1, 2012, should be amortized over a 12-month period rather than the remainder of the WCF amortization period.
26. Adjustments to charges for Residential Service (Schedule R) should be phased-in over a five-year period in accordance with the stipulated schedule. For residential service, the Customer Charge would increase gradually from \$10.00 in FY2012 to \$15.00 in FY2015.

27. Between FY2012 and 2016, the subsidy in the Lifeline Block would be progressively decreased until, in FY2016, the Lifeline Block would equal 80% of the "Tail Block Charge" (i.e. the charge for all kWh use in excess of 500 kWh per customer per month). There would be no change in the Lifeline Block for FY 2012; in FY 2013, the Lifeline Block Charge will equal 50% of the Tail Block Charge; in FY 2014, the Lifeline Block Charge will equal 60% of the Tail Block Charge; in FY 2015, the Lifeline Block Charge will equal 70% of the Tail Block Charge; and in FY 2016, the Lifeline Block Charge will equal 80% of the Tail Block Charge. These changes shall be implemented in accordance with the procedures agreed to by the parties in the stipulation.
28. Increases should be phased-in for General and Government non-demand rates (Schedules G & S) in three fiscal years with approximately a 33% increase in the Customer Charge in the FY2012 rates; the first adjustment will be effective May 1, 2012, the second adjustment effective October 1, 2012, and the third adjustment effective October 1, 2013. Energy charges will also be adjusted in accordance with the Stipulation..
29. New rate structures will be implemented for Demand-Metered Non-Residential Rate Classes (Schedules J, K, L, & P) with separately stated Demand and Energy charges as GPA has proposed. Voltage discounts presently included in base rates will be retained with tariff language changes to clarify applicability by voltage level and applicability to base rate energy and demand charges. The voltage discounts will be provided to differentiate the base rate cost responsibilities of customers who take service at higher voltages from those for customers that take service at secondary voltage.
30. Recommended new provisions allowing GPA to provide pricing flexibility for Large Power customers should be approved; specific agreements proposed will be reviewed by the PUC on a case-by-case basis. These negotiated rates will only be available to customers who agree to make a substantial long-term commitment to continued service from GPA. The substantive provisions for such agreements, and the process for approval, shall be in accordance with the Stipulation.

31. GPA's proposed Standby Service Schedule (Schedule M) should be approved. GPA will include provisions that allow for scheduled maintenance without the incurrence of added demand charges by the customer.
  32. GPA, working cooperatively with PUC, will examine the potential use of "revenue decoupling mechanisms" to stabilize its revenue collections and protect against loss of revenue due to: (1) deployment of energy efficiency and conservation measures by customers; and (2) competition from alternative providers of energy services in self-generation options. GPA will include, in its next base rate filing, a report on its plan for implementation of revenue decoupling. Such report will be in accordance with the procedures agreed to in the Stipulation.
  33. In order to generate additional cash reserves for use by GPA, the PUC approves the removal of any restriction on the use of the "Funds Reserved for Bond Project Overruns" which the PUC ordered to be placed in a contingency fund in its August 30, 2010 Order in GPA Docket 10-01 (approximately \$3.1M).
  34. The Report of the Administrative Law Judge filed herein on April 24, 2012 (including all findings, recommendations, and analysis therein) is hereby adopted and approved, with the exception of the Production Demand Cost Methodology findings (AED/12CP).
  35. As further set forth below, the parties have resolved their dispute as to which Production Demand Cost Methodology to utilize in this Docket.
  36. As to the allocation of "Other Revenues" (disconnection fees, miscellaneous service charges, rent from electric property/pole attachments, late charges and others), GPA may continue to allocate such revenues to Navy in the rate base as set forth in the GPA TLCOS (Transmission Level Cost of Service) Study.
- 
37. GPA shall continue to be authorized to treat Independent Power Producer debt service costs as production-related expenditures and demand costs in accordance with their treatment within the TLCOS. Payments made by GPA to IPPs are for electric power production and deliveries.

38. GPA had previously requested that the PUC change the Production Demand Cost Allocation Methodology from 12 Coincident Peak (12 CP) Methodology to Average and Excess Demand (AED/12 CP) methodology. The ALJ ruled that GPA should continue to use the 12 CP Methodology.
39. However, GPA, GCG, and Navy entered into a Supplemental Stipulation (a copy of which is made *Attachment B* hereto) on May 4, 2012. GPA now acknowledges that there was an error with regard to the handling of the Navy meter load data contained in the load study presented in this Docket that significantly impacts the allocation of costs between Navy and Civilian customers as was originally presented.
40. GPA agrees that, for the present proceedings, it withdraws its request that the AED/12CP methodology be utilized. The parties now stipulate to an order of the PUC that the 12 CP cost allocation methodology continue to be used in GPA Docket 11-09. GPA reserves the right to propose any cost allocation methodology in its next general rate case.
41. Thus the Commission need not review the ALJ's recommendations in this regard. The 12CP methodology shall continue to be used for cost allocation to the Navy and other customers. Pending the resolution of certain Load Data issues, the PUC shall utilize the allocation of the increase in GPA revenue requirement between the Navy and civilian customers to set and implement rates on an interim basis (Interim Rates) in Phase 1 of GPA Docket 11-09 as indicated in the Supplemental Stipulation.
42. The Parties will meet and confer regarding the Load Data Issue and propose to the PUC an adjustment to the Interim Rates as soon as practicable. GPA will provide all data reasonably requested by GCG and Navy related to the Load Data Issue.
43. Upon a resolution of the Load Data Issue, presentation of proper evidence, and approval by the PUC, the Interim Rates shall be adjusted. The PUC shall, upon a "true-up" of any differences between the Interim Rates and Final Rates approved by the PUC ( for the period beginning the effective dates of Interim Rates established in GPA Docket 11-09 through to when the rates are made final)

determine whether an appropriate credit or surcharge should be placed upon the customers' bill (over such period of time as is determined to be appropriate by the PUC).

44. The ALJ and the parties are authorized to continue to examine and assess appropriate costs allocation methodologies in Phase II of this rate proceeding.
45. The interpretation of the ALJ concerning the application of the 20% requirement regarding the General Lifeline Rate, which adopts the "ratchet" approach, is adopted and affirmed.
46. The parties are required to comply with their duties, obligations, and agreements as contained in the Stipulation and Supplemental Stipulation.
47. A Phase II of this proceeding should be established to address the issues which the ALJ has deferred in this proceeding and other relevant issues. The ALJ is directed and authorized to undertake such further conferences or proceedings herein as are necessary to facilitate the resolution of pending or other relevant issues.
48. The Commission adopts the ALJ Order re: Allocation of Additional WCF Surcharge, issued April 30, 2012. The method of rate base allocation and cost of service used in GPA Docket 07-10, with an allocation to Navy of 17%, will be used in the allocation of the additional WCF surcharge in this proceeding which will go into effect on May 1, 2012.
49. The proposed rate changes and increases set forth in the Stipulation, as well as the cost allocation methodologies and tariff revisions, are "just" and "reasonable" pursuant to 12 GCA §§12015 and 12017.

### *Ordering Provisions*

After careful review and consideration of the above determinations, the Report and Recommendations of the ALJ, the testimonies presented at public hearings and on the record herein, the Stipulation and Supplemental 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. All rulings and orders of the ALJ in this proceeding are confirmed and ratified. All motions not hereto for granted or denied are denied. No other matters currently require discussion.
2. The Stipulation of the parties, made *Attachment A* hereto, and the Supplemental Stipulation made *Attachment B*, are approved.
3. In accordance with the Stipulations, and the calculations of the parties set forth in Guam Power Authority Revenue Requirements, FY11-FY16 (Attachment 1 to the Stipulation), GPA is awarded a single overall 6% base revenue requirement increase for the period covering FY2012 and FY2013 for meters read on and after May 1, 2012.
4. In 2014, GPA will file a simplified base rate filing in accordance with the procedures set forth in Attachment 2 to the Stipulation, indicating revenue requirements, and any comparisons or changes with regard to revenue requirements and other requirements set forth at the time of the filing. The PUC would then adjust rates, if appropriate.
5. The base rate increase awarded in this proceeding also applies to lifeline rates; the threshold of a 20% increase in the cost of service since the Lifeline rate was last established has been met, permitting an increase in lifeline rates.
6. All of the determinations set forth above are approved; the parties are instructed to fully implement such determinations and rate relief in accordance with such determinations. The parties shall take all steps necessary to fully carry out and implement such determinations. They shall perform all acts necessary to implement the relief set forth in such determinations, and shall undertake all duties and obligations agreed to in the Stipulation and the Supplemental Stipulation.
7. ~~Effective May 1, 2012, the civilian Working Capital Fund base rate~~ surcharge will be increased to reflect the increase in the fuel portion of GPA's WCF requirement, in accordance with the Stipulation. The increase occurring on May 1, 2012, will be amortized over a 12-month period rather than the remainder of the WCF amortization period.

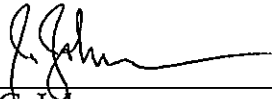
8. Adjustments to charges for Residential Service (Schedule R) will be phased-in over a five-year period in accordance with the stipulated schedule. For residential service, the Customer Charge would increase gradually from \$10.00 in FY2012 to \$15.00 in FY2015.
9. Between FY2012 and 2016, the subsidy in the Lifeline Block will be progressively decreased until, in FY2016, the Lifeline Block would equal 80% of the "Tail Block Charge" (i.e. the charge for all kWh use in excess of 500 kWh per customer per month). These reductions in the subsidy and changes shall be implemented in accordance with the procedures agreed to by the parties in the stipulation.
10. In order to generate additional cash reserves for use by GPA, the PUC approves the removal of any restriction on the use of the "Funds Reserved for Bond Project Overruns" which the PUC ordered to be placed in a contingency fund in its August 30, 2010 Order in GPA Docket 10-01 (approximately \$3.1M).
11. The 12CP methodology shall continue to be used for cost allocation to the Navy and other customers. Pending the resolution of certain Load Data issues, the PUC shall utilize the allocation of the increase in GPA revenue requirement between the Navy and civilian customers to set and implement rates on an interim basis (Interim Rates) in Phase 1 of GPA Docket 11-09 as indicated in the Supplemental Stipulation.
12. The Parties will meet and confer regarding the Load Data Issue and propose to the PUC an adjustment to the Interim Rates as soon as practicable. GPA will provide all data reasonably requested by GCG and Navy related to the Load Data Issue.
13. Upon a resolution of the Load Data Issue, the presentation of proper evidence, and approval by the PUC, the Interim Rates shall be adjusted. The PUC shall, upon a "true-up" of any differences between the Interim Rates and Final Rates approved by the PUC (for the period beginning the effective dates of Interim Rates established in GPA Docket 11-09 through to when the rates are made final) determine whether an appropriate credit

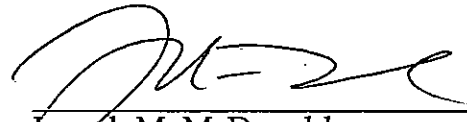
or surcharge should be placed upon the customers' bill (over such period of time as is determined to be appropriate by the PUC).

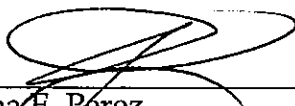
14. As to the allocation of "Other Revenues" (disconnection fees, miscellaneous service charges, rent from electric property/pole attachments, late charges and others), GPA may continue to allocate such revenues to Navy in the rate base as set forth in the GPA TLCOS (Transmission Level Cost of Service) Study.
  15. GPA shall continue to be authorized to treat Independent Power Producer debt service costs as production-related expenditures and demand costs in accordance with their treatment within the TLCOS.
  16. The method of rate base allocation and cost of service used in GPA Docket 07-10, with an allocation to Navy of 17%, will be used in the allocation of the additional WCF surcharge in this proceeding which will go into effect on May 1, 2012.
  17. The interpretation of the ALJ concerning the application of the 20% requirement regarding the General Lifeline Rate, which adopts the "ratchet" approach, is adopted and affirmed. There can be no increase in the general lifeline rates until the 20% requirement is met for each successive increase requested.
  18. The proposed rate changes and increases set forth in the Stipulation are "just" and "reasonable" pursuant to 12 GCA §§12015 and 12017.
  19. A Phase 11 of this proceeding is established to address the issues which the ALJ has deferred in this proceeding and other relevant issues. The ALJ is directed and authorized to undertake such further conferences or proceedings herein as are necessary to facilitate the resolution of pending or other relevant issues.
- 
20. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and expenses is authorized pursuant to 12 GCA §12002(b)

and 12024(b), and Rule 40 of the Rules of Practice and Procedure before  
the Public Utilities Commission.

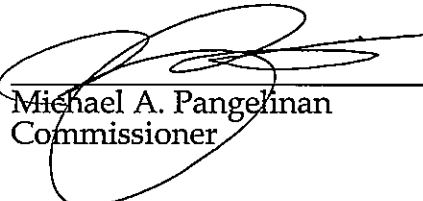
Dated this 7<sup>th</sup> day of May, 2012.

  
\_\_\_\_\_  
Jeffrey C. Johnson  
Chairman

  
\_\_\_\_\_  
Joseph M. McDonald  
Commissioner

  
\_\_\_\_\_  
Rowena E. Perez  
Commissioner

\_\_\_\_\_  
Filomena M. Cantoria  
Commissioner

  
\_\_\_\_\_  
Michael A. Pangelinan  
Commissioner

### SCHEDULING ORDER

### PARAGRAPH 4 of the Rate Decision

SCHEDULING ORDER

In the Matter of:

Guam Power Authority's 2011

Multi-Year Base Rate Filing


GPA Docket 11-09

December 24, 2011

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6. The parties hereto shall comply with their duties and obligations as set forth in Exhibit "1"; all proceedings herein shall be conducted in accordance with the Commission's Rules of Practice and Procedure.

SO ORDERED this 24<sup>th</sup> day of December, 2011.

  
Frederick J. Horecky  
Administrative Law Judge  
Public Utilities Commission

GPA DOCKET 11-09  
FY2012-2016 BASE RATE CASE PROPOSED INCREASE  
PROPOSED SCHEDULE

1. Formal Discovery on GPA's Filing Commences <sup>1</sup>	Already authorized
2. ALJ Interim Status Conference <sup>2</sup>	01/10/2012
3. Parties' Status Conference[s] <sup>3</sup>	01/25/2012
4. Formal Discovery on GPA Completed	02/03/2012
5. Initial Testimony of Navy and GCG <sup>4</sup>	02/15/2012
6. Parties' Second Conference	02/21-02/22/2012
7. Navy, GCG, GPA Rebuttal Testimony <sup>4</sup>	02/28/2012
8. ALJ Pre-Hearing Conference	02/29/2012
9. ALJ Hearings on GPA Docket 11-09	03/05-03/07/2012
10. Village Hearings (South and North)	03/09/2012
11. ALJ Decision	???
12. PUC Meeting	03/19/2012
13. Implementation of New Rates	04/01/2012

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<sup>1</sup> Responses due within 5 business days

<sup>2</sup> Ruling on deferred and Phase II issues

<sup>3</sup> On Guam for some and perhaps on the Mainland for Rate Design experts/witnesses

<sup>4</sup> GCG Rebuttal testimony restricted to Navy testimony; Navy rebuttal testimony restricted to GCG's testimony.

All direct and rebuttal testimonies should be accompanied by electronic versions of the exhibits and work papers, executable in native format with all formulas intact

Exhibit 1



ORDER RE:  
PRELIMINARY ISSUES  
In the Matter of:  
Guam Power Authority's 2011  
Multi-Year Base Rate Filing  
GPA Docket 11-09  
February 8, 2012

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in 12 GCA §12004. 12 GCA §12004 provides in pertinent part: "...General Lifeline Rates may only be increased [by the PUC] when the total actual overall cost of providing service to all classes of customers, increases by no less than twenty percent (20%)."

The question is whether the 20% requirement is a onetime event, after which the lifeline rate may be increased at the discretion of the PUC ("one time event"); or whether, after the 20% requirement is initially satisfied, it must be satisfied each time again thereafter before the PUC again raises the lifeline rate (the "ratchet" approach). At the hearing, GCG indicated that, in prior rate proceedings involving the Guam Waterworks Authority, it had been assumed that once the overall cost of providing service exceeds twenty percent, the general lifeline rates could not be increased again until the twenty percent threshold was again met. GPA does not concur with such position.

The parties were instructed that they would have five days each from the date of the hearing to submit their positions as to the proper interpretation of the lifeline rate "threshold" issue. No party submitted a statement.

Initially, the ALJ believes that he may submit a preliminary ruling on this issue, but any final determination regarding the proper interpretation as to the "threshold" for increasing the lifeline rates must be rendered by the PUC Commissioners. In the meantime, to provide guidance to the parties in this proceeding, the ALJ will provide a preliminary determination on this issue. For purposes of this proceeding, the "ratchet" interpretation will be adhered to and observed. The statutory framework establishes that, once the total actual overall cost of providing service to all classes of customers has increased by no less than 20%, the general lifeline rates may be increased.

However, no language in the statute suggests that, once the 20% requirement is met, the Commission may thereafter increase the lifeline rate at its discretion. Even after the 20% requirement is initially met, the Commission is confronted with the same statutory requirement that it may not increase the general lifeline rates until the 20% requirement is satisfied. The statutory language does not disappear after the 20% requirement is met initially for the first time. For any increase thereafter, the Commission cannot again increase the general lifeline rates until the 20% requirement is again satisfied.

To hold that the 20% requirement is only "a onetime threshold" would rewrite the statute. 12 GCA §12004 supports such interpretation. The PUC is generally granted the authority to establish and modify rates for GPA, including lifeline rates. However, the

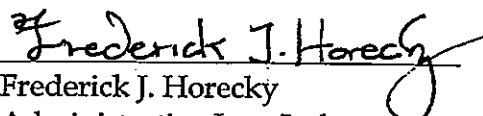
ORDER RE:  
PRELIMINARY ISSUES  
In the Matter of:  
Guam Power Authority's 2011  
Multi-Year Base Rate Filing  
GPA Docket 11-09  
February 8, 2012

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statute specifically restricts the authority of the PUC to modify lifeline rates. The general lifeline rates "**may only be increased**" when the total actual overall cost of providing service to all classes of customers increases by no less than 20%. The 20% requirement must be interpreted in the context of a provision which is designed to limit the general rate making authority of the PUC by restricting its powers with regard to general lifeline rates.

The present general lifeline rates for GPA are not "need-based", which may be good or bad policy. However, it is not the role of the ALJ, or the PUC, to alter legislative requirements. Substantive changes in the requirements for general lifeline rates, or the policy governing such rates, should be the province of the Guam Legislature.

SO ORDERED this 8<sup>th</sup> day of February, 2012.

  
Frederick J. Horecky  
Administrative Law Judge  
Public Utilities Commission

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF GUAM**

<b>IN THE MATTER OF:</b>	)	<b>GPA DOCKET 11-09</b>
	)	
<b>GUAM POWER AUTHORITY'S 2011</b>	)	
	)	<b>STIPULATION</b>
<b>MULTI YEAR BASE RATE RELIEF</b>	)	
	)	
<b>FILING</b>	)	
	)	

The Guam Power Authority ("GPA"), the Department of Defense ("DOD") and Georgetown Consulting Group, Inc. ("GCG"), which serves as the independent regulatory consultant to the Guam Public Utilities Commission ("PUC") (collectively, the "Parties"), through their counsel of record, hereby enter into this evidentiary stipulation and make the following recommendations to the PUC for its consideration.

