



**BEFORE THE
PUBLIC UTILITIES COMMISSION OF GUAM**

IN THE MATTER OF:)	DOCKET 11-09
)	
GUAM POWER AUTHORITY'S 2011)	STIPULATION RE PHASE II
)	
MULTI-YEAR BASE RATE FILING)	ISSUES
)	

The GUAM POWER AUTHORITY ("GPA") and GEORGETOWN CONSULTING GROUP, INC. ("GCG"), which serves as an independent regulatory consultant to the GUAM PUBLIC UTILITIES COMMISSION ("PUC") (the "Parties"), hereby stipulate as follows:

Background

1. On February 8, 2012, the PUC's Administrative Law Judge ("ALJ") issued an Order Re: Preliminary Issues deferring certain issues until Phase II of this proceeding, including GPA's Self Insurance Program ("SIP") and all issues relating thereto.

2. Pursuant paragraph 8(b) of a Stipulation entered into by the parties to this docket on April 5, 2012, the parties recommended that the PUC initiate a process as part of Phase II to provide additional guidance on issues related to the Debt Service Coverage Ratio ("DSCR") requirements to be made applicable to GPA's subordinate revenue bonds. This recommendation was accepted by the PUC in Determination paragraph 21 of its May 7, 2012 Rate Decision.

3. The ALJ directed the parties to attempt to reach agreement on the Phase II issues, and the parties, after having met and conferred, have reached agreement on most of the issues as set forth herein.

GPA Self Insurance Program Cap and Protocols

4. Attached hereto as Exhibit A, and incorporated by reference, is a set of Self Insurance Program Protocols ("SIPP") which the parties jointly recommend for approval by the PUC.

5. Pursuant to recommended SIPP Protocol VIII, the parties agree that the SIP Reserve Cap should remain at the amount of \$20,000,000 until changed by the PUC.

DSCR Issues Related to Subordinate Debt

6. The parties have previously filed reports with the PUC setting forth their agreement as to how the DSCR for subordinate debt should be calculated. The agreed upon formula to be used can be stated as follows:

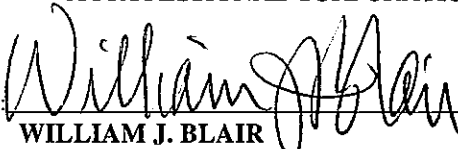
(Net Revenues as defined by the PUC or S&P Method)
divided by (total debt service for senior and subordinate
debt)

7. The parties have not reached agreement as to the proper DSCR standard to be adopted by the PUC for regulatory purposes for subordinate debt. GPA believes that a DSCR standard of 1.4x is appropriate. GCG believes that a slightly lower DSCR standard of 1.3x would be adequate, but that any standard should be flexible and subject to possible adjustment depending on relevant circumstances. The rationales of the parties have been set forth in reports previously or contemporaneously filed with the PUC. The appropriate ratio is the only open Phase II issue remaining.¹

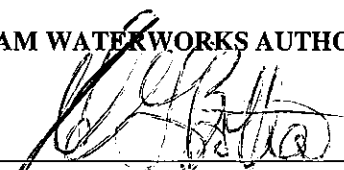
SO STIPULATED.

**GEORGETOWN CONSULTING
GROUP, INC.**

BY: **BLAIR STERLING JOHNSON
& MARTINEZ**
A PROFESSIONAL CORPORATION

BY: 
WILLIAM J. BLAIR
Attorneys for Georgetown Consulting Group, Inc.

GUAM WATERWORKS AUTHORITY

BY: 
D. GRAHAM BÓTHA
Legal Counsel

ATTACHMENT: EXHIBIT A

¹ There were additional issues identified by the ALJ in his Preliminary Order which remain unresolved, including the PILOT issue. Those issues have been resolved in other dockets (e.g. the GPA proposal to reduce the LEAC period from 6 months to 3 months) or further deferred for future consideration.

EXHIBIT A

The Self Insurance Program Protocols

The Self Insurance Program (SIP) of the Guam Power Authority (GPA) will be administered pursuant to the SIP Protocols (SIPP) set forth herein.

