GUAM PUBLIC UTILITIES COMMISSION
SPECIAL MEETING
DECEMBER 30, 2013
SUITE 202, GCIC BUILDING, HAGATNA

MINUTES

The Guam Public Utilities Commission [PUC] conducted a special meeting commencing at 6:40 p.m. on December 30, 2013, pursuant to due and lawful notice. Commissioners Johnson, Perez, McDonald, Pangelinan, Montinola, Cantoria, and Niven 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 item of business on the agenda was approval of the minutes of November 26, 2013. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the minutes subject to correction.

2. Guam Waterworks Authority

The Chairman announced that the next item of business was GPA Docket 14-01, Contract for Implementation of Customer Information System, Slater Nakamura Report, and Proposed Order. Counsel indicated that the Commissioners already considered the same software and billing program with regard to GPA. At the last meeting, PUC approved roughly $2.7M so that GPA could implement the CC&B software system through Oracle. The software system for GWA was not considered at that time because GWA had not indicated a funding source for its portion of the software. While the contract is between GPA and Wi-Pro, the software can also be used for GWA. GWA and GPA have a Memorandum of Understanding to work together so that the software can be implemented at both utilities.

Since the last meeting, GWA indicated, through its General Manager Martin Roush, that the funding source for the GWA portion of the CC&B project was the Series 2010 Bonds from the "General Plant Improvement / Miscellaneous" allocation. GWA's total cost is $870,000. Counsel has reviewed the portion of the contract that deals with GWA and also met with GWA's IT Manager, Mr. Torres, who was responsible for implementation. GWA has presented a good justification for using the software. GWA's system is an old legacy system from 1995, out of date; GWA needs to update its billing software. The billing software is no longer usable. GWA hopes that the new improved process in billing will also bring improved customer satisfaction and confidence in GWA.

The Commission approved the GPA software and billing upon the condition that GPA was required to comply with certain conditions: the contract retention amounts were supposed to be increased from 5% to 10%; and issues resolved concerning the risk management program and the post-live care. These conditions should also apply to

GWA. Upon motion duly made, seconded and unanimously carried, the Commissioners approved GWA's expenditure of $870,000 for the software and billing implementation program with Wi-Pro, and adopted the Order made *Attachment "B"* hereto.

The Chairman announced that the next item on the agenda was GWA Docket 13-01, Petition of GWA for a $2.16M increase for PMO Contract, ALJ Report, and Proposed Order. Counsel indicated that this application was previously before the Commission at the end of July. ALJ Mair referred the matter to Lummus in August. However, due to other workload, the report was received from Lummus in December.

There have already been previous increases in the Program Management Office Budget. The original amount approved in 2012 was $3.2M. In April 2013, the PUC approved an additional $1.2M. Now, GWA requests an additional $2.16M increase. Lummus has recommended that the request be approved, primarily because the amounts are needed by GWA to support projects designed to comply with the District Court Stipulated Order and the various water and wastewater projects that are required under the Stipulated Order. The Legislature has passed a resolution approving the amounts.

The ALJ has found that the request is supported by specific work authorizations which cited the increased amounts for each project and the different projects supported, such as the wastewater system evaluation for Umatac and Merizo, work on the Hagatna wastewater treatment plant, and the Agat, and Santa Rita water treatment plants and Baza Garden wastewater system evaluations. These Projects are required to be completed under the Stipulated Order. According to Lummus, the PMO could monitor and manage these projects. However, more cost information is needed on the amount of the budgets, the amounts expended to date, and the percentages of work completed, etc.

The Proposed Order states reporting requirements that GWA would have to undertake. It would approve the $2.16M increase. GWA would be required to file with PUC reports describing project categories including the anticipated spending per year, a plan indicating allocation of budgets and the actual spending to date, with an assessment of project percentage completion. Reports will be due January 15, 2014, and subsequent reports by March 15 and May 15, 2014. GWA should be required to file monthly reports generated by the PMO to track progress and to provide copies to the ALJ and the PUC Consultants. The Chairman asked whether GWA would have any difficulty in meeting the schedule on the reports. GWA representatives indicated that it would not. Upon motion duly made, seconded and unanimously carried, the Commissioners authorized the $2.16M increase in GWA's PMO Contract and adopted the Order made *Attachment "C"* hereto.

The Chairman announced that the next item of business was GWA Docket 11-01, Request by GWA for Approval of Bond Projects funded by the 2010 Series Bond, and Proposed Order. Counsel indicated that the main purpose of the Proposed Order was to put to rest the issues in the litigation that previously had arisen between PUC and

GWA concerning the requirement that GWA pay the Government of Guam $20M for bond obligations. The Guam Legislature, in PL 32-69, deleted the repayment obligation of GWA from the law. The Legislature found that, if in fact GWA had to pay this $20M back to the Government of Guam, the obligation would simply be passed on to the ratepayers and cause inappropriate or heavy increase and burden on the ratepayers. Therefore, the Legislature decided to eliminate the requirement completely.

PUC previously had issued orders in this Docket approving certain bond spending by GWA but also required GWA to retain $20M in reserve to repay its obligation to the Government of Guam. The Legislature has now essentially mooted the prior litigation between GWA and PUC by removing the requirement for payment for the $20M. When the PUC implemented its Orders requiring repayment by GWA, GWA took PUC to Court for a judicial interpretation of the law. However, the new Legislation moots out any issue in the lawsuit. The Attorneys for PUC and GWA have been discussing how this case could be resolved and whether PUC would enter an Order vacating its prior Orders that had required payment of the $20M.

The Proposed Order in this case would vacate the prior July 30, 2012 Orders. Those were the Orders which required GWA to pay the $20M to the Government of Guam. Counsel indicated that the Order herein would put the entire matter to rest as far as the litigation goes. Commissioner Niven asked whether there would be any rate impact. Counsel indicated that there would not. Upon motion duly made, seconded and unanimously carried, the Commissioners agreed to vacate the prior Orders requiring GWA to pay a $20M obligation to the Government of Guam, and adopted the Order made *Attachment "D"* hereto.

3. Guam Power Authority

The Chairman indicated that the next item on the agenda was GPA Docket 14-02, Petition for Contract Review for Extension of the R. W. Armstrong PMO Contract, Georgetown and Lummus Reports, and Proposed Order. In 2012 the PUC approved the initial PMO contract in the amount of $3.9M. That amount was supposed to last for three years, but apparently has ended up only being for two years. When the PMO was approved, it was primarily for Capital Improvement Projects, Military Buildup, and other purposes.

In the Petition, GPA requested approval of $3.9M for a one year PMO Contract extension. For the source of funding, GPA has proposed that the entire amount would be funded from the LEAC, the Levelized Energy Adjustment Clause. However, both of the PUC Consultants felt that LEAC was not an appropriate funding source for the type of expense proposed. There have been prior PUC Orders, for example, approving a $400,000 wind study under LEAC. As a general matter, both Lummus and Georgetown felt that the PMO Contract expenses are not appropriately covered under LEAC. LEAC is primarily for direct fuel costs passed through to ratepayers. GPA is allowed to pass the actual fuel cost through to the ratepayers. Certain administrative costs relating to delivery of fuel are also passed through.