**GENERAL:**

1. In this rate proceeding GPA requested a multi-year base rate increase for the years FY 2012 through FY 2016. The GPA request was for an approximate 11.8% base rate increase in FY 2012; 1.3% in FY 2013; 10.6% in FY 2014; and 0% increases in FY 2015 and FY 2016, with only rate design adjustments for these two last years.
2. GPA undertook and presented a Transmission Level Cost of Service study ("TLCOS") using FY 2011 data. GPA, GCG and DOD agree that the DOD's rate in this proceeding should be established in this proceeding in accordance with the approved TLCOS, without compression.
3. The need to provide GPA adequate liquidity continues to be an important issue. The Parties agree that this Stipulation provides GPA a measure of meaningful relief on this issue, but GPA reserves the right to seek further relief related to liquidity in the future.
4. By this Stipulation the Parties recommend rates that are expected to fund a sufficient amount of GPA's working capital requirements. GPA and GCG point out that the recommendations in this Stipulation request the PUC to modify the requirements of the PUC Order in GPA Docket 07-10, dated June 20, 2011. In the PUC Order dated June 20, 2011, the PUC approved a mechanism to adjust the working capital fund (WCF) surcharge related to changes in the fuel portion of GPA's WCF requirements, beginning

August 1, 2012. Under the approved mechanism, any change was to be amortized over the remainder of the WCF surcharge amortization period. GPA and GCG request and recommend that GPA be permitted to initiate the change beginning when rates are changed in this proceeding currently anticipated to be May 1, 2012, and that the amortization period for the adjustment amount be reduced to 12 months.

5. GPA proposes and GCG does not object that there should be an increase in the lifeline rate in this proceeding. GPA and GCG agree that the threshold of a 20% increase in the cost of service since the lifeline rate was last established has been met permitting an increase in lifeline rates.
6. The Parties agree that the tariffs required to implement the base rate revenue increase recommended in this Stipulation cannot be determined until the PUC rules on certain disputed cost allocation issues. GPA shall file compliance tariff reflecting the PUC decision on the disputed issues and the approved revenue as soon as possible after the PUC decision.

**MULTI-YEAR RATE PLAN:**

7. The Multi-Year Rate Plan proposed by GPA is hereby modified as follows to provide for a three-year rate plan in which there are rate base increases and civilian rate design changes and an additional two years in which civilian rate design, revenue neutral changes approved by the PUC shall be implemented:
  - a. The Parties agree to implement a single overall 6.0% base revenue requirement increase for the period covering FY 2012 and FY 2013 for meters read on and after May 1, 2012. This agreement between the Parties eliminates the necessity of having a second rate increase five months later on October 1, 2012, as originally proposed by GPA.
  - b. For FY 2014, GPA should make a base rate filing no later than April 1, 2013. The base rate filing shall be based on the projection of targeted revenue requirements for FY 2014 shown on Attachment 1 to this Stipulation, modified as appropriate when the filing for FY 2014 is made. The filing shall comply with the revenue requirements filing procedures set forth in Attachment 2 to this Stipulation and the following provisions set forth below:
    - i. There would not be a limitation on the relief that could be requested as contained in the GPA rate plan as presented. As shown on Attachment 1, Currently GPA projects that an increase of 10.6% will be petitioned for in FY 2014. Both

GPA and GCG acknowledge that there are significant uncertainties associated with the needed rate relief projected for FY 2014. Many of the uncertainties carry over from the assumptions used in the current filing. These include the uncertainties over the projected load growth which is currently flat and the actual consumption for FY 2012 which is currently below the projection for the same period in this case; the uncertainty associated with the anticipated growth in load from the armed forces; and, the uncertainty as to whether GPA will undertake additional bond financing of approximately \$117 million in FY 2014 and the terms associated with the bond financing. The Parties do agree to an expedited review of those portions of the FY 2014 filing which shall be prepared in accordance with Attachment 2 and which will rely on and build upon the data supplied in this filing.

- ii. To the extent that the FY 2014 rate filing contains consideration of the bond issue referred to above, GPA shall file a petition for approval of the external debt in sufficient time so that any proposed financing could be approved by the PUC no later than August 1, 2013. The filing would detail the sources and uses of funds; propose a schedule of debt service; be transparent on the rate impact of the proposed issuance in FY 2014 and beyond; provide detailed descriptions of any construction projects and applications that require PUC approvals; provide a detailed benefit-cost calculation resulting from the bond issue; and, provide a draft Preliminary Offering Statement ("POS"), if one exists at the time of the filing.
- c. For FY 2015 and FY 2016 there shall be no incremental base rate changes without a new base rate filing. However, any civilian revenue neutral rate design changes approved by the PUC in this proceeding could be implemented without the need for GPA to file a base rate filing.

**PUC STANDARDS FOR REVENUE REQUIREMENTS:**

- 8. GPA and GCG present the following with regard to the standards that should be considered by the PUC in the determination of this and future rate increases:
  - a. The well-established standard of the PUC for GPA to target 1.75x debt service coverage ratio ("DSCR") on senior debt obligations

should continue. The PUC reaffirmed this position in its Order of June 3, 2010 in GPA Docket 10-01 (GPA Request to Issue Revenue Bonds and Subordinate Bonds). In making the calculation for the DSCR the parties agree that IPP expenditures, only for the purposes of coverage calculations for revenue requirement determinations, will be treated as expenses and not as a capitalized lease which is consistent with prior PUC treatment of senior debt obligations. GPA meets its senior bond indenture requirements under such standard.

- b. The PUC should initiate a process as part of Phase II of this Docket to provide additional guidance on the issue of the DSCR requirements on subordinate revenue bonds. In prior orders the PUC set and reaffirmed a standard of 1.4x DSCR on subordinate debt, but GPA and GCG do not agree on how this standard is to be calculated. GPA and GCG agree that GPA will exceed the 1.4x standard when computed under the bond indenture method, which does not expense IPP costs. GPA and GCG also agree that the calculation of the DSCR on subordinate bond requirements using alternative methods that are different from the bond indenture method may affect the potential revenue awards in future proceedings. The Parties therefore recommend that the PUC set a schedule for the Parties to present the issue together with the other issues that have been deferred to Phase II and that the PUC render a decision before GPA's filing for FY 2014.
- c. The Parties agree that GPA should be provided adequate financial liquidity to run its day-to-day operations and to provide flexibility when it has a need to access the financial markets. The Parties agree that several significant strides have been made in this area. First, the requirements of the WCF balance have been fully met and a mechanism to maintain the amounts required has been approved by the PUC and will be operational in this proceeding. The projected WCF balance requirement for FY 2013 is approximately \$33.2million and funding is projected to be provided for in this proceeding. Second, GPA has requested that the self insurance fund be permitted to continue to accumulate funds past the funding cap of \$10 million that was set in a prior proceeding and the PUC has approved that request. The setting of a new funding cap and the protocols for accessing the funds in the event that they are required will be examined in Phase II of this proceeding. Third, with the base rate increase recommended by the Parties in this Stipulation, GPA is projected to end FY 2013 with an additional \$18.7 million of unrestricted cash over the

amount in the WCF.<sup>1</sup> In total, the projected FY2013 year end GPA cash position represents having approximately 48 days of cash on hand.

- d. GPA has previously provided a study to the PUC undertaken by its regulatory consultant indicating that it would be appropriate for the PUC to set a target of 60 days cash on hand which standard should be phased in over several years. The PUC has not had a hearing on this study or entered any Order related thereto. The Parties agree that the PUC must balance the interests of GPA with the interests of the consumers, businesses, and citizens of Guam. GPA believes the projected levels of cash in this proceeding are minimally acceptable, but has agreed to them in order to minimize rate increases in the difficult current economic times. GCG believes that the projected levels of cash are appropriate and adequate under the current circumstances. Requirements for higher levels of cash requirements could be presented in future rate applications for the PUC to consider as an appropriate standard, and GPA accepts that it has the burden to show that the higher levels of cash, produced by increased rates, can produce positive benefits at acceptable costs to the consumers, businesses, and citizens of Guam.
- e. The Parties agree to have the PUC defer reaching a decision on other ratemaking standards such as the percentage of equity in the capital structure to a future proceeding.

**LABOR AND NON-LABOR O&M EXPENSES:**

- 9. GPA and GCG have discussed and agree that it is reasonable to reduce the budgeted GPA labor and non-labor O&M expenses by approximately \$3.6 million in FY 2012 and FY 2013 based, in part, on GCG testimony in this proceeding and in recognition of the current economic conditions on Guam.

**RECOMMENDED RATE INCREASES AND THE RESULTING PROJECTED END RESULT:**

- 10. The Parties recommend:
  - a. Effective May 1, 2012, the PUC should award an overall 6% increase in base rate revenues of approximately \$9.1 million. The impacts of this revenue increase on the Navy and civilian classes of customers will depend on how the PUC resolves the disputed cost allocation issues.

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<sup>1</sup> See Attachment I

- b. Effective April 1, 2012, a WCF base rate surcharge of \$0.00466 per kWh as ordered by the PUC on June 20, 2011 was implemented. A flat fee of \$110,374 per month was charged to DOD as the WCF base rate surcharge.
- c. Commencing on May 1, 2012, the civilian WCF base rate surcharge should be increased to reflect the increase in the fuel portion of GPA's WCF requirement. The flat fee WCF surcharge charged to DOD should also be increased. There is no agreement as to how the amount of the increase in the Navy WCF surcharge should be calculated. The civilian WCF additional base rate surcharge is dependent on the amount of the Navy increase and therefore cannot be determined at this time. Navy asserts the position that the result should depend on the results of the PUC's decisions on the disputed cost allocation issues. GCG and GPA believe the increased surcharge should be calculated in accordance with the PUC Supplemental Phase III Order in GPA Docket 07-10, dated June 20, 2011, concerning the WCF surcharge. All the Parties recommend that the change required by Ordering Paragraph No. 9 of the PUC Order in GPA Docket 07-10 be implemented on May 1, 2012, rather than August 1, 2012, and that the amortization period for the adjustment amount be 12 months rather than the remainder of the WCF amortization period. These increases in the WCF surcharge are expected to collect \$4.855 million over 12 months.
- d. The projected end result for the three year rate plan is as follows:

	Target	FY2012	FY2013	FY2014
PUC for Senior Bond Coverage	1.75	1.68	1.81	1.87
PUC for Senior Bond Coverage (annualized)	1.75	1.87		
PUC Subordinate Bond Calc (GPA)	1.40	1.06	1.20	1.31
PUC Subordinate Bond Calc (GPA) (annualized)	1.40	1.19		
PUC Subordinate Bond Calc (GCG)	1.40	1.17	1.59	2.04
PUC Subordinate Bond Calc (GCG) (annualized)	1.40	1.51		

**RATE DESIGN ISSUES AND CONSIDERATIONS:**

11. GCG and GPA agree and recommend to the PUC the following. DOD did not participate in the discussions leading up to these agreements and recommendations and does not join in them. DOD has concerns with some of the recommendations.

a. Residential Rate Design (Schedule R)

i. Adjustments to charges for Residential Service (Schedule R) should be phased-in over a five-year period (i.e., through FY 2016).

ii. The Customer Charge for Residential Service should be set as follows:

a.	FY 2012	\$10.00
b.	FY 2013	\$10.00
c.	FY 2014	\$11.00
d.	FY 2015	\$13.00
e.	FY 2015	\$15.00

iii. The Energy Block Charges in the Residential Rate should be adjusted as follows for the years FY 2012 through FY 2016:

a. FY 2012 – No change in the Lifeline Block Energy Charge (i.e., the charge for the first 500 kWh per customer per month) and the remainder of the revenue increase for the Residential class after the increase in the Customer charge is reflected in the Tail Block Energy Charge (i.e., the charge for all kWh use in excess of 500 kWh per customer per month);

b. FY 2013 – The Lifeline Block and Tail Block Energy Charges are Adjusted to recover the balance of the Residential class revenue requirement such that the Lifeline Block Charge equals **50%** of the Tail Block Charge;

c. FY 2014 – The Lifeline Block and Tail Block Energy Charges are Adjusted to recover the balance of the Residential class revenue requirement after the scheduled increase in the Residential Customer Charge (noted above) such that the Lifeline Block Charge equals **60%** of the Tail Block Charge;

d. FY 2015 – The Lifeline Block and Tail Block Energy Charges are Adjusted to recover the balance of the Residential class revenue requirement after the scheduled increase in the Residential Customer

Charge (noted above) such that the Lifeline Block Charge equals **70%** of the Tail Block Charge;

- e. FY 2016 – The Lifeline Block and Tail Block Energy Charges are Adjusted to recover the balance of the Residential class revenue requirement after the scheduled increase in the Residential Customer Charge (noted above) such that the Lifeline Block Charge equals **80%** of the Tail Block Charge;
- iv. The resulting annual adjustments to rates are design computed to levelize, as much as possible, the effective year-to-year changes in total charges for Residential customers using 500 kWh per month of use.
- v. Phased increases in the Customer Charge and the Lifeline Energy Block Charge should be designed to yield relatively uniform year-to-year changes in total charges for a customer with 500 kWh per month of electric use.
- vi. The target level for the Lifeline Block Energy Charge at the end of the five-year phase-in should be 80% of the tail block energy charge that would result if all adjustments to the Residential rate design were implemented based on the approved FY 2011 revenue requirement for the Residential class and FY 2011 billing determinants.
- vii. The level of the Residential customer charge at the end of the five-year phase-in period should be \$15.00 per customer per month.
- viii. After establishing Lifeline Block and Customer Charges for each year of the phase-in period, the remainder of the Residential class revenue requirement should be recovered through the Over 500 kWh per month (Tail Block) energy charge for the period of the phase-in.

b. General and Government Non-Demand Rates (Schedules G & S)

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- i. The increases in customer charges that GPA has proposed for Schedule G and S should be phased-in in three fiscal years with approximately a 33% increase in the Customer Charge in the FY 2012 rates; with the first adjustment effective May 1, 2012, the second adjustment effective

October 1, 2012, and the third adjustment effective October 1, 2013.

- ii. Energy Charges should be adjusted as follows to recover balance of revenue requirement (after customer charge increase):
  - Overall average percentage increase in the class revenue requirement should be applied to the first energy block;
  - Second energy block should be set to recover balance of class revenue requirement (recognizing that with a well above average percentage increase in the customer charge and an average increase in the first energy block charge, the increase in the tail block will necessarily represent a percentage increase that is below the average for the class;
  - With each subsequent step of the phase-in of customer charge increases, the first and second energy block charges should be adjusted proportionately to recover the balance of each class's revenue requirement.
- c. Demand-Metered Non-Residential Rate Classes (Schedules J, K, L & P)
  - i. GPA should implement the new rate structures for Schedules J, K, L, and P with separately stated Demand and Energy charges as GPA has proposed. GCG and GPA recognize the reduction in revenue requirements that the proposed rate design changes will yield for GAA as the only Schedule L customer that takes service at transmission voltage and find that this rate design changes will bring the charges for that class closer to its actual costs of service. This is a result that would not be achievable under the current energy-based rate structure for Schedule L.
  - ii. The voltage discounts presently included in base rates should be retained with tariff language changes to clarify applicability by voltage level and applicability to base rate energy and demand charges. Those discounts are necessary to differentiate the base rate cost responsibilities of

customers who take service at higher voltages from those for customers that take service at secondary voltage.

d. Large Power Pricing Flexibility -

- i. The introduction of provisions for more flexible pricing of service for Large Power customers having competitive service alternatives is warranted, but should only be exercised on a case-by-case basis with PUC review and approval with an expedited (e.g., 60 to 90 day) review process.
- ii. GPA and GCG agree that GPA should be authorized to negotiate prices with customers in either Schedule P or Schedule L that have viable competitive service options that necessitate a rate concession from GPA to retain their load.
- iii. In its negotiation of rate concessions for an individual Schedule P or Schedule L customer, GPA should be authorized to offer charges which would produce revenues below 100% of fully allocated costs for the applicable rate schedule (i.e., to a 1.0 revenue to cost ratio), if that is necessary to retain fixed cost contributions from the subject customer. However, negotiated rates for individual Schedule P or Schedule L customers should only be permitted subject to the PUC's prior review and approval of such rates.
- iv. Any Schedule P or Schedule L customer seeking a negotiated rate which is below the otherwise applicable rates for the customer should be required to make a substantial long-term commitment to continued service from GPA. Such a commitment should at a minimum include:
  - The signing of a contract that has an effective term of not less than five years;
  - The customer's commit to pay demand charges in all monthly billing periods during the term of the contract for a minimum contract demand.

- The customer's agreement to provide GPA substantial advance notice of intent to terminate service from GPA (e.g., 24 months advance written notice).

e. Standby Service Rates (Schedule M)

- i. The basic structure of GPA's proposed Standby Service schedule is reasonable.
- ii. GPA agrees to add to its proposed Schedule M tariff provisions that would explicitly allow for Scheduled Maintenance without the incurrence of added demand charges as exemplified by the provisions in the Maui Electric Company, Schedule SS, Sheet Nos. 83H through 83J.

f. Revenue Decoupling

- i. GPA, working cooperatively with GCG and the PUC, will research the potential use of revenue decoupling mechanisms to stabilize its revenue collections and protect against loss of revenue due to: (1) deployment of energy efficiency and conservation measures by customers of all sizes and types; and (2) competition from alternative providers of energy services and self-generation options.
- ii. GPA will include in its next base rate filing a report on its plan for implementation of revenue decoupling, examples of the manner in which such alternatives would work, and recommendations for specific measures that would best serve the needs of GPA.

The report should look specifically at the potential application of different revenue decoupling alternatives for large and smaller customers and how to implement such mechanisms in a cost-effective manner and in a manner that balances customer fairness considerations with administrative burdens, and implementation costs.

GPA and GCG acknowledge that DOD disputes that it should be included in any decoupling study or report.

g. Distribution of the Revenue Increase

- i. GPA's plan for gradual adjustment of revenue to cost ratios by rate class is generally reasonable.
- ii. If the overall revenue increase approved in this proceeding is less than the amount GPA has requested, any such decrease should be applied proportionally to all classes and will not affect GPA's plan for movements of rates for non-governmental classes toward parity over the next five years.

**OTHER MATTERS:**

12. The Parties agree that in order to generate additional cash reserves for use by GPA the PUC should remove any restriction on the use of the "Funds Reserved for Bond Project Overruns" which the PUC ordered to be placed in a contingency fund in its August 30, 2010 Order in GPA Docket 10-01 (Ordering Para. 3).

**EXCLUSIONS:**

13. DOD joins in this Stipulation only with respect to those matters specifically indicated.

SO STIPULATED this 5th of April, 2012.

GEORGETOWN CONSULTING GROUP, INC.

