

GUAM PUBLIC UTILITIES COMMISSION  
SPECIAL MEETING  
September 26, 2023  
GCIC CONFERENCE ROOM, GCIC BUILDING, HAGATNA



MINUTES

The Guam Public Utilities Commission [PUC] conducted a special meeting set for 6:30 p.m. on September 26, 2023, pursuant to due and lawful notice. The meeting was called to order at 6:39 p.m. **Commissioners Johnson, Montinola, Perez-Camacho, McDonald, Flores-Brooks and Guerrero** were in attendance. The following matters were considered at the meeting under the agenda included as *Attachment "A"* hereto.

**1. Guam Power Authority**

The Chairperson announced that the first item of business on the agenda was Guam Power Authority ("GPA") Docket 23-19, Petition to Extend the Performance Management Contract for Cabras 1 and 2; PUC Counsel Report; and Proposed Order.

PUC Legal Counsel Anthony R. Camacho (PUC Legal Counsel) explained that the Guam Power Authority's (GPA) current contract with the Cabras 1 and 2 Power Management Contractors (PMC) and its initial three-year term was set to expire at the end of September 2023, with two optional one-year extensions. PUC Legal Counsel explained that GPA is requesting approval from the PUC to exercise these extensions, totaling \$8.1 million. The need for the extensions arose from damage caused by a recent typhoon, which hindered the completion of a new power plant. The cost breakdown includes a \$1.3 million annual budget for operations and maintenance (O&M), a \$2.6 million fixed management fee for the first extension, and a \$2.7 million fixed management fee for the second extension. PUC Legal Counsel recommended PUC approval, emphasizing that previous PMC contracts have improved operational efficiency and cost savings. Failure to extend the contract could disrupt GPA's ability to operate until the new power plant is completed. PUC Legal Counsel presented a draft order for PUC approval.

A discussion ensued between the Chairperson, Commissioners Montinola, Flores-Brooks, Perez-Camacho, Guerrero, and GPA General Manager John Benavente ("GPA GM Benavente"). The discussion revolved around the topics as follows:

**a. Power Plant Schedule Changes:**

- The original retirement date for the Ukudu power plant was October 2022, later extended to January 2026.
- The combustion turbines are expected to be close to commissioning by the end of 2025.

**b. Issues with Cabras 1 and 2:**

- Cabras 2 has been facing difficulties, and load shedding has occurred due to extended downtime.
- Problems with screen tubes and hydraulic issues have contributed to the challenges in restoring Cabras 2.



**c. Need for TEMES PMC Support:**

- The Guam Power Authority (GPA) relies on TEMES support for expertise, materials, and parts to restore emergency situations.
- The PMC price has increased due to the addition of two engineers and technicians, requiring more assistance.

**d. EPA Awareness:**

- The U.S. EPA is aware of the schedule changes, and documents are being provided to support the new timeline.

**e. Water Quality and Boiler Tubes:**

- There is no significant water quality issue with boiler tubes; the screen tubes, not changed for a long time, are causing problems.

**f. Time of Use Program:**

- GPA is considering a time-of-use program to manage peak loads and is exploring options like load management for water heaters.

**g. Temporary Power Procurement:**

- A resolution is proposed to the CCU for procuring temporary power, potentially involving a prone attack for reliability.

**h. Battery Storage:**

- A proposal for a 45-megawatt, 225-megawatt-hour energy storage battery is being considered for reliability, with funding sought from the military.

**i. Status of 1-Megawatt Units:**

- Some 1-megawatt units are facing protests, and efforts are ongoing to resolve the situation to bring about 25 megawatts back online.

**j. Status of Combustion Turbine Number 7:**

- Piti Number 7 is operational at reduced capacity due to insulation issues; plans are to bring it back to full capacity once Cabras 1 stabilizes.

**k. Peak Load Challenges:**

- The peak load, especially between 6 to 10 in the evening, is a significant challenge, and load management strategies are being explored.

**l. Financial Considerations:**

- There is a financial implication of \$8.1 million for the extension, with discussion around the cost per megawatt and the penalties associated with the 70 percent availability.

**m. Future Plans:**

- The plan is to work through the current challenges, procure temporary power, and explore various options for load management and peak shaving.

**n. Potential Resolutions:**

- Resolutions related to temporary power procurement, load management, and energy storage are proposed for consideration.

**o. Concerns and Contingency Plans:**

- Concerns about potential load shedding, challenges in meeting EPA deadlines, and contingency plans like procuring temporary power and load management programs are highlighted.



There being no further discussion, Commissioner Montinola moved to approve the petition which motion was seconded by Commissioner Perez-Camacho. The motion passed with 5 votes in favor and 1 opposed, with Commissioner Guerrero casting the opposing vote.

## **2. Guam Waterworks Authority**

The Chairperson announced that the next item of business on the agenda was Guam Waterworks Authority ("GWA") Docket 19-08, Annual True-Up Submission, Projection, and Request for Fiscal Year 2024 Rates; Georgetown Consulting Group Report (Response to GWA Rate Submission); ALJ Report; and Proposed Order.

Chief ALJ Frederick Horecky ("ALJ Horecky") provided a comprehensive overview of GWA Docket 19-08, focusing on the annual true-up of rates. He emphasized GWA's substantial request for a 27 percent rate increase, amounting to \$28 million, which he identified as the largest in the history of PUC true-up proceedings. A comparison was drawn between GWA's proposal and the staff-recommended 16.1 percent increase, with ALJ Horecky advocating for a more moderate impact on ratepayers. Notably, ALJ Horecky delved into the contentious issue of the proposed \$7.5 million increase in the Rate Stabilization Fund (RSF), expressing reservations about its necessity and proposing alternative funding sources. While briefly touching on power expenses, ALJ Horecky recommended approval for 97.9 percent of GWA's requested employee salary and benefits but raised concerns about the suggested increase in the number of employees. The proposed order, which includes staff recommendations and a 16.1 percent rate increase, was outlined for the PUC Commissioners' consideration.