The primary issue here is that LEAC is not the appropriate funding source for the PMO Contract with R. W. Armstrong. However, as a one-time exception, PUC could allow certain costs related to consulting services for LNG, Liquefied Natural Gas, to be passed through to customers in LEAC. There are three tasks that GPA addresses in its funding request. The first is the Program Management Office. It covers many things that are not directly related to LNG, including web-based issues, general management, capital improvement projects, etc. There is only a weak argument for including PMO tasks in the LEAC costs. PUC is not necessarily saying that GPA can't have a PMO or that there is not an appropriate funding source. GPA will likely have to find another source of funding.

Task 2 proposed by GPA related to the implementation of the plan for LNG. This particular task arose in part from the prior PUC Order wherein GPA was ordered to provide an implementation plan for LNG to the PUC, report to the PUC and answer questions concerning the feasibility of other potential fuel sources such as ethanol and DME, and to indicate the time schedule for implementation for technical issues. Task 3 also covers a lot of issues related to the planning for LNG. This is a very complicated process because GPA must determine when to retire existing plants, when to build new plants, what combination of fuel sources to use, and timing issues. GPA has a daunting task before it. A temporary solution is that LEAC could "temporarily" fund, for this year only - 2014, roughly $1,022,500 in cost for Tasks 2 and 3 specifically. This is a pressing situation as GPA needs to move ahead quickly with the LNG planning process. GPA has been ordered by the PUC to provide an implementation plan. GPA will also be able to come back again for the next LEAC to propose any additional amounts. But, there is no agreement on the amount at this time. Any amounts requested would have to be under Tasks 2 and 3, not the PMO.

There is also a justification based upon something of an emergency situation - GPA did not budget any amounts for the LNG work/implementation. PUC Consultants have approved a one-time exception funding related project costs through the LEAC for FY2014. Any amounts funded for consultants from LEAC may have to be repaid to LEAC. The Commissioners may want to consider this issue further. However if refunding to the LEAC is required, ultimately ratepayers would have to pay the cost one way or the other. Ratepayers would either pay such cost through rates or through bond financing.

GPA must provide more of a justification for the proposed expenditure of $3.9M in one year. At such cost, five persons would be working eight hours per day for the entire year to come up with a total cost of $3.9M. GPA needs to provide more detail about the amounts of the budgets, the specific tasks, the justification for the proposed contract and the breakdown of costs within each task and for each subtask activity. Budgets and general reporting must be provided along with monthly reports by the PMO Armstrong.

Commissioner Niven asked whether the amount approved in the Order for the LEAC Account would be refunded to that account from bond proceeds, not refunded to ratepayers. Counsel indicated that it would. Counsel indicated that the Commission could go either way on whether it wishes GPA to refund the LEAC or not. The issue is whether the Commissioners think that it is important enough that the LNG cost should be paid for by customers now through the LEAC as a one-time expense. The Chairman pointed out that it was just a question of whether the cost would be paid for in base rates or LEAC. In an important matter, the LEAC is probably the only financial vehicle which GPA has immediately available to get this project started.

Commissioner Montinola asked what the rate impact upon LEAC would be including these amounts. GPA Counsel Botha stated that the amount originally included by GPA for the next LEAC was $1.9M. This resulted in a small decrease to the individual ratepayer's bill. If the amount is reduced to $1M, there would be a larger decrease in the LEAC. Commissioner Montinola asked whether the refunding would go into some other fund. Counsel further explained that if the amount were refunded, it would be taken out of a future LEAC factor. It would be like an offset against the LEAC charge. The LEAC factor would be reduced for some undetermined future period. There would be no actual transfer of funds or anything like that.

Commissioner Pangelinan clarified that there would have to be a calculation of the net impact on the ratepayers to make sure that the mechanism you have to refund LEAC does not end up increasing the burden on ratepayers. Requiring refund would create an additional burden on the ratepayers to pay for the refund. Commissioner Montinola also indicated that with bond funding you would have to pay principal and interest. The Chairman pointed out that another factor could also be potential need to increase working capital and to also cover the 1.75 debt service coverage. Commissioner Niven agreed that time is of the essence with Tasks 2 and 3. The Chairman concurred that it was important to proceed ahead on Tasks 2 and 3. Commissioner Cantoria wondered how the Task 1 cost of $1.9M would be funded. Counsel clarified that such cost would not be funded through LEAC.

GPA GM Kin Flores made a plea for the PMO services. PMO services are needed to prepare for face to face meetings with US EPA. He suggested that the PMO expenses in the filing were 100% dedicated to LNG and the IRP issue. It would be difficult for the GM to manage the issues of the LNG costs ($650M to $800M) without PMO assistance. GPA may not be able to have RWA go out and seek contractors to help on LNG issues without charging PMO services. However, there could be a slight overhead charge to recruit a subcontractor for expertise. GPA envisioned having these project level services managed programmatically, so that they are timed, synchronized, and synthesized and prioritized. Budgets and schedules for the overall program would be managed, not just individual sub-consultants under Tasks 2 and 3. There is also an issue about bond funds being used to pay back certain expenses. The strict bond authorization test is used by underwriters and bond counsel.

Not all expenses qualify for long term financing. Expenses associated with feasibility studies and economic studies, and not directly engineering designed for a hard asset, are not included as qualified bond expenses. If LEAC is to be reimbursed, then such expenses may have to come out of base rates as an O&M expense. GPA has proposed LEAC funding for some of the feasibility studies and consulting services that they do not impact an O&M budget as an expense. GPA is attempting to avoid a rate case increase. Only after GPA negotiated a final stipulation in the rate case did it flush out the $3.9M cost for the LNG application. The IRP had just been approved in the same timeframe. Commissioner Niven asked about the timeframe for a rate case to cover the costs in Tasks 1, 2, and 3. Counsel indicated that PUC has, *sua sponte*, initiated rate changes on its own where a utility came before it and requested expedited assistance for certain specific increased costs. There are methods of funding emergency charges.

Commissioner Niven clarified that, for an expedited proceeding, that would be a third path for funding (in addition to bond proceeds and LEAC). Counsel also pointed out that the argument against having a refund was that it will tax ratepayers because the funds have to come from somewhere. Either GPA is going to borrow them or obtain the funds through a rate increase. It does place a burden on GPA. The Commissioners may wish to decide that they will not require refunding in the Order. On the other hand, it is difficult to place PMO costs in LEAC. When one views the specific services listed under Task 1, they are very broad and refer to procurement support, CIP programs, communications, and plan management with GPA. There are many items that do not specifically appear to be related to LNG. If GPA wishes to fund a PMO, it simply must identify a funding source.

GM Flores further indicated that GPA was looking at the use of a Special Purpose Entity created specifically for LNG infrastructure, 120 to 200 megawatts of new combustion turbines for generation and other things, and pipelines, etc. The intent is to separate GPA's balance sheet from all of that debt. It would not burden GPA with the 1.75 debt service coverage margin. With a bond issuance, on top of the $80M for needed capital projects, there would be a requirement for $650M LNG projects subject to ratemaking targets. That will never work. It would be too much of a rate burden for ratepayers. With LEAC, the savings in fuel could pay for the debt service. With all the issues concerning permitting for generation, land siting and acquisition, scheduling and budgeting and scope of the work process, the GM believes that he needs management assistance on a problematic approach. The borrowing is necessary for projects that are necessary to keep the utility going for the next eight to ten years: substation overhauls, turbine overhaul, cyber security requirements beyond Smart Grid, replacement of the SCADA dispatch control center, etc. The communication lines have to be connected to Fadian for communications for the entire network.

