

GUAM PUBLIC UTILITIES COMMISSION
SPECIAL MEETING
JANUARY 30, 2014
SUITE 202, GCIC BUILDING, HAGATNA



MINUTES

The Guam Public Utilities Commission [PUC] conducted a special meeting commencing at 6:40 p.m. on January 30, 2014, 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 December 30, 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 GWA Docket 14-03, Petition for Approval of a Multi-Year Contract for Liquid Chlorine under the Contract Review Protocol, ALJ Report, and Proposed Order. ALJ Alcantara indicated that GWA was seeking approval of the multi-year bid involving a three year contract with two-year long options to renew. GWA is required to purchase this liquid chlorine for its treatment of its drinking water as a requirement of the Safe Drinking Water Act for both federal and local law and regulations. The annual cost for GWA for the purchase of chlorine is approximately \$652,000.00 per year. The contract could potentially cost GWA \$3.26M for the next five years. The procurement seeks 1,216 150-lb. cylinders of liquid chlorine and twelve 1-ton cylinders of liquid chlorine. It is necessary to disinfect drinking water at approximately 100 well sites as well as one water treatment plant.

Funding for this contract will be from GWA's operations and maintenance fund. The ALJ recommends approval, as treatment of drinking water is mandated by federal and local law and is necessary for GWA's operations. Upon motion duly made, seconded and unanimously carried, the Commissioners approved GWA's procurement for liquid chlorine and adopted the Order made *Attachment "B"* hereto. In response to questions by the Chairman, GWA confirmed that the vendor stores the chlorine. A similar contract for chlorine has been in effect for a considerable period of time. There is a special handling requirement for chlorine as a hazardous substance.

3. Guam Power Authority

The Chairman announced that the next item on the agenda was GPA Docket 14-03, the Levelized Energy Adjustment Clause Filing, PUC Consultant Report and Proposed

Order. Legal Counsel indicated that the Commissioners had received the Slater, Nakamura Report. Originally, GPA had proposed to slightly reduce the LEAC about 1% on the average bill of a customer who uses 1000 kilowatts per month. However, the Slater, Nakamura Company ["SNC"] Report proposed certain changes to GPA's proposed LEAC factor. SNC proposed that the fees included by GPA for its consultant Armstrong be reduced to approximately \$1.022M, in accordance with the PUC Order in GPA Docket 14-02. In addition, SNC suggested that the PUC utilize the most recent Morgan Stanley fuel price updates from January for the calculation of the LEAC. When these factors are taken into account, GPA's proposal of \$0.179157 would be reduced to approximately \$0.172, or a seven cent reduction in the charge per kilowatt hour.

One additional change proposed by the Assistant Chief Financial Officer of GPA was to amortize the Armstrong consulting fees over the next six months rather than over a year. Then, the civilian LEAC factor would be \$0.172986. This reduction represents a 4.98% decrease from the current LEAC rate, and a 3.28% decrease in the total bill for a residential customer who uses 1000 kilowatts a month, or \$9.07 per month off the bill. SNC recommended certain changes to the reporting of fuel handling charges: the inclusion by GPA in its filing of data elements for the fuel tank farm maintenance, lube oil, SGS inspection, subscription delivery, and labor charges. GPA has agreed to this recommendation. In addition, SNC believes that there should be further reconciliation of the sixth month of the reconciliation period, to reflect actual data rather than estimated. GPA has agreed to provide such data in the next three LEAC filings. The requirements are included in the Proposed Order.

Finally, SNC recommended that PUC explain in its Order why capital expenditures for the fuel tank farm and fuel handling charges are included in the LEAC calculation whereas expenditures for consulting fees are not. Paragraph 4 of the proposed order explains the rationale as to why capital expenditures for the fuel tank farm expenses, as opposed to consulting fees, would be included in LEAC. The fuel tank farm is directly related to the delivery of fuel oil to the plants. However, consulting fees do not directly relate to the delivery of fuel oil, even though they may enable GPA in the future to implement other kinds of fuel for the fuel mix on Guam. The specific fuel tank farm costs included in this case in LEAC were previously approved by the PUC in GPA Docket 13-06.

GPA has also recommended that the current working capital fund surcharge for both civilian and Navy customers remain in effect; the surcharge, which repays the debt service on the bond issuance related to refilling the WCF, would remain in the LEAC factor. The Chairman asked whether GPA was satisfied with the revised numbers as presented by the consultants. There appeared to be no objection from GPA. Counsel further indicated that one change recommended by Commissioner Niven should be included: a sentence was added in Determination No. 4 that the capital projects which are funded through LEAC are expected to be completed within twelve months, indicating that this is a limited exception. This exception only applies to projects directly related to delivery of fuel. In response to the Chairman's question, Counsel

indicated that the projects are to be completed within twelve months. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the recommended LEAC Order, and adopted the Order as presented by Counsel, attached as *Attachment "C"* hereto.

The Chairman announced that the next item of business was GPA Docket 14-04, Petition to Withdraw Funds from the Self-Insurance Fund, PUC Counsel Report, and Proposed Order. Counsel indicated that GPA was attempting to withdraw \$4,627,592 million from the self-insurance fund. The purpose of this withdrawal is to pay for the Cabras Unit #3 rotor repairs. Commissioners have previously been apprised of the situation involving substantial cracks in the rotor. The Commission previously approved \$4.5M to take care of those repairs. The price has now increased a small amount, up to \$4.627M. The basic issue is how GPA is going to pay for these repairs.

The root cause Failure Analysis done by a third party, FAP, indicated that the cracks in the shaft were caused over a long period of time – they weren't sudden or unexpected. Furthermore, unfortunately, according to the underwriters of GPA, this is not compensable under the insurance policy of GPA. GPA is still considering whether to appeal this issue; but, in the meantime, GPA has a need to pay for the repairs because it has already drawn down for the repairs on the Working Capital Fund. This is only an interim solution, as GPA needs to replenish the Working Capital Fund. Further funds cannot be withdrawn from the WCF. Rather than a rate increase, the only practical source of payment is the Self-Insurance Fund.

The Self-Insurance Fund now has over \$18M. Counsel, having looked carefully at the self-insurance protocols, found that PUC has broad power to approve the use of the self-insurance funds. The protocols specifically allows for coverage of losses that would normally be covered by insurance to the extent that such losses are not covered by insurance. It also allows for the recovery of insurance deductibles (\$2.5M in this case). The Protocol allows GPA to recover its insurance deductible. It was an unexpected and unanticipated loss for GPA for which it had not budgeted. Counsel suggests that the most appropriate resolution is for the Commission to authorize GPA to withdraw these amounts for the repairs from the Self-Insurance fund. A few conditions should be imposed: GPA would have to reimburse the Working Capital Fund for the amounts used by it to pay for the Cabras repairs. If GPA recovers from its insurance, that amount would have to be reimbursed to the Self-Insurance fund. GPA has agreed to do that in its Petition. GPA would also be required to comply with the reporting requirements in the Self-Insurance Program Protocols.

Commissioner Cantoria asked how long GPA would be required to continue to collect the self-insurance surcharge. The Chairman indicated about two years. GPA CFO Wiegand indicated that GPA collects approximately \$3.63M per year on the self-insurance surcharge. It would take a little less than two years to fill up the fund. Commissioner Perez asked whether GPA would go back to its insurance underwriters. Counsel indicated that GPA is still deciding whether its appeal would have a chance at success. GPA believes that the fractures of the shaft were more immediate and resulted

around the same time as the outage which led to the discovery of the cracks. Commissioner Pangelinan asked whether Failure Analysis & Prevention Inc., which did the failure analysis, was an independent consultant agency. CFO Wiegand indicated that it was hired by Lloyds. FAP was working under the Adjuster.

Commissioner Pangelinan asked whether another firm could be brought in to review the work of FAP. Counsel indicated that GPA was not certain if that approach would have a great possibility of success. For the record, GM Kin Flores stated that GPA hired Lloyd's Register. It and FAP worked together, and hired an independent laboratory vendor for Metallurgical Analysis. The facts were reported. Based on the evidence, the underwriters responded back that the repairs were not covered under the policy because the sudden accidental stoppage criteria were not met. GPA believes that it was met. The fault of the substation switchyard and finding the metal nugget under the generator was the basis for GPA to stop the generator from further operation. GPA has an appeal being prepared but has not engaged special attorneys at this point. Upon motion duly made, seconded and unanimously carried, the Commissioners authorized GPA to withdraw funds from the Self-Insurance Fund in the amount of \$4,627,592 for Cabras 3 repairs and adopted the Order made *Attachment "D"* hereto.

4. Port Authority of Guam

The Chairman announced that the next item on the agenda was PAG Docket 13-01, Interim Rate Petition from the Port Authority of Guam, Slater, Nakamura Co. ["SNC"] Report, ALJ Report, and Proposed Order. ALJ Alcantara indicated that this was a petition for review and approval of PAG's interim rate petition, which would process a 5.65% increase to the Port's terminal tariff rates. This increase accounts for a 3.55% inflation factor based upon Guam's consumer price index, with the remaining 2.1% to help fund a Bank of Guam loan for repairs to its service life extension projects, the purchase of a container handling top lifter and for a financial management systems upgrade. The service life extension projects will cost about \$6.5M. The purchase of the top lifter should be about \$1M, and the financial management systems upgrade about \$2.5M. Implementation by March 2, 2014 is sought. Public hearings were duly held in Hagatna, Asan and Dededo. No members of the public appeared to provide the Commission with testimony. No written testimony has been submitted either.

