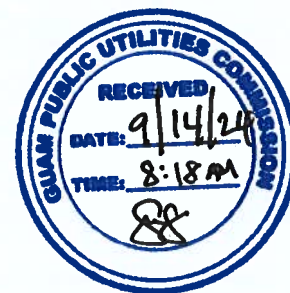


BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF: ) GWA Docket 24-05  
)  
)  
GUAM WATERWORKS AUTHORITY'S ) ALJ REPORT  
FY2025-2029 RATE APPLICATION AND )  
REQUEST FOR RATE INCREASES )  
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I.  
INTRODUCTION

This matter comes before the Guam Public Utilities Commission [“PUC”] pursuant to GWA’s Petition to Approve GWA’s FY2025-2029 Five-Year Financial Plan and Rate Increase Request.<sup>1</sup> GWA’s Petition indicates that GWA has complied with 12 GCA §12102.1 & §12102.2 of the Ratepayers’ Bill of Rights, which require that GWA’s ratepayers receive clear and adequate notice of the proposed rate increases.<sup>2</sup>

In the Petition, GWA requested that “the PUC...approve a rate increase for all non-lifeline residential and commercial water and sewer rates by 29% in FY 2025, 12.5% in FY2026, and 10% each year thereafter from FY 2027-2029 and for a nominal increase in the lifeline rates by 12.5% in FY 2026.” GWA also presented an alternate plan of rate increases, based upon an assumption that CIP projects could be financed with Tax Exempt Commercial Paper and other short term financing methods, rather than primarily through bond issuance: “to increase all non-lifeline residential and commercial water and sewer rates by a lesser 17% in FY 2025, 6% in FY2026-FY2028, and 15% in FY2029 considering the passage of Public Law 37-103.”<sup>3</sup>

<sup>1</sup> GWA Petition to Approve GWA’s FY2025-2029 Five-Year Financial Plan and Rate Increase Request, GWA Docket 24-05, dated June 6, 2024.

<sup>2</sup> Id. at p. 2.

<sup>3</sup> Id. at pgs. 3-4.

Public Law 37-103, enacted June 5, 2024, authorized the Guam Waterworks Authority to finance its capital needs for GWA’s CIP program through the issuance of tax-exempt commercial paper (TECP) or similar short-term instruments. Such financing alternatives provided a less costly approach than traditional bond financing.<sup>4</sup>

GWA supported its Petition with the following Attachments:

1. ATTACHMENT A      General Manager’s Transmittal & Cover Letter
2. ATTACHMENT A-1    Five-Year Financial Plan Narrative
3. ATTACHMENT A-2    Management and Expert Testimonies
4. ATTACHMENT B      PUC Minimum Filing Requirement (“MFR”) Schedules
5. ATTACHMENT C      \*Work Papers
6. ATTACHMENT D      Five-Year CIP Individual Capital Projects
7. ATTACHMENT E      \*Rate Application Model
8. ATTACHMENT F      Sample Bill
9. ATTACHMENT G      CCU Resolution
10. ATTACHMENT H     Ratepayers’ Bill of Rights Advertisement
11. ATTACHMENT I     Ratepayers’ Mailing

The Commissioners can review the Petition and Attachments on the PUC website under GWA Docket 24-05. There is a complete filing of the Petition and Attachments in two binders located at the PUC Office.

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<sup>4</sup> Public Law No. 37-103, An Act to Add New §§14242 & 14243 to Article 2 of Chapter 14, Title 12, Guam Code Annotated, Relative to creating a Commercial Paper Program for the Guam Waterworks Authority, etc., enacted on June 5, 2024.

## II. THE COURSE OF THE RATE PROCEEDINGS

Planning for this proceeding by GWA and PUC began in December, 2023 when the PUC held that GWA would file an advance draft petition on or before March 4, 2023 for this rate case and its final petition on or before June 3, 2024. This scheduling gave the PUC and its consultant, Georgetown Consulting Group, Inc. ["GCG"], additional time to review the case. The filing deadline for the final petition was also extended from April 1, 2024, to June 3, 2024, to allow GWA to comply with the notice requirements to ratepayers in the ratepayer Bill of Rights.<sup>5</sup>

The Parties have been actively involved in the consideration of this case for a period of over 7 months, from March 2024 through September 2024. GWA management, the PUC consultant GCG, and the ALJ participated in a series of zoom conferences, as many as two per week, which commenced on May 1, 2024, and continued through the end of July, 2024. In the zoom conferences, the Parties explored every aspect of the rate case, including all revenue and expense requirements, CIP funding, Water Loss Control, the assumptions upon which the rate case was based, and many other matters. The preparation for these proceedings and the proceedings themselves took hundreds of hours.

In addition, the PUC consultant, Georgetown Consulting Group Inc. ["GCG"], travelled to Guam for the period of August 1, 2024 through August 13, 2024, and engaged in settlement negotiations with GWA that resulted in the signing of the Joint Stipulation. The Parties negotiated the final wording of the Stipulation for an additional two weeks.

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<sup>5</sup> PUC Order, GWA Docket 19-08, dated December 29, 2023.

GWA and GCG participated in a lengthy requests for information/ discovery process through May, June and July 2024 involving the conduct of multiple video conference workshops and exchanges of information in response to eighty-six individual Requests for Information by GCG.

The Parties considered the cost of a TECP program, and further considered updated information in responses from potential providers to the Guam Economic Development Authority. On June 28, 2024, GWA provided GCG and the ALJ with an updated RAM that reflected use of Tax-Exempt Commercial Paper (“TECP”) and committed to funding GWA’s five-year CIP program through TECP or other short term financing alternatives. The updated RAM indicated that there was a substantial increase in Navy water rates and other operations and maintenance expenses. The TECP RAM provided on June 28<sup>th</sup> indicated non-lifeline rate increases of 23.0% in FY2025, 9.5% in FY2026, and 8.5% in FY2027-FY2029. The June 28<sup>th</sup> RAM became the basis for stipulation discussions and updated rate relief request for GWA.

On August 3, 2024, GCG presented its “Staff Positions for Stipulation Discussions”, a true and correct copy of which is attached hereto as Exhibit “1”.<sup>6</sup>

### **III.** **PUBLIC HEARINGS**

12 GCA §12117(a) requires that the PUC hold at least three (3) public hearings on any change in proposed rates or charges. The public hearings must be held in locations in Northern Guam, Central Guam, and Southern Guam. In addition, the PUC must

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<sup>6</sup> GPUC Staff Report Supporting Positions in Stipulation Discussions with GWA, Georgetown Consulting Group, Inc. (GCG) in its Role as Staff to the GPUC, GWA Docket 24-05, dated August 2, 2024.

publish notice at least once a week over a period of three weeks indicating the rates that are proposed to be established.

In accordance with the requirements of law, the PUC published proper notice and conducted the following public hearings: (1) 6:30 p.m., August 13, 2024, PUC Conference Room, GCIC Bldg. Hagatna; (2) 6:30 p.m., August 14, 2024, Dededo Senior Citizens Center; and (3) 6:30 p.m., August 15, 2024, Asan Community Center. The ALJ, Management of GWA, and staff of the PUC made all necessary arrangements for the conduct of the public hearings and were present at the times and dates of each scheduled public hearing.

No member of the public appeared at any of the hearings to present testimony on the rate increases requested by GWA. In a case where GWA had sought to increase rates by more than 50% over a period of 5 years, not a single individual on island voiced opposition to the proposed rate increase.

At the public hearing at the Dededo Senior Citizens Center, the ALJ raised a question concerning the potential rate impact of the litigation between GWA and Core Tech International concerning ownership of the Northern District Water and Wastewater plant. The ALJ stated that, in this 5-year rate case, it is uncertain when the case might be resolved or the impact of the case on GWA rates. The fact that the issue of the potential liability of GWA to Core Tech remains unsettled creates great uncertainty on the part of the PUC in its rate setting functions and renders it incapable of fully setting accurate rates for the entire period of the five-year year plan, FY2025-2029.

In his testimony, GWA General Manager indicated that the Core Tech claim, if granted, could result in a \$200 million award against GWA which would more than double GWA's need for revenues within the five-year period.