The Chairman asked GM Flores how he foresaw the rate impact; as the switchover is made to LNG, there will be substantial capital expenses, $650M+. Over a five year period they would not see the potential benefits in reduction of fuel costs. The transition period of five years can be disconcerting. Will the PMO help GPA find a path through this so as to have a minimal rate impact? GM Flores said the PMO would play an essential role in the GPA team to guide it through this footpath. It is critical that the older units be replaced as soon as possible with new units. Load shedding could recur if the old units were retired without putting in new units.

Commissioner Niven asked whether GPA, although not proposing a traditional base rate increase for five years, could come to the PUC for approval of the rates that the SPE would charge. GM Flores indicated that there would be an agreement between the SPE and an IPP or a power production expert. GPA would pay for power production services and would pay the SPE for its debt. Commissioner Niven asked whether this would occur before the actual fuel savings are realized. GM Flores indicated that it would, because LNG would take at least seven or eight years to implement.

The Chairman indicated a concern of the Commissioners that funding done through LEAC somewhat disappears, it has "fewer eyes on it." GM Flores concurred. The Chairman further indicated that under base rates, matters get a lot more attention by the community as a whole. This is a concern the PUC Consultants and the Commissioners have even though it's more challenging to bring these matters through the base rates. Ultimately going through base rates may be the best way because the whole community is looking at that. The Chairman asked GM Flores whether, if the PUC approves the Order tonight, as written, GPA would do what the management services Task 1 piece? GM Flores indicated that some projects that were already vetted out in the rate case would have to take a back seat. GPA's operating expense budget will be impacted, even though GPA intended not to impact the budget. The other alternative is to obtain seed money in the next bond issue to cover such matters; that is before the PUC in the short term financing. The petition could be revised to include "seed money."

Commissioner Montinola asked whether the short term bond financing was proceeding ahead. Legal Counsel Botha of GPA stated that it does not appear so. Mr. Botha indicated that Senator Pangelinan has stated a preference to have a borrowing that combines the whole amount. It could be a $100M borrowing which includes the short term and long term financing in one borrowing. It would take a minimum of six to eight months to happen. Counsel suggested the possibility of a surcharge.

Commissioner Niven stated his belief that the justification for the PMO aspect in Task 1 was rather thin on the documentation. The surcharge approach could provide the possibility of further review after the fact of the actual expenses. Counsel concurred and indicated that a surcharge would require a lot of justification upfront. The Chairman felt that the issue of the surcharge would need to be examined more closely. The Commissioners clarified that under the Order, approximately $1M would be approved for now. Counsel added that, in the next LEAC, GPA could request an additional $1.22M, which would be subject to review. As to whether working capital could be a source of funds, Legal Counsel Botha of GPA indicated that the Chief Financial Officer and Assistant CFO would be reluctant to take more money out of working capital (as some working capital funds have been used and need to be paid back).

Commissioner Niven indicated that the Commission could either vote up or down on the Order as written or offer amendments. He felt that PUC should not delay everything too much and should approve at least the $1M through LEAC for the next six months. The Chairman concurred. Commissioner Niven moved the approval of the Order as written so that amendments could be entertained. Counsel indicated that the Commissioners should determine whether refunding should be included or not in the Order. Commissioner Pangelinan moved to amend the Order to provide that refunding may be required. Counsel indicated that Paragraph 5 of the Order would read: "To the extent that funds are included in the LEAC for FY2014, expenses for Tasks 2 and 3 may be a refunding mechanism to return such costs to the LEAC account.... The Commission may require that LEAC be reimbursed for the full amount of LNG related expenses past through to ratepayers of LEAC." Upon motion duly made, seconded and unanimously carried, the Commissioners approved the expensing of $1.22M for LNG consulting costs through LEAC and adopted the Order as amended made *Attachment "E"* hereto.

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

Jeffrey C. Johnson
Chairman

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION
SPECIAL MEETING
SUITE 202, GCIC BUILDING
414 W. SOLEDAD AVE. HAGATNA, GUAM
6:30 p.m., December 30, 2013

Agenda

1. Approval of Minutes of November 18, 2013, and November 26, 2013

2. Guam Power Authority
   - GPA Docket 14-02, Petition for Contract Review of Extension of R.W. Armstrong PMO Contract, Consultant Reports, and Proposed Order

3. Guam Waterworks Authority
   - GPA Docket 14-01, Contract for Implementation of Customer Information System (CIS), Slater Nakamura Report, and Proposed Order
   - GWA Docket 13-01, Petition of Guam Waterworks Authority for $2.16M increase of PMO Contract; ALJ Report; and Proposed Order
   - GWA Docket 11-01, Request by the Guam Waterworks Authority for approval of bond projects funded by 2010 Series Bond, and Proposed Order

4. Administrative Matters

5. Other Business

ATTACHMENT A

RECEIVED
DEC 30 2013
Public Utilities Commission
GUAM

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:	GPA Docket 14-01
The Application of Guam Power Authority for Approval of Implementation of its Customer Information System (CIS).	**SUPPLEMENTAL ORDER**

INTRODUCTION

1. On November 26, 2013, the Guam Public Utilities Commission ["PUC"] approved GPA's Application to enter into a contract with Wi-Pro Technologies in the amount of $2,710,000 for fixed price implementation services for the Oracle Customer Care & Billing Customer Information System Software.[1]

2. However, while approving the GPA Application, the PUC found that no funding source for the GWA CC&B project had been identified; GWA was required to file a separate Petition to address its software implementation cost.[2]

BACKGROUND

3. In its prior Report, Slater, Nakamura & Co. reviewed the proposed contract with Wi-Pro Technologies to implement the Oracle Customer Care & Billing software package for both the Guam Power Authority ["GPA"] and the Guam Waterworks Authority ["GWA"]. It recommended approval of the contract for both entities.[3]

4. In its November 26, 2013 Order, PUC did not address the implementation of the CC&B project for GWA due to the absence of an identified funding source.

5. On December 11, 2013, the General Manager of GWA, Martin Roush, requested that the PUC place the matter of its proposed CC&B software implementation with Wi-Pro on the December 2013 PUC Agenda. In his Request, he stated as follows: "Pursuant to PUC Order dated November 26, 2013, in the above-referenced docket, item no. 8, the funding source for GWA's CC&B project is: Series 2010 Bonds,

[1] PUC Order, GPA Docket 14-01 dated November 26, 2013.
[2] Id. at p. 2.
[3] Slater, Nakamura & Co. LLC, Report on the Review of the Proposed Contract with Wi-Pro Technologies, GPA Docket 14-01, dated November 20, 2013.

