BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

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The Port Authority of Guam)	**Port Docket 15-04**
[PAG] Request for PUC Investigation)	
of Rates and Tariffs)	
)	

Report of the Tariff Investigation for the Port Authority of Guam

For Guam Public Utilities Commission Support Port Docket 15-04

October 18, 2015

Revision History

Version	*Changed By*	*Date*	*Revision Description*
1.0	J. Steadley	08/16/15	Original
2.0	C. Anderson	09/15/15	First draft
3.0	C. Anderson, J. Steadley	10/02/15	Final review and comments
4.0	PAG	10/16/15	Review of draft
5.0	J. Steadley	10/18/15	Final

This document presents the Guam PUC's investigation into the Port Authority of Guam's request for a 1 year tariff increase.

Table of Contents

List of Figures

1.0 EXECUTIVE SUMMARY

Summary of Review

Pursuant to Public Law 30-52, the PAG gave proper notice of the intent to increase the tariffs on March 31, 2015, thereby meeting public review requirements. On June 1, 2015, the PAG submitted a rate petition and tariff study to the Commission. The PAG also submitted a 1 year Tariff Petition and supporting documentation for the Commission's review and approval.

The documents that served as the basis for the investigation were:

- Government of Guam Public Law 30-52.
- Base Rate Case Petition, dated June 1, 2015, including:
  - Proposed Tariff Rate Table
  - Testimony of various PAG officials and their consultant
- 5-Year Tariff Projection (as outlined in the Parsons Brinkerhoff Memorandum dated December 24, 2014 included in the Base Rate Case Petition)
  - Parsons Brinckerhoff Revised Schedules dated 9/23/2015 attached as Attachment C.
- Master Plan Update 2013 Report, dated November 2013
- Port Authority of Guam Financial Statements and Independent Auditors' Reports for FY2012, 2013 and 2014.

Based on the PUC Consultant's review of the proposed Tariff and supporting documentation, several areas were evaluated to determine if the proposed tariff is "just and reasonable." The evaluative questions were:

- Are the proposed fees just and reasonable based upon the prevailing economic climate?
- Are the proposed fees just and reasonable based upon comparable fees / practices from other ports?
- Will the tariff increase allow PAG to operate in a fiscally responsible manner given its current and projected revenue and costs?

Overall, the proposed tariff rate adjustments are "just and reasonable" based upon the current economic environment, the prevailing market rates and the need to raise additional funds to support infrastructure improvements. As part of the evaluation, more weight was given to the comparison of the tariff structures and the fiscal requirements of the PAG than to the prevailing economic conditions.

Findings

- The requested tariff increase is "just and reasonable".

- The PAG has deferred $7.26 million in maintenance on critical equipment and infrastructure. This is important to note since it will impact the PAG's ability to operate efficiently and to obtain funding for new port projects.
- The PAG has not taken steps to reduce operating expenses; including, but not limited to, reducing the number of cranes in operation despite direction from the Commission to consider this action.
- Based upon the review of the financial forecast, which includes the loss of revenue from transshipment; PAG will continue to have difficulty funding operations and maintenance and will have minimum financial reserve.

Recommendations

- The requested tariff rates be approved by the Commission.
- The PAG review its plan to adjust salaries to 50th market percentile to determine the impact on the financial stability of the Port. A report should be provided to the Commission by December 2015.[1]
- The PAG Board review the impact of the 7% increase to determine if another increase is justified.[2]
- The PAG Board review and implement changes to operational activities which can reduce its maintenance backlog and cost of operations. The PAG leadership team should report its plan to reduce OPEX to the Commission by March 2016.
- The PAG Board establish a financial reserve based upon ratios used by other ports.

[1] This is recommended since the PAG's ratio of salaries to the overall operating expenses is the highest of any port we reviewed. It can be inferred that salaries are being increased at the expense of critical maintenance.

[2] The PAG Board will return in June 2016 with another tariff increase request.

2.0 OVERVIEW OF THE PROPOSED TARIFF

The overview of the PUC's investigation of the Tariff will discuss the Port Authority of Guam's (PAG) request for consideration of increases to current rates in the tariff and describe the justification presented by PAG to support the increase. A review of the salient points for the justification will be compared with other documentation to determine if the request is based upon factual or subjective data.

Since becoming operational in 1966, the Port Authority of Guam (PAG) has served as the hub for commerce on the island of Guam and the local region. The Port of Guam, located along major Pacific shipping routes, is an important transportation hub, linking the Commonwealth of the Northern Marianas, the Micronesian islands, and the expanding Far East markets with the United States and the rest of the world. It is estimated that over 90% of the day-to-day goods consumed on Guam pass through the port and over its piers and quays. Since its inception, there has been limited improvement to its facilities and its capacity to move cargo.

The PAG gave proper notice of the intent to increase the tariffs in accordance with Public Law 30-52 on March 31, 2015, thereby meeting public review requirements. On June 1, 2015, the PAG submitted a rate petition and tariff study to the Commission. In addition, the PAG submitted the documents to a Port User's Group and other customers for their review and comment on May 19 and 20, 2015. The PAG also submitted a 1 year Tariff Petition and supporting documentation for the Commission's review and approval.

In the Tariff Petition, the PAG General Manager listed the following reasons for the requested tariff increase:

> *"The Port serves the needs of not only Guam but also the entire Micronesian Region for it is a transshipment hub. Over 90% of the day-to-day goods and supplies consumed by the population in the region pass through the Port. In order for the Port to remain as a viable modernized seaport, the Port must properly plan ahead to anticipate the changes that will effectuate the Port in the foreseeable future. The proposed tariff adjustment rate of 7% was determined by revenue requirements of the Port considering projected operating and capital costs and debt service required.*

> ***THE PAG MISSION***
> *The Port Authority of Guam is dedicated to providing full services to ocean vessels in support of loading and unloading cargo for Guam and Micronesia. The Port Authority of Guam is the main lifeline of consumer goods into the island, and as such, recognizes its responsibility to deliver these goods in a timely and efficient manner. In support of this mission the Port Authority also provides land and infrastructure to private interests to further develop the maritime industries on Guam. As a public corporation, the Port Authority dedicates all of its profit to the upgrading of equipment and facilities and the continued growth of the island's seaport.*

> *The propose tariff increase of 7% is vital for the generation of sufficient revenues to cover operating costs of the Port Authority, debt services and capital programs for modernization and sustainability. The primary objective is to maintain an economically sustainable tariff that is equitable and reasonable for the port as well as its users, consistent with the quality and level of service provided by the port. As importantly, the petition will provide the basis and justification for PAG's application to PUC for a change in tariffs."*

The 7% tariff increase is a substantially greater increase than the PAG Board has previously requested. The primary justification presented for the increase is to cover operating costs, debt service and capital programs.

PAG is seeking a 1 year tariff increase in order to:
- *Modernize its facilities*
- *Improve its financial performance*
- *Improve its level of service*
- *Improve productivity*
- *Increase the salaries of its staff*

Although the PAG presented documentation for a 5-year tariff increase, the PAG Board decided to only request a 1 year increase in order to review the impact. Another tariff request will occur in June 2016.

The long term plan anticipates continued payment of debt service on existing loans which have funded:

- $7 million in Wharf Repairs
- $1 million towards the Terminal Operating System (TOS)
- $2 million to purchase two top lifters

Additional debt issuance totalling approximately $38 million,which is to be paid over 30 years, is planned to fund the Gate Operating System, Hotel Wharf and Administration Building projects.

Along with funding operations and capital programs, the proposed tariff increase will also help the PAG meet its current debt service. Current debt service is approximately $2,029,707 per year[3].

[3] 5-Year Accelerated Tariff Petition Analysis memorandum to PAG Guam, Schedule F, Parsons – Brinckerhoff, dated 26 December 2014

3.0 DISCUSSION OF THE INVESTIGATION APPROACH

This section describes the approach that was used to conduct the investigation.

The critical element in the investigation of the tariff increase is to determine if the requested increase is "just and reasonable".

Many factors must be considered when analyzing the PAG proposed tariff to reach this determination. The factors include the impact on the regional economy, the need of the Port to cover its costs, as well as the need of the PAG to build, modernize, and maintain facilities to improve the movement of people and goods to and from the region.

We encompassed all of these factors in the three task process presented below:

Figure 1: Process for Investigation

Prepare	Investigate	Recommend
• Collect data from PAG • Review documentation • Review previous reports • Define criteria for "just and reasonable" • Identify information gaps	• Collect additional information from PAG • Collect additional information from other data sources • Conduct evaluation based upon "just and reasonable" criteria • Develop initial recommendations	• Review draft recommendations with PAG • Edit investigation • Provide draft report with recommendations to Guam PUC ALJ • Provide ongoing support

The objective of the investigation was to arrive at a recommendation to the Guam Public Utilities Commission (Commission) as to whether the request for the tariff increase by the PAG Board is "just and reasonable".

Based upon the process shown above, a determination of "just and reasonable" is determined by the responses to the following questions:

- Are the proposed fees reasonable based upon a commonly used and accepted benchmark, the Consumer Price Index (CPI)
- Are the proposed fees reasonable based upon comparable fees / practices from other ports?
- Are the proposed fees sufficient to cover PAG operating costs and capital investment plans?

To answer these questions, we reviewed:

- Comparable ports to determine if the proposed tariff request was in-line with similar requests
- The financial forecasts provided by the PAG to determine both the current and future plans for Operating and Capital expenses
- Other sources of data e.g. Guam's Consumer Price Index (CPI) to determine if the request was supportable based upon this indicator

As part of the tariff increase investigation, we developed a high level risk assessment related to the revenue assumptions defined in the various planning documents. The risk assessment is presented in Section 7 of this report.

Additionally, we reviewed the documentation for the 5-year tariff plan that was presented by the PAG. In reviewing this longer plan, we identified areas of concern. This is documented in Appendix A.

4.0 ANALYSIS TO DETERMINE JUST AND REASONABLE

The Analysis section reviews the proposed increases to the tariff using the criteria defined in the previous section.

There were several rationales advanced by PAG leadership and its consultant to serve as a foundation for the proposed tariff increases. The overarching justification centers on the need of the PAG to support operational costs, upgrade facilities and modernize its operating systems and equipment in order to meet projected demand for cargo throughput.

The approval of the Legislature of the 2007 Port Master Plan) ratified a $261 million capital development plan needed to properly modernize and expand existing facilities to meet both near-term and long-term cargo demands.

Subsequently, the PAG has updated the Master Plan (2013 PMP), provided studies, reference material, reports and analyses to support proposed tariff increases. The 2015 Increase Tariff Petition included a 5 Year plan created for the PAG by Parsons-Brinkerhoff (P-B).

