

GUAM PUBLIC UTILITIES COMMISSION  
REGULAR MEETING  
OCTOBER 29, 2013  
SUITE 202, GCIC BUILDING, HAGATNA



MINUTES

The Guam Public Utilities Commission [PUC] conducted a regular meeting commencing at 7:09 p.m. on October 29, 2013, pursuant to due and lawful notice. Commissioners Perez, McDonald, Pangelinan, and Montinola were in attendance. The following matters were considered at the meeting under the agenda made *Attachment "A"* hereto.

**1. Approval of Minutes**

The Chairwoman announced that the first item of business on the agenda was approval of the minutes of September 24, 2013. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the minutes subject to correction.

**2. Guam Waterworks Authority**

The Chairwoman announced that the next item of business was GWA Docket 13-01, Petition of Guam Waterworks Authority for Rate Relief, ALJ Report, and Proposed FY2014 Rate Decision. Initially, the Chairwoman indicated the possibility of delaying consideration of the matter of the rate decision, as the Chairman was off island on an emergency and wished to participate in this matter. In addition certain information had just been received by the PUC; the PUC would like to meet with GWA to have a presentation on the rate case. The Commissioners discussed the possibility of meeting on November 10, 2013.

GWA Counsel Sam Taylor indicated that various materials had been submitted by GWA to the PUC; GWA had a schedule for the issuance of its bonds. A motion was made and seconded to table the GWA rate case. However, Senator Tom Ada stated that the absence of the Chairman was not a sufficient reason for a continuance, as his term had expired. PUC Counsel indicated that PUC did not believe the Chairman's term had expired. The Chairman of the Consolidated Commission on Utilities, Simon Sanchez, indicated that GWA already signed a Stipulation with PUC Rate Consultants on the rate case. Compression will be an issue if the rate case is delayed. GWA has to inform the District Court of compliance in December. Mr. Sanchez requested that GWA be allowed to make a presentation to the PUC Commissioners this evening. GWA needs to go to the market place on the bonds, as interest rates are rising. The rating agencies are waiting for the decision of the PUC.

Commissioner Pangelinan asked what the timeframe would be so as to not jeopardize the process, if the Commissioners did not hear the presentation this evening. Mr. Sanchez indicated that GWA was attempting to go to the market in November. Any

delay in the rate case will delay the bond issuance. It will cost the ratepayers, as interest rates have climbed. The ALJ has issued his report; there is a Stipulation. This should be dealt with in the next 48 or 72 hours.

PUC Counsel indicated that it was up to the Commissioners as to whether they wished to hear a presentation this evening. The Commissioners can have additional time to review the information if necessary. The Commissioners considered the possibility of recessing and the timeframe for notice for a special meeting. Mr. Sanchez again requested that the Commissioners proceed this evening. Senator Ada indicated that the Legislature had expedited the bond legislation; he requested that GWA be allowed to make its presentation this evening. Commissioner Pangelinan asked the Senator whether GWA could present this matter in under one hour. Mr. Sanchez indicated that it could. Commissioner Pangelinan indicated he was convinced that the PUC should proceed with the presentation and then determine whether a decision could be made on this matter this evening. Mr. Sanchez indicated that GWA could do the presentation in thirty minutes. The Commissioners were willing to proceed with the presentation.

CCU Chairman Sanchez began by indicating that GWA is tasked with modernizing the GWA system in complying with federal law. GWA has reached a Stipulation with Lummus. The original case filed by GWA had asked for an aggregate increase of 67% over the next five years. That increase was reduced to 57%. The increase affects different classes of customers differently. The first provision in the Stipulation between Lummus [i.e. PUC Consultant] and GWA was that GWA will deal with unaccounted for water, fix leaks and get the meters to accurately measure people's consumption. Challenges with the meters have been turned around, and the meters are working quite nicely. Meter installation is nearly completed and is producing revenue growth and K-gal sales. Lummus has required GWA to meet specific percentages of increases in K-gal sales to customers through the meters and in leak repair. Employee benefit increases have been reduced from 6% to 3% annually.

The fourth piece of the Stipulation projects an increase in System Development Charge revenues, resulting from an improving economy, of 5% annually. The increase will help pay for some of the infrastructure projects. GWA has also agreed to reduce additional O&M expenses by \$1.4M. Also, miscellaneous fees, connection fees and other fees directly related to the monthly water bill will be increased. GWA will do a study on fire protection and the fees generated thereby. All of the rates in the five year rate plan will be subject to annual review with Lummus. Lummus believes that the improved financial position of GWA will lead to improved bond ratings and reduced cost of borrowing by GWA.

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The Stipulation also creates two reserve funds to help improve GWA's financial stability and credit quality. Finally, Lummus recommends the proposed 57% rate increase over the next five years, subject to annual true-up; GWA concurs with this recommendation. Lummus believes that the proposed rates are just and reasonable. The Court Order of 2011 requires GWA to spend \$313M on Court ordered construction projects. \$130M is also needed to remedy certain significant findings made by the US

EPA for water and waste water. Total borrowing, including financing, cost of issuance, reserves, debt service reserves, etc. is \$495M for the next five years. GWA is now before the Legislature seeking approval for the borrowing of \$495M. With the rate increases originally proposed in the Petition, residential rates would have gone up between 32% and 44%; non-residential rates like commercial and government ratepayers would have gone up as much as 82% between 2013 and 2018. However, these numbers are now lower as a result of the agreements reached with Lummus. The proposed bond legislation for the Legislature would remove the \$20M requirement in the law that lead to an \$18M reserve imposed by the PUC.

Martin Roush, General Manager of GWA, indicated that, with the Compliance Overview, there are projects required by the November 2011 Court Order and the significant findings one year later. There are 80 items on the list. The Federal Order projects are very significant, including the repair and rehabilitation of wastewater treatment plants and rebuilding of treatment plants to secondary treatment. GWA is required to rebuild, repair or replace all 29 tanks. The Court Order projects are estimated at \$313M. There is \$110M for the three southern treatment plants which all need to be rebuilt. Total cost of the tank repairs is \$150M. Barrigada is completed and construction is underway with a few more tanks. The Northern Treatment Plant is complete. The ground water chlorination is complete. While significant progress has been made, there is a long way to go under the Court Order. 50% of the significant findings by EPA have been completed. There is about \$22M in production for well rehabilitation. Mr. Sanchez pointed out that almost \$40M was focused on leak detection and line repair. Mr. Roush believes that 36 of the items of significant findings have been completed. GWA is going to repair and seal its manholes and prevent a lot of the rain from getting into the system. GWA will go after the low hanging fruit to reduce energy cost. Currently there is approximately \$50M in the rate plan for the waste water significant findings. GWA needs to secure funding for the required major projects by December.

