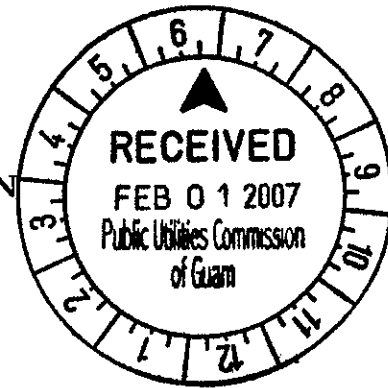


BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

INVESTIGATION OF GUAM
WATERWORKS AUTHORITY'S
VIOLATION OF PUC ORDERS

DOCKET 07-2



ORDER

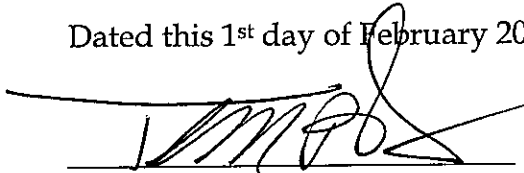
On September 28, 2006, the Guam Public Utilities Commission [PUC] directed that an investigation be conducted, under the oversight of its administrative law judge [ALJ], of Georgetown's [GCG] September 21, 2006 assertion that Guam Waterworks Authority [GWA] violated PUC's October 14, 2004 and February 2, 2006 rate orders regarding the rate stabilization fund [*Rate Orders*], which was established by those orders. After conducting an investigation of the alleged violations, GCG filed its report on December 29, 2006. This report is reviewed in ALJ's January 2, 2007 *Second Memorandum Order*. GWA responded to the report on January 12, 2007. As a result of regulatory conferences concerning these reports, GCG and GWA agreed to stipulated terms under which they recommend that PUC address the substance of the investigation. The stipulation, which was filed on January 23, 2007, is enclosed as *Attachment A*.

After review of the record, including the GCG and GWA reports, ALJ's memorandum orders and the Stipulation, for good cause shown and on motion duly made, seconded and carried by the affirmative vote of the undersigned commissioners, the Guam Public Utilities Commission **HEREBY ORDERS THAT:**

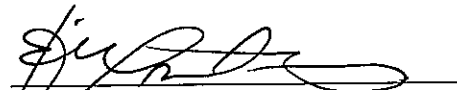
1. The Stipulation is accepted as a reasonable proposal for resolving issues related to alleged GWA violation of the Rate Orders, which established and controlled the use of GWA revenues deposited into GWA's rate stabilization fund. While accepting the Stipulation, PUC makes clear its serious concern over GWA's decision to ignore the Rate Order rather than to seek regulatory relief from the Rate Orders, when it concluded that subsequent events made it impossible to comply with them.
2. GWA duty under the Rate Orders to make deposits into the Fund is suspended pending PUC's review and consideration of an anticipated GWA petition for FY07 rate relief.

3. On April 11, 2003 PUC established a regulatory protocol [*Protocol*], which was intended to reduce the need for regulatory oversight of GWA, subject to GWA's timely production of reports and information identified in the Protocol. GWA concedes in the Stipulation that, due a lack of personnel, it has failed to comply with these reporting requirements. PUC calls upon the Consolidated Commission on Utilities [CCU] to examine and correct the problems, which have caused GWA to repeatedly violate its reporting duties under the Protocol. GWA is directed to report to PUC not later than April 15, 2007 on the action steps, which it and CCU have taken to redress this problem. After reviewing this report, PUC will consider whether the Protocol remains a viable paradigm for regulating GWA.
4. GWA is directed to prepare and file on or before April 1, 2007 the reports described in paragraph 9 of the Stipulation. After reviewing these reports, ALJ may direct GCG to file responsive comments.
5. On or before April 15, 2007, GWA will certify to PUC that it is in compliance with the requirements of December 1, 2005 Indenture section 6.08 [*Authority Budget*].

Dated this 1st day of February 2007.

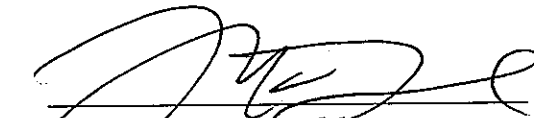


Terrence M. Brooks




Edward C. Crisostomo

Rowena E. Perez



Joseph M. McDonald



Filomena M. Cantoria

Jeffrey C. Johnson

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN RE: RATE STABILIZATION)
ACCOUNT HEARING)
)
)

GUAM PUC DOCKET NO. 07-2)
STIPULATION)