PAG is seeking 1 year tariff increase in order to:

- *Modernize its facilities*
- *Improve its financial performance*
- *Improve its level of service*
- *Improve productivity*
- *Increase the salaries of its staff*

As outlined in the previous section, we executed the following tasks in our approach to assess the proposed tariff relative to a "just and reasonable" determination:

- Compared the increase in PAG tariffs against the Guam Consumer Price Index (CPI). The CPI reflects the increases and decreases for costs of goods that are consumed on the island. In general, expenses at organizations like the PAG are indexed against the CPI. This comparison indicates, at a gross level, if it is "just and reasonable" to increase rates predicated on the overall increase or decrease in the cost of goods on the island
- Compared the cost of operations to the similar ports along with tariff requests
- Conducted a high level review of the cost recovery analysis modeled by the PAG's Consultant to determine if the proposed tariff increase is adequate to support the operating costs and capital investment plans that have been approved for the PAG

COMPARISON TO THE CPI AND OTHER COST CONSIDERATIONS

Based upon the calculated CPI, a comparison was conducted to determine if the proposed tariff increases were in line with the CPI trend since 1996.

The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households, both families and single persons living alone. The Guam CPI is based on the concept of a representative "market basket", a sample of all goods and services that consumers purchase as determined by the 2005 Household

Income and Expenditure Survey (HIES) funded by the US Department of Interior to the US Census Bureau, and is similar in design with the US CPI.

The CPI is measured from a total of 165 items from 8 major groups, and indices are computed at two different levels of aggregation. More than 1,200 price quotations are collected during the middle month of each quarter either by telephone or on-site survey by qualified price enumerators. There are approximately 222 business outlets included in the construction of the CPI, ranging from grocery, department and hardware stores to a variety of service establishments.

The Consumer Price Index (CPI) is a measure estimating the change in average price of consumer goods and services purchased by households.

The GovGuam Bureau of Statistics and Plans reported the CPI for Q1 FY 15 to the Guam Legislature in April 2015. The report provided average price changes for all groups and subgroups, and special indexes from consecutive quarters to one year earlier. An annual average and annualized inflation rate was also reported.[4]

Overall, the Guam 2015 1st Quarter CPI of 116.0 shows a -1.6 percent decrease over the 4th quarter of 2014, and -0.3 percent when compared to the same period one year earlier. The purchasing power of the dollar gained 1¢ this quarter to $0.59 when compared to base year 1996.

PAG leadership evaluated the impact of the 7% tariff increase. The evaluation, as shown in Figure 2, was based on five commodities[5]. The analysis is based upon the number of units that can be stored in a forty foot shipping container.

Figure 2: PAG Analysis of Proposed Tariff Impact on Consumer Prices

Item	Canned beverage	Canned Spam	Lettuce head	Rice – 20 lbs. bag	Lumber (2 x 4x 8)
Increase in Cost of Container	$29.19	$29.19	$37.69	$29.19	$29.19
Increase in unit cost	$0.0006	$0.0006	$0.0016	$0.0128	$0.0082

The PUC's Consultants did not audit the estimates provided by PAG to determine the accuracy of their estimates. However, previous analysis and reports have provided similar data showing that increases in port rates have

[4] *Guam Consumer Price Index FY 15 Q1, VOL XLI, No.1* Guam Bureau of Statistics and Plans

[5] *5 year Tariff Petition Outreach – May 2015 presentation*, Port of Guam

little impact on the price of goods. Therefore, the PAG's conclusions as shown above appear reasonable.

Given the marginal impact on consumer prices, the request to increase the tariff under this criteria, is considered "just and reasonable."

COMPARABLES TO OTHER PORTS

In the PUC Consultant's 2010 investigation of the interim tariff review, the Hawaii Harbors Division was selected as an appropriate comparable to the PAG. Hawaii, like Guam, is dependent on imports for commodities that include a range of common items critical to economic and lifestyle sustainment, including automobiles, lumber, petroleum products, as well as most foodstuffs and consumer items. Hawaii is a similarly isolated region. Major common carriers serve both Guam and Hawaii, with equivalent commodities.

In the 2010 review, it was noted that Hawaii contemplated further adjustments to its rates in accordance with the schedule shown in Figure 3.

Figure 3: Proposed Hawaii Port Increases[6]

Proposed Date of Increase	Proposed % Increase
1-Jul-10	20%
1-Jul-11	15%
1-Jul-12	10%
1-Jul-13	7%
1-Jul-14	5%
1-Jul-15	3%
Thereafter	3%

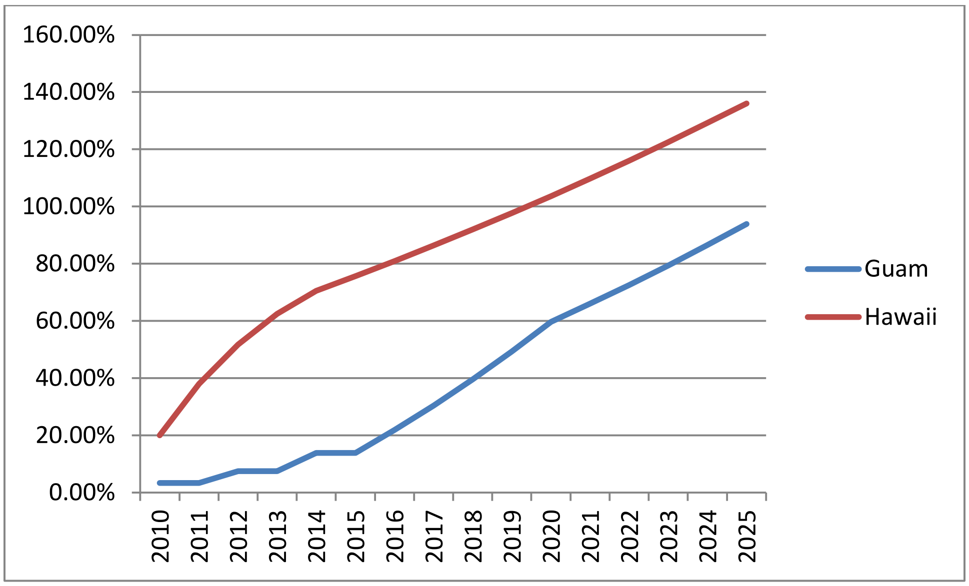
In accordance with the approved amendments to the Hawaii Administrative Rules that took effect in February 2010 Hawaii has implemented the above adjustments every year. Therefore, with compounding, Hawaii has increased rates by over 76% between 2010 and 2015. During the same period, PAG has only increased its rates by 14%.

In reviewing the proposed 5-year plan, the rate adjustments taken by PAG since 2010 combined with the 7% annual increases proposed through 2020

[6] Rules Amending Title 19 Hawaii Administrative Rules, September 02, 2009, Chapter 19-44, Hawaii Administrative Rules, Subtitle 3, Harbors Division, Section 19-44-73,

were reviewed. If compared to the adjustments taken by Hawaii and the 3% annual adjustments planned by Hawaii in the foreseeable future, the PAG will have increased its rates by 60% while Hawaii will have increased rates by 104%. P-B has proposed that the PAG take annual increases of 3.95% after 2020. When compared with the increases planned by Hawaii, the PAG will have increased rates by 93% through 2025 and Hawaii will have increased rates by 136% during the same period as shown in Figure 4 below.

Figure 4: Rate adjustment comparison between Hawaii and Guam



Given that the adjustments taken and proposed by Hawaii are significantly higher than those proposed by the PAG, based on the precedent established by a key, comparable, regional port; the PUC Consultant again concludes that the proposed PAG 5-year plan for 7% annual adjustments is "just and reasonable."

TARIFF IMPACT ON COST RECOVERY

Is the proposed tariff increase sufficient to cover operating costs, capital investments, debt service and growth of the management fund? The simple answer to this question is "No". The PAG has lost revenue in transshipment, continues to defer maintenance and has plans for significant increases in staff salaries which all potentially decrease funds available for operations and capital investment. The losses in base revenue combined with the proposed increases in operating costs provides for minimal excess revenues even with the proposed adjustments.

Although the tariff request before the Commission is for one year only, we did evaluate the approach used by the P-B over the 5 year period since a one year snap shot would not allow for long term projects.

According to the P-B memorandum submitted with the tariff request[7], the proposed 5-year plan of 7% increases through 2020, and subsequent increases of 3.95% through 2034, will produce surplus revenue of $69 million. According to P-B, the Net Present Value (NPV) of that surplus is $33 million which according to P-B "...falls far short of what will be needed during the 20-year planning horizon to address the replacement of aging facilities."[8]

According to P-B, the proposed tariff increases will not be sufficient to cover operating costs and capital investments unless there is a military buildup consistent with P-B's Mid-Range scenario. Furthermore, the projected revenues will not be sufficient to fund crane replacements in future years.

Cargo Projections

Cargo handling fees and tariffs represent the largest revenue stream for the PAG. As such, a sound methodology for estimating these revenues must be used so the PAG is able to determine its ability to both meet its financial obligations and support future improvement plans.

> The PAG has taken a conservative approach in estimating the revenue that will be generated from fees and tariffs related to cargo handling.

The 2013 Master Plan Update estimates "organic growth" to be a 1.1% increase per year between 2010 and 2020. This appears to be based on several factors including a 50-year historic population trend analysis and the 2008 U.S. Census Bureau Projected Growth Rates of 1.09% and 1.2% respectively.[9] The projected increase drops to 0.9% between 2020 and 2030. However, the updated 2010 U.S. Census Bureau Growth Rate identified on page 3-11 of the 2013 Master Plan indicates only a 0.29% population growth between 2000 and 2010.

As shown in Figure 5 below, 2007 total containers handled by PAG staff were 99,620. By 2014, total containers handled had shrunk to 85,696; a 14 % reduction. The drop was primarily due to the loss of transshipment business. Local containers during that period dropped from 67,766 to

[7] 5-Year Accelerated Tariff Petition Analysis Memorandum by Parsons-Brinckerhoff dated December 26, 2014

[8] 5-Year Accelerated Tariff Petition Analysis Memorandum, Parsons Brinckerhoff dated December 26, 2014, p. 7

[9] 2013 Master Plan Update, page 3-12 Table 3-3 "Guam Projected Organic Growth Rates"

66,251 while transshipped containers dropped from 31,854 to 19,445. The most recent drop in transshipped containers was due to Marianna Express Lines' (MEL) decision in 2013 to use Majuro as a transshipment center. As a result, MEL reduced its transshipped containers from 150 per week to 30 per week. The loss of 120 containers per week (6,240/year) caused a significant drop between 2013 and 2014.