The Commission's consultant, SNC, has examined the petition and provided the Commissioners with findings and recommendations. SNC does not believe that the rate is sufficient to cover the Port's current operating costs and capital improvement projects. However, SNC found that the rate increase was just and reasonable and therefore recommended that the Commission approve the rate increase. SNC further recommended that the Port immediately seek PUC approval of its five year tariff rate plan. It recommended that PAG file, by June, a report detailing the impact of the loss of transshipment revenue and to provide the PUC with a plan to replace such revenue or to reduce expenses. SNC found that the cargo projections and resulting revenue projections appear to be overstated. SNC noted that vessel calls have decreased every year since 2007 with the exception of 2010, and revenue tons have also decreased. Due

to the lack of funds, PAG has deferred maintenance and recurrent projects especially with respect to the cranes.

SNC also recommends that PAG file, by June, a report on the impact of adjusting the employees' salaries to the 50th market percentile. The ALJ, having reviewed the SNC Report, recommends approval of the rate increase with inclusion of the SNC recommendations for the ordering provisions. However, ALJ also would allow the Port to come to the PUC by June to provide its five year tariff rate plan. PAG has assured the ALJ that the interim rate increase will provide the Port with sufficient revenue for the upcoming months. Port officials commented on certain figures in the SNC report. Commissioner Cantoria asked if transshipment revenues were reduced, but PAG was increasing the transshipment charges. Port officials indicated that revenues are increased, but transshipping cans have decreased.

The Chairman confirmed that PAG would come to the PUC with a study when the five year plan comes up on what the affected increase rates are in the transshipment of the cans and the fuel. The Chairman further confirmed from PAG officials that PAG was requesting no increase in the fuel throughput. It would remain the same. Bunkering and crane surcharge would also remain the same. The Chairman asked whether the improvements were to F3, 4, 5 and 6, or just F5. GM Brown indicated that the primary bulk of improvements would go to the care of F5. The Chairman further confirmed that there was no present movement in the rates concerning percentile of employee salaries and that PAG employees were presently at the 10th percentile. The Chairman asked whether there were any public comments this evening. There were no comments from the audience. PAG GM Brown reiterated that the Port wanted the effective date of the rate increase to be March 2 instead of February.

ALJ Alcantara then covered the ordering provisions of the Proposed Order. The Port would be authorized to increase PAG's terminal tariff rates with the exception of the three items indicated by the Port's representative, Mr. Quimbao, today (the fuel throughput rating, the crane surcharge, and the bunkering rate). These items will be excluded from the 5.65%. All other items in Appendix A to the SNC Report will be subject to the rate increase. As to the second provision, PAG will seek approval of its five year rate plan as soon as possible including the items in the SNC Report. PAG will file a report with the PUC detailing the status of its five year rate plan. However, ordering provisions 2 and 3 as previously written will be deleted. Commissioner Perez asked why the Port didn't implement PUC recommendations in 2010 for a tariff increase. The Port indicated that it did implement the 3.95% tariff increase.

The ALJ indicated that the PAG will file a report with the PUC regarding the status of its five year rate plan by May 15, 2014. Furthermore, PAG will file a report with the PUC detailing its review of the impact of the loss of the transshipment revenue, with a plan for replacement of such revenue or a reduction of PAG's expenses, by June 1, 2014. Finally, PAG will file a report with the PUC detailing its review of the impact of adjusting salaries to the 50th percentile and PAG's financial stability by June 1, 2014. Commissioner McDonald asked why, seeing the decrease on the transshipment revenue

from last year, PAG is requesting an increase in the tariff shipment rates. The Port representative indicated that this was a legitimate concern. The Port would have preferred to address this matter at the present time. It's an overall increase, but there are considerations the Port has to deal with to keep it going. The Chairman further established that within the container revenue stream shipment containers constituted about 20% of the total, or \$38M.

Commissioner Montinola asked where they stand with regard to competitive pricing for the neighboring islands. John Santos of PAG indicated that PAG appears to have lost the Marshall Islands cargo. There is a competition now between too many carriers. An increase in the transshipment per can is \$15.00. The Chairman indicated to PAG that when it delivers the report on the potential loss of transshipment revenue depending on costs, an interesting matter to look at would be Hawaii's experience, as it has just increased its rates 62% over the last several years. It would be interesting to know how much Hawaii has lost in transshipment revenues. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the PAG request for a 5.65% increase to the PAG terminal tariff rates and adopted the Order made *Attachment "E"* hereto.

The Chairman indicated that the next item for consideration by the Commissioners was PAG Docket 14-01, review of the SLE Loan with Bank of Guam, ALJ Report, and Proposed Order. ALJ Alcantara indicated that this matter is related to the interim rate petition. The petition is for review and approval of the Bank of Guam loan for PAG's Service Life Extension projects related to the wharfs which the PUC discussed earlier. The loan will also be used for the purchase of the container, the top lifter, and for the financial management systems upgrade. The PAG is seeking approval so it can enter into a loan agreement for a maximum amount of \$10M. The interest rate on the loan is between 3.75% and 4.10%, to be adjusted at the fifth year anniversary. The repayment of the loan is for ten years, based on an interest rate of about 3.75%. PAG estimated monthly payment will be about \$100,000 per month. The loan will be secured by a percentage of the facility maintenance fee and by a percentage of the cargo wharfage handling fee. PAG submits that the interim rate relief will help pay for the debt service for the loan.

There is still one outstanding matter. Senator Tom Ada's office indicated that there was still an issue with respect to the Port's waiver of sovereign immunity. With that outstanding issue, the ALJ recommends approval of the loan on the condition of PAG's presentation of legislation that waives sovereign immunity. Commissioner Niven asked to specify what is sovereign immunity. The ALJ indicated that the sovereign immunity issue is that you cannot be sued with sovereign immunity. In this case, the Bank of Guam and PAG have negotiated a waiver of sovereign immunity with regard to collection on this debt. PAG GM Brown indicated that the legislative amendment is to insure that Bank of Guam be paid its attorney's fees if it sues PAG on the loan. Upon motion duly made, seconded and unanimously carried, the Commissioners approved

the Service Life Extension Loan with Bank of Guam, subject to presentation of sovereign immunity legislation, and approved the Order made *Attachment "F"* hereto.

The Chairman announced that the next item on the agenda was PAG Docket 14-02, Review of PAG's Legal Services Contract, ALJ Report, and Proposed Order. The ALJ indicated that this was a petition for review and ratification of the Port's legal services contract with the law firm of Phillips & Bordallo. PAG procured this contract in 2011; at that time PAG did not intend for the contract to cost over \$1M. The contract was originally limited up to the annual amount of \$499,999. According to PAG, the cost has now reached \$1.14M as of December 2013. The cost is expected to round out at about \$60,000 per month. It will cost about \$240,000 for the duration of this current term which expires at the end of April. In the final term of the contract, it will cost about \$720,000. The ALJ finds that the provision of legal services is a necessity for the protection of PAG's rights; it is crucial that PAG's operations, the review of leases, procurements, bids, and representation before administrative tribunals such as the Civil Service Commission. Approval and ratification of the contract is recommended.

The Chairman asked whether there was anyone from the public who would like to make specific comments. Senator BJ Cruz indicated that he had pending legislation which would require autonomous agencies to hire in-house counsel much like GWA and GPA. The Chairman thanked Senator Cruz for his comments. Commissioner Montinola asked what was the original intent of the \$499,999 per year. PAG Attorney Phillips indicated that it was not part of the RFP; that is why the Attorney General agreed to lift the cap. He indicated that the prior law firm for PAG was billing approximately \$720,000 for their last calendar year. That's the level of work for the Port. Senator Cruz then stated, in response to the question by Commissioner Montinola, that the \$499,999 cap was to avoid the law that Senator Cruz had introduced which requires that if a contract for an RFP was to cost \$500,000 or more, the Attorney General had to be involved in the procurement process. Attorney Phillips disagreed, stating that the Attorney General himself signed off on the contract and on the lifting of the cap because the law requires that legal services contract go through the Attorney General. Upon motion duly made, seconded and unanimously carried, the Commissioners ratified and approved PAG's Legal Services Contract under the contract review protocol and adopted the Order made *Attachment "G"* hereto.

5. Administrative Matters

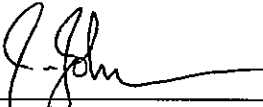
Legal Counsel indicated that the PDS matter had been resolved. PUC's annual E-911 Report was submitted to the Commissioners for information. The Citizen Centric Reports were somewhat delinquent. The law states that reports are due within sixty days after an agency of the government receives its audit. PUC is not audited by the Public Auditor. The law resulted in confusion. Nonetheless, PUC Administrator Palomo and Counsel have been working on bringing the reports up to date. The FY2011 Citizen Concentric Report has been filed. It shows a 16% reduction in overall costs of the consulting fees from 2010. It has been filed with the Public Auditor. Staff is now working on the 2012 report, which should be completed by the next meeting.

Senator Cruz then commented on the Commission's website. He went to the PUC website and found nothing for the January 30th meeting. He called the Administrator, and she stated that the documents weren't put on the website until after the meeting. He was requesting that the Commissioners reconsider this. He didn't realize that there was a Slater, Nakamura report regarding PAG because it was not mentioned in the Agenda. Administrator did then send Senator Cruz the filings. He didn't know there was an SNC Report; he did not ask the Administrator for that. He did not have the background information to speak on these issues.

Similar issues had arisen with regard to the SNC report on the crane purchase. He is respectfully suggesting that the PUC change its format, that the consultant reports and everything to be discussed at a meeting will be online. It is difficult to have an informed discussion and to have an informed individual to come to testify if there is nothing on the website. The petitions were not on the website. He only got the petitions because he asked the PUC Administrator for them. The Senator is suggesting that the PUC change its process ahead of the hearing so that matters are on the website.

