BEFORE THE PUBLIC UTILITIES COMMISSION OF GUAM

IN RE: PETITION FOR APPROVAL OF GWA'S THIRD FIVE-YEAR FINANCIAL PLAN (BASE RATE INCREASES)	)	**GWA DOCKET 19-08**

OFFER OF DIRECT TESTIMONY OF BRIAN C. COLLINS

The Department of the Navy (Navy) hereby offers the direct testimony of Brian C. Collins on behalf of the Navy, attached hereto as Exhibit "A".

Dated this 6th day of August 2021.

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Christopher R. Odoca
Assistant Counsel, NAVFAC Marianas

EXHIBIT
"A"

BEFORE THE

GUAM PUBLIC UTILITIES COMMISSION

IN RE: PETITION FOR APPROVAL OF GWA'S THIRD FIVE-YEAR FINANCIAL PLAN (BASE RATE INCREASES)	**GWA Docket 19-08**

Direct Testimony of

Brian C. Collins

On behalf of

The United States Department of the Navy

August 6, 2021

BAI

BRUBAKER & ASSOCIATES, INC.

Project 11138

BEFORE THE

GUAM PUBLIC UTILITIES COMMISSION

IN RE: PETITION FOR APPROVAL OF GWA'S THIRD FIVE-YEAR FINANCIAL PLAN (BASE RATE INCREASES)	**GWA Docket 19-08**

Direct Testimony of Brian C. Collins

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Principal of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of The United States Department of the Navy ("Navy"). Our firm is under contract with Navy to perform cost of service, rate design and related studies. Navy represents the Department of Defense and all other Federal Executive Agencies in this proceeding.

Q HAS YOUR FIRM PREVIOUSLY PARTICIPATED IN REGULATORY PROCEEDINGS INVOLVING GUAM WATERWORKS AUTHORITY ("GWA") AND THE DETERMINATION OF THE RATES TO BE CHARGED TO NAVY?

A Yes. Our firm has participated in several regulatory proceedings related to GWA.

In addition, our firm has also been active in several Guam Power Authority ("GPA") proceedings. Navy has been an active participant in the development of the cost of service and rate design provisions of the Utility Services Contract, and its predecessor, the Customer Service Agreement.

Summary

Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A My testimony responds to GWA's proposed wastewater class cost of service ("CCOS"), proposed wastewater class revenue allocation and rate design.

Q DOES THE FACT THAT YOU MAY NOT HAVE ADDRESSED A PARTICULAR REVENUE REQUIREMENT OR ALLOCATION ISSUE IN YOUR TESTIMONY MEAN THAT YOU ARE IN AGREEMENT WITH GWA?

A No. The fact that I have not addressed a particular issue should not be interpreted to mean that I am necessarily in agreement with GWA.

Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A My findings and recommendations are as follows:

1. Based on my review of GWA's proposed wastewater CCOS study, Navy does not oppose the use of the study as a guide for class revenue allocation.

2. Based on the results of GWA's wastewater CCOS study, I recommend that Navy's rate class be moved to its specific wastewater class cost of service as determined by GWA.

3. The CCOS would result in a cost-based volumetric rate of $12.18 per Kgal for Navy, as opposed to the volumetric rate of $12.80 per Kgal recommended by GWA for Navy.

4. If the Guam Public Utilities Commission approves a lower revenue requirement than requested by GWA, Navy's approved cost-based rate of $12.18 per Kgal would be adjusted downward proportionally.

Cost of Service Principles

Q COULD YOU PLEASE EXPLAIN THE RATEMAKING PROCESS AND THE DESIGN OF RATES?

A The ratemaking process has three steps. First, we must determine the utility's total revenue requirement and the extent to which an increase or decrease in revenues is necessary. Second, we must determine how any increase or decrease in revenues is to be distributed among the various customer classes. A determination of how many dollars of revenue should be produced by each class is essential for obtaining the appropriate level of rates. Third, individual tariffs must be designed to produce the required amount of revenues for each class of service and to reflect the cost of serving customers within the class.