Greg Cruz, the CFO of GWA, then proceeded with the presentation. GWA is expecting its debt service, presently at \$7M, to increase to \$40M by 2018. GWA is planning to borrow in a series of three financings, one in 2013, one in 2015 and one in 2017. Debt service will depend upon what the interest rate is. 85% of all the borrowings are court ordered. The original rate increase sought over the five years was 67%, but that was reduced to 57% based upon cost savings and revenue enhancements agreed to in the Stipulation and reduction of O&M expenditures by \$1.4M in the next five years. Mr. Sanchez pointed out that not every rate class would see a 57% increase. The bulk of GWA residential customers would see between 22% and 32% rate increases; business and government customers would see more like a 63% rate increase.

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Mr. Cruz indicated that GWA has 42,000 customers. Of those, approximately 38,000 are residential accounts. Half of the residential accounts do not use more than 5,000 gallons of water every month. The other half consumes more than 5,000 gallons. Under the original filing, GWA's residential customers would only see a \$1.00 a month rate

increase. Under the proposed stipulation, the overall impact on those using less than 5,000 gallons is reduced by 20%. If the customer uses over 5,000 gallons, the overall impact is 31%. The impact for those that use less than 5,000 gallons is 71 cents increase to the monthly bill. Mr. Sanchez indicated that for those that use more than 5,000 gallons, the increase is \$3.00. The overwhelming majority of GWA, 38,000 out of 41,000, 90%, with the Stipulation, would see rate increases of 20 to 30%, not 57%. The heavier burden will fall on the commercial and government accounts. They will see a 67% rate increase, not a 57% increase. Half of the GWA customers, under the Stipulation, will have bill increases from \$57 to \$68 by 2018 -- \$11.00 over the next five years. For the other half of the customers rates will go up \$24.00 over the next five years. Mr. Cruz again emphasized that debt service constitutes close to 60% of the rate increase.

Mr. Sanchez indicated that the heaviest burden in the five year rate plan results from borrowing the monies necessary to comply with the court orders and the significant findings. GWA is attempting to sell the bonds in November and close in December so it can inform the Court that it is on track. The bond documents are similar to the 2005 and 2010 borrowing documents. It is two years of capitalized interest because it's cheaper. At the end of the borrowing cycle, after this investment in capital improvements, customers will continue to receive clean, safe drinking water. Water reliability pressure will be improved. There is an emphasis on repairing tanks. Water distribution system will be improved by fixing leaks. \$40M of the funds are for fixing leaks and lines. By 2016 wastewater systems will be upgraded. The northern aquifer will be protected. Improvements in the system, equipment efficiencies, production wells, water booster pump stations, sewer lift stations, treatment plants, and the water and wastewater treatment plants will begin to produce operational savings and reduce our costs. Navy water purchases have been reduced from \$6M per year to \$4M. Governmental and commercial customers will subsidize the residential. GWA is pleased with the report that Lummus Consultants issued. GWA requests that the PUC grant and accept the Stipulation between its rate consultant Lummus and the Guam Waterworks Authority.

Commissioner Perez asked GWA CFO Greg Cruz what the interest rate presently was. Mr. Cruz indicated that, for the stipulation, 7% was used. Mr. Sanchez is hopeful that investment grade ratings can be achieved with in this period. Commissioner Pangelinan asked what the benefit was of the new functioning meters. Mr. Sanchez indicated that it does two things: water production has risen from 5.7M K-gals in a year to approaching 6.3M. It should be able to get to 6.4M or 6.5M over the next few years. There has been a steady increase in K-gal sales every month since GWA has done the meter program. Commissioner Montinola asked whether the new meters at GWA were like the smart meters at GPA. GM Roush indicated that they were completely different. Soon GWA will be doing testing, to try to have 2,000 of its meters read using GPA's smart grid network. Commissioner Montinola asked whether any customers fear the new GWA meter. Mr. Roush indicated that the water industry has not seen the same phenomenon that is in the power industry. Commissioner Pangelinan indicated he was surprised that new meter reads will only improve sales in FY2014 by 3%. Mr. Sanchez indicated that Lummus was projecting that the total K-gal sales achieved by GWA will

be higher because of the better meters. The Stipulation reflects this. CFO Cruz indicated that in the last rate case 7.5% was added to demand sales. So, another 3% is added for fiscal year 2014 and another 1½% for 2015. Commissioner Montinola asked what growth GWA had in new customers over the last five years. CFO Cruz indicated that it was an average of 2% a year. Commissioner Montinola further asked if, for the basis of this rate increase, GWA was projecting the 5% increase every year. Mr. Sanchez indicated that the projected growth rate was still 2% in new customers. Mr. Sanchez indicated that 2% increase in customers per year has been the historic average over the last six or seven years.

Mr. Sanchez indicated that the bills for all residential customers would only go up 20 to 30% depending on whether they use more or less than 5,000 gallons. For everyone else, it will go up to 66% because government and private sectors subsidize the residential class. A conscious decision was made by the PUC over twenty years ago that the commercial sector is better able to bear increases because it passes on prices to customers and exports some of the burden to visitors. Also, some waste water costs can be exported to the US Military. A conscious decision was made that commercial and government rate classes should subsidize the largest class, the residential class. Businesses pay more to keep bills at home lower. Mr. Sanchez asked PUC Counsel if GWA's presentation was consistent with ALJ Mair's recommendation. PUC Counsel indicated that it was.

The Chairwoman gave PUC Counsel the opportunity to ask a question. Counsel indicated that, for years, GPA had been moving toward a rate parity where all of the subsidies were being done away with. He asked why GWA wasn't moving in that direction, but the commercial ratepayers were still subsidizing the residential ratepayers. Counsel asked whether GWA's current rate schedule could be deemed to be unfair to the commercial classes. CCU Chair Sanchez indicated that the main factor with the GPA rate increase is the cost of oil. However, the water business is capital intensive. The requirements of the Court Order will require GWA to raise \$1.5B between 2008 and 2028. The Commercial community can better deal with the magnitude of the rate increases than the residential customers. PUC could order that GWA, for the future, start the conversation concerning subsidization. CCU has decided to hold off on this because of the sheer magnitude of the rate increases. CCU has just attempted to deal with the rate structure as it is. If GWA goes to true cost of service, residential rates will climb and commercial rates will plummet. There are 38,000 residential accounts and 2,000 commercial accounts.

