

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:) GWA Docket 19-08
)
PUC PETITION FOR APPROVAL OF)
GWA'S THIRD FIVE-YEAR FINANCIAL) **ORDER RE: ANNUAL**
PLAN (BASE RATE INCREASES)) **TRUE-UP FOR FY2024 RATES**
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INTRODUCTION

This matter comes before the Guam Public Utilities Commission ["PUC"] pursuant to the PUC's Rate Decision dated September 22, 2022 ["Rate Decision"].¹ Pursuant to the Rate Decision GWA was required to provide the PUC with an updated True-Up projection for FY2024.

BACKGROUND

Pursuant to the September 22, 2022 Rate Decision, the PUC approved a rate increase of 5.5% for FY2024. On June 1, 2023 GWA submitted its Annual True-Up Submission, Projection, and Request for Fiscal Year 2024 Rates ["2024 True-Up"].² Thereafter the Administrative Law Judge of the PUC ["ALJ"] transmitted GWA's True-Up submission to PUC Consultant Georgetown Consulting Group ["GCG"] for its review. The ALJ and GCG conducted an extensive review of GWA's filing. The PUC undertook investigatory discovery, and the ALJ engaged in discussions with GWA with respect to the issues related to GWA's submission. On September 13, 2023 GCG

¹ Rate Decision, GWA Docket 19-08, dated September 22, 2023.

² Annual True-Up Submission, Projection and Request for Fiscal Year 2024 Rates, GWA Docket 19-08, filed June 1, 2023.

provided the ALJ with a report regarding its review of the FY2024 True-Up.³ On September 15, 2023, the ALJ filed his report concerning the True-Up, which included his findings and recommendations based on the administrative record before the PUC. The PUC adopts the recommendations and conclusions in the GCG and ALJ Reports, with one modification as to Salaries and Benefits.

DETERMINATIONS

A. FY2023 Annual True-Up (for FY2024 Rates)

Base Lifeline and Non-Lifeline Rates

In FY2024, GWA will be completing the fifth year of its third 5-year financial plan (FY2020 through FY2024) and rate relief application with the PUC. In its True-Up GWA submits that it has thoroughly reviewed its revenue requirements and other requisites such as rate covenants and financial policies and considered known and measurable changes in costs and conditions. Based on these analyses, GWA has determined and recommends a 27.0% rate increase for basic lifeline and non-lifeline rates for FY2024 for all rate classes, effective October 1, 2023. GWA submits that the recommended rate increase is needed to meet increased power costs and existing debt service coverage. GWA states that the proposed rate increases are projected to increase system rate revenues by \$28.8 million 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.

B. Annual True-Up Review

1. Overview

³ Georgetown Consulting Group, Staff Report Responding to GWA's Petition for a 27% Across the Board True-Up Increase in Rates for FY 2024.

As indicated, GWA has requested a rate increase of 27% for FY2024; GCG has proposed an increase of 16.1%. The PUC has only made one modification to the rate increase proposed by GCG: an additional \$600,000 for Salaries and Benefits. The GCG Report presents detailed reasoning for its conclusions on the specific revenue and expense items for which rate increases should be allowed. A total rate increase of 16.7% is now approved. The PUC adopts the GCG Report, and the schedules presented, with the modification noted. The 16.7% rate increase for FY 2024 is the largest true-up increase granted in the history of the PUC.⁴

2. GWA True-Up Submission exceeds the Scope of an ordinary true-up review.

Ordinarily, a true-up is based upon an update to the schedules approved in the last rate case. A true-up is an “update” to revenues, expenses and other items referenced in the prior schedules. GWA’s submission goes far beyond an ordinary true up filing. It is more in the nature of a “mini rate case”. GWA’s filing includes an FY 2024 revenue forecast which employs a “enhanced methodology”, with new assumptions about residential account growth, water demand and wastewater flows, and price elasticity.⁵ The enhanced methodology” considers key trends and price responses. A change in how revenues are determined, and new forecast models, would normally be appropriate in a rate case, but not a true-up proceeding.