1. Georgetown Consulting Group, Inc. ("GCG"), the independent rate consultant to the Guam Public Utilities Commission ("PUC"), and the Guam Waterworks Authority ("GWA"), enter into this Stipulation for the purpose of recommending to the PUC a process for resolving issues related to alleged violations by GWA of PUC orders, including the February 2, 2006 Rate Order in Docket 04-01 which established and controlled the use of GWA revenues deposited into GWA's Rate Stabilization Fund (the "Fund").
2. In March 2006 GWA caused to be withdrawn from the Fund the sum of \$2,000,000. GWA has asserted that the funds deposited in the Fund had been deposited erroneously and that the funds should have instead into a reserve fund GWA is obligated to establish under the Stipulated Order in District Court of Guam Civil Case 02-00035. After transferring the funds from the Fund, GWA used them to pay off vendor payables which GWA represented was necessary to prevent it from having problems receiving parts and equipment to maintain the water and wastewater system.
3. GWA had been authorized under the Rate Order to withdraw up to \$2,000,000 from the fund on the conditions that it (a) first file with the PUC delinquent quarterly reports and (b) refund the withdrawal by no later than September 30, 2006. GWA concedes that it withdrew the funds from the Fund prior to filing the delinquent reports and failed to refund the withdrawal by September 30, 2006. GWA disputes, however, that this constituted a violation of the Rate Order, as GWA asserts that the funds should not have been deposited in the Fund in the first place. GWA further asserts that the fund flow requirements under its bond indenture have prevented it from refunding the withdrawn amounts.
4. GCG acknowledges that the funding requirements of the Stipulated Order and GWA's bond indenture have legal precedence over the Rate Order, to the extent that there are any conflicts. GCG attempted through discovery in this docket to verify the assertions of GWA but was unable to do so. GWA, on its part, concedes that, due to deficiencies in its current accounting and reporting systems, it has been unable to provide complete evidence establishing the veracity of its assertions.
5. Notwithstanding the lack of complete evidence, GCG has, based on the available data, conclude that GWA's failure to refund the amounts withdrawn from the Fund was justifiable under the revenue fund flow restrictions imposed on GWA under its bond indenture. GCG is also mindful of the fact that the PUC had authorized GWA to withdraw up to \$2,000,000 from the Fund to meet temporary working capital requirements, even though GWA does not purport to have withdrawn the funds pursuant to that authority.

6. In light of the reality that it is highly unlikely that GWA's revenues will be sufficient in the foreseeable future to allow funds to be deposited in the Fund, as contemplated by the Rate Order, GCG has recommended to the PUC that the Rate Order be amended to suspend GWA's obligation to make further deposits pending further review and consideration by the PUC of the rate petition GWA is anticipated to be filing shortly. GWA accepts and joins in this recommendation.
7. On April 11, 2003, the PUC established a regulatory protocol which was intended to minimize the need for regulatory oversight of GWA and thereby minimize the regulatory expenses assessed against it. GWA agrees that in order for this regulatory protocol to work successfully, GWA must provide both the PUC and GWA's governing authority, the Consolidated Commission on Utilities ("CCU") with timely, accurate and complete financial and other reports. GWA has provided testimony in this proceeding that it is unable to meet PUC reporting requirements due to staffing and other resource challenges. GWA represents that, with the approval of the CCU, GWA is seeking to address those challenges by, among other things, hiring a full time chief financial officer and three additional supporting accounting personnel. As part of its upcoming rate case, GWA agrees to advise the PUC as to the progress made by it in addressing its resource problems as well as any setbacks it may have encountered. On its part, GCG agrees that, as part of its review of the upcoming rate case, GCG will review all the currently existing PUC reporting requirements applicable to GWA to see if they can be consolidated or simplified and to make recommendations for appropriate changes, if any are identified.
8. GWA will use its best efforts to obtain from the CCU confirmation of its commitment to provide GWA the resources needed by it meet its reporting obligations and to fulfill the requirements expected of GWA and the CCU under the PUC's regulatory protocol. In the event that the CCU does not provide assurances satisfactory to GCG, GCG reserves the right to make recommendations for the repeal or amendment of the April 11, 2003 order establishing the current regulatory protocol.
9. In order to address specific concerns identified by GCG in its investigation in this docket, GWA agrees to file with the PUC by no later than April 1, 2007 a report addressing the following:
 - (1) the current deficiencies in the Operations and Maintenance Fund and Operation, Maintenance, Renewal and Replacement Reserve Fund created under Article V of GWA's bond indenture. This report shall set forth the legal requirements related to these funds and provide a plan and timeline for restoring the fund balances to their required levels. The report shall be supported by an appropriate opinion from GWA's bond counsel and financial advisors.

(2) a description of the relationship between the Operation, Maintenance, Renewal and Replacement Reserve Fund created under the bond indenture and the Emergency Operations, Maintenance, Renovation and Replacement Reserve GWA is required to establish under paragraph 32(2) of the Stipulated Order. This description shall explain how the two funds overlap and interplay with one another and how the different dates on which the funds were created may impact on the required buildup of the balances in these two funds. GWA further agrees to seek from the Region IX USEPA representative a written concurrence that the Stipulated Order Emergency Reserve Fund can be used interchangeably with the aforementioned Bond Fund and also provide GWA with the current required funding levels for the Stipulated Order Reserve Fund.

Dated this 23rd day of January 2007.

BY: William J. Altier
Counsel of Record for
Georgetown Consulting Group

BY: Samuel J. Taylor
Counsel of record for
Guam Waterworks Authority