The Chairperson then called on GWA General Manager Miguel Bordallo (GWA GM Bordallo) to provide any comment he may have. GWA GM Bordallo expressed gratitude to the chair and then distributed a document on historical rate recommendations, which ALJ Horecky reviewed and raised no objections to. GWA GM Bordallo proceeded to argue against the perception of the 27 percent rate increase as excessive, pointing out the impact of deferred rate relief over the years. He highlighted how prior PUC decisions resulted in a depletion of reserves and necessitated the current request. Refuting the ALJ's points on the Rate Stabilization Fund (RSF), GWA GM Bordallo clarified its role during the pandemic and emphasized the need to restore reserves. He contested the staffing study suggestions, presenting GWA's unique challenges and ratios compared to Navy utilities. Discussing forecasted power expenses, he defended GWA's conservative approach. GWA GM Bordallo concluded by urging the PUC to consider the looming challenges, including the consent decree, and requested clarity on documenting the decision for future reference.

The Chairperson then called on Jim Madan (Mr. Madan) of Georgetown Consulting Group for statements on behalf of Georgetown Consulting. Mr. Madan conveyed his thanks and provided additional perspectives on key issues. He noted the absence of acknowledgment regarding the initial stipulation that set rates for the first years by mutual agreement, expressing surprise at GWA's apparent dissatisfaction with a



voluntarily signed agreement. Mr. Maden emphasized the impact of unmet water loss standards on increased expenses. He disputed GWA's claim of foreseeing all factors over the five-year period, attributing the substantial rate increase to unforeseen power expenses influenced by global events. Regarding labor, Mr. Maden highlighted the conservative approach, revealing a stable or reduced labor expense until 2024, where a substantial increase is projected, accepted by their team. He concluded by addressing the Rate Stabilization Fund, advocating for a more flexible funding approach, and identified the major differences in their recommendations, including the elimination of the Fund and adjustments in revenues, labor, and power expenses.

ALJ Horecky then addressed the historical context of GWA's rate case, emphasizing that in a true-up, the focus should solely be on determining the revenues needed for the specific year, in this case, 2024. He argued against retroactive rate-making principles, stating that addressing past deficiencies is improper in the current context. Regarding the Rate Stabilization Fund (RSF), he pointed out that the funds transferred to the RSF were GWA's own money, and the Commission historically did not consider the RSF before 2020. He echoed Mr. Maden's suggestion that RSF-related issues could be addressed in the upcoming five-year rate case starting in April. Mr. Horecky criticized the idea of establishing the RSF without a clear understanding of its future expenses, considering it an unnecessary burden on ratepayers. He also touched on debt service coverage, noting that the provided revenues would exceed the 1.3 coverage threshold accepted in the last rate case. Finally, he asserted that the mini-rate case should be streamlined to focus on extraordinary expenses rather than addressing broader issues or future rate cases. In conclusion, he argued that the case for filling up the RSF at this point had not been convincingly established and could impose an undue burden on ratepayers.

GWA GM Bordallo responded to points raised by Mr. Maden and the ALJ regarding potential solutions, highlighting that GWA lacks legislative authorization for short-term borrowing or a tax-exempt commercial paper program. He acknowledged attempts to pursue authorization had been unsuccessful. GWA GM Bordallo expressed concerns about borrowing to cover operational expenses, stating that it doesn't align with proper financial planning. He emphasized the importance of using the RSF to augment revenues and covenant in debt service coverage calculations to protect GWA's position, arguing that borrowed funds cannot serve the same purpose and may even be detrimental. He clarified that the request is not for additional funding for the same expenses but to replenish reserves taken due to inadequate rate relief in the prior year. GWA Bordallo contested the assertion that GWA's financial planning was poor, stating that their planning accurately identified needs, and the current situation aligns with their predictions. He concluded by expressing disagreement with the idea that GWA failed in its financial planning responsibilities.

ALJ Horecky argued that GWA had already been provided with the requested debt service coverage. He suggested that if GWA believed they needed more coverage, they should have explicitly requested it instead of seeking a reserve for potential issues. He



emphasized that requests for appropriate debt service coverage should be made during a true-up and rate case.

Consolidated Commission on Utilities (CCU) Chairman, Joseph T. Duenas aka Joey Duenas ("CCU Duenas"), presented a perspective on the potential impact of rate increases on minimum wage earners, using the example of a one-day work requirement to pay the current water bill. He highlighted the additional hours a minimum wage earner would need to work if the rate increases proposed by GCG and GWA were implemented. CCU Duenas acknowledged challenges faced by ratepayers with specific needs, emphasizing that there are situations where assistance is challenging. He also mentioned his upcoming departure from the CCU and noted the 10-year span without a base rate increase at GPA, expressing concern about the tight financial situation with GWA's proposed rate.

ALJ Horecky addressed CCU Duenas's argument about the impact of rate increases on minimum wage earners, stating that it doesn't apply to commercial, hotel, or government entities. He pointed out that CCU Duenas made assumptions about people's ability to work extra hours and allocate that income solely to water bills, highlighting the complexity and potential financial constraints for those living paycheck to paycheck. CCU Duenas did not provide any response to ALJ Horecky.

Commissioner Guerrero then questioned Georgetown about the water leak repairs and improvements in water lines over the past four years. He sought information on the gallons per minute saved due to these projects and wanted to understand how these repairs could impact the calculation of unavoidable expenses in the five-year rate plan. There was no further discussion on this inquiry.

Chairman Johnson discussed the Rate Stabilization Fund, expressing support for it and acknowledging the current balance of about a million dollars. Chairman Johnson highlighted the history of GWA's self-insurance fund, its goals, and the need to set a goal to increase the Rate Stabilization Fund. The discussion also touched on power expenses, the 20 percent increase based on recent fuel price trends, and staffing needs at GWA, particularly for the Northern District Wastewater Treatment plant and the water loss control program. There was emphasis on complying with regulatory priorities, and Chairman Johnson suggested the need to reconsider the goals of the debt service coverage ratio in the next five-year rate case.

