THERESA G. ROJAS, ESQ.
Legal Counsel
Guam Waterworks Authority
Gloria B. Nelson Public Service Building
688 Route 15, Suite 304
Mangilao, Guam 96913
Telephone No: (671) 300-6848
Fax No: (671) 648-3290
Email: tgrojas@guamwaterworks.org

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Public Utilities Commission
GUAM

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN RE: PUC PETITION FOR APPROVAL OF GWA'S THIRD FIVE-YEAR FINANCIAL PLAN (BASE RATE INCREASES)	GWA DOCKET NO. 19-08 **GUAM WATERWORKS AUTHORITY RESPONSE TO GCG AND ALJ FY2024 TRUE-UP REPORT**

COMES NOW, the GUAM WATERWORKS AUTHORITY ("GWA"), by and through its counsel of record, THERESA G. ROJAS, ESQ., and hereby files GWA's Analysis and Review Response to the PUC's Staff Report to GWA's Petition for a 27% Across the Board True-Up Increase in Rates for FY 2024 dated September 13, 2023 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).

The following Attachments to GWA's Analysis and Review Response are enclosed:

1. **Attachment A** — GWA GM Response Transmittal Letter
2. **Attachment B** — GWA Response to GCG and ALJ FY2024 True-Up Report
3. **Attachment C** — Appendix I to GWA Response Report
4. **Attachment D** — Appendix II to GWA Response Report

RESPECTFULLY SUBMITTED this **21st** day of September, 2023.

By: ______________________________
THERESA G. ROJAS, ESQ.
GWA Legal Counsel

ATTACHMENT A

GWA General Manager Transmittal Letter

September 21, 2023

Jeffrey C. Johnson, Chairman
Frederick J. Horecky, Chief Administrative Law Judge
Guam Public Utilities Commission
Suite 207, GCIC Building
Post Office Box 862
Hagatna, Guam 96932

Hafa Adai,

The Guam Waterworks Authority (GWA) is pleased to submit 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).

As outlined in GWA's *True-Up Projection for FY2024 Report* and supporting True-Up Schedules submitted on June 1, 2023, GWA is now in a precarious financial position - without access to emergency reserves and net annual operating revenues below debt payment requirements. Our 27 percent rate increase request was developed to correct this untenable situation and begin to rebuild our financial position.

GCG's recommended adjustments would frustrate that objective and unduly expose GWA to risks that recent experience has proven to be all too palpable. Three issues and concerns are most salient:

- GCG's position that GWA should proceed without Rate Stabilization Funds is irresponsible. The GPUC has recognized the merit of holding emergency reserves in past proceedings – historically at levels roughly 60 percent higher than that requested for the FY 2024 True-Up.
- GCG's suggestion that GWA return to a pre-pandemic staffing level of 371 employees is likewise irresponsible. It fails to recognize requirements to staff the Northern District WWTP, implement water loss control measures, and build staff to meet regulatory requirements.
- 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. As demonstrated by recent history (which varied substantially from prior projections used by both GCG and GWA), assuming accuracy of power expenses forecasts is a tenuous proposition. GWA suggests that its precarious financial position calls for conservatism.

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-Rear Rate Plan filing. Unfortunately, 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.

Setting aside that approach has, in part, led to GWA's current predicament and could adversely impact GWA's credit standing, it is important to place such deferral of adequate rate relief into context.

- As noted in its FY2024 True-Up filing (and not disputed), GWA requires approximately a 17 percent rate increase simply to achieve a debt service coverage level of 1.30x – a level below the minimum coverage level called for by PUC policy – without replenishing any reserves that were depleted in FY 2023 due to unforeseen expenses and prior year rate relief deferral.