Commissioner Perez asked about the slide in GWA's presentation which indicated a lifeline that is at 7% in 2017, and what the break down was. Mr. Sanchez indicated that by PUC rule, the lifeline could not increase until costs were up by 20%. GWA is attempting to delay the adjustment, and make a smaller adjustment, until 2017. The costs are what they are and the numbers don't change. However, GWA wishes to go to the market before the interest rates go up. The Stipulation also begins to look at converting the sewer rate from a fixed charge to a volumetric charge.

PUC Counsel then indicated that the Commissioners needed to decide whether they wished to proceed ahead with considering the decision of the rate case. ALJs Mair and Alcantara have prepared a draft rate decision order, attached to the ALJ report, which tracks the provisions of the Stipulation. Commissioner Pangelinan indicated that he appreciated the presentation and now felt more comfortable with the material. However, he had not matched the Stipulation up with everything he had seen in the proposed rate decision or the Lummus report. He asked PUC Counsel whether the comparison had been done and whether the proposed rate decision reflected what was actually in the Stipulation. PUC Counsel referred this question to ALJ Alcantara. ALJ Alcantara indicated that the stipulation does track the proposed rate decision. The report filed by Lummus today also reflects the items contained in the Stipulation, similar in content. Commissioner Pangelinan indicated that PUC Counsel usually goes through a decision line by line and walks the Commission through it, but this hasn't been done in this case. However, he was ready to make a motion to approve the rate decision and to approve the rate plan. The motion was seconded.

Commissioner McDonald then asked whether the reduction in the Stipulation from the original five year rate plan accounted for achieving a favorable bond rating, or that getting a favorable bond rating would mean more reduction. Mr. Sanchez indicated that getting a favorable bond rating would lower GWA's borrowing costs. He does not feel that GWA will get investment grade rating this time. GWA is hopeful that it could obtain an investment grade rating before the end of the next five year period. S&P will be giving GWA a rating for the first time. If PUC makes a decision tonight, GWA will inform the rating agencies such as Moody's, S&P, and Fitch. During GWA's presentation at S&P, S&P indicated that GWA was the best turnaround story that they had seen, and that GWA merits an investment grade. Rating agencies appreciate it when PUC approves a five year rate plan subject to annual true-up. Upon motion duly made, seconded and unanimously approved, the Commissioners approved the GWA FY2014 Rate Decision, which Order is made *Attachment "B"* hereto.

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

The Chairwoman announced that the next item on the agenda was GPA Docket 13-15, FY2014-2016 Construction Budget, Lummus Report, and Proposed Order. Counsel indicated that this Docket involves the GPA Construction Budget for 2014 to 2016. Under the Contract Review Protocol, GPA is required to file its Construction Budget with the PUC by September 15 of each year. However, there is no requirement that the Commission approve the Construction Budget. However, for projects in the Construction Budget that exceed \$1.5M, those are still reviewed by the PUC under the Contract Review Process. Most of the projects in the current Construction Budget are bond funded projects from the 1999 and 2010 bonds. They have already been reviewed by the Commission. Lummus agrees that the externally funded bond projects relating to the former bond issuances have gone through the proper Contract Review Protocol. A total Construction Budget for FY2014 is roughly \$53M. \$28M of that amount is from bond funded projects from the 1999 and 2010 bonds. However, included in the

Construction Budget is an additional \$26.1M in the short-term bond financing projects, which are also included in the Construction Budget. Short-term bond financing projects are also the subject of GPA Docket 13-07. GPA is currently seeking legislation from the Guam Legislature to issue short-term bond financing in the amount of \$35M. Short-term bond financing projects are a part of the GPA Construction Budget. These projects have not been approved by the PUC. However, in GPA Docket 13-07, if the legislation is approved, GPA will formally seek approval of the projects which it intends to finance through the short-term bond financing.

GPA seeks to use the short-term bond financing for certain projects, like the Cabras overhauls, so that these projects do not need to be funded through the rate case. However, the \$26M in projects does not need financing through rate increases. The PUC will make sure in GPA Docket 13-07 that all of the projects within the \$26.1M have been properly justified under the Contract Review Protocol. The Proposed Order recognizes that the Construction Budget does not require PUC approval under the Contract Review process. However, the \$26.1M projects funded through short-term bond financing will need to be approved in GPA Docket 13-07. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the Order made *Attachment "C"* hereto.

The Chairwoman indicated that the next item of business was GPA Docket 13-16, FY2014 CIP Ceiling Cap Request, Lummus Report, and Proposed Order. Counsel indicated that every year GPA files its Capital Improvement Projects Ceiling Cap for that particular year. Projects for this year are all internally funded projects through revenue funding; they are not bond funded. These projects relate to "general plant," not including line extensions. PUC is required to approve a CIP Cap for GPA before November 15 of each year. "General plant" includes such items as computer replacement, other needed equipment, minor improvements for some of the plants and structures. This year GPA is requesting a CIP Cap of \$7.3M. This Cap is consistent with what GPA has requested in previous years. The 2013 Cap was roughly \$10M; the 2012 Cap was a little over \$10M. The present Cap appears to be in line with prior years. There is a substantial amount of computer replacement. The amount requested appears reasonable. The PUC should approve the Ceiling Cap which would be in the amount of \$7,363,110 for FY2014. GPA is also required to file a reconciliation of its expenditures on CIP for the prior year, FY2013, before December 1 of this year.

Commissioner Perez asked about the number of Ipads listed. GPA Counsel Botha indicated that the CCU members are provided with Ipads, and they have a program called Board Books. All orders and everything for meetings are uploaded so that the Commissioners can review matters before the meeting. GPA does not print out materials. It is trying to go paperless in the CCU realm. The managers also have Ipads too. Commissioner Perez asked how often GPA changes out its computers. GPA Counsel Botha indicated that it is generally on a three to five year scheme. The IT Manager is trying to replace computers roughly 20% every year. Commissioner Perez asked about a 65 inch LED flat screen TV for Human Resources and what it was used

for. AGMO Camacho indicated that it was for training purposes. Instead of using projectors, it is more economical to hook up the screen. Flat screens are cheaper than the Three M projectors. Commissioner Montinola indicated that the price for the TV was high. AGMO Camacho did not know where the number came from. GPA Counsel Botha indicated that GPA has to purchase these items through three quotes and can't buy them from where they are cheaper, such as the exchange. Botha indicated that under procurement rules GPA could not simply buy computers from cheaper sources. Upon motion duly made, seconded, and unanimously carried, the Commissioners approved the GPA FY2014 CIP Ceiling Cap of \$7,363,110, and adopted the Order made *Attachment "D"* hereto.