Commissioner Montinola expressed understanding of the challenges in rate design and acknowledged the history of decisions contributing to the current situation. He emphasized the importance of the Rate Stabilization Fund (RSF) and questioned GWA's current financial status, expressing concern about potential default if revenues fall short. He suggested considering a 20% increase in rates as a middle ground, asking about the impact on RSF funding. GWA responded that a 20% increase could fund the RSF by about \$3 million, providing a buffer against potential default. The discussion also touched on a new consent decree negotiated since 2017.



Commissioner McDonald inquired about GWA's status on the current consent decree and asked if there was a timeline or a request for an extension. GWA responded that they had requested and received an extension until the end of 2025 to complete the remaining compliance item related to work on the tanks in the previous consent decree.

The Chairman emphasized the need to prepare for the potential impact of a new consent decree on rates in the next five-year plan. He mentioned the importance of setting a base level for rates to avoid significant increases in the future. Commissioner Montinola raised concerns about the current situation, attributing it to delays in addressing rate increases. The Chairman acknowledged the need for a rate increase and expresses a reluctance to fully replenish the Rate Stabilization Fund at this time but assured collaboration with the Guam Waterworks Authority (GWA) in the future.

Commissioner Perez-Camacho expressed a preference for consistency and addressing utilities' needs. She noted the historical challenges faced by GWA and supported the proposed 16.1 percent rate increase, emphasizing the importance of water supply for ratepayers. She suggested further examination and common ground in the upcoming five-year rate case.

Commissioner Montinola sought clarification on the proposed 16.1 percent rate increase, specifically in relation to the staffing changes. He questioned whether the increase accounted for the addition of only six employees instead of 14 and sought further explanation regarding the role of the 14 employees, particularly in the context of leak detection teams.

GWA GM Bordallo explained that he was unsure about the origin of some numbers, mentioning the Request for Information (RFI) process regarding turnover. He highlighted the budgeting for the needed positions, including operators at the Northern Wastewater sewage treatment plant and additional employees for the leak detection program. He emphasized the need for operational flexibility within the funding levels decided by the PUC and adherence to guidelines from the CCU regarding full-time employees. Regarding workforce development, he mentioned the upcoming apprenticeship program with GCC and the loss of employees (pre-pandemic) due to better-paying opportunities elsewhere. Commissioner Montinola agreed with the importance of considering both equipment and retention in the requested numbers.

During the discussion, Commissioner Flores-Brooks expressed the need for a rate stabilization fund (RSF) for GWA but questioned the \$18 million and negative \$7.5 million figures in the RSF for fiscal years 2023 and 2024. She sought clarification on the transfer of funds, and GWA GM Bordallo explains that \$18 million is transferred into revenues from the RSF or ARPA funding, and in 2024, \$7.5 million is intended to be taken out of revenue and put into the RSF. The Chairman clarified that the \$7.5 million transfer is what GWA is currently requesting.

Commissioner Flores-Brooks noted a \$10 million difference between the proposed rate increases and inquired about the nearly doubled internally-funded Capital



Improvement Projects (CIPs). She suggested kicking the CIPs down the road, and GWA GM Bordallo explained that the projects were on hold, including renovations and equipment purchases essential for the consent decree. The discussion touched on bond-funded CIPs, staffing changes, and the potential impact on salaries and benefits.

The Chairman emphasized the importance of establishing a base level for GWA to approach future projects without a drastic rate increase. Commissioner Perez-Camacho expressed her support for the proposed 16.1 percent rate increase, highlighting the need for water and mentioning the history of GWA's challenges and improvements. Commissioner Montinola sought clarification on the proposed 16.1 percent rate increase, specifically regarding staffing changes, questioning whether it accounts for the addition of only six employees instead of 14.

GWA GM Bordallo responded, stating that the number 14 may have come from the RFI process and that they budgeted based on their perceived needs. He emphasized the regulatory priorities set for them and the importance of compliance. Commissioner Flores-Brooks further examined the numbers, questioning the \$25 million budgeted for salaries and benefits in fiscal year 2024, suggesting it is not the correct number. The discussion delved into the intricacies of GWA's proposed budget, staffing needs, and the ongoing consent decree.

Ms. Flores-Brooks expressed concerns about the increase in salaries and benefits from \$25 million to almost \$30 million, a \$4 million rise. Mr. Bordallo explained that the funding levels were based on calculations, with turnover rates influencing staffing numbers. He emphasized the need to focus on adjustments rather than specific staffing figures. The discussion included retiree expenses, with Ms. Taitano explaining the decrease due to factors like retiree numbers and calculations related to the self-insurance program.

Commissioner Flores-Brooks questioned the retiree expense decrease and expressed concern that the numbers might go up in the future. The conversation shifted to the internally-funded Capital Improvement Projects (IFCIP), with GWA Ms. Taitano clarifying that reducing IFCIP wouldn't impact operating and maintenance expenses but might affect debt service coverage. Commissioner Flores-Brooks suggested finding a \$10 million difference, proposing \$1.5 million from the Rate Stabilization Fund, \$6 million adjustment, and \$4 million from IFCIP, leading to her support for the proposed 16 percent rate increase. She mentioned shock at the 16 percent and predicted challenges for the governor in making decisions.

Commissioner Perez-Camacho inquired about the \$1.9 million settlement and its allocation to the Rate Stabilization Fund (RSF). GWA GM Bordallo explained that the entire settlement went to the RSF as per their contingency rate agreement with attorneys. There was no additional amount beyond what they received. The discussion then shifted to staffing differences with Georgetown, with Commissioner McDonald asking about the gap. Chairman Johnson clarified that the difference was \$600,000, with an additional \$900,000 in power costs. Despite these variances, the conversation focused



on philosophical support for GWA over the long term, drawing parallels with GPA's self-insurance fund. Chairman Johnson expressed optimism about bridging the gap, considering it a matter of a few employees and less than a million dollars in power costs.

Commissioner Perez-Camacho inquired about the current size of the apprenticeship program at GWA and its approval status. GWA GM Bordallo mentioned that the program has not been approved by the board yet and is aiming for a launch in January, possibly extending to the summer. When asked about the need for Full-Time Equivalents (FTEs) for the apprenticeships, GWA GM Bordallo clarified that not all 20 positions would require FTEs. Commissioner Perez-Camacho acknowledged this and considered how the funding for the apprenticeship program could be beneficial for GWA.