Mr. Bordallo testified that GWA would have no sources of funds or grant funds available to pay that type of settlement expense, and that payment of funds to Core Tech "would have to come out of revenues." An adverse judgement against GWA would impact its bond indenture requirements, its credit rating, and increase the cost of its financing. There would also be regulatory compliance issues arising under the Federal Consent Decree regarding GWA's obligations to make improvements to the Northern District Water and Wastewater plant.

In addition to a claim of \$200M, there could also be claims by Core Tech for rents from GWA moving forward. The absence of clarity on this litigation issue affects GWA's "ability to plan and ... disrupts the rate making process and PUC's ability to adjudicate that rate-making process for the ratepayers of Guam." Liability of GWA to Core Tech could result in the tripling of GWA customer rates.<sup>7</sup>

In response to the ALJ's question, GM Bordallo clarified that there would be no source of revenue other than rates from which GWA could pay a damages judgment owed to Core Tech. GWA has sought to have an expeditious resolution of this case through an appeal to the Guam Supreme Court.

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<sup>7</sup> *Amicus Curiae Brief of the Guam Public Utilities Commission, Supreme Court Case No. CVA24-007 (Government of Guam, Joseph M. Borja, in his capacity as Director of Land Management and Guam Waterworks Authority, a Guam Public Corporation, Plaintiffs-Counterclaim Defendants, vs. Core Tech International Corporation, Younex Enterprises Corporation, Defendants-Counterclaimants, at p. 11.*

**IV.**  
**THE NECESSITY FOR RATE INCREASES OVER THE NEXT FIVE YEARS IS  
LARGELY DUE TO LEGAL REQUIREMENTS AND FACTORS WHICH ARE  
BEYOND THE CONTROL OF GWA**

GWA has proposed a five-year capital improvement program at a cost of \$899M. Many of the priority projects are those mandated by the new 2024 Partial Consent Decree with the USEPA, as well as water treatment initiatives aimed at addressing the USEPA's proposed (and anticipated final) limits on emerging contaminants such as PFAS and Dieldrin. An additional driver for some of the projects are the military buildup and the water loss reduction program.<sup>8</sup> Water projects, estimated at \$433,680,480.00, consist of improvements to the UGUM Surface Water Treatment Plant, rehabilitation and repair of existing wells and installation of new wells, expansion of the Santa Rita Springs impoundment to reduce reliance on Navy's water, and Treatment of water for PFAS and Emerging Contaminants per proposed federal/local regulations, and replacement of undersized water pipes, asbestos-containing water pipes, and other general water pipe replacement.<sup>9</sup>

Wastewater Projects estimated at \$330,461,683.00 will focus on the meeting of the requirements of the 2024 Partial Consent Decree. Many of these required projects relate to the wastewater system, including repair of gravity mains, upsizing of pipes, assessment and rehabilitation or replacement of force mains, rehabilitation of prioritized lift stations and sewer pump stations and other tasks.<sup>10</sup>

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<sup>8</sup> Testimony of Jeanet Babauta Owens, P.E., Assistant General Manager Engineering, in support of GWA's FY2025-2029 Five-Year Financial Plan and Rate Increase Request, GWA Docket No. 24-05, dated June 6, 2024, at pgs. 4-5.

<sup>9</sup> Id. at pgs. 5-6.

<sup>10</sup> Id. at p. 6.

Electrical, monitoring, and control projects estimated at \$36,437,196.00 are based on continued SCADA implementation. General Plant & miscellaneous projects are estimated at \$98,154,030.00: “Without achieving these important projects, GWA will violate the terms of the Partial Consent Decree, face additional regulatory enforcement action, and fail to sustain Guam’s community water supply, storage and distribution system, and Guam’s community sewer collection, transmission, treatment and disposal systems.”<sup>11</sup>

GWA’s capital project encumbrances for FY2025-2029 have not changed since GWA’s original filing of its Petition. GWA will prioritize water loss reductions that help minimize future Navy purchase requirements. The need for the CIP projects has not been contested and constitutes a large part of the funds that GWA must spend over the next five-year period.

**V.**

**THE JOINT STIPULATION OF THE PARTIES DATED AUGUST 28, 2024**

GWA and the PUC, through its Consultant GCG, entered a “JOINT STIPULATION RE: GWA’S FIVE-YEAR FINANCIAL PLAN & FY2025-FY2029 RATE INCREASES” on August 28, 2024. A true and correct copy of the JOINT STIPULATION is attached hereto as Exhibit “2”. Nearly all the rate case issues have been resolved to the satisfaction of the Parties in the Joint Stipulation.

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<sup>11</sup> Id. at p 7.



A. Projected Annual Rate Increases

GWA and GCG, at this point, have differing positions on what the percentage rate increases should be over the next five-year period. The following chart indicates the present respective positions of the Parties<sup>12</sup>:

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>GWA Position*</b> : Stipulations without credit card convenience fee and with RSF replenishment (Base Case)	14.00%	8.75%	7.75%	7.75%	7.75%
<b>GWA Position</b> : Stipulations without credit card convenience fee and with RSF replenishment + Added \$3M in Reg Asset	11.5%	11.5%	7.75%	7.75%	7.75%
<b>GCG Position</b> : Proposed Stipulations with credit card convenience fee and without RSF replenishment	14.00%	6.00%	7.75%	7.75%	7.75%
<b>GCG Position*</b> : Proposed Stipulations with credit card convenience fee and without RSF replenishment + Added \$4M Reg Asset	10.0%	10.0%	7.75%	7.75%	7.75%

Depending on whose positions the PUC accepts, rates could increase from the period of FY2025 through FY2029 from between 43.25% (GCG’s Position) up to 46.25% (GWA’s Position).

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<sup>12</sup> Joint Stipulation Re: GWA’s Five-Year Financial Plan & FY2025-FY2029 Rate Increases, GWA Docket 24-05, dated August 28, 2024, at p. 22.

## B. A Summary of Negotiated Issues between the Parties

The Parties have set forth agreed upon adjustments to revenues and operating expenses, requirements for the water loss control program, and procedures for the creation of regulatory assets in the Joint Stipulation, and various other matters. The ALJ will briefly summarize the nature of adjustments and agreements made.

### 1. Staffing Study

12 GCA §12102.2(d) requires that the PUC, in determining approval of any proposed rate increase, take into account the results of staffing studies that have been conducted. In this rate case, GWA did issue a Request for Proposal to conduct a new Staffing Study in compliance with 12 GCA §12102.2(d) but no responses were received. However, the PUC consultant, GCG, has previously conducted several staffing studies of GWA. In this case, GWA and GCG have reviewed staffing and salary information as well as AWWA bench marking data through the Discovery Process. As a result of such a staffing review, the Parties have agreed to an appropriate level of employee salaries and benefits. The five-year approved budget for salaries and benefit expenses as adjusted is \$192,110,138.00.<sup>13</sup>

GWA should issue a new Request for Proposals for a staffing study consultant which study is completed in time for the FY2026 true-up proceeding.

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<sup>13</sup> Id. at p.

## 2. Projected Revenues

In Schedule A-2, GWA has set forth its expected “total revenues from all sources” for FY2025-2029<sup>14</sup>:

	Historical Year	Current Year	Forecast Year	Forecast Year	Forecast Year	Forecast Year	Forecast Year
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
TOTAL SOURCES	\$126,422,283	\$123,616,900	\$133,990,413	\$151,153,074	\$162,557,959	\$175,411,485	\$189,471,971

GWA’s calculation is that yearly revenues from total sources between FY2025 and FY2029 will be between \$139,990,413.00 and \$189,471,971.00. GCG’s estimate does not include \$1M of transfers out of the rate stabilization fund.

## 3. Revenue Adjustments

GWA indicates that anticipated revenues must be adjusted by an overall revenue adjustment due to initial billing errors caused by metering and billing issues in the field (e.g. meter failures and misreads). GWA’s filed projection was to lower net billed revenues by 1.43%. GWA has subsequently revised its estimate of revenue adjustments from 1.43% to 1.36%, with the concurrence of GCG. This results in additional revenue to GWA over the five years in the amount of \$2,707,344.00.<sup>15</sup>

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<sup>14</sup> Id. at Schedule A-2.