The Chairwoman announced that the next item on the agenda was GPA Docket 13-04, Petition to Approve Insurance Contract for Property Insurance, PUC Counsel Report and Proposed Order. Counsel indicated that this matter was previously before the Commission in May at which time GPA requested authorization to go out on an invitation for bids for its property insurance. GPA is required under its Bond Indenture to maintain such insurance. At that time, the PUC did authorize the invitation for bids. However, since the cost was unknown then, PUC required GPA to come back to the Commission for final approval when the cost of the insurance contract was known. GPA has essentially had one vendor for its property insurance. It did make efforts to solicit more offers or widen the potential number of bidders. At the pre-bid conference, GPA did receive interest from other vendors. However only one bidder, the incumbent AM Insurance, submitted a bid. This insurance is for boilers, machinery, property, replacement, and terrorism insurance etc. The prior Order in this Docket covered the types and terms of insurance covered. Originally GPA indicated that the cost of the insurance would be between \$6 and 7M per year. But AM's insurance bid was \$5.4M. Annual prices of insurance between 2008 and 2014 have ranged between \$5.2M and \$5.4M. The price of this year's policy is \$64,000 over the 2013 contract.

GPA's Risk Management Consultant, Grennan & Associates, has confidence in AM's team (which includes Norick Risk Funding Concepts and Lloyds and Partners). The same team has been providing insurance to GPA over the last twenty years. Counsel concludes that the award of property insurance to AM in the amount of \$5.406M is reasonable, prudent and necessary; the Commission should approve the policy award requested. Commissioner Perez asked how many parties expressed interest in the pre-bid conference. GPA CFO Randy Wiegand indicated five or six. Commissioner Montinola asked whether even with a sole bidder, the premiums have been going down, declining. CFO Wiegand indicated that the premium rates have been going down because a replacement value for GPA equipment in the system, the replacement value, has gone up. The cost per thousand has gone down. The overall premium is increasing. Mr. Wiegand clarified that the annual cost for the insurance is \$5.4M. Commissioner McDonald asked if though the agreement is for three years, what happens in the event that GPA purchases new equipment within those three years. Mr. Wiegand indicated that in such case the premium would go up, but the rate would stay the same. GPA Counsel Botha indicated that the premium would go up based on



whatever dollar value GPA has insured. Commissioner Montinola clarified that the cost per thousand would stay the same. Commissioner Montinola asked what the policy was insuring. CFO Wiegand indicated that all property except for transmission and distribution lines is insured. The cap on the insurance is \$300M. Commissioner Pangelinan asked whether the underwriting companies were multiple. CFO Wiegand indicated that yes, Moylan's locally and reinsurance agreement with Lloyds of London. AM Insurance is the broker. Upon motion duly made, seconded, and unanimously carried, the Commissioners approved the award of the property insurance contract to AM Insurance in the amount of \$5.4M and adopted the Order made *Attachment "E"* hereto.

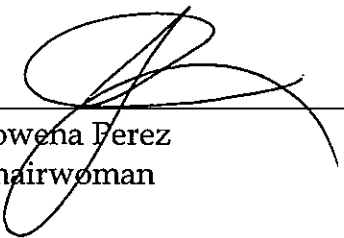
The Chairwoman announced that the next item on the agenda was GPA Docket 13-05, Petition for Installation of GPA Oxidation Catalysts Retrofits for Diesel Units, PUC Counsel Report and Proposed Order. PUC Counsel indicated that this matter had previously been before the Commissioners; the request for the equipment for the catalysts that would be placed on the ten diesel plants had been approved by the PUC. This all arises out of the RICE MACT Rules imposed by the US EPA; the Commissioners discussed these rules in some detail in May of this year, the history of the requirements and GPA's compliance efforts.

The Commission approved roughly \$2.4M for the cost of the catalysts which GPA had purchased through the Miratech Company out of Hawaii. At that time, however, the cost of installation, certain civil works, stack work etc., was unknown. GPA then went out to procure a company to install the catalysts for the diesel plants. There was only one bidder: Smithbridge Company on Guam. This company bid approximately \$1.1M to install the catalysts retrofits. GPA now asks for approval of the award to Smithbridge so that Smithbridge can install the catalysts in time. The compliance deadline is May 30, 2014. Previously, GPA had estimated the total cost at around \$5.5M; now it appears that the entire project can be done for \$4.2M. It seems appropriate for the Commission to approve the award to Smithbridge because the Commission had already determined that GPA is attempting to comply with the RICE MACT Rules; if GPA fails to comply, there is the possibility of fines from the US EPA. These fines could be \$37,000.

This is a logical extension of the prior Order to allow GPA to proceed with a contractor to retrofit the oxidation catalysts. In the Order, the determinations would find that the compliance with the RICE MACT Rules is necessary. Other equipment includes the continuous parameter monitoring system that records temperature, differential pressure, engine output, engine status etc. Compliance with the RICE MACT Rules is necessary, so there is not much alternative here. The Order prepared would approve the award for Smithbridge of approximately \$1.1M and also the total compliance project up to \$4.22M. Commissioner Perez asked whether this was part of the listing for the recent base rate case. CFO Wiegand stated that no, these amounts were in the short-term borrowing. GPA had indicated that it was able to bring the rates down because this project was taken out of the rate case and put into the short-term borrowing rate.

Commissioner Perez clarified that the total amount requested for compliance was \$4.2M. Legal Counsel Botha confirmed that price for the ten diesel units. Commissioner Perez asked if this would be completed by the deadline of May 30, 2014 and whether this was the last extension from US EPA. AGMO Camacho indicated that it was the last and only extension. Legal Counsel Botha indicated US EPA's position is that if GPA doesn't comply, it must shut down the plants. GPA is confident about the equipment. Hawaii Electric used the same catalyst supplier [Miratech] and 19 units have been completed in Hawaii with no issues. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the award of the contract for installation of the catalytic converters to Smithbridge Co. in the amount of \$1.1M, and total project cost of \$4.2M; the Order made *Attachment "F"* hereto was approved.