BY: 

WILLIAM J. BLAIR, ESQ.  
GEORGETOWN CONSULTING GROUP

BY: 

D. GRAHAM BOTHA, ESQ.  
GUAM POWER AUTHORITY

BY: 

JOHN MASTERSON, ESQ.  
DEPARTMENT OF THE NAVY

**Guam Power Authority**  
**FY 11 - FY 16 Revenue Requirement (\$000)**

Attachment 1

1 % Increase on Total Bill		2.0%	0.0%	3.8%	0.0%	0.0%			
		FY 11	FY 12	FY 13	FY 14	FY 15	FY 16		
3 <u>Proforma Income Statement:</u>									
4 Existing Base Rate Revenues		\$150,308	\$151,334	\$152,155	\$152,284	\$153,288	\$154,580		
5 Fuel Revenues		247,191	305,450	300,090	296,550	289,980	304,610		
6 Addl Revenues from Smart Grid Implementation			-	151	2,405	4,208	5,180		
7 WCF Surcharge			5,680	9,990	6,970	7,000	190		
8 Payment in Lieu of Taxes Surcharge									
9 Miscellaneous Revenues		2,004	2,050	2,100	2,150	2,200	2,250		
10 <u>Revenue from Allowed Rate Change<sup>(1)</sup>:</u>									
11	Fiscal								
12	Year	% of Base							
13		Sales Revenue							
14	2012	6.0%	0	3,780	9,130	9,140	9,270		
15	2013	0.0%	0	0	0	0	0		
16	2014	10.6%	0	0	17,110	17,220	17,370		
16 Total Revenues			\$ 399,503	\$ 468,294	\$ 473,616	\$ 486,609	\$ 483,096	\$ 493,450	
17									
18 Production Fuel			\$ 247,191	\$ 305,450	\$ 300,090	\$ 296,550	\$ 289,980	\$ 304,610	
19 IPP Costs			19,897	20,940	21,360	20,960	20,620	20,800	
20									
21 <u>O&amp;M Expenses:</u>									
22 Production Non-fuel									
23 Transmission and Distribution			\$ 21,801	\$ 24,286	\$ 24,970	\$ 27,220	\$ 28,930	\$ 27,880	
24 Administrative and General			12,726	13,876	14,480	14,950	16,000	16,520	
25 Customer Accounting			30,577	30,865	32,466	33,933	35,189	36,813	
26 Total O&M Expenses			4,572	5,139	5,038	5,033	5,054	4,984	
27			\$ 59,676	\$ 74,166	\$ 76,954	\$ 81,136	\$ 85,173	\$ 86,197	
28 Depreciation			26,080	27,955	33,761	38,099	41,749	44,849	
29 Payments Made in Lieu of Taxes			0						
30 Total Operating Expenses			\$ 362,844	\$ 428,511	\$ 432,165	\$ 436,745	\$ 437,522	\$ 456,457	
31									
32 Earnings From Operations			\$ 36,659	\$ 39,783	\$ 41,451	\$ 49,864	\$ 45,573	\$ 36,993	
33									
34 <u>Other Revenues (Expenses):</u>									
35 Investment Income			\$ 1,728	\$ 2,050	\$ 1,630	\$ 2,100	\$ 1,950	\$ 1,740	
36 BOA Settlement			5,174	0	0	0	0	0	
37 Interest expense (1993/1999 Revenue Bonds)			(19,279)	(18,848)	(18,394)	(17,917)	(17,415)	(16,886)	
38 Interest expense (2010 Senior Lien TE Bond)			(7,999)	(7,999)	(7,999)	(7,999)	(7,999)	(7,999)	
39 Interest expense (2010 Sub Lien Taxable Bond)			(4,020)	(3,754)	(2,963)	(2,048)	(1,062)	-	
40 Interest expense (2014 New Bond)						(5,699)	(5,899)	(5,899)	
41 Interest expense (IPP's)			(14,021)	(12,849)	(11,521)	(10,020)	(8,319)	(6,393)	
42 Other Interest Expense			(74)	(122)	(2)	(27)	(37)	(236)	
43 Uncovered Future Property and Revenue Damage/Losses			0	0	0	0	(672)	(2,930)	
44 AFUDC			1,223	2,810	2,130	1,550	2,040	1,450	
45 Amortization of Issuance Costs			(1,810)	(1,810)	(1,810)	(1,411)	(1,320)	(1,052)	
46 Net Income (Loss) Before Capital Contributions			\$ (2,219)	\$ (539)	\$ 2,722	\$ 8,193	\$ 6,841	\$ (1,212)	
47 Capital Contribution			0	0	0	0	0	0	
48 DOE Smart Grid Funding			958	5,386	9,432	795	0	0	
49 Held for PUC projects approved by PUC			(2,600)						
49 Other External CIP Funding, DDD/Military			150	15,063	29,595	61,756	56,040	50,338	
50 Increase (Decrease) in Net Assets			\$ (3,811)	\$ 19,910	\$ 41,749	\$ 70,744	\$ 62,892	\$ 49,126	
51 To check			(0)	1	(1)	(0)	1	(3)	
52 <u>Debt Service Coverage Calculation:</u>									
53 Earnings From Operations			\$ 36,659	\$ 39,783	\$ 41,451	\$ 49,864	\$ 45,573	\$ 36,993	
54 Add Interest Income			6,686	1,542	1,469	1,549	1,621	1,569	
55 Add: Depreciation			26,080	27,955	33,761	38,099	41,749	44,849	
56 Balance Available for Debt Service			\$ 69,424	\$ 69,279	\$ 76,682	\$ 89,512	\$ 88,943	\$ 83,411	
57 Less IPP Interest and Principal			(23,084)	(23,084)	(23,083)	(23,084)	(23,084)	(23,084)	
58 Balance Available for Debt Service after IPP			\$ 46,340	\$ 46,195	\$ 53,599	\$ 66,427	\$ 65,859	\$ 60,327	
59									
60 <u>Debt Service:</u>									
61 Bond Interest Expense			\$ 22,085	\$ 22,602	\$ 23,421	\$ 27,964	\$ 26,476	\$ 24,888	
62 Bond Principal			12,640	20,815	21,290	22,710	24,225	10,595	
63 Total Debt Service			\$ 34,725	\$ 43,417	\$ 44,711	\$ 50,674	\$ 50,701	\$ 35,481	
64									
65 <u>Annual Targets and Coverage:</u>									
66 GPA's Long-Term Goal (Rating Agency)		Target	1.75	1.33	1.06	1.20	1.31	1.30	1.70
67 GPA's Long-Term Goal (Rating Agency) (annualized)			1.75		1.19				
68 PUC for Senior Bond Coverage <sup>(1)</sup>			1.75	1.69	1.68	1.81	1.87	1.86	1.70
69 PUC for Senior Bond Coverage (annualized)			1.75		1.87				

70	PUC Subordinate Bond Calc (GPA)	1.40	1.33	1.06	1.20	1.31	1.30	1.70					
71	PUC Subordinate Bond Calc (GPA) (annualized)	1.40		1.19									
72	PUC Subordinate Bond Calc (GCG)	1.40	2.60	1.17	1.59	2.04	2.00	NA					
73	PUC Subordinate Bond Calc (GCG) (annualized)	1.40		1.51									
74													
75	<b>Internal Cashflow Statement:</b>												
76	Total Cash Generated	\$	24,322	\$	26,338	\$	35,965	\$	46,180	\$	47,907	\$	43,475
77	CIP's-Revenue Funded		(10,559)		(18,965)		(24,329)		(18,746)		(19,402)		(19,136)
78	Principal Payment (1993 & 1999 Series)		(8,205)		(8,635)		(9,090)		(9,565)		(10,070)		(10,595)
79	Principal Payment (2010 Sub Lien Taxable Bond)		(4,435)		(12,180)		(12,200)		(13,145)		(14,155)		-
80	Principal Payment (2014 Bond)		-		-		-		-		-		-
81	Principal Payment (IPP's)		(9,064)		(10,235)		(11,562)		(13,064)		(14,765)		(16,692)
82	Cap I Fund - Senior Lien TE Bond		7,999		7,999		5,935		5,899		5,899		5,899
83	Cap I Fund - Sub Lien Taxable Bond		1,214		-		-		-		-		-
84	2014 Bond Issuance, Funds Used for Cash Purposes		-		-		-		-		-		-
85	BOA Settlement, Applied to Working Capital DS				2,427		2,746						
86	Smart Grid Funding		658		5,366		9,432		795		-		-
87	Note Payment from GWA/DOE		3,683		2,837		1,846		-		-		-
88	Change in Materials Inventory		(1,500)		(1,735)		(516)		(1,089)		(1,105)		212
89	Other Cash Requirements		(6,866)		5,095		1,136		1,459		1,487		(488)
90	WC Fund Funding Requirement		(581)		(5,318)		181		(15)		239		(1,319)
91	Fund Receipts: Surplus Funds-Taxable Commercial Paper Account		3,100										
	Drawdown of 2014 Bond Issuance for Bond Reserve								2,949		2,949		
92	Change in Bond Reserve Funds		6		-		-		(2,949)		(2,949)		5,612
93	Reserved for Debt Service, Accrual vs. Actual <sup>(2)</sup>		2,620		4,876		(1,879)		58		547		(14,666)
94	Bad Debt Adjustment		30		11		28		83		84		84
95	Change in Other Unrestricted Funds <sup>(3)</sup>		(2,285)		2,686		2,523		1,724		3,708		7,987
96	Construction Fund Interest Income		(216)		(508)		(161)		(551)		(329)		(171)
97	Cash (Deficiency)/Surplus	\$	122	\$	79	\$	56	\$	23	\$	44	\$	202
98													
99	<b>Unrestricted Cash on Hand:</b>												
100	BOY Unrestricted Cash	\$	56,141	\$	42,935	\$	45,366	\$	51,923	\$	48,291	\$	46,809
101	Change in Unrestricted Cash	\$	(13,206)	\$	10,257	\$	7,869	\$	(397)	\$	(711)	\$	(5,897)
102	Escrowed Cash for Debt Service		\$		(7,827)	\$	148	\$	(3,673)	\$	(771)	\$	14,425
103	Escrowed Cash for Cap I				(0)		(1,459)		438		0		0
104	EOY Cash (Adjusted)	\$	42,935	\$	45,366	\$	51,923	\$	48,291	\$	46,809	\$	55,337
105													
106	O&M Per Day	\$	923	\$	1,097	\$	1,091	\$	1,092	\$	1,084	\$	1,127
107													
			Short Term-Target										
108	EOY Days Cash on Hand After Oct. Debt Service		40-45		47		41		48		44		49

**Attachment 2**  
**To**  
**GPA Docket 11-09 Stipulation**

**REVENUE REQUIREMENTS FILING PROCEDURES**

The Revenue Requirement Filing Procedures in this Attachment 2 to GPA Docket 11-09 Stipulation (Procedures) set forth the minimum filing requirements for Guam Power Authority's (GPA) FY 2014 revenue requirement adjustment process. These Procedures are designed to provide the Guam Public Utilities Commission (PUC) with updated financial information and assist GPA in streamlining its base rate adjustment for FY 2014. These Procedures are guidelines to be used in conjunction with the FY 2014 filing that is part of GPA's multi-year filing in GPA Docket 11-09. GPA will identify and discuss any deviations from these Procedures as part of its filing for FY 2014. The purpose of these Procedures will be to expedite the review of the results of GPA's projected targeted revenue requirement for FY 2014 and modify it as necessary to reflect updated and current information. In accordance with the DOD's (Navy) customer service agreement with GPA, for the years when GPA is requesting a base rate increase, a cost-of-service study will be performed for the Navy and the results incorporated into the revised rates.

**A. THE FILING**

On or about April 1, 2013, GPA shall file the following information for its FY 2014 rate base filing with the Guam PUC for review and consideration:

- (1) **Revenue Requirements:** A summary of the revenue requirement targeted in GPA Docket 11-09 for FY 2014, Attachment 1 to the Stipulation, will be updated to reflect current information.

The most recent historic year and current 12-month period will be provided. The revenue requirement information should include GPA's projections of fuel expenses and IPP costs. The target revenue requirement projected for FY 2014 will be used as a basis for determining if modifications to the prior targeted rate adjustments are necessary. A cash flow statement shall accompany the revenue requirement filing. The revenue requirement and cash flow statement shall be provided in the format prescribed in Schedule A of the *Rules for Practice and Procedure before Commission*. Since the adjustments may deviate from the original multi-year filing, example templates for the FY 2014 rate filing are shown as Schedules A and B of this exhibit. Revenue Requirements Form (see attached).

- (2) **Expenses:** A schedule of expenses and an explanation of any amortized expenses;

(3) Adjustments between Multi-Year Filing and the FY 2014 Filing: All known and measurable adjustments from the target FY 2014 results as shown in Attachment 1 to the Stipulation will be provided in a schedule.

This schedule will include information describing the purpose, basis, and amount of each account adjustment. If any line item on the updated revenue requirement has increased or decreased by more than ten percent (10%) from the target FY 2014 results as shown in Attachment 1 to the Stipulation, a description for each line item will be provided describing the cause for the variance. A schedule and explanation of all pro forma and normalizing adjustments will also be provided.

(4) Debt Service Coverage Ratio: GPA's debt service coverage (DSC) ratio calculations consistent with those provided in Attachment 1 to the Stipulation shall be provided, except that the DSC ratio for subordinate debt shall be calculated in accordance with the anticipated Order in Phase II of GPA Docket 11-09.

The DSC ratio shall be provided in the format prescribed in Schedule A of the *Rules for Practice and Procedure before Commission*. Since the adjustments may deviate from the original filing, an example template for the multi-year rate filing is shown as Schedule C of this Attachment.

(5) Days of Cash on Hand: A schedule containing the calculation of GPA's days of cash on hand shall be provided as shown in Schedule D of this Attachment.

(6) Staffing Levels: A summary of GPA's actual personnel costs and level of personnel (which include pensions, health insurance and all other related costs) for the most recent historic year and current year will be provided. The summary provided shall include a discussion of the status of GPA's implementation of the Certified Technical and Professional Personnel (CTP) wage increases consistent with PUC requirements as applicable in future years as well as a summary explanation of any changes in assumptions sought for the next fiscal year and the direction provided by the Consolidated Commission on Utilities. GPA shall provide any resolutions of the Consolidated Commission on Utilities (CCU) evidencing any actions on the CTP program. To the extent required by law, GPA shall also provide an updated staffing study.

(7) Debt Service: The debt service payments provided as part of the revenue requirement shall be provided in a format similar to those prescribed in Schedule F of the *Rules for Practice and Procedure before Commission*.

(8) Capital Improvement Projects and Funding Sources: An update shall be provided with the amount of capital improvement projects scheduled for the upcoming five-year period, the amount expended on projects in construction, and any revisions in costs or completion dates. The funding sources for these projects should be identified as prescribed in Schedules G and I of the *Rules for Practice and Procedure before Commission*.

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(9) Working Capital: A working capital schedule shall be provided in a format as prescribed in Schedule H of the *Rules for Practice and Procedure before Commission*.

(10) Other Cash Flow Items: Details regarding additional sources and uses of cash shall be provided in a format as prescribed in Schedule I of the *Rules for Practice and Procedure before Commission*.

(11) Load Forecast: An updated energy and load forecast shall be provided for FY 2014. Historical and projected customer and sales data for the upcoming five-year period will be provided.

This schedule will include the number of customers and energy and demand sales by customer class. If the number of customers or sales has increased or decreased by more than five percent (5%) from the previous revenue requirement period, a description for each line item will be provided describing the basis for the variance.

(12) Proof of Revenues: The billing determinants for the upcoming year shall be used to determine whether the level of revenues is adequate in meeting the revenue requirement. The customer and sales data shall be based on the data provided in the load forecast for the upcoming year.

(13) Annual Audited Financial Statement: A copy of GPA's annual certified audit, including any adjusting journal entries.

(14) Cost-of-Service Requirements: GPA's shall describe any changes to the multi-year rate plan that have as a goal moving toward cost-of-service.

(15) Smart Grid Implementation Update: An update on the status of the implementation of the Smart Grid project shall be provided, together with a description of the actual benefits to date and projected benefits, included estimates of increases in revenue and decreases in expenses attributable to the Smart Grid project.

(16) Productivity Improvements: A summary description of productivity improvements projected and actually achieved since the filing of the rate petition in this docket shall be provided.

(17) Cost Control Measures: A summary description of cost control measures implemented by GPA to keep rate increases to a minimum shall be provided.

(18) System Reliability Report Update: A status report on delivery system reliability performance shall be provided, together with the results of any updated customer satisfaction surveys.

(19) CIP and O&M Status Report: A status report and narrative summary describing all capital construction projects and operations and maintenance (O&M) service contracts, insurance contracts, labor and other non-labor O&M expenses shall be provided.

## **B. DETERMINATION OF TARGET RATE ADJUSTMENT(S)**

Revenues for the upcoming year FY 2014 shall be derived based on projected billing determinants, new LEAC rates, and base rates approved in the current proceeding and compared to the updated revenue requirements determined for FY 2014. The Navy cost-of-service study will be performed in accordance with the Navy customer service agreement. Any approved civilian rate increases will be spread using an across-the-board adjustment to the base rates from the rate plan approved by the PUC in GPA Docket 11-09. This approach will retain the cost-of-service principles and support the projected rate parity changes accepted in GPA Docket 11-09 to the rate structure for each customer class. If GPA

proposes to adjust rates based on its filing, GPA shall file with the commission the following additional information:

- (1) Tariff sheets showing any proposed adjustments to the GPA's rates;
- (2) A copy of the relevant resolution(s) of the CCU authorizing the requested increase in rates; and
- (3) A narrative description or evidence of the actions taken by GPA to provide public notice of its intentions. If applicable, documentation demonstrating GPA's compliance with the Ratepayers' Bill of Right notice requirements. GPA will also submit evidence with the PUC indicating that this requirement was covered when the multi-year filing was originally submitted and that GPA is still in compliance with the Ratepayers' Bill of Rights. This submittal will also include a copy of the original notice.

### **C. COMMISSION REVIEW**

Nothing in these procedures shall limit the PUC's review of the operations and financial results of GPA, nor the PUC's ability to request information from GPA related to its filing. These Procedures are limited to a rate adjustment for FY 2014 that is based on PUC precedents on revenue requirement and ratemaking methodologies. Proposals for new or abandonment of base rates is not permitted under these Procedures. A separate filing will be required for any such changes.

**Schedule A**  
**Summary of Revenue Requirements (\$000)**

	Actual 2012	Actual & Estimated 2013	Docket 11-09 Rate Case Target FY 2014	Adjusted Test Year FY 2014	Difference
<b>% Increase on Total Bill</b>					
<b>Proforma Income Statement:</b>					
Base Revenues					
Fuel Revenues					
Addl Revenues from Smart Grid Implementation					
WCF Surcharge					
Payment in Lieu of Taxes Surcharge					
Miscellaneous Revenues					
<b>Revenue from Allowed Rate Change:</b>					
% of Base Sales Revenue					
Number of Months Rate Change Effective					
Amount of Additional Revenues					
<b>Total Revenues</b>					
Production Fuel					
IPP Costs					
<b>O&amp;M Expenses:</b>					
Production Non-Fuel					
Transmission and Distribution					
Administrative and General					
Customer Accounting					
<b>Total O&amp;M Expenses</b>					
Depreciation					

Payments Made in Lieu of Taxes					
<b>Total Operating Expenses</b>					
<b>Earnings from Operations</b>					
<b>Other Revenues (Expenses):</b>					
Investment Income					
BOA Settlement					
Interest expense (1993/1999 Revenue Bonds)					
Interest expense (2010 Senior Lien TE Bond)					
Interest expense (2010 Sub Lien Taxable Bond)					
Interest expense (2014 New Bond)					
Interest expense (IPP's)					
Other Interest Expense					
Uncovered Future Property and Revenue Damage/Losses					
AFUDC					
Amortization of Issuance Costs					
<b>Net Income (Loss) Before Capital Contributions</b>					
Capital Contribution					
DOE Smart Grid Funding					
Other External CIP Funding, DOD/Military					
<b>Increase (Decrease) in Net Assets</b>					

**Schedule B**

**Internal Cash Flow Statement (\$000)**

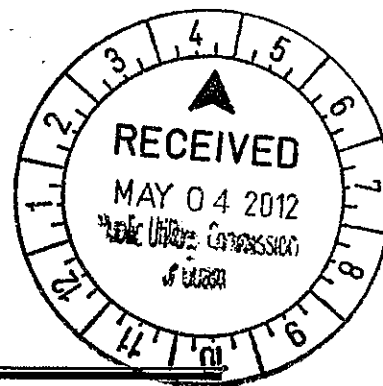
	Actual 2012	Actual & Estimated 2013	Docket 11-09 Rate Case Target FY 2014	Adjusted Test Year FY 2014	Difference
<b>Internal Cash Flow Statement:</b>					
Total Cash Generated					
CIP's-Revenue Funded					
Principal Payment (1993 & 1999 Series)					
Principal Payment (2010 Sub Lien Taxable Bond)					
Principal Payment (2014 Bond)					
Principal Payment (IPP's)					
Cap I Fund - Senior Lien TE Bond					
Cap I Fund - Sub Lien Taxable Bond					
2014 Bond Issuance, Funds Used for Cash Purposes					
BOA Settlement, Applied to Working Capital DS					
Smart Grid Funding					
Note Payment from GWA/DOE					
Change in Materials Inventory					
Other Cash Requirements					
WC Fund Funding Requirement					
Change in Bond Reserve Funds					
Change in Other Funds					
Construction Fund Interest Income					
<b>Cash (Deficiency)/Surplus</b>					

**Schedule C**  
**Debt Service Coverage (\$000)**

[illegible]

**Schedule D**  
**Days of Unrestricted Cash on Hand (\$000)**

	<b>Actual 2012</b>	<b>Actual &amp; Estimated 2013</b>	<b>Docket 11-09 Rate Case Target FY 2014</b>	<b>Adjusted Test Year FY 2014</b>	<b>Difference</b>
Unrestricted Cash Fund Balance					
Actual/Projected Levels					
Target					



**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF GUAM**

<b>IN THE MATTER OF:</b>	)	<b>GPA DOCKET 11-09</b>
	)	
<b>GUAM POWER AUTHORITY'S 2011</b>	)	<b>SUPPLEMENTAL</b>
	)	<b>STIPULATION</b>
<b>MULTI-YEAR BASE RATE FILING</b>	)	
	)	

GUAM POWER AUTHORITY ("GPA"), GEORGETOWN CONSULTING GROUP, INC. ("GCG") and the DEPARTMENT OF DEFENSE ("DOD") (collectively, the "Parties"), through their counsel of record, hereby enter into this supplemental evidentiary stipulation and make the following recommendations to the PUC for its consideration.