Counsel indicated that Senator Cruz raises a valid concern. The PUC website has improved. The PUC generally does not put agency filings on the website. What is there are its own reports and orders. But, with the Slater Nakamura report, there is no confidentiality. It's just a question of when the PUC can get it to the webmaster to put it on the site. PUC is still working on having access ourselves so we can do it. Normally our agendas have been on our website. Often ALJ reports don't come in until a few days before the hearing. PUC does put major consultant reports on the website after the fact. Counsel believed that Senator Cruz's suggestions were good and it's something that the PUC should be doing.

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., January 30, 2014**

Agenda

- 1. Approval of Minutes of December 30, 2013**

- 2. Guam Power Authority**
 - GPA Docket 14-03, Levelized Energy Adjustment Clause Filing, dated December 16, 2013, PUC Consultant Report, and Proposed Order
 - GPA Docket 14-04, Petition to Withdraw Funds from the Self Insurance Fund, PUC Counsel Report, and Proposed Order

- 3. Guam Waterworks Authority**
 - GWA Docket 14-03, Petition for Approval of a Multi-Year Contract for Liquid Chlorine under the Contract Review Protocol, ALJ Report, and Proposed Order

- 4. Port Authority of Guam**
 - PAG Docket 13-01, Interim Rate Petition, Slater Nakamura's Report, ALJ Report and Proposed Order
 - PAG Docket 14-01, Review of SLE Loan with Bank of Guam, ALJ Report and Proposed Order
 - PAG Docket 14-02, Review of PAG's Legal Services Contract, ALJ Report and Proposed Order

- 5. Administrative Matters**
 - Informational Filings

Letter to PDS
FY2013 Annual Report

 - FY2013 E911 Report
 - FY 2011 and 2012 Citizen Concentric Reports

- 6. Other Business**



BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN RE: PETITION FOR APPROVAL
OF A MULTI-YEAR
CONTRACT FOR LIQUID
CHLORINE UNDER THE
CONTRACT REVIEW
PROTOCOL

GWA DOCKET 14-03

ORDER

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the “PUC”) pursuant to the January 6, 2014 Petition for Approval of a Multi-Year Contract for Liquid Chlorine Under the Contract Review Protocol (the “Petition”), filed by the Guam Waterworks Authority (“GWA”).

DETERMINATIONS

On January 6, 2014, GWA filed its Petition for Approval of a Multi-Year Contract for Liquid Chlorine under the Contract Review Protocol. On January 27, 2014, the Administrative Law Judge of the PUC Joepheth R. Alcantara (the “ALJ”) filed an ALJ Report regarding the Petition which included his findings and recommendations based on the administrative record before the PUC.

In his January 27, 2014 ALJ Report, the ALJ found that the use of chlorine in disinfecting drinking water is common and standard industry and regulated practice. The ALJ further found that GWA’s use of a multi-year contract for the purchase of chlorine is reasonable and necessary given that chlorine is an indispensable chemical required for its daily operations in purifying Guam’s water. Additionally, the ALJ found

that GWA provided adequate documentation to support the procurement of chlorine, which it requires in order to satisfy both local and federal standards with respect to water quality. Accordingly, the ALJ recommended that GWA should be authorized to proceed with the procurement related to the purchase of chlorine as set forth in the proposed Invitation to Bid.

The Commission hereby adopts the findings made in the January 27, 2014 ALJ Report, and therefore, issues the following:

ORDERING PROVISIONS

Upon careful consideration of the record herein, 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. That GWA is authorized to proceed with the procurement related to the purchase of chlorine as set forth in the proposed Invitation to Bid.

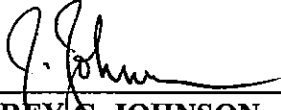
2. GWA is ordered to pay the PUC's regulatory fees and expenses, including and without limitation, consulting and counsel fees, and the fees and expenses associated with this docket. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12002(b) and 12024(b), and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

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[SIGNATURES TO FOLLOW ON NEXT PAGE]

SO ORDERED this 30th day of January, 2014.



JEFFREY C. JOHNSON
Chairman



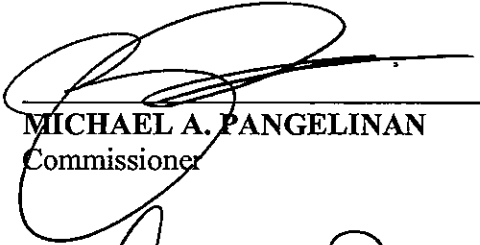
JOSEPH M. MCDONALD
Commissioner



ROWENA E. PEREZ
Commissioner



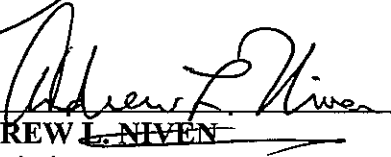
FILOMENA M CANTORIA
Commissioner



MICHAEL A. PANGELINAN
Commissioner



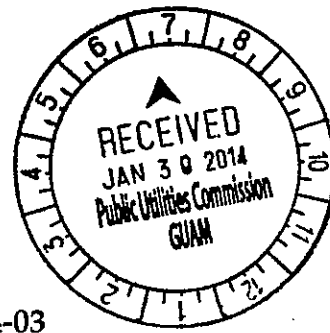
PETER MONTINOLA
Commissioner



ANDREW L. NIVEN
Commissioner

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BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



GUAM POWER AUTHORITY
LEVELIZED ENERGY ADJUSTMENT
CLAUSE [LEAC]

GPA DOCKET 14-03

ORDER

In accordance with the protocol established by Guam Public Utilities Commission [PUC] Order dated January 29, 1996, as amended by Order dated March 14, 2002, Guam Power Authority [GPA] transmitted its LEAC Filing, dated December 16, 2013, to the PUC.¹ GPA requested that the Levelized Energy Adjustment Clause Factor ["LEAC"], for the six-month period commencing February 1, 2014, be decreased from \$0.182054/kWh to \$0.179157/kWh effective for meters read on or after February 1, 2014.² This decrease in the LEAC factor represents a 1% decrease in the total bill or a \$2.91 decrease for a residential customer utilizing an average of 1,000 kilowatt hours per month.³

The basis for the LEAC filing is that there has been a slight decrease in fuel prices from the prior LEAC period, and that the Cabras Unit #3 came online in September 2013. Included in the total fuel handling costs are the Program Management Office (PMO) services for Integrated Resource Plan (IRP) implementation and Liquefied Natural Gas (LNG) Feasibility work.⁴ GPA further requests a continuation of the current Working Capital Fund Surcharge of \$0.00466/kWh and \$110,374.00/month for the Navy.⁵

GPA further states that the cost of the PMO services, \$3.9M, has been amortized over a twelve-month period; hence, \$1.95M of the cost has been included in this filing and the other half will be included in the next LEAC period.⁶ On December 11, 2013, the Guam Consolidated Commission on Utilities, in Resolution No. 2013-62, Authorized GPA Management to Petition the PUC for the decrease in the LEAC for the period February 1, 2014 - July 31, 2014 as set forth in GPA's Petition.⁷

¹ GPA LEAC Filing, GPA Docket 14-03, filed December 16, 2014, at p. 1.

² Id.

³ Id.

⁴ Id.

⁵ Id. at p. 2.

⁶ Letter from GM Joaquin Flores to ALJ Frederick J. Horecky dated December 16, 2013, at p. 1.

⁷ CCU Resolution No. 2013-62, issued June 4, 2013.

On January 26, 2014, the PUC's Consultant, Slater Nakamura & Co. LLC [hereinafter "SNC"], submitted its updated Report on the Investigation of the Request for LEAC Adjustment.⁸ After revision by GPA of certain data, and review by SNC, SNC approved GPA's generation and sales data, system loss factors, dispatch, fuel expenditures and fuel handling expenditures.⁹

However, there are two specific areas in which SNC recommends revision of GPA's proposed LEAC factor. First, SNC recommends that the professional fees included in LEAC for Liquefied Natural Gas during the forecast period be reduced to \$1,022,500.¹⁰ The SNC recommendation is consistent with the Order of the PUC in GPA Docket 14-02; there, PUC authorized GPA to include \$1,022,500 of contract expenses for Tasks 2 and 3 of the Armstrong Contract in this LEAC factor calculation.¹¹ Second, SNC recommended that the forecasted fuel prices and calculating the LEAC Factor be revised to reflect the January Morgan Stanley Forecast.¹² This recommendation is consistent with accepted LEAC practice before the PUC; PUC Consultants have typically recommended in LEAC proceedings that the PUC use the most recent fuel prices in setting the LEAC factor.

Based upon its recommended changes, SNC recommends that the approved LEAC rate to secondary customers be reduced by \$0.00684 per kWh to \$0.172314 per kWh instead of the \$0.179157 per kWh proposed by GPA.¹³

In addition, SNC has made particular recommendations: (1) that the PUC establish refund procedures in a separate docket to fulfill requirements of its Order in GPA Docket 14-02 in the event that it needs to order a refund of the conditionally approved LNG Consulting Fee; (2) that the PUC include language in its Order in this Docket articulating why expenditures related to the Fuel Tank Farm Maintenance considered by GPA for the improvement projects qualify as non-capital expenditures to be included in LEAC; (3) that GPA include in LEAC filings hereafter the specific expense categories for fuel handling, including Fuel Tank Farm Maintenance, lube oil, SGS Inspection, subscription delivery, and labor charges; and (4) that GPA reconcile the "sixth month" of the Reconciliation

⁸ Slater, Nakamura & Co. Report on the Investigation of the Request for LEAC Adjustment, GPA Docket 14-03, filed January 26, 2014.

⁹ Id. at p. 19.

¹⁰ Id. at p. 5.

¹¹ PUC Order, GPA Docket 14-02, Paragraph 3 of the Ordering Provisions.

¹² Slater, Nakamura & Co. Report, Id. at p. 3.