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



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Rowena Perez  
Chairwoman

**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION  
REGULAR MEETING  
SUITE 202, GCIC BUILDING  
414 W. SOLEDAD AVE. HAGATNA, GUAM  
7:00 p.m., October 29, 2013**

**Agenda**

- 1. Approval of Minutes of September 24, 2013**
- 2. Guam Power Authority**
  - GPA Docket 13-15, FY2014-2016 Construction Budget, Lummus Report, Proposed Order
  - GPA Docket 13-16, FY2014 CIP Ceiling Cap Request, Lummus Report, Proposed Order
  - GPA Docket 13-04, Petition to Approve Insurance Contract for Property Insurance, PUC Counsel Report, Proposed Order
  - GPA Docket 13-05, Petition for Installation of GPA Oxydation Catalysts Retrofits for Diesel Units, PUC Counsel Report, Proposed Order
- 3. Guam Waterworks Authority**
  - GWA Docket 13-01, Petition of Guam Waterworks Authority for Rate Relief, ALJ Report, Proposed FY2014 Rate Decision
- 4. Administrative Matters**
- 5. Other Business**



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

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

**GWA DOCKET 13-01**

**RATE DECISION**

**INTRODUCTION**

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

**BACKGROUND**

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

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

## DETERMINATIONS

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

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

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

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

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

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

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

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

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

### **ORDERING PROVISIONS**

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

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

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

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

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

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

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

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

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

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

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

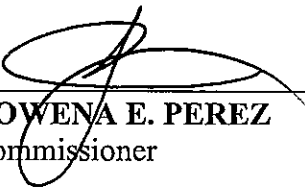
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**JEFFREY C. JOHNSON**  
Chairman



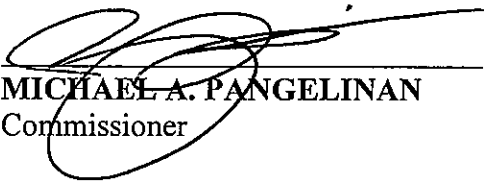
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**JOSEPH M. MCDONALD**  
Commissioner



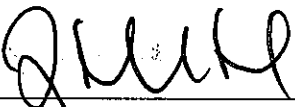
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**ROWENA E. PEREZ**  
Commissioner



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**MICHAEL A. PANGELINAN**  
Commissioner



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**PETER MONTINOLA**  
Commissioner

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**FILOMENA CANTORIA**  
Commissioner

P134097.JRA



## FINAL STIPULATION – FOR SUBMISSION TO THE GPUC

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

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

The Parties make the following recommendations in this Stipulation.

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

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

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

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

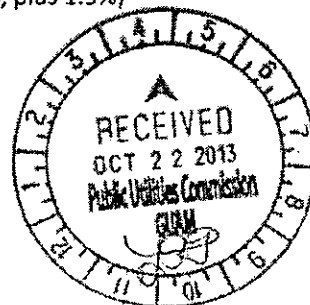
2. To further reduce UAW losses, GWA and Lummus Consultants agree that water and sewer metered sales (and thereby related revenues) should be based on a continuation of the 7.50% increase agreed to in the 2013 true-up stipulation and that it should continue throughout the five years of the current plan.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

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

**LUMMUS CONSULTANTS**  
INTERNATIONAL, INC.

  
GUAM WATERWORKS AUTHORITY

**EXHIBIT A**



## FINAL STIPULATION – FOR SUBMISSION TO THE GPUC

- FY2018 ----- 12.0%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## FINAL STIPULATION – FOR SUBMISSION TO THE GPUC

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

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

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

## FINAL STIPULATION – FOR SUBMISSION TO THE GPUC

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

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

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

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

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

## FINAL STIPULATION - FOR SUBMISSION TO THE GPUC

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

**The Guam Waterworks Authority**

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

Date: 10/10/2013

**Lummus Consultants International Inc.:**

Kathleen A. Kelly  
Kathleen A. Kelly  
Vice President

Date: October 18, 2013



GPA's FY2014 Construction Budget includes externally funded bond projects in the amount of \$28,816,000 which have previously been approved under the Contract Review Protocol. However, GPA includes additional projects in the amount of \$26,100,000 which will be externally funded through "Short term Bond Financing." The short term bond financing has not yet been approved by the PUC. The short term financing is the subject of GPA Docket 13-07, Commercial Paper Program. GPA now anticipates that the projects it originally intended to be financed with commercial paper will now be funded through short term bond financing.<sup>6</sup>

At such time as GPA seeks approval of its short term bond financing program, all programs or projects for which GPA seeks funding under GPA Docket 13-07 must have approval under the Contract Review Protocol. GPA must demonstrate that such projects have either already been approved under the Contract Review Protocol, or provide the necessary justifications under the Contract Review Protocol.

Lummus Consultants, Consultant to the PUC, filed its Report in this matter on October 22, 2013.<sup>7</sup> The Report confirms that the PUC has already approved the externally funded bond projects in the contract review process.<sup>8</sup> Lummus indicates that GPA should provide detailed information to the PUC on each project included within the Construction Budget, including a description of the project and a justification therefor, a prioritization of all projects, explanation of how financial estimates were developed, impact of the project on service delivery and increased productivity, consideration of alternatives, and costs/benefits.<sup>9</sup>

Previously, in the Contract Review process, GPA did provide detailed descriptions with financial estimates and cost/benefit analyses, for the 1999 and 2010 bond funded projects included in the FY2014 Construction Budget. However, it is not yet clear that GPA has provided the information required by the Contract Review Protocol and the Lummus Report for the projects for which short term bond financing is sought. PUC will need to make a determination as to whether the proper information has been provided in the context of GPA Docket 13-07.

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<sup>6</sup> GPA Amended Petition, GPA Docket 13-07, filed August 2, 2013.

<sup>7</sup> Lummus Consultants Report (Review of FY2014 GPA Construction Budget), GPA Docket 13-15, filed October 22, 2013.

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

<sup>9</sup> Id. at p. 2-3.