The guiding principle at each step should be cost of service. In the first step, determining revenue requirements, it is universally agreed that the utility is entitled to a revenue increase only to the extent that its actual cost of service has increased. If current rate levels exceed the utility's revenue requirement, a rate reduction is required. In short, rate revenues should equal actual cost of service. The same principle should apply in the second and third steps. Each customer class should, to the extent practicable, produce revenues equal to the cost of serving that particular class, no more and no less. This may require a rate increase for some classes and a

rate decrease for other classes. The standard tool for performing this exercise is a CCOS study that shows the cost to serve each class. The goal is to modify rate levels so that each class provides revenues equal to its cost of service. Finally, in designing tariffs for individual classes, the goal also should be to align the rate design with the cost of service so that each customer class's rate tracks, to the extent practicable, the utility's cost of providing service to that customer class.

Q WHEN YOU SAY "COST," TO WHAT TYPE OF COST ARE YOU REFERRING?

A I am referring to the utility's "embedded" or actual accounting costs of rendering service; that is, those costs that are used by the Commission in establishing the utility's overall revenue requirement.

Q WHAT IS THE BASIC PURPOSE OF A CCOS STUDY?

A The basic purpose of a CCOS study is to determine the costs that a utility incurs to provide service to different classes of customers. After the utility's overall cost of service (or revenue requirement) is determined, a CCOS study is used to allocate the cost of service among the utility's customer classes.

A CCOS study shows the extent to which each customer class contributes to the total cost of the system. The CCOS study therefore is an important tool, because it shows the revenue requirement for each class.

Reliance on a properly prepared CCOS study in designing rates serves to minimize improper price signals and cross-subsidization issues between rate classes and customers within a rate class.

Q WHAT ARE THE MAIN ELEMENTS OF A CCOS STUDY?

A Cost of service is a basic and fundamental ingredient to proper ratemaking. In all CCOS studies, certain fundamental concepts should be recognized. Of primary importance among these concepts are the functionalization, classification, and allocation of costs.

Functionalization is the determination and arrangement of costs according to major functions, such as wastewater treatment and collection.

Classification involves identifying the nature of these costs according to whether the costs vary with the demand placed upon the system, the quantity of service consumed or usage, or the number of customers being served.

After the assignment of costs to each classification, each cost category must be allocated to classes. Fixed costs are those costs that tend to remain constant over the short run irrespective of changes in output, and are generally considered to be demand-related. Fixed costs include those costs that are a function of the size of the utility's investment in facilities, and those costs that are necessary to keep the facilities "on line." Variable costs, on the other hand, are basically those costs that tend to vary with throughput (or usage), and are generally considered to be commodity-related. Customer-related costs are those costs that are most closely related to the number of customers served, rather than the demands placed upon the system or the quantity consumed.

Q WHY IS IT IMPORTANT TO ADHERE TO BASIC COST OF SERVICE PRINCIPLES IN THE RATEMAKING PROCESS?

A The basic reasons for using cost of service as the primary factor in the ratemaking process are equity and stability.

Q PLEASE DISCUSS THE EQUITY CONSIDERATION.

A When rates are based on cost of service, each customer class pays what it costs the utility to serve that customer class, no more and no less. Charging no more and no less than cost of service is equitable. But when rates are not based on cost of service, then some classes are required to contribute disproportionately to the utility's revenues by subsidizing the service provided to other customer classes. This is inherently inequitable.

Q PLEASE DISCUSS THE STABILITY CONSIDERATION.

A When rates are closely tied to costs, the cost recovery impact on the utility associated with changes in numbers of customers and their usage patterns will be minimized as a result of rates being designed in the first instance to track changes in the level of costs. Thus, cost-based rates provide an important enhancement to a utility's revenue stability, thereby reducing the utility's need to file for future rate increases.

From the perspective of the customer, cost-based rates provide a more reliable means of determining future levels of costs. If rates are based on factors other than costs, it becomes much more difficult for customers to translate expected utility-wide cost changes (*i.e.*, expected increases in overall revenue requirements) into changes in the rates charged to particular customer classes (and to customers within the class). From the customer's perspective, this situation reduces the attractiveness of expansion, as well as continued operations, because of the lessened ability to plan. Cost-based rates provide accurate price signals that provide customers with important information necessary to make expansion decisions as well as decisions regarding continued operations, thus improving their ability to plan.

Class Cost of Service and Revenue Allocation

Q HAVE YOU REVIEWED GWA'S PROPOSED WASTEWATER CCOS STUDY?

A Yes. Based on my review, I do not oppose the use of GWA's proposed wastewater CCOS study methodology to guide class revenue allocation.

Q HAS GWA BASED NAVY'S PROPOSED WASTEWATER CLASS REVENUE ALLOCATION ON NAVY'S COST OF SERVICE AS CALCULATED BY GWA?

