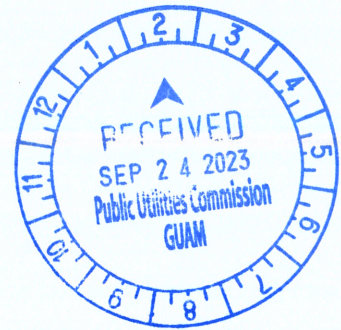


**GUAM PUBLIC UTILITIES COMMISSION
DOCKET 19-08 TRUE-UP FOR FY 2024
GWA FIVE-YEAR RATE PLAN
TEST-YEAR FY 2024**



**STAFF REPORT RESPONDING TO GWA'S SEPTEMBER 21, 2023 REPORT
RESPONDING TO STAFF AND THE PROPOSED ALJ REPORTS**

**GEORGETOWN CONSULTING GROUP, INC. (GCG)
IN ITS ROLE AS STAFF TO THE GPUC**

SEPTEMBER 24, 2023

STAFF REPORT RESPONDING TO GWA'S SEPTEMBER 21, 2023 REPORT RESPONDING TO STAFF AND THE PROPOSED ALJ REPORTS

OVERVIEW AND INTRODUCTION

On September 21, 2023 Guam Waterworks Authority (GWA) submitted its analysis and review of the *Staff Report Responding to GWA's Petition for a 27% Across the Board True-Up Increase In Rates For FY 2024* dated September 13, 2023 prepared by Georgetown Consulting Group (GCG) and the *ALJ Report Re: Annual True-Up for FY 2024 Rates* and related draft order dated September 15, 2023 (as revised on September 19, 2023). GWA indicated that three issues and concerns are most salient to their rebuttal report:

1. GCG's position that GWA should proceed without Rate Stabilization Funds ("RSF") is irresponsible.
2. GCG's suggestion that GWA return to a pre-pandemic staffing level of 371 employees is likewise irresponsible.
3. GCG's power expense adjustment for FY 2024 is based on their "review of current oil markets" that suggest more optimistic LEAC values for FY 2024 than conservatively assumed by GWA.

In addition, GWA states that GCG has effectively argued that in the event that actual FY 2024 financial performance is worse than forecast, rate relief may be requested in GWA's forthcoming FY 2025-2029 Five-Year Rate Plan filing. GWA says that waiting until FY 2025 may not be an option given the depletion of rate stabilization funds, potentially occasioning the need for mid-year emergency rate relief.

Staff responds to these points in this testimony below.

Rate Stabilization Funds (RSF)

In their report GWA makes the following points with regard to RSF:

- The fundamental rate policy question for the PUC relates to whether GWA should hold emergency reserves and, if so, what reserve levels should be targeted.
- GWA is not requesting a retroactive payment of prior period expenses. Rather, GWA notes that the incidence of unforeseen prior period expenses that occasioned depletion of prior RSF and ARPA fund balances is a cautionary tale for consideration of the merit of holding reserves prospectively.
- While it may be true that there is no legal requirement to replenish the RSF, it is prudent and sound financial management practice to do so. GWA will have no mid-year recourse if revenue and expenses diverge from projections.
- Rate increase deferrals today will portend still higher rate increases prospectively.
- GWA has suggested partial replenishment at \$7.5 million given the major rate increases that will be required in the FY 2025 – 2029 period yet there is no particular magic to that amount. As noted, each million dollar of FY 2024 reserve authorization will require approximately a 1 percent increase in FY 2024.

Staff will not repeat all of the arguments with respect to recommend not funding the RSF as requested. Rather, Staff will provide context and further reasoning as to why the Staff recommendation should still stand.