The ALJ and GCG have not had sufficient time to fully explore GWA’s new assumptions and methodology, and do not necessarily accept them. However, for purposes of this true-up, the ALJ and GCG have not challenged such assumptions and methodology and have used them in arriving at an appropriate rate increase. The ALJ and GCG have focused on specific changes in revenues or expenses that would justify a rate increase.

⁴ See PUC Order, GWA Docket 15-04, dated September 29, 2016; there the PUC granted a 14.5% true-up rate increase.

⁵ Annual True-Up Submission, at pgs. 5-6

3. Revenues

GWA has estimated a total revenue requirement of approximately \$137.57M; GCG has estimated a total revenue requirement of \$128.33M. Exhibits “1” and “2”, attached to the ALJ Report, are GCG’s proposed True-Up Schedule A-1 and True-Up Schedule A-1 GWA-As Filed. The GCG schedule indicates the changes that it has made to GWA’s rate request. The PUC approves the revenue requirement and schedules recommended by GCG except as to Salaries and Benefits.

4. Operating Expenses for FY2024

GWA has proposed operating expenses of \$80.7M. GCG has approved operating expenses of \$79.734M. The PUC approves the Operating Expenses recommended by GCG for FY2024.

5. Adjustments proposed by GCG

(a) Revenues from the Badger Meter Case Settlement.

GWA secured an additional \$1.9M of revenues because of the settlement in the Badger Meter Case. Although GWA has not clarified the details of the award or indicated fees and expenses, it has proposed to place \$950,000 in the Rate Stabilization Fund for FY2024. GCG could have proposed that GWA deposit the full award of \$1.9M into the Rate Stabilization Fund for FY2024, which would have further reduced the potential rate increase sought by GWA. The PUC approves the placement of \$950,000 in the Rate Stabilization Fund for FY2024.

**(b) Deposit into the Rate Stabilization Fund
[“RSF”] for FY2024**

GWA has proposed that it deposit \$7.5M into the RSF by charging its customers in FY2024 an additional \$7.5M in rates. If approved, such funding of the RSF through ratepayer rate increases would represent an almost 8% increase in GWA rates. As GCG points out, a double-digit rate increase is generally classified as a “rate shock” and a 27% proposed increase would fall into that category. The PUC does not approve the proposed increase of \$7.5M into the RSF for the following reasons:

(1) The timing of this requested increase is not beneficial, as the Guam economy is still recovering from the COVID Pandemic and Typhoon Mawar. A 27% rate increase is too great a burden for the ratepayers.

(2) GWA has not identified any specific expenses for which RSF Funding of \$7.5M is needed at the present time.

(3) There is no legal requirement that PUC “fill up” the RSF. The funds for the RSF have previously come from GWA reserve fund balances. The RSF was designed to deal with the effect of Covid pandemic on GWA revenues and debt service coverage.⁶

(4) The RSF is also designed to mitigate rate spikes and allow the smoothing of annual rate increases, not to cause such spikes.⁷ Furthermore, transfers will only be made by GWA out of the RSF “if it appears the DSC may fall below the required 1.25 coverage.”⁸

(5) GWA’s primary reason for increasing the RSF is to provide it with “flexibility” in advance of the FY2025-FY2029 rate case and anticipated further increases in debt service coverage. GWA can request such debt service coverage in its five-year FY2025-FY2029 rate case.

(6) GWA can request funding for the RSF at such time as funding is needed.

(c) Power Purchase Expense

GCG has recommended that GWA’s computation of power cost for FY2023 and FY2024 should be revised: “for FY2023, GWA did not reflect the approved

⁶ Issues for Decision, Guam Consolidated Commission on Utilities, GWA Resolution No. 11-FY2021 Work Session, at p. 62 of the CCU Commissioner Board Packet dated February 16, 2021.