1. GPA has acknowledged and disclosed that there was an error with the handling of the Navy meter load data contained in the load study presented in this docket (the "Load Data Issue") that significantly impacts the allocation of costs between Navy and civilian customers as was originally presented. The Parties recognize that DOD and GCG have not yet had a reasonable opportunity to investigate and analyze the Load Data Issue and are, thus, unable to quickly verify and quantify that impact with the appropriate level of confidence.

2. The Parties agree that there is no change in the overall revenue requirement as previously stipulated between the Parties and accepted by the PUC's Administrative Law Judge ("ALJ"). The Parties further agree that the award of appropriate rate relief to GPA should not await final resolution of the Load Data Issue.

3. Pending a final resolution of the Load Data Issue, the Parties recommend that the Guam PUC utilize the following allocation of the increase in GPA revenue requirement between the Navy and civilian customers to set and implement rates on an interim basis (Interim Rates) in Phase 1 of GPA Docket 11-09 effective on May \_\_, 2012:

Requirement	Civilian	Navy
\$9,018,467	\$10,659,485	\$<1,641,018>

4. The Parties will meet and confer regarding the Load Data Issue and propose to the PUC an adjustment to the Interim Rates to develop the Final Rates as soon as practicable. GPA will provide all data reasonably requested by GCG and the Navy related to the Load Data Issue.

5. Upon satisfactory resolution of the Load Data Issue, which is expected to occur in a short period of time after the Interim Rates in this proceeding are implemented, Interim Rates shall be adjusted. Any resulting differences between the Interim Rates and the Final Rates approved by the PUC for the period beginning the effective dates of Interim Rates established in GPA Docket 11-09 through to when the rates are made final shall be "trued-up" in the form of a credit or surcharge on customers' bill over an appropriate period of time determined by the PUC.

6. In light of the Load Data Issue, GPA will withdraw all of its testimony regarding its proposal to implement the AED/12CP cost allocation methodology in this docket, GPA Docket 11-09.

7. The Parties recommend the PUC order the use of the 12CP cost allocation methodology in GPA Docket 11-09, as was also recommended by the ALJ.

8. The Parties acknowledge that GPA will continue to have the right to propose any cost allocation methodology in its next general rate case consistent with the then existing Customer Service Agreement between GPA and Navy, or superseding agreement.

GUAM POWER AUTHORITY

DATED: MAY 4, 2012.

BY: 

D. GRAHAM BOTHA, ESQ.

GEORGETOWN CONSULTING GROUP, INC.

BY: BLAIR STERLING JOHNSON & MARTINEZ  
A PROFESSIONAL CORPORATION

DATED: MAY 4, 2012.

BY: 

WILLIAM J. BLAIR

Attorneys for Georgetown Consulting Group, Inc.

DEPARTMENT OF DEFENSE

DATED: MAY \_\_, 2012.

BY: \_\_\_\_\_

JOHN MASTERSON, ESQ.

5. Upon satisfactory resolution of the Load Data Issue, which is expected to occur in a short period of time after the Interim Rates in this proceeding are implemented, Interim Rates shall be adjusted. Any resulting differences between the Interim Rates and the Final Rates approved by the PUC for the period beginning the effective dates of Interim Rates established in GPA Docket 11-09 through to when the rates are made final shall be "trued-up" in the form of a credit or surcharge on customers' bill over an appropriate period of time determined by the PUC.

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**GUAM POWER AUTHORITY**

DATED: MAY \_\_, 2012.

BY: \_\_\_\_\_  
D. GRAHAM BOTHA, ESQ.

**GEORGETOWN CONSULTING GROUP, INC.**

BY: **BLAIR STERLING JOHNSON & MARTINEZ**  
A PROFESSIONAL CORPORATION

DATED: MAY 4, 2012.

BY: William J. Blair  
WILLIAM J. BLAIR  
*Attorneys for Georgetown Consulting Group, Inc.*

**DEPARTMENT OF DEFENSE**

DATED: MAY 4, 2012.

BY: John Masterson  
JOHN MASTERSON, ESQ.



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF:**

**GUAM POWER AUTHORITY'S 2011  
MULTI YEAR BASE RATE RELIEF  
FILING**

**GPA DOCKET 11-09**

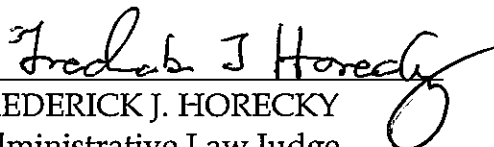
**ALJ ORDER RE: ALLOCATION OF  
ADDITIONAL WCF SURCHARGE**

1. This matter comes before the Guam Public Utilities Commission [PUC] Administrative Law Judge (ALJ) upon the request of the parties for clarification of the appropriate allocation of the new Working Capital Fund (WCF) surcharge between Navy and civilian ratepayers in this proceeding which the parties have proposed would go into effect on May 1, 2012.
2. On June 20, 2011, the PUC issued a Supplemental Phase III Order in GPA Docket 07-10 regarding GPA's Petition to Modify the Working Capital Fund (WCF) surcharge. In paragraph 9 of the Order, the PUC stated that "any difference in GPA's WCF requirements resulting from a change in fuel prices will be amortized over the remainder of the WCF surcharge amortization period, with the allocation to DOD done in a manner that is consistent with the calculations and the methodology contained in the Stipulation of the parties dated April 21, 2010, in this Docket."<sup>1</sup> The allocation used was the rate base allocation and resulted in an allocation of 17% to Navy of the WCF surcharge.<sup>2</sup>
3. The ALJ, after careful review of the positions of GCG, Navy, and GPA, orders that the method of rate base allocation and cost of service used in GPA Docket 07-10, with an allocation to Navy of 17% be used in the allocation of the additional WCF surcharge in this proceeding which the parties have proposed would go into effect on May 1, 2012.
4. This specific allocation to the Navy would only be for the proposed additional WCF surcharge to be effective May 1, 2012. The next opportunity to examine adjustment of the WCF surcharge will be in conjunction with the PUC review of the appropriate August 1, 2012 LEAC rate and any of the parties in that proceeding may request a change in how future allocations to Navy are made with regard to additional WCF surcharges and how the PUC should amend its June 20, 2011 Supplemental Order in Docket 07-10 with regard to this issue.

<sup>1</sup> No time limit was set for this process to be in effect or to expire.

<sup>2</sup> No process for modification was discussed or approved.

Dated this 30th day of April, 2012.

  
FREDERICK J. HORECKY  
Administrative Law Judge

## A circular 'RECEIVED' stamp from the U.S. Department of Justice. The stamp features a clock face with numbers 1 through 12. The word 'RECEIVED' is prominently displayed in the center. Below it, the date 'APR 24 2012' is stamped. Further down, the text 'U.S. DEPARTMENT OF JUSTICE' is visible, followed by 'FEDERAL BUREAU OF INVESTIGATION'. A handwritten signature, possibly 'JRP', is scrawled across the bottom of the stamp. The stamp is placed over a document that includes a 'CONFIDENTIAL' marking and a 'U.S. DEPARTMENT OF JUSTICE' header.

GPA Docket 11-09

## ALJ REPORT

1. On November 3, 2011, GPA filed its Petition for Approval of Multi-Year Base Rate Increases for: a] 11.8% for the period from March 1, 2012 through September 30, 2012; b] 1.3% for the period from October 1, 2012 through September 30, 2013; c] 10.6% for the period from October 1, 2012 through September 30, 2014; d] 0% for the period from October 1, 2014 through September 30, 2015; e] 0% for the period from October 1, 2015 through September 30, 2016. The total rate increase over the five-year period would be 25.3%. The revenues requested by GPA for the five-year period are approximately \$10.8 Million in FY 2012, \$2.3M in FY 2013, and \$18.6M in 2014.
2. GPA's Petition requested numerous other changes, including raising of the self-insurance fund cap to \$20 million, PUC approval of certain financial targets proposed by GPA for evaluating rate increases, implementation of a quarterly LEAC true-up process, PUC approval of a revised Tariff M for backup and standby rates and approval for a Payment in Lieu of Taxes (PILOT) surcharge to cover payments in the General Fund of \$3.5M in FY 2012 and \$875,000 annually in FYs 2013-2016. GPA stated that a surcharge of approximately \$.003623 per kWh would be necessary to cover the PILOT of \$3.5 million in FY12, with some reductions in the amounts of the surcharges for FY2013 through 2016.
3. GPA also requested a change in the manner in which it allocates its demand charges so that such charges are more reflective of the cost-of-service to serve customers. GPA seeks authority to move toward "cost-based customer charges" in its rates. These "phased-in" changes to rate design will likely mean that the average residential customer and lifeline customers will see their rates increase more than the average commercial customer. GPA believes that these changes will more fairly allocate costs so that the customer that caused the cost is responsible for paying the cost. GPA also seeks to increase certain returned check fees and other "convenience fees."

4. On November 29 and December 2, 2011, a scheduling conference was held in this Docket for the purpose of the scheduling of discovery, submission of testimony, prehearing conferences, the evidentiary hearing, and other matters related to the resolution of this proceeding. GPA, GCG, and the Navy presented their positions on the respective schedule.
5. At the conclusion of the hearing, the ALJ ordered that the parties jointly develop a schedule. On December 14, 2011, GPA filed a proposed schedule with PUC. Said schedule is attached hereto as Exhibit "1".
6. In the Scheduling Order dated December 24, 2011, the ALJ adopted the proposed schedule of the parties but reserved the right to reschedule the same for convenience or cause.
7. On February 8, 2012, the ALJ issued an ORDER RE: PRELIMINARY ISSUES. Therein, it was ruled that four issues would be deferred until Phase II of this proceeding:
  1. Payment in Lieu of Taxes [PILOT]
  2. Self Insurance and all issues relating thereto
  3. A clarification of Procedures and Requirements relating to the Working Capital Fund.
  4. LEAC Period [whether the LEAC period should be reduced from six months to three months]
8. Furthermore, the ALJ was requested to make a ruling on an issue relating to the interpretation of the "General Lifeline Rate", as set forth in 12 GCA §12004. 12 GCA §12004 provides in pertinent part: "...General Lifeline Rates may only be increased [by the PUC] when the total actual overall cost of providing service to all classes of customers, increases by no less than 20 percent (20%)." The question presented was whether the 20% requirement is a "one time event", after which the lifeline rate may be increased at the discretion of the PUC, or whether, after the 20% requirement is initially satisfied, it must be satisfied each time again thereafter before the PUC again raises the lifeline rate (the "ratchet" approach). The ALJ adopted the

"ratchet" approach holding that the 20% requirement was not only "a onetime threshold". Even after the 20% requirement has been satisfied, for any increase thereafter, the Commission cannot again increase the general lifeline rates until the 20% requirement is again satisfied. The parties agree that the 20% requirement has been met for purposes of this proceeding.

9. In the conduct of these proceedings, the parties closely adhered to the proposed schedule, with the exception of the conduct of the village hearings, ALJ Decision and PUC Meeting. The latter aspects of the proceeding were delayed for approximately one month, due to a lack of notice by GPA in billings to its ratepayers of scheduled public hearings on this rate case. The PUC initially scheduled the public hearings for March 9 and March 13, 2012. At the request of GPA, the hearings were subsequently rescheduled to dates in April.
10. On March 7, 2012, the ALJ conducted a contested hearing at which time the parties (GPA, Navy, and GCG) presented argument and position statements concerning three issues involving rate design and the allocation of rate base to Navy. The issues do not affect the total amount of revenues which GPA should receive in the rate case, but address the question of which class of customer bears the burden of the rate allocation. These issues were presented for resolution by the ALJ: whether "Other Revenues" should appropriately be allocated to the Navy in the GPA Transmission Level Cost of Service Study (TLCOS); the manner in which Independent Power Producer Debt Service Costs should be allocated; and whether GPA should be authorized to utilize a new allocation methodology, Average Excess Demand 12 Coincident Peak Methodology (AED/12 CP). In this Report, the ALJ issues his proposed findings on those issues.
11. In accordance with the Ratepayer Bill of Rights, three public hearings were conducted on April 3, 4, and 5, 2012, respectively, at Hagatna, Agat, and Dededo. The public testimonies and comments, in general, demonstrated a high level of awareness and understanding by the public of the issues in this rate proceeding and the problems facing GPA. A summary of the public comments and testimonies is set forth herein.
12. At the "evidentiary" public hearing conducted in Hagatna at the GCIC Building on April 3, 2012, GPA and Georgetown Consulting Group ("GCG") presented a draft Stipulation. Said Stipulation is attached hereto as Exhibit "2". The Stipulation essentially provides for a 6% increase in base rate revenue requirements, effective

May 1, 2012. This increase would be effective for the remainder of 2012 and 2013. In 2014, there would be a simplified base rate filing by GPA, indicating revenue requirements, and any comparisons or changes with regard to revenue requirements and other requirements set forth at the time of the filing. The PUC would then adjust rates, if appropriate. At this time, GPA's target base rate increase for FY2014 is approximately 10.6%, which largely is based upon principal and interest payments which will become due on the 2010 Bond Issue. However, the amount of any such increase will be addressed in 2014. Thus, what was initially a five-year rate plan has been reduced to a set two-year plan with an additional filing for the third year.

13. On April 24, 2012, the ALJ issued his Report herein, which report includes proposed findings on the contested rate design/allocation issues and recommendations on the requested rate increase by GPA.

#### *Stipulation*

14. In the "evidentiary" hearing in Hagatna during the evening of April 3, 2012, GCG and GPA presented an overview of the Stipulation which had been entered into by the parties, including the Navy. The Stipulation is attached hereto as Exhibit "2". Rather than repeating the provisions of Stipulation in detail, this Report will set forth the highlights thereof:

- A. There would be a single overall 6% base revenue requirement increase for the period covering FY2012 and FY2013 for meters read on and after May 1, 2012.
- B. For FY2014, GPA would make an abbreviated base rate filing by no later than April 1, 2013, in accordance with certain revenue requirement filing procedures set forth in the Stipulation.
- C. For FY2015 and FY2016 there shall be no incremental base rate changes without a new base rate filing.
- D. In making the calculation for the Debt Service Coverage Ratio the parties agree that Independent Power Producer expenditures, only for the purposes of coverage calculations for revenue requirement

determinations, will be treated as expenses and as not as a capitalized lease.

- E. In Phase II of this Docket, the PUC will consider and provide additional guidance on the issue of the DSCR requirements on subordinate revenue bonds.
- F. A number of steps have been taken to provide GPA with adequate financial liquidity to run its day-to-day operations. The WCF balance has been fully met and a mechanism is in place to maintain required amounts. Issues concerning the GPA self-insurance fund with a funding cap, and applicable protocols, will also be examined in Phase II. Finally, with the base rate increases recommended by the parties herein, GPA is projected to end FY2013 with an additional \$18.7M of unrestricted cash over the amount in the WCF. At the end of FY2013, it is projected that GPA will have approximately 48 days of cash on hand.
- G. In this rate case, GPA has agreed to reduce its budgeted labor and non-labor O&M expenses by approximately \$3.6M in FY2012 and FY2013.
- H. Effective May 1, 2012, the PUC should award an overall 6% increase in base rate revenues of approximately \$9.1M.
- I. Effective April 1, 2012, a WCF base rate surcharge of \$0.00466 per kWh as ordered by the PUC was implemented. A flat fee of \$110,374 per month was charged to Navy (DoD) as the WCF base rate surcharge.
- J. Effective May 1, 2012, the civilian WCF base rate surcharge should be increased to reflect the increase in the fuel portion of GPA's WCF requirement. The flat fee WCF surcharge charged to DoD should also be increased. The parties recommend that the increase occurring on May 1, 2012 should be amortized over a 12-month period rather than the remainder of the WCF amortization period. These increases in the WCF surcharge are expected to collect \$4.855M over 12 months.

- K. For residential service, the Customer Charge would increase gradually from \$10.00 in FY2012 to \$15.00 in FY2015.
- L. Between FY2012 and 2016, the subsidy in the Lifeline Block would be progressively decreased until, in FY2016, the Lifeline Block would equal 80% of the "Tail Block Charge" (i.e. the charge for all kWh use in excess of 500 kWh per customer per month).
- M. An increase will be implemented for General and Government non-demand rates (Schedules G&S). Increases in customer charges for Schedules G&S would be phased-in in three fiscal years with approximately a 33% increase in the Customer Charge in the FY2012 rates. There would be subsequent adjustments on October 1, 2012 and October 1, 2013. Energy charges would also be adjusted.
- N. New rate structures would be implemented for Demand-Metered Non-Residential Rate Classes (Schedules J, K, L, & P). The voltage discounts will be provided for customers who take service at higher voltages from those for customers that take service at secondary voltage.
- O. The new provisions will provide GPA with more flexibility in pricing service for Large Power customers, but specific agreements proposed will be reviewed by the PUC on a case-by-case basis. These negotiated rates will only be available to customers who agree to make a substantial long-term commitment to continued service from GPA.
- P. GPA's proposed Standby Service Schedule (Schedule M) should be approved. GPA will include provisions that allow for scheduled maintenance without the incurrence of added demand charges by the customer.
- Q. GPA, working cooperatively with PUC, will examine the potential use of "revenue decoupling mechanisms" to stabilize its revenue collections and protect against loss of revenue due to: (1) deployment of energy efficiency and conservation measures by

customers; and (2) competition from alternative providers of energy services in self-generation options. It will include, in its next base rate filing, a report on its plan for implementation of revenue decoupling.

- R. In order to generate additional cash reserves for use by GPA, the PUC should remove any restriction on the use of the "Funds Reserved for Bond Project Overruns" which the PUC ordered to be placed in a contingency fund in its August 30, 2010 Order in GPA Docket 10-01 (approximately \$3.1M).