ATTACHMENT B

General Plant Improvement/Miscellaneous, No. MC09-01, in the amount of $870,000. This project plan falls in line with GPA's Docket No. 14-01."[4]

6. On December 18, 2013, PUC Counsel requested that GWA submit its contract between GWA and Wi-Pro, as well as any other relevant information justifying PUC approval of implementation of the CC&B software for GWA.[5]

7. On December 19, 2013, GWA submitted Contract Amendment-3 signed by GPA and Wi-Pro, which provides for CC&B implementation for GWA, the Memorandum of Understanding between GPA and GWA Re: CIS Project, and the GWA CIS Replacement Project Implementation Plan.[6]

8. The additional cost for CC&B Implementation by Wi-Pro for the GWA portion of this project will be $870,000.00.[7]

9. GWA indicates that its current "Legacy" CIS system was developed in 1995. By implementing the Oracle CC&B, GWA will be able to manage and improve customer relations and billing in a more effective and efficient manner.[8]

10. The Guam Consolidated Commission of Utilities approved the implementation of the Customer Care & Billing (CC&B) software for the Guam Waterworks Authority.[9]

DETERMINATIONS

11. GWA has presented a justification for implementing its new CC&B software [CIS] with Wi-Pro Technologies. A replacement is required for GWA's aging CIS System,

[4] E-Mail from Martin Roush, General Manager of GWA, to Frederick J. Horecky, PUC Legal Counsel, dated December 11, 2013.
[5] E-Mail from Frederick J. Horecky, PUC Counsel, to Martin Roush, General Manager of GWA, dated December 18, 2013.
[6] E-Mail from Anne Borja, Management Analyst IV of GWA, to PUC Counsel, GPA Docket 14-01, dated December 19, 2013.
[7] Wi-Pro Technologies' Response to Guam Power Authority [CC&B Implementation, November 22, 2013] Contract Amendment-3.
[8] GWA Oracle CC&B Implementation (Project Plan) dated October 8, 2013 [Interoffice memorandum from Victor Torres, Information Technology Manager, to Thomas Cruz P.E., Chief Engineer].
[9] CCU GWA Resolution 02-FY2014, adopted October 8, 2013.

which is no longer supported by the vendor and is unable to avail of new features and functionality to support GWA's mission.[10]

12. GPA and GWA have entered into a joint Memorandum of Understanding to implement a CIS. They believe that there will be efficiencies and cost savings in having a consolidated effort in implementing the CIS.[11]

13. GPA is the legal contracting party with Wi-Pro. It is GPA that issued the Request for Proposals for software implementation and awarded the contract to Wi-Pro. The GWA implementation services are included under GPA's contract with Wi-Pro.

14. GWA anticipates that the implementation of the CIS will enable GWA to streamline its current processes, eliminate duplication of efforts, and focus towards improving customer care. Hopefully, improved customer satisfaction and public confidence in GWA will be realized.[12]

ORDERING PROVISIONS

After careful review and consideration of the above determinations, the Petition of GWA, the Report of Slater, Nakamura & Co., LLC, and the record herein, for good cause shown and on motion duly made, seconded, and carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. The PUC hereby grants approval of GWA's application for authorization to expend the amount of $870,000.00 to Wi-Pro Technologies for fixed price implementation services for the Oracle Customer Care & Billing Customer Information System Software.

2. GWA is authorized to utilize, for such purposes, the following funding source: Series 2010 Bonds, General Plant Improvement/Miscellaneous, No. MC09-01, in the amount of $870,000.

3. GPA is the contracting party responsible for administering the contract with Wi-Pro. GPA and GWA shall perform their joint duties for implementation of this

[10] Memorandum of Understanding between Guam Power Authority and Guam Waterworks Authority, adopted December 10, 2013.
[11] Id. at p. 1.
[12] Oracle CC&B Implementation (Project Plan), dated October 8, 2013, at p. 2.

project pursuant to the Memorandum of Understanding entered into between them on December 10, 2013.

4. The approval herein is subject to GPA's compliance with the three conditions set forth in the PUC Order issued November 26, 2013, and in accordance with the timeline set forth therein.

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.

6. GPA may apportion its costs and expenses herein to GWA in accordance with the Memorandum of Understanding between the parties.

Dated this 30th day of December, 2013.

Jeffrey C. Johnson
Chairman

Joseph M. McDonald
Commissioner

Rowena E. Perez
Commissioner

Peter Montinola
Commissioner

Michael A. Pangelinan
Commissioner

Andrew L. Niven
Commissioner

Filomena M. Cantoria
Commissioner

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Public Utilities Commission
GUAM

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

PETITION OF GUAM WATERWORKS AUTHORITY FOR RATE RELIEF	)	GWA DOCKET 13-01 ORDER

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the "PUC") pursuant to the Petition for a $2.16 million increase in the Program Management Office contract ("PMO Contract") with Brown & Caldwell, filed by the Guam Waterworks Authority ("GWA") on July 30, 2013.

DETERMINATIONS

Pursuant to 12 G.C.A. §12004, GWA may not enter into any contractual agreements or obligations which could increase rates and charges without the PUC's express approval. Additionally, pursuant to GWA's Contract Review Protocol issued in Administrative Docket 00-04, "[a]ll professional service procurements in excess of $1,000,000" require "prior PUC approval under 12 G.C.A. §12004, which shall be obtained before the procurement process is begun . . . ."[1] GWA must also seek PUC approval for any uses of bond funds.[2]

On July 30, 2013, GWA filed the subject petition. On August 23, 2013, the Administrative Law Judge (the "ALJ") of the PUC, David A. Mair, authorized Lummus

[1] GWA's Contract Review Protocol ("GWA CRP"), Administrative Docket 00-04, p. 1 (Oct. 27, 2005).

[2] *Id.*

ATTACHMENT C

Consultants International Inc. ("Lummus"), the PUC's consultants for water and wastewater matters, to examine GWA's request for the $2.16 million increase in the PMO Contract. On December 13, 2013, Lummus filed a report (the "Lummus Report") detailing its findings and recommendations to the PUC.

In its report, Lummus recommended that the PUC approve GWA's request to increase the PMO Contract of $2.16 million.[3] It further recommended that GWA provide the PUC with regular reports "that describe the major project categories, indicate the anticipated spending per year of the Five-Year Plan, indicate allocated budgets to date, and actual spending to date along with an assessment of project percentage completion."[4] Lummus noted that such reports would "provide a tracking report for the PUC with which it can monitor and respond to interested parties relative to the progress being made on infrastructure improvement."[5]

On December 26, 2013, ALJ Joephet R. Alcantara filed an ALJ Report detailing his review of the instant matter. In his report, the ALJ found, based on the review of the record, and the recommendation of Lummus, that the $2.16 million increase was reasonable inasmuch as GWA needed the additional funding in order to meet the deadlines and complete the projects imposed under the federal Stipulated Order.

The ALJ, however, echoed Lummus' recommendation that GWA should be ordered to provide the PUC with regular reports that describe the major project categories, indicate the anticipated spending per year of the Five-Year Plan, indicate allocated budgets

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[3] Lummus Report, p. 3.

[4] Lummus Report, p. 3.

[5] Lummus Report, p. 3.

to date, and actual spending to date along with an assessment of project percentage completion. The ALJ further noted that, pursuant to the PUC's May 28, 2013 Order, GWA should continue to provide the PUC with monthly reports generated by Brown & Caldwell to track its progress; and that these reports should be provided to the PUC and Lummus so that Lummus can monitor the effectiveness of GWA's PMO and update the Commission regularly on Brown & Caldwell's progress.

Accordingly, the ALJ recommended that the PUC approve the instant petition, and therefore, GWA and Brown & Caldwell should be authorized to proceed with the projects and budgets identified in the petition, not to exceed $2,166,154.

The Commission hereby adopts the findings contained in the December 26, 2013 ALJ Report and, therefore, issues the following:

ORDERING PROVISIONS

After careful review and consideration of the above determinations, the December 13, 2013 Lummus Report filed in this docket, the December 26, 2013 ALJ 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 the following:

1. The July 30, 2013 Petition for a $2.16 million increase in the Program Management Office contract with Brown & Caldwell is hereby approved.