¹³ Id.

period in each LEAC period. At present, SNC indicates that the PUC bases its LEAC Orders on actual data from only five of the six month "reconciliation" period. SNC suggests GPA provide reporting and "true-ups" for the sixth month of each reconciliation period.¹⁴

There has been one further revision to the LEAC factor. Cora Montellano, the Assistant Chief Financial Officer of GPA, requests that the approved R.W. consulting fees be amortized over the upcoming six month LEAC period, rather than over the next twelve months as recommended by SNC. Legal Counsel concurs with Ms. Montellano's recommendation, finding that it is consistent with the intent of the PUC Order in GPA Docket 14-02.

Thus, the civilian customer LEAC factor should be \$0.172986. The other usage factors should be similarly adjusted in accordance with a six month amortization of the Armstrong consulting fees.

DETERMINATIONS

1. PUC will defer requiring a separate Docket for refund procedures for the consulting fees included in this LEAC. The PUC, however, reserves the right to establish such a Docket in the future if, and when, it determines that a refund of such consulting fees is appropriate. However, the PUC reminds GPA that inclusion of such fees in this LEAC factor is conditional; GPA is still required to provide further justification for such professional fees as set forth in the Order in GPA Docket 14-02. GPA will be required to provide PUC with a full accounting for the amount of fees expended. Such professional fees have been properly included in the LEAC factor for this docket; those fees will be the subject of reconciliation in the next LEAC proceeding. Otherwise, PUC adopts the recommendations of SNC's Report, with the slight revisions to the LEAC factors included herein.
2. PUC adopts SNC's recommendation that, in future LEAC filings, GPA should display the individual data elements for fuel tank farm maintenance, lube oil, SGS inspection, subscription delivery, and labor charges. Schedule 5 in Attachments I and II shall be revised to display the individual elements by adding new schedules that display all data elements and the respective totals that are carried into Schedule 5 and eventually Schedule 1.

¹⁴ Id. at pgs. 23-26.

3. For this LEAC period, and the next two LEAC filings, GPA should file a report that “trues-up” the sixth month of the reconciliation period for all data elements: sales to customers, required generation by unit and in total for GPA, heat rate by unit, barrels of oil required by unit and in total for GPA, fuel expenditures by unit and in total for GPA, fuel handling expenditures in total for GPA, and LEAC recovery. Such reports shall be due within 45 days after the PUC issues its LEAC Order in GPA Docket 14-03 and subsequent LEAC Dockets.
4. In GPA Docket 14-02, the Commission established that, as a guiding principle, capital expenditures or expenditures for capital improvement projects generally should not be included in the LEAC calculation. However, the PUC has not held that such expenses can never be included in LEAC. The purpose of LEAC is to establish a fuel factor. The cost of such fuel is passed on to ratepayers. Under some circumstances, the Commission has found that it is appropriate to include within the LEAC calculation capital expenditures that relate directly to the delivery of fuel oil. Thus, in GPA Docket 13-06, the PUC specifically included piping upgrades, tank repainting, systematic tank gauging (ATG) system, and Fire Fighting Equipment Upgrade as expenditures that could properly be included within Fuel Tank Major Maintenance for purposes of LEAC. Furthermore, these capital projects are expected to be completed within twelve months. Such expenditures have historically been included by the PUC in the LEAC factor determinations, along with fuel handling charges. The fuel tank farm and its operation relate directly to the delivery of fuel to GPA’s base load plants. On the other hand, professional or consulting fees for the possible implementation of a future LNG infrastructure have no direct relationship to the actual present delivery of fuel. Such fees have no direct relation to the current delivery of fuel to GPA’s plants. The original purpose of the LEAC clause, to determine fuel costs that ratepayers would bear, never contemplated that capital expenditures for a proposed new fuel source would be passed on to ratepayers through the LEAC.

After carefully reviewing the record in this proceeding, having considered the LEAC Filing of GPA and the Report of Slater, Nakamura & Co. LLC, and after discussion at a duly noticed public meeting held on January 30, 2014, for good cause shown and on motion duly made, seconded and carried by affirmative vote of the undersigned Commissioners, the Guam Public Utilities Commission hereby **ORDERS** that:

1. The current singular LEAC factors are hereby adjusted effective February 1, 2014, as shown in the following table:

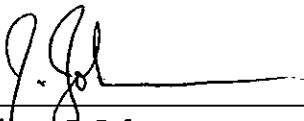
<u>Delivery Classification</u>	<u>LEAC \$ per kWh</u>
Secondary -	\$ 0.172986
Primary - 13.8 KV	\$ 0.166373
Primary - 34.5 KV	\$ 0.165756
Transmission - 115 KV	\$ 0.163125

This change represents a 3.28% decrease in the total bill for a residential customer utilizing an average of 1,000 kilowatt hours per month (\$9.07 per month) and the decrease in LEAC is 4.98% from the current LEAC rate.

2. GPA should file for a change in the LEAC factors to be effective August 1, 2014 on or before June 15, 2014.
3. As requested by GPA, the current Working Capital Fund Surcharge of \$0.00466/kWh for civilian customers and \$110,374.00/month for the Navy shall remain in effect. This Surcharge is for the payment of debt service on the replenishment of the WCF from bond funds.
4. In future LEAC filings, GPA should display the individual data elements for fuel tank farm maintenance, lube oil, SGS inspection, subscription delivery, and labor charges. Schedule 5 in Attachments I and II shall be revised to display the individual elements by adding new schedules that display all data elements and the respective totals that are carried into Schedule 5 and eventually Schedule 1.
5. For this LEAC period, and the next two LEAC filings, GPA shall file a report that "trues-up" the sixth month of the reconciliation period for all data elements: sales to customers, required generation by unit and in total for GPA, heat rate by unit, barrels of oil required by unit and in total for GPA, fuel expenditures by unit and in total for GPA, fuel handling expenditures in total for GPA, and LEAC recovery. Such reports shall be due within 45 days after the PUC issues its LEAC Order in GPA Docket 14-03 and in subsequent LEAC Dockets.
6. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and

6. 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.

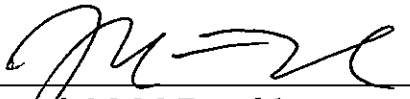
Dated this 30th day of January, 2014.



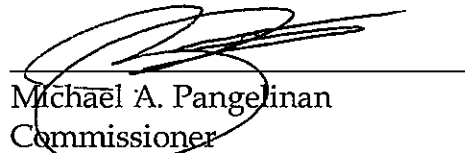
Jeffrey C. Johnson
Chairman



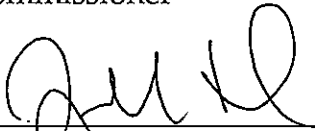
Rowena E. Perez
Commissioner



Joseph M. McDonald
Commissioner



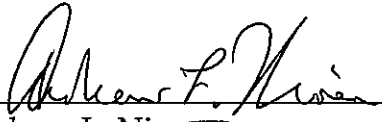
Michael A. Pangelinan
Commissioner



Peter Montinola
Commissioner



Filomena M. Cantoria
Commissioner



Andrew L. Niven
Commissioner



BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 14-04
)
The Application of the Guam Power)
Authority to Draw from the Self Insurance) **ORDER**
Fund for the Cabras 3 Rotor Repair Costs.)
)
_____)

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon GPA's Petition for PUC to review and approve GPA's request to draw from the Self Insurance Fund for the Cabras 3 Rotor Repair costs.¹
2. The Consolidated Commission on Utilities, in GPA Resolution 2014-01, authorized GPA to petition the PUC to draw \$4,627,592 from the Self Insurance Fund to pay for the Cabras 3 rotor repairs.²

BACKGROUND

3. In January of 2013, GPA fully advised the PUC that cracks had been discovered at the drive end of the rotor shaft on Cabras Unit 3 Rotor.³
4. Due to the outage of the Cabras 3 unit, it was determined by PUC that there would be substantial additional fuel costs to ratepayers, somewhere between \$13 and \$23M depending on the length of the Cabras 3 unavailability.⁴
5. Due to the need to bring Cabras 3 back online as soon as possible, PUC authorized GPA to expend up to the amount of \$4.5M for the repairs. However, at that time, no specific source of funds was identified.⁵
6. In the meantime, the repairs have been completed and Cabras 3 has returned to operation on September of 2013. GPA incurred costs in the amount of \$4,627,592

¹ GPA Application to Draw from the Self Insurance Fund for the Cabras 3 Rotor Repair Costs, GPA Docket 14-04, filed January 17, 2014.

² Guam Consolidated Commission on Utilities Resolution No. 2014-01, approved January 14, 2014.

³ GPA Petition for Approval of Cabras #3 Rotor Repair, GPA Docket 13-01, filed January 11, 2013.

⁴ PUC Order, GPA Docket 13-01, dated January 29, 2013.

⁵ Id., Ordering Provisions at pgs. 3-4.

for the Cabras 3 rotor repairs. Said costs were paid in part from the Working Capital Fund.⁶

7. GPA now requests authorization from the PUC to withdraw the amount of \$4,627,592 from the Self-Insurance Fund to pay for the Cabras 3 rotor repairs.
8. GPA's insurance underwriters recently notified GPA that its claim for damage to the Cabras 3 rotor was not insurable based upon the root cause analysis report. FAP ["Failure Analysis & Prevention, Inc."] issued its report on the Investigation on Cracking in the Generator Rotor Shaft of the Cabras No. 3 40MW Diesel Engine Generator on October 11, 2013.⁷ In essence, FAP determined that the cracking in the rotor shaft resulted from high cycle fatigue and was present for a long time prior to the November 8, 2012 trip. The damage did not appear to result from a sudden cause.⁸
9. In May of 2013, GPA Docket 11-09, the PUC considered certain issues regarding the Self Insurance Surcharge and Self Insurance Program Protocols (PHASE II of GPA's 2011 Multi Year Base Rate Relief Filing).⁹ Therein the PUC approved the Self Insurance Program Protocol; said Protocols are attached hereto as Exhibit "A" for easy reference.
10. PUC Counsel filed his Report herein on January 29, 2014. The PUC adopts the recommendations therein.