Figure 4: Shipping Data - Containers

Year	Local No. of Containers Handled	Transhipped No. of Containers Handled	Total No. of Containers Handled
2007	67,766	31,854	99,620
2008	68,946	30,962	99,908
2009	64,966	29,107	94,073
2010	66,279	30,673	96,952
2011	65,854	30,211	96,065
2012	63,858	28,889	92,747
2013	65,421	25,382	90,803
2014	66,251	19,445	85,696

Although container counts have dropped in the past few years, revenue tonnage has not changed as dramatically. Revenue tonnage in 2007 was 2,068,775. In 2014 revenue tonnage was 1,929,120 (approximately 6.75% lower than 2007). However, in the past two years, revenue tonnage has remained at approximately 1.9 million tons in spite of the drop in transshipment containers.

Figure 5: Shipping Data - Tonnage

Year	Revenue tons[10]
2007	2,068,775

[10] Source: PAG web site and 2013 Master Plan Update p. 6-1.9

Year	Revenue tons10
2008	2,059,819
2009	1,885,903
2010	2,231,451
2011	1,952,203
2012	2,060,107
2013	1,914,728
2014	1,929,120

The PAG is projecting modest (1.1%) increases in cargo shipments over the foreseeable future. While increases in local container shipments in the past three years is a positive growth trend, significant losses in transshipped containers is of concern.

P-B is predicting that transshipment volumes will increase slightly in future years. However in their Supplemental Transshipment Analysis, they claim that "increased Transshipment (TS) rates would have negative consequences on the Port's transshipment business."[11] Since TS rates have not been excluded from the proposed 5-year rate increases TS rates will increase over the next 5 years.

Therefore, if P-B' assertions are valid, transshipment activity could be further impacted.

The impact of business decisions that indicate a higher tariff is needed

The PAG has made a number of business decisions which impact the proposed tariff. In some cases, the decisions are creating an environment where a lower tariff is supportable; other decisions are creating an environment in which a higher tariff than the requested 7% would be prudent.

Some of the indicators that would lead to the need for a higher tariff are:

- No improvement in the PAG's financial margin
- Deferring maintenance due to lack of funding

[11] Transshipment Analysis - SUPPLEMENT, December 26, 2014 p. 5-1

- Not being able to cover planned Capital and Operational expenses
- Increasing the salaries of the PAG staff without a corresponding increase in revenue
- Operating unnecessary equipment
- Excluding Crane Surcharges from proposed increases Financial management decisions
- Reliance on grant funding to meet operational needs
- Process improvements are not leading to reduce operating costs

Many of these decisions will have a longer term impact than the proposed 1 year tariff increase. For this reason, we have conducted a detailed analysis of in Appendix A. The purpose of this appendix is to provide PAG leadership with points for consideration in evaluating both the success of the 7% tariff increase along with the need for potentially higher increases.

SUMMARY OF ANALYSIS

The objective of this section was to evaluate the proposed tariff increase to determine if it met the "just and reasonable" criteria.

The questions that were used in the evaluation were:

- Are the proposed fees reasonable based upon a commonly used and accepted benchmark, the Consumer Price Index (CPI)
- Are the proposed fees reasonable based upon comparable fees / practices from other ports?
- Are the proposed fees sufficient to cover PAG operating costs and capital investment plans?

> The requested tariff increase is "just and reasonable"; however, it may not be adequate to place PAG on a sound financial footing.

Based upon the need to improve the financial health of the PAG by increasing tariff rates, it is logical to assume that the proposed rates will exceed the CPI. As such, we relied on two criteria - comparables to other ports and operational financial needs – as the primary basis for determining "just and reasonable".

- Based upon the review of the cost impact on a limited number of goods, the tariff increase does exceed the CPI however it does not seem to increase costs of goods to an unreasonable amount.
- Based on the increases imposed in Hawaii, the PUC Consultant believes that the proposed increase of 7% is "just and reasonable".
- Based upon the financial needs of the PAG, the proposed tariff is "just and reasonable" but it will not allow the PAG to operate on a sound financial footing.

5.0 FINDINGS

The Findings section presents what was determined during the rate investigation. The findings include a determination of whether the proposed interim rates are "just and reasonable".

Overall, the proposed tariff rate adjustments are "just and reasonable" based upon the CPI and the need to raise additional funds to support infrastructure improvements.

The findings in this investigation are:

- The requested tariff increase is "just and reasonable".
- The PAG has deferred $7.26 million in maintenance on critical equipment and infrastructure. This is important to note since it will impact the PAG's ability to operate efficiently and to obtain funding for new port projects.
- The PAG has not taken steps to reduce operating expenses; including, but not limited to, reducing the number of cranes in operation despite direction from the Commission to consider this action.
- Based upon the review of the financial forecast, which includes the loss of revenue from transshipment; PAG will continue to have difficulty funding operations and maintenance and will have minimum financial reserve.

6.0 RECOMMENDATIONS

The Recommendations section provides recommendations to the Guam PUC related to the adoption or modification of the proposed interim tariff increases proposed by the PAG.

Based upon the investigation of the supporting documents, we recommend that:

- The requested tariff rates be approved by the Commission.
- The PAG review its plan to adjust salaries to 50th market percentile to determine the impact on the financial stability of the Port. A report should be provided to the Commission by December 2015.[12]
- The PAG Board review the impact of the 7% increase to determine if another increase is justified.[13]
- The PAG Board review and implement changes to operational activities which can reduce its maintenance backlog and cost of operations. The PAG leadership team should report its plan to reduce OPEX to the Commission by March 2016.
- The PAG Board establish a financial reserve based upon ratios used by other ports.

[12] This is recommended since the PAG's ratio of salaries to the overall operating expenses is the highest of any port we reviewed. It can be inferred that salaries are being increased at the expense of critical maintenance.

[13] The PAG Board will return in June 2016 with another tariff increase request.

7.0 ANALYSIS OF RISK

This section discusses potential risks related to the decisions upon which the tariff increase was developed.

As part of our investigation, we considered two additional questions related to the proposed tariff:

- Where are the risks related to the proposed tariff approach?
- Will the proposed changes to the tariff allow PAG to operate in a profitable manner?

In the following sections, we are presenting our analysis of these two questions:

Figure 6: High Level Risk Assessment

Risk	Discussion	Risk Level
The cargo throughput, estimated in the P-B report, will not be achieved	Although the PAG as assumed a more conservative approach, this metric bears watching.	**Low**
The DoD build up in Guam will be delayed or reduced substantially in scope	PAG is no longer forecasting revenues based upon the military build-up	**Low**
Funding sources for capital improvements will not reach the levels needed to finance the 2013 PMP and PAG CDP	Federal and external commercial funding sources are important components of the funding plan to achieve necessary capital development objectives. The individual sources must be assessed as to the probable level of funding and fund delivery timing.	**Moderate**
The approvals for the port improvements will be delayed which will delay the start and completion of construction.	The Port Management Contract award continues to be delayed.	**Moderate**
Operating costs will not decrease.	As was noted in the P-B report, PAG has not made significant progress in implementing more efficient practices.	**High**
Operating costs will continue to rise without a	The PAG is planning for an increase in the salaries for	**High**

Risk	Discussion	Risk Level
corresponding increase in revenue.	the staff to meet the recommendations of a salary analysis. Additionally, the PAG continues to operate equipment which is not required in order to meet the throughput capacity.	

APPENDIX A – ANALYSIS OF CONSIDERATION POINTS FOR A 5-YEAR TARIFF

With the PAG's consultants recommending the approval of a 5-Year tariff, the PAG leadership has several points to consider related to the size and timing of the tariff request.

Based upon the review of the financial projections, the PAG Master Plan and the current and planned financial obligations, it is the opinion of the PUC consultants that the PAG leadership is not requesting a large enough tariff increase.

This section contains a more detailed analysis of the need for a higher increase in the tariff for the PAG.

The indicators that would lead to the conclusion that a higher tariff should be considered are:

- No improvement in the PAG's financial margin
- Deferring maintenance due to lack of funding
- Not being able to cover planned Capital and Operational expenses
- Increasing the salaries of the PAG staff without a corresponding increase in revenue
- Operating unnecessary equipment
- Excluding Crane Surcharges from proposed increases Financial management decisions
- Reliance on grant funding to meet operational needs
- Process improvements are not leading to reduce operating costs

No improvement in the PAG's financial margin

Because of past business decisions, minimal tariff increases and the downturn in cargo volumes, the PAG has been operating on a very thin financial margin. In answers to questions, the PAG indicated that it has only $4.5 million in unrestricted reserves which represents about 1.5 months of operating costs. The PAG's audited financial statements for recent years show a loss before grants are considered. The revised financial projections submitted by PB indicate that even with the proposed 7% adjustments, the PAG will show annual financial statement losses of $2 million to $3.3 million in the next 5 years if it borrows funds to complete its near term capital program. [14]

[14] Parsons Brinckerhoff revised Schedule A Income Statement dated 9/23/2015

The impact of deferring infrastructure maintenance

In 2011, the PAG indicated that it had placed maintenance projects on hold as part of a "belt tightening" effort. When asked about the projects that had been deferred, the PAG indicated that $7.26 million in projects had been delayed. In reviewing the PAG's financial information at that time, it was very concerning that the PAG had not spent and was not proposing to spend any significant dollars on maintenance projects. Given the harsh saltwater environment the port operates in and the age and condition of improvements at the PAG, the PUC Consultants were extremely concerned about the deferral of major maintenance projects.

The PAG was asked about the status of the deferred maintenance projects and has indicated that "certain deferred components listed back then folded into ongoing modernization program as described in the master plan."[15] The concern with this approach is that some of the projects in the modernization program may not be undertaken in the near future due to the lack of sufficient funding. Therefore, the assets will continue to deteriorate and may require substantially more investment to repair or replace improvements.

In reviewing audited financial statements for the past three years, the PUC Consultants noted that since 2011, PAG has undertaken some major repair projects in partnership with other agencies. The PAG received federal grants from the Department of the Interior and the USFW for repairs to the Gregorio D Perez "Hagatna" Marina. PAG also received a grant for the Western Pacific Regional Fishery Management Council to fund dock improvements at the Agat marina. The PAG also replaced fuel lines at the Golf Pier in a joint project with the Department of Public Works (funded by the Federal Highway Administration). PAG has also borrowed funds to begin the SLE Program to address structural problems at the F-5 Wharf.

> PAG has a large maintenance backlog. PAG is planning on spending approximately 1% of asset value on maintenance of its facilities and equipment.

The PAG is also undertaking other repair and maintenance projects using the Facility Maintenance Fee. Projects noted in the financial reports were, to name a few, repairs to the concrete storm drain channel, container yard water line valves, container yard asphalt, wheel stops and gate house.

Although the PAG appears, through the use of grants and partnerships, to be undertaking some major repairs, there is still concern that many of the PAG's aging facilities are not receiving the level of maintenance and repair

[15] PAG Docket 15-04 Questions, Attachment D

that is needed to keep them in good operating condition. The 2013 Master Plan update listed many improvements as in less than good condition.