- GWA projects the need to finance at least $700 million in capital improvement project expenditures in the FY 2025 – 2029 period, including enforceable Consent Decree obligations. Preliminary estimates of rate increase requirements related to this capital financing are at least 13 percent per annum during the upcoming five-year rate plan.
- There are asymmetric risks associated with the PUC's FY2024 rate decision. Award of substantially lower rate relief than requested will limit GWA's flexibility to respond to unforeseen circumstances, risk technical default, and (again) defer building revenue generation capacity – these risks are real as recent experience demonstrates. On the other hand, if the PUC approves adequate rate relief to fully fund its requirements including emergency reserves, GWA's requested rate relief for the FY 2025 – 2029 period will be adjusted downward accordingly. Rate shock mitigation requires action, not further deferral, to restore GWA's financial integrity and facilitate capital investment.

Less substantive, though troubling aspects of the GCG report include that:

- GCG's adjustment related to capitalized labor reflects misunderstandings of how these items are calculated and accounted for in GWA financial statements. The adjustment, applying a gross percentage factor rather than evaluating the functional responsibility of additional staff, is incorrect and should be set aside for purposes of determining FY 2024 rates.
- GCG has asserted that GWA's legal settlement proceeds from litigation with Badger meter – not known at the time of the True-Up filing - should be recognized through an adjustment of $1.9 million. This is suggested while not acknowledging the potential expenses related to Typhoon Mawar (obviously also not known at the time of the True-Up filing) and estimated to exceed $2 million after factoring for receipt of federal relief funding. Notwithstanding accounting nuances (including that settlement proceeds may not be recognized as revenues for purposes of debt service coverage calculations), these effectively offsetting items can and should be simply set aside for purposes of determining FY 2024 rates (as suggested in GWA's filing).
- A disconcerting amount of time and space is given to what amounts to procedural quibbling – about whether the FY 2024 True-Up decision is about "extraordinary" rate relief, involves a "mini-rate case", or is based on a newly designed or simply updated Rate Application Model (RAM). Given GWA's precarious financial position and the PUC's responsibility to protect the financial integrity of the GWA system, we trust this noise will not prove a distraction.

Beyond the frustration that GCG has again advanced the same positions that contributed, predictably, to GWA's current challenges, it is important to highlight that GWA is at an inflection point. Inadequate rate relief, skirting technical default, and reserve depletion have placed GWA on a precipice.

We are prepared to address any questions or concerns regarding this filing and look forward to the GPUC's decision on this matter. We ask that, in contrast to its prior CRU-related decision, the record be clearly populated with documentation of projected cash-flows under the PUC's final decision.

Miguel C. Bordallo, P.E.
General Manager

xc: Therese G. Rojas, General Counsel, Guam Waterworks Authority
Taling Taitano, Chief Financial Officer, Guam Waterworks Authority
Gilda Mafnas, Deputy Chief Financial Officer, Guam Waterworks Authority
Eric Rothstein and Cody Stanger, Galardi Rothstein Group

ATTACHMENT B

GWA RESPONSE to GCG and ALJ FY2024 TRUE-UP REPORT

September 21, 2023

GUAM **WATERWORKS** AUTHORITY

GWA Docket No.: 19 -08

Review of Staff Report Responding to GWA's Petition for a 27% Across the Board True-Up Increase In Rates For FY 2024

Submitted in support of GWA's True-Up Projection for FY2024

Contents

I. Executive Summary

On June 1, 2023, Guam Waterworks Authority (GWA) submitted its *True-Up Projection for FY 2024 Rates* that proposed a 27.0 percent increase to water and wastewater basic, lifeline and non-lifeline rates and charges across all customer classes applicable on October 1, 2023. The proposed rate increases were projected to increase system rate revenues by $28.8 million[1] and will allow GWA to fund necessary O&M expenses and internally financed capital improvements, rebuild a modest level of rate stabilization reserves, and enable incremental improvement in debt service coverage levels.

GWA's rate relief request is the culmination of a sequence of developments that have placed GWA in a precarious financial position - without access to adequate emergency reserves and with forecasted net operating revenues ***below*** debt payment requirements. It is made in the context of continuing economic volatility and prospective capital financing requirements in excess of $700 million[2] in the next FY 2025-2029 Five-Year Rate Plan to enable continuing system reinvestment and compliance with recently negotiated Partial Consent Decree terms.