#### *Public Comments*

15. At the Public Hearing conducted in Hagatna on April 3, 2012, Senator Vicente Pangelinan testified concerning various aspects of the rate case. He indicated that any change in methodology which shifts the burden of rates to residential customers raises concerns; GPA management should reduce the burden on ratepayers. A situation may arise where customers are paying more, but getting less from their appliances such as air conditioners. Senator Pangelinan felt that the self-insurance cap should not be raised to \$20M (this issue has been deferred until Phase II of the Rate Proceeding). He felt that the excess collected by GPA for self-insurance over \$10M should be used to offset any rate increase proposed in this proceeding. In general, the Senator pointed out that the present was not a propitious time for a rate increase: increased rates are proposed at a time when there are no increments or pay raises for the government of Guam employees and the hours of private sector employees are being reduced. Furthermore, a rate increase will likely stymie growth in the private sector. The Senator felt that the Working Capital Fund requirements could be reduced by \$10M, which is savings that GPA has stated it will obtain from Petrobras as a result of the amendments to the fuel contract.
16. Wanjoo Kim, the proprietor of Margarita's Restaurant, indicated that businessmen must pass on rate increases/surcharges to their customers. For example, the WCF Surcharge imposed on ratepayers would be passed on to customer meal prices at Margarita's. He was confused by the reasoning that a reduction in power usage apparently necessitates a raise by GPA in rates to meet revenues and fixed expenses. He wished to insure that the PUC Consultants (i.e. GCG) would exercise

a high level of scrutiny. The public would be more amenable to rate increases if GPA was doing everything it could to run a lean and mean organization.

17. Ben Cruz complained that citizens are simply paying too much now for power rates. At a minimum wage of \$7.25 an hour, people simply can't afford these rate increases. He feels that the only people making money "are you guys", by which he was apparently referring to the PUC officials conducting the hearing and the consultants. He requests that power bills be lowered. Franklin Hiton of Yona established that overall GPA operations cost nearly \$500M a year. General Manager Joaquin Flores of GPA pointed out that a large part of the cost was for fuel. Mr. Hiton wondered why there were insurance charges and felt that residential customers should not pay more than businesses.
18. On April 4, 2012, a public hearing was conducted at the Agat Senior Citizen Center. Mike Lutero indicated that it was difficult for the public to deal with rate increases as minimum wage has not been raised and gas prices go up. He had questions concerning the cost of fuel and use thereof by GPA. His questions were addressed by GPA GM Joaquin Flores. He asked the PUC to consider that employees are staying at the same level of minimum wage.
19. Antonio Babauta questioned whether GPA could reduce the cost of streetlights - the street lights are on during the daytime and the nighttime. He wondered whether some type of sensitivity device or other equipment could reduce usage, thereby reducing electric bills. GM Flores indicated that GPA was converting to LED lights, which would produce savings. Cel Babauta clarified with GM Flores that 70 cents out of every dollar that GPA spends goes for fuel expense. He wondered what GPA was doing to diversify its resources. GM Flores indicated that contracts were being finalized for a 20 megawatt solar farm next to Leyon and a 14 megawatt wind and solar project. However 34 megawatts of solar and wind would still be less than 2% of GPA's total energy production. Energy production would be in excess of \$250M over 20 years, and the new facility would produce less than 4 MW per day. He also mentioned the possibility of conversion of power plants to liquify natural gas. Babauta asked whether GPA could take advantage of ARRA funds for green energy. GM Flores stated that green energy was being promoted and Smart Grid through ARRA funds. Mr. Babauta further asked as to what assurance GPA could give that it is maintaining and up keeping the present power system. He further felt that GPA could encourage local expertise for boiler overhauls, and to train local people to do such work rather than hiring off-island.

GM Flores indicated that the baseloads were under a public-private partnership and had strict performance guarantees. According to him, GPA is presently meeting PUC fuel efficiency standards.

20. Mr. Babauta further asked whether preventive maintenance programs are geared to Guam standards or to manufacturer's standards. Using local standards could lead to greater efficiency. He was concerned about power rate increases and felt that the PUC/GPA should help to counter the need for rate increases. Mr. Flores indicated that there was a demand side program designed to help residents obtain rebates for energy efficient appliances (i.e. \$3,000 rebates for up to 50 homes for solar water heaters).
21. Marcial Sablan indicated a concern about the rising fuel price and rate increases in general. He wondered if rates for the business customers were going down, but for the residential consumers going up. Bill Blair of GCG indicated that fuel was not being addressed in this rate case. Mr. Sablan further raised concerns about responsibility when there is a typhoon- -who is responsible for branches touching lines, obstacles on power lines, etc. Mr. Flores indicated that GPA does have a tree trimming program through which it hires companies at a cost of \$600,000 per year.
22. Mr. Lutero believed that rates were increasing because of fuel prices. He agreed that an increase was needed for rates, and that GPA was doing well in its performance. Brett Silk stated that the electric bill for their veterinary business was higher than the rent in Asan. He asked whether there was a possibility of building waste to fuel plants. GM Flores stated that public law prevents incineration; however waste to energy must be considered and legislators should be convinced to change the policy. Mr. Silk further indicated that it was difficult for businesses to bear the higher cost- -if higher costs are passed on through rates to businesses, the businesses will pass such rates on to their customers. The PUC should think about the concerns of small business. He also queried whether GPA could look for other cheaper fuel oil suppliers. GM Flores indicated that Singapore was the supplier for the region. Mr. Silk asked whether LED lights were available for small businesses. Mr. Flores stated that GPA does have a demand side management program.
23. Antonio Babauta further asked whether there had been any study by GPA on wind energy. Mr. Flores responded that there had been; a Department of Defense study had selected three sites and evaluated them; the Glass Breakwater, Fena, and on Cross-Island road. Mr. Babauta asked whether turbulent water (wave action) could

be used to produce energy. Mr. Flores indicated that the deep water chill flow for air conditioning has been studied, but that GPA would only invest in proven technology. Mr. Babauta further asked whether it was cheaper to use natural gas than oil. Mr. Flores said that it was, but the problem with LNG is that it requires special ships, fuel piers, and infrastructure which would costs in excess of \$250M. Suppliers will only come to Guam if there is sufficient volume.

24. Mr. Cel Babauta asked whether GPA has dedicated planners looking into energy resource issues. Mr. Flores stated that, yes, there is the SPORD in GPA which considers such issues and develops an Integrated Resource Plan. Mr. Babauta further questioned whether it might be cheaper to run systems with gas rather than oil; there is a need to explore other resources than oil. He further asked whether the proposed solar plant at Leyon would reduce the power bill. Mr. Flores said that it would, but only very slightly (\$.70 per month).
25. Mr. Lutero asked whether there were materials or a course for the public as to how to save power. Mr. Flores stated that GPA has pamphlets available on energy conservation. Mr. Frank Casares stated his view that GPA is always asking for money for improvements. He wondered whether collections were lacking. It seems that the more energy we conserve, the more we pay. He asked whether government agencies were disconnected for non-payment. GM Flores indicated that they were, and that the collections situation with the government had greatly improved. Mr. Casares indicated that the people are "up to their necks" with expense, and that the economy was down.
26. Agat Mayor Carol Tayama thanked PUC and everyone for attending; she asked whether GPA would close the Agat Satellite Office. She requested that it not be closed, as no rent was charged to it and the office provides an important service that people in the south need.
27. The PUC conducted the final public hearing on April 5, 2012, 6:00 p.m., at the Dededo Senior Citizens Center. Marianne Jackson testified that her husband was disabled and on public assistance. They could not afford to pay any additional rate increase. Family members were likewise not fully employed. Burliann Higgins asked that GPA describe its budgeting process that led to the need for a rate increase. GM Flores indicated that GPA has a detailed budgeting process, and that it had already agreed to cut its budget by \$3.6M. A rate increase in this case

primarily involves principal and debt service payments on the bond issue. In addition, fuel is a large expense for GPA at \$24M a month.

28. Eden Malcatao indicated that she lives in GHURA 34, and that her bill had increased substantially. Franklin Leon Guerrero was opposed to the rate increase. He believes that GPA should lower rates because the people simply can't afford it. According to Public Auditor Brooks, people are consuming less power. The rate increase has caused a "death spiral" - the more you charge the less they use, and the less they use, the less revenue GPA receives. Customers should be the number one focus for GPA. The people are not "an endless fund." The LEAC appears to be an "automatic cushion" for GPA. Because of the cost of power, people are having to change their lifestyles, go out less. Who protects the public's interest? He wondered about the level of staffing at the power authority; if less people use power, and GPA does not receive sufficient revenues, it will again request rate increases. He indicated that he had personally cut power usage by 50%, but still paid the same for the power bill. GM Joaquin Flores indicated that this was only the third base rate increase in 15 years. GPA has held the line for the last six years. Flores indicated that proceeds from the bond issues had been invested into the system for combustion turbines, water wells, new substations, etc. These fixed debts do not go away when people conserve. The plants are now more reliable; investing in the systems is the key to hold off future rate increases.
29. Katherine Harris indicated that her power bill had increased \$80.00, even though they were being more diligent in power usage and using less kW. She was confused as to why her power bill had increased. Mr. Flores mentioned that there were pamphlets at Customer Service indicating how power bills could be reduced; in addition, use of energy efficient air conditioners, such as SER22, and solar water heaters could reduce power bills. Harris asked whether business rates were higher than residential. Mr. Flores indicated that they were, approximately \$.27 per kWh for residential and \$.29 for the commercial users. He felt that the installation of Smart Grid will provide "time of use rates" to assist consumers with power usage.
30. Franklin Leon Guerrero felt that GPA should do a study on whether a rate decrease would increase power consumption. Raoul Panlasigui indicated that he was not against a power increase; he believed that transformers need to be replaced. However, he wondered whether the rate increase could be limited to 3%.

### *Contested Rate Design/Allocation Issues*

The ALJ hereby presents his findings on the three issues presented at the hearing on March 7, 2012.

#### "Other Revenues"

31. In written testimony, Bruce Oliver, Rate Design Consultant for Georgetown Consulting Group, raised a concern that a portion of "Other Revenues" was inappropriately allocated to Navy in the GPA TLCOS Study. During the hearing on this issue, the amount was quantified as approximately "\$200,000.00."
32. Such revenues include disconnection fees, miscellaneous service charges, rent from electric property/pole attachments, late charges and others. According to Mr. Oliver, GPA did not demonstrate that such charges had any relation to Navy service or activity. As such, these revenues should not be allocated to Navy in the rate base.
33. However, in this case, neither GPA, the utility service provider, nor Navy, the customer, has complained about the allocation of such revenues or requested the change in the current allocation method. The parties to the Customer Service Agreement ("CSA") are satisfied with the present arrangement. In addition, such treatment of other revenues is consistent with treatment of those revenues in prior rate cases going back to the inception of the CSA.
34. Since there has been no complaint by either the utility or the customer concerning the treatment of such revenues, the ALJ recommends that the treatment of such revenues should be in accordance with the allocation previously agreed to by GPA and Navy.
35. It is true that, as a general matter, revenues should be allocated to the customer and/or activity responsible for generation thereof. However, one hundred percent exactitude in such allocation is not necessarily required, and the parties in some instances may make reasonable accommodations to each other.
36. The present system should be retained absent a clear quantification of the amount of such revenues.

### **Allocation of Independent Power Producer Debt Service Costs**

37. The Navy, in the written testimony of its Rate Design Consultant Maurice Brubaker, asserts that principal and interest payments associated with "debt service" incurred by GPA under its agreements with Independent Power Producers should be treated in the same way as principal and interest on GPA's other indebtedness, such as bond issues. Navy believes that the IPP purchase structure is "an alternative to separate financing of the assets, and the obligations themselves have the characteristics of debt, with principal and interest payments just like principal and interest payments on bond issues." At the end of the "lease term", "the ownership of the asset [the IPP Plant] reverts to GPA."
38. Furthermore, Navy, through the testimony of Brubaker, asserts that it is inappropriate to assign the IPP principal and interest payments to Generation O&M expense. Instead, the principal and interest associated with IPP arrangements should be combined with the principal and interest payments on GPA's other obligations and treated as part of the debt service in the TLCOS.
39. According to the statements during the hearing by Joseph T. Trainor, Rate Consultant for GPA, this allocation issue involves approximately \$500,000.00.
40. The ALJ does not concur that IPP payments, including principal and interest, are akin to debt service payments on GPA bond issues. Payments made by GPA to IPPs are for electric power production and deliveries.
41. Under the GPA-Navy CSA, the first step in the cost of service process is to properly functionalize costs. These IPP principal and interest payments are clearly costs which must be functionalized as production-related expenditures.
42. Payments made to IPPs for deliveries of electric power and purchased power expenses for GPA are accounted for by GPA in FERC Account 555.
43. The CSA requires functionalization of Account 555 expenses to Production. All payments made by GPA to IPPs, whether fixed or variable, relate only to the delivery of electric power used by GPA's system.
44. The terms of the CSA require that all costs, including GPA's payment of interest and principal under IPP contracts, must be properly functionalized and classified

before they are allocated between Navy and GPA's Civilian Service classes in GPA's TLCOS.

45. Navy's reallocation of these IPP costs on total rate base would cause significant portions of those costs to be assigned to GPA's customer accounting, distribution and transmission functions. Such treatment is not appropriate or justifiable.
46. Fixed payments made to IPPs are related to production of power (i.e. production function, and do not involve the use of any transmission, distribution, or customer investments (unlike GPA general debt).
47. That GPA includes IPP fixed payment obligations in its debt service coverage calculations does not preclude such costs from being functionalized as production costs for purposes of developing a proper cost-of-service.
48. Inclusion of IPP fixed payment obligations in GPA's debt service coverage calculations does not change the functional nature of the IPP fixed obligations.
49. The ALJ recommends that GPA continue to be authorized to treat IPP debt service costs as production-related expenditures and demand costs in accordance with their treatment within the TLCOS.

**Production Demand Cost Allocation Methodology (the proposed change from 12 Coincident Peak (12 CP) Methodology to Average and Excess Demand (AED/12 CP) methodology**

50. From the inception of the CSA in the early 1990s, the method used by GPA for the allocation of demand costs is referred to as the "12 Coincident Peak" method. This allocation method is based on the premise that applicable demand costs should be allocated according to each class' average responsibility for the 12 monthly system peak loads.
51. To determine the 12 CP allocation factor for Navy, the total of Navy coincident peak loads for the 12 months of the rate setting period is divided by the total of the 12 monthly system peak loads. Navy's transmission demand allocation factor is 12.53%.

52. In every rate proceeding since the inception of CSA, GPA has used the 12 CP allocation factor to determine Navy's share of cost of service.
53. The 12 CP method which GPA has used in prior proceedings allocates all production demand costs on the basis of Coincident Peak demand requirements.
54. In this proceeding, for the first time, GPA proposes to change the methodology for allocation of production demand to the "Average Excess Demand/12 Coincident Peak Methodology."
55. The AED/12 CP allocation factor consists of a weighted average of two allocation factors. The first allocation factor is based on average demand system energy requirements (SER) divided by 8,760 hours. The second allocation factor reflects "excess" demand and is based on the rate schedules' monthly peak demands 12 CP. Previously GPA has allocated production costs based on 12 CP.
56. GPA's rationale for adopting the new AED/12 CP allocation methodology is that such methodology more appropriately and accurately aligns cost causation and cost responsibility in power systems where energy (rather than capacity) costs are the major consideration in generation system planning.
57. GPA states that its preference for base load plants, rather than peaking units, is designed to reduce energy costs. Because of the need to develop energy efficient plants, energy consumers should bear a considerable proportion of the additional cost for more efficient generation capacity.
58. GPA submits that it is appropriate to use an AED/12 CP demand allocation basis to recognize an average usage component of generation investment in GPA's cost of service study for the purposes of determining the embedded costs of providing utility services to its customers.
59. GPA further asserts that the non-coincident peak of the US Navy usage takes place in the early morning, which is different from GPA's normal peak period of early evening (7:00 p.m.). Thus, GPA must run its generation assets to meet the Navy's NCP peak, which affects the amount of and timing of generation maintenance. The higher load requirements placed on GPA's system in the early morning creates costs by shifting the generation stack of GPA early morning. Navy peak load

requires additional base load capacity; this fact is alleged to support GPA's use of the AED/12 CP methodology.

60. For FY2011, adoption of GPA's AED/12 CP allocation methodology would shift \$3.7 Million from GPA's civilian service to Navy.
61. As a practical matter, the 12 CP Methodology has been in effect for over 20 years. Any party seeking to change such a long standing and accepted methodology bears a heavy burden of proof. Given the long history of unchallenged use of the current 12 CP methodology, it would be a drastic shift to adopt the new methodology and an extraordinary immediate rate impact upon the Navy.
62. Given the substantial impact that would be caused by such a shift, GPA also has a strong burden under Article 18.3 of the CSA to prove that "GPA's infrastructure or the character of Navy's demand for service has changed" such that 12 CP is no longer reflective of the costs of serving Navy.
63. At the present time, GPA has not met its burden of proof under Article 18.3.
64. Proof has not been offered that GPA's infrastructure has changed. GPA alleges that its present "very high capacity margin (more than 90%) was developed, not because GPA needs that much capacity in reserve to meet projected peak loads, but because GPA has added more efficient generation plants to reduce energy costs."
65. However, a review of GPA's planning history does not necessarily support that there has been a sudden or immediate shift by GPA from the system expansion for capacity to efficient construction of generation plants for reduction of energy costs.
66. It appears that the reason for the high reserve margin at present for GPA may be that GPA has over forecasted its generation requirements and built capacity in excess of what turned out to be needed. In accordance with the Brubaker testimony, the primary reason for the large reserve margin would appear to be GPA's attempt to meet its forecasted generation requirements, not the alleged intentional construction of excess capacity for the express purpose of reducing energy costs.
67. Although a portion of GPA's generating capacity costs may have been incurred to reduce energy costs, the remainder of GPA's investment in generating capacity

costs have been incurred to serve its Coincident Peak requirements that are not related to the class non-coincident peak demand measures that GPA employs to allocate the excess demand component of its AED/12 CP allocations.

68. There has been some showing that Navy's NC Peak will take place in the early morning, and that such places additional demands upon the GPA system. However, there has not been a sufficient showing by GPA that GPA's infrastructure or the character of Navy's demand for service has changed with regard to the NCP. GPA has not met the high burden of proof to justify the adoption of a new methodology by PUC. "Cost allocation is not an exact science. There is not one true method."
69. The ALJ does not recommend that the PUC make a final determination as to the validity of the AED/12 CP methodology at the present time. However, there are concerns as to GPA's use of the "Non-Coincident Peaks" in its allocation methodology, and whether GPA has demonstrated a "cost-causative relationship between the measures of class NCP demand that are used in the AED/12 CP methodology to allocate costs associated with "excess demand" and GPA's incurrence of those costs." GCG and Navy have also raised legitimate concerns about GPA's use of the Non-Coincident Peak ("NCP") demand measures to allocate what it labels as the "Excess Demand" portion of its production demand costs.
70. There are also concerns raised as to whether GPA's +/- 7% error estimate applies to measures of class NCPs. Any errors in GPA's NCP estimates would impact the allocation of costs among GPA's Civilian Service Classes as well as the allocation of costs between Navy and Civilian Classes.
71. Errors in NCP estimates for Civilian Service Classes would have a noticeable impact on assessments of cost responsibilities for Residential, Commercial, and Governmental rate classifications.
72. The proposed AED/12 CP methodology uses data for a single Non-Coincident Peak hour for each rate class to assess class responsibilities for "excess" demand, which does not appear to be appropriate.
73. Based upon the foregoing, at the present time, the ALJ recommends that the 12 CP methodology for allocating GPA's production demand costs should be retained. To

date, GPA has not provided a sufficient justification to change from the well-established 12 CP methodology to an AED/12 CP methodology.