In its financial projections, PB projected that the PAG would spend approximately 1% of its asset value each year (approximately $2.5 million) in facilities maintenance and repairs. If the PAG can continue to be successful in obtaining grants and other financial assistance to supplement this budget, then it may be able to keep up with needed maintenance. However, given the current condition of facilities and the likelihood that many of the major "modernization" improvements may be deferred to later years, additional revenues may need to be spent on maintenance of facilities to keep them operational.

Failure to properly fund and maintain its facilities could impact PAG's ability to borrow funds.

Generating insufficient funds to support planned Capital and Operational expense increases

As discussed above, PB has indicated that the proposed increases will not be sufficient to generate the capital needed to complete the capital plan also, they have suggested that the PAG needs to consider reducing staffing costs.

P-B also indicates that productivity needs to be improved at PAG. P-B states that "respondents noted that the PAG has difficulty maintaining Crane Productivity, which has recently caused delays at the berth and to carriers' service schedules..."[16]

The PUC Consultant agrees that the proposed increases in tariff rates are insufficient to generate the necessary revenues to support the projected operating and maintenance costs and provide funds for additional capital investments. To support all of the operating and capital programs, the PAG will need to either reduce costs or increase tariffs more than they have proposed.

Increasing the Salaries and Benefits of the PAG staff

The projected expenses for PAG include significant salary adjustments in future years. The P-B memorandum indicates that planned salary adjustments are:

- 4% salary increase occurring annually in FY 15, then occurring every 2 years
- Salary gap closure (5.11% = cost of living (COLA) 3.53% every two years starting in 2016

[16] Transshipment Analysis - SUPPLEMENT, December 26, 2014 p. 2-3

- These changes assume five biannual increases until the market percentile gap between 10% and 50% is closed.17

In reviewing PAG's financial statements from recent years, salary and benefits represented approximately 65% of Operating Expenses (net of depreciation) in 2014.

Between 2010 and 2013 salaries and benefits ranged between 60.6% and 66.1% of net Operating Expenses as shown in Figure 7 below:

Figure 7: PAG Salaries and Benefits as a Percentage of OPEX[18]

Year	Salaries & benefits ($)	Operating exp. (minus depreciation)	Salaries as a % of OpEx
2010	$18,704,115	$30,861,539	60.6%
2011	$20,013,381	$31,795,106	62.9%
2012	$20,598,607	$31,160,070	66.1%
2013	$22,953,793	$35,926,016	63.9%
2014	$21,554,167	$33,151,693	65.0%

In the 2013 Master Plan update, p. 6-1.10, salary and benefit projections for future years show this figure increasing to approximately 74% in 2024 and remaining at approximately this level through 2033.

> The planned increase in salaries along with continued operation of equipment which exceeds the capacity throughput requirements are contributing to an overall increase in PAG operating expenses

The Society for Human Resource Managers conducted a benchmark study of salaries as a percentage of operating expenses. They excluded from operating expenses mortgage payments, improvements to buildings and expenses associated with entertainment. These reductions make their salary percentages lower than they would be if these expenses were included.

Using their methodology, the three industries with the highest percentage of salaries as a percentage of operating expenses were health care services at 52%, for-profit services at 50% and educational services at 50%. Manufacturing,

[17] Parsons-Brinckerhoff memorandum dated December 26, 2014 re: 5-Year Accelerated Tariff Petition Analysis, p. 2

[o]Source: PAG Audited Financial Statements from FY2011, 2012, 2013 and 2014.

construction, mining and oil/gas businesses were at 22% and retail/wholesale trade was the lowest at 18%. Given that these benchmark percentages would be even lower if all operating costs were included, the PAG percentage is exceptionally high.

The PUC's Consultant was also able to obtain some salary and expense information on-line for several ports as follows:

Figure 8: Comparison of Ports – Salaries as a Percentage of OPEX

Port	Salaries & benefits ($)	Operating exp. (-depreciation)	Salaries as a % of OpEx
Anchorage, AK (2013)	$2,543,727	$10,343,984	24.6%
Saipan (Commonwealth Port Authority) (2011)	$6,759,534	$23,255,446	29.1%
Long Beach, CA (2014)	$47,301,000	$108,455,000	43.6%
Gulfport, MS (2014)	$3,129,800	$24,996,587	12.5%
Guam (2014)	$21,554,167	$33,151,693	65.0%

Given the industry benchmark information obtained and the sampling of information which was readily available from a few ports, there is concern that PAG's current and proposed expenditures for salaries and benefits are above industry norms.

In the 2013 Master Plan Update, P-B indicates that the PAG will need to make "...some significant changes to the current operating/management practices and strategies...."if it is to implement the modernization program and continue a long-term sustainability effort. One of the key adjustments listed is "Right-sized staffing through attrition, succession management and organizational adjustment".[19] The Consultant strongly concurs with this recommended adjustment.

Operating unnecessary equipment

The cost of operations is also being impacted by the PAG's continued operation of equipment that is not required to meet capacity throughput

[19] 2013 Master Plan Update, page ES-17

requirements. The PUC Consultant, in analyzing the acquisition of cranes[20], recommended that the PAG lay-up one crane to reduce operating costs. The 2013 Master Plan update estimates that with organic growth, berth utilization will average 33% (Average Peak Week), under the Mid-Buildup scenario the utilization increases to only 43%. It further estimated that even with the Full Build-up Scenario, the peak demand under that scenario would only utilize 60% of crane capacity.

There is still concern that the operation of four cranes is not cost-effective. It is also concerning that the PAG is not proposing to increase the crane surcharge. While the crane surcharge may be covering current costs, it is not generating sufficient funds to pay for replacement of cranes in future years. The PAG estimates that it will have "a Crane Reserve of $8M by 2028." As discussed below, this is significantly less than what will be needed to replace cranes. Therefore, foregoing opportunities to increase these rates is not recommended.

Exclusion of Crane Surcharge from Tariff Increase:

Although the PAG is creating a sinking fund for crane replacement, in answers to questions (Attachment C) the PAG estimated that it would have $8 million in the sinking fund by 2028. This amount is insufficient to replace cranes. Therefore, the sinking fund alone will not provide sufficient funds for crane replacement. In a previous study, the PUC Consultants' concluded:

> *In reviewing the proposed acquisition of the POLA cranes, the PUC's consultant analyzed several options for the acquisition of other used cranes. To acquire three new cranes it was estimated that PAG would need to spend $21 to $30 M in today's dollars. To acquire four new cranes, the cost would be $28 to $40 M.*
>
> *Assuming similar new cranes are available in 2027 and inflation remains at 3.1% per year, the cost may be as high as $43 to $61 M. The reserve fund proposed by the PAG will only cover 12% to 17% of the estimated replacement cost.*
>
> *In response to questions from the PUC's consultant (Appendix B), PAG revised its financial estimates to provide for revenue and expense*

PAG will have a limited Crane Replacement fund by 2028 which will lead to the need to borrow a significant amount to begin crane replacement

[20] PUC Port Docket 12-01 dated 27 August 2013

projections through 2037 (Appendix C). PAG stated that two cranes would be replaced by 2027.[21]

Since PAG estimates that it will have only $8 million in reserves by 2028, it will not be in a position to replace two cranes without borrowing substantial funds. Therefore, the PAG will need to borrow approximately $17.3 million in 2027. Since the PAG is planning to pledge all revenues to fund near term capital program, it will not be in a position to borrow additional funds without substantially increasing tariff rates.

In recent years, the PAG has been unable to cover operating expenses and depreciation without the support of grant revenues. In reviewing the last three audited financial statements it was noted that the PAG is showing a "loss" of up to $4.7 million prior to accounting for "Capital Contributions - U.S. Government Grants." The audited financial statements show the following:

Figure 9: U.S. Government Grants Impact on PAG Financial Stability

	2012	2013	2014
Income/(Loss) before Capital Contributions	($1.65M)	($4.69M)	($.84M)
Capital Contributions - US Government Grants	$4.17 M	$4.79M	$3.70M
Increase in Net Position	$3.33M	$.93M	$2.05M

In accordance with the projections provided by PB, the proposed 7% increase will only generate an additional $2,288,000 in operating revenue between 2015 and 2016. At the same time, labor expenses will increase $1,163,000 which results in additional revenue of $1,125,000 (considering just these two line items). However, PB's analysis does not indicate that the crane surcharge would not be increased. [22] If you eliminate the $5,669,942 of crane revenue from the 7% increase, total operating revenue estimates decrease by $396,896. Thus, net revenues would only increase by $728,104.

Given that PAG's net operating revenues have been as high as $4.69 million in the red to a low of $.84 million in the red, the minor increases in net

[21] Report of the Investigation for the Crane Surcharge for the Port Authority of Guam, Port Docket 12-02, presented to the Guam Public Utilities Commission, October 2012, p. 23

[22] Parsons Brinckerhoff memorandum dated December 24, 2014, p. 8 Table E

revenue do not appear sufficient to generate sufficient capital to fund PAG's planned improvements and equipment replacement. When you consider that PAG is not proposing to increase its crane surcharge, the increased revenues diminish significantly as shown below.

Figure 10: Projected Increases in Operating Revenues and Labor Expenses[23]

	2015 ($M)	2016 ($M)	2017 ($M)	2018 ($M)
Operating Revenue	$34,014	$36,302	$38,785	$41,455
Difference		$2,288	$2,483	$2,670
Labor Expense	$22657	$23,820	$25,655	$26,974
Difference		$1,163	$1,835	$1,319
Net Revenue Increase		**$1,125**	**$648**	**$1,351**
Net Rev. reduced by $397K [24]for no increase in Crane Surcharge		**$728**	**$251**	**$954**

This analysis does not take into account other port revenues or expenses. Given that PB estimates that PAG will incur an additional $2.262 million in annual debt service to fund a $30.5 million loan[25], the PAG's ability to fund its near term capital plan with the proposed tariff increase is questionable.

Process improvements are not leading to reduced operating expenses

P-B indicated that productivity needs to be improved at PAG.

[23] Parsons Brinckerhoff memorandum dated December 24, 2014, p. 8 Table E

[24] $397K is the PAG's reported crane revenue of $5,669,942 for 2014 multiplied by 7%. This number may vary based on projections of future crane revenues.

[25] Parsons Brinckerhoff memorandum dated December 24, 2014, Schedule F, p. 5 of 18

In their report, P-B states that "respondents noted that the PAG has difficulty maintaining Crane Productivity, which has recently caused delays at the berth and to carriers' service schedules..."[26]

As the PAG implements improvements in its operations, these improvements should lead to measurable operating expense reductions.