⁷ Guam Consolidated Commission on Utilities, GWA Resolution No. 11-FY2021 at p. 65 of the CCU Commissioner Board Packet dated February 16, 2021.

⁸ Issues for Decision, Guam Consolidated Commission on Utilities, GWA Resolution No. 06-FY2022, at p. 322 of the CCU Commissioner Board Packet dated January 25, 2022.

and implemented GPUC reduction of the electric LEAC for June 2023 and beyond.”⁹ For FY2024, GWA requested \$24,169,088; GCG has approved \$22,764,673 for FY2024.¹⁰ GCG also proposes to grant GWA a 20% increase for power expenses for the period of February 2024 through September 2024, although there has of yet been no PUC action on the LEAC for that period. To date diesel fuel prices have increased approximately 20% since the PUC reduced the LEAC rate in June of 2023.¹¹ The PUC approves the power purchase expenses recommended by GCG.

6. Salaries and Benefits

GWA proposed a total salaries and benefits budget of \$29,732,853 for FY2024; GCG has adjusted that amount by \$627,606, to a total Salary and Benefits cost of \$29,705,247 for FY2024. GWA recommended that the staffing level in FY2024 be increased from 365 to 379 employees, an increase of 14 employees. The PUC determines that additional employees may be necessary to operate the Northern District Wastewater Plant. Therefore, there shall be an additional \$600,000 in rate revenues provided for GWA for the additional \$600,000 employee salaries for FY2024.

7. Contractual Expenses

GCG concurs with GWA’s request for \$7.465 million for FY2024 contractual expenses. However, GCG and the ALJ recognize the importance of the Northern District Wastewater and wastewater litigation and would authorize over \$1 million for such expenses in FY2024. GCG proposes that a “regulatory asset” be established for the litigation expenses for the NDWW Litigation. The PUC approves GCG’s recommendation and will authorize the creation of a regulatory asset for litigation expenses if necessary.

8. Debt Service.

⁹ Georgetown Consulting Group, Staff Report Responding to GWA’s Petition for a 27% across the Board True-Up Increase in Rates for FY2024, dated August 31, 2023, at p. 3.

¹⁰ See Exhibit “3” attached hereto, which sets forth GCG calculations on the power purchase expenses.

¹¹ Morgan Stanley, Asia Morning Call, September 14, 2023.

GCG has agreed to the debt service coverage amount requested for FY2024 of \$39.042M. The PUC approves such coverage.

9. **Legislative Surcharge**

GCG has approved an increase of the legislative surcharge, which includes retiree COLA an end-of-year pension and other adjustments, to 3.8%. The PUC approves the Legislative Surcharge

ORDERING PROVISIONS

After careful review and consideration of the above determinations, the GWA Annual True-Up Submission dated June 1, 2023, the September 13, 2023, GCG Report, the ALJ Report, the additional GWA and GCG submittals, and the record herein, for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission hereby **ORDERS** the following:

1. The conclusions and recommendations in the GCG and ALJ Reports, and the Staff FINAL RAM FY2024 True-Up and the adjustments and schedules set forth therein, are APPROVED, with an increase in rate revenues of \$600,000 for the additional \$600,000 Salaries and Benefits. GCG filed its final schedule A-1 and the Staff FINAL RAM FY2024 True-Up herein on September 28, 2023.

2. An across-the-board increase of 16.7% for GWA FY2024 rates is approved for implementation on October 1, 2023. The system-wide rate increase will apply to basic, lifeline, and non-lifeline rates and charges. The approved increase is “just” and “reasonable”. Schedule A, *Forecasted Operating Results with FY2024 Approved Rate Adjustment*, as prepared by GWA and reviewed and approved by the ALJ/Staff, is made an official part of this Order.

