October 21, 2013

**Jeffrey Johnson, Chairman**

Guam Public Utilities Commission

Suite 207, GCIC Building

Hagåtña, Guam 96932

**Docket 13-15: Review of GPA FY 2014-16 Construction Budget**

Dear Chairman Johnson,

Lummus Consultants International, Inc. (Lummus Consultants) is pleased to submit this letter report in response to Mr. Horecky’s request on October 4, 2013, to evaluate and submit a short report with respect to GPA’s FY 2014-2016 Construction Budget.

Introduction

Lummus Consultants understands that the CIP budget is subject to the Contract Review Protocol and that the Public Utilities Commission sets a construction budget at the beginning of the year based on a “reasonableness” review; however, any project in excess of $1.5 million still requires a detailed contract review package prior to the Authority entering into contracts.

Table 1, below, summarizes GPA’s construction budget for FY 2014 that has been approved by the Consolidated Commission on Utilities (CCU), as well as projections for the following two fiscal years.

**Table 1: GPA Three-Year FY2014-16 Construction Budget Summary**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FY 2014** | **FY 2015** | **FY 2016** |
| **Internally Funded** | **$7,363,110** |  |  |
| **Externally Funded Bond Projects** | **$54,916,000** | **$7,000,000** |  |
| **Total Construction Budget** | **$62,279,110** | **$7,000,000** |  |

We understand that the PUC has already approved the externally funded bond projects as they were under the umbrella of GPA's previously approved bond issues, including $26.1 Million in Short Term Bond Financing, $27.856 Million in 2010 Revenue Funds, and .96 Million in 1999 Revenue Funds.

With respect to our evaluation as to the prudence of these projects, we understand that engineering has only high level justifications available at this time and while GPA has been working on improving its planning they were not provided with the PUC filing. Industry standards in the US typically include a prioritization of projects that includes a description of each project, the economics of each project, and a relative prioritization of all projects such that the reviewers can understand the investment profile for capital projects.

Lummus Consultants believes the purpose of a construction budget review should be to inform stakeholders of the relative importance and worth of capital projects, and the ability to understand the relative prioritization of the projects of interest. Without detailed information regarding a projects justification and how the budget was developed, the “reasonableness” of a particular project and its associated budget is difficult to determine. In order to be able to comment in any meaningful way, project justifications must be clear, concise and comprehensive. To perform an adequate review each major project ($1.5 million and above as defined by statue) should address the following:

* Whether the project is consistent with the organization’s strategic direction;
* The impact the project will have on service delivery;
* How the project contributes to increased productivity;
* What budgetary impact and economic return the project will produce;
* What options have been considered; and
* Whether the project will require external funding.

Major project justification should at a minimum:

* Identify the project name and location;
* State the project objectives, and identify the most suitable options to meet the objectives;
* Briefly describe the process used to analyze these options;
* Outline the results of the economic analysis including;
* the costs and benefits of the most suitable options,
* the results of the analyses of these options, and
* the identification and justification of assumptions used;
* Outline the results of any social, environmental and budget analyses, as may be applicable;
* Provide a risk assessment of the options;
* Rank the options; and
* Identify the preferred option.

Each of these concerns were raised in the report provided by Lummus Consultants to the PUC in 2012 with regard to the 2013 budget. At a minimum, major project buckets should have full project descriptions included with the budget submission for review so that the PUC understands progress on major items (such as Smart Grid or Underground fuel Pipeline Conversion, for example) as many such project cover multiple years. With regard to internally funded CIP projects, for each major category a full project description should be provided in order to allow more refined review of the investments proposed. A full prioritization of the project should be provided for all CIP so that the PUC understands how the GPA will address revenue or funding short falls should they occur.

Lummus Consultants’ Recommendations

1. Lummus Consultants believes the purpose of a construction budget review should be to inform stakeholders of the relative importance and worth of capital projects. Without detailed information regarding project justification and how the budget was developed the “reasonableness” of project and its associated budget is difficult to determine. Every effort should be made to have the needed project justification information available before the beginning of the fiscal year.
2. With the limited information provided Lummus Consultants is left to base its “reasonableness” solely on the basis of very high level information and comparing the proposed projects to similar efforts with which we are familiar. With that understanding Lummus Consultants finds the proposed projects and their associated budgets “reasonable” in that they are of a similar nature and scope to projects being performed by electric utilities in other jurisdictions.

Sincerely,

**Kathleen A. Kelly**

Vice President

Lummus Consultants International Inc.