<sup>15</sup> Id. at p. 7.

#### 4. Interest

##### Interest Income-Operating funds

The Parties have stipulated that the interest income on the Operating Fund should be increased through the five-year period by the amount of \$597,313.00.<sup>16</sup>

##### Interest Income-Construction Fund

Interest income on the construction fund has been stipulated to provide GWA with additional revenue over the five-year period in the amount of \$18,852,106.00.

#### 5. Projected Operating Expenses

##### Power Expenses

The Parties agreed to a reduction in estimated power expenses for FY2026-FY2029 “to more fully reflect anticipated reductions in GPA’s rates due to the Ukudu Power Plant that is scheduled to begin operation in September 2025.”<sup>17</sup> Based upon such calculations, the Parties reduced the projected expense for power over five years by the amount of \$21,944,018.00.<sup>18</sup>

##### Water Purchases

In March 2024, the Navy imposed extraordinary increases in the GWA cost for purchased water, from \$9.87/kgal to \$14.27/kgal to \$27.04/kgal.<sup>19</sup> There is a projected increase in the cost of water purchases from Navy from \$30,485,000.00 to \$63,379,450.00

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<sup>16</sup> Id. at pgs. 7-8.

<sup>17</sup> Id. at p. 9

<sup>18</sup> Id.

<sup>19</sup> Id.

over the five-year period, an increase of \$32,894,450.00. This increase in operating expenses for Navy water has a substantial impact in increasing water rates for GWA customers. GWA has stipulated to prioritize the reduction of Navy water purchase requirements.<sup>20</sup>

### Salaries and Benefits

GCG has agreed to an increase in salaries and benefit expenses in the amount of \$5,468,151.00, with the Parties' stipulating to a total of \$192,110,138.00 over the five-year period.<sup>21</sup> This includes the costs of increasing GWA salaries to the 50th percentile, aligning salary levels with industry labor market standards, mandated salary increases, and full-year funding for newly added positions.<sup>22</sup> The Parties stipulated that the level of personnel and salaries and benefits are appropriate based upon GCG's review of GWA salaries and benefits and 2023 AWWA bench marking data.

### Capitalized Labor

The Parties have stipulated to increase the cost for capitalized labor over the five-year period by \$710,860.00.<sup>23</sup>

### Legal Expense

GWA has estimated legal expense of \$1.5M annually for the years FY2025-FY2029. The Parties have stipulated that, for the later 3 years of these projections the amounts can be reduced from \$1.5M to \$1M, in recognition of the anticipated completion of the Core Tech litigation (by the end of FY 2026).<sup>24</sup> Certain of these expenses will be classified as a

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<sup>20</sup> Id. at p. 10.

<sup>21</sup> Id.

<sup>22</sup> Id.

<sup>23</sup> Id. at p. 11.

<sup>24</sup> Id.

“Regulatory Asset”. There has been a reduction to legal expenses in the amount of \$1.5M.<sup>25</sup>

#### Other Expense

These expenses result from contracted services and expenses related to the Partial Consent Decree and new regulatory compliance requirements. The Parties have agreed to an adjustment reducing such expenses by \$645,301.00.<sup>26</sup>

#### Materials and Supplies

The Parties have agreed to an adjustment reducing such expenses by \$918,716.00.<sup>27</sup>

#### Bad Debt Expenses

GWA agreed to reduce its estimated “bad debt expense” from an average rate of approximately 2.1% of rate revenues to 0.74% of projected rate revenues. The adjustment results in a reduction of operating expenses in the amount of \$13,177,247.00.<sup>28</sup>

### 6. Capital Program and Financing

#### Capital Improvement Program

The CIP Program is covered in Section III. above of this Report.

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<sup>25</sup> Id. at p. 12.

<sup>26</sup> Id.

<sup>27</sup> Id. at pgs. 12-13.

<sup>28</sup> Id. at p. 13.

### Short-Term Construction Financing

Due to the passage by the Guam Legislature of Public Law 37-103, GWA is now authorized to undertake capital program debt financing through Tax Exempt Commercial Paper and other financing instruments such as Bond Anticipation Notes and Floating Rate Notes. For purposes of determining rates in this proceeding, the Parties have agreed that GWA will model prospective CIP construction financing based upon the assumption of use of a TECP program.<sup>29</sup> At present, the terms for such a program are preliminary; GWA/GEDA will issue a forthcoming Request for Proposals for short-term construction financing services. Adjustments, once the services are procured, will be addressed in future true-ups. The change to financing through TECP has reduced debt service expenses for the five-year period from \$327,380,312.00, as filed, to a stipulated amount of \$210,334,065.00. The adjustment of this reduced expense results in savings of \$117,046,246.00.<sup>30</sup>

### Debt Service Coverage Targets

The projected debt service coverage in Schedule A-2 is 1.3x and 1.37x for FY2025 and 2026, respectively, increasing to over 1.5x for years FY2027-2029.<sup>31</sup>

## 7. Other Issues

### Water Loss Management Program Implementation

GWA's "non-revenue" water loss is still at over 50% of water produced. There has been little progress over the years in reducing water loss. GWA has recently indicated that

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<sup>29</sup> Id. at p. 14.

<sup>30</sup> Id. at pgs. 14-15.

<sup>31</sup> Id. at p. 15.

its district metering area program helps to identify sources of water loss but will not result in a reduction of water loss. The Parties have entered into various agreements concerning priority projects for water loss in the Agat-Santa Rita DMAs and Southern Water System DMAs.<sup>32</sup> The Parties have agreed on several specific projects, including leak detection and repairs in the DMAs, construction of the Brigade Pump Station Improvement project, and Construction of the Santa Rita Springs Improvement and Expansion Project.<sup>33</sup> It is hoped that these projects will reduce GWA use of Navy Water.

#### Regular Updating of Water Loss Control Program Goals

GWA agrees to conduct an annual review of the Water Loss Control Program and DMA implementation progress and analyze perspective pipe replacement and other related capital Projects for water loss control.<sup>34</sup>

#### Reporting on Water Loss Control Program

GWA will also include annually updated goals and progress in the existing semi-annual Water Loss Control Program reporting provided to the PUC. By January 3, 2025, GWA will submit a report outlining the plan of action to achieve the priority projects outlined in the Stipulation.<sup>35</sup>

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<sup>32</sup> Id. at pgs. 15-18.

<sup>33</sup> Id. at pgs. 16-18.

<sup>34</sup> Id. at p. 18.

<sup>35</sup> Id.



### Regulatory Assets

The Parties have agreed that it is appropriate to establish a regulatory asset related to various expense items that are subject to significant uncertainty or are appropriate to be capitalized for other policy reasons.<sup>36</sup> There are several expenses which the Parties have agreed to be “capitalized” and then amortized over an appropriate future period as approved by the Commission, with rates approved by the Commission to recover the amortized expenses.<sup>37</sup> The parties have requested that PUC ALJ document the regulatory asset in an Order in conformance with established accounting standards.<sup>38</sup> Capitalization of expenses results in lower expenses for the period in which the expenses would otherwise be paid.

The Parties agree to capitalize the GWA Docket 19-08 Adjudication Expenses, which include expenses for completion of Analytical Studies, RAM development, and other rate case expenses. These expenses, estimated to be \$3.2M, if approved by the PUC, would be recovered annually over the five-year amortization period from FY2025-FY2029.<sup>39</sup>

The Parties have also agreed to capitalize the FY2025 and FY2026 Legal Expenses for the GWA litigation with Core Tech International. GWA has estimated legal expenses of \$1.5M annually in each of the 5 Year Financial Plan years

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<sup>36</sup> Id.

<sup>37</sup> Id.

<sup>38</sup> Id.

<sup>39</sup> Id. at p. 19.