DETERMINATIONS

11. PUC adopts Counsel's determination that various provisions of the SIPP authorize PUC to permit GPA to withdraw funds from the Self Insurance Funds to pay for the Cabras 3 repairs. In the facts presented by GPA, it appears that the Self Insurance

⁶ CCU Resolution No. 2014-01, Relative to the Petition to Draw from the Self-Insurance Fund to cover the Repair Costs for the Cabras No. 3 Rotor Repairs, adopted January 14, 2014, at p. 2; on January 28, 2014, GPA Counsel Graham Botha represented to PUC Counsel Frederick J. Horecky that GPA had withdrawn funds from the Working Capital Fund to pay for the Cabras 3 rotor repairs.

⁷ FAP, Investigation on Cracking in the Generator Rotor Shaft of the Cabras No. 3 40MW Diesel Engine Generator, issued October 11, 2013.

⁸ Id. at p. 19.

⁹ PUC Order, GPA Docket 11-09, dated May 28, 2013.

Fund is the most appropriate source from which the Cabras 3 rotor repairs can be paid.

12. While GPA indicates that it did withdraw funds from the Working Capital Fund as an "interim solution pending resolution of the insurance loss determination", it further points out that the WCF is not an appropriate source of funding: "The Working Capital Fund is now underfunded and needs to be reimbursed or GPA's capital budget will be negatively impacted."
13. Even though the rotor damage to Cabras No. 3 may not technically be an "insurable loss", GPA correctly indicates that the Cabras 3 rotor damage is certainly close to an insurable loss and it has taken the insurers more than a year to make a determination that the event was not covered.
14. The Cabras 3 rotor repair is an unexpected and unanticipated event; GPA had little ability to plan for such an eventuality through budgeting or otherwise. GPA was not financially prepared to deal with this situation, nor could it have expected to have been so prepared.

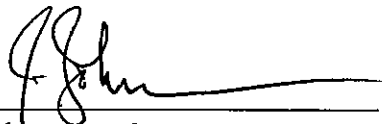
ORDERING PROVISIONS

After careful review and consideration of the above Determinations and the PUC Counsel Report, and matters of record herein, for good cause shown and on motion duly made, seconded, and unanimously carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

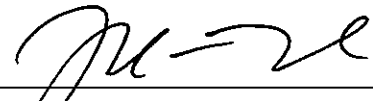
1. GPA is hereby authorized to draw \$4,672,592 from the Self Insurance Fund to pay for the Cabras 3 rotor repairs.
 2. GPA shall reimburse the Working Capital Fund with funds from the Self Insurance Fund for any repairs for the Cabras 3 rotor which had been paid for from the WCF.
-
3. In the event that insurance funds are received relative to the Cabras 3 repairs, GPA will reimburse such funds to the Self Insurance Fund to the amount withdrawn from such fund.

4. GPA shall comply with all applicable reporting requirements in the Self Insurance Program Protocols, in accordance with Protocol X Drawdown Report and Protocol XV Audit.
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.

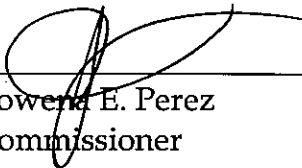
Dated this 30th day of January, 2014.



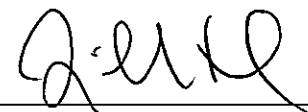
Jeffrey C. Johnson
Chairman



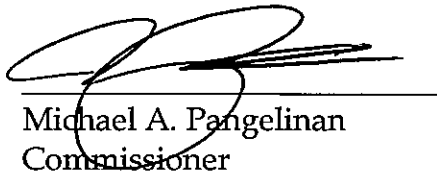
Joseph M. McDonald
Commissioner



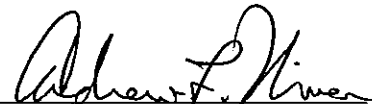
Rowena E. Perez
Commissioner



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Andrew L. Niven
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The Self Insurance Program Protocols

The Self Insurance Program (SIP) of the Guam Power Authority (GPA) will be administered pursuant to the SIP Protocols (SIPP) set forth herein.

Protocol I Scope

The Self Insurance Program (SIP) is established for the purpose of providing GPA with a dynamic mechanism to recover all unanticipated and extraordinary expenses associated with Insurable Events, as defined herein. The SIP shall be used to reimburse GPA for:

- losses resulting from hazards such as accidents, explosions, fires, floods, storms, wind events, cyclones, typhoons, earthquakes, tsunamis, natural disasters, equipment failures, and similar events to the GPA's own property or property leased from others, and costs associated with: pre-hazard preparation and mitigation activities; provision of service during the hazard; GPUC approved hazard mitigation projects; and restoration of the system to at least its pre-hazard state;
- losses that would normally be covered by insurance to the extent that such losses are not covered by insurance;
- deductible amounts contained in insurance policies held by GPA; and
- other approved purposes based on specific petition to the Guam Public Utilities Commission (GPUC) including reimbursement for any loss of net revenues necessary to meet its minimum DSCR requirements under its bond indentures.

Protocol II Insurable Event

Insurable Events for the SIP include: accidents, explosions, fires, floods, storms, wind events, cyclones, typhoons, earthquakes, tsunamis, natural disasters, equipment failures, and similar hazards that would normally be covered by insurance. Nothing in the SIPP shall be deemed to prohibit GPA from petitioning the GPUC for approval to use the SIP Reserve for additional purposes, such as, as examples only, to cover loss of revenues and short-term liquidity in the event of business interruption that would normally be covered by insurance to the extent that such losses are not covered by insurance.

Protocol III Exclusions

Items not covered under the SIP are:

- Losses covered through GPA's other insurance policies;
- Business interruption costs not caused by an Insurable Event;
- Leased real property and equipment covered by other insurance;
- Losses caused by actions of a governmental unit;
- Normal wear and tear; and
- Workmen's compensation claims.

Protocol IV Minimum Threshold Amount

A Minimum Threshold Amount of \$200,000 per Insurable Event represents the minimum incurred amount required to access the SIP Reserve.

Protocol V Draw Declaration

A Draw Declaration consisting of a written self-certification by the GPA General Manager that a loss has occurred or is occurring that exceeds the Minimum Threshold Amount and is associated with an Insurable Event, or that pre-hazard preparation is necessary to minimize service interruptions that may result from an impending Insurable Event. This self-certification by the General Manager shall be applicable for SIP draws for expenditures of up to \$5.0 million per Insurable Event. The Consolidated Commission on Utilities (CCU) shall authorize all SIP draws above the \$5.0 million threshold.

Protocol VI SIP Reserve

The SIP Reserve shall be separately accounted for by GPA and invested in a diversified approach that maximizes interest income while moderating investment risk and adhering to reasonable SIP liquidity constraints. All interest earnings will be reinvested into the SIP Reserve.

Protocol VII SIP Reserve Sources

The SIP Reserve will be funded through proceeds collected through the Self Insurance Surcharge, amounts obtained through securitization or bond issuance, insurance proceeds or reimbursements for prior SIP Reserve drawdowns, SIP Reserve interest earnings, and any additional funding sources directed to be deposited into the SIP Reserve.

Protocol VIII SIP Reserve Cap

The SIP Reserve will continue to accrue until it reaches the SIP Reserve Cap, which shall remain at \$20,000,000 until changed by an order by the GPUC. GPA will retain an outside expert on or before three years from the date of this order to review the adequacy of the SIP Reserve Cap and recommend changes, if appropriate. Such review shall include an actuarial analysis filed with the GPUC. Thereafter, a recommendation from an outside expert specializing in actuarial analysis shall be required to be filed by GPA prior to any further changes to the SIP Reserve Cap requested by GPA or ordered by the GPUC. Any change to the SIP Reserve Cap must be approved and authorized in writing by the GPUC and reflected in this Protocol VIII of the SIPP. Risk assessments shall be performed by a firm specializing in actuarial analysis taking into consideration liquidity available by access to lines of credit, existing delivery system inventory of T&D materials and supplies, temporary cash investments, and the cash portion of the existing SIP Reserve. If acceptable to the GPUC, the initial risk assessment under this Protocol shall be prepared no later than June 2016.

Protocol IX Self-Insurance Surcharge¹

The Self Insurance Surcharge will be set at \$0.0029 per kilowatt hour (kWh) sold by GPA to civilians and \$0.0007 per kWh sold by GPA to US Navy customers. The Self Insurance Surcharge will remain in effect until the amount in the SIP Reserve reaches the SIP Reserve Cap, and shall be reinstituted at any time the balance in the SIP Reserve thereafter falls to less than \$18,000,000.

Protocol X Drawdown Report

Within 60 days of the end of a month in which disbursements (drawdowns) are made from the SIP Reserve, GPA shall provide a Drawdown Report to the CCU, with a copy to the GPUC, identifying the amount and purpose of the drawdown in sufficient detail to allow auditing of such transaction. The Drawdown Report shall include, but not be limited to: (i) the drawdown amount; (ii) the purpose of the drawdown; (iii) vendors paid including name, address, telephone, authorized representative, and invoice; (iv) materials purchased including receipts; (v) employee payments broken out by employee, and nature of pay (regular, overtime, special); (vi) itemized accounting of materials drawn from GPA's warehouse; (vii) if applicable, a copy of the CCU resolution approving a drawdown to the SIP Reserve in excess of \$5.0 million; and (viii) a monthly summary of kWhs consumed in the 12-months prior to the Insurable Event and a monthly summary of kWhs consumed following the Insurable Event, and (ix) the Draw Declaration.