Protocol I Scope

The Self Insurance Program (SIP) is established for the purpose of providing GPA with a dynamic mechanism to recover all unanticipated and extraordinary expenses associated with Insurable Events, as defined herein. The SIP shall be used to reimburse GPA for:

- losses resulting from hazards such as accidents, explosions, fires, floods, storms, wind events, cyclones, typhoons, earthquakes, tsunamis, natural disasters, equipment failures, and similar events to the GPA's own property or property leased from others, and costs associated with: pre-hazard preparation and mitigation activities; provision of service during the hazard; GPUC approved hazard mitigation projects; and restoration of the system to at least its pre-hazard state;
- losses that would normally be covered by insurance to the extent that such losses are not covered by insurance;
- deductible amounts contained in insurance policies held by GPA; and
- other approved purposes based on specific petition to the Guam Public Utilities Commission (GPUC) including reimbursement for any loss of net revenues necessary to meet its minimum DSCR requirements under its bond indentures.

Protocol II Insurable Event

Insurable Events for the SIP include: accidents, explosions, fires, floods, storms, wind events, cyclones, typhoons, earthquakes, tsunamis, natural disasters, equipment failures, and similar hazards that would normally be covered by insurance. Nothing in the SIPP shall be deemed to prohibit GPA from petitioning the GPUC for approval to use the SIP Reserve for additional purposes, such as, as examples only, to cover loss of revenues and short-term liquidity in the event of business interruption that would normally be covered by insurance to the extent that such losses are not covered by insurance.

Protocol III Exclusions

Items not covered under the SIP are:

- Losses covered through GPA's other insurance policies;
 - Business interruption costs not caused by an Insurable Event;
 - Leased real property and equipment covered by other insurance;
-

- Losses caused by actions of a governmental unit;
- Normal wear and tear; and
- Workmen's compensation claims.

Protocol IV Minimum Threshold Amount

A Minimum Threshold Amount of \$200,000 per Insurable Event represents the minimum incurred amount required to access the SIP Reserve.

Protocol V Draw Declaration

A Draw Declaration consisting of a written self-certification by the GPA General Manager that a loss has occurred or is occurring that exceeds the Minimum Threshold Amount and is associated with an Insurable Event, or that pre-hazard preparation is necessary to minimize service interruptions that may result from an impending Insurable Event. This self-certification by the General Manager shall be applicable for SIP draws for expenditures of up to \$5.0 million per Insurable Event. The Consolidated Commission on Utilities (CCU) shall authorize all SIP draws above the \$5.0 million threshold.

Protocol VI SIP Reserve

The SIP Reserve shall be separately accounted for by GPA and invested in a diversified approach that maximizes interest income while moderating investment risk and adhering to reasonable SIP liquidity constraints. All interest earnings will be reinvested into the SIP Reserve.

Protocol VII SIP Reserve Sources

The SIP Reserve will be funded through proceeds collected through the Self Insurance Surcharge, amounts obtained through securitization or bond issuance, insurance proceeds or reimbursements for prior SIP Reserve drawdowns, SIP Reserve interest earnings, and any additional funding sources directed to be deposited into the SIP Reserve.

Protocol VIII SIP Reserve Cap

The SIP Reserve will continue to accrue until it reaches the SIP Reserve Cap, which shall remain at \$20,000,000 until changed by the GPUC. GPA will retain an outside expert at least every three years to review the adequacy of the SIP Reserve Cap and recommend changes, if appropriate. Any change to the SIP Reserve Cap must be approved and authorized in writing by the GPUC and reflected in this Protocol VIII of the SIPP. Such risk assessments shall be performed by a firm specializing in actuarial analysis taking into consideration liquidity available by access to lines of credit, existing delivery system inventory of T&D materials and supplies, temporary cash investments, and the cash

position of the existing SIP Reserve. If acceptable to the GPUC, the initial risk assessment under this Protocol shall be prepared no later than June 2016.

Protocol IX Self-Insurance Surcharge¹

The Self Insurance Surcharge will be set at \$0.0029 per kilowatt hour (kWh) sold by GPA to civilians and \$0.0007 per kWh sold by GPA to US Navy customers. The Self Insurance Surcharge will remain in effect until the amount in the SIP Reserve reaches the SIP Reserve Cap, and shall be reinstated at any time the balance in the SIP Reserve thereafter falls to less than \$18,000,000.

Protocol X Drawdown Report

Within 60 days of the end of a month in which disbursements (drawdowns) are made from the SIP Reserve, GPA shall provide a Drawdown Report to the CCU, with a copy to the GPUC, identifying the amount and purpose of the drawdown in sufficient detail to allow auditing of such transaction. The Drawdown Report shall include, but not be limited to: (i) the drawdown amount; (ii) the purpose of the drawdown; (iii) vendors paid including name, address, telephone, authorized representative, and invoice; (iv) materials purchased including receipts; (v) employee payments broken out by employee, and nature of pay (regular, overtime, special); (vi) itemized accounting of materials drawn from GPA's warehouse; (vii) if applicable, a copy of the CCU resolution approving a drawdown to the SIP Reserve in excess of \$5.0 million; and (viii) a monthly summary of kWhs consumed in the 12-months prior to the Insurable Event and a monthly summary of kWhs consumed following the Insurable Event, and (ix) the Draw Declaration.