Georgetown Consulting Group's (GCG) 16.1 percent rate increase recommendation would deprive GWA of emergency reserves and of staffing levels required to operate system assets in compliance with regulatory requirements. Their proposed adjustments, accepted in the ALJ's report and draft order, again myopically defer needed rate relief in FY 2024. In contrast, GWA's rate relief request was developed to begin to rebuild GWA's financial position in advance of prospective capital project spending requirements that will necessitate multi-year rate increases. Higher FY 2024 rate relief as requested by GWA means lower FY 2025 – 2029 rate increase requirements; inadequate rate relief means higher increases beyond FY 2024 (as a matter of simple arithmetic) and risks deterioration of GWA's credit standing. In this event, interest rates charged on GWA's prospective borrowing would be higher, resulting in higher future rate increases than would be required with adequate FY 2024 rate relief. Rate shock mitigation requires far-sighted action, not further deferral, to restore GWA's financial integrity and facilitate required capital investment in the FY 2025 – 2029 period.

II. Introduction

GWA is completing the fifth year of its third five-year financial plan (FY 2020 through FY 2024) and rate relief application with the Public Utilities Commission of Guam (PUC). GWA was allowed annual water and wastewater basic and non-lifeline rate increases of 5.0 percent for FY 2020[3] and FY 2021.[4] GWA

[1] Excludes System Development Charge revenues, Other Revenues, and Bad Debt adjustment.

[2] Varies from $900 million preliminary estimate cited in GWA's FY 2024 True Up Projection Report reflecting ongoing review and refinement of capital planning requirements.

[3] Delays in consultant review and rate case adjudication resulted in the rate increase being effective not at the beginning of FY2020 but on March 2020, almost half way thru the fiscal year.

[4] FY20 Rate Decision, Petition for Approval of GWA's Third Five-Year Financial Plan and Based Rate Relief, Ordering Provision No. 4, p.7; Approved FY2020 and FY2021 rate increases and pro forma rates increases are listed as an appendix to Exhibit 1: Stipulations of the Guam Waterworks Authority and Georgetown Consulting Group on Behalf of the Public Utility Commission of Guam in re: Petition for Approval of GWA's Third Five-Year Financial Plan Docket No.: 19-08.

completed seven Analytical Studies by March 30, 2021 in support of a stipulated Comprehensive Review and Update (CRU) submitted on May 1, 2021 to inform determination of FY 2022 – FY 2024 rates. Delays in consideration of the May 2021 filing resulted in no rate increase being granted for FY 2022. GWA was allowed annual basic and non-lifeline rate increases of 5.5 percent for FY 2023 and for FY 2024 subject to a true-up.

For the true-up to determine FY2024 rates, GWA management thoroughly reviewed its revenue requirements and other requisites and recommends a 27.0 percent rate increase for basic, lifeline and non-lifeline rates for FY2024 for all rate classes. <u>This recommended rate increase is needed to meet increased operating expenses, most notably power costs, and **existing** debt service; it does not address forthcoming capital program financing that will impose additional debt service requirements</u>.

III. Main Issues in Dispute

GCG now recommends a 16.1 percent increase in FY 2024, GWA requests a 27 percent increase. The variance between GWA and GCG positions reflect fundamental differences in rate policy perspectives that the PUC is charged to resolve. GCG's recommendations would minimize FY 2024 rate relief, impose significant risks on GWA, and largely disregard unavoidable FY 2025 – 2029 rate requirements. GWA's recommendations balance FY 2024 rate burdens[5] with the need to restore GWA's financial position and comply with daunting regulatory requirements that punctuate GWA's capital program planning.