Chairman Johnson expressed concern about the uncertainties related to power expenses in the next fiscal year. He mentioned the possibility of a mid-year correction if needed, citing past experiences with GPA. GWA GM Bordallo humorously added that a couple more percent would make things easier. Chairman Johnson emphasized the importance of ensuring the health of the utility and the potential risks if rates are not adjusted appropriately, including the threat of federal EPA receivership leading to higher rates beyond their control. The discussion highlighted the challenges of making decisions that balance financial stability with the utility's needs and obligations.

Further discussion between Chairman, Commissioners McDonald, Montinola, Perez-Camacho, Flores-Brooks, ALJ Horecky and GWA revolved around the financial implications of different percentage increases in rates. Chairman Johnson clarified that each percentage point increase equated to about a million dollars, specifically addressing the need for an 0.6 percent increase to cover staffing costs. The potential challenges posed by the upcoming consent decree were also mentioned, with uncertainty about the details preventing a decision at the moment. Commissioner Montinola suggested considering a 21 percent increase, but no final decision was reached. The conversation acknowledged the importance of maintaining a favorable debt service coverage ratio and planning for the next five-year rate plan, expected to be filed in April. The importance of funding the Rate Stabilization Fund was emphasized, with a recognition of the complexities involved in reaching a decision that balances financial stability and utility needs.

ALJ Horecky clarified that his recommendation was to fund the staffing pattern at 371 employees, but the order did not explicitly mention a restriction on the number of employees only the 16.1%. Chairman Johnson emphasized that GWA GM Bordallo has the flexibility to adjust the staffing based on factors such as power rates, ensuring that he is not bound to specific line items on the RAM.

Commissioner Guerrero brought up the potential impact of the Navy's rate increase, indicating that it costs GWA \$6 million annually. GWA GM Bordallo mentioned that the Navy would announce any rate adjustments during their stakeholders meeting the



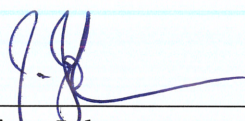
next day (September 27, 2023). The annual increases from the Navy have been around two percent in the last three to five years, but the specific details were not yet known. Chairman Johnson calculated the potential impact of a 21 percent increase based on the \$6 million cost.

CCU Duenas shared an anecdote about a past discussion with a Navy captain regarding rate increases. He highlighted the challenge of dealing with the Navy, stating that they don't borrow money for long-term projects like treatment plants but instead write a check. This approach means they aim to recover their costs within the next two years. The conversation emphasized the limited control GWA has over Navy spending and the challenges in managing costs imposed by the Navy.

Commissioner Pedro Guerrero suggested exploring ways to reduce the cost of water supplied to the Navy by decreasing the gallons per minute consumed from them. He emphasized the need to utilize the water system from GWA's wells to Agat-Santa Rita as a more efficient and cost-effective approach. Commissioner Guerrero cited a past instance where such a measure resulted in a savings of over \$3 million. The discussion focused on strategies to enhance efficiency in water consumption and reduce associated costs.

There being no further discussion, a motion to approve the order as written, including the 16.1 percent rate increase, was initially proposed by Commissioner Perez-Camacho. Commissioner Guerrero seconded the motion, and after a unanimous vote by the commissioners, the motion passed. Following this, Commissioner McDonald introduced a motion to amend, suggesting an additional 0.6 percent to account for staffing projections, making it a 16.7 percent increase. Commissioner Montinola seconded the motion, and with unanimous approval from the commissioners, the amended motion also passed unanimously.

There being no further business, the Commissioners moved to adjourn the meeting. The meeting was adjourned at 9:37 p.m. on September 26, 2023.

  
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Jeffrey Johnson  
Chairperson



**ATTACHMENT A**  
**THE GUAM PUBLIC UTILITIES COMMISSION**  
**NOTICE OF PUBLIC MEETING**

**NOTICE IS HEREBY GIVEN** that the Guam Public Utilities Commission [PUC] will conduct a special business meeting, commencing at 6:30 p.m. on September 26, 2023, Suite 703, GCIC Building, 414 W. Soledad Ave., Hagatna.

The following business will be transacted:

**Agenda**

- 1. Call to Order**
- 2. Guam Power Authority**
  - **GPA Docket 23-19:** Petition to Extend the Performance Management Contract for Cabras 1 and 2; PUC Counsel Report; and Proposed Order
- 3. Guam Waterworks Authority**
  - **GWA Docket 19-08:** Annual True-Up Submission, Projection, and Request for Fiscal Year 2024 Rates; Georgetown Consulting Group Report (Response to GWA Rate Submission); ALJ Report; and Proposed Order
- 4. Adjournment**

Further information about the meeting may be obtained from the PUC's Administrator Lourdes R. Palomo at 671-472-1907. Those persons who require special accommodations, auxiliary aids, or services to attend the meeting should also contact Mrs. Palomo.

**This Notice is paid for by the Guam Public Utilities Commission**



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF:**

**THE APPLICATION OF THE GUAM  
POWER AUTHORITY TO EXTEND  
THE PERFORMANCE MANAGEMENT  
CONTRACT CABRAS 1 AND 2**

**GPA DOCKET 23-19**

**ORDER**



**INTRODUCTION**

1. This matter comes before the Public Utilities Commission ["PUC"] pursuant to the Guam Power Authority's ["GPA"] Petition to Extend the Performance Management Contract [PMC] for Cabras 1 and 2.<sup>1</sup>
2. The initial three (3) year term of GPA's PMC for Cabras 1 and 2 will expire on September 30, 2023.<sup>2</sup>
3. GPA requests that the PUC approve GPA's exercise of the PMC's optional two (2) year periods that has a Fixed Management Fee in the amount of \$5,414,382, reimbursable O&M expenses in the amount of \$2,700,000, and a 70% Equivalent Availability Factor, based on the Maximum Capacity Factor, for the two (2) year extension period.<sup>3</sup>

**BACKGROUND**

4. Taiwan Electrical & Mechanical Services, Inc. [TEMES] has the PMC for Cabras 1 and 2 and the PMC's three (3) year initial term began on October 1, 2020 and will expire on September 30, 2023. The PMC has two (2) one (1) year options to renew.<sup>4</sup>

<sup>1</sup> GPA Petition to Extend the Performance Management Contract for Cabras 1 and 2, GPA Docket 23-19, dated August 4, 2023 [GPA Petition].