Protocol XI Photographic Documentation

Prior to initiation of repairs or restoration activities, GPA will obtain Photographic Documentation for any loss associated with any Insurable Event in sufficient detail to meet any FEMA requirements. Photographic Documentation will be maintained for a period of ten years.

Protocol XII Allowable Expenditures

The types of costs allowed to be charged to the SIP Reserve include, but are not limited to, activities associated with loss preparation (proactive and reactive) and restoration activities associated with an Insurable Event such as:

- (i) Additional contract labor;
- (ii) Logistics costs of providing meals, lodging, and linens for tents and other staging areas;
- (iii) Transportation of crews;

¹ Figures cited are current as of the date of this report.

- (iv) Vehicle costs for vehicles specifically rented for the Insurable Event;
- (v) Waste management costs specifically related to the Insurable Event;
- (vi) Rental equipment specifically related to the Insurable Event;
- (vii) Materials and supplies used to repair and restore service and facilities to pre-event condition, such as poles, transformers, meters, light fixtures, wire, and other electrical equipment;
- (viii) Overtime payroll and payroll-related costs for overtime pay to utility personnel related to the Insurable Event;
- (ix) Fuel cost for GPA and contractor vehicles;
- (x) Increased costs for fuel used for power generation;
- (xi) Increased power generation costs and/or purchased power costs;²
- (xii) Carrying costs from the date costs are incurred until recovered;
- (xiii) Expediting costs;
- (xiv) Debris removal;
- (xv) Tree trimming and other preparation activity initiated at the onset of a tracked storm event;+
- (xvi) Infrastructure hardening activities (e.g. replacing wooden poles with concrete, using stronger straps for streetlights, etc.) approved in accordance with the SIPP that are in excess of any amounts contained in GPA's current capital budget;
- (xvii) Cost of public service announcements regarding key event-related issues, such as safety and service restoration estimates;
- (xviii) Deductible amounts contained in insurance policies held by GPA;
- (xix) Losses below the deductible for GPA insurance policies in the event the Governor of Guam does not petition the President of the United States to declare the island a major disaster area;
- (xx) Costs for Protocol XV compliance audits;
- (xxi) Costs of outside experts required to comply with FEMA requirements and the SIPP; and
- (xxii) Other purposes based on petition to and approval of the GPUC.

Protocol XIII Federal Emergency Management Agency Petition

In the case of natural disasters in which Guam is determined to be a major disaster area by the President of the United States, GPA shall make best efforts inclusive of the reliance on disaster reimbursement recovery experts to petition FEMA for reimbursement of deductible levels under GPA's insurance programs including this SIP as well as amounts that exceed the funding levels available in this SIP and GPA's insurance policies.

² This language has been included to allow for the use of alternative generation resources, potential 3rd-party generation (for example generators or barge-mounted power stations), power purchases from the Department of Defense, and other power solutions (e.g., cruise ship provided support) used in the aftermath of a natural disaster as well as potential future changes to the system.

Protocol XIV Loss Mitigation

GPA may seek to use the SIP Reserve to fund activities associated with infrastructure hardening activities intended to mitigate future damage not directly associated with an impending Insurable Event. Use of the SIP Reserve for such mitigation activities shall require prior approval from both the CCU and the GPUC.

GPA shall make all efforts to seek redress from manufacturers/retail sellers of any products purchased by GPA and deemed to be defective. Any recoveries made from such warranty claims shall be deposited to the SIP Reserve. GPA will at all times seek to mitigate losses associated with Insurable Events.

Protocol XV Audit

All SIP Reserve drawdowns and Draw Declarations in excess of \$2,500,000 will be audited by an independent third party for SIPP compliance on an annual basis. GPA will retain an independent audit firm to prepare the report. The audit report will be provided to the Audit Committee of the CCU and a copy will be provided to the GPUC.

Protocol XVI Conflicts with Other Insurance Policies

Since the purpose of the SIP is to provide for losses not covered by other insurance policies, conflicts with other GPA insurance policies will be the responsibility of the other insurance policy.

Protocol XVII SIPP Modifications

Any modifications to the SIPP must be authorized in writing by the CCU and the GPUC.