Insofar as FY 2023 is effectively completed, differences in views related to FY 2023 forecast projections are moot. Through August 2023, GWA has achieved a 1.31x debt service coverage ratio and used $16.25 million in RSF and ARPA funds; forecasted end of FY 2023 performance anticipates depletion of ARPA and reserve funds to maintain coverage at the PUC's temporarily reduced stipulated level of 1.30x, well below that of any other Guam government enterprise. For FY 2024 rate setting, there are three main issues to resolve related to:

1. Rate Stabilization Funds (RSF)
2. GWA staffing levels
3. Power expense forecasting

The following sub-sections address these issues individually:

1) Rate Stabilization Funds

GWA has requested sufficient rate relief to enable partial replenishment of Rate Stabilization Funds used in FY 2023 to pay for increased operating expenses, particularly power costs, and incrementally improve debt service coverage levels. GCG has taken the position that GWA's request for RSF reserves should not be approved in whole or in part. 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.

For context, with FY 2023 rate revenues marginally exceeding $100 million, a 1 percent rate increase will generate roughly $1M in rate revenues in FY 2024. GWA's requested $7.5 million replenishment of the

[5] Due, at least in part, to prior deferral of requested rate relief.

RSF accounts for roughly 7.5 to 8.0 percent of the 27 percent increase. GWA has requested this substantial initial step to restore RSF reserves, in part, due to its current tenuous financial position[6] and substantially increasing costs anticipated for the FY 2025 – 2029 period.

The prevailing risks, that rate stabilization funds are intended to mitigate, may also be illustrated by examination of GCG's proposed adjustments. If adopted and revenue performance is just 2.5 percent ($3.2M) below that forecast and expenses are 1.5 percent higher than forecast ($1.2M), as illustrated in Appendix I, GWA would fall into technical default with debt service coverage below the 1.25x minimum prescribed in GWA's bond covenants. **In contrast to FY 2023, Rate Stabilization Funds would not be available to cure this operational deficit.** Given the revenue uncertainties associated with the pandemic and Typhoon Mawar, and recent unexpected increases in power costs, it is not difficult to imagine such a scenario.

GCG and the ALJ report offer eight points, paraphrased below, to support their position that GWA should proceed in FY 2024 without reserves.

1. Post pandemic and typhoon timing is difficult
2. The RSF history does not support the request
3. By bond covenants RSF transfers are budgeted monthly
4. Retroactive payment of FY 2022 and FY 2023 expenses
5. No legal requirement to "fill up" the RSF
6. The RSF is to mitigate, not cause, rate spikes
7. RSF funding determinations would create a "rate case within a rate case" requirement
8. GWA flexibility for FY 2025-2029 can be addressed in next five-year plan

We briefly offer the following counterpoints based on our understanding /interpretation of GCG's and the ALJ's reasoning.

- GWA concurs that the timing is difficult and yet regrettably necessitated by GWA's current precarious situation. Moreover, the timing and related rate increases are not going to get better with deferral. As a matter of arithmetic, not opinion, they will get worse.
- The provided references to CCU resolutions noting that "the RSF was established from GWA bond reserve balances of $11.4M and "**any amounts (if needed) will come from Operating Revenues**" is exactly what GWA is proposing to do, so this is not an argument to disapprove, quite the contrary.
- The cited Bond Covenant reference addresses transactional steps, and how GWA must make transfers into the RSF from revenues once it has been established. GWA has been complying with this specific provision, as well as Section 5.09 of the Bond Indenture, which is exactly why the RSF amounts proposed were in our CCU-approved budget and our True-Up filing. Therefore, the cited bond covenants are similarly not an argument to disapprove.

[6] Discussed in some detail in GWA's True-Up Projection for FY 2024 Rate report, Section I - FY2020 - FY2023 Financial Performance – Uses of Reserves, pp. 3-4.

- 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[7], 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 (as outlined above). Further, the PUC has supported the continuity and maintenance of reserves for a utility to protect against unexpected occurrences and extraordinary expenses, as evidenced by GPA's self-insurance reserves[8]. That same support should be applied to GWA in its current precarious financial position after depletion of previously established reserves.
- The RSF funding request – at roughly 60 percent of prior balance levels approved by the PUC – attempts to balance near term rate impacts with the substantial rate increases to be required in the FY 2025- 2029 period. Rate increase deferrals today will portend still higher rate increases prospectively.
- True-Up determinations of rate increase requirements, de facto, already require consideration of RSF fund balances (as has been the case since establishment of the RSF). GWA's True-Up submission does not contemplate or constitute a "rate case within a rate case" (whatever that is intended to mean) but rather requires and presents a deliberate consideration of factors impacting the True-Up year rate action required. GWA is stating that our revenue requirements include a prudent replenishment of existing RSF reserves, and it is entirely appropriate for the PUC to consider and act on that revenue requirement.
- The notion that it is proper and appropriate to again wait for a future rate proceeding and defer consideration of future funding and rate increase requirements explains much of why GWA is in its current precarious financial position. It is only responsible financial planning and management to look beyond the current fiscal year and take steps now to avoid future risks, especially in the face of daunting capital program financing requirements.