A No. GWA has not based Navy's proposed class revenue allocation on Navy's calculated wastewater class cost of service.

Navy's wastewater class cost of service as calculated by GWA is $6,880,397, which results in a volumetric base rate of $12.18 per Kgal for Navy. However, GWA's proposed Navy wastewater volumetric base rate of $12.80 per Kgal would collect $7,230,630 from Navy. GWA's proposed rate would collect more than Navy's cost of service.

Navy's current base wastewater volumetric rate is $11.60 per Kgal. Thus, GWA's rate proposal of $12.80 per Kgal results in a 10.3% increase to Navy, as compared to a cost-based increase of 5% for Navy.

Q HOW MUCH OF A BASE WASTEWATER RATE SUBSIDY WOULD NAVY PROVIDE TO OTHER RATE CLASSES UNDER GWA'S CLASS REVENUE ALLOCATION PROPOSAL?

A Under GWA's proposed class revenue allocation and volumetric rate for Navy, Navy would provide a base rate subsidy of approximately $350,000 in the first year of GWA's multi-year rate plan (Fiscal Year 2022) to other rate classes at the wastewater rate of $12.80 per Kgal proposed by GWA for Navy.

The annual subsidy provided by Navy would increase on a compounding basis in years 2 and 3 of the rate plan. The increasing subsidy provided by Navy during the multi-year rate plan is shown in Table 1 below.

Over the course of GWA's rate plan, Navy will provide a total subsidy to other rate classes equal to approximately $1.15 million.

TABLE 1

GWA Multi-Year Wastewater Rate Plan

Line	Description	Year 1	Year 2	Year 3	Total
1	Proposed Increase for Navy		10%	7%	
2	Cost of Service ($/Kgal) [1]	$ 12.18	$ 13.40	$ 14.34	
3	Proposed Rate ($/Kgal)	$ 12.80	$ 14.08	$ 15.07	
4	Subsidy Provided by Navy ($/Kgal)	$ 0.62	$ 0.68	$ 0.73	
5	Navy Volume (Kgal)	564,893	564,893	564,893	
6	Total Subsidy Provided By Navy ($)	$350,234	$385,257	$412,225	$1,147,716

[1] Cost of service estimated for Year 2 and Year 3

Q ARE COST OF SERVICE BASED RATES IMPORTANT TO NAVY?

A Yes. To the extent practical, rates for classes should be based on class cost of service. This is particularly important for Navy. Both Navy and Andersen Air Force Base are large consumers of wastewater services on the GWA system. It is vital that the appropriate allocation of costs to GWA's wastewater rate classes is based on proper cost-causation principles. Navy supports class rates based on cost of service as measured on proper cost-causation principles, as this will better ensure that the U.S. military installations on Guam accomplish their missions in the most cost-efficient way. Under cost-based rates, Navy would pay no more or no less than the cost it causes GWA to incur for providing it wastewater service. Navy would pay its class cost of service under a volumetric base rate of $12.18 per Kgal.

Q HOW DO YOU RESPOND TO GWA'S PROPOSED WASTEWATER CLASS REVENUE ALLOCATION FOR NAVY?

A I recommend that Navy be brought to its CCOS using GWA's proposed cost of service methodology. Based on GWA's claimed revenue requirement, this would result in a wastewater base rate for Navy of $12.18 per Kgal.

Q DOES NAVY RECOGNIZE THAT THERE ARE ADVERSE FINANCIAL IMPACTS ON SOCIETY IN GENERAL AS A RESULT OF THE COVID PANDEMIC?

A Yes. However, Navy is not aware of any jurisdiction that has placed the burden of mitigating utility rate increases during the pandemic on any one rate class or group of customers. GWA has proposed higher increases to the rates and charges of governmental users relative to other classes in order to mitigate the increases on customer classes it believes are most impacted by the pandemic, including the Residential class as well as the Hotels class and some Commercial classes. Providing mitigation to customer classes during the pandemic should not fall on the shoulders of a single group of customers. Rather, the financial effects of the pandemic should be shared system-wide.

Q HOW WOULD YOUR RECOMMENDATION CHANGE IF GWA'S FINAL REVENUE REQUIREMENT IS LOWER THAN WHAT IT HAS REQUESTED?