[26] Transshipment Analysis - SUPPLEMENT, December 26, 2014 p. 2-3

APPENDIX B – RECOMMENDED PAG TARIFF RATE TABLE

The proposed rate table reflects simplified tariff rate approach over the previous tariff used by the PAG.

Figure 11: Recommended PAG Tariff Rates

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
STUFF IMP/EXP/EMP CONTAINER - HANDLING	139.60	7%	149.37	9.77
STUFF IMP/EXP/EMP CONTAINER - STEVEDORE	119.24	7%	127.58	8.35
TOTAL	**258.83**	7%	**276.95**	**18.12**
STEVEDORE & HANDLING RATE FOR REFRIGERATED CONTAINERS				
LIVE REFRIGERATED IMP/EXP - HANDLING	245.25	7%	262.41	17.17
LIVE REFRIGERATED IMP/EXP - STEVEDORE	119.24	7%	127.58	8.35
TOTAL	**364.48**	7%	**389.99**	**25.51**
BREAKBULK & LIFT OFF/ON VEHICLES				
BREAKBULK IMPORT/EXPORT - HANDLING	9.54	7%	10.21	0.67
BREAKBULK IMPORT/EXPORT - STEVEDORING	15.78	7%	16.89	1.10
TOTAL	**25.32**	7%	**27.10**	**1.77**
UNITIZED				
UNITIZED IMP/EXP - STEVEDORE	6.41	7%	6.86	0.45

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
UNITIZED IMP/EXP - HANDLING	7.96	7%	8.51	0.56
TOTAL	**14.37**	7%	**15.37**	**1.01**
RO/RO				
RO/RO UNITIZED	10.84	7%	11.60	0.76
RO/RO BREAKBULK	19.86	7%	21.25	1.39
RO/RO WHEELED CARGO	17.19	7%	18.39	1.20
RO/RO WHEELED CARGO (SHIPS CHASSIS)	18.82	7%	20.13	1.32
RO/RO VEHICLE				
RORO IMP/EXP/TRANSSHIPMENT - STEVEDORE	11.36	7%	12.15	0.80
RORO IMP/EXP/TRANSSHIPMENT - HANDLING	28.39	7%	30.38	1.99
TOTAL	**39.75**	7%	**42.53**	**2.78**
RO/RO VEHICLE (VEHICLE OVER 6,000 LBS)				
RORO IMP/EXP/TRANSSHIPMENT - STEVEDORE	6.41	7%	6.86	0.45
RORO IMP/EXP/TRANSSHIPMENT - HANDLING	7.96	7%	8.51	0.56
TOTAL	**14.37**	7%	**15.37**	**1.01**
DEVANNING/STUFFING AUTO SPECIAL RATE				
DEVANNING	170.34	7%	182.26	11.92

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
STUFFING	170.34	7%	182.26	11.92
HEAVYLIFT		7%	-	-
HEAVYLIFT IMP/EXP/TRANSSHIPMENT - STEVEDORE	2.377	7%	2.54	0.17
HEAVYLIFT IMP/EXP/TRANSSHIPMENT - HANDLING	2.377	7%	2.54	0.17
TOTAL	**4.75**	7%	**5.08**	**0.34**
LONGLENGTH				
LONGLENGTH IMP/EXP > 45'& =< 50'	18.50	7%	19.79	1.29
LONGLENGTH IMP/EXP > 50'& =< 60'	43.33	7%	46.36	3.03
LONGLENGTH IMP/EXP > 60'& =< 70'	55.80	7%	59.71	3.91
OVER 70 FEET, FOR EACH 10 FEET OR FRACTION THEREOF	11.53	7%	12.33	0.81
TRANSSHIPMENT STUFF (20',40'&45') 1ST CARRIER				
IMPORT CONT TRANSSHIPMENT STUFF LESS THAN 10 CONTAINERS	236.74	7%	253.31	16.57
IMPORT EMPTY TRANSSHIP FR-2ND CARR (20',40'&45')	113.55	7%	121.50	7.95
IMPORT EMPTY TRANSSHIP FR-2ND CARR (20',40'&45') - DOMESTIC	158.77	7%	169.88	11.11
OVERSTOW CONTAINER (20',40'&45')				
IMPORT/EXPORT OVERSTOW CONTAINER (20',40'&45')	56.78	7%	60.75	3.97

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
SHIFTED CONTAINER (20',40'&45')				
IMPORT/EXPORT SHIFT CONTAINER (20',40'&45')	67.75	7%	72.50	4.74
REHANDLE CONTAINER	78.75	7%	84.26	5.51
REHANDLE, OVERSTOW, OR SHIFTED HAZMAT CONTAINERS	78.75	7%	84.26	5.51
REHANDLE, OVERSTOW, OR SHIFTED REEFER CONTAINERS	89.72	7%	96.00	6.28
SPECIAL RIGGING (20',40'&45')				
IMPORT/EXPORT ALL SPECIAL RIGGING OF CNTR	39.75	7%	42.53	2.78
WHARFAGE RATES				
WHARFAGE EMPTY CONT IMPORT <25 (20' CONTAINER)	2.96	7%	3.17	0.21
WHARFAGE EMPTY CONT IMP>25 (40' & 45' CONTAINER)	3.97	7%	4.25	0.28
WHARFAGE TRANSSHIPMENT TUNA	3.97	7%	4.25	0.28
WHARFAGE BREAKBULK IMPORT	3.97	7%	4.25	0.28
WHARFAGE BREAKBULK EXPORT/ALL OTHER CARGO	1.99	7%	2.13	0.14
WHARFAGE EXPORT CONTAINER STUFF (20' CONTAINER)	37.02	7%	39.61	2.59
WHARFAGE EXPORT CONTAINER STUFF (40' & 45' CNTR)	63.03	7%	67.44	4.41
WHARFAGE IMPORT CONTAINER STUFF (20' CONTAINER)	71.09	7%	76.06	4.98
WHARFAGE IMPORT CONTAINER STUFF (40' & 45'		7%		

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
CNTR)	122.08		130.63	8.55
WHARFAGE PIPELINES/HOSES - INBOUND	8.75	7%	9.36	0.61
WHARFAGE PIPELINES/HOSES - OUTBOUND	4.38	7%	4.69	0.31
WHARFAGE IMPORT/EXPORT DRY BULK CARGO	3.97	7%	4.25	0.28
BUNKERING/FUEL THROUGHPUT/WASTE OIL				
IMPORT THROUGHPUT	0.50	0%	0.50	-
EXPORT THROUGHPUT	0.24	0%	0.24	-
FROM TRUCK TO VESSEL WHEN SERVICED AT PORT PIERS	0.50	0%	0.50	-
DIRECT TO OR FROM VESSEL THRU PRIVATELY OWNED PIPELINE LOCATED ON PORT PROPERTY	0.44	0%	0.44	-
VESSEL TO VESSEL	0.50	0%	0.50	-
FUEL STORAGE	1.13	0%	1.13	-
BUNKERING	0.66	0%	0.66	-
MARITIME SECURITY FEE				
MARITIME SEC. BB/UNITIZED	0.11	7%	0.12	0.01
MARITIME SEC. FEE BUNKERING	0.02	7%	0.02	0.00
MARITIME SEC. FEE STUFFED IMPORT/EXPORT	2.27	7%	2.43	0.16

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
MARITIME SEC. EMPTY CONTAINER	0.54	7%	0.58	0.04
MARITIME SEC. PASSENGER VESSEL-Crew members (one time charge) & Passengers	1.13	7%	1.21	0.08
MARITIME SEC. FEE RO/RO	1.13	7%	1.21	0.08
MARITIME SEC. BULK SAND/SCRAP/AGGRE	0.02	7%	0.02	0.00
MARITIME SEC. VESSEL DOCKAGE	5%		5%	-
FUEL SURCHARGE				
LOADED CONTAINERS IMPORT/EXPORT	6.34	7%	6.78	0.44
EMPTY INBOUND/OUTBOUND CONTAINER	6.34	7%	6.78	0.44
LOADED TRANSSHIPMENT CONTAINER	12.68	7%	13.57	0.89
EMPTY TRANSSHIPMENT CONTAINER	12.68	7%	13.57	0.89
ALL OTHER CARGO	0.37	7%	0.40	0.03
FACILITY MAINTENANCE CHARGE				
FACILITY MAINTENANCE CHARGE-IMP/EXP/TS IMP(CNTR)	27.46	7%	29.38	1.92
FACILITY MAINTENANCE CHARGE-IMP/EXP/TS IMP(BB)	1.48	7%	1.59	0.10
CRANE SURCHARGE				
CRANE SURCHARGE-FULL IMPORT/EXPORT/TS	125.00	0%	125.00	-
CRANE SURCHARGE-BREAKBULK (PER REVENUE		0%		

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
TON)	5.00		5.00	-
DEMURRAGE				
DEMURRAGE- GREATER THAN 20' (40' & 45') (Day 6-10)	47.68	7%	51.02	3.34
DEMURRAGE- GREATER THAN 20' (40' & 45') (Each Day thereafter)	95.36	7%	102.04	6.68
DEMURRAGE CONTAINER EMPTY	7.96	7%	8.51	0.56
OUTSIDE WAREHOUSE DEMURRAGE BREAKBULK	11.36	7%	12.15	0.79
INSIDE WAREHOUSE DEMURRAGE BREAKBULK	17.03	7%	18.23	1.19
REFRIGERATED CT DEMURRAGE (DAY 3-4)	79.49	7%	85.05	5.56
REFRIGERATED CT DEMURRAGE (Each Day thereafter)	158.97	7%	170.10	11.13
DEMURRAGE 20' CONTAINER (Day 6-10)	23.85	7%	25.52	1.67
DEMURRAGE 20' CONTAINER (Each Day thereafter)	47.68	7%	51.04	3.36
BARE CHASSIS STORAGE	15.85	7%	16.96	1.11
HAZARDOUS CONTAINER (CLASS 1-8) (Other than CDC)				
20 FEET OR LESS (DAY 3-4)	23.85	7%	25.51	1.67
20 FEET OR LESS (EACH DAY THEREAFTER)	47.68	7%	51.02	3.34
OVER 20 FEET (DAY 3-4)	47.68	7%	51.02	3.34

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
OVER 20 FEET (EACH DAY THEREAFTER)	95.36	7%	102.04	6.68
REISSUE OF EMPTIES				
REISSUE OF EMPTIES	56.78	7%	60.75	3.97
OTHER RATES				
CLAIMS FEE	52.83	7%	56.52	3.70
BULK SCRAP METAL	14.20	7%	15.19	0.99
PASSENGER FEE ARRIVAL OR DEPARTURE	3.97	7%	4.25	0.28
PRE-TRIP POWER SURCHARGE	55.65	7%	59.55	3.90
LCOR - LINE HANDLING O/T UP TO 600 FT LOA	511.02	7%	546.79	35.77
LCOR - LINE HANDLING O/T OVER 600 FT LOA	681.34	7%	729.03	47.69
LCOR - LINE HANDLING S/T UP TO 600 FT LOA	340.67	7%	364.52	23.85
LCOR - LINE HANDLING S/T OVER 600 FT LOA	454.23	7%	486.02	31.80
OUT OF GAUGE CARGO (OOG)	52.83	7%	56.52	3.70
UNPLUG/PLUG REFRIGERATED CONTAINERS	7.92	7%	8.48	0.55
CHASSIS CHANGE	34.06	7%	36.45	2.38
WATER CONNECT/DISCONNECT HOLIDAY/OT	90.85	7%	97.20	6.36