Fundamentally, it is a PUC policy decision whether it authorizes building reserves to help manage risks. While there is no legal requirement to do so, it is prudent and aligns with prior PUC action. 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.

A "middle ground" scenario may be used to illustrate, as shown in Appendix II. If the PUC were to adopt GCG's power expense adjustments but reject those related to labor expenses (and set aside post true-up submittal transactions as suggested below), rate increases of 23.5 percent would enable reserve replenishment of $5 million and continue to target 1.35x debt service coverage. If a reserve replenishment target is set at $6 million, the required rate FY 2024 increase is 1% higher; if set at $4 million, 1 percent

[7] Though a counter-argument is that there is a requirement that rates be set to protect the financial integrity of the utility and not impose undue financial or operational risks.

[8] May 28, 2013 Order in GPA Docket 11-09: Guam Power Authority's 2011 Multi-Year Base Rate Relief Filing

lower. Again, noting that each 1 percent of rate increase in FY 2024 also reduces FY 2025 rate increase requirements by marginally more than 1 percent, all else being equal.

GWA's reserve replenishment request of $7.5 million was informed by the fact that in FY 2023 over twice that amount was required to meet targeted debt service coverage, and by the fact that its FY 2025 – 2029 rate application will necessarily contemplate a major, multi-year rate increase program. GWA is cognizant of the arithmetic that reinforces the merit of early action, of **reversing** the call to put off until tomorrow what is merited today (that has been the hallmark of GCG rate recommendations). Yet, alternative approaches -- including building reserves more gradually – are viable options for PUC consideration.

2) 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. Setting aside varying contentions related to supporting documentation of staffing levels or the extent that forecasted expenses are driven by position counts versus changes to GWA's wage scales, the fundamental rate policy question centers on the need and merit of recognizing changes in staffing needs since the pandemic. GWA has requested additional staffing for multiple post-pandemic requirements including not only operation of the Northern District WWTP but also to implement water loss management measures, implement apprenticeship programs to build GWA's cadre of certified operators, and to ensure compliance with recently negotiated regulatory requirements. 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"[9] 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.

3) Power expense forecasting

GCG states that "GWA has correctly identified that power expenses increased dramatically in FY 2023 and FY 2024 as compared to **their** estimates in the Phase 2 hearing."[10] (emphasis added). Omitted from the narrative is the fact that GCG used these same estimates for its *Staff Exhibit – 2: Pro Forma Analysis* in the Comprehensive Review and Update. Both GCG and GWA were off by about $13 million for the FY 2022 and FY 2023 period, and the fundamental rate policy issue here relates to how to estimate power costs for FY 2024. GCG has suggested that their review and analysis of oil market trends now suggest that GWA's power expense forecast for FY 2024 may be reduced by roughly $950,000. GWA has employed more conservative assumptions given the recent power expense volatility and the thin margin for error that now characterizes GWA's financial position.[11] Clearly, GCG has proven no more clairvoyant than GWA; the risk management decision is the PUC's.

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[9] GCG report, p. 8.

[10] GCG report, p. 6. Also noting that these unanticipated expenses being a 'textbook example' of why RSF were created and how they should be used."

[11] A potential adjustment could be to modify the GWA FY 2024 expense forecast to reflect the now known LEAC rate through Feb 2024 while retaining the higher LEAC rate assumption for latter months. Doing so would reduce the power expense adjustment by approximately 1/3 or roughly $560,000.