First, while GWA continues to bring in the overall context that there is a substantial construction program still to be undertaken there is always a connection made to the associated assumed rate increases to be implemented in the next 5 Year Rate Plan. The next 5 Year Rate Plan is clearly outside the record in this proceeding and it has been made clear that this proceeding will proceed on its merits. Staff believes that there is no indication that any party has taken a position that the rate relief for the next 5 Year Rate Plan would be inadequately funded. There were several attempts by GWA and its consultants to bring in data from the next 5 Year Rate Plan at the end of this docket but none of that data and testimony was adopted by the ALJ and the Commission.

Second, as stated above, the RSF as recommended by GWA would be called in as necessary only if the projections made by GWA were inaccurate. GWA has complete flexibility as to how it can file for rate relief in the next 5 Year Rate Plan.

Third, GWA has not explained as to why its financial planning has left it in a position where it does not have financial flexibility to deal with unexpected events. GWA spent considerable time and effort in undertaking one of the studies required to be filed in the Phase II proceeding regarding financial and capital structure subjects. Most utilities do not have an equivalent of an RSF. Most utilities plan and have access to short term financing, lines of credits and commercial paper and other mechanisms to deal with short term events.

Fourth, GWA. Staff believes, does not have a correct reading on the pulse of its customers when it says that rate increase deferrals today will portend still higher rate increases prospectively. There is no good rationale in the current circumstance to increase rates by \$7.5 million to customers on top of the already high 16.1% rate increase recommended by Staff. If the \$7.5 million was the only rate increase requested in this proceeding it would represent a high enough rate increase.

Finally, the RSF was used recently as designed. There was a significant increase in power costs for GWA that required all of the RSF to be expended. While GWA has indicated that the higher power costs has vindicated its projections of its 5 year Rate Plan Staff does not understand the logic of those statements. The RSF was transferred at the start of Docket 19-08 from other reserves that GWA had previously set up. Those reserves were to be used to benefit both GWA and its customers. Those reserves could have been used to set up new reserves (the RSF) or could have been used to reduce rates.

GWA Staffing Levels

GCG has recommended that GWA's staffing levels be set to pre-pandemic levels; GWA has requested an increase of 14 positions. GWA states that beyond GCG's contention that GWA's staffing request is "contrary to the levels suggested by the staffing studies that are mandated by the GPUC but have not been conducted since the pandemic, no reason or underlying rationale is offered to fix GWA staffing levels to pre-pandemic levels and thereby discount the factors underlying GWA's staffing request.

Staff has indicated that it has adopted 97.9% of the employee costs that GWA has petitioned for.

The objections do not seem reasonable. Staff has pointed out that in all of the Phase II calculations for employee expenses there has only been a small increase related to the changes in employees. In this case GWA has included significant increases for items that were excluded in prior years with no explanation as to why. There is also no explanation as to why GWA proposed 400 employees at the start of this proceeding but has operated with employees in the 365 range. Staff cautions that while GWA downplays the significance of the staffing studies there are concerns that have not been addressed and should be. As pointed out above the difference in staffing levels between GWA and Staff in this proceeding is not significant and Staff has provided for staffing for the requirements in the NWWTP which has been in service. However, the staffing study shows that in various departments justification is required for the apparent increased levels over peer utilities. While differences in operations between Guam and other utilities are reasonable, it is harder to justify differences in back office and other departments where differences have been shown to be considerable.

GWA Power Expenses

Both GCG and GWA were off by about \$13 million for the FY 2022 and FY 2023 period. GWA states that it has employed more conservative assumptions in this True-Up filing given the recent power expense volatility and the thin margin for error that now characterizes GWA's financial position. GWA does not make it clear that its projected power expenses in this proceeding does not reflect the substantial decline in the GPA LEAC that was approved and reflected to be effective June 2023 and beyond again without explanation and after this was clearly pointed out. The next change in the GPA LEAC will be determined by the GPUC in February 2023 and in the Staff projection we have assumed a 20% increase in the LEAC. This is not being "clairvoyant" by Staff, just reasonable.

Conclusion

Staff does not recommend any change in its original filed report.