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
WATER CONNECT/DISCONNECT REGULAR	39.75	7%	42.53	2.78
REGULAR WATER CHARGE (Based on GWA)	20% Over GWA rate		20%	-
POWER CONNECTION CHARGE	12.09	7%	12.93	0.85
SUBMETER INSTALLATION	2.85	7%	3.05	0.20
PORT ENTRY FEE				
FOR VESSESLS OF 1,000 GROSS TONS AND UNDER	28.39	7%	30.38	1.99
FOR VESSELS BETWEEN 1,000 TO 2,000 GROSS TONS	57.91	7%	61.96	4.05
FOR VESSELS OVER 2,000 GROSS TONS, $57.91 ($61.96)PLUS AN ADDITIONAL CHARGE PER EACH 2,000 GROSS TONS OR FRACTION THEREOF IN EXCESS OF 2,000 GROSS TONS	43.15	7%	46.17	3.02
HOTWORK PERMIT	27.46	7%	29.38	1.92
HAZARDOUS CARGO PERMITTING	55.70	7%	59.60	3.90
REMOVING PLACARDS FROM EMPTIES	27.46	7%	29.38	1.92
EQUIPMENT RENTAL				
BATTERY CHARGER	18.17	7%	19.44	1.27
COMPRESSOR	28.00	7%	29.96	1.96
CRANE, GANTRY, HEAVY LIFTS		7%		

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
	447.41		478.73	31.32
FORKLIFT, RATED CAPACITY 20,000 LBS BUT LESS THAN	56.78	7%	60.75	3.97
FORKLIFT, RATED CAPACITY 40,000 LBS OR GREATER	63.60	7%	68.05	4.45
FORKLIFT, RATED CAPACITY BELOW 20,000 LBS	34.07	7%	36.45	2.38
IMPACT WRENCH	5.81	7%	6.22	0.41
LIGHT PLANTS	567.78	7%	607.52	39.74
ONE TIME CHARGE FOR SET UP	113.12	7%	121.04	7.92
GAS USAGE PER GALLON	4.04	7%	4.32	0.28
MANLIFT	52.83	7%	56.52	3.70
PICK-UP TRUCK, 3/4 TON CAPACITY OR LESS	22.71	7%	24.30	1.59
SIDE LIFTER	39.75	7%	42.53	2.78
TOP LIFTER	68.13	7%	72.90	4.77
TRACTOR	38.61	7%	41.31	2.70
WELDING MACHINE	38.61	7%	41.31	2.70
DOCKAGE (Overall Length of Vessel in Feet)				
0 - 100	42.02	7%	44.96	2.94

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
100 - 150	62.45	7%	66.82	4.37
150 - 200	81.76	7%	87.48	5.72
200 - 250	145.35	7%	155.53	10.17
250 - 300	213.49	7%	228.43	14.94
300 - 350	285.02	7%	304.97	19.95
350 - 375	349.75	7%	374.23	24.48
375 - 400	389.50	7%	416.77	27.27
400 - 425	430.39	7%	460.52	30.13
425 - 450	476.94	7%	510.33	33.39
450 - 475	518.96	7%	555.29	36.33
475 - 500	567.78	7%	607.52	39.74
500 - 525	641.56	7%	686.47	44.91
525 - 550	690.42	7%	738.75	48.33
550 - 575	752.88	7%	805.59	52.70
575 - 600	835.78	7%	894.29	58.50
600 - 625		7%		

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
	953.88		1,020.65	66.77
625 - 650	1,109.45	7%	1,187.12	77.66
650 - 675	1,262.76	7%	1,351.15	88.39
675 - 700	1,420.59	7%	1,520.03	99.44
700 - 725	1,712.44	7%	1,832.31	119.87
725 - 750	1,888.45	7%	2,020.64	132.19
750 - 775	2,138.28	7%	2,287.96	149.68
775 - 800	2,399.46	7%	2,567.43	167.96
800 - 850	2,757.17	7%	2,950.17	193.00
850 - 900	3,138.72	7%	3,358.43	219.71
900+	3.87	7%	4.14	0.27
DIVE PERMITS FOR PROFIT-OPERATIONAL VENDOR ANNUAL FEE (GROSS SALES)				
$0 - $50,000		NEW	250.00	-
$50,001 - $149,999		NEW	500.00	-
$150,000 - $249,999		NEW	1,000.00	-
$250,000 +		NEW		

CHARGE DESCRIPTION	Current Rate	Proposed Increase	Proposed Rate	Diff
			1,500.00	-
NEW VENDOR		NEW	100.00	-
RECREATIONAL (BI-ANNUAL)		NEW	10.00	-
FAMILY BEACH FACILITY FEES				
OPEN SPACE PICNICKING/CANOPY (PER DAY)		NEW	15.00	-
REFUNDABLE CLEANING DEPOSIT PER DAY (1-50 PERSONS)		NEW	50.00	-
REFUNDABLE CLEANING DEPOSIT PER DAY (51+ PERSONS)		NEW	100.00	-
PORT BEACH FACILITY FEES				
OPEN SPACE PICNICKING/CANOPY (PER DAY)		NEW	15.00	-
PAVILION		NEW	50.00	-
REFUNDABLE CLEANING DEPOSIT PER DAY (1-50 PERSONS)		NEW	50.00	-
REFUNDABLE CLEANING DEPOSIT PER DAY (51+ PERSONS)		NEW	75.00	-

Figure 12: PAG Labor Rates

LABOR	Hourly Rate	Tariff Increase	Proposed Rate	Difference
STRAIGHT TIME				
ACCOUNT TECHNICIAN	35.70	7%	38.20	2.50
AUTO MECHANICS	44.75	7%	47.89	3.13
CARGO CHECKERS	45.20	7%	48.36	3.16
CARPENTERS	35.48	7%	37.96	2.48
CLERKS	28.82	7%	30.84	2.02
CRANE MECHANIC	51.85	7%	55.48	3.63
CRANE OPERATOR	51.85	7%	55.48	3.63
DIESEL MECHANIC	56.91	7%	60.90	3.98
ELECTRICIAN	47.01	7%	50.31	3.29
EQUIPMENT OPERATOR	48.37	7%	51.75	3.39
PAINTERS	37.47	7%	40.10	2.62
PLUMBERS	42.42	7%	45.39	2.97
PREVENTIVE MAINT. MECHANIC	44.75	7%	47.89	3.13
RIGGERS	41.11	7%	43.99	2.88
SAFETY OFFICERS	45.42	7%	48.60	3.18
SECURITY GUARD		7%		1.98

LABOR	Hourly Rate	Tariff Increase	Proposed Rate	Difference
	28.36		30.34	
STEVEDORE	41.52	7%	44.43	2.91
WELDERS	48.45	7%	51.84	3.39
OVERTIME				
ACCOUNT TECHNICIAN	53.55	7%	57.30	3.75
AUTO MECHANICS	67.13	7%	71.83	4.70
CARGO CHECKERS	67.80	7%	72.54	4.75
CARPENTERS	53.22	7%	56.94	3.73
CLERKS	43.23	7%	46.26	3.03
CRANE MECHANIC	77.78	7%	83.22	5.44
CRANE OPERATOR	77.78	7%	83.22	5.44
DIESEL MECHANIC	85.38	7%	91.35	5.98
ELECTRICIAN	70.52	7%	75.46	4.94
EQUIPMENT OPERATOR	72.55	7%	77.63	5.08
PAINTERS	56.22	7%	60.15	3.94
PLUMBERS	63.63	7%	68.09	4.45
PREVENTIVE MAINT. MECHANIC	67.13	7%	71.83	4.70
RIGGERS	61.67	7%	65.98	4.32

LABOR	Hourly Rate	Tariff Increase	Proposed Rate	Difference
SAFETY OFFICERS	68.13	7%	72.90	4.77
SECURITY GUARD	42.53	7%	45.51	2.98
STEVEDORE	62.28	7%	66.64	4.36
WELDERS	72.68	7%	77.76	5.09
OT DIFFERENTIAL				
ACCOUNT TECHNICIAN	17.85	7%	19.10	1.25
AUTO MECHANICS	22.38	7%	23.94	1.57
CARGO CHECKERS	22.60	7%	24.18	1.58
CARPENTERS	17.74	7%	18.98	1.24
CLERKS	14.41	7%	15.42	1.01
CRANE MECHANIC	25.93	7%	27.74	1.81
CRANE OPERATOR	25.93	7%	27.74	1.81
DIESEL MECHANIC	28.46	7%	30.45	1.99
ELECTRICIAN	23.51	7%	25.15	1.65
EQUIPMENT OPERATOR	24.18	7%	25.88	1.69
PAINTERS	18.74	7%	20.05	1.31
PLUMBERS	21.21	7%	22.70	1.49
PREVENTIVE MAINT. MECHANIC		7%		1.57

LABOR	Hourly Rate	Tariff Increase	Proposed Rate	Difference
	22.38		23.94	
RIGGERS	20.56	7%	22.00	1.44
SAFETY OFFICERS	22.71	7%	24.30	1.59
SECURITY GUARD	14.18	7%	15.17	0.99
STEVEDORE	20.76	7%	22.21	1.45
WELDERS	24.23	7%	25.92	1.70
HD DIFFERENTIAL				
ACCOUNT TECHNICIAN	23.80	7%	25.47	1.67
AUTO MECHANICS	29.84	7%	31.92	2.09
CARGO CHECKERS	30.13	7%	32.24	2.11
CARPENTERS	23.66	7%	25.31	1.66
CLERKS	19.22	7%	20.56	1.35
CRANE MECHANIC	34.57	7%	36.99	2.42
CRANE OPERATOR	34.57	7%	36.99	2.42
DIESEL MECHANIC	37.94	7%	40.59	2.66
ELECTRICIAN	31.35	7%	33.54	2.19
EQUIPMENT OPERATOR	32.24	7%	34.50	2.26
PAINTERS	24.99	7%	26.74	1.75