IV. Ancillary Issues in Dispute

There are also three less significant issues that largely do not involve consideration of fundamental rate setting policy but rather amount to procedural differences related to when and how selected questions are to be addressed for purposes of FY 2024 rate setting. These issues relate to (1) transactions that occurred subsequent to GWA's True-Up filing on June 1, 2023, (2) how capitalized labor expense should be determined, and (3) True-Up filing protocols. Insofar as these ancillary issues may result in only marginal revisions in calculations of rate increase requirements, they are addressed only briefly here:

1) Post True-Up filing transactions: Badger settlement & Typhoon Mawar

Selectively, GCG noted that subsequent to GWA's filing its FY 2024 True-Up Projection, GWA settled litigation with Badger Meter for $1.9 million, yielding net (after litigation expense) proceeds of $950,000.[12] Yet, GCG does not consider the potential expenses related to Typhoon Mawar that have been estimated by GWA (again subsequent to GWA's FY 2024 True-Up Projection filing) to be at least $2 million factoring in potential federal relief funding. GWA has suggested that both these (somewhat offsetting) events, which occurred subsequent to the relevant filings in this matter, be set aside for the purpose of determining FY 2024 rates.

2) Capitalized Labor expense calculations

GCG's proposed adjustments include an increase of $459,140 based on their proposed reduction to Salaries and Benefits expenses (discussed above). Ironically, rather than consider the factors driving capitalized labor – as GCG called for with the stipulated analytical study completed for the Comprehensive Review and Update-- GCG blindly applied a factor of 14.29 percent. This is incorrect.

As noted above in the discussion of Salary and Benefits expenses, most if not all of the proposed staffing additions relate to operational needs – for the Northern District WWTP, for implementation of water loss controls, or for new operational protocols required under evolving regulatory regimes. Capitalized labor expense cannot be increased because the higher staffing expenses are not related to delivery of capital projects.

3) True-Up filing procedures

GCG and the ALJ have suggested that GWA's *True-Up Projection for FY 2024 Rates* submittal is different from other true-up filings "exceeding the scope of an ordinary true-up review."[13] GWA notes that contrary to GCG's contention, it has not employed different methodological approaches to that used for its Comprehensive Review and Update submittal. GWA has simply and appropriately updated the supporting Rate Application Model (RAM) with available billing determinant and expense data.

More broadly, as the ALJ notes in his draft Order, GWA's precarious financial position now necessitates "the largest true-up increase granted in the history of the PUC" even if the GCG/ALJ recommended rate relief is adopted. Without debating what could have been done to mitigate this outcome, GWA is

[12] Per bond covenants, and contrary to GCG's contention, these funds are not considered revenues nor do they impact debt service coverage calculations in the year of receipt.

[13] Draft Order, p. 3.

committed to providing as much relevant information as necessary to facilitate the PUC's decision-making process.

V. Conclusions

GWA's 27 percent rate increase recommendation was advanced to reverse the drain of GWA resources and incrementally improve GWA's financial position. This improvement is critically important in advance of the FY2025 – FY2029 financial planning period that must enable financing of important system enhancements and capital projects required to comply with federal regulatory mandates. GWA's recent uses of reserves to bridge gaps in revenue recovery enabled rate relief deferral, but that needed rate relief is now unavoidable.

With even GCG now acknowledging the need for unprecedented true-up rate relief (after their prior position of no rate relief for FY2024), the PUC's decision largely boils down to three fundamental issues:

(1) what, if any, emergency reserves should be funded in FY 2024 (acknowledging that nearly $18M in ARPA and RSF funding <u>was used in FY 2023 alone</u> to pay for operational costs and meet debt service coverage requirements).
(2) whether GWA staffing levels should be fixed at pre-pandemic levels or reflect new requirements related to Northern District WWTP operations, water loss management, and regulatory compliance.
(3) whether more or less conservative assumptions should be employed to project power expenses that have demonstrated profound volatility over the last 2+ years.