### **ORDERING PROVISIONS**


Upon consideration of the record herein, the Petition of GPA, the Lummus Consultants Report, and for good cause should, upon motion duly made, seconded, and carried by the affirmative vote of the undersigned Commissioners, the Commission hereby ORDERS that:

1. Approval by the PUC of the FY2014 Construction Budget is not required under the Contract Review Protocol.
2. GPA's FY2014 Construction Budget includes externally funded bond projects in the amount of \$28,816,000 which have previously been approved under the Contract Review Protocol. However, GPA includes additional projects in the amount of \$26,100,000 which will be externally funded through "Short term Bond Financing." The short term bond financing has not yet been approved by the PUC.
3. It is not yet clear that GPA has provided the information required by the Contract review Protocol and the Lummus Report for the projects for which short term bond financing is sought. PUC will determine a whether the proper information has been provided in the context of GPA Docket 13-07.
4. In GPA Docket 13-07, GPA shall be required to demonstrate that it has provided the project information required under the Contract Review Protocol and the Lummus Report for each project for which it seeks short term bond financing.
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 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 29<sup>th</sup> day of October, 2013.

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Jeffrey C. Johnson  
Chairman

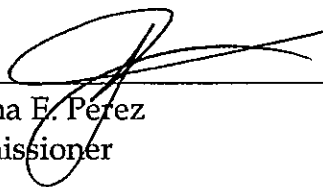


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Joseph M. McDonald  
Commissioner

Order  
GPA Filing  
FY2014 Construction Budget  
GPA Docket 13-15  
October 29, 2013

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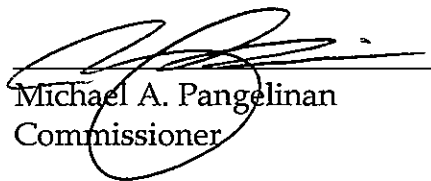
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Rowena E. Perez  
Commissioner



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Peter Montinola  
Commissioner



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Michael A. Pangelinan  
Commissioner

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF: )  
 ) GPA Docket 13-16  
 )  
The Application of the Guam Power )  
Authority to Approve the FY2014 GPA ) ORDER  
CIP Ceiling Cap )  
 )  
\_\_\_\_\_ )

**INTRODUCTION**

This matter comes before the Guam Public Utilities Commission [PUC] upon GPA's Petition for Request for Approval of FY2014 GPA CIP Ceiling Cap, filed September 23, 2013. Therein, GPA requests PUC approval of its FY2014 Capital Improvement Project Ceiling Cap, which consists of General Plant, in the amount of \$7,363,110 (not including line extension projects).<sup>1</sup> The Guam Consolidated Commission on Utilities [CCU] has approved the FY2014 Capital Improvement Project Ceiling Cap requested by GPA.<sup>2</sup>

**BACKGROUND**

Lummus Consultants, the Commission's Independent Consultant, filed its Report on October 22, 2013, in GPA Docket 13-15. That Report touches on some aspects of the CIP Ceiling Cap.<sup>3</sup> The Contract Review Protocol for the Guam Power Authority requires that GPA's annual level ("cap") of internally funded Capital Improvement Projects ("CIP") be set by the PUC before November 15<sup>th</sup> of each fiscal year.<sup>4</sup>

The CIP Cap proposed for FY2014 is generally consistent with the CIP Cap levels of prior years. The FY 2013 Cap was \$10,135,760 without line extensions. The total amount of the GPA internally funded capital budget for FY2012 was \$14.9, which included \$4.761M in internally-funded line extensions.<sup>5</sup> However, the Contract Review Protocol does not require PUC approval of such internally funded line extensions and blanket job orders.<sup>6</sup>

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<sup>1</sup> GPA Request for Approval of FY2014 CIP Ceiling Cap, GPA Docket 13-16, filed on September 23, 2013.

<sup>2</sup> Guam Consolidated Commission on Utilities Resolution No. 2013-46, adopted September 17, 2013.

<sup>3</sup> Lummus Consultants Report, GPA Docket 13-15, [Review of GPA FY2014 Construction Budget], filed October 22, 2013.

<sup>4</sup> §1.F of the Contract Review Protocol, at p. 2.

<sup>5</sup> PUC Order, GPA Docket 12-11, issued October 30, 2012.

<sup>6</sup> §1.A of the Contract Review Protocol.

In comparing GPA's proposed CIP Cap with prior years, the FY2014 Ceiling Cap is generally consistent. The cap in FY2012 was \$13.581M; \$5M in FY2011.

The CIPs included within the Cap are for "general plant." The expenditures are for computers, office equipment, plant improvements and other items.<sup>7</sup> None of the projects listed exceed the \$1.5M threshold.<sup>8</sup> Lummus suggests that, with regard to each internally funded CIP project, for each major category a project description should be provided in order to allow more refined review of the investments proposed.<sup>9</sup>

### **DETERMINATIONS**

Based upon the recognition that the FY2014 general plant budget is consistent with that of prior fiscal years, and subject to GPA's ability to carry out the capital improvement projects using internally-funded dollars, the \$7,363,110 Ceiling Cap should be approved.

The PUC finds that GPA's FY2014 Internally funded CIP ceiling cap, consisting of general plant in the amount of \$7,363,110, should be approved. Such CIP cap is reasonable, prudent and in the interest of the rate payers.

### **ORDERING PROVISIONS**

Upon consideration of the record herein, the Petition of GPA, the Lummus 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. The GPA FY2014 internally funded CIP ceiling cap, which consists of General Plant, is approved in the amount of \$7,363,110.
2. The General Plant budget is consistent with prior budgets and appears reasonable; no prudency concerns are noted.

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<sup>7</sup> The Guam Power Authority Filing of the FY2014-2016 GPA Construction Budget, GPA Docket 13-16, filed September 23, 2013.

<sup>8</sup> Id. at Attachment 1.

<sup>9</sup> Lummus Consultants Report, GPA Docket 13-15, [Review of GPA FY2014 Construction Budget], filed October 22, 2013, at p. 2.

3. GPA shall file a complete reconciliation of the FY2013 expenditures on or before December 1, 2013, as required by the Contract Review Protocol.
4. 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 29<sup>th</sup> day of October, 2013.