2. GWA shall file with the PUC reports that: (a) describe the major project categories; (b) indicate the anticipated spending per year of the Five-Year Plan; (c) indicate allocated budgets to date; and (d) indicate actual spending to date along with an assessment

of project percentage completion. The first of such report shall be due by January 15, 2014. Subsequent reports shall be due by March 15, 2014, and May 15, 2014.

3. GWA shall continue to file the monthly reports generated by the PMO to track its progress with the PUC, and provide copies to the ALJ and the PUC's consultants to allow the PUC's consultants to monitor the effectiveness of GWA's PMO and update the Commissioners regularly on key findings related to the contract.

4. GWA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses associated with the instant contract review. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§12002(b), 12024(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

SO ORDERED this 30th day of December, 2013.

JEFFREY C. JOHNSON
Chairman

JOSEPH M. MCDONALD
Commissioner

ROWENA E. PEREZ
Commissioner

MICHAEL A. PANGELINAN
Commissioner

PETER MONTINOLA
Commissioner

FILOMENA M. CANTORIA
Commissioner

ANDREW L. NIVEN
Commissioner

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Public Utilities Commission
GUAM

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN RE: REQUEST BY THE GUAM WATERWORKS AUTHORITY FOR APPROVAL OF BOND PROJECTS FUNDED BY GWA'S 2010 SERIES BOND PROCEEDS	**GWA Docket No. 11-01** **ORDER**

This matter comes before the Guam Public Utilities Commission (the "PUC") pursuant to its two July 30, 2012 Orders issued in the instant docket (hereinafter referred to as the "July 30, 2012 Orders"): one which authorized Guam Waterworks Authority ("GWA") to reprogram its 2010 Series Bond funds, but required the Guam Waterworks Authority ("GWA") to reserve and restrict $20 million; and the other which recommended that GWA pay the Government of Guam ("GovGuam") the amount of $20 million from the proceeds of the 2010 Series Bond.

DETERMINATIONS

On August 29, 2012, GWA filed a Petition for Judicial Review of the July 30, 2012 Orders, challenging the PUC's decisions, in an action titled Guam Waterworks Authority v. Guam Public Utilities Commission, SP0148-12, filed in the Superior Court of Guam.

On November 7, 2013, Public Law 32-069 ("P.L. 32-069") was enacted into law. In the findings contained in P.L. 32-069, the Guam Legislature expressly found that "a 2010 rider, inserted during legislative session, required GW A ratepayers to pay back 20 Million Dollars to the General Fund for a loan that was fully paid off in December 2010,

ATTACHMENT D

causing an unnecessary burden on ratepayers." P.L. 32-069, p. 3. (Nov. 7, 2013). However, the Guam Legislature also recognized that "the provision still remains in Guam law and needs to be repealed to make it clear that this is no longer a requirement to be placed upon GWA's ratepayers" and clearly expressed that "adding another 20 Million Dollars rate increase onto GWA ratepayers is not in the public interest." *Id.*, p. 3. Accordingly, P.L. 32-069 amended P.L. 30-145 by eliminating the provision which required GWA to pay GovGuam $20 million, thereby disposing of, and rendering moot, the obligation at issue in the instant proceedings.

The Commission, therefore, issues the following:

ORDERING PROVISIONS

Upon careful consideration of the record herein, and in light of P.L. 32-069, and for good cause shown, on motion duly made, seconded and carried by the affirmative vote of the undersigned Commissioners, the Commission hereby ORDERS the following:

1. The July 30, 2012 Orders issued by the PUC in the instant docket are VACATED.

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2. GWA is 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 this docket. 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 30th day of December, 2013.

JEFFREY C. JOHNSON
Chairman

JOSEPH M. MCDONALD
Commissioner

ROWENA E. PEREZ
Commissioner

FILOMENA M CANTORIA
Commissioner

MICHAEL A. PANGELINAN
Commissioner

PETER MONTINOLA
Commissioner

ANDREW L. NIVEN
Commissioner

P134106.JRA

RECEIVED
DEC 3 0 2013
Public Utilities Commission
GUAM

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:	)	GPA Docket 14-02
	)	
The Application of Guam Power Authority Requesting Approval of the Procurement of an Integrated Program Management Office Contract (PMO).	)	**ORDER**

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Petition of Guam Power Authority ["GPA"] for contract review and approval of the Extension of R. W. Armstrong PMO ["Program Management Office"] Contract.[1]

BACKGROUND

2. On March 21, 2011, the PUC first approved the "Program Management Office Contracts (PMO)" for the Guam Power Authority and the Guam Waterworks Authority.[2] GPA was authorized to procure a PMO "to address planned Capital Improvement Projects, significant military Build-up requirements, and ongoing operational requirements."[3]

3. The purpose of the PMO was to provide "professional/technical staff in support of existing GPA and GWA staff to manage the overall development of the utilities' infrastructure program."[4]

4. R.W. Armstrong was originally engaged by Guam Power Authority [GPA] to provide Integrated Program Management Office services pursuant to the Commission's January 11, 2012 Order in GPA Docket 11-02.[5] At that time, the $3.9 million PMO cost for GPA was derived as a percentage of total bond-funded project costs from bond funds already authorized by the PUC. The PMO was to cover 36 months of services, ending approximately in January 2015.[6]

[1] GPA Petition for Contract Review of Extension of R.W. Armstrong PMO Contract, GPA Docket 14-02, filed November 19, 2013.
[2] PUC Order, GPA Docket 11-02, dated March 21, 2011.
[3] Id. at p. 3.
[4] Id. at p. 1.
[5] PUC Order, GPA Docket 11-02, dated January 11, 2012
[6] Id. at p. 3.

ATTACHMENT E

5. In its Order dated January 11, 2012, the PUC approved the PMO Contract for GPA with R. W. Armstrong in the amount of $3.9M.[7]

6. The Order indicated that the purpose of the PMO was "to address planned Capital Improvement Projects, significant Military Build-up requirements, and ongoing operational requirements."[8] The Order specifically indicated that the PMO costs of $3.9M were "derived as a percentage of the total bond funded project costs that will be funded from bond funds already authorized by the PUC." GPA further anticipated that "these costs will cover the next 36 months of PMO services."[9]

7. The PUC accepted GPA's representation that the PMO costs "are reflected in its budget as part of existing operational requirements, and there will be no additional ratepayer impact." (Emphasis added)[10]

8. In the instant Petition, the requested extension is for FY 14 costs, although GPA originally represented that the initial PMO funding would last through January 2015. GPA now requests that the PUC approve a one year "Extension" of the Armstrong PMO Contract (only the cost for services in FY2014) in the amount of $3.9M.[11]

9. The CCU further authorized GPA to petition the PUC "that all costs related to the Resource Implementation Plan and IRP Strategy decision be eligible as LEAC related expenses."[12] Other than the proposed funding source of the Levelized Energy Adjustment Clause, GPA has not cited or referenced any other funding source for the extension of the Armstrong Contract.