74. At the same time, the ALJ also has concerns as to whether the present 12 CP allocation methodology fully assigns cost responsibility for generation (energy) costs upon parties such as Navy.
75. The present methodology may not fully allocate responsibility for the costs imposed upon GPA for the particular generation requirements of the Navy (i.e., the NCP of the Navy in the early morning, as opposed to GPA's normal peak period of early evening).
76. For that reason, although the ALJ does not recommend using the AED/12 CP methodology in the context of determining revenue requirements for the initial year of this rate case, the ALJ recommends that the PUC authorize and instruct the ALJ and the parties to continue to examine and assess the possible use of such methodology, with modifications if necessary, or a variant thereof, in Phase II of this rate proceeding.
77. The ALJ recommends that the PUC instruct the parties to continue to discuss and negotiate whether a compromise can be reached concerning the adoption of the AED/12 CP methodology, alternatives such as the AS&P discussed by Mr. Oliver, or other possible alternatives. The ALJ should be authorized to conduct further proceedings on these issues in Phase II of this Docket, as well as in the proceedings for review of the new proposed CSA.
78. The PUC will also have the opportunity to further review this issue in the context of its approval of the new CSA. GPA and Navy should work diligently to resolve these allocation issues and, hopefully, arrive upon an agreed upon methodology.

### *Analysis*

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79. The ALJ recommends that the PUC adopt his proposed findings regarding the three contested rate designs/allocation issues set forth above.
  80. The PUC should adopt the recommendations of the parties contained in the Stipulation. The rates and procedures agreed to in the Stipulation are reasonably necessary and prudent to enable GPA to meet its potential obligations, operating

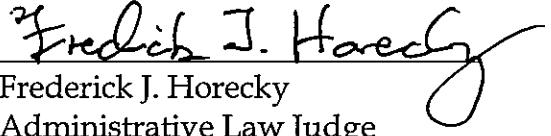
expenses, debt service, and capital improvement needs. A substantial driver of the need for a base rate increase appears to be the principal and interest payments which will become due on the 2010 Bond Issue.

81. This rate case is perhaps the most complicated rate case to ever be addressed by the PUC. Over the years "rate design" issues, involving the allocation of rates among the different customer classes, has often been discussed or theorized. However, in this proceeding, the parties have made substantial progress in proposing changes that will move toward equity and fairness in the allocation structure. There is an underlying recognition of the principle that the cost of utility service should be borne by the party or parties responsible for causing such cost. Equity and non-discrimination in rates are goals of the proposed changes. Social/legislative goals, such as the reduced "lifeline rate" will remain; however, the proposed rate structure moves towards greater fairness and equity in allocation.
  82. The parties in this proceeding have worked together in a collaborative manner to resolve issues. While some issues could not be resolved by the parties, they made substantial progress with most of the issues and in a number of different areas. The agreed upon base rate increase recommended should be in the area of 2.0% on the overall bill.
  83. GPA has made substantial concessions in reducing the amount of base rate increases it initially sought in its Petition. The recommended base rate increase is now less than 50% of the amount originally requested by GPA. GPA's willingness to reduce its budgeted labor and non-labor O&M expenses by approximately \$3.6M in FY2012 and FY2013 is indicative of the spirit of compromise.
  84. GPA did respond to the often repeated position of GCG, which was supported by the ALJ, that the present economic conditions in Guam make it very difficult for ratepayers to bear new rate increases. The parties have all worked together to keep the necessary increases to the lowest levels possible.
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85. The Commission should determine that the proposed rates, as well as the recommendations, set forth in the Stipulation are "just" and "reasonable" pursuant to 12 GCA §§12015 and 12017.

### *Recommendations*

86. The undersigned recommends that the PUC approve the Stipulation of the parties.
87. The recommendation for an increase in the lifeline rate should also be approved.  
The PUC should adopt the ALJ Ruling on this issue.
88. The parties should be ordered to perform the additional obligations set forth in the Stipulation as they have agreed.
89. The PUC should remove any restriction on the use of the "Funds Reserved for Bond Project Overruns", which the PUC ordered to be placed in a contingency fund in its August 30, 2010 Order in GPA Docket 10-01 (approximately \$3.1M).
90. The ALJ will subsequently submit a proposed Decision herein. The PUC should review such proposed decision, and make the determinations which are necessary to reach a decision on GPA's FY2011 Multi-Year Base Rate Relief Filing.

Dated this 24<sup>th</sup> day of April, 2012.

  
Frederick J. Horecky  
Administrative Law Judge  
Public Utilities Commission

GPA DOCKET 11-09  
FY2012-2016 BASE RATE CASE PROPOSED INCREASE  
PROPOSED SCHEDULE

1. Formal Discovery on GPA's Filing Commences <sup>1</sup>	Already authorized
2. ALJ Interim Status Conference <sup>2</sup>	01/10/2012
3. Parties' Status Conference[s] <sup>3</sup>	01/25/2012
4. Formal Discovery on GPA Completed	02/03/2012
5. Initial Testimony of Navy and GCG <sup>4</sup>	02/15/2012
6. Parties' Second Conference	02/21-02/22/2012
7. Navy, GCG, GPA Rebuttal Testimony <sup>4</sup>	02/28/2012
8. ALJ Pre-Hearing Conference	02/29/2012
9. ALJ Hearings on GPA Docket 11-09	03/05-03/07/2012
10. Village Hearings (South and North)	03/09/2012
11. ALJ Decision	???
12. PUC Meeting	03/19/2012
13. Implementation of New Rates	04/01/2012

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<sup>1</sup> Responses due within 5 business days

<sup>2</sup> Ruling on deferred and Phase II issues

<sup>3</sup> On Guam for some and perhaps on the Mainland for Rate Design experts/witnesses

<sup>4</sup> GCG Rebuttal testimony restricted to Navy testimony; Navy rebuttal testimony restricted to GCG's testimony.  
All direct and rebuttal testimonies should be accompanied by electronic versions of the exhibits and work papers, executable in native format with all formulas intact

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF GUAM**

<b>IN THE MATTER OF:</b>	)	<b>GPA DOCKET 11-09</b>
	)	
<b>GUAM POWER AUTHORITY'S 2011</b>	)	
	)	
<b>MULTI YEAR BASE RATE RELIEF</b>	)	<b>STIPULATION</b>
	)	
<b>FILING</b>	)	
	)	

The Guam Power Authority ("GPA"), the Department of Defense ("DOD") and Georgetown Consulting Group, Inc. ("GCG"), which serves as the independent regulatory consultant to the Guam Public Utilities Commission ("PUC") (collectively, the "Parties"), through their counsel of record, hereby enter into this evidentiary stipulation and make the following recommendations to the PUC for its consideration.

**GENERAL:**

1. In this rate proceeding GPA requested a multi-year base rate increase for the years FY 2012 through FY 2016. The GPA request was for an approximate 11.8% base rate increase in FY 2012; 1.3% in FY 2013; 10.6% in FY 2014; and 0% increases in FY 2015 and FY 2016, with only rate design adjustments for these two last years.
2. GPA undertook and presented a Transmission Level Cost of Service study ("TLCOS") using FY 2011 data. GPA, GCG and DOD agree that the DOD's rate in this proceeding should be established in this proceeding in accordance with the approved TLCOS, without compression.
3. The need to provide GPA adequate liquidity continues to be an important issue. The Parties agree that this Stipulation provides GPA a measure of meaningful relief on this issue, but GPA reserves the right to seek further relief related to liquidity in the future.
4. By this Stipulation the Parties recommend rates that are expected to fund a sufficient amount of GPA's working capital requirements. GPA and GCG point out that the recommendations in this Stipulation request the PUC to modify the requirements of the PUC Order in GPA Docket 07-10, dated June 20, 2011. In the PUC Order dated June 20, 2011, the PUC approved a mechanism to adjust the working capital fund (WCF) surcharge related to changes in the fuel portion of GPA's WCF requirements, beginning

August 1, 2012. Under the approved mechanism, any change was to be amortized over the remainder of the WCF surcharge amortization period. GPA and GCG request and recommend that GPA be permitted to initiate the change beginning when rates are changed in this proceeding currently anticipated to be May 1, 2012, and that the amortization period for the adjustment amount be reduced to 12 months.

5. GPA proposes and GCG does not object that there should be an increase in the lifeline rate in this proceeding. GPA and GCG agree that the threshold of a 20% increase in the cost of service since the lifeline rate was last established has been met permitting an increase in lifeline rates.
6. The Parties agree that the tariffs required to implement the base rate revenue increase recommended in this Stipulation cannot be determined until the PUC rules on certain disputed cost allocation issues. GPA shall file compliance tariff reflecting the PUC decision on the disputed issues and the approved revenue as soon as possible after the PUC decision.

**MULTI-YEAR RATE PLAN:**

7. The Multi-Year Rate Plan proposed by GPA is hereby modified as follows to provide for a three-year rate plan in which there are rate base increases and civilian rate design changes and an additional two years in which civilian rate design, revenue neutral changes approved by the PUC shall be implemented:
  - a. The Parties agree to implement a single overall 6.0% base revenue requirement increase for the period covering FY 2012 and FY 2013 for meters read on and after May 1, 2012. This agreement between the Parties eliminates the necessity of having a second rate increase five months later on October 1, 2012, as originally proposed by GPA.
  - b. For FY 2014, GPA should make a base rate filing no later than April 1, 2013. The base rate filing shall be based on the projection of targeted revenue requirements for FY 2014 shown on Attachment 1 to this Stipulation, modified as appropriate when the filing for FY 2014 is made. ~~The filing shall comply with the revenue requirements filing procedures set forth in Attachment 2 to this Stipulation and the following provisions set forth below:~~
    - i. There would not be a limitation on the relief that could be requested as contained in the GPA rate plan as presented. As shown on Attachment 1, Currently GPA projects that an increase of 10.6% will be petitioned for in FY 2014. Both

GPA and GCG acknowledge that there are significant uncertainties associated with the needed rate relief projected for FY 2014. Many of the uncertainties carry over from the assumptions used in the current filing. These include the uncertainties over the projected load growth which is currently flat and the actual consumption for FY 2012 which is currently below the projection for the same period in this case; the uncertainty associated with the anticipated growth in load from the armed forces; and, the uncertainty as to whether GPA will undertake additional bond financing of approximately \$117 million in FY 2014 and the terms associated with the bond financing. The Parties do agree to an expedited review of those portions of the FY 2014 filing which shall be prepared in accordance with Attachment 2 and which will rely on and build upon the data supplied in this filing.

- ii. To the extent that the FY 2014 rate filing contains consideration of the bond issue referred to above, GPA shall file a petition for approval of the external debt in sufficient time so that any proposed financing could be approved by the PUC no later than August 1, 2013. The filing would detail the sources and uses of funds; propose a schedule of debt service; be transparent on the rate impact of the proposed issuance in FY 2014 and beyond; provide detailed descriptions of any construction projects and applications that require PUC approvals; provide a detailed benefit-cost calculation resulting from the bond issue; and, provide a draft Preliminary Offering Statement ("POS"), if one exists at the time of the filing.
- c. For FY 2015 and FY 2016 there shall be no incremental base rate changes without a new base rate filing. However, any civilian revenue neutral rate design changes approved by the PUC in this proceeding could be implemented without the need for GPA to file a base rate filing.

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**PUC STANDARDS FOR REVENUE REQUIREMENTS:**

- 8. GPA and GCG present the following with regard to the standards that should be considered by the PUC in the determination of this and future rate increases:
  - a. The well-established standard of the PUC for GPA to target 1.75x debt service coverage ratio ("DSCR") on senior debt obligations

should continue. The PUC reaffirmed this position in its Order of June 3, 2010 in GPA Docket 10-01 (GPA Request to Issue Revenue Bonds and Subordinate Bonds). In making the calculation for the DSCR the parties agree that IPP expenditures, only for the purposes of coverage calculations for revenue requirement determinations, will be treated as expenses and not as a capitalized lease which is consistent with prior PUC treatment of senior debt obligations. GPA meets its senior bond indenture requirements under such standard.

- b. The PUC should initiate a process as part of Phase II of this Docket to provide additional guidance on the issue of the DSCR requirements on subordinate revenue bonds. In prior orders the PUC set and reaffirmed a standard of 1.4x DSCR on subordinate debt, but GPA and GCG do not agree on how this standard is to be calculated. GPA and GCG agree that GPA will exceed the 1.4x standard when computed under the bond indenture method, which does not expense IPP costs. GPA and GCG also agree that the calculation of the DSCR on subordinate bond requirements using alternative methods that are different from the bond indenture method may affect the potential revenue awards in future proceedings. The Parties therefore recommend that the PUC set a schedule for the Parties to present the issue together with the other issues that have been deferred to Phase II and that the PUC render a decision before GPA's filing for FY 2014.
- c. The Parties agree that GPA should be provided adequate financial liquidity to run its day-to-day operations and to provide flexibility when it has a need to access the financial markets. The Parties agree that several significant strides have been made in this area. First, the requirements of the WCF balance have been fully met and a mechanism to maintain the amounts required has been approved by the PUC and will be operational in this proceeding. The projected WCF balance requirement for FY 2013 is approximately \$33.2million and funding is projected to be provided for in this proceeding. Second, GPA has requested that the self insurance fund be permitted to continue to accumulate funds past the funding cap of \$10 million that was set in a prior proceeding and the PUC has approved that request. The setting of a new funding cap and the protocols for accessing the funds in the event that they are required will be examined in Phase II of this proceeding. Third, with the base rate increase recommended by the Parties in this Stipulation, GPA is projected to end FY 2013 with an additional \$18.7 million of unrestricted cash over the

amount in the WCF.<sup>1</sup> In total, the projected FY2013 year end GPA cash position represents having approximately 48 days of cash on hand.

- d. GPA has previously provided a study to the PUC undertaken by its regulatory consultant indicating that it would be appropriate for the PUC to set a target of 60 days cash on hand which standard should be phased in over several years. The PUC has not had a hearing on this study or entered any Order related thereto. The Parties agree that the PUC must balance the interests of GPA with the interests of the consumers, businesses, and citizens of Guam. GPA believes the projected levels of cash in this proceeding are minimally acceptable, but has agreed to them in order to minimize rate increases in the difficult current economic times. GCG believes that the projected levels of cash are appropriate and adequate under the current circumstances. Requirements for higher levels of cash requirements could be presented in future rate applications for the PUC to consider as an appropriate standard, and GPA accepts that it has the burden to show that the higher levels of cash, produced by increased rates, can produce positive benefits at acceptable costs to the consumers, businesses, and citizens of Guam.
- e. The Parties agree to have the PUC defer reaching a decision on other ratemaking standards such as the percentage of equity in the capital structure to a future proceeding.

**LABOR AND NON-LABOR O&M EXPENSES:**

- 9. GPA and GCG have discussed and agree that it is reasonable to reduce the budgeted GPA labor and non-labor O&M expenses by approximately \$3.6 million in FY 2012 and FY 2013 based, in part, on GCG testimony in this proceeding and in recognition of the current economic conditions on Guam.

**RECOMMENDED RATE INCREASES AND THE RESULTING PROJECTED END RESULT:**

- 10. The Parties recommend:
  - a. Effective May 1, 2012, the PUC should award an overall 6% increase in base rate revenues of approximately \$9.1 million. The impacts of this revenue increase on the Navy and civilian classes of customers will depend on how the PUC resolves the disputed cost allocation issues.

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<sup>1</sup> See Attachment I

- b. Effective April 1, 2012, a WCF base rate surcharge of \$0.00466 per kWh as ordered by the PUC on June 20, 2011 was implemented. A flat fee of \$110,374 per month was charged to DOD as the WCF base rate surcharge.
- c. Commencing on May 1, 2012, the civilian WCF base rate surcharge should be increased to reflect the increase in the fuel portion of GPA's WCF requirement. The flat fee WCF surcharge charged to DOD should also be increased. There is no agreement as to how the amount of the increase in the Navy WCF surcharge should be calculated. The civilian WCF additional base rate surcharge is dependent on the amount of the Navy increase and therefore cannot be determined at this time. Navy asserts the position that the result should depend on the results of the PUC's decisions on the disputed cost allocation issues. GCG and GPA believe the increased surcharge should be calculated in accordance with the PUC Supplemental Phase III Order in GPA Docket 07-10, dated June 20, 2011, concerning the WCF surcharge. All the Parties recommend that the change required by Ordering Paragraph No. 9 of the PUC Order in GPA Docket 07-10 be implemented on May 1, 2012, rather than August 1, 2012, and that the amortization period for the adjustment amount be 12 months rather than the remainder of the WCF amortization period. These increases in the WCF surcharge are expected to collect \$4.855 million over 12 months.
- d. The projected end result for the three year rate plan is as follows:

	Target	FY2012	FY2013	FY2014
PUC for Senior Bond Coverage	1.75	1.68	1.81	1.87
PUC for Senior Bond Coverage (annualized)	1.75	1.87		
PUC Subordinate Bond Calc (GPA)	1.40	1.06	1.20	1.31
PUC Subordinate Bond Calc (GPA) (annualized)	1.40	1.19		
PUC Subordinate Bond Calc (GCG)	1.40	1.17	1.59	2.04
PUC Subordinate Bond Calc (GCG) (annualized)	1.40	1.51		

#### **RATE DESIGN ISSUES AND CONSIDERATIONS:**

11. GCG and GPA agree and recommend to the PUC the following. DOD did not participate in the discussions leading up to these agreements and recommendations and does not join in them. DOD has concerns with some of the recommendations.

a. Residential Rate Design (Schedule R)

i. Adjustments to charges for Residential Service (Schedule R) should be phased-in over a five-year period (i.e., through FY 2016).

ii. The Customer Charge for Residential Service should be set as follows:

a.	FY 2012	\$10.00
b.	FY 2013	\$10.00
c.	FY 2014	\$11.00
d.	FY 2015	\$13.00
e.	FY 2015	\$15.00

iii. The Energy Block Charges in the Residential Rate should be adjusted as follows for the years FY 2012 through FY 2016:

a. FY 2012 – No change in the Lifeline Block Energy Charge (i.e., the charge for the first 500 kWh per customer per month) and the remainder of the revenue increase for the Residential class after the increase in the Customer charge is reflected in the Tail Block Energy Charge (i.e., the charge for all kWh use in excess of 500 kWh per customer per month);

b. FY 2013 – The Lifeline Block and Tail Block Energy Charges are Adjusted to recover the balance of the Residential class revenue requirement such that the Lifeline Block Charge equals **50%** of the Tail Block Charge;

c. FY 2014 – The Lifeline Block and Tail Block Energy Charges are Adjusted to recover the balance of the Residential class revenue requirement after the scheduled increase in the Residential Customer Charge (noted above) such that the Lifeline Block Charge equals **60%** of the Tail Block Charge;

d. FY 2015 – The Lifeline Block and Tail Block Energy Charges are Adjusted to recover the balance of the Residential class revenue requirement after the scheduled increase in the Residential Customer

Charge (noted above) such that the Lifeline Block Charge equals **70%** of the Tail Block Charge;

- e. FY 2016 – The Lifeline Block and Tail Block Energy Charges are Adjusted to recover the balance of the Residential class revenue requirement after the scheduled increase in the Residential Customer Charge (noted above) such that the Lifeline Block Charge equals **80%** of the Tail Block Charge;
- iv. The resulting annual adjustments to rates are design computed to levelize, as much as possible, the effective year-to-year changes in total charges for Residential customers using 500 kWh per month of use.
- v. Phased increases in the Customer Charge and the Lifeline Energy Block Charge should be designed to yield relatively uniform year-to-year changes in total charges for a customer with 500 kWh per month of electric use.
- vi. The target level for the Lifeline Block Energy Charge at the end of the five-year phase-in should be 80% of the tail block energy charge that would result if all adjustments to the Residential rate design were implemented based on the approved FY 2011 revenue requirement for the Residential class and FY 2011 billing determinants.
- vii. The level of the Residential customer charge at the end of the five-year phase-in period should be \$15.00 per customer per month.
- viii. After establishing Lifeline Block and Customer Charges for each year of the phase-in period, the remainder of the Residential class revenue requirement should be recovered through the Over 500 kWh per month (Tail Block) energy charge for the period of the phase-in.