The regulatory asset would be created for Debt Service calculation in the amount of \$3M total for FY2025 and FY2026, amortizing the \$3M at the 3% over the 5 years beginning in FY2027. Additional expenses in FY2025 would also be classified as a Regulatory Asset and amortized in a single year, FY2026.<sup>40</sup>

## **VI.**

### **TWO ISSUES FOR PUC RESOLUTION AT ITS SEPTEMBER 24, 2024, MEETING**

There are two issues upon which GWA and GCG have been unable to reach agreement: (1) whether a “Rate Stabilization Fund [“RSF”] should be funded for four years (FY2026-FY2029) through GWA revenues, and the amount of such funding per year between FY2026 and FY2029. GWA proposes rate funding for the RSF at \$2.5M per year from FY2026 through FY2029, at a total of \$10M; and (2) Whether the 1.5% charged by the credit card company to GWA on customer credit card transactions should be paid by GWA or by the credit card customer. This is a \$7M issue. The Parties explain these issues in detail in the Stipulation. The PUC will need to address both issues at its meeting on September 24, 2024.

These are both policy questions for the PUC determination and resolution. The ALJ suggests that the Commissioners carefully review pgs. 20-23 of the Joint Stipulation and Attachment 2 and Attachment 3 to understand these issues. The Parties will be given an opportunity to address these two issues at the meeting on September 24, 2024.

The ALJ believes that both Parties have made arguable policy arguments in favor of their positions. He will not make a recommendation at this time. However, he notes that, for the RSF, there are issues: (1) whether there should be a revenue allocation to

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<sup>40</sup> Id. at pgs. 19-20.

the RSF, and, if so, (2) the annual amount for which the RSF should be funded. If it approves funding, the PUC has the discretion to determine what the annual amount of such funding should be. GCG points out that the RSF funding proposal adds \$10M to customers' bills in a period of substantial rate increases over the period FY2026 through FY2029.<sup>41</sup>

## **VII.** **ANALYSIS**

A. The Joint Stipulation is the result of a careful, deliberative process.

The Parties have been engaged in an extensive review process over a period of 7 months. Every element of the rate case has been addressed in detail by the Parties. There has been an ongoing process of work sessions and the exchange of requests for information and responses. GCG has conducted a thorough analysis of the rate case and has done everything within its power to moderate the rate increases sought by GWA and to adjust revenues and operating expenses where necessary.

Many of the expenses faced by GWA are mandated by forces beyond its control, such as expenditures required by the Consent Decree, the CIP program, PFAS and Dieldrin remediation expenses, water loss control/pipe repair and replacement, and increased Navy water charges. GWA worked collaboratively with GCG in compromising its position on numerous issues during the negotiations. GWA throughout the process has been cooperative in attempting to reduce expenses and to fairly negotiate the reductions in expenses sought by GCG.

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<sup>41</sup> Id. at Attachment 2, p. 28.

The JOINT STIPULATION was bargained for at arms-length by the Parties and represents a full and final resolution of presently pending issues in the rate case (except for the two issues previously referenced). The stipulations entered into by the parties all appear to have a reasonable basis and plausible justification. The ALJ believes that the agreements reached by the Parties are appropriate and supportable. The PUC should support and approve such agreements in accordance with the provisions of the JOINT STIPULATION.

B. Due to the efforts of GWA and GCG in approving the Joint Stipulation, the original rate increases sought in this docket have been substantially reduced.

In its Petition filed on June 6, 2024, GPA requested the following rate increases:

Schedule A-2	FY2025	FY2026	FY2027	FY2028	FY2029
Non-Lifeline Rate Increase	29.0%	12.5%	10.0%	10.0%	10.0%
Lifeline Rate Increase	0.0%	12.5%	0.0%	0.0%	0.0%

The cumulative increase was 71.5%, and a compounded increase of 93.2%.

In the JOINT STIPULATION, Schedule A-2, signed by the Parties on August 28, 2024, GWA requests the following increases<sup>42</sup>:

	Historical Year	Current Year	Forecast Year	Forecast Year	Forecast Year	Forecast Year	Forecast Year
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Non-Lifeline Rate Increase	5.50%	16.70%	11.50%	11.50%	7.75%	7.75%	7.75%
Lifeline Rate Increase	0.0%	16.70%	11.50%	0.0%	0.0%	0.0%	0.0%

The cumulative proposed rate increase is 46.25%. The actual total rate increase will be higher as compounded. These rates are not final—once the PUC resolves the RSF

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<sup>42</sup> Id. at Schedule A-2, p. 25.

and Credit Card Charge issues, final rates can be determined. Depending upon the PUC decisions on the remaining issues, the proposed rate increases could be reduced further.

C. The Rate Impact on Residential Ratepayers will be lower than on other classes of Ratepayers.

The “Monthly Bill Impacts by Customer Class” proposed by GWA are set forth in Schedule L of the Joint Stipulation.<sup>43</sup> The Schedule indicates that, for residential ratepayers, the cumulative rate increase over the period from FY2025 through FY2029 will be between 28.3% and 43.1% depending upon the customer's level of kgal usage.<sup>44</sup> The majority of residential water and wastewater customers fall into the ¾ inch meter size. Approximately 50% of residential customers use up to 4.9 kgals.<sup>45</sup> For those residential customers, combined water and wastewater monthly rates from FY2025 - FY2029 will increase from \$81.47 to \$104.53.<sup>46</sup> According to Schedule L, Residential Customers using 5kgals or less will incur a total cumulative rate increase over the 5-year period of 28.3%. Those customers using 7 kgals will incur a 35.4% cumulative increase; and residential Customers using 12 kgals will experience a 43.1% cumulative increase between FY2025 and 2029.<sup>47</sup>

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<sup>43</sup> Id. at Schedule L, p. 27.

<sup>44</sup> Id.

<sup>45</sup> Concentric Energy Advisors, Evaluation of Guam Waterworks Authority's Rate Design Proposals, GWA Docket 19-08, dated February 20, 2024, at pgs. 11-12.

<sup>46</sup> Joint Stipulation Re: GWA's Five-Year Financial Plan & FY2025-FY2029 Rate Increases, GWA Docket 24-05, dated August 28, 2024, Schedule L at p. 27.

<sup>47</sup> Id.

However, the cumulative water and wastewater rate increases for all Commercial, Hotel, Government, Agriculture and Irrigation Customers will be a cumulative increase of over 54% in the 5-year period between FY2025 and FY2029.<sup>48</sup>

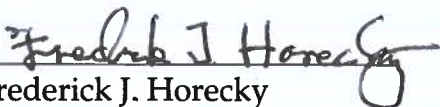
The ratepayers of Guam will face substantial water and wastewater rate increases over the next five years; however, the Parties have attempted to mitigate those rates to the extent possible. It is uncontested that GWA requires substantial increases over the next five-year period.

### RECOMMENDATION AND CONCLUSION

For all the reasons set forth herein, the Administrative Law Judge recommends that the PUC approve the JOINT STIPULATION.

After a decision is rendered by the PUC on the two remaining issues (RSF and Credit Card Convenience Fee), the Commission should issue a final FY2025 Rate Order and Decision implementing the rates as agreed in the Joint Stipulation with modifications resulting from the PUC decision on the remaining issues. A Proposed Order is submitted herewith for the Commissioners' consideration.

Respectfully submitted this 14<sup>th</sup> day of September, 2024.

  
Frederick J. Horecky  
Chief Administrative Law Judge

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<sup>48</sup> Id.

**GUAM PUBLIC UTILITIES COMMISSION  
DOCKET 24-05 GWA FIVE-YEAR RATE PLAN  
2025 THROUGH 2029**

**GPUC STAFF REPORT SUPPORTING POSITIONS IN  
STIPULATION DISCUSSIONS WITH GWA  
CONFIDENTIAL**

**GEORGETOWN CONSULTING GROUP, INC. (GCG)  
IN ITS ROLE AS STAFF TO THE GPUC**

**AUGUST 2, 2024**

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# 1. Overview

- GWA’s filing in this docket follows previous 5-year formats requesting that the 5-year plan be approved subject to annual true ups. All of the tables included in this document are contained in the attached Excel files:
  - “Staff Proposed Adjustments Final August 2, 2024.xlsx”
 and in the Staff’s RAM:
  - “RAM 2025-29 vRevised TECP June28 2024 Updated Sched D Staff Final August 2.xlsm”
- Note that several of the adjustments that are based on the percentage increase in rates are estimates. Examples include Revenue Adjustment, Regulatory Asset, among others. The amount of the adjustment will depend on the results of the stipulation and/or based on decisions by the GPUC after a contested hearing for issues not settled in the stipulation discussion.
- GWA agreed to and provided an initial filing on March 8, 2024 that would be substantially the same as the final filing which was to be provided on June 6, 2024. GWA’s recent filing turned out to be substantially different, with a proposed first year increase of 23%, vs 17% in the March 8 filing. The table below shows the proposed rate increases by year and the cumulative percentage increase for the 5-year period.