10. On December 24, 2013, PUC Consultants Lummus and Georgetown Consulting Group filed their reports and recommendations concerning GPA's request for

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[7] PUC Order, GPA Docket 11-02, dated January 11, 2012.
[8] Id. at p. 1.
[9] Id. at p. 2.
[10] Id. at p. 2.
[11] Guam Consolidated Commission on Utilities Resolution No. 2013-50 [Approval of the Guam Power Authority Execution Plan for the IRP Implementation Strategy and Continuation of Program Management Services], adopted November 12, 2013, at p.3.
[12] Id. at p.4.

extension of the Armstrong Contract and utilization of LEAC for funding such extension.[13]

11. The main findings, recommendations and conclusions of Lummus Consultants in its Report are as follows:

   (a) In the recent GPA rate case, GPA did not budget any costs for LNG related activities or the PMO;
   (b) The CCU anticipates that the recovery of costs associate with the Resource Implementation Plan and the IRP strategy will be eligible for LEAC expenses, subject to PUC approval, and that one-half of the $3.9M ($1.95M) will be included in the next LEAC. GPA alleges that the principal justification for placing the PMO costs in the LEAC is that it is an essential element in providing future fuel savings;
   (c) The main purpose of LEAC is to stabilize the cost to customers during periods of fluctuating fuel prices and to reduce the lag associated with the recording of fuel and certain fuel-related expenses;
   (d) Over the years there have been changes to LEAC by the PUC and certain deviations from its fuel related purpose. For example, in 2008, PUC allowed GPA to recover $400,000 in costs through LEAC for a wind study for developing an alternative energy source that could lead to a reduction in fuel oil use;
   (e) Other utilities have occasionally included other than directly related fuel costs in LEAC; since its inception, Guam PUC has endeavored to maintain the LEAC as reasonably close as possible to costs that are directly related to fuel oil consumption in the current period;
   (f) Commission approval of the use of LEAC permits GPA to make adjustments in its charges to customers without the level of scrutiny and public notice applied in base rate proceedings. Accordingly PUC should carefully examine any cost which GPA seeks to fund under LEAC;
   (g) Pursuant to GPA's proposed breakdown of costs for the PMO, only some costs are directly related to LNG.
   (h) There are additional steps to be made before the final decision is made to convert to LNG; the possibility that future fuel oil savings could offset the cost of making the transition does not for that sole reason justify inclusion in the LEAC;

[13]Georgetown Consulting Group Inc. Report Re: Inclusion of Non-Fuel Expenses in LEAC, GPA Docket 14-02, filed December 24, 2013; Lummus Consultants Review of GPA Docket 14-02, Review of Extension of R.W. Armstrong PMO Contract

(i) Inclusion of LNG-study related costs should not set a precedent for inclusion in the LEAC, as other activities such as increasing generating unit efficiency or decreasing system losses could also offset future energy costs;
(j) GPA has not provided a real breakdown of costs within each task or justification for each sub-task activity to enable the Commission to make an informed judgment;
(k) PUC should not approve the entire $3.9M unless GPA provides the PUC with a more detailed cost breakdown of the sub-tasks in each major task, along with justification;
(l) For Fiscal Year 2014, GPA should delineate the cost of those activities in Tasks 2 and 3 that are clearly related to LNG for recovery in the LEAC; beyond Fiscal Year 2014, the recovery of all PMO and LNG related costs should properly be budgeted for in base rates and not in the LEAC. No capital projects should be included in the LEAC.

12. The main findings, recommendations and conclusions of Georgetown Consulting Group Inc. in its Report are as follows:
(a) Other than the statement of its desire to include the implementation of LNG through LEAC, GPA offers little or no justification for such inclusion.
(b) GPA should include a cost benefit analysis to justify the PMO activities for which it seeks to retain Armstrong;
(c) It is generally is accepted that the necessary costs of an efficient producer are eligible for clause-type [i.e., fuel adjustment clause or automatic adjustment clause] recovery only if they meet three criteria. These criteria are that the costs be: (1) Largely outside the utility's control; (2) Unpredictable and volatile; and (3) Substantial and recurring.
(d) At least two of the above criteria do not apply to the Armstrong contract: it is entirely within GPA's control and it is neither unpredictable nor volatile. It is not substantial and may not be recurring.
(e) GPA has not addressed any of the above criteria in proposing to recover the Armstrong contract extension through the LEAC.
(f) Some regulatory Commissions do allow non-fuel cost recovery through fuel adjustment clauses. However, ordinarily such costs are related to electricity or gas, or directly related to the delivery, storage and inventory, administrative/legal or financing expenses of actual fuel procurement by a utility.
(f) Today there is likely a greater allowance by commissions for non-fuel costs in fuel adjustment clauses;
(g) GPA's own website states that it funds the "predictable portion" of its budget through fixed base rates. The fuel portion of its budget, which is subject to wide

market fluctuations, is funded by a variable rate (i.e., the "difficult-to-predict portion of GPA's budget");
(h) The proposed R.W. Armstrong contract can be distinguished from items included in the Guam LEAC, such as fuel handling, as it does not relate to the current provision or consumption of fuel, but is "to assist GPA with the implementation of LNG;"
(i) The cost of fuel cost reduction efforts has been included in some clauses, although this does not appear to be a frequent departure from the paradigm that a fuel clause include only variable fuel-related cost;
(j) Any departure from the current PUC policy related to the inclusion of new cost parameters is a decision that the Guam PUC should make on a case by case basis depending on the facts;
(k) GPA just concluded a base rate proceeding, and there was no consideration of LNG or Armstrong in that proceeding. The PUC should be cautious of whether this is an effort to provide a means of recovery of a cost that should have been otherwise considered;
(l) GPA will capitalize the costs of its LNG project. To the extent that any of these funds were previously charged consumers as a variable cost in the LEAC, a refunding mechanism should be established.
(m) From a policy perspective, GCG is concerned that GPA may be using the Armstrong Contract as a toe-hold to leverage inclusion of other LNG implementation and non-fuel related costs into the LEAC in the future. The tendency will be for GPA to become less accountable for those costs, recognizing that costs placed in the LEAC undergo less scrutiny than the expenses comprised in GPA's base rate revenue requirement.

DETERMINATIONS

13. It appears that GPA has not planned well for the costs that it intends to incur for the Armstrong Contract. As both PUC Consultants point out, GPA made no mention of such consulting costs in the context of the recent rate case, nor did it request any amounts for conversion of its plants to LNG in the rate case. The PMO costs which GPA now seeks to include in LEAC are known and predictable costs which have been ongoing since the beginning of 2012.

14. GPA has also been aware of the costs which it will incur for the conversion to LNG; such process and costs involved were covered extensively by GPA and Lummus Consultants in the review of the Integrated Resource Plan. How GPA would pay for its consulting assistance for this process should have been considered and

addressed at an earlier stage. GPA's base rate filing did not budget any costs for the PMO or LNG related activities.

15. As GCG points out, neither GPA's Petition nor supporting documents really provide much justification at all for including the PMO and LNG related costs in LEAC. There is no reasoning as to why such costs should be included in LEAC, or reasons justifying such inclusion. There is no discussion of the factors that would normally justify such inclusion, such as a showing that such costs are largely outside the utility's control, and that such costs are unpredictable and volatile, and that such costs are substantial and recurring.

16. There is no dispute that the primary purpose of the LEAC (Tariff Z) is to permit GPA to recover all prudently incurred fuel costs through a fuel adjustment clause mechanism.[14] While the PUC has on occasion included costs in LEAC that are not direct fuel costs, and on one occasion included wind study costs, the primary purpose of LEAC is to pass through actual fuel costs incurred by GPA to the ratepayers.