GWA is at an inflection point with respect to the PUC's FY2024 rate decision. If the PUC elects to grant GWA's requested rate relief and GWA's financial performance is better than projected, GWA will be able to reduce its FY2025 – FY2029 rate relief request accordingly. If the PUC elects to grant rate relief well below GWA's requested levels, risks of technical default and/or mid-year rate increase requirements prevail.

VI. Appendices

ATTACHMENT C

APPENDIX I to GWA RESPONSE REPORT

Appendix I - PUC Staff Proposed True-Up Schedule A-1

With adjustments for lower revenues (-2.5%) and higher expenses (+2.0%)

	Unaudited Historical Year FY 2022	*Annualized Current Year* FY 2023	*Forecast Next Year* FY 2024	
Non-Lifeline Rate Increase	*0.0%*	*5.5%*	***16.1%***	**Required Rate Increase for 1.355 DSC**
Lifeline Rate Increase	*0.0%*	*0.0%*	***16.1%***	
Surcharge	*3.6%*	*3.5%*	*3.8%*	
CASH SOURCES				
Water Service Revenues	64,607,199	68,999,129	80,127,231	
Legislative Surcharge	2,007,183	2,335,332	2,945,627	
Water SDC Revenues	498,145	660,000	489,600	
Water Rate Revenues	$ 67,112,526	$ 71,994,461	$ 83,562,458	
Wastewater Service Revenues	27,939,855	30,991,533	36,319,315	
Legislative Surcharge	1,003,591	763,370	972,635	
Navy Service Revenues (inc. surcharge)	5,902,821	6,244,199	7,311,694	
Wastewater SDC Revenues	747,217	990,000	734,400	
Wastewater Rate Revenues	$ 35,593,485	$ 38,989,103	$ 45,338,044	
Other Revenues	464,488	1,415,000	474,300	**Add Badger Meter Settlement $.95 million in FY 2023**
Bad Debt Adjustment	(2,028,510)	(2,118,815)	(2,262,236)	
Total Operating Revenues[1]	$ 101,141,989	$ 110,279,749	$ 123,934,752	***Revenues are 2.5% lower***
Interest / Investment Income	275,879	275,000	275,000	
Rate Stabilization Transfers / ARPA Funds In (Out)[2]	5,750,000	18,050,000	**950,000**	**Eliminate Rate Stabilzation Funding $7.5 Million, add $.95 million from RSF**
TOTAL SOURCES	**$ 107,167,868**	**$ 128,604,749**	**$ 125,159,752**	
CASH USES				
Power Purchases[3]	18,577,440	25,388,436	23,221,568	**Reduce for updated LEAC Primary 13.8kV $.224219/kWh - $1,925,848 in FY 23, and $947,520 in FY 24**
Water Purchases	5,656,471	6,379,055	5,900,000	
Salaries & Benefits[4]	24,985,288	25,874,596	29,105,247	**Reduce S&B by $627,606**
Admin & General[5]	7,956,423	9,179,209	9,687,858	
Contractual Expense	4,492,845	5,901,272	7,464,494	
Retiree Expense	7,439,742	3,755,617	3,755,617	
O&M Subtotal	$ 69,108,209	$ 76,478,185	$ 80,321,806	***Expenses are 1.5% higher***
Debt Service	33,458,069	39,036,678	39,042,065	
Internally Funded Capital (IFCIP)	1,598,655	4,804,084	8,784,879	
TOTAL USES	**$ 104,164,933**	**$ 120,318,946**	**$ 128,148,750**	
Net Annual Cash Flow	**$ 3,002,935**	**$ 8,285,803**	**$ (2,988,998)**	
DEBT SERVICE COVERAGE				
Net Revenues	$ 38,059,659	$ 52,126,564	$ 44,837,946	
Adjustment, System Development Charges	(1,245,362)	(1,650,000)	(1,224,000)	
Adjustment, Capitalized Labor	3,699,767	2,273,431	4,159,140	**Increase Capitalized Labor by $459,140**
Adjustment, Other[6]	3,303,593	673,200	729,706	
Net Revenues Available for Debt Service	$ 43,817,657	$ 53,423,195	$ 48,502,792	
Total Debt Service	33,458,069	39,036,678	39,042,065	
Debt Service Coverage	**1.310**	**1.369**	**1.242**	*Technical default on bonds*