<sup>2</sup> GPA Petition at 1. NOTE: The page numbers in GPA's Petition and its exhibits are not continuous and the page numbers cited herein refer to the page number of the PDF version of the Petition which is continuous.

<sup>3</sup> Id., at 3.

<sup>4</sup> Id., at 1.

ORIGINAL



5. GPA's consent decree with the U.S. Environmental Protection Agency mandates that the Cabras 1 and 2 Power Plants be retired no later than October 31, 2024. It was expected that the GPA's new Ukudu Power Plant would be commissioned prior to that date and that once the new plant was online there would be no need for the Cabras 1 and 2 Power Plants. However, GPA must continue to operate Cabras 1 and 2 beyond October 31, 2023 due to Typhoon Mawar striking Guam and damaging the Ukudo Power Plant which has delayed its completion.<sup>5</sup>
6. GPA and TEMES negotiated the following for the two (2) extension years: (a) A \$2,641,162 fixed management fee and \$1,350,000 for reimbursable O&M expenses for the first extension year; (b) A \$2,773,220 fixed management fee and \$1,350,000 for reimbursable O&M expenses for the second extension year; (c) An increase from six (6) to eight (8) personnel to support additional work and work hours; (d) An Equivalent Availability Factor of 70% of the Maximum Capacity Factors of Cabras 1, which is 40 megawatts, and Cabras 2, which is 45 megawatts.<sup>6</sup>
7. On July 3, 2023, the Guam Consolidated Commission on Utilities ["CCU"] issued CCU Resolution No. FY2023-21 authorizing GPA's management to exercise the two (2) one (1) year extensions and their \$8,114,382 cost subject to the PUC's approval.<sup>7</sup>
8. On August 28, 2023, PUC Legal Counsel issued his report.

### **DETERMINATIONS**

9. GPA must obtain the PUC's approval to exercise the two (2) one (1) year extensions of the PMC contract. GPA's Contract Review Protocol states that for multi-year procurements with fixed terms and variable annual costs, GPA shall seek PUC approval of the procurement if the aggregate cost estimate for the entire term of the procurement exceeds its \$1,500,000 review threshold.<sup>8</sup> Here, the extensions have variable costs in the total amount of \$8,114,382 which exceed the \$1,500,000 review threshold. Therefore, GPA must obtain the PUC's approval to exercise the PMC extensions.

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<sup>5</sup> Id., at 2.

<sup>6</sup> Id., at 5.

<sup>7</sup> Id.

<sup>8</sup> PUC Order, Administrative Docket, Contract Review Protocol for GPA, at page 2.



10. The \$8,114,382 cost of the PMC extensions is reasonable. In GPA Docket No. 20-04 the PUC determined that GPA and the Cabras 1 and 2 PMC will mutually agree as to the contract deliverables and guarantees, and the contract will include provisions for operations, maintenance supplies and services, and inventory management and control and that GPA has set the O&M Budget for the PMC contract at \$1,350,000 per year.<sup>9</sup> Here, GPA and TEMES have negotiated a \$2,641,162 fixed management fee for the first extension and a \$2,773,220 fixed management for the second extension and \$1,350,000 for reimbursable O&M expenses for both extension years. TEMES must operate the plants at 70% of their Maximum Capacity Factors. Therefore, the extension cost is reasonable and permitted by the PMC contract.
11. The extensions are prudent. The PUC has previously found that PMCs for Cabras 1 and 2 have improved the operational efficiency, reliability, and cost savings of those power plants.<sup>10</sup>
12. The extensions are necessary. GPA currently only has two baseload power plants and Cabras 1 and 2 are one of these baseload plants. If GPA does not exercise the extensions, it is unlikely that Cabras 1 and 2 will remain online and this would cause great disruption in GPA's ability to operate the island-wide power system until the new northern power plant is completed.
13. Based on the foregoing, GPA's contract extensions with TEMES for the Cabras 1 and 2 PMC and their \$8,114,382 cost are reasonable, prudent, and necessary, and the extension will prevent a great disruption in GPA's ability to operate the island-wide power system until the new northern power plant is completed.

### **ORDERING PROVISIONS**

After careful review and consideration of the above determinations, GPA's Petition to extend the PMC for Cabras 1&2, the Report of PUC Legal Counsel, and the record herein, for good cause shown, and on motion duly made, seconded, and carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. GPA's exercise of the PMC's optional two (2) year periods are approved.

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<sup>9</sup> PUC Order dated January 30, 2020 in GPA Docket No. 20-04 at 2.

<sup>10</sup> PUC Order dated September 15, 2010 in GPA Docket No. 10-4 at 1.



2. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and expenses is authorized pursuant to 12 GCA §§12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

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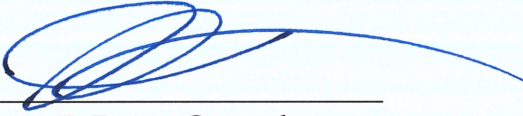


PUC Order  
Petition of the Guam Power Authority  
To Extend The Performance  
Management Contract For Cabras 1 & 2  
GPA Docket 23-19  
August 31, 2023

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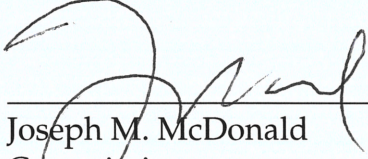
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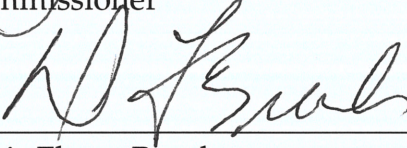
  
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Chairman

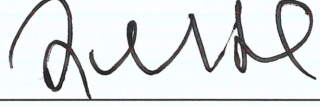
  
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Joseph M. McDonald  
Commissioner

  
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Doris Flores Brooks  
Commissioner

  
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Peter Montinola  
Commissioner



BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF: ) GWA Docket 19-08  
)  
PUC PETITION FOR APPROVAL OF )  
GWA'S THIRD FIVE-YEAR FINANCIAL ) **ORDER RE: ANNUAL**  
PLAN (BASE RATE INCREASES) ) **TRUE-UP FOR FY2024 RATES**  
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INTRODUCTION

This matter comes before the Guam Public Utilities Commission ["PUC"] pursuant to the PUC's Rate Decision dated September 22, 2022 ["Rate Decision"].<sup>1</sup> Pursuant to the Rate Decision GWA was required to provide the PUC with an updated True-Up projection for FY2024.