Protocol XI Photographic Documentation

Prior to initiation of repairs or restoration activities, GPA will obtain Photographic Documentation for any loss associated with any Insurable Event in sufficient detail to meet any FEMA requirements. Photographic Documentation will be maintained for a period of ten years.

Protocol XII Allowable Expenditures – Draw Declaration

The types of costs allowed to be charged to the SIP Reserve include, but are not limited to, activities associated with loss preparation (proactive and reactive) and restoration activities associated with an Insurable Event such as:

- (i) Additional contract labor;
- (ii) Logistics costs of providing meals, lodging, and linens for tents and other staging areas;
- (iii) Transportation of crews;
- (iv) Vehicle costs for vehicles specifically rented for the Insurable Event;
- (v) Waste management costs specifically related to the Insurable Event;
- (vi) Rental equipment specifically related to the Insurable Event;

¹ 1 Figures cited are current as of the date of this report.

- (vii) Materials and supplies used to repair and restore service and facilities to pre-event condition, such as poles, transformers, meters, light fixtures, wire, and other electrical equipment;
- (viii) Overtime payroll and payroll-related costs for overtime pay to utility personnel related to the Insurable Event;
- (ix) Fuel cost for GPA and contractor vehicles;
- (x) Increased costs for fuel used for power generation;
- (xi) Increased power generation costs and/or purchased power costs;²
- (xii) Carrying costs from the date costs are incurred until recovered;
- (xiii) Expediting costs;
- (xiv) Debris removal;
- (xv) Tree trimming and other preparation activity initiated at the onset of a tracked storm event;
- (xvi) Infrastructure hardening activities during a recovery period (e.g. replacing wooden poles with concrete, using stronger straps for streetlights, etc.) approved in accordance with the SIP that are in excess of any amounts contained in GPA's current capital budget;
- (xvii) Cost of public service announcements regarding key event-related issues, such as safety and service restoration estimates;
- (xviii) Deductible amounts contained in insurance policies held by GPA;
- (xix) Losses below the deductible for GPA insurance policies in the event the Governor of Guam does not petition the President of the United States to declare the island a major disaster area;
- (xx) Costs for Protocol XV compliance audits; and,
- (xxi) Costs of outside experts required to comply with FEMA requirements and the SIPP.

Protocol XII (a) Allowable Expenditures – Petition Required

GPA shall be required to file a petition with sufficient information for GPUC review and approval of all other purposes not specifically set forth in Protocol XII.

Protocol XIII Federal Emergency Management Agency Petition

In the case of natural disasters in which Guam is determined to be a major disaster area by the President of the United States, GPA shall make best efforts inclusive of the

² This language has been included to allow for the use of alternative generation resources, potential 3rd-party generation (for example generators or barge-mounted power stations), power purchases from the Department of Defense, and other power solutions (e.g., cruise ship provided support) used in the aftermath of a natural disaster as well as potential future changes to the system.

reliance on disaster reimbursement recovery experts to petition FEMA for reimbursement of deductible levels under GPA's insurance programs including this SIP as well as amounts that exceed the funding levels available in this SIP and GPA's insurance policies.

Protocol XIV Loss Mitigation

GPA may seek to use the SIP Reserve to fund activities associated with infrastructure hardening activities intended to mitigate future damage not directly associated with an impending Insurable Event. Use of the SIP Reserve for such mitigation activities shall require prior approval from both the CCU and the GPUC.

GPA shall make all efforts to seek redress from manufacturers/retail sellers of any products purchased by GPA and deemed to be defective. Any recoveries made from such warranty claims shall be deposited to the SIP Reserve. GPA will at all times seek to mitigate losses associated with Insurable Events.

Protocol XV Audit

All SIP Reserve drawdowns and Draw Declarations in excess of \$2,500,000 will be audited by an independent third party for SIPP compliance on an annual basis. GPA will retain an independent audit firm to prepare the report. The audit report will be provided to the Audit Committee of the CCU and a copy will be provided to the GPUC. Any transaction found by the GPUC, after hearing, not meeting the parameters of these Protocols shall be adjusted by the GPUC accordingly.

Protocol XVI Conflicts with Other Insurance Policies

Since the purpose of the SIP is to provide for losses not covered by other insurance policies, conflicts with other GPA insurance policies will be the responsibility of the other insurance policy.

Protocol XVII GPUC Inherent Powers

Nothing in the SIPP shall be deemed in derogation of or otherwise limiting the GPUC's express or inherent regulatory oversight powers created by Chapter 12 of the Guam Code Annotated, including, without limitation, 12 GCA §§12004, 12005 and 12007.

Protocol XVIII SIPP Modifications

Any modifications to the SIPP must be authorized in writing by the CCU and the GPUC.

The Self Insurance Program Protocols

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- losses that would normally be covered by insurance to the extent that such losses are not covered by insurance;
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Insurable Events for the SIP include: accidents, explosions, fires, floods, storms, wind events, cyclones, typhoons, earthquakes, tsunamis, natural disasters, equipment failures, and similar hazards that would normally be covered by insurance. Nothing in the SIPP shall be deemed to prohibit GPA from petitioning the GPUC for approval to use the SIP Reserve for additional purposes, such as, as examples only, to cover loss of revenues and short-term liquidity in the event of business interruption that would normally be covered by insurance to the extent that such losses are not covered by insurance.

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Items not covered under the SIP are:

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A Minimum Threshold Amount of \$200,000 per Insurable Event represents the minimum incurred amount required to access the SIP Reserve.

Protocol V Draw Declaration

A Draw Declaration consisting of a written self-certification by the GPA General Manager that a loss has occurred or is occurring that exceeds the Minimum Threshold Amount and is associated with an Insurable Event, or that pre-hazard preparation is necessary to minimize service interruptions that may result from an impending Insurable Event. This self-certification by the General Manager shall be applicable for SIP draws for expenditures of up to \$5.0 million per Insurable Event. The Consolidated Commission on Utilities (CCU) shall authorize all SIP draws above the \$5.0 million threshold.

Protocol VI SIP Reserve

The SIP Reserve shall be separately accounted for by GPA and invested in a diversified approach that maximizes interest income while moderating investment risk and adhering to reasonable SIP liquidity constraints. All interest earnings will be reinvested into the SIP Reserve.

Protocol VII SIP Reserve Sources

The SIP Reserve will be funded through proceeds collected through the Self Insurance Surcharge, amounts obtained through securitization or bond issuance, insurance proceeds or reimbursements for prior SIP Reserve drawdowns, SIP Reserve interest earnings, and any additional funding sources directed to be deposited into the SIP Reserve.

Protocol VIII SIP Reserve Cap

The SIP Reserve will continue to accrue until it reaches the SIP Reserve Cap, which shall remain at \$20,000,000 until changed by the GPUC. GPA will retain an outside expert at least every three years to review the adequacy of the SIP Reserve Cap and recommend changes, if appropriate. Any change to the SIP Reserve Cap must be approved and authorized in writing by the GPUC and reflected in this Protocol VIII of the SIPP. Such risk assessments shall be performed by a firm specializing in actuarial analysis taking into consideration liquidity available by access to lines of credit, existing delivery system inventory of T&D materials and supplies, temporary cash investments, and the cash portion of the existing SIP Reserve. If acceptable to the

GPUC, the initial risk assessment under this Protocol shall be prepared no later than June 2016.

Protocol IX Self-Insurance Surcharge¹

The Self Insurance Surcharge will be set at \$0.0029 per kilowatt hour (kWh) sold by GPA to civilians and \$0.0007 per kWh sold by GPA to US Navy customers. The Self Insurance Surcharge will be in effect at any time the balance in the SIP Reserve is less than the SIP Reserve Cap.

Protocol X Drawdown Report

Within 60 days of the end of a month in which disbursements (drawdowns) are made from the SIP Reserve, GPA shall provide a Drawdown Report to the CCU, with a copy to the GPUC, identifying the amount and purpose of the drawdown in sufficient detail to allow auditing of such transaction. The Drawdown Report shall include, but not be limited to: (i) the drawdown amount; (ii) the purpose of the drawdown; (iii) vendors paid including name, address, telephone, authorized representative, and invoice; (iv) materials purchased including receipts; (v) employee payments broken out by employee, and nature of pay (regular, overtime, special); (vi) itemized accounting of materials drawn from GPA's warehouse; (vii) if applicable, a copy of the CCU resolution approving a drawdown to the SIP Reserve in excess of \$5.0 million; and (viii) a monthly summary of kWhs consumed in the 12-months prior to the Insurable Event and a monthly summary of kWhs consumed following the Insurable Event, and (ix) the Draw Declaration.

Protocol XI Photographic Documentation

Prior to initiation of repairs or restoration activities, GPA will obtain Photographic Documentation for any loss associated with any Insurable Event in sufficient detail to meet any FEMA requirements. Photographic Documentation will be maintained for a period of ten years.

Protocol XII Allowable Expenditures

The types of costs allowed to be charged to the SIP Reserve include, but are not limited to, activities associated with loss preparation (proactive and reactive) and restoration activities associated with an Insurable Event such as:

- (i) Additional contract labor;
- (ii) Logistics costs of providing meals, lodging, and linens for tents and other staging areas;
- (iii) Transportation of crews;
- (iv) Vehicle costs for vehicles specifically rented for the Insurable Event;

¹ Figures cited are current as of the date of this report.