17. GPA's Presentation to the PUC, Powering Forward, includes the breakdown of PMO Costs attached hereto as Exhibit "A". The total proposed cost of $3.9M is broken down into three Tasks: Task 1, Program Management Services; Task 2, IRP/LNG Resource Implementation Plan; and Task 3, Program Definition.[15]

18. However, Task 1, Program Management Services, includes primarily matters and issues that are not related to LNG or the IRP. Thus, GPA has essentially lumped together PMO and LNG costs in its request for inclusion in LEAC that are in many cases unrelated. See Exhibit "B" attached hereto, GPA's listing of specific services to be provided under Tasks 1, 2, and 3.[16]

19. The listing of Program Management Services includes primarily matters related to ongoing management of the Authority, such as web base management software, web base management Tool implementation, Web Base Dashboard, Procurement and Contracting support, Budget Management, Procurement Management, and Management of ongoing Capital Improvement projects.

[14] PUC Order, Docket 95-001, GPA's Petition for a Rate Increase in FY 96 Levelized Energy Adjustment Clause, at p. 1.
[15] GPA Presentation to the PUC, Powering Forward, presented December 20, 2013 [PMO Costs].
[16] Supplemental Information provided by Melinda Camacho, AGMO, to ALJ Horecky on December 20, 2013.

20. GPA represented to the PUC, when the PMO contract with Armstrong was initially approved, that it would be funded through bond funds. It is not reasonable that LEAC, which relates to passing on fuel costs to ratepayers, would be used to pay for GPA's PMO costs related to the development of the utility's infrastructure program and construction/implementation of Capital Improvement Projects. GPA has not presented a justification for inclusion of PMO costs in the LEAC.

21. The PMO costs should not be included in the LEAC. GPA has not presented an appropriate funding source for the PMO services set forth in Task 1. There are also concerns regarding the amount proposed for such services. Neither the proposed scope of work nor the project listing set forth detail about the services to be performed. There is no real breakdown of costs within each task or justification for each sub-task activity provided to the Commission which would enable it to make an informed judgment.

22. In terms of the total proposed funding for the Armstrong Contract, the amount appears high. A breakdown of the costs and hourly fees for services indicates that five persons would be working eight hours per day for the entire year to reach a cost of $3.9M. Should GPA wish to expend such sums, it must provide additional cost justifications to the PUC. As GCG points out, no cost benefit analysis has been provided for the retention of the Armstrong services. There appears to be no discussion as to what the alternatives are for this decision, such as the use of internal GPA resources.

23. Notwithstanding the foregoing analysis, it is also clear that GPA has placed itself in a difficult situation by not adequately planning for the cost of certain of the services which it proposes. It is faced with numerous difficult and complicated tasks, such as the potential planning for conversion to LNG, timing issues for the shutdown of old plants and construction of new plants, the appropriate mix of fuels to use, and the impending expiration of IPP contracts in a few years.

24. The tasks set forth for Task 2 (IRP/LNG Resource Implementation Plan) and Task 3, Program Definition [Program Execution Plan], appear to be more directly related to implementation of the IRP and LNG process. This is a process that GPA does need to undertake as soon as possible and in a timely fashion. Since GPA's rate case has just been concluded, it will not have an opportunity to seek other funding for the Armstrong contract until it files its next rate case or proceeds with additional bond financing.

25. Because of the urgency of these tasks, Lummus has recommended that, for Fiscal Year 2014 only, GPA should be allowed to recover costs through LEAC that are clearly related to LNG. At present it appears that approximately $2M of the Armstrong Contract services which GPA proposes in Tasks 2 and 3 relate to the IRP/LNG Resource Implementation Plan and the PEP.

26. For current LEAC factor, GPA should be allowed to include $1M in contract services for Armstrong related to Tasks 2 and 3, which is approximately half of the requested amount. The PUC will make any decision concerning the inclusion of additional contract services in the LEAC in the subsequent consideration of the next LEAC factor in June and July 2014. In the meantime, GPA should present more detailed justifications to PUC for inclusion of such additional contract amounts in LEAC.

27. Beyond Fiscal Year 2014, the recovery of all PMO and LNG costs should properly be budgeted for in base rates or through bond issuances/funding. No capital projects should be included in LEAC.

28. For its proposed PMO services, GPA must indicate a proper funding source other than LEAC before such funding can be approved.

29. Based on projected fuel cost savings of $900M over thirty years, GPA suggests that costs related to the LNG implementation plan should be passed through to ratepayers in the LEAC clause. However, there are substantial policy reasons as to why such LNG costs should not merely be passed on to ratepayers through LEAC.

30. As GCG points out, the proposed R.W. Armstrong contract can be differentiated from the fuel related costs that have previously been included in LEAC. It does not relate to the current provision or consumption of fuel, but is "to assist GPA with the implementation of LNG, potentially a future source of fuel." If GPA proceeds to convert to LNG, it can capitalize its expenses related to planning, design, procurement, construction and implementation of LNG. Such costs and expenses may be recovered through future debt issues or other capital funding sources.

31. As stated in a Report prepared by Larkin & Associates, PLLC, for the American Association for Retired Persons in May of 2012, "Increasing Use of Surcharges on Consumer Utility Bills":

"Allowing a utility to recover lost revenues or discrete increased costs through a surcharge can also diminish the utility's incentive to control or reduce expenses because the utility is assured of full cost recovery. Since the utility is passing the cost on to customers, it has less incentive to seek ways to reduce the expense. Furthermore, in a rate case, the utility's costs are carefully scrutinized, whereas cost increases recovered in surcharges can become part of utility rates on an expedited basis, without being subjected to the same degree of review. In rate cases, utilities must provide documentation justifying its requested costs or they may be disallowed. Reviews of costs recovered via surcharges are usually done on a much more limited basis. By allowing a utility to recover cost changes through a surcharge, rider or balancing account, the utility is assured of the recovery of such costs, therefore diminishing the utility's incentive to control expenses, and reducing the utility's financial risk.[17]

32. Allowing GPA to include all charges related to LNG, including the cost of capital projects, in LEAC could place ratepayers at risk of being overcharged. Such inclusion of charges in LEAC could reduce GPA's incentive to control costs. With regard to the capital costs of replacing GPA's aging infrastructure with LNG plants, such are not the type of costs that should be placed in LEAC. Utility capital expenditures are not volatile or outside the control of GPA. GPA Management can influence the timing and extent of these costs. Maintaining and upgrading the utility infrastructure is a normal aspect of operating a utility.

33. As GCG further points out, from a policy perspective it is concerned that GPA may be using the Armstrong contract as a toe-hold to leverage inclusion of other LNG implementation and non-fuel related costs into the LEAC in the future. To the extent non-fuel costs (any current non-fuel cost as well as future non-fuel costs) are included in the LEAC, the natural tendency will be for GPA to become less accountable for these costs, recognizing that costs placed in the LEAC undergo less scrutiny than the expenses comprised in GPA's base rate revenue requirement.

ORDERING PROVISIONS

After careful review and consideration of the above determinations, the Petition of GPA, the Reports of Lummus Consultants and Georgetown Consulting Group, and the record herein, for good cause shown and on motion duly made, seconded, and carried

[17] Larkin & Associates, PLCC, Increasing use of Surcharges on Consumer Utility Bills, May 2012, p. 3.

by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. The Petition of GPA for approval of the Armstrong Contract costs and expenses of $3.9M is approved in part and denied in part. At present GPA is authorized to expend $1,022,500 for the extension of such contract services as set forth herein.

2. GPA is authorized to include $1,022,500 of contract expenses for Tasks 2 and 3 of the Armstrong Contract in the upcoming LEAC factor calculation. The total amount sought by GPA for Tasks 2 and 3 is $2,045,000. Thus, one-half of the amounts requested by GPA for Tasks 2 and 3 will be funded through the LEAC factor in effect from February 1, 2014 through July 31, 2014.