LABOR	Hourly Rate	Tariff Increase	Proposed Rate	Difference
PLUMBERS	28.28	7%	30.26	1.98
PREVENTIVE MAINT. MECHANIC	29.84	7%	31.92	2.09
RIGGERS	27.41	7%	29.32	1.92
SAFETY OFFICERS	30.28	7%	32.40	2.12
SECURITY GUARD	18.90	7%	20.22	1.32
STEVEDORE	31.98	7%	34.22	2.24
WELDERS	32.31	7%	34.57	2.26
NIGHT DIFFERENTIAL				
ACCOUNT TECHNICIAN	2.38	7%	2.54	0.17
AUTO MECHANICS	2.98	7%	3.19	0.21
CARGO CHECKERS	3.01	7%	3.22	0.21
CARPENTERS	2.37	7%	2.53	0.17
CLERKS	1.92	7%	2.06	0.13
CRANE MECHANIC	3.45	7%	3.70	0.24
CRANE OPERATOR	3.45	7%	3.70	0.24
DIESEL MECHANIC	3.79	7%	4.06	0.27
ELECTRICIAN	3.14	7%	3.36	0.22
EQUIPMENT OPERATOR		7%		0.23

LABOR	Hourly Rate	Tariff Increase	Proposed Rate	Difference
	3.22		3.45	
PAINTERS	2.50	7%	2.68	0.18
PLUMBERS	2.83	7%	3.03	0.20
PREVENTIVE MAINT. MECHANIC	2.98	7%	3.19	0.21
RIGGERS	2.74	7%	2.93	0.19
SAFETY OFFICERS	3.03	7%	3.24	0.21
SECURITY GUARD	1.89	7%	2.02	0.13
STEVEDORE	3.20	7%	3.43	0.22
WELDERS	3.88	7%	4.15	0.27
LABOR-PENALTY RATES				
CLEANING SHIP'S OIL TANKS(Hatch Only)	3.97	7%	4.25	0.28
REEFER CARGO (Hatch & Container Work)	1.13	7%	1.21	0.08
HANDLING NOXIOUS CARGO (Hatch Work)	6.06	7%	6.49	0.42
BAGGED CEMENT (Hatch Work)	3.97	7%	4.25	0.28
SCRAP METAL CARGO (Hatch Work)	3.97	7%	4.25	0.28
AMMUNITION OR EXPLOSIVE CARGO	3.97	7%	4.25	0.28
BULK CEMENT (Hatch Work)	6.06	7%	6.49	0.42

APPENDIX C – MODIFIED REVENUE AND EXPENSE TABLE

In Figure 13, is shown the revenue and expense table that is modified to reflect the current realities of the PAG. The assumptions used in this table were:

- In FY13, the PAG will lose $3.5M in planned revenue due to the loss of transshipment business to MEL.
- Salary increases in G&A expenses will accelerate at 5% a year. This reflects the PAG's intent to increase staff salaries.
- The deferred maintenance of $7.2M will be addressed in FY 15 and 16.

Figure 13: Modified Revenue and Expense Table

Fiscal Year	Revenues ($M)				Total Annual Revenues ($M)	Expenses ($M))			Total Annual Expenses ($M)	Net Surplus/ (Deficit) ($M)
	Cargo Revenue	Non-Cargo Revenue	Commercial Revenue	Other Income		General and Administrative Expenses	Other Expenses	O&M Costs		
2010	$28.41	$1.24	$6.38	$6.08	$42.11	$29.30	$3.08	$0.00	$32.39	$9.72
2011	$27.54	$1.23	$6.00	$4.41	$39.19	$29.68	$3.01	$0.00	$32.39	$6.80
2012	$27.86	$1.45	$6.02	$3.87	$39.20	$29.46	$2.60	$0.30	$32.35	$6.85
2013	$24.64	$1.47	$6.23	$0.00	$32.34	$31.25	$3.56	$0.78	$35.59	-$3.25
2014	$26.03	$1.56	$6.45	$0.00	$34.05	$32.81	$3.20	$1.64	$37.64	-$3.60
2015	$27.78	$1.67	$6.68	$0.00	$36.13	$34.45	$4.07	$5.29	$43.81	-$7.68
2016	$29.64	$1.78	$6.92	$0.00	$38.34	$36.17	$4.87	$5.51	$46.55	-$8.21
2017	$31.63	$1.90	$7.16	$0.00	$40.70	$37.98	$4.87	$2.49	$45.34	-$4.65

Fiscal Year	Revenues ($M)				Total Annual Revenues ($M)	Expenses ($M))			Total Annual Expenses ($M)	Net Surplus/ (Deficit) ($M)
	Cargo Revenue	Non-Cargo Revenue	Commercial Revenue	Other Income		General and Administrative Expenses	Other Expenses	O&M Costs		
2018	$33.75	$2.00	$7.42	$0.00	$43.17	$39.88	$4.07	$2.42	$46.37	-$3.20
2019	$36.02	$2.09	$7.68	$0.00	$45.79	$41.87	$3.47	$2.60	$47.95	-$2.15
2020	$38.43	$2.20	$7.96	$0.00	$48.59	$43.97	$3.47	$2.61	$50.05	-$1.46

Based upon these modest assumptions, the PAG will continue to operate in the red past 2020.

This leads to the conclusion that the requested tariff is inadequate.

APPENDIX D – QUESTIONS RELATED TO THE EXECUTION OF THE TARIFF INVESTIGATION

The following questions were asked by the PUC Consultant as part of the investigation. The responses were provided promptly by PAG.

Figure 14: Questions related to the tariff development

PUC Consultant question / request	Reference	PAG response	PUC Consultant follow-on question	PAG response
The PAG submitted a supplemental transshipment report to the PUC in December 2014. Please provide a copy.	PB Report of 12/26/14 pg. 2	Please see the attached Transshipment Analysis-Supplement dated 12/26/14	No follow-up question	No response needed
What was the breakdown between local and transshipment containers for 2013 and 2014?	Tonnage Rpt	Local T/S FY13 65,421 25,382 FY14 66,251 19,445	No follow-up question	No response needed

According to PAG's audited financial reports, container volumes have dropped from 96K in 2011 to 86K in 2014. What has been the primary cause for the decrease in volume?		**Fiscal Year** / **Local** / **Transshipment** / **Total** FY11 / 65,913 / 30,152 / 96,065 FY12 / 63,670 / 29,077 / 92,747 FY13 / 65,421 / 25,382 / 90,803 FY14 / 66,251 / 19,445 / 85,696 During the period cited, the PAG did see a 1% growth in local activity while experiencing a 23% decline in TS activity. The decrease in T/S due to the changes in shipping routes as a result of untimely shifts in carrier alliances. Kindly review the TS Supplemental report of 12.26.15 for more details in this regard.	No follow-up question	No response needed

Parson-Brinkerhoff (P-B) is projecting a 2% increase in organic growth, year over year, from FY16 to FY20. Given the declining container volume over the past 5 years, what is the basis for this assumed growth? Please provide the supporting documentation from an independent resource e.g. GEDA.	PB report of 12/26/14 pg. 2	Not seen as cited. Assumed for this purpose is 1% annual increase in can projection as can be seen in Schedule B of same	Agreed. PB is using a 1% organic growth factor based on census data. However, actual growth between 2000 and 2010 was only .29% according to the 2013 Master Plan update data. How confident is PAG in the 1% growth rate projection? What is the basis for this confidence?	The basis for our confidence is the methodology used to determine the projected organic growth variable as further explained in the 2013 Master Plan Update Section 3, as shown in Table 3-3.

In the P-B report, there is a forecast that container volumes will increase by 17% (2% increase for organic growth and 15% for military build-up growth). What is the basis for this assumed growth? Please provide supporting documentation from an independent resource e.g. GEDA, if it is available.	PB report of 12/26/14 pg. 2 and 6	Reviewed both petition letter and TS report same date, and can't seem to locate cite as noted.	This was contained in the P-B report on Page 6 sentences 9 and 10 from the top of the page. Please confirm that PAG is basing its revenue forecasts on the Organic model that was described by P-B and not the Mid-Growth Model. It is unclear as to which model PAG will use.	It is confirmed that recommended tariff increase associated with organic growth was the model approved, in part, by the Board.

Is there documentation that shows the required volume of material needed to support the military build-up as it is currently planned? Please provide this documentation.		To the point, no. Obviously the military project schedules are expected to be based on appropriation in two parts, MILCON and Maimizu (GOJ) approved spends. The Port does not have any specific information or details relative the actual timing for construction projects related to the military buildup. It is still challenging to forecast cargo projections for certain activity which has yet to materialize. We do expect to know more as spend authority flows and translates into bids that will surely result in awards with specific designs, methods and means for the various projects.	No follow-up question	No response needed

Is there a published timeline by DoD which is approved by GovGuam for the military build-up? If yes, please provide this.		See previous response. Not that we are aware.	No follow-up question	No response needed

In the P-B report, there is a statement that "…given the theoretical uncertainty of the uncertainty of the military cargo volumes…" Why is PAG basing its tariff request on a model with "theoretical uncertainty"?	PB Report of 12/26/14 pg. 6	As we understand, PAG is not basing its petition on theoretical uncertainty but rather with the certainties associated with organic growth alone. To attempt to repeat path of past in basing our needs and expectations on the military plans has served only to complicate our past efforts to forecast considering fed expectations never actually materialized. The P-B report provides multiple rate models. The Port choose the model that considers the Organic growth due to the uncertainty of the military buildup.	While the PB report indicates that is basing the proposed rates on the organic model, on page 7 PB indicates that only $69 million in surplus will be generated ($33 million NPV) which is "far short of what will be needed." They go on to say that the Mid-Range Buildup model will produce sufficient funds. Therefore, PAG will not generate sufficient funds under the proposed rates assuming solely the organic model. How will PAG support the proposed capital plan, salary increases and maintenance needs using a tariff that does not meet the projected demand?	We agree that the shortfall will be far short to replace all the Port's aging facilities. However, we do anticipate that we will continue to seek debt issuance come time of need as they arise. In present form, it is aimed to position us with a stronger financial standing to do so. The petition focuses on capex requirements for projects that are defined, underway as well as other certain pay as you go sustainability components.