<b>GUAM WATERWORKS AUTHORITY</b>						
<b>Proposed Rate Increases By Year</b>						
<b>Comparison of Original and Revised TECP RAM</b>						
<b>Year</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY2025 - 2029</b>
<b>June 28 RAM</b>	<b>23.00%</b>	<b>9.50%</b>	<b>8.50%</b>	<b>8.50%</b>	<b>8.50%</b>	<b>72.03%</b>
<b>Original TECP RAM</b>	<b>17.00%</b>	<b>6.00%</b>	<b>6.00%</b>	<b>6.00%</b>	<b>15.00%</b>	<b>60.25%</b>

- The major change in the two filings is an increase for the price for Navy water purchased by GWA, which increased by about 118% between the two filings. Given the recent increase in the Navy water rate and the lack of transparency in the how the rate is determined, GWA and the GPUC is at a disadvantage to project this volatile component of cost for GWA which could increase or decrease. The following table shows the Navy water rate and annual cost for the 5-year rate period:

<b>GUAM WATERWORKS AUTHORITY</b>					
<b>Navy Water Rate and Annual Cost</b>					
<b>Comparison of Original and Revised TECP RAM</b>					
Year	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>June 28 RAM Rate (\$/kgal)</b>	<b>\$24.07</b>	<b>\$24.07</b>	<b>\$24.07</b>	<b>\$24.07</b>	<b>\$24.07</b>
<b>June 28 RAM Cost</b>	<b>\$ 13,238,500</b>	<b>\$ 12,660,820</b>	<b>\$ 12,564,540</b>	<b>\$ 11,577,670</b>	<b>\$ 11,577,670</b>
<b>Original RAM Rate (\$/kgal)</b>	<b>\$11.00</b>	<b>\$11.00</b>	<b>\$11.00</b>	<b>\$11.00</b>	<b>\$11.00</b>
<b>Original RAM Cost</b>	<b>\$6,050,000</b>	<b>\$5,786,000</b>	<b>\$5,742,000</b>	<b>\$5,291,000</b>	<b>\$5,291,000</b>
<b>Navy Water % Increase</b>	<b>118.82%</b>	<b>118.82%</b>	<b>118.82%</b>	<b>118.82%</b>	<b>118.82%</b>

- Overall price increases to its customers of the magnitude (23%) proposed by GWA and their consultants are not normal. Any increase above 10% is considered a “rate shock,” and typically, reasonable attempts to mitigate the increase are investigated. Rate shock refers to the significant financial impact on customers due to sudden and substantial rate increases for water, electricity and natural gas, which can lead to financial strain, especially for low-income households.
- To mitigate rate shock, a regulatory asset approach is often proposed. This approach involves spreading the cost increase over a longer period, allowing for more gradual rate adjustments. By capitalizing certain expenses as regulatory assets, the utility can defer immediate recovery of these costs, thus reducing the immediate impact on customer bills. The GPUC is familiar with this approach, having used it in the past.
- GWA describes this case as a cash case. The stipulation in the prior 5-year plan rate proceeding, GPUC Docket 19-08, and adopted by the Guam Public Utilities Commission (GPUC) set a standard for minimum cash balances available unrestricted to GWA to be no less than \$3 million. Rates were set on that basis. In this proceeding GWA did not provide an equivalent metric for review, and shows its cash balances to be massive and well in excess of the amounts stipulated to in the prior proceeding. The cash balances, restricted and unrestricted, are as follows:

<b>Reconciliation of cash and cash equivalents to the statement of net position</b>								
<b>Cash and Restricted Cash</b>								
<b>Source: GWA Audits - Statement of Cash Flows - FY 2024 from CCU Reports</b>								
	Audited; from Statement of Cash Flows					Annualized as of June 30, 2024		
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Actual	\$ Inc(Dec)	% Inc(Dec)
<b>Current Cash and Cash Equivalents</b>	\$36,140,182	\$42,479,412	\$46,444,630	\$38,233,824	\$50,324,888	\$52,650,175	\$16,509,993	45.7%
<b>Current Restricted Cash</b>	\$37,890,369	\$30,372,502	\$31,026,211	\$29,987,985	\$32,707,733	\$36,184,894	(\$1,705,475)	-4.5%
<b>Noncurrent Restricted Cash</b>	\$171,169,388	\$285,820,036	\$261,136,933	\$234,403,462	\$220,606,453	\$228,703,607	\$57,534,219	33.6%
<b>Total</b>	<b>\$245,199,939</b>	<b>\$358,671,950</b>	<b>\$338,607,774</b>	<b>\$302,625,271</b>	<b>\$303,639,074</b>	<b>\$317,538,676</b>	<b>\$72,338,737</b>	<b>29.5%</b>

- A major effort in Docket 19-08, was to develop collaboratively, an approach to implement a water loss control program. This was done and GWA agreed to prepare an analytical study and recommend an approach. The January 17, 2019 Stipulation in Docket 19-08 stated:

“For the period FY2020-2024 GWA's water loss reduction targets will be as determined through the study to be completed by March 31, 2021 with designated benchmarks to reduce water losses by 20% as compared to its 2019 water loss level and to the median level of comparable water utilities in the us mainland in less than twenty (20) years from 2019.”

- The goal of a 20% loss reduction from 2019 loss level was not achieved. The water loss level remained at a very high levels (approximately 60%)<sup>i</sup> for the entire 5-year period of the plan from 2020 through 2024. The losses projected for the current 5-year plan show no significant improvement or reduction in water losses between FY 2025 through 2029. The excess expense associate with producing twice as much water as is ultimately sold is high as should be a focus of agreement and recommendation to the GPUC in this proceeding.
- Staff does not take exception to expense increases that GWA has no control over such as price increases for Navy water purchases; increases mandated for the unfunded pension liability; increases in salary benefits voted on by the CCU.
- Staff does believe, however, that expense levels for many items have been over projected for purposes of this proceeding and Staff has proposed appropriate adjustments for these items. many are similar adjustments that we made in the prior 5-year plan proceeding, and adopted by the GPUC. The adjustments are discussed in the following sections. The table below lists the items adjusted together with the amount of the adjustments:

<b>Guam Waterworks Authority</b>					
<b>Summary of Staff Proposed Adjustments</b>					
<b>FY 2025 - FY 2029 Financial Plan</b>					
<b>Item</b>	<b>Projected</b>				
	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
Salaries and Wages	(\$1,478,790)	(\$2,144,211)	(\$2,410,570)	(\$2,823,898)	(\$3,236,031)
Pensions and Benefits	(\$639,857)	(\$920,717)	(\$1,028,436)	(\$1,198,350)	(\$1,367,804)
Capitalized Labor	\$271,151	\$382,487	\$424,637	\$490,727	\$555,659
Navy Water	\$0	(\$2,139,766)	(\$2,558,192)	(\$2,761,336)	(\$3,750,933)
Power Expense	\$0	(\$5,253,889)	(\$6,088,721)	(\$6,088,721)	(\$6,088,721)
Interest Income	\$2,440,512	\$2,440,512	\$2,440,512	\$2,440,512	\$2,440,512
Bad Debt Expense - A&G	(\$2,258,428)	(\$2,479,692)	(\$2,680,834)	(\$2,905,533)	(\$3,152,121)
Materials & Supplies	(\$750,000)	(\$750,000)	(\$750,000)	(\$750,000)	(\$750,000)
Legal	(\$750,000)	(\$750,000)	(\$750,000)	(\$750,000)	(\$750,000)
Other	(\$1,149,196)	(\$1,201,126)	(\$1,195,160)	(\$694,108)	(\$668,626)
Credit Card Fees - A&G	(\$1,200,000)	(\$1,200,000)	(\$1,200,000)	(\$1,200,000)	(\$1,200,000)
Remove RSF	-	(\$2,500,000)	(\$2,500,000)	(\$2,500,000)	(\$2,500,000)
Remove Revenue Adjustment	(\$2,165,149)	(\$2,370,839)	(\$2,572,360)	(\$2,791,010)	(\$3,028,246)
<b>Total Adjustments</b>	<b>(\$7,679,758)</b>	<b>(\$18,887,241)</b>	<b>(\$20,869,124)</b>	<b>(\$21,531,717)</b>	<b>(\$23,496,311)</b>