- (v) Waste management costs specifically related to the Insurable Event;
- (vi) Rental equipment specifically related to the Insurable Event;
- (vii) Materials and supplies used to repair and restore service and facilities to pre-event condition, such as poles, transformers, meters, light fixtures, wire, and other electrical equipment;
- (viii) Overtime payroll and payroll-related costs for overtime pay to utility personnel related to the Insurable Event;
- (ix) Fuel cost for GPA and contractor vehicles;
- (x) Increased costs for fuel used for power generation;
- (xi) Increased power generation costs and/or purchased power costs;²
- (xii) Carrying costs from the date costs are incurred until recovered;
- (xiii) Expediting costs;
- (xiv) Debris removal;
- (xv) Tree trimming and other preparation activity initiated at the onset of a tracked storm event;+
- (xvi) Infrastructure hardening activities (e.g. replacing wooden poles with concrete, using stronger straps for streetlights, etc.) approved in accordance with the SIPP that are in excess of any amounts contained in GPA's current capital budget;
- (xvii) Cost of public service announcements regarding key event-related issues, such as safety and service restoration estimates;
- (xviii)
- (xix) Deductible amounts contained in insurance policies held by GPA;
- (xx) Losses below the deductible for GPA insurance policies in the event the Governor of Guam does not petition the President of the United States to declare the island a major disaster area;
- (xxi) Costs for Protocol XV compliance audits;
- (xxii) Costs of outside experts required to comply with FEMA requirements and the SIPP; and
- (xxiii) Other purposes based on petition to and approval of the GPUC.

² This language has been included to allow for the use of alternative generation resources, potential 3rd-party generation (for example generators or barge-mounted power stations), power purchases from the Department of Defense, and other power solutions (e.g., cruise ship provided support) used in the aftermath of a natural disaster as well as potential future changes to the system.

Protocol XIII Federal Emergency Management Agency Petition

In the case of natural disasters in which Guam is determined to be a major disaster area by the President of the United States, GPA shall make best efforts inclusive of the reliance on disaster reimbursement recovery experts to petition FEMA for reimbursement of deductible levels under GPA's insurance programs including this SIP as well as amounts that exceed the funding levels available in this SIP and GPA's insurance policies.

Protocol XIV Loss Mitigation

GPA may seek to use the SIP Reserve to fund activities associated with infrastructure hardening activities intended to mitigate future damage not directly associated with an impending Insurable Event. Use of the SIP Reserve for such mitigation activities shall require prior approval from both the CCU and the GPUC.

GPA shall make all efforts to seek redress from manufacturers/retail sellers of any products purchased by GPA and deemed to be defective. Any recoveries made from such warranty claims shall be deposited to the SIP Reserve. GPA will at all times seek to mitigate losses associated with Insurable Events.

Protocol XV Audit

All SIP Reserve drawdowns and Draw Declarations in excess of \$2,500,000 will be audited by an independent third party for SIPP compliance on an annual basis. GPA will retain an independent audit firm to prepare the report. The audit report will be provided to the Audit Committee of the CCU and a copy will be provided to the GPUC.

Protocol XVI Conflicts with Other Insurance Policies

Since the purpose of the SIP is to provide for losses not covered by other insurance policies, conflicts with other GPA insurance policies will be the responsibility of the other insurance policy.

Protocol XVII SIPP Modifications

Any modifications to the SIPP must be authorized in writing by the CCU and the GPUC.



BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

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

PAG DOCKET 13-01

ORDER
RE: INTERIM RATE PETITION

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the “PUC”) pursuant to the Interim Tariff Petition (hereinafter referred to as the “Petition”), filed by the Jose D. Leon Guerrero Commercial Port (referred to as either “PAG,” the “Port,” or the “Authority”) on July 19, 2013.

DETERMINATIONS

On May 20, 2013, PAG published its proposed rates reflecting increases to PAG's Terminal Tariff. On July 19, 2013, PAG filed its Interim Tariff Petition. Thereafter, the Administrative Law Judge of the PUC (the "ALJ") transmitted a copy of the "Rate Petition" to the firm of Slater Nakamura, L.L.C. ("Slater Nakamura"), the PUC's consultants for port authority matters. The ALJ requested that Slater Nakamura begin its review of the instant rate petition.

From September, 2013 through January, 2014, Slater Nakamura issued requests for information and PAG responded with documents and data. On January 20, 2014, Slater Nakamura provided the ALJ with its report on the rate investigation, which detailed its findings and recommendations. Pursuant to the Ratepayers' Bill of Rights, public hearings were held in the villages of Asan, Dededo, and Hagåtña on January 22, 2014 and January 23, 2014. On

January 28, 2014, the Administrative Law Judge of the PUC (the “ALJ”) issued an ALJ Report detailing his findings and recommendations with respect to PAG’s Petition.

In the January 28, 2014 ALJ Report, the ALJ made the following findings based on: PAG’s Petition; Resolution No. 2013-03 issued by PAG’s Board of Directors approving the proposed terminal tariff rate increase; the written testimony from PAG management and Parsons Brinckerhoff, PAG’s consultants; the January 22, 2014 and January 23, 2014 public hearings; and the January 20, 2014 Report submitted by Slater Nakamura.

At the public hearings conducted by the ALJ in the villages of Asan on January 22, 2014, Dededo on January 22, 2014, and Hagåtña on January 23, 2014, no testimony was given by any member of the public. In addition, no written testimony from the public was submitted.

With respect to the SLE projects for repairs to PAG Wharfs F3, F4, F5, and F6, the ALJ found that such projects were reasonable, prudent, and necessary given the condition of the wharfs, based on the record before the Commission. The ALJ found that the record indicated that the Port is “sorely in need of catch-up maintenance on aging buildings, utilities, pavements, and wharf facilities.”¹

With respect to the purchase of new cargo handling equipment, as well as the Financial Management Systems upgrade, the ALJ further found that these purchases were reasonable, prudent, and necessary given PAG’s need to replace old equipment and improve its current financial management system. The ALJ found that the record reflected that PAG’s “container yard equipment average age is over ten years old”; and that “[c]ontinued maintenance and repairs to these old equipment is not financially feasible, since repair and maintenance cost

¹ Petition, Tab 5 (“Direct Testimony of Jeffrey Peck”), p. 3 (July 17, 2013).

more than the present value of the equipment.”² The ALJ found that the record also reflected that PAG “needs improvement through structured planning, better data capture and management, and institutionalized tariffs aligned with the true cost of doing business.”³

Accordingly, the ALJ further found that the rate relief sought in this instance to help service the debt for such SLE repairs and purchases was reasonable and appropriate at this juncture since “[t]he Port is currently in relatively poor condition as a result of normal aging (facilities being for the most part over 50 years old) and less than sustainable investment in maintenance and improvement since the facility was turned over by the Navy in the late 1960s”⁴; and that the instant tariff increases would provide some relief to allow PAG to “move forward with known high priority front-end Modernization Program Investments (and related cash flow, loans, debt-service coverage ratio requirements) and avoid losing ground to inflation.”⁵

Ultimately, the ALJ found that PAG’s tariff rate increase and adjustments were “just” and “reasonable” because such adjustments were necessary in order to enable PAG to “repay its debts, finance its obligations, finance its capital improvement needs and cover all its operating expenses” pursuant to 12 G.C.A. §12017.

The Commission hereby adopts the findings made in the January 28, 2014 ALJ Report, and therefore, issues the following:

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² Petition, Tab 4 (“Direct Testimony of Rudel Mangubat”), p. 2 (July 17, 2013).

³ Petition, Tab 5 (“Direct Testimony of Jeffrey Peck”), p. 3 (July 17, 2013).

⁴ Petition, Tab 5 (“Direct Testimony of Jeffrey Peck”), p. 3 (July 17, 2013).

⁵ Petition, Tab 5 (“Direct Testimony of Jeffrey Peck”), p. 3 (July 17, 2013).

ORDERING PROVISIONS

Upon careful consideration of the record herein, 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. PAG is authorized to implement the proposed 5.65% increase to PAG's Terminal Tariff rates, which are indicated in "Appendix A" of the January 20, 2014 Slater Nakamura Report, titled "Recommended PAG Tariff Rate Table," with the exception of the Bunkering/Fuel Throughput/Waste Oil Rates and the Crane Surcharge, beginning March 2, 2014;

2. PAG shall seek approval of its Five Year Rate Plan as soon as possible; and which should include the following: reasonable cargo and revenue projections; reasonable expense projections, which shall also include the revenues and expenses related to crane operations, and which shall be sufficient proposed tariff increases to cover operating expenses and capital needs;

3. PAG shall file a report with the PUC detailing the status of its Five Year Rate Plan by May 15, 2014;

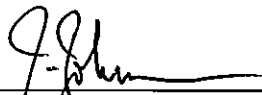
4. PAG shall file a report with the PUC detailing its review of the impact of the loss of transshipment revenue, which should also include a plan for replacement of such revenue or reduction PAG's expenses, by June 1, 2014;

5. PAG shall file a report with the PUC, which shall detail its review of the impact of adjusting salaries to 50th market percentile on PAG's financial stability, by June 1, 2014; and

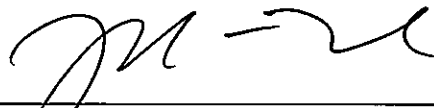
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6. PAG is further ordered to pay the PUC's regulatory fees and expenses, including and without limitation, consulting and counsel fees, and the fees and expenses associated with this rate investigation. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the PUC.

SO ORDERED this 30th day of January, 2014.