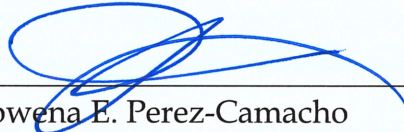
3. GWA is authorized to increase its Legislative Surcharge to 3.8%.
4. GWA shall file its next multi-year rate plan on or before April 1, 2024.
5. In accordance with 12 GCA §12102.2, a staffing study will be required for GWA's next multi-year rate case. This should be an independent study conducted by a third-party consultant.
6. GWA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses associated with the instant proceeding. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12103(b) and 12125(b)), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

[SIGNATURES TO FOLLOW ON NEXT PAGE]

Dated this 28th day of September, 2023.



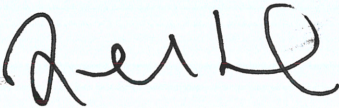
Jeffrey C. Johnson
Chairman



Rowena E. Perez-Camacho
Commissioner

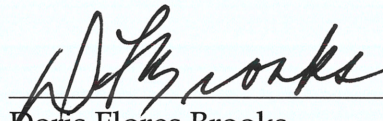


Joseph M. McDonald
Commissioner

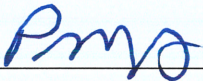


Peter Montinola
Commissioner

Michael A. Pangelinan
Commissioner



Doris Flores Brooks
Commissioner



Pedro S.N. Guerrero
Commissioner

True-Up Schedule A-1

Historical and Forecasted Operating Results with PUC Ordered FY 2024 Rate Adjustment

	Unaudited Historical Year	Annualized Current Year	Forecast Next Year
	FY 2022	FY 2023	FY 2024
Non-Lifeline Rate Increase	0.0%	5.5%	16.7%
Lifeline Rate Increase	0.0%	0.0%	16.7%
Surcharge	3.6%	3.5%	3.8%
CASH SOURCES			
Water Service Revenues	64,607,199	68,999,129	80,479,614
Legislative Surcharge	2,007,183	2,335,332	2,958,520
Water SDC Revenues	498,145	660,000	489,600
Water Rate Revenues	\$ 67,112,526	\$ 71,994,461	\$ 83,927,734
Wastewater Service Revenues	27,939,855	30,991,533	36,483,092
Legislative Surcharge	1,003,591	763,370	976,821
Navy Service Revenues (inc. surcharge)	5,902,821	6,244,199	7,347,687
Wastewater SDC Revenues	747,217	990,000	734,400
Wastewater Rate Revenues	\$ 35,593,485	\$ 38,989,103	\$ 45,542,000
Other Revenues	464,488	1,415,000	474,300
Bad Debt Adjustment	(2,028,510)	(2,118,815)	(2,262,236)
Total Operating Revenues ¹	\$ 101,141,989	\$ 110,279,749	\$ 127,681,798
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
TOTAL SOURCES	\$ 107,167,868	\$ 128,604,749	\$ 128,906,798
CASH USES			
Power Purchases ³	18,577,440	25,388,436	23,221,568
Water Purchases	5,656,471	6,379,055	5,900,000
Salaries & Benefits ⁴	24,985,288	25,874,596	29,705,247
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	\$ 79,734,784
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	\$ 127,561,728
Net Annual Cash Flow	\$ 3,002,935	\$ 8,285,803	\$ 1,345,070
DEBT SERVICE COVERAGE			
Net Revenues	\$ 38,059,659	\$ 52,126,564	\$ 49,172,014
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
Adjustment, Other ⁶	3,303,593	673,200	729,706
Net Revenues Available for Debt Service	\$ 43,817,657	\$ 53,423,195	\$ 52,836,860
Total Debt Service	33,458,069	39,036,678	39,042,065
Debt Service Coverage	1.310	1.369	1.353

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

2 - Per auditor opinion, ARPA funds will be considered as revenues when calculating debt service coverage

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

4 - Capitalized labor, which does not represent a cash impact, is not included in this calculation of annual net cash flow
- \$600,000 added for FY 2024 per final PUC Order to reflect benefit increases approved for FY 2024

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

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