ATTACHMENT D

APPENDIX II to GWA RESPONSE REPORT

Appendix II - True-Up Schedule A-1

"Middle of the Road" scenario with GCG's power cost changes, $5.0 million build-up of reserves (1.35x DSC)

		Unaudited Historical Year		*Annualized Current Year*		*Forecast Next Year*
		FY 2022		**FY 2023**		**FY 2024**
Non-Lifeline Rate Increase		*0.0%*		***5.5%***		***23.5%***
Lifeline Rate Increase		*0.0%*		*0.0%*		***23.5%***
Surcharge		*3.6%*		*3.5%*		*3.8%*
CASH SOURCES						
Water Service Revenues		64,607,199		68,999,129		84,520,500
Legislative Surcharge		2,007,183		2,335,332		3,108,306
Water SDC Revenues		498,145		660,000		489,600
Water Rate Revenues	$	67,112,526	$	71,994,461	$	88,118,406
Wastewater Service Revenues		27,939,855		30,991,533		38,352,448
Legislative Surcharge		1,003,591		763,370		1,023,899
Navy Service Revenues (inc. surcharge)		5,902,821		6,244,199		7,774,459
Wastewater SDC Revenues		747,217		990,000		734,400
Wastewater Rate Revenues	$	35,593,485	$	38,989,103	$	47,885,206
Other Revenues		464,488		465,000		474,300
Bad Debt Adjustment		(2,028,510)		(2,118,815)		(2,262,236)
Total Operating Revenues[1]	$	101,141,989	$	109,329,749	$	134,215,677
Interest / Investment Income		275,879		275,000		275,000
Rate Stabilization Fund Transfers In (Out)		5,750,000		18,050,000		**(5,000,000)**
TOTAL SOURCES	**$**	**107,167,868**	**$**	**127,654,749**	**$**	**129,490,677**
CASH USES						
Power Purchases[2]		18,577,440		27,871,109		23,221,568
Water Purchases		5,656,471		6,379,055		5,900,000
Salaries & Benefits[3]		24,985,288		25,874,596		29,732,853
Admin & General[4]		7,956,423		9,179,209		9,687,858
Contractual Expense		4,492,845		5,901,272		7,464,494
Retiree Expense		7,439,742		3,755,617		3,755,617
O&M Subtotal	$	69,108,209	$	78,960,858	$	79,762,390
Debt Service		33,458,069		39,036,678		39,042,065
Internally Funded Capital (IFCIP)		1,598,655		4,804,084		8,784,879
TOTAL USES	**$**	**104,164,933**	**$**	**122,801,619**	**$**	**127,589,334**
Net Annual Cash Flow	**$**	**3,002,935**	**$**	**4,853,130**	**$**	**1,901,342**
DEBT SERVICE COVERAGE						
Net Revenues	$	38,059,659	$	48,693,891	$	49,728,286
Adjustment, System Development Charges		(1,245,362)		(1,650,000)		(1,224,000)
Adjustment, Capitalized Labor		3,699,767		2,273,431		3,700,000
Adjustment, Other[5]		3,303,593		673,200		729,706
Net Revenues Available for Debt Service	$	43,817,657	$	49,990,522	$	52,933,992
Total Debt Service		33,458,069		39,036,678		39,042,065
Debt Service Coverage		**1.310**		**1.281**		**1.356**

1 - Reflects non-revenue water and non-revenue wastewater billing adjustments; includes leachate revenues

2 - FY 2024 estimate reflects Guam Power Authority's reduced LEAC; FY 2023 is CCU-approved budget amount

3 - Capitalized labor, which does not represent a cash impact, is not included in this calculation of annual net cash flow

4 - Excludes bad debt expense since this line item is included as an offset to rate revenues (per audited financials)

5 - Includes retiree COLA and end-of-year pension and OPEB adjustments