- Based on the adjustments recommended by Staff contained in the above table, the Staff proposed rate increases in GWA rates are shown in the table below along with GWA’s proposed rate increase. The rate increases are substantial. In the prior 5 Year Rate Plan, GWA had proposed an “austerity budget adjustment” of approximately 10%. No such proposal was made in this proceeding.
- In order to level out the rate increases shown in the table above Staff recommends an equal rate increase in the first two years. To accomplish this, Staff recommends that the GPUC create a regulatory asset of about \$3.7 million and defer it for one year and recover it in FY 2026. The table below shows GWA’s June 28 RAM proposed rate increase, Staff’s proposed rate increase before creation of a regulatory asset, and Staff’s proposed rate increase after creation of a regulatory asset:

<b>GUAM WATERWORKS AUTHORITY</b>						
<b>Comparison of GWA and Staff Proposed Increases</b>						
<b>With and without Regulatory Asset Adjustment</b>						
<b>Year</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY25 - FY29</b>
<b>GWA Proposed Increase</b>	<b>23.00%</b>	<b>9.50%</b>	<b>8.50%</b>	<b>8.50%</b>	<b>8.50%</b>	<b>72.03%</b>
<b>Staff Proposed Increase w/o Regulatory Asset</b>	<b>12.00%</b>	<b>0.0%</b>	<b>6.4%</b>	<b>9.0%</b>	<b>10.0%</b>	<b>42.88%</b>
<b>Staff Proposed Increase with Regulatory Asset</b>	<b>8.00%</b>	<b>8.00%</b>	<b>2.00%</b>	<b>9.00%</b>	<b>10.00%</b>	<b>42.65%</b>

- The table below shows that with staff’s proposal, GWA’s FY 2025 – FY 2029 DSC ratios are comparable to those in GWA’s June 28 RAM:

<b>GUAM WATERWORKS AUTHORITY</b>					
<b>Comparison of GWA and Staff Proposed DSC Ratios</b>					
<b>Year</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
<b>GWA Proposed DSC</b>	<b>1.336</b>	<b>1.434</b>	<b>1.523</b>	<b>1.667</b>	<b>1.507</b>
<b>Staff Proposed DSC</b>	<b>1.382</b>	<b>1.508</b>	<b>1.547</b>	<b>1.630</b>	<b>1.519</b>

## **2. Salaries & Benefits, Capitalized Labor**

- Staff’s review of FY 2024 CCU reports indicates a continued decline in the number of GWA employees. As of June 2024, GWA’s headcount was 351, a decrease of 7 from FY 2023 and a decrease of 24 from FY 2021, despite an authorized budget for 400 employees for the years

2019 through 2024.

- Since the FY 2019 rate plan filing, GWA has consistently argued that projected salaries and benefits expenses should be based on the "budgeted" or aspirational number of employees, rather than on a projection based on the current number of employees, as is the practice in most, if not all, U.S. mainland state regulatory commissions. In GWA's initial FY 2019 filing and all subsequent true-up filings, it was requested that salaries and benefits expenses be based on a budget of 400 employees. This budgeted level of employees has never been reached.
- Annualized data for FY 2024 from GWA's June 2024 CCU report shows that GWA's total salaries and benefits costs were \$2.3 million below the FY 2024 budgeted amount as shown in the rate case RAM. Staff recommends an adjustment to GWA's salaries and benefits expense. To accomplish this, we first calculated the average cost of salaries, wages, pensions, and benefits for FY 2025, based on GWA's projected expenses divided by the projected level of 376 employees.
- Staff then calculated the ratio of salaries, wages, pensions, and benefits expenses to capitalized labor for FY 2025 through 2029. Next, Staff assumed that GWA would hire an additional 3 employees each year over the 5-year rate period. Staff then calculated revised values for FY 2025 through FY 2029 salaries, wages, pensions, and benefits expenses based on our projected number of employees, using the cost per employee calculated by GWA. The next step was to calculate revised capitalized labor based on GWA's projections of capitalized labor contained in response to RFI 41\_42, as a percentage of total salaries and benefits expense for FY 2025 through FY 2029. Capitalized labor is slightly less than 13% of salaries and benefits expense.
- Staff's proposed adjustments to salaries and benefits and capitalized labor are shown in the table below:

<b>Staff Proposed Adjustments to Salaries and Benefits and Capitalized Labor</b>					
	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
<b>Staff S&amp;W Adjustment</b>	<b>(\$1,478,790)</b>	<b>(\$2,144,211)</b>	<b>(\$2,410,570)</b>	<b>(\$2,823,898)</b>	<b>(\$3,236,031)</b>
<b>Staff P&amp;W Adjustment</b>	<b>(\$639,857)</b>	<b>(\$920,717)</b>	<b>(\$1,028,436)</b>	<b>(\$1,198,350)</b>	<b>(\$1,367,804)</b>
<b>Staff Cap. Labor Adjustment</b>	<b>\$271,151</b>	<b>\$382,487</b>	<b>\$424,637</b>	<b>\$490,727</b>	<b>\$555,659</b>

- Staff believes that this adjustment is conservative. By adding additional personnel other expenses such as overtime have the potential of being reduced. In addition, the prior staffing studies have shown that the level of employees in administrative areas is significantly higher than a panel of comparable utilities as required in the staffing study. No follow up study has been undertaken.

### 3. Navy Water Purchases

- As stated earlier, GWA has no control over pricing of water purchases from Navy and cannot review and comment on the Navy rate pricing formula and workpapers unless granted access, which the Navy declined to do consistently in prior GPUC Dockets.
- GWA does not have the ability to predict the future cost of Navy water rates because the Navy will not provide them with any information on the rate formula and underlying costs. Thus, GWA is ‘flying blind’ with respect to budgeting for Navy water costs. GWA indicated that Navy can change GWA’s water rate quarterly at its sole discretion. Staff recommends that GWA embark on a high priority project to replace its purchases of Navy water as soon as possible as long as the project has a positive benefit to GWA. Staff will review closely the cost of Navy water in future true-up proceedings.
- Given the drastic, unprecedented and unsupported increase in the cost of Navy water, Staff recommends that future purchases be priced at a lower level as follows and be reviewed with each true up proceeding. There is no information whether this high cost of Navy water (about **500%!!** above what it costs GWA to produce water) will continue in the future or whether this was a one-time event.
- During Staff’s review of the projected quantities of purchased water from the Navy, we determined that GWA understated the amount of Navy water that can be reduced by the impact of construction programs in the current 5-year CIP plan. These reductions to Navy water purchases, as estimated by Staff, and the resulting decrease in expense for Navy water purchase are reflected in the table below:

<b>Guam Waterworks Authority</b>						
<b>Staff Proposed Navy Water Adjustment</b>						
<b>Revised Savings from GWA Reductions</b>						
	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>5 Yr. Total</b>
<b>Original Estimate of Navy Water Purchases (kgals)</b>	<b>550,000</b>	<b>526,053</b>	<b>521,895</b>	<b>481,073</b>	<b>481,073</b>	<b>2,560,094</b>
<b>Revised Estimate of Navy Water Purchases (kgals)</b>	<b>550,000</b>	<b>526,053</b>	<b>500,317</b>	<b>440,817</b>	<b>391,337</b>	<b>2,408,524</b>

- Below is a table with Staff proposed Navy water rates (note that Navy rates can be adjusted in future true-up proceedings), purchase cost and proposed adjustment:

<b>GUAM WATERWORKS AUTHORITY</b>					
<b>Staff Proposed Navy Water Rate Adjustment</b>					
<b>Comparison of Original and Revised TECP RAM</b>					
<b>Year</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
<b>Staff Revised Navy Purchases (kgal)</b>	<b>550,000</b>	<b>526,053</b>	<b>500,317</b>	<b>440,817</b>	<b>391,337</b>
<b>June 28 RAM Rate (\$/kgal)</b>	<b>\$24.07</b>	<b>\$24.07</b>	<b>\$24.07</b>	<b>\$24.07</b>	<b>\$24.07</b>
<b>June 28 RAM Cost</b>	<b>\$ 13,238,500</b>	<b>\$ 12,660,820</b>	<b>\$ 12,564,540</b>	<b>\$ 11,577,670</b>	<b>\$ 11,577,670</b>
<b>Staff Proposed Rate (\$/kgal)</b>	<b>\$24.07</b>	<b>\$20.00</b>	<b>\$20.00</b>	<b>\$20.00</b>	<b>\$20.00</b>
<b>Staff Proposed Cost</b>	<b>\$13,238,500</b>	<b>\$10,521,054</b>	<b>\$10,006,348</b>	<b>\$8,816,334</b>	<b>\$7,826,737</b>
<b>Staff Proposed Adjustment</b>	<b>\$0</b>	<b>\$2,139,766</b>	<b>\$2,558,192</b>	<b>\$2,761,336</b>	<b>\$3,750,933</b>

#### 4. Power Expense

- In GWA’s original TECP RAM, the Power Expense forecast was based on FY 2025 projected usage of 61.1 million kWh and FY 2026 was based on projected usage of 61.2 million kWh. GWA assumed that the GPA rate would be \$.42/kWh in FY 2025 and \$.39/kW in in FY 2026. For the June 28 TECP RAM, GWA lowered both the projected kWh usage and projected GPA rate because FY 2024 kWh purchases and GPA’s rate were significantly lower than the values in GWA’s FY 2024 budget. The table below shows the projected and Power Expense values contained in the Original TECP RAM and June 28 TECP RAM:

<b>GUAM WATERWORKS AUTHORITY</b>					
<b>STAFF PROPOSED POWER EXPENSE ADJUSTMENT</b>					
<b>Comparison of Original and Revised TECP RAM</b>					
<b>Year</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
<b>Original TECP RAM Power Expense</b>	<b>\$25,665,944</b>	<b>\$23,868,000</b>	<b>\$23,868,000</b>	<b>\$23,868,000</b>	<b>\$23,868,000</b>
<b>Revised TECP RAM Power Expense</b>	<b>\$21,300,054</b>	<b>\$23,033,169</b>	<b>\$23,868,000</b>	<b>\$23,868,000</b>	<b>\$23,868,000</b>

- Staff’s review of GWA’s projected power expense revealed that they did not include and adjustment for the significantly reduction in GWA’s Levelized Energy Adjust Clause (LEAC) when GPA’s new 192 MW Ukudu Combined Cycle Combustion Turbine (CCCT) power plant begins operation in September of 2025. In RFI -15 Staff asked GWA to:
  - Please provide documentation and support for “any LEAC or Base Rate adjustments in FY26.

GWA’s response was:

- GPA has not provided written correspondence or documentation to support a LEAC or Base Rate adjustment in FY26. The \$.03/kWh adjustment is a budget assumption

informed by conversations with GPA’s Controller, Assistant General Manager of Operations and Assistant General Manager of Engineering and Technical Services.

- Staff reviewed GPA’s May 2024 report to the CCU and obtained information on the projected efficiency in kWh per gallon of the Ukudu power plant at GWA’s cost of ultra-low Sulfur Diesel (ULSD) as of April 2024 and calculated that Ukudu will generate power at about \$.151/kWh as shown in the table below:

<b>Ukudu Power Plant</b>				
<b>J. Benevente Presentation Aug 2019</b>				
<b>Projected FY 2026 Operating Cost</b>				
<b>Ukudu Assumptions<sup>1</sup></b>				
<b>Capacity kW</b>	<b>Energy kWh</b>	<b>Efficiency kWh/gal.</b>	<b>ULSD \$/gal</b>	<b>\$/kwh</b>
192	1,261,440,000	20.5	\$ 3.10	\$0.1510

**Note 1: GPA August 22, 2019 Briefing to CCU**

- The next step is to determine how much Ukudu will reduce GPA’s LEAC Rate. To do this Staff first took information from Page 92 of the May CCU Report to calculate the average FY 2024 YTD generation, fuel cost and avg. cost/kWh for all of GWA’s thermal plants, which is about \$.219/kWh, or about \$.063/kWh more expensive than Ukudu, which is shown in the table below:



<b>GPA Generation, Fuel Cost and Cost/kWh</b>			
<b>April 2024 Fiscal YTD</b>			
<b>From May 2024 GPA Report to CCU</b>			
<b>Plant</b>	<b>Generation kW</b>	<b>Fuel Cost</b>	<b>Cost/kWh</b>
Cabras I & 2	327,851,000	\$81,169,659	\$0.2476
Cabras No. 3	0		\$0.0000
Cabras No. 4			\$0.0000
MEC (ENRON) Piti 8 & 9 (IPP)	341,460,170	58,690,933	\$0.1719
TEMES Piti 7 (IPP)	64,294,672	21,506,026	\$0.3345
Tanguisson 2	0		\$0.0000
Tanguisson I			\$0.0000
Diesels/CTs & Others:			\$0.0000
MDI 10MW	2,678,734	575,457	\$0.2148
NRG Solar Dandan	27,599,006		\$0.0000
KEPCO Mangilao Solar	84,492,719		\$0.0000
Dededo CT #1	31,697,970	11,248,680	\$0.3549
Dededo CT #2	25,616,430	9,467,805	\$0.3696
Macheche CT	39,736,373	10,413,873	\$0.2621
Yigo CT	216,503	52,457	\$0.2423
Tenjo	8,620,910	1,591,846	\$0.1846
Talofofa 10 MW	1,915,795	411,261	\$0.2147
Aggreko/Yigo Diesel Units	17,756,815	4,577,803	\$0.2578
Deferred Fuel Costs		(5,443,331)	\$0.0000
Fuel Handling Costs		19,001,476	\$0.0000
<b>Totals</b>	<b>973,937,097</b>	<b>\$213,263,945</b>	<b>\$0.2190</b>

- Next, Staff included Ukudu in the above table assuming that it operated 75% of the time, then replace the higher cost generation with Ukudu. The result is that when Ukudu begins operation in September of 2025, GPA's average cost of generation will decline from about \$.219/kWh, before Ukudu, to about \$.1506/kWh, as shown in the table below:

<b>GPA Generation, Fuel Cost and Cost/kWh</b>				
<b>April 2024 Fiscal YTD With Ukudu and Cabras Shut Down</b>				
<b>Assume Cabras 1 &amp; 2 Decommissioned</b>				
<b>From May 2024 GPA Report to CCU</b>				
<b>Plant</b>	<b>Generation kWh</b>	<b>Fuel Cost</b>	<b>Cost/kWh</b>	
Dededo CT #2				
Dededo CT #I				
TEMES Piti 7 (IPP)				
Macheche CT				
Aggreko/Yigo Diesel Units				
Cabras I & 2				
Yigo CT	216,503	52,457		\$0.2423
MDI 10MW	2,678,734	575,457		\$0.2148
Talofofo 10 MW	1,915,795	411,261		\$0.2147
Tenjo	8,620,910	1,591,846		\$0.1846
MEC (ENRON) Piti 8 & 9 (IPP)	112,573,430	19,349,371		\$0.1719
Ukudu	735,840,000	111,102,439		\$0.1510
Cabras No. 3	0			\$0.0000
Cabras No. 4				\$0.0000
Tanguisson 2	0			\$0.0000
Tanguisson I				\$0.0000
Diesels/CT's & Others:				\$0.0000
NRG Solar Dandan	27,599,006			\$0.0000
KEPCO Mangilao Solar	84,492,719			\$0.0000
Deferred Fuel Costs		(5,443,331)		\$0.0000
Fuel Handling Costs		19,001,476		\$0.0000
<b>Totals</b>	<b>973,937,097</b>	<b>\$146,640,976</b>		<b>\$0.1506</b>