BACKGROUND

Pursuant to the September 22, 2022 Rate Decision, the PUC approved a rate increase of 5.5% for FY2024. On June 1, 2023 GWA submitted its Annual True-Up Submission, Projection, and Request for Fiscal Year 2024 Rates ["2024 True-Up"].<sup>2</sup> Thereafter the Administrative Law Judge of the PUC ["ALJ"] transmitted GWA's True-Up submission to PUC Consultant Georgetown Consulting Group ["GCG"] for its review. The ALJ and GCG conducted an extensive review of GWA's filing. The PUC undertook investigatory discovery, and the ALJ engaged in discussions with GWA with respect to the issues related to GWA's submission. On September 13, 2023 GCG

<sup>1</sup> Rate Decision, GWA Docket 19-08, dated September 22, 2023.

<sup>2</sup> Annual True-Up Submission, Projection and Request for Fiscal Year 2024 Rates, GWA Docket 19-08, filed June 1, 2023.

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provided the ALJ with a report regarding its review of the FY2024 True-Up.<sup>3</sup> On September 15, 2023, the ALJ filed his report concerning the True-Up, which included his findings and recommendations based on the administrative record before the PUC. The PUC adopts the recommendations and conclusions in the GCG and ALJ Reports, with one modification as to Salaries and Benefits.

## **DETERMINATIONS**

### **A. FY2023 Annual True-Up (for FY2024 Rates)**

#### **Base Lifeline and Non-Lifeline Rates**

In FY2024, GWA will be completing the fifth year of its third 5-year financial plan (FY2020 through FY2024) and rate relief application with the PUC. In its True-Up GWA submits that it has thoroughly reviewed its revenue requirements and other requisites such as rate covenants and financial policies and considered known and measurable changes in costs and conditions. Based on these analyses, GWA has determined and recommends a 27.0% rate increase for basic lifeline and non-lifeline rates for FY2024 for all rate classes, effective October 1, 2023. GWA submits that the recommended rate increase is needed to meet increased power costs and existing debt service coverage. GWA states that the proposed rate increases are projected to increase system rate revenues by \$28.8 million and will allow GWA to fund necessary O & M expenses, and internally financed capital improvements, rebuild a modest level of rate stabilization reserves, and enable incremental improvement in debt service coverage levels.

### **B. Annual True-Up Review**

#### **1. Overview**

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<sup>3</sup> Georgetown Consulting Group, Staff Report Responding to GWA's Petition for a 27% Across the Board True-Up Increase in Rates for FY 2024.



As indicated, GWA has requested a rate increase of 27% for FY2024; GCG has proposed an increase of 16.1%. The PUC has only made one modification to the rate increase proposed by GCG: an additional \$600,000 for Salaries and Benefits. The GCG Report presents detailed reasoning for its conclusions on the specific revenue and expense items for which rate increases should be allowed. A total rate increase of 16.7% is now approved. The PUC adopts the GCG Report, and the schedules presented, with the modification noted. The 16.7% rate increase for FY 2024 is the largest true-up increase granted in the history of the PUC.<sup>4</sup>

**2. GWA True-Up Submission exceeds the Scope of an ordinary true-up review.**

Ordinarily, a true-up is based upon an update to the schedules approved in the last rate case. A true-up is an “update” to revenues, expenses and other items referenced in the prior schedules. GWA’s submission goes far beyond an ordinary true up filing. It is more in the nature of a “mini rate case”. GWA’s filing includes an FY 2024 revenue forecast which employs a “enhanced methodology”, with new assumptions about residential account growth, water demand and wastewater flows, and price elasticity.<sup>5</sup> The enhanced methodology” considers key trends and price responses. A change in how revenues are determined, and new forecast models, would normally be appropriate in a rate case, but not a true-up proceeding.

The ALJ and GCG have not had sufficient time to fully explore GWA’s new assumptions and methodology, and do not necessarily accept them. However, for purposes of this true-up, the ALJ and GCG have not challenged such assumptions and methodology and have used them in arriving at an appropriate rate increase. The ALJ and GCG have focused on specific changes in revenues or expenses that would justify a rate increase.

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<sup>4</sup> See PUC Order, GWA Docket 15-04, dated September 29, 2016; there the PUC granted a 14.5% true-up rate increase.

<sup>5</sup> Annual True-Up Submission, at pgs. 5-6



**3. Revenues**

GWA has estimated a total revenue requirement of approximately \$137.57M; GCG has estimated a total revenue requirement of \$128.33M. Exhibits “1” and “2”, attached to the ALJ Report, are GCG’s proposed True-Up Schedule A-1 and True-Up Schedule A-1 GWA-As Filed. The GCG schedule indicates the changes that it has made to GWA’s rate request. The PUC approves the revenue requirement and schedules recommended by GCG except as to Salaries and Benefits.

**4. Operating Expenses for FY2024**

GWA has proposed operating expenses of \$80.7M. GCG has approved operating expenses of \$79.734M. The PUC approves the Operating Expenses recommended by GCG for FY2024.

**5. Adjustments proposed by GCG**

**(a) Revenues from the Badger Meter Case Settlement.**

GWA secured an additional \$1.9M of revenues because of the settlement in the Badger Meter Case. Although GWA has not clarified the details of the award or indicated fees and expenses, it has proposed to place \$950,000 in the Rate Stabilization Fund for FY2024. GCG could have proposed that GWA deposit the full award of \$1.9M into the Rate Stabilization Fund for FY2024, which would have further reduced the potential rate increase sought by GWA. The PUC approves the placement of \$950,000 in the Rate Stabilization Fund for FY2024.