Is there an analysis of crane operations, revenues and expenses since their acquisition? Please provide copies of any such reports.		Yes, please see attached report.	The proposed tariffs do not include an increase in the crane surcharge. Why? In approving the purchase of the cranes, the Commission supported the following recommendation: "The Commission direct the PAG to develop a tariff recommendation, based upon the estimated throughput, that will fully fund the acquisition, financing, maintenance and ultimate replacement of POLA cranes 16 and 17 and Crane 3 within 15 years."	While we can agree that the recommendation was made to do so, the actual order did not require the port to do so. As such, and considering that the crane surcharge is spend specific to the financing and operations of the gantry cranes, the Port opted not to apply the proposed tariff increase to this category. As a result the overall impact this proposed petition in present form will have on our primary tariff categories will be 5%

In 2013 and 2014 what were the gross crane revenues and expenses?		Please see attached report.	Replacement of gantry cranes is listed on the projects list for funding in 2028 and 2030. If the proposed tariff rates are implemented, PB has projected that surpluses through 2034 will not be sufficient to fund the near term capital plan. Therefore, no funds will be available for crane replacement under the planned tariff adjustments. How does PAG intend to comply with the Commission directive to fund the cranes using a crane surcharge approach?	Again, the prevailing provisioning order of Docket 12-02 does not call for a tariff to fully fund replacement of the cranes. We do estimate a Crane Reserve of $8M by 2028. Expected of the Port is to timely review the throughput of cans in relation to surcharge to ensure that it is at levels required to fund the operations of the cranes through the life of the note. It has yet be determined if the crane surcharge will be the preferred choice for the expected debt service and operations of future cranes. PAG Docket 12-02 Crane Surcharge Order states "The determination whether the overall application of the crane surcharge should be adjusted to ensure that the costs of crane ownership and debt amortization are properly offset by the surcharge." The replacement under this tariff was not part of the PUC

Recent federal grants appear to be primarily for security projects. What Federal grants will PAG receive in FY16 to FY20 and the approximate value?		The Port was recently awarded $495,987 for FY2016 under 2015PSGP, pending what projects were approved. The Port is aggressive in applying for any available grant and the award is uncertain for FY16-FY20. Below are potential submittals: FEMA Pre disaster Mitigation $651,314 TIGER Hotel Wharf $21,556,741 DOI/OIA Construction GDP $3,294,718 PSGP Lighting & Cameras $300,000 Fishery Boat Ramp $100,000	No follow-up question	No response needed

In the 2013 tariff review the PAG indicated that it had deferred approximately $7.26 million in maintenance projects in order to balance its budget. What is the current status of maintenance projects at the PAG?	PB Report of 12/24/14 Schedule A - Cash Flow	Please provide PAG with copy of this report (PB Report 12/24/14)	The report referenced is the PB report submitted to the PUC with the 5-year tariff petition. The schedule shows approx. $2.4-2.8 million per year projected for facilities maintenance and repairs which the schedule indicates is 1% of building and property value. However, PAG indicated in 2013 that over $7 million in maintenance was deferred in previous years. Based upon this, does PAG assume that the budgeted amount will cover the ongoing maintenance needs and the backlog? If yes, when will the backlog be made current?	As case then, Maintenance and Repair investments are made in order of priority, funds permitting. We do expect that the budgeted amount will position the Port to cover ongoing, foreseen and possibly even certain unforeseen maintenance needs. Please note however that the project components identified in the PB report party to this petition are consistent with the projects approved in the Port Master Plan Update.
Have the deferred projects been completed?		See prior	The PAG response did not address our question	As noted in 2013, certain deferred components listed back then folded into ongoing modernization program as described in master plan

Have other projects been deferred? If yes, please list them and the dollar value		See prior	The PAG response did not address our question	Please see 2013 MP Update Table 5-1

Why was the replacement of the Administration Building moved into the near term horizon for capital projects?		Due in great part to the need to do so. The current building is 40+ years old and is now beginning to show signs of accelerated deterioration. Current condition is such that even with major renovations, the service life of the building will not be financially feasible. The idea to revisit the size, location and timing for the new building remains consistent with earlier plans to renovate the existing building and construct a new one adjacent to it. With one primary difference in that the new building will serve as a full service, all-inclusive (port, users, etc…) commercial revenue generating facility.	Are there alternatives to replacement of this facility if there are not sufficient funds available for all near-term projects?	At present Management has chosen the route of replacing the existing Admin building with a new building. As noted in the PB report, we still acknowledge that much must be done prior to actually doing so. For this purpose the Port is assuming the needs for a 40,000fts building, so a possible alternative to this issue would be to possibly reduce the size and scope of the new building should circumstances dictate.

Why was no tariff increase requested in 2015?	PB Report of 12/24/14 pg1	In connection with the Updated master plan, the 5 year tariff had to be updated as well. The Report was received in 12/2014 at which time we went through Management and BOD for approvals consistent with PUC process.	No follow-on question	No response needed
What is PAG's current cash reserve?		$4.1M	How many months of operating capital does this represent? Does PAG consider this to be an adequate cash reserve? Also, does the $4.1M include restricted funds?	1.5 months of reserves. The Port would like to have three (3) months of reserve. The $4.1M is after restricted funds.
Operating Revenues (net of the Crane Surcharge) dropped $8.2 million between 2013 and 2014. What was the primary cause of this revenue decrease?		Not seen	After reviewing audited financial statements for this period, we agree. There was not agreement between the audited financials and the P-B report.	No response needed

In the P-B report Table E identifies Operating Revenue and Commercial Revenue. What is the Commercial Revenue?	PB report 12/26/14 P 8	Leases, Management Agreements, Demurrage, etc…	No follow-up question	No Response needed
P-B appears to be estimating a decrease in revenues between 2014 and 2015. What is the cause of this projected decrease?	PB report 12/26/14 Schedule A - cash flow statement	The continuing down trend in TS activity and the decline in other throughput categories likely to be the result of the corresponding decline in activities thought to accompany the military buildup as it was formerly	In the P-B report, it was stated that TS revenues had hit bottom and were forecasted to increase. What was the basis for this conclusion from P-B?	The Port of Guam continues to be the natural Transshipment Hub for the region with some exception with recent down trend resulting from carrier alliances. Current track of TS activity is trending towards a 22% increase from the prior year.

Currently personnel costs (salaries and pensions) account for 70% of the operating budget for PAG. This number will increase into 2020. Does PAG leadership have concerns over this ratio?		Please provide PAG with the methodology leading to this conclusion.	The 70% figure is based on salaries and benefits divided by total operating expenses as identified in Schedule C of the 2013 Master Plan Update (p. 6-1.10). However, based on the 2014 audited financial statements, the figure would be 65% (Salaries & Benefits of $21.6M divided by Op. Expenses (less depreciation) of $33.2M). Does PAG leadership have concerns over this ratio, especially considering that PAG is implementing significant salary increases in upcoming years? As a point of reference, this ratio is higher for Guam than any other Port we examined.	The Port is confident that the petition under review will take into account the budget needs to comply with the law and policy that affects the salary increases, among the other major items identified in the petition. In this regard, we do appreciate the comparison approach taken, and although not entirely critical for our purpose at the moment, can you please provide the Port with the list and information of the like size, publicly held, operating ports examined.

Has PAG conducted a community out-reach for the proposed tariff increase? If yes, please send the presentation, list of attendees and the schedule for the out-reach effort.		Port User Community, YES. Island wide as may be required or associated with PUC processes (public hearings or the like), NO. Please see attached Power point and sign in sheet for our attendees.	Please provide the minutes from the meeting which should include the comments made by the attendees. As part of the Tariff review, it is incumbent on the PUC Consultants to understand the feedback from the local community.	No minutes was taken however, there were no questions or comments.
If no community out-reach has been conducted, when does PAG intend to do this?		Not Applicable	Besides the meeting with the Port Users, does PAG intend to hold meetings with the community at large?	No, but we do expect that the PUC may publish notice of three (3) Public Hearings in different locations prior to petition being heard.
			On what date was the proposed Tariff published? How was it published? Please attach a copy of the announcement.	Proposed Tariff rates published 3/31/15 in the Marianas Variety, see attached.

			Why is the word "accelerated" used in in describing the tariff request?	Accelerated in the sense that it is basically a uniform timely assessment with request for subsequent annual increases to follow. Mindful that all petitions approved to date did not allow for subsequent annual increases above that approved at time of each previous increase exposures Timing of all things considered, October is the proposed start for the proposed increase. This is significant in that historically October is our busiest month
			In the response to the PAG Docket 11-01; PAG was directed to submit a financing plan for the completion of the 2007 Master Plan. Can PAG please provide a copy of this plan?	Please consider that the 2013 Update MP Supersedes and Compliments the 2007 Master Plan

			In response to the PAG Docket 12-02 for the Crane surcharge; PAG agreed to fund the acquisition, maintenance of all the cranes and the partial replacement of at least with crane within 15 years. How is PAG meeting this commitment? Can you please provide a table that shows the crane maintenance issues at the time of purchase and the date they were completed? Based upon current forecasts, how much revenue will be set aside to replace the cranes in 15 years? What is the current container surcharge for crane operations?	Considering issue addressed above, please advise if still require answer

			In response to the PAG Docket 12-02 for the Crane surcharge; PAG was directed to complete a study related to the current and projected state of the transshipment line of business. The study was to be submitted by August 30, 2013. Was the study completed? If so, please provide a copy of the report.	TS Report submitted to PUC as required in December 2014
			PAG Docket 13-01 directed PAC to return to the Commission by June, 2014 with a review of the impact of the loss of transshipment revenue and a plan to replace revenue or decrease expenses. Was the review completed? If yes, please provide a copy.	Please refer to TS report

			In PAG Docket 13-01, PAG was authorized to establish an interim tariff of 5.65%. Is this the tariff that PAG used prior to the current request?	Yes. While it was suggested that the Port revisit its filing request from 5.65% to 12%, the PUC only approved the 5.65% increase as it was submitted by the Port
			PAG Docket 14-01 directed PAG to recommend any proposed changes to the transshipment rates based upon market analysis and full cost recovery. Were changes ever proposed? If so, please provide them. Is PAG currently recovering the full cost of transshipment activities including the cost of two crane lifts?	Proposed, no. The Port does not intend to revisit the current tariff structure as it was approved in 2009. Port position is constant and further explained in the TS Analysis Report
			PAG docket 13-01 directed PAG to file a report detailing review of the impact of adjusting salaries to the 50th market percentile on PAG's financial stability. Was this completed? If yes, please provide a copy.	The Port submitted estimated cost in migrating to the 25th, 30th, and 35th market percentile based on the 2008 Market Data that reflects \$775,717, \$997,600, and \$1,270,253 respectively. It is the Ports intent to migrate to the 50th market percentile.

			PAG docket 12-02 directed PAG to deposit 9.5% of revenues from crane surcharge into a crane replacement sinking fund which shall include all revenue generated in excess of the baseline projections. The audited financial statements indicate that the 9.5% of revenue is being deposited, however, it does not appear to include "revenue generated in excess of the baseline projections." Have there been revenues in excess of the baseline? If so, why are they not included in the restricted fund?	Yes, FY14 $25,000 revenue was recognized over the baseline and deposited with the 9.5% reserve. The revenues in excess of the baseline are restricted as case with baseline revenues
			In prior tariff requests, PAG conducted analysis on the impact of the proposed tariff increase on products that are sold on Guam. Has this analysis been conducted for this tariff request? If yes, please provide it.	Yes, please see slide 12.