



BEFORE THE PUBLIC UTILITIES COMMISSION

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| PETITION OF |) | GWA DOCKET 16-07 |
| GUAM WATERWORKS AUTHORITY |) | |
| FOR RATE RELIEF |) | ORDER RE: ANNUAL |
| _____ |) | TRUE UP FOR FY2017 RATES |

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the “PUC”) pursuant to the PUC’s Rate Decision dated October 29, 2013. Pursuant to the Rate Decision, GWA is required to provide the PUC with certain updated information annually, specifically its annual “true up” report.

DETERMINATIONS

On June 1, 2016, GWA submitted its annual “true up” report (hereinafter referred to as the “Annual True Up” or “FY2016 True Up”). Pursuant to the October 29, 2013 Rate Decision, the PUC has approved a rate increase of 7% for fiscal year 2017 (“FY2017”).

On September 28, 2016, the Administrative Law Judge of the PUC Joephet R. Alcantara (the “ALJ”) filed a report regarding the Annual True Up, which included his findings and recommendations based on the administrative record before the PUC. The ALJ made the following findings:

A. Annual True Up

1. Base Rate and Lifeline

In the Annual True Up, GWA submitted that it has reviewed its “revenue requirements and other requisites such as rate covenants and financial policies; considered

known and measurable changes in costs and conditions and based on the result of its analysis has determined and recommends a 3.5% rate increase for basic, lifeline and non-lifeline rates for FY2017 for all rate classes except Agriculture which management recommends remains at the current rate.”¹

A 3.5% rate increase will generate a total of \$113 million in operating revenues derived from approximately \$68 million in water sales; \$39 million in wastewater; \$3 million from the legislative surcharge; \$2 million in System Development Charges; and \$1 million in other revenues.

2. Legislative Surcharge

GWA reflected in its filings a Legislative Surcharge, which is restricted to paying for health care benefits and annuities of GWA’s retirees and must be adjusted annually, that is increased by 3.7%.

3. Cost Savings

GWA submitted that it has “realized certain cost savings and re-evaluated its revenue requirement based on historical and current data”²; and that these savings have resulted from a reduction of \$6 million in debt service; \$5 million in power costs cuts, which GWA owes to its improved operating efficiencies; and \$3 million in deferred capital expenditures.³

¹ Annual True Up, p. 1.

² Annual True Up, p. 1.

³ Annual True Up, p. 1.

4. Revenue Requirement

In summary, its obligations for FY2017 necessitate a revenue requirement of about \$81 million. This requirement involves the following: about \$23 million in salaries and benefits; about \$21 million in utilities; about \$11 million in general and administrative expenses; about \$4 million in contractual expenses; about \$3 million in retiree supplemental annuities and health care benefits, along with other expenses; and about \$18 million in depreciation expense.⁴

In addition, GWA is obligated to pay \$25 million of debt service for FY2017 for its 2010, 2013, and 2015 bonds.

GWA submitted that it will further focus on its water supply reliability, water quality, leaks and repairs, as well as continued compliance with the federal court order.⁵

B. True Up Review

1. Operating Expenses for FY2017

As indicated in the filing, GWA's projected operating expenses for FY2017 necessitate a revenue requirement of about \$81 million. This requirement involves the following: about \$23 million in salaries and benefits; about \$21 million in utilities; about \$11 million in general and administrative expenses; about \$4 million in contractual expenses; about \$3 million in retiree supplemental annuities and health care benefits, along with other expenses; and about \$18 million in depreciation expense.⁶

⁴ Annual True Up, p. 1; Schedule A.

⁵ Annual True Up, p. 1.

⁶ Annual True Up, p. 1; Schedule A.

2. **Debt Service**

GWA's debt service for FY2017 is about \$25 million.⁷

3. **Projected Revenues**

Based on the information provided by GWA, GWA projected that its total revenues for just water and wastewater for FY2017 is about \$111,016,742.00. This amount is based on a 3.5% rate increase. GWA estimated that if the 3.5% rate increase is not approved by the PUC, then its revenues will be less by \$4.1 million.

4. **Status of Projects**

In its July 28, 2016 Order, the PUC required GWA to submit a report detailing the status of all Capital Improvement projects, as well as submit an accounting of any remaining bond funds. Based on the documentation provided by GWA, it appears that several of the projects remain ongoing and outstanding. As examples, the construction of new wells has not yet been completed; new tanks have not yet been completed; and the booster pump station rehabilitation project is still ongoing.

5. **Bond Fund Accounting**

Further, based on GWA's submission, as of August 31, 2016, the following bond funds remain available: (1) about \$12 million, with about \$6 million unobligated, for the 2010 bond; (2) about \$112 million, with about \$32.5 million unobligated, for the 2013 bond; and (3) about \$140 million for the 2015 bond.

6. **Additional FTE Requested for FY2017**

GWA further submitted, per the request of the PUC, a list of additional full-time employees requested for FY2017. The list indicates fifty-nine additional positions,

⁷ Annual True Up, p. 1; Schedule A.

ranging from customer service representatives, equipment operators, water plant operators, water sewer maintenance workers, and leak detection technicians, among others. The estimated cost of to fill these positions is \$2,010,444.00.

7. Conclusion and Recommendation

Based on the record, the ALJ therefore recommended that the PUC stay any rate relief for now. The ALJ noted that the PUC has recently approved the issuance of three (3) bond issuances, but that the PUC should also be concerned that many of the projects have yet to be completed. As discussed above, GWA's filings indicate substantial amounts of bond funds that remain uncommitted in the accounts. The ALJ stated that ratepayers deserved some relief while GWA continues its efforts to improve its systems. GWA can make up this shortfall by holding off on filling the new positions requested for FY2017, which will save about \$2 million; as well as exercising some other cost saving measures. Accordingly, the ALJ recommended that the PUC stay any rate relief at this time. However, with regard to the Legislative Surcharge, the ALJ recommended that the PUC approve the increase of this surcharge by 3.7% as requested by GWA.

The Commission hereby adopts the findings contained in the September 28, 2016 ALJ Report and, therefore, issues the following:

ORDERING PROVISIONS

After careful review and consideration of the above determinations, the September 28, 2016 ALJ Report, and the record herein, for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission hereby ORDERS the following:

1. That GWA has satisfied the requirements concerning its annual true up and, therefore, GWA's request to increase its Lifeline and Non-Lifeline Water and Wastewater rates by 3.5%, excluding agriculture, is hereby APPROVED.

2. That approval is further GRANTED for GWA to increase its Legislative Surcharge by 3.7%.

3. That GWA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses associated with the instant proceeding. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12002(b), 12024(b) (renumbered as 12 G.C.A. §§ 12103(b) and 12125(b)), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

[SIGNATURES TO FOLLOW ON NEXT PAGE]

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SO ORDERED this 29th day of September, 2016.



JEFFREY C. JOHNSON
Chairman

ROWENA E. PEREZ
Commissioner



JOSEPH M. MCDONALD
Commissioner



FILOMENA M. CANTORIA
Commissioner



MICHAEL A. PANGELINAN
Commissioner



PETER MONTINOLA
Commissioner



ANDREW L. NIVEN
Commissioner

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