JEFFREY C. JOHNSON
Chairman



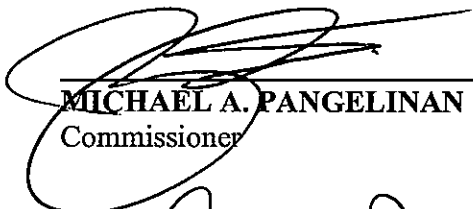
JOSEPH M. MCDONALD
Commissioner



ROWENA E. PEREZ
Commissioner




FILOMENA M CANTORIA
Commissioner



MICHAEL A. PANGELINAN
Commissioner



PETER MONTINOLA
Commissioner



ANDREW L. NIVEN
Commissioner

P143017.JRA



BEFORE THE PUBLIC UTILITIES COMMISSION

**IN RE: REVIEW OF SLE LOAN)
 WITH BANK OF GUAM)
)
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**PAG DOCKET 14-01

ORDER**

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the “PUC”) pursuant to the Petition filed by the Jose D. Leon Guerrero Commercial Port, Port Authority of Guam (“PAG”) on December 3, 2013, whereby PAG requests review and approval of the \$10 million Bank of Guam loan to be used to fund certain Service Life Extension (“SLE”) repairs, the acquisition of cargo handling equipment, as well as upgrades to its Financial Management System (hereinafter referred to as the “Bank of Guam Loan”).

DETERMINATIONS

On March 20, 2012, PAG’s Board of Directors authorized PAG to initiate, with the Guam Economic Development Agency (“GEDA”), the procurement of financial funding for PAG’s SLE repairs for PAG’s wharfs and for an amount not to exceed \$10 million.¹ On September 14, 2012, GEDA issued an RFP; and on November 6, 2012, GEDA issued the Notice of Award to Bank of Guam.²

On January 22, 2013, Bank of Guam informed PAG that one condition for approval of the loan was for PAG to waive its sovereign immunity.³ Thereafter, PAG, Bank of

¹ PAG Resolution No. 2013-07, p. 1 (July 25, 2013).

² PAG Resolution No. 2013-07, p. 1 (July 25, 2013).

³ PAG Resolution No. 2013-07, p. 1 (July 25, 2013).

Guam, GEDA, and the Honorable Senator Tom Ada produced Bill No. 86-32, which authorized PAG to waive its sovereign immunity.⁴ On June 28, 2013, Public Law 32-42 (“P.L. 32-42”) was enacted into law which authorized PAG to waive its sovereign immunity to satisfy a prerequisite for approval of the Bank of Guam loan.⁵

On July 25, 2013, PAG’s Board of Directors issued Resolution No. 2013-07, which approved the terms and conditions of the loan with Bank of Guam for the amount of \$10 million dollars, and thereby authorized PAG to petition the PUC for approval.

On July 19, 2013, PAG filed its Interim Tariff Petition (“Rate Petition”). On January 28, 2014, the Administrative Law Judge of the PUC (the “ALJ”) issued an ALJ Report detailing his findings and recommendations with respect to PAG’s Rate Petition.

In the January 28, 2014, the ALJ determined that the rate relief sought in this instance to help service the debt for such SLE repairs and purchases was reasonable and appropriate at this juncture since “[t]he Port is currently in relatively poor condition as a result of normal aging (facilities being for the most part over 50 years old) and less than sustainable investment in maintenance and improvement since the facility was turned over by the Navy in the late 1960s”⁶; and that the instant tariff increases will provide some relief to allow PAG to “move forward with known high priority front-end Modernization Program Investments (and related cash flow, loans, debt-service coverage ratio requirements) and avoid losing ground to inflation.”⁷ The ALJ ultimately found that PAG’s tariff rate increase and adjustments are “just” and “reasonable” because such adjustments are necessary in order to enable PAG to “repay its

⁴ PAG Resolution No. 2013-07, p. 1 (July 25, 2013).

⁵ PAG Resolution No. 2013-07, p. 1 (July 25, 2013).

⁶ Rate Petition, Tab 5 (“Direct Testimony of Jeffrey Peck”), p. 3 (July 17, 2013).

⁷ Petition, Tab 5 (“Direct Testimony of Jeffrey Peck”), p. 3 (July 17, 2013).

debts, finance its obligations, finance its capital improvement needs and cover all its operating expenses” pursuant to 12 G.C.A. §12017; and thereafter recommended that the PUC approve the rate increases that would help fund the subject loan.

On January 28, 2014, the ALJ filed an ALJ Report detailing his findings and recommendations with respect to the subject review of the Bank of Guam Loan. In the Report, the ALJ found that the terms and conditions contained, and referenced, in the Loan Agreement, and Promissory Note, along with the corresponding pledges discussed above, appear commercially reasonable and not unduly burdensome. Accordingly, based on the record established in the instant docket, the ALJ recommended that the PUC authorize PAG to agree to the terms and conditions of the Bank of Guam loan. However, the ALJ found that the issue of waiver of sovereign immunity had not yet been fully resolved through legislation, which was a prerequisite for approval of the Bank of Guam loan. As a result, since the issue of sovereign immunity was outstanding, the ALJ recommended that approval be conditioned on PAG’s submission of legislation resolving PAG’s sovereign immunity issue; and that the ALJ shall then certify compliance once PAG has filed a copy of such legislation with the PUC.

The Commission hereby adopts the findings made in the January 28, 2014 ALJ Report, and therefore, issues the following:

ORDERING PROVISIONS

Upon careful consideration of the record herein, 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. That PAG's Petition for approval of the Loan Agreement with Bank of Guam for the \$10 Million Loan is conditionally approved; approval is conditioned on PAG's submission of a copy of the legislation resolving PAG's sovereign immunity waiver issue;

2. That the ALJ shall certify compliance once PAG has filed a copy of such legislation discussed herein;

3. That PAG shall not have PUC authorization to execute the Loan Agreement with Bank of Guam for the \$10 Million Loan until such time as the ALJ has certified compliance with this Order;

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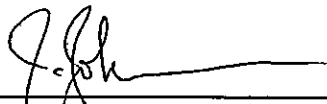
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4. PAG is ordered to pay the PUC's regulatory fees and expenses, including and without limitation, consulting and counsel fees, and the fees and expenses associated with this docket. Assessment of the PUC's regulatory fees and expenses is authorized 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 January, 2014.



JEFFREY C. JOHNSON
Chairman




JOSEPH M. MCDONALD
Commissioner



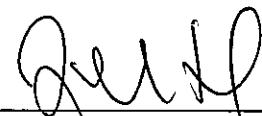
ROWENA E. PEREZ
Commissioner



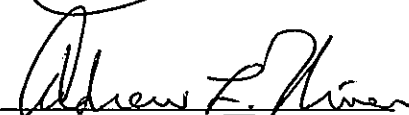
FILOMENA M CANTORIA
Commissioner



MICHAEL A. PANGELINAN
Commissioner



PETER MONTINOLA
Commissioner



ANDREW L. NIVEN
Commissioner

P143008.JRA



BEFORE THE PUBLIC UTILITIES COMMISSION

IN RE:

**REVIEW OF PAG'S
LEGAL SERVICES
CONTRACT**

PAG DOCKET 14-02

ORDER

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the "PUC") pursuant to the Petition filed by the Jose D. Leon Guerrero Commercial Port, Port Authority of Guam ("PAG") on January 9, 2014, whereby PAG requests review and approval of its contract for legal services with the Law Offices of Phillips & Bordallo, P.C. (hereinafter referred to as either "Phillips & Bordallo" or the "Law Firm").

DETERMINATIONS

On January 9, 2014, PAG filed a Petition for review and approval of its contract for legal services with Phillips & Bordallo (the "Petition").

On January 24, 2014, the Administrative Law Judge of the PUC Joseph R. Alcantara (the "ALJ") filed an ALJ Report regarding the Petition which included his findings and recommendations based on the administrative record before the PUC.

In his January 24, 2014 ALJ Report, the ALJ found that based on the information provided by PAG, the terms and conditions of its contract for legal services appear commercially reasonable and not burdensome. Further, the ALJ also found that the cost of the subject contract is reasonable, and not uncommon for a large government entity, given that the Law Firm acts as PAG's general counsel and, therefore, handles all in-house

legal issues, as well as matters in litigation, including personnel matters before administrative tribunals. The ALJ noted that, based on media reports, other large agencies have budgeted, or have incurred, legal fees between \$360,000 and over \$1 million per year. The ALJ further noted that the current form of the contract was approved by the Office of the Attorney General.

Based on the record before the Commission in the instant docket, the ALJ ultimately found that the subject contract for legal services, with its costs, terms and conditions, are reasonable prudent and necessary in order for PAG to successfully operate.

Accordingly, the ALJ recommended that the PUC approve and ratify the existing Professional Services Agreement between PAG and the Law Offices of Phillips & Bordallo, P.C. The ALJ further recommended that should the parties exercise their option to renew for another term, PAG should be required to file with the PUC a cost estimate for the final term of the contract by March 1, 2014.

The Commission hereby adopts the findings made in the January 24, 2014 ALJ Report and, therefore, issues the following:

ORDERING PROVISIONS


Upon careful consideration of the record herein, 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. That the PUC approve and ratify the existing Professional Services Agreement between PAG and the Law Offices of Phillips & Bordallo, P.C.

2. That if the parties exercise their option to renew for another term, PAG is ordered to file with the PUC a cost estimate for the final term of the contract by March 1, 2014.

3. PAG 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 January, 2014.



JEFFREY C. JOHNSON
Chairman




JOSEPH M. MCDONALD
Commissioner



ROWENA E. PEREZ
Commissioner



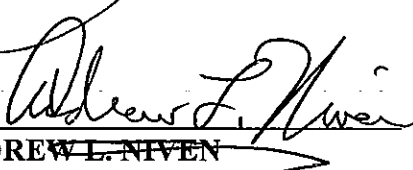
FILOMENA M CANTORIA
Commissioner



MICHAEL A. PANGELINAN
Commissioner



PETER MONTINOLA
Commissioner



ANDREW L. NIVEN
Commissioner

P143012.JRA