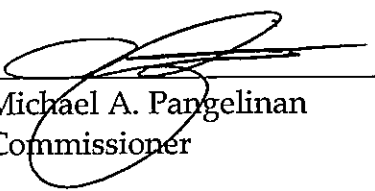
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Jeffrey C. Johnson  
Chairman



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Rowena E. Perez  
Commissioner



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Michael A. Pangelinan  
Commissioner



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Joseph M. McDonald  
Commissioner



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Peter Montinola  
Commissioner

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF: )

GPA DOCKET 13-04 )

THE PETITION OF THE GUAM )  
POWER AUTHORITY FOR APPROVAL )  
OF INSURANCE CONTRACT WITH )  
AM INSURANCE )  
\_\_\_\_\_ )

ORDER

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority ["GPA"] Petition for Approval of Insurance Contract with AM Insurance.<sup>1</sup>
2. The new Property Insurance Policy, if approved by the PUC, would commence on November 1, 2013, as the present policy is expiring.<sup>2</sup>

BACKGROUND

3. In its Order issued May 25, 2013, the PUC authorized GPA to issue an invitation for bids for a property insurance policy. The basis for this Order was the requirement in GPA's Bond Indenture which requires GPA to "secure and maintain property insurance on all facilities constituting the system against risks of loss or damage to the extent that such insurance is obtainable at reasonable cost..."<sup>3</sup>
4. However, since the cost of the insurance policy was unknown, the PUC required GPA to secure approval for the final award of the contract when the price was established.<sup>4</sup>
5. Subsequent to PUC authorization for the insurance bid, based upon a concern about a lack of competition for its insurance business, GPA conducted a vendor outreach and took other steps to increase competition for its insurance solicitation. However, upon issuance of the Invitation for Bids, GPA only received one bid in response to its solicitation, which was from its incumbent provider AM Insurance.<sup>5</sup>

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<sup>1</sup> GPA Petition for Approval for Insurance Contract with AM Insurance, GPA Docket 13-04, filed October 14, 2013.

<sup>2</sup> Id. at p. 1.

<sup>3</sup> PUC Order, GPA Docket 13-04, issued May 28, 2013. See Determinations.

<sup>4</sup> Id. at Ordering Provision No. 3.

<sup>5</sup> Letter dated October 14, 2013, from GPA GM Joaquin Flores to PUC ALJ Frederick Horecky, Re: Property Insurance, GPA Docket 13-04.

6. On October 8, 2013, the Guam Consolidated Commission on Utilities ["CCU"] approved the AM Insurance policy and the award to AM in the amount of \$5.406M. The CFO was authorized to execute a financing agreement to allow payments to be made over a period of less than twelve months at no greater than 4.5% interest.<sup>6</sup> The contract will be in effect for a period of three (3) years.<sup>7</sup>
7. PUC Counsel issued his Report herein on October 16, 2013.
8. GPA requests that the PUC approve its property insurance contract with AM Insurance.

### DETERMINATIONS

9. GPA is required by its Bond Indenture Agreement to maintain insurance coverage. It must have a policy in place to replace its present policy, which expires on November 1, 2013.
10. In its initial petition herein, GPA estimated that the projected cost of the property insurance policy would be "between \$6-\$7M per year."<sup>8</sup> The actual contract award is \$5.4M. While the price is \$64,000 more than the 2013 contract, the prices for the insurance between 2008 and 2014 have varied between \$5.237M and \$5.406M, in the range of \$170,000.<sup>9</sup> Thus, the price for the proposed policy is in line with that of recent policies.
11. GPA's Risk Management Consultant, Grennan & Associates, recommends approval of the AM Insurance Proposal. It finds that the AM team, which includes Norick Risk Funding Concepts and Lloyds & Partners, JLT, is competent and has provided GPA with insurance coverage for over twenty years. AM is in compliance with all

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<sup>6</sup> Guam Consolidated Commission on Utilities Resolution No. 2013-48, Issued October 8, 2013.

<sup>7</sup> GPA Petition for Approval of Insurance Contract for AM Insurance, GPA Docket 13-04, filed October 14, 2013, at p. 1.

<sup>8</sup> GPA Petition for Approval of Insurance Invitation for Bids, GPA Docket 13-04, filed May 14, 2013, at p. 1.

<sup>9</sup> Letter dated October 14, 2013, from GPA GM Joaquin Flores to PUC ALJ Frederick Horecky Re: Property Insurance. GPA Docket 13-04.

requirements of the IFB. Its property policy is acceptable with only a few minor changes.<sup>10</sup> The PUC adopts the recommendation of Grennan & Associates.

12. Based upon the foregoing considerations, GPA's proposed property insurance program is reasonable, prudent, and necessary. The PUC approves GPA's insurance contract with AM Insurance for the policy period beginning November 1, 2013 through November 1, 2016.

### **ORDERING PROVISIONS**

After review of the record herein, GPA's Petition for Approval of Insurance Contract with AM Insurance, and the PUC Counsel Report, for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. GPA's Petition for approval of the contract for property insurance policy with AM Insurance, for the period of November 1, 2013, to November 1, 2016, is hereby approved.
2. GPA is authorized to enter into the property insurance policy with AM Insurance.
3. GPA shall file a copy of its property insurance contract with the PUC.
4. 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.

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<sup>10</sup> Grennan & Associates Inc., Review and Survey of AMI Property Proposal [attached to GPA's Petition herein]



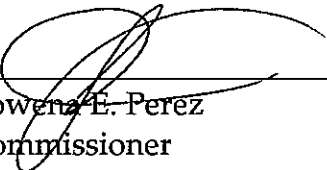
Order  
GPA Petition for Approval of  
Insurance Contract with AM  
Insurance  
GPA Docket 13-04  
October 29, 2013

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Dated this 29th day of October, 2013.