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b. General and Government Non-Demand Rates (Schedules G & S)

- i. The increases in customer charges that GPA has proposed for Schedule G and S should be phased-in in three fiscal years with approximately a 33% increase in the Customer Charge in the FY 2012 rates; with the first adjustment effective May 1, 2012, the second adjustment effective

October 1, 2012, and the third adjustment effective October 1, 2013.

ii. Energy Charges should be adjusted as follows to recover balance of revenue requirement (after customer charge increase):

- Overall average percentage increase in the class revenue requirement should be applied to the first energy block;
- Second energy block should be set to recover balance of class revenue requirement (recognizing that with a well above average percentage increase in the customer charge and an average increase in the first energy block charge, the increase in the tail block will necessarily represent a percentage increase that is below the average for the class;
- With each subsequent step of the phase-in of customer charge increases, the first and second energy block charges should be adjusted proportionately to recover the balance of each class's revenue requirement.

c. Demand-Metered Non-Residential Rate Classes (Schedules J, K, L & P)

i. GPA should implement the new rate structures for Schedules J, K, L, and P with separately stated Demand and Energy charges as GPA has proposed. GCG and GPA recognize the reduction in revenue requirements that the proposed rate design changes will yield for GAA as the only Schedule L customer that takes service at transmission voltage and find that this rate design changes will bring the charges for that class closer to its actual costs of service. This is a result that would not be achievable under the current energy-based rate structure for Schedule L.

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ii. The voltage discounts presently included in base rates should be retained with tariff language changes to clarify applicability by voltage level and applicability to base rate energy and demand charges. Those discounts are necessary to differentiate the base rate cost responsibilities of

customers who take service at higher voltages from those for customers that take service at secondary voltage.

d. Large Power Pricing Flexibility -

- i. The introduction of provisions for more flexible pricing of service for Large Power customers having competitive service alternatives is warranted, but should only be exercised on a case-by-case basis with PUC review and approval with an expedited (e.g., 60 to 90 day) review process.
- ii. GPA and GCG agree that GPA should be authorized to negotiate prices with customers in either Schedule P or Schedule L that have viable competitive service options that necessitate a rate concession from GPA to retain their load.
- iii. In its negotiation of rate concessions for an individual Schedule P or Schedule L customer, GPA should be authorized to offer charges which would produce revenues below 100% of fully allocated costs for the applicable rate schedule (i.e., to a 1.0 revenue to cost ratio), if that is necessary to retain fixed cost contributions from the subject customer. However, negotiated rates for individual Schedule P or Schedule L customers should only be permitted subject to the PUC's prior review and approval of such rates.
- iv. Any Schedule P or Schedule L customer seeking a negotiated rate which is below the otherwise applicable rates for the customer should be required to make a substantial long-term commitment to continued service from GPA. Such a commitment should at a minimum include:
  - The signing of a contract that has an effective term of not less than five years;
  - The customer's commit to pay demand charges in all monthly billing periods during the term of the contract for a minimum contract demand.

- The customer's agreement to provide GPA substantial advance notice of intent to terminate service from GPA (e.g., 24 months advance written notice).

e. Standby Service Rates (Schedule M)

- i. The basic structure of GPA's proposed Standby Service schedule is reasonable.
- ii. GPA agrees to add to its proposed Schedule M tariff provisions that would explicitly allow for Scheduled Maintenance without the incurrence of added demand charges as exemplified by the provisions in the Maui Electric Company, Schedule SS, Sheet Nos. 83H through 83J.

f. Revenue Decoupling

- i. GPA, working cooperatively with GCG and the PUC, will research the potential use of revenue decoupling mechanisms to stabilize its revenue collections and protect against loss of revenue due to: (1) deployment of energy efficiency and conservation measures by customers of all sizes and types; and (2) competition from alternative providers of energy services and self-generation options.
- ii. GPA will include in its next base rate filing a report on its plan for implementation of revenue decoupling, examples of the manner in which such alternatives would work, and recommendations for specific measures that would best serve the needs of GPA.

The report should look specifically at the potential application of different revenue decoupling alternatives for large and smaller customers and how to implement such mechanisms in a cost-effective manner and in a manner that balances customer fairness considerations with administrative burdens, and implementation costs.

GPA and GCG acknowledge that DOD disputes that it should be included in any decoupling study or report.

g. Distribution of the Revenue Increase

- i. GPA's plan for gradual adjustment of revenue to cost ratios by rate class is generally reasonable.
- ii. If the overall revenue increase approved in this proceeding is less than the amount GPA has requested, any such decrease should be applied proportionally to all classes and will not affect GPA's plan for movements of rates for non-governmental classes toward parity over the next five years.

**OTHER MATTERS:**

12. The Parties agree that in order to generate additional cash reserves for use by GPA the PUC should remove any restriction on the use of the "Funds Reserved for Bond Project Overruns" which the PUC ordered to be placed in a contingency fund in its August 30, 2010 Order in GPA Docket 10-01 (Ordering Para. 3).

**EXCLUSIONS:**

13. DOD joins in this Stipulation only with respect to those matters specifically indicated.

SO STIPULATED this 5th of April, 2012.

GEORGETOWN CONSULTING GROUP, INC.

BY: 

WILLIAM J. BLAIR, ESQ.  
GEORGETOWN CONSULTING GROUP

BY: 

D. GRAHAM BOTHA, ESQ.  
GUAM POWER AUTHORITY

BY: 

JOHN MASTERSON, ESQ.  
DEPARTMENT OF THE NAVY

**Guam Power Authority  
FY 11 - FY 16 Revenue Requirement (\$000)**

**Attachment 1**

1 % Increase on Total Bill		2.0%	0.0%	3.8%	0.0%	0.0%
2	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
3 <b>Proforma Income Statement:</b>						
4 Existing Base Rate Revenues	\$150,308	\$151,334	\$152,155	\$152,284	\$153,288	\$154,580
5 Fuel Revenues	247,191	305,450	300,090	296,550	289,980	304,610
6 Addl Revenues from Smart Grid Implementation		-	151	2,405	4,208	5,180
7 WCF Surcharge		5,680	9,990	8,970	7,000	190
8 Payment in Lieu of Taxes Surcharge						
9 Miscellaneous Revenues	2,004	2,050	2,100	2,150	2,200	2,250
10 <b>Revenue from Allowed Rate Change<sup>(1)</sup>:</b>						
11	Fiscal	% of Base				
12	Year	Sales Revenue				
13	2012	6.0%	0	3,780	9,130	9,140
14	2013	0.0%	0	0	0	9,200
15	2014	10.6%	0	0	17,110	17,220
16 <b>Total Revenues</b>						
17	\$ 399,503	\$ 468,294	\$ 473,616	\$ 486,609	\$ 483,098	\$ 493,450
18 Production Fuel	\$ 247,191	\$ 305,450	\$ 300,090	\$ 296,550	\$ 289,980	\$ 304,610
19 IPP Costs	19,897	20,940	21,360	20,960	20,620	20,800
20						
21 <b>O&amp;M Expenses:</b>						
22 Production Non-fuel	\$ 21,801	\$ 24,286	\$ 24,970	\$ 27,220	\$ 28,930	\$ 27,860
23 Transmission and Distribution	12,726	13,876	14,480	14,950	16,000	16,520
24 Administrative and General	30,577	30,865	32,466	33,933	35,189	36,813
25 Customer Accounting	4,572	5,139	5,038	5,033	5,054	4,984
26 <b>Total O&amp;M Expenses</b>	\$ 69,676	\$ 74,166	\$ 76,954	\$ 81,136	\$ 85,173	\$ 86,197
27						
28 Depreciation	26,080	27,955	33,761	38,099	41,749	44,849
29 Payments Made in Lieu of Taxes	0					
30 <b>Total Operating Expenses</b>	\$ 362,844	\$ 428,511	\$ 432,185	\$ 436,745	\$ 437,522	\$ 456,457
31						
32 <b>Earnings From Operations</b>	\$ 36,659	\$ 39,783	\$ 41,451	\$ 49,864	\$ 45,573	\$ 36,993
33						
34 <b>Other Revenues (Expenses):</b>						
35 Investment Income	\$ 1,728	\$ 2,050	\$ 1,630	\$ 2,100	\$ 1,950	\$ 1,740
36 BOA Settlement	5,174	0	0	0	0	0
37 Interest expense (1993/1999 Revenue Bonds)	(19,279)	(18,848)	(18,394)	(17,917)	(17,415)	(16,886)
38 Interest expense (2010 Senior Lien TE Bond)	(7,999)	(7,999)	(7,999)	(7,999)	(7,999)	(7,999)
39 Interest expense (2010 Sub Lien Taxable Bond)	(4,020)	(3,754)	(2,963)	(2,048)	(1,062)	-
40 Interest expense (2014 New Bond)				(5,899)	(5,899)	(5,899)
41 Interest expense (IPPs)	(14,021)	(12,849)	(11,521)	(10,020)	(8,319)	(6,393)
42 Other Interest Expense	(74)	(122)	(2)	(27)	(37)	(236)
43 Uncovered Future Property and Revenue Damage/Losses	0	0	0	0	(672)	(2,930)
44 AFUDC	1,223	2,810	2,130	1,550	2,040	1,450
45 Amortization of Issuance Costs	(1,610)	(1,610)	(1,610)	(1,411)	(1,320)	(1,052)
46 <b>Net Income (Loss) Before Capital Contributions</b>	\$ (2,219)	\$ (539)	\$ 2,722	\$ 8,193	\$ 6,841	\$ (1,212)
47 Capital Contribution	0	0	0	0	0	0
48 DOE Smart Grid Funding	858	5,386	9,432	795	0	0
49 Held for PUC projects approved by PUC	(2,600)					
49 Other External CIP Funding, DOD/Military	150	15,063	29,595	61,756	56,040	50,338
50 <b>Increase (Decrease) in Net Assets</b>	\$ (3,811)	\$ 19,910	\$ 41,749	\$ 70,744	\$ 62,882	\$ 49,126
51 To check	(0)	1	(1)	(0)	1	(3)
52 <b>Debt Service Coverage Calculation:</b>						
53 Earnings From Operations	\$ 36,659	\$ 39,783	\$ 41,451	\$ 49,864	\$ 45,573	\$ 36,993
54 Add Interest Income	6,686	1,542	1,469	1,549	1,621	1,569
55 Add: Depreciation	26,080	27,955	33,761	38,099	41,749	44,849
56 <b>Balance Available for Debt Service</b>	\$ 69,424	\$ 69,279	\$ 76,682	\$ 89,512	\$ 88,943	\$ 83,411
57 Less IPP Interest and Principal	(23,084)	(23,084)	(23,083)	(23,084)	(23,084)	(23,084)
58 <b>Balance Available for Debt Service after IPP</b>	\$ 46,340	\$ 46,195	\$ 53,599	\$ 66,427	\$ 65,859	\$ 60,327
59						
60 <b>Debt Service:</b>						
61 Bond Interest Expense	\$ 22,085	\$ 22,602	\$ 23,421	\$ 27,964	\$ 26,476	\$ 24,886
62 Bond Principal	12,640	20,815	21,290	22,710	24,225	10,595
63 <b>Total Debt Service</b>	\$ 34,725	\$ 43,417	\$ 44,711	\$ 50,674	\$ 50,701	\$ 35,481
64						
65 <b>Annual Targets and Coverage:</b>	Target					
66 GPA's Long-Term Goal (Rating Agency)	1.75	1.33	1.06	1.20	1.31	1.70
67 GPA's Long-Term Goal (Rating Agency) (annualized)	1.75		1.19		1.30	
68 PUC for Senior Bond Coverage <sup>(1)</sup>	1.75	1.69	1.68	1.81	1.87	1.70
69 PUC for Senior Bond Coverage (annualized)	1.75		1.87			

70	PUC Subordinate Bond Calc (GPA)	1.40	1.33	1.06	1.20	1.31	1.30	1.70						
71	PUC Subordinate Bond Calc (GPA) (annualized)	1.40		1.19										
72	PUC Subordinate Bond Calc (GCG)	1.40	2.50	1.17	1.59	2.04	2.00	N/A						
73	PUC Subordinate Bond Calc (GCG) (annualized)	1.40		1.51										
74														
75	<b>Internal Cashflow Statement:</b>													
76	Total Cash Generated	\$	24,322	\$	26,338	\$	35,965	\$	46,180	\$	47,907	\$	43,475	
77	CIP's-Revenue Funded		(10,559)		(18,965)		(24,329)		(18,746)		(19,402)		(19,136)	
78	Principal Payment (1993 & 1999 Series)		(8,205)		(8,835)		(9,090)		(9,565)		(10,070)		(10,595)	
79	Principal Payment (2010 Sub Lien Taxable Bond)		(4,435)		(12,180)		(12,200)		(13,145)		(14,155)		-	
80	Principal Payment (2014 Bond)		-		-		-		-		-		-	
81	Principal Payment (IPP's)		(9,064)		(10,235)		(11,562)		(13,064)		(14,765)		(16,692)	
82	Cap I Fund - Senior Lien TE Bond		7,999		7,999		5,935		5,899		5,899		5,899	
83	Cap I Fund - Sub Lien Taxable Bond		1,214		-		-		-		-		-	
84	2014 Bond Issuance, Funds Used for Cash Purposes		-		-		-		-		-		-	
85	BOA Settlement, Applied to Working Capital DS				2,427		2,746							
86	Smart Grid Funding		858		5,386		9,432		795		-		-	
87	Note Payment from GWA/DOE		3,683		2,837		1,846		-		-		-	
88	Change in Materials Inventory		(1,500)		(1,735)		(516)		(1,089)		(1,105)		212	
89	Other Cash Requirements		(6,866)		5,095		1,138		1,459		1,487		(488)	
90	WC Fund Funding Requirement		(581)		(5,318)		181		(16)		239		(1,319)	
91	Fund Receipts: Surplus Funds-Taxable Commercial Paper Account		3,100											
	Drawdown of 2014 Bond Issuance for Bond Reserve								2,949		2,949			
92	Change in Bond Reserve Funds		6		-		-		(2,949)		(2,949)		5,612	
93	Reserved for Debt Service, Accrual vs. Actual <sup>(2)</sup>		2,620		4,876		(1,879)		58		547		(14,666)	
94	Bad Debt Adjustment		30		11		28		83		84		84	
95	Change in Other Unrestricted Funds <sup>(3)</sup>		(2,285)		2,686		2,523		1,724		3,708		7,987	
96	Construction Fund Interest Income		(216)		(508)		(161)		(551)		(329)		(171)	
97	Cash (Deficiency)/Surplus	\$	122	\$	79	\$	56	\$	23	\$	44	\$	202	
98														
99	<b>Unrestricted Cash on Hand:</b>													
100	BOY Unrestricted Cash	\$	56,141	\$	42,935	\$	45,366	\$	51,923	\$	48,291	\$	46,809	
101	Change in Unrestricted Cash	\$	(13,206)	\$	10,257	\$	7,869	\$	(397)	\$	(711)	\$	(5,897)	
102	Escrowed Cash for Debt Service		\$	(7,827)	\$	148	\$	(3,673)	\$	(771)	\$	14,425		
103	Escrowed Cash for Cap I			(0)	(1,459)		438		0		0		0	
104	EOY Cash (Adjusted)	\$	42,935	\$	45,366	\$	51,923	\$	48,291	\$	46,809	\$	55,337	
105														
106	O&M Per Day	\$	923	\$	1,097	\$	1,091	\$	1,092	\$	1,084	\$	1,127	
107														
				Short Term-Target										
108	EOY Days Cash on Hand After Oct. Debt Service		40-45		47		41		48		44		43	49

**Attachment 2**  
**To**  
**GPA Docket 11-09 Stipulation**

**REVENUE REQUIREMENTS FILING PROCEDURES**

The Revenue Requirement Filing Procedures in this Attachment 2 to GPA Docket 11-09 Stipulation (Procedures) set forth the minimum filing requirements for Guam Power Authority's (GPA) FY 2014 revenue requirement adjustment process. These Procedures are designed to provide the Guam Public Utilities Commission (PUC) with updated financial information and assist GPA in streamlining its base rate adjustment for FY 2014. These Procedures are guidelines to be used in conjunction with the FY 2014 filing that is part of GPA's multi-year filing in GPA Docket 11-09. GPA will identify and discuss any deviations from these Procedures as part of its filing for FY 2014. The purpose of these Procedures will be to expedite the review of the results of GPA's projected targeted revenue requirement for FY 2014 and modify it as necessary to reflect updated and current information. In accordance with the DOD's (Navy) customer service agreement with GPA, for the years when GPA is requesting a base rate increase, a cost-of-service study will be performed for the Navy and the results incorporated into the revised rates.

**A. THE FILING**

On or about April 1, 2013, GPA shall file the following information for its FY 2014 rate base filing with the Guam PUC for review and consideration:

- (1) Revenue Requirements: A summary of the revenue requirement targeted in GPA Docket 11-09 for FY 2014, Attachment 1 to the Stipulation, will be updated to reflect current information.

The most recent historic year and current 12-month period will be provided. The revenue requirement information should include GPA's projections of fuel expenses and IPP costs. The target revenue requirement projected for FY 2014 will be used as a basis for determining if modifications to the prior targeted rate adjustments are necessary. A cash flow statement shall accompany the revenue requirement filing. The revenue requirement and cash flow statement shall be provided in the format prescribed in Schedule A of the *Rules for Practice and Procedure before Commission*. Since the adjustments may deviate from the original multi-year filing, example templates for the FY 2014 rate filing are shown as Schedules A and B of this exhibit. Revenue Requirements Form (see attached).

- (2) Expenses: A schedule of expenses and an explanation of any amortized expenses;

(3) Adjustments between Multi-Year Filing and the FY 2014 Filing: All known and measurable adjustments from the target FY 2014 results as shown in Attachment 1 to the Stipulation will be provided in a schedule.

This schedule will include information describing the purpose, basis, and amount of each account adjustment. If any line item on the updated revenue requirement has increased or decreased by more than ten percent (10%) from the target FY 2014 results as shown in Attachment 1 to the Stipulation, a description for each line item will be provided describing the cause for the variance. A schedule and explanation of all pro forma and normalizing adjustments will also be provided.

(4) Debt Service Coverage Ratio: GPA's debt service coverage (DSC) ratio calculations consistent with those provided in Attachment 1 to the Stipulation shall be provided, except that the DSC ratio for subordinate debt shall be calculated in accordance with the anticipated Order in Phase II of GPA Docket 11-09.

The DSC ratio shall be provided in the format prescribed in Schedule A of the *Rules for Practice and Procedure before Commission*. Since the adjustments may deviate from the original filing, an example template for the multi-year rate filing is shown as Schedule C of this Attachment.

(5) Days of Cash on Hand: A schedule containing the calculation of GPA's days of cash on hand shall be provided as shown in Schedule D of this Attachment.