**(b) Deposit into the Rate Stabilization Fund  
[“RSF”] for FY2024**

GWA has proposed that it deposit \$7.5M into the RSF by charging its customers in FY2024 an additional \$7.5M in rates. If approved, such funding of the RSF through ratepayer rate increases would represent an almost 8% increase in GWA rates. As GCG points out, a double-digit rate increase is generally classified as a “rate shock” and a 27% proposed increase would fall into that category. The PUC does not approve the proposed increase of \$7.5M into the RSF for the following reasons:



(1) The timing of this requested increase is not beneficial, as the Guam economy is still recovering from the COVID Pandemic and Typhoon Mawar. A 27% rate increase is too great a burden for the ratepayers.

(2) GWA has not identified any specific expenses for which RSF Funding of \$7.5M is needed at the present time.

(3) There is no legal requirement that PUC “fill up” the RSF. The funds for the RSF have previously come from GWA reserve fund balances. The RSF was designed to deal with the effect of Covid pandemic on GWA revenues and debt service coverage.<sup>6</sup>

(4) The RSF is also designed to mitigate rate spikes and allow the smoothing of annual rate increases, not to cause such spikes.<sup>7</sup> Furthermore, transfers will only be made by GWA out of the RSF “if it appears the DSC may fall below the required 1.25 coverage.”<sup>8</sup>

(5) GWA’s primary reason for increasing the RSF is to provide it with “flexibility” in advance of the FY2025-FY2029 rate case and anticipated further increases in debt service coverage. GWA can request such debt service coverage in its five-year FY2025-FY2029 rate case.

(6) GWA can request funding for the RSF at such time as funding is needed.

**(c) Power Purchase Expense**

GCG has recommended that GWA’s computation of power cost for FY2023 and FY2024 should be revised: “for FY2023, GWA did not reflect the approved

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<sup>6</sup> Issues for Decision, Guam Consolidated Commission on Utilities, GWA Resolution No. 11-FY2021 Work Session, at p. 62 of the CCU Commissioner Board Packet dated February 16, 2021.

<sup>7</sup> Guam Consolidated Commission on Utilities, GWA Resolution No. 11-FY2021 at p. 65 of the CCU Commissioner Board Packet dated February 16, 2021.

<sup>8</sup> Issues for Decision, Guam Consolidated Commission on Utilities, GWA Resolution No. 06-FY2022, at p. 322 of the CCU Commissioner Board Packet dated January 25, 2022.



and implemented GPUC reduction of the electric LEAC for June 2023 and beyond.”<sup>9</sup> For FY2024, GWA requested \$24,169,088; GCG has approved \$22,764,673 for FY2024.<sup>10</sup> GCG also proposes to grant GWA a 20% increase for power expenses for the period of February 2024 through September 2024, although there has of yet been no PUC action on the LEAC for that period. To date diesel fuel prices have increased approximately 20% since the PUC reduced the LEAC rate in June of 2023.<sup>11</sup> The PUC approves the power purchase expenses recommended by GCG.

**6. Salaries and Benefits**

GWA proposed a total salaries and benefits budget of \$29,732,853 for FY2024; GCG has adjusted that amount by \$627,606, to a total Salary and Benefits cost of \$29,705,247 for FY2024. GWA recommended that the staffing level in FY2024 be increased from 365 to 379 employees, an increase of 14 employees. The PUC determines that additional employees may be necessary to operate the Northern District Wastewater Plant. Therefore, there shall be an additional \$600,000 in rate revenues provided for GWA for the additional \$600,000 employee salaries for FY2024.

**7. Contractual Expenses**

GCG concurs with GWA’s request for \$7.465 million for FY2024 contractual expenses. However, GCG and the ALJ recognize the importance of the Northern District Wastewater and wastewater litigation and would authorize over \$1 million for such expenses in FY2024. GCG proposes that a “regulatory asset” be established for the litigation expenses for the NDWW Litigation. The PUC approves GCG’s recommendation and will authorize the creation of a regulatory asset for litigation expenses if necessary.

**8. Debt Service.**

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<sup>9</sup> Georgetown Consulting Group, Staff Report Responding to GWA’s Petition for a 27% across the Board True-Up Increase in Rates for FY2024, dated August 31, 2023, at p. 3.

<sup>10</sup> See Exhibit “3” attached hereto, which sets forth GCG calculations on the power purchase expenses.

<sup>11</sup> Morgan Stanley, Asia Morning Call, September 14, 2023.



GCG has agreed to the debt service coverage amount requested for FY2024 of \$39.042M. The PUC approves such coverage.

9. **Legislative Surcharge**

GCG has approved an increase of the legislative surcharge, which includes retiree COLA an end-of-year pension and other adjustments, to 3.8%. The PUC approves the Legislative Surcharge

**ORDERING PROVISIONS**

After careful review and consideration of the above determinations, the GWA Annual True-Up Submission dated June 1, 2023, the September 13, 2023, GCG Report, the ALJ Report, the additional GWA and GCG submittals, 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. The conclusions and recommendations in the GCG and ALJ Reports, and the Staff FINAL RAM FY2024 True-Up and the adjustments and schedules set forth therein, are APPROVED, with an increase in rate revenues of \$600,000 for the additional \$600,000 Salaries and Benefits. GCG filed its final schedule A-1 and the Staff FINAL RAM FY2024 True-Up herein on September 28, 2023.

2. An across-the-board increase of 16.7% for GWA FY2024 rates is approved for implementation on October 1, 2023. The system-wide rate increase will apply to basic, lifeline, and non-lifeline rates and charges. The approved increase is “just” and “reasonable”. Schedule A, *Forecasted Operating Results with FY2024 Approved Rate Adjustment*, as prepared by GWA and reviewed and approved by the ALJ/Staff, is made an official part of this Order.