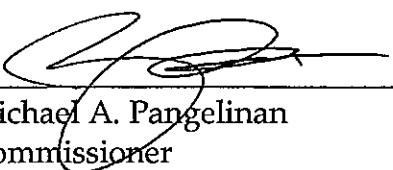
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Jeffrey C. Johnson  
Chairman




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Rowena E. Perez  
Commissioner



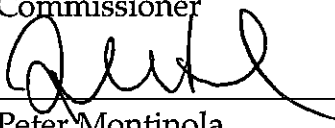
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Michael A. Pangelinan  
Commissioner



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Joseph M. McDonald  
Commissioner



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Peter Montinola  
Commissioner

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:

GUAM POWER AUTHORITY'S  
REQUEST TO APPROVE CONTRACT  
FOR INSTALLATION OF GPA  
OXIDATION CATALYSTS RETROFITS  
FOR DIESEL UNITS

GPA DOCKET 13-05

ORDER



INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon Guam Power Authority's ["GPA"] Petition for Approval of Contract for Installation of Oxidation Catalysts Retrofits for RICE MACT compliance for the diesel peaking units with Smithbridge Guam Inc.<sup>1</sup>

BACKGROUND

2. GPA currently operates and maintains 10 diesel peaking units, located at the Tenjo Vista, Talofofo and Manenggon power plants, where power is generated by reciprocating internal combustion engines (RICE) which burn diesel fuel.<sup>2</sup>
3. Previously in this Docket, GPA requested that PUC authorize the procurement of oxidation catalysts and other equipment so that RICE MACT compliance could be achieved.<sup>3</sup>
4. The Order, issued by the PUC on May 28, 2013, traced the history of the US EPA's RICE MACT requirements and GPA's compliance efforts. Through its consultant TRC, GPA had contracted Miratech to provide the necessary materials and equipment for the project. The total project cost, including structural and civil works, was estimated at \$5.5M.<sup>4</sup>
5. PUC found that GPA had limited options for meeting the RICE MACT standards. The diesel units were determined to be important assets for maintaining the reliability of the GPA electrical system.<sup>5</sup>

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<sup>1</sup> GPA Petition for Contract for approval of Contract for Installation of Oxidation Catalysts Retrofits for RICE MACT Compliance for the Diesel Peaking Units, GPA Docket 13-05, filed October 13, 2013.

<sup>2</sup> Id. at p. 1.

<sup>3</sup> PUC Order, GPA Docket 13-05, issued on May 28, 2013, at p. 1.

<sup>4</sup> Id. at p.2.

<sup>5</sup> Id.

6. While PUC approved the purchase of equipment in the amount of \$1.495M, it could not rule on the reasonableness of the remaining sums needed to modify existing structures and to conduct the civil works as the cost was unknown.<sup>6</sup> GPA was ordered to file with the PUC details concerning such further costs when known.<sup>7</sup>
7. Thereafter, GPA issued an IFB, Bid No. GPA-074-13, for a contractor to retrofit the oxidation catalysts at the diesel plants. There was only one bidder, Smithbridge Guam Inc. The GPA Evaluation Committee determined that Smithbridge was the lowest responsible and responsive bidder.<sup>8</sup>
8. In Resolution No. 2013-47, the CCU approved the award for installation of the Catalysts Retrofits to Smithbridge, determining that the award was reasonable, prudent, and necessary. The General Manager was authorized to enter into a contract with Smithbridge, and to expend up to the amount of \$1,096,853.72 for the contract.<sup>9</sup>
9. GPA now seeks approval of the contract award by the PUC. PUC Counsel submitted his Report herein on October 19, 2013.<sup>10</sup>

#### DETERMINATIONS

10. In support of its application, GPA has submitted, along with its Petition, "GPA Memorandum dated October 9, 2013, Re: RICE MACT Compliance Project."<sup>11</sup> The Memorandum explains the function of the oxidation catalyst and the Continuous Parameter monitoring System [CPMS]. The CPMS monitors and records the temperature, differential pressure, engine output and engine status.<sup>12</sup>
11. The primary justification for the award of the contract is that retrofitting the diesel peaking units is necessary to comply with the US EPA RICE MACT requirements.

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

<sup>7</sup> Id. at p. 4.

<sup>8</sup> Consolidated Commission on Utilities Resolution No. 2013-47, issued October 8, 2013.

<sup>9</sup> Id. at p. 2.

<sup>10</sup> PUC Counsel Report, GPA Docket 13-05, dated October 19, 2013.

<sup>11</sup> GPA Memorandum dated October 9, 2013, Re: RICE MACT Compliance Project [prepared by Joven Acosta, Chief of Engineering, and attached to the Petition].

<sup>12</sup> Id.

Non-compliance would result in fines of \$37,500 per day per engine in operation after May 3, 2014.<sup>13</sup>

12. GPA has also submitted a Cost-Benefit Analysis which shows that the cost of implementing the compliance program will be less than cost of failing to comply with the RICE MACT rules. If the RICE MACT repairs are not done, and the diesel plants retired, there would be additional annual fuel costs of \$1,975,000 through reliance on combustion turbine generators. If GPA ignored the RICE MACT rules and simply continued to run the diesels, it bears the risk of annual penalties up to nearly \$13.7M per year (365 days times \$37,500 per day).<sup>14</sup>
13. GPA believes that the selected alternative will insure that GPA has the required generation capacity, thereby avoiding load shedding and enabling GPA to deploy the units with the best operating efficiencies to minimize costs to the ratepayers.<sup>15</sup>
14. The PUC should approve GPA's award and Contract for Installation of Oxidation Catalysts Retrofits for RICE MACT compliance with Smithbridge Guam Inc.
15. GPA should be authorized to expend up to \$1,096,853.72 for the Smithbridge contract, and a total of \$4,220,000 for the compliance project for the ten (10) diesel units indicated.
16. GPA should file with the PUC a copy of the executed contract with Smithbridge.

### ORDERING PROVISIONS

After careful review and consideration of the above determinations, the GPA Petition for Approval Contract for Installation of Oxidation Catalysts Retrofits for RICE MACT compliance, the PUC Counsel Report, 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. GPA's award and Contract for Installation of Oxidation Catalysts Retrofits for RICE MACT compliance with Smithbridge Guam Inc. is hereby approved.
2. GPA is authorized to expend up to \$1,096,853.72 for the Smithbridge contract, and a total of \$4,220,000 for the compliance project for the ten (10) diesel

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<sup>13</sup> Id.

<sup>14</sup> Id.

<sup>15</sup> Id.

units indicated.

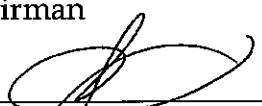
3. GPA shall file with the PUC a copy of the executed contract with Smithbridge.
4. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of the PUC's 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.

Dated this 29th day of October, 2013.

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Jeffrey C. Johnson  
Chairman

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Rowena E. Perez  
Commissioner

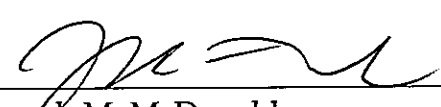
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Michael A. Pangelinan  
Commissioner

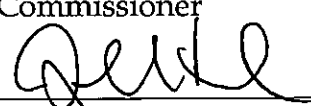
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Joseph M. McDonald  
Commissioner

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Peter Montinola  
Commissioner