3. GPA may request additional amounts for contract expenses for Task 2 and 3 for inclusion in the subsequent LEAC factor effective August 1, 2014. However, any such request must be properly supported. To date, PUC is not satisfied with the documentation that GPA has filed in support of its request. Any further request for funding through LEAC must be fully justified with appropriate documentation.

4. The justification for inclusion of the foregoing amounts in LEAC is that GPA has not properly planned for the budgeting of such expenses. There is urgency to proceeding with such planning. The conversion to LNG could potentially result in a reduction of fuel costs. However, the inclusion of such LNG related costs in the LEAC is in no manner a precedent for inclusion of such costs or any other costs in future LEACs.

5. Use of LEAC to fund LNG related expenses as specifically authorized herein is conditionally approved. To the extent that funds are included in the LEAC for FY2014 expenses for Tasks 2 and 3, there may be a refunding mechanism to return such costs to the LEAC Account. All LNG related expenditures funded through LEAC should be borne by the LNG capital funding. The Commission may require that LEAC be reimbursed for the full amount of LNG related expenses passed through to ratepayers in LEAC.

6. Beyond Fiscal Year 2014, the recovery of all PMO and LNG costs shall properly be budgeted for in base rates or through bond issuances/funding. No capital projects should be included in LEAC.

7. For its proposed PMO services, GPA must indicate a proper funding source other than LEAC before such funding can be approved.

8. GPA must also provide additional justification for its request and supporting documentation. By March 15, 2014, GPA shall provide a Report to the PUC with further details and justifications for its proposed Armstrong contract services in accordance with the determinations herein. A breakdown of costs proposed within each task and justification for each sub-task activity must be provided.

9. GPA shall file with the PUC Reports regarding services under the Armstrong contract that: (a) describe the major project categories; (b) indicate the anticipated spending for FY 2014; (c)indicate allocated budgets to date; and (d) indicate actual spending to date along with an assessment of project percentage completion. The first of these reports shall be filed by March 15, 2014, and every ninety days thereafter.

10. GPA shall file monthly reports generated by Armstrong with the PUC.

11. 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 30th day of December, 2013.

Jeffrey C. Johnson
Chairman

Joseph M. McDonald
Commissioner

Rowena E. Perez
Commissioner

Peter Montinola
Commissioner

Michael A. Pangelinan
Commissioner

Andrew L. Niven
Commissioner

Filomena M. Cantoria
Commissioner

PMO COSTS

DESCRIPTION	3 Months	9 Months	Total Fee
Task 1 - Program Management Services	$555,000	$1,300,000	$1,855,000
Task 2 - IRP/LNG Resource Implementation Plan	$700,000		$700,000
Task 3 - Program Definition		$1,345,000	$1,345,000
TOTAL	$1,255,000	$2,645,000	$3,900,000

GUAM POWER AUTHORITY
POWER TO SERVE

Exhibit "A"

GUAM POWER AUTHORITY

ATURIDÅT ILEKTRESEDÅT GUAHAN
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

Task 1 - Program Management Services

1. Web Base Management Software
2. Web Base Management Tool Implementation
3. Web Base Dashboard/ Management Coordination
4. Web Base Dashboard/CCU Summary Level
5. Web Base Dashboard/Executive Management Level
6. Web Base Dashboard/Sub Consultant Level
7. Technical Advice and Assistance
8. Manage Critical Milestones (USEPA/ CCU/ PUC etc)
9. Procurement and Contracting Support
10. Weekly Financial Review and Reporting
11. Facilitate Program Work Meetings
12. Facilitate GPA stakeholders Coordination Mtgs
13. GPA Communications Plan Management w/GPA
14. IRP/LNG Communications
15. Develop CIP program policies & procedures
16. Develop detailed WBS, schedule, and assignments for carrying out task
17. Weekly coordination Meetings - represented by PMO on-Island Staff
18. Document management and controls
19. Project administration (meeting notes, cost tracking)
20. Program Management
21. Manage schedule, budget, change management processes, documentation, communication and close out inspections for the program
22. Prepare requests for Proposals or Invitations for Bids as needed and within GPA procurement guidelines and organize and facilitate work meetings and provide coordination with GPA stakeholders
23. Develop program policies and procedures to be utilized by GPA in managing capital improvement projects
24. Develop and implement a web-based dashboard that provides an executive summary of the budget, project schedule and status, as well as design and change management issues of the Program
25. Manage Critical Milestones

Exhibit "B"

GUAM POWER AUTHORITY
ATURIDÅT ILEKTRESEDÅT GUAHAN
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

Task 2 -IRP/LNG Resource Implementation Plan (RIP)

1. Re-valuate fuel diversity options
2. Conduct high-level evaluation of alternative low sulfur fuel options inlcuding LNG, propane, ULSRFO, methonol, DME
3. Identify conversion costs for use of alternative fuels including AQCS compliance
4. Identify potential schedule conversion to alternative fuels
5. Prepare report on findings of fuel diversity options and recommendations
6. Conduct Supplemental Fuel Study
7. Based on task above, develop scope of work for fuel supply study to obtain current data on sources, availability, and price of alternative fuels
8. Qualify consultant to conduct fuel study
9. PMO to assist GPA with study management and review of product work
10. Identify Fuel Deilvery, Storage, and Distribution Options
11. For importation of LNG and LP, identify potential import terminal options building on findings of previous studies
12. Evaluate suitablity of existing fuel receiving facilities to accommadate ULSRFO, methanol, or DME
13. Review alternatives with relevant stakeholders and eliminate fatal flaws
14. Conduct environmental and engineering evaluation of potentially feasible options
15. Identify permitting requirements and potential schedule for implementation of import terminal options
16. Identify construction and operation costs of import terminal options
17. Prepare report on findings of fuel diversity options and recommendations
18. Develop Revised Financial Model
19. Revise model structure as required to incorporate risk analytic framework, resolve "black box" issues, address ratepayer impacts, and consider alternative funding strategies
20. In consultation with stakeholders, identify reasonable range of alternatives to be analyzed
21. Update key input parameters based on fuel and facility cost data developed above
22. Conduct revised financial modeling
23. Review interim results with GPA and other stakeholders and revise analyses as necessary
24. Plan Submittal
25. Within 90 days, The PMO and GPA will prepare and submit a detailed Resource Implementation Plan to the CCU and PUC

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P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

Task 3 - Program Definition (a.k.a. PEP)

1. Provide Support in evaluating contracting methods for new Fuel Infrastructure and new Generation Resources (To Bundle or not to Bundle)
2. Provide Support in evaluating of Ownership Models for LNG Infrastructure and new Generation Resources
3. Provide support in evaluating funding options and opportunities for the different resources
4. Provide support in use and retirement considerations of its Generation Facilities
5. Provide support in evaluating Existing Generation Capital Improvement and Large O&M Projects
6. Provide support in evaluating potential new revenue opportunity with Natural Gas
7. Provide support in evaluating GPA right sizing (human resource evaluation)
8. Provide support in evaluating alternative fuels to LNG
9. Provide support in evaluating procurement requirements and developing procurement documents for securing contracts for plant conversions, new resources, and LNG Terminal
10. Provide support for evaluating LNG (or alternative) Project Structure
11. Provide support in evaluating Risk Mitigation for Supply Interuption
12. Provide regulatory support