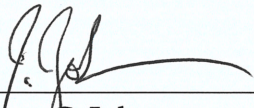


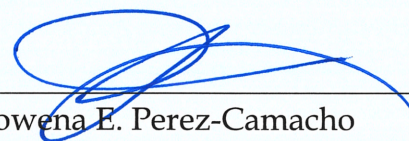
3. GWA is authorized to increase its Legislative Surcharge to 3.8%.
4. GWA shall file its next multi-year rate plan on or before April 1, 2024.
5. In accordance with 12 GCA §12102.2, a staffing study will be required for GWA's next multi-year rate case. This should be an independent study conducted by a third-party consultant.
6. 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. §§ 12103(b) and 12125(b)), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

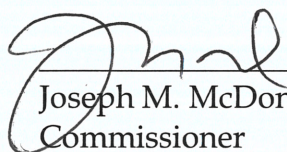
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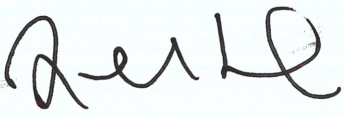
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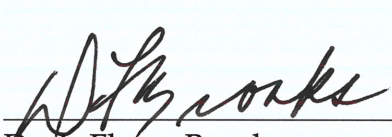
  
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Jeffrey C. Johnson  
Chairman

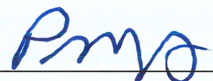
  
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Rowena E. Perez-Camacho  
Commissioner

  
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Joseph M. McDonald  
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Michael A. Pangelinan  
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Peter Montinola  
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Doris Flores Brooks  
Commissioner

  
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Pedro S.N. Guerrero  
Commissioner



## True-Up Schedule A-1

Historical and Forecasted Operating Results with PUC Ordered FY 2024 Rate Adjustment

	Unaudited Historical Year	Annualized Current Year	Forecast Next Year
	FY 2022	FY 2023	FY 2024
<b>Non-Lifeline Rate Increase</b>	0.0%	5.5%	16.7%
<b>Lifeline Rate Increase</b>	0.0%	0.0%	16.7%
<b>Surcharge</b>	3.6%	3.5%	3.8%
<b>CASH SOURCES</b>			
Water Service Revenues	64,607,199	68,999,129	80,479,614
Legislative Surcharge	2,007,183	2,335,332	2,958,520
Water SDC Revenues	498,145	660,000	489,600
<b>Water Rate Revenues</b>	<b>\$ 67,112,526</b>	<b>\$ 71,994,461</b>	<b>\$ 83,927,734</b>
Wastewater Service Revenues	27,939,855	30,991,533	36,483,092
Legislative Surcharge	1,003,591	763,370	976,821
Navy Service Revenues (inc. surcharge)	5,902,821	6,244,199	7,347,687
Wastewater SDC Revenues	747,217	990,000	734,400
<b>Wastewater Rate Revenues</b>	<b>\$ 35,593,485</b>	<b>\$ 38,989,103</b>	<b>\$ 45,542,000</b>
Other Revenues	464,488	1,415,000	474,300
Bad Debt Adjustment	(2,028,510)	(2,118,815)	(2,262,236)
<b>Total Operating Revenues<sup>1</sup></b>	<b>\$ 101,141,989</b>	<b>\$ 110,279,749</b>	<b>\$ 127,681,798</b>
Interest / Investment Income	275,879	275,000	275,000
<b>Rate Stabilization Transfers / ARPA Funds In (Out)<sup>2</sup></b>	<b>5,750,000</b>	<b>18,050,000</b>	<b>950,000</b>
<b>TOTAL SOURCES</b>	<b>\$ 107,167,868</b>	<b>\$ 128,604,749</b>	<b>\$ 128,906,798</b>
<b>CASH USES</b>			
Power Purchases <sup>3</sup>	18,577,440	25,388,436	23,221,568
Water Purchases	5,656,471	6,379,055	5,900,000
Salaries & Benefits <sup>4</sup>	24,985,288	25,874,596	29,705,247
Admin & General <sup>5</sup>	7,956,423	9,179,209	9,687,858
Contractual Expense	4,492,845	5,901,272	7,464,494
Retiree Expense	7,439,742	3,755,617	3,755,617
<b>O&amp;M Subtotal</b>	<b>\$ 69,108,209</b>	<b>\$ 76,478,185</b>	<b>\$ 79,734,784</b>
Debt Service	33,458,069	39,036,678	39,042,065
Internally Funded Capital (IFCIP)	1,598,655	4,804,084	8,784,879
<b>TOTAL USES</b>	<b>\$ 104,164,933</b>	<b>\$ 120,318,946</b>	<b>\$ 127,561,728</b>
<b>Net Annual Cash Flow</b>	<b>\$ 3,002,935</b>	<b>\$ 8,285,803</b>	<b>\$ 1,345,070</b>
<b>DEBT SERVICE COVERAGE</b>			
Net Revenues	\$ 38,059,659	\$ 52,126,564	\$ 49,172,014
Adjustment, System Development Charges	(1,245,362)	(1,650,000)	(1,224,000)
Adjustment, Capitalized Labor	3,699,767	2,273,431	4,159,140
Adjustment, Other <sup>6</sup>	3,303,593	673,200	729,706
<b>Net Revenues Available for Debt Service</b>	<b>\$ 43,817,657</b>	<b>\$ 53,423,195</b>	<b>\$ 52,836,860</b>
<b>Total Debt Service</b>	<b>33,458,069</b>	<b>39,036,678</b>	<b>39,042,065</b>
<b>Debt Service Coverage</b>	<b>1.310</b>	<b>1.369</b>	<b>1.353</b>

1 - Reflects non-revenue water and non-revenue wastewater billing adjustments; includes leachate revenues

2 - Per auditor opinion, ARPA funds will be considered as revenues when calculating debt service coverage

3 - FY 2024 estimate reflects Guam Power Authority's reduced LEAC; FY 2023 is CCU-approved budget amount

4 - Capitalized labor, which does not represent a cash impact, is not included in this calculation of annual net cash flow  
- \$600,000 added for FY 2024 per final PUC Order to reflect benefit increases approved for FY 2024

5 - Excludes bad debt expense since this line item is included as an offset to rate revenues (per audited financials)

6 - Includes retiree COLA and end-of-year pension and OPEB adjustments