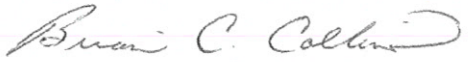
A If the Guam Public Utilities Commission approves a lower revenue requirement than requested by GWA, Navy's approved cost-based rate of $12.18 per Kgal would be adjusted downward proportionally.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

I, Brian C. Collins, aver the foregoing statements are true and accurate to the best of my knowledge,

August 6, 2021



Qualifications of Brian C. Collins

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am a consultant in the field of public utility regulation and a Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A I graduated from Southern Illinois University Carbondale with a Bachelor of Science degree in Electrical Engineering. I also graduated from the University of Illinois at Springfield with a Master of Business Administration degree. Prior to joining BAI, I was employed by the Illinois Commerce Commission and City Water Light & Power ("CWLP") in Springfield, Illinois.

My responsibilities at the Illinois Commerce Commission included the review of the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before the Commission as well as the review of utilities' requests for certificates of public convenience and necessity for new electric transmission lines. My responsibilities at CWLP included generation and transmission system planning. While at CWLP, I completed several thermal and voltage studies in support of CWLP's operating and planning decisions. I also performed duties for CWLP's Operations Department, including calculating CWLP's monthly cost of production. I also determined CWLP's

allocation of wholesale purchased power costs to retail and wholesale customers for use in the monthly fuel adjustment.

In June 2001, I joined BAI as a Consultant. Since that time, I have participated in the analysis of various utility rate and other matters in several states and before the Federal Energy Regulatory Commission ("FERC"). I have filed or presented testimony before the Arkansas Public Service Commission, the California Public Utilities Commission, the Delaware Public Service Commission, the Public Service Commission of the District of Columbia, the Florida Public Service Commission, the Georgia Public Service Commission, the Idaho Public Utilities Commission, the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service Commission, the Public Utilities Board of Manitoba, the Minnesota Public Utilities Commission, the Mississippi Public Service Commission, the Missouri Public Service Commission, the Montana Public Service Commission, the North Dakota Public Service Commission, the Public Utilities Commission of Ohio, the Oregon Public Utility Commission, the Rhode Island Public Utilities Commission, the Public Service Commission of Utah, the Virginia State Corporation Commission, the Public Service Commission of Wisconsin, the Washington Utilities and Transportation Commission, and the Wyoming Public Service Commission. I have also assisted in the analysis of transmission line routes proposed in certificate of convenience and necessity proceedings before the Public Utility Commission of Texas.

In 2009, I completed the University of Wisconsin – Madison High Voltage Direct Current ("HVDC") Transmission Course for Planners that was sponsored by the Midwest Independent Transmission System Operator, Inc. ("MISO").

BAI was formed in April 1995. BAI and its predecessor firm has participated in more than 700 regulatory proceedings in forty states and Canada.

BAI provides consulting services in the economic, technical, accounting, and financial aspects of public utility rates and in the acquisition of utility and energy services through RFPs and negotiations, in both regulated and unregulated markets. Our clients include large industrial and institutional customers, some utilities and, on occasion, state regulatory agencies. We also prepare special studies and reports, forecasts, surveys and siting studies, and present seminars on utility-related issues.

In general, we are engaged in energy and regulatory consulting, economic analysis and contract negotiation. In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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BEFORE THE PUBLIC UTILITIES COMMISSION OF GUAM

IN RE: PETITION FOR APPROVAL OF GWA'S THIRD FIVE-YEAR FINANCIAL PLAN (BASE RATE INCREASES)	)	**GWA DOCKET 19-08**

CERTIFICATE OF SERVICE

I hereby certify, pursuant to Rule 4, that on 06 August 2021, I caused service of eight copies of the Department of the Navy's "Offer of Direct Testimony of Brian C. Collins", including Exhibit "A" attached thereto, and this "Certificate of Service" by hand delivery to the Public Utilities Commission of Guam:

Public Utilities Commission of Guam
Suite 207, GCIC Building
414 West Soledad Avenue
Hagatna, GU 96910

Additional copies were served by hand delivery on 06 August 2021 to:

Miguel C. Bordallo
General Manager
Guam Waterworks Authority
Gloria B. Nelson Public Service Building, Mangilao, Guam 96913

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Additional copies were served by email on 06 August 2021 to:

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Dated this 6th day of August 2021.

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Date: 2021.08.06 08:01:30 +10'00'

Christopher R. Odoca
Assistant Counsel, NAVFAC Marianas