(6) Staffing Levels: A summary of GPA's actual personnel costs and level of personnel (which include pensions, health insurance and all other related costs) for the most recent historic year and current year will be provided. The summary provided shall include a discussion of the status of GPA's implementation of the Certified Technical and Professional Personnel (CTP) wage increases consistent with PUC requirements as applicable in future years as well as a summary explanation of any changes in assumptions sought for the next fiscal year and the direction provided by the Consolidated Commission on Utilities. GPA shall provide any resolutions of the Consolidated Commission on Utilities (CCU) evidencing any actions on the CTP program. To the extent required by law, GPA shall also provide an updated staffing study.

(7) Debt Service: The debt service payments provided as part of the revenue requirement shall be provided in a format similar to those prescribed in Schedule F of the *Rules for Practice and Procedure before Commission*.

(8) Capital Improvement Projects and Funding Sources: An update shall be provided with the amount of capital improvement projects scheduled for the upcoming five-year period, the amount expended on projects in construction, and any revisions in costs or completion dates. The funding sources for these projects should be identified as prescribed in Schedules G and I of the *Rules for Practice and Procedure before Commission*.

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(9) Working Capital: A working capital schedule shall be provided in a format as prescribed in Schedule H of the *Rules for Practice and Procedure before Commission*.

(10) Other Cash Flow Items: Details regarding additional sources and uses of cash shall be provided in a format as prescribed in Schedule I of the *Rules for Practice and Procedure before Commission*.

(11) Load Forecast: An updated energy and load forecast shall be provided for FY 2014. Historical and projected customer and sales data for the upcoming five-year period will be provided.

This schedule will include the number of customers and energy and demand sales by customer class. If the number of customers or sales has increased or decreased by more than five percent (5%) from the previous revenue requirement period, a description for each line item will be provided describing the basis for the variance.

(12) Proof of Revenues: The billing determinants for the upcoming year shall be used to determine whether the level of revenues is adequate in meeting the revenue requirement. The customer and sales data shall be based on the data provided in the load forecast for the upcoming year.

(13) Annual Audited Financial Statement: A copy of GPA's annual certified audit, including any adjusting journal entries.

(14) Cost-of-Service Requirements: GPA's shall describe any changes to the multi-year rate plan that have as a goal moving toward cost-of-service.

(15) Smart Grid Implementation Update: An update on the status of the implementation of the Smart Grid project shall be provided, together with a description of the actual benefits to date and projected benefits, included estimates of increases in revenue and decreases in expenses attributable to the Smart Grid project.

(16) Productivity Improvements: A summary description of productivity improvements projected and actually achieved since the filing of the rate petition in this docket shall be provided.

(17) Cost Control Measures: A summary description of cost control measures implemented by GPA to keep rate increases to a minimum shall be provided.

(18) System Reliability Report Update: A status report on delivery system reliability performance shall be provided, together with the results of any updated customer satisfaction surveys.

(19) CIP and O&M Status Report: A status report and narrative summary describing all capital construction projects and operations and maintenance (O&M) service contracts, insurance contracts, labor and other non-labor O&M expenses shall be provided.

#### **B. DETERMINATION OF TARGET RATE ADJUSTMENT(S)**

Revenues for the upcoming year FY 2014 shall be derived based on projected billing determinants, new LEAC rates, and base rates approved in the current proceeding and compared to the updated revenue requirements determined for FY 2014. The Navy cost-of-service study will be performed in accordance with the Navy customer service agreement. Any approved civilian rate increases will be spread using an across-the-board adjustment to the base rates from the rate plan approved by the PUC in GPA Docket 11-09. This approach will retain the cost-of-service principles and support the projected rate parity changes accepted in GPA Docket 11-09 to the rate structure for each customer class. If GPA

proposes to adjust rates based on its filing, GPA shall file with the commission the following additional information:

- (1) Tariff sheets showing any proposed adjustments to the GPA's rates;
- (2) A copy of the relevant resolution(s) of the CCU authorizing the requested increase in rates; and
- (3) A narrative description or evidence of the actions taken by GPA to provide public notice of its intentions. If applicable, documentation demonstrating GPA's compliance with the Ratepayers' Bill of Right notice requirements. GPA will also submit evidence with the PUC indicating that this requirement was covered when the multi-year filing was originally submitted and that GPA is still in compliance with the Ratepayers' Bill of Rights. This submittal will also include a copy of the original notice.

### **C. COMMISSION REVIEW**

Nothing in these procedures shall limit the PUC's review of the operations and financial results of GPA, nor the PUC's ability to request information from GPA related to its filing. These Procedures are limited to a rate adjustment for FY 2014 that is based on PUC precedents on revenue requirement and ratemaking methodologies. Proposals for new or abandonment of base rates is not permitted under these Procedures. A separate filing will be required for any such changes.

**Schedule A**  
**Summary of Revenue Requirements (\$000)**

	Actual 2012	Actual & Estimated 2013	Docket 11-09 Rate Case Target FY 2014	Adjusted Test Year FY 2014	Difference
% Increase on Total Bill					
<b>Proforma Income Statement:</b>					
Base Revenues					
Fuel Revenues					
Addl Revenues from Smart Grid Implementation					
WCF Surcharge					
Payment in Lieu of Taxes Surcharge					
Miscellaneous Revenues					
<b>Revenue from Allowed Rate Change:</b>					
% of Base Sales Revenue					
Number of Months Rate Change Effective					
Amount of Additional Revenues					
<b>Total Revenues</b>					
Production Fuel					
IPP Costs					
<b>O&amp;M Expenses:</b>					
Production Non-Fuel					
Transmission and Distribution					
Administrative and General					
Customer Accounting					
<b>Total O&amp;M Expenses</b>					
Depreciation					

Payments Made in Lieu of Taxes					
<b>Total Operating Expenses</b>					
<b>Earnings from Operations</b>					
<b>Other Revenues (Expenses):</b>					
Investment Income					
BOA Settlement					
Interest expense (1993/1999 Revenue Bonds)					
Interest expense (2010 Senior Lien TE Bond)					
Interest expense (2010 Sub Lien Taxable Bond)					
Interest expense (2014 New Bond)					
Interest expense (IPP's)					
Other Interest Expense					
Uncovered Future Property and Revenue Damage/Losses					
AFUDC					
Amortization of Issuance Costs					
<b>Net Income (Loss) Before Capital Contributions</b>					
Capital Contribution					
DOE Smart Grid Funding					
Other External CIP Funding, DOD/Military					
<b>Increase (Decrease) in Net Assets</b>					

**Schedule B**

**Internal Cash Flow Statement (\$000)**

	Actual 2012	Actual & Estimated 2013	Docket 11-09 Rate Case Target FY 2014	Adjusted Test Year FY 2014	Difference
<b>Internal Cash Flow Statement:</b>					
Total Cash Generated					
CIP's-Revenue Funded					
Principal Payment (1993 & 1999 Series)					
Principal Payment (2010 Sub Lien Taxable Bond)					
Principal Payment (2014 Bond)					
Principal Payment (IPP's)					
Cap I Fund - Senior Lien TE Bond					
Cap I Fund - Sub Lien Taxable Bond					
2014 Bond Issuance, Funds Used for Cash Purposes					
BOA Settlement, Applied to Working Capital DS					
Smart Grid Funding					
Note Payment from GWA/DOE					
Change in Materials Inventory					
<b>Other Cash Requirements</b>					
WC Fund Funding Requirement					
Change in Bond Reserve Funds					
Change in Other Funds					
Construction Fund Interest Income					
<b>Cash (Deficiency)/Surplus</b>					

**Schedule C**  
**Debt Service Coverage (\$000)**

[illegible]

**Schedule D**  
**Days of Unrestricted Cash on Hand (\$000)**

	Actual 2012	Actual & Estimated 2013	Docket 11-09 Rate Case Target FY 2014	Adjusted Test Year FY 2014	Difference
Unrestricted Cash Fund Balance					
Actual/Projected Levels					
Target					

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:

) GPA DOCKET 11-13

GUAM POWER AUTHORITY'S  
PETITION FOR REVIEW AND APPROVAL ) ORDER  
OF NETWORK COMMUNICATIONS  
CONTRACT (SMART GRID PROJECT)

**INTRODUCTION**

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Request of the Guam Power Authority ["GPA"] for contract review and approval of GPA's Network Communications Contract with Tropos Networks Inc.<sup>1</sup>
2. According to the Request, the implementation of this contract for "Network Backhaul Solution" is critical to the success of GPA's Smart Grid Project.<sup>2</sup>
3. The cost of the contract for Network Communications with Tropos Networks Inc. is the amount of \$5,243,775.23.

**BACKGROUND**

4. The Smart Grid Project has been before the Commission on numerous occasions. Previously, PUC authorized GPA to issue revenue bonds, which included approximately \$17M for the Smart Grid project. PUC further approved the expenditure of funds for Smart Grid under the Contract Review Protocol and the implementation of the Smart Grid Project.<sup>3</sup>
5. More recently, on December 19, 2011, the PUC approved GPA's intent to proceed with six major contracts for different aspects of the Smart Grid Project, including Network Communications, and authorized GPA to obligate funds up to the full amount of \$17M.<sup>4</sup>

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<sup>1</sup> GPA Request for Approval of Tropos Network Contract under GPA Smart Grid Project, GPA Docket 11-13, filed April 20, 2012.

<sup>2</sup> Id.

<sup>3</sup> PUC Order, GPA Docket 10-01, issued July 27, 2010, at p. 2.

<sup>4</sup> PUC Order GPA Docket 11-13, issued December 19, 2011, at p. 2.

6. The PUC also approved and implemented measures to assist GPA in rapidly implementing its Smart Grid Program.<sup>5</sup>

**THE NETWORK COMMUNICATIONS CONTRACT**  
**WITH TROPOS NETWORKS INC.**

7. PUC Legal Counsel has submitted his report, which recommends approval of the proposed contract with Tropos Networks Inc. [Tropos]. Counsel has described in detail the nature of the proposed contract. The PUC adopts the Counsel Report herein.
8. At all stages of the procurement and selection process, GPA was assisted by its project PMO, Black & Veatch.<sup>6</sup>
9. In approving the Contract with Tropos, the Consolidated Commission on Utilities recognized that GPA intends "to implement a network backhaul solution to allow for connectivity of Smart Grid applications..."<sup>7</sup>
10. The Smart Grid Network Communications is the system through which data will be communicated from the automated meter infrastructure to the Meter data management system, and will also include communications for the other Smart Grid Components (Substation Automation, Distribution Automation, Distribution Management System, Outage Management System, and Load Control Management System).<sup>8</sup>
11. Tropos will supply all of the required software and hardware for the Network Backhaul System [NBS] as well as necessary services in order to successfully implement the NBS at GPA.<sup>9</sup>

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<sup>5</sup> Id. at p. 2.

<sup>6</sup> Memorandum to General Manager, RFP No. 004 Network Communications Contract Recommendation, dated April 9, 2012; see also ABSTRACT, GPA SGIG RFP No. 004 Network Communications, p. 2.

<sup>7</sup> CCU Resolution No. 2012-24, authorizing Management of the Guam Power Authority to contract services for Island-Wide Network Backhaul Communications in support of Smart Grid initiatives, issued April 10, 2012.

<sup>8</sup> Id. at p. 2.

<sup>9</sup> ABSTRACT, GPA SGIG RFP NO. 004 NETWORK COMMUNICATIONS, p. 1.

### **DETERMINATIONS**

12. GPA conducted due diligence in procuring and negotiating the contract with Tropos.
13. GPA has demonstrated that the implementation of its contract for the Network Backhaul Solution is critical to the success of GPA's Smart Grid Project.
14. Approval of this contract will not have any additional impact upon customer power rates. Funding for this contract was already included in the 2010 bond issuance and does not involve the expenditure of additional ratepayer funds.

### **ORDERING PROVISIONS**

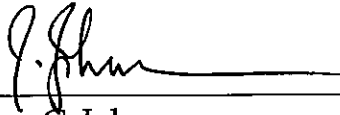
After a review of the record herein, GPA's Request for review and approval of its Network Communications Contract with Tropos Networks Inc., and the PUC Counsel Report, for good cause shown, the Guam Public Utilities Commission, by and through its Chairman in accordance with 12 GCA §12004, HEREBY ORDERS that:

1. GPA's Petition for review and approval of the Network Communications Contract with Tropos Networks Inc., is hereby granted.
2. The recommendations and reasoning contained in the Counsel Report are adopted.
3. GPA is authorized to expend up to the amount of \$5,243,775.23 for said Contract.
4. GPA shall continue to comply with its monthly reporting requirements to the PUC as set forth in the PUC Order dated July 27, 2011. GPA shall submit ongoing progress reports to the PUC concerning this contract and other ongoing Smart Grid projects.
5. GPA is ordered to pay the Commission's regulatory fees and expenses, including, ~~without limitation, consulting and counsel fees and the fees and expenses of~~ conducting the hearing proceedings. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 GCA §§12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

Order  
GPA's Request for Approval  
of Network Communications Contract  
[Smart Grid Project]  
GPA Docket 11-13  
April 30, 2012

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Dated this 30<sup>th</sup> day of April, 2012.

A handwritten signature in black ink, appearing to read 'J. Johnson', written over a horizontal line.

Jeffrey C. Johnson  
Chairman



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF:**

**GPA DOCKET 11-13**

**GUAM POWER AUTHORITY'S  
PETITION FOR REVIEW AND  
APPROVAL OF NETWORK  
COMMUNICATIONS CONTRACT  
(SMART GRID PROJECT)**

PUC COUNSEL REPORT

## INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon Request of the Guam Power Authority ["GPA"] for contract review and approval of GPA's Network Communications Contract with Tropos Networks, Inc.<sup>1</sup>
2. According to the Request, the implementation of this contract for the "Network Backhaul Solution" is critical to the success of GPA's Smart Grid Project.<sup>2</sup>
3. The cost of the contract for Network Communications with Tropos Networks Inc. is the amount of \$5,243,775.23.

## BACKGROUND

4. The Smart Grid Project has been before the Commission on numerous occasions. Previously, PUC authorized GPA to issue revenue bonds, which included approximately \$17M for the Smart Grid project. PUC further approved the expenditure of funds for Smart Grid under the Contract Review Protocol and the implementation of the Smart Grid Project.<sup>3</sup>
5. More recently, on December 19, 2011, the PUC approved GPA's intent to proceed with six major contracts for different aspects of the Smart Grid Project, including Network Communications, and authorized GPA to obligate funds up to the full amount of \$17M.<sup>4</sup>

<sup>1</sup> GPA Request for Approval of Tropos Network Contract under GPA Smart Grid Project, GPA Docket 11-13, filed April 20, 2012.

<sup>2</sup> Id.

<sup>3</sup> PUC Order, GPA Docket 10-01, issued July 27, 2010, at p. 2.

<sup>4</sup> PUC Order GPA Docket 11-13, issued December 19, 2011, at p. 2.

6. The PUC also approved and implemented measures to assist GPA in rapidly implementing its Smart Grid Program; if expeditious action is not taken by GPA to implement Smart Grid, there is the possibility that its Grant could be terminated by the U.S. Department of Energy.<sup>5</sup>
7. In said Order, the PUC implemented an expedited procedure for Smart Grid projects whereby GPA would not need to obtain prior PUC approval for procurements of Smart Grid Projects, but only to obtain final review and PUC approval of Smart Grid Contracts.<sup>6</sup>

**THE NETWORK COMMUNICATIONS CONTRACT**  
**WITH TROPOS NETWORKS INC.**

8. GPA has presented a strong justification for the approval of its proposed contract with Tropos Networks Inc. in that implementation of the contract for “the network backhaul solution” is critical to the success of GPA’s Smart Grid Contract.
9. Tropos was selected for the contract award from a pool of seven vendors.<sup>7</sup> At all stages of the procurement and selection process, GPA was assisted by its project PMO, Black & Veatch.<sup>8</sup>
10. In approving the Contract with Tropos, the Consolidated Commission on Utilities recognized that GPA intends “to implement a network backhaul solution to allow for connectivity of Smart Grid applications...”<sup>9</sup>
11. The Smart Grid Network Communications is the system through which data will be communicated from the automated meter infrastructure to the Meter data management system. The Smart Grid Network Communications will also include the communications for the other Smart Grid Components (Substation Automation,

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<sup>5</sup> Id. at p. 2.

<sup>6</sup> Id. at p. 3.

<sup>7</sup> Memorandum to General Manager Re: RFP No. 004 Network Communications Vendor Selection, dated February 27, 2012.

<sup>8</sup> Memorandum to General Manager, RFP No. 004 Network Communications Contract Recommendation, dated April 9, 2012; see also ABSTRACT, GPA SGIG RFP No. 004 Network Communications, p. 2.

<sup>9</sup> CCU Resolution No. 2012-24, authorizing Management of the Guam Power Authority to contract services for Island-Wide Network Backhaul Communications in support of Smart Grid initiatives, issued April 10, 2012.

Distribution Automation, Distribution Management System, Outage Management System, and Load Control Management System).<sup>10</sup>

12. Tropos will supply all of the required software and hardware for the Network Backhaul System [NBS] as well as necessary services in order to successfully implement the NBS at GPA. The NBS will be implemented in two phases.<sup>11</sup>
13. The first phase is to implement the Tier 1 backhaul network from the substations to the data center. The second phase is to implement the Tier 2 backhaul network from the AMI network to the substations.<sup>12</sup>
14. GPA has provided a draft "Form of Contract" which indicates the agreement between GPA and Tropos. Furthermore, there is a detailed statement of Work attached to the Contract which indicates the duties and responsibilities of Tropos for implementing the network communications system as well as warranty coverage and system compliance standards.<sup>13</sup>
15. The system that Tropos will construct is akin to a telecommunications system involving radio communications, network/Wifi interoperability, and Ethernet transport. Tier 2 network provides wireless broadband access to the Tier 1 Network for both fixed and Mobile Access.<sup>14</sup>

### RECOMMENDATIONS

16. Counsel recommends that the PUC approve GPA's award of the Network Communications Contract to Tropos Networks, Inc.
17. GPA should be authorized to expend an amount up to \$5,243,775.23 for such contract.

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<sup>10</sup> Id. at p. 2.

<sup>11</sup> ABSTRACT, GPA SGIG RFP NO. 004 NETWORK COMMUNICATIONS, p. 1.

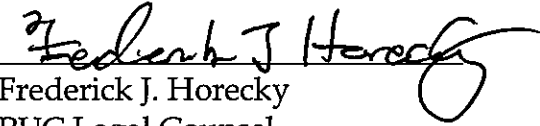
<sup>12</sup> Id.

<sup>13</sup> The form of contract and Attachment h-1, Statement of Work for GPA NBS (Network Backhaul Solution) Project, submitted with GPA's request for Contract Review, filed April 20, 2012.

<sup>14</sup> Attachment h-1 Statement of Work, Id.

18. The PUC has previously given broad support for the Smart Grid Project, approved funding for the project, and specifically authorized GPA to proceed with the Network & Communications Infrastructure.
19. The Network Communications piece of the Smart Grid Project truly is critical for its success. Without the implementation of a communications infrastructure, GPA will be unable to obtain any of the projected benefits of the Smart Grid Project.
20. The Network Backhaul Solution is critical to enable GPA to obtain data and information from the advanced Metering Infrastructure, Distribution Automation, Substation Automation, System Control Data Acquisition (SCADA), Power Quality Management, Outage Management, Mobile Workforce, and other applications.<sup>15</sup>
21. A Proposed Order is submitted herewith for the consideration of the Chairman.

Dated this 30<sup>th</sup> day of April, 2012.

  
Frederick J. Horecky  
PUC Legal Counsel

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<sup>15</sup> Attachment h-1 Statement of Work at p. 2.