- Based on Staff's analysis above, we project that GWA's LEAC will decline by about \$0684/kWh post Ukudu, as shown in the table below:

<b>Replace existing GPA Generation With Ukudu</b>			
<b>Item</b>	<b>kWh</b>	<b>Cost</b>	<b>\$/kWh</b>
<b>Ukudu Generation (7 months)</b>	735,840,000	\$111,102,439	\$0.1510
<b>Remaining GPA Generation (7 mo.)</b>	238,097,097	\$35,538,537	\$0.1493
<b>Revised Totals</b>	<b>973,937,097</b>	<b>\$146,640,976</b>	<b>\$0.1506</b>
<b>Ukudu Fuel Cost Savings</b>	<b>NA</b>	<b>\$66,622,969</b>	<b>\$0.0684</b>

Staff's proposed Adjustment to GWA's proposed Power Expense is shown in the Table below:

<b>GUAM WATERWORKS AUTHORITY STAFF PROPOSED POWER EXPENSE ADJUSTMENT</b>					
Year	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>GWA Proposed Power Expense</b>	<b>\$21,300,054</b>	<b>\$23,033,169</b>	<b>\$23,868,000</b>	<b>\$23,868,000</b>	<b>\$23,868,000</b>
<b>Staff Proposed Power Expense</b>	<b>\$21,300,054</b>	<b>\$17,779,279</b>	<b>\$17,779,279</b>	<b>\$17,779,279</b>	<b>\$17,779,279</b>
<b>Staff Proposed Adjustment</b>	<b>\$0</b>	<b>\$5,253,889</b>	<b>\$6,088,721</b>	<b>\$6,088,721</b>	<b>\$6,088,721</b>

## 5. Interest Income

- Based on GWA's July 16, 2024 report to the CCU, GWA's cash balance was \$317.5 million, of which \$52.7 million is unrestricted and \$265.9 million is restricted as shown in the table below:

<b>Reconciliation of cash and cash equivalents to the statement of net position</b>								
<b>Cash and Restricted Cash</b>								
<b>Source: GWA Audits - Statement of Cash Flows - FY 2024 from CCU Reports</b>								
	Audited; from Statement of Cash Flows					Annualized as of June 30, 2024		
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Actual	\$ Inc(Dec)	% Inc(Dec)
<b>Current Cash and Cash Equivalents</b>	\$36,140,182	\$42,479,412	\$46,444,630	\$38,233,824	\$50,324,888	\$52,650,175	\$16,509,993	45.7%
<b>Current Restricted Cash</b>	\$37,890,369	\$30,372,502	\$31,026,211	\$29,987,985	\$32,707,733	\$36,184,894	(\$1,705,475)	-4.5%
<b>Noncurrent Restricted Cash</b>	\$171,169,388	\$285,820,036	\$261,136,933	\$234,403,462	\$220,606,453	\$228,703,607	\$57,534,219	33.6%
<b>Total</b>	<b>\$245,199,939</b>	<b>\$358,671,950</b>	<b>\$338,607,774</b>	<b>\$302,625,271</b>	<b>\$303,639,074</b>	<b>\$317,538,676</b>	<b>\$72,338,737</b>	<b>29.5%</b>

- Both the restricted and unrestricted cash balances earn interest. The interest earned on the unrestricted balances can be used in the computation of coverage. Interest on the restricted funds is deposited into the construction fund by GWA. Based on Staff's review of data in the case, GWA understated the interest earned on unrestricted funds. GWA's interest income adjustment, based on June 20 2024 annualized data is shown in the table below:

<b>Guam Waterworks Authority Staff Proposed Interest Income Adjustment</b>					
Year	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>GWA Proposed Interest Income</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>
<b>Staff Proposed Interest Income</b>	<b>\$2,440,512</b>	<b>\$2,440,512</b>	<b>\$2,440,512</b>	<b>\$2,440,512</b>	<b>\$2,440,512</b>
<b>Staff Proposed Adjustment</b>	<b>\$1,440,512</b>	<b>\$1,440,512</b>	<b>\$1,440,512</b>	<b>\$1,440,512</b>	<b>\$1,440,512</b>

- GWA indicated that it did not include interest earned on the restricted funds in the RAM. Restricted fund interest income increased substantially in the last two years and GWA simply let the restricted fund balances increase over time. Staff proposes to offset internally funded capital improvement projects (IFCIP) with the interest income from restricted funds, which would be equivalent to increasing the restricted fund CIP balance and using that to fund IFCIP projects. The table below shows Staff's proposed adjustment:

Guam Waterworks Authority Staff Proposed Adjustment to IFCIP					
Year	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GWA IFCIP	\$16,000,000	\$7,000,000	\$11,000,000	\$22,000,000	\$18,000,000
GWA Restricted Interest Income	\$10,668,063	\$10,668,063	\$10,668,063	\$10,668,063	\$10,668,063
Staff Proposed Adjustment	(\$5,331,937)	\$3,668,063	(\$331,937)	(\$11,331,937)	(\$7,331,937)

## 6. Bad Debt Expense

- GWA indicated that it estimated the level of bad debt expense using data from FY 2019 through FY 2022. GWA's FY 2023 showed a significant improvement in bad debt expense, when it fell to .43% of billed revenues from 2.13% in FY 2022. In addition, GWA's improvement in bad debt expense continued through FY 2024, as of June 30, 2024 it is .26% of billed revenues. In response to RFI -76, GWA stated that:
  - GWA had new auditors beginning with the FY2022 audit who looked at bad debts differently from the prior auditors. In FY22, the current auditors noted the allowance for bad debt was overstated by \$1.7 million and in a management letter comment the auditor recommended GWA reassess its allowance based on current economic conditions. An adjustment was made in FY2023 as the auditors continued to raise this issue; the reassessment resulted in a reduction of the allowance and bad debt expense.
  - At the time of the auditors' recommendation, certain GWA residential customers were recipients of pandemic-related government subsidies to help pay for utilities, including past due accounts. In FY23 and FY24 to date, GWA adjusted its allowance based on those subsidies. However, in FY24 only one subsidy remains active. GWA is not aware of any further continuance of any of these programs.
- Staff proposes to reduce Bad Debt expense in the RAM from 2.11% to .5% of billed revenues. The adjustment to bad debt expense can be shown in the table below:

Guam Waterworks Authority Staff Proposed Bad Debt Expense							
Year	FY2024		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	As of June 30	Annualized					
GWA Revenue TECP RAM June 28	\$97,847,589	\$130,463,452	\$ 139,880,354	\$ 153,584,779	\$ 166,042,885	\$ 179,960,074	\$ 195,233,003
Bad Debt Provision	254,450	339,267					
Bad Debt Provision %	0.26%	0.26%					
GWA Proposed Bad Debt Expense %			(2,957,830)	(3,247,616)	(3,511,048)	(3,805,333)	(4,128,286)
GWA Proposed Bad Debt Expense %			-2.11%	-2.11%	-2.11%	-2.11%	-2.11%
Staff Proposed Bad Debt Expense %			-0.50%	-0.50%	-0.50%	-0.50%	-0.50%
Staff Proposed Bad Debt Expense			(699,402)	(767,924)	(830,214)	(899,800)	(976,165)
Staff Proposed Bad Debt Adjustment			(2,258,428)	(2,479,692)	(2,680,834)	(2,905,533)	(3,152,121)

## 7. Material & Supplies Expense

- GWA July 17, 2024 report showed that as of June 30, 2024 actual spending on Materials and Supplies was significantly below budget and less than 50% what GWA plans to spend in FY 2025. In fact, most of the line items in Administrative and General Expenses are below budget as of June 30, 2024. Staff proposes to reduce Materials and Supplies expense by \$750,000 in each year from FY 2025 through FY 2029. The Materials and Supplies Adjustment is shown in the table below:

GUAM WATERWORKS AUTHORITY							
STAFF PROPOSED Materials & Supplies Expense							
Year	FY2024		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	As of June 30	Annualized					
Materials and Supplies Expense	918,813	1,225,084	2,834,093	2,992,139	3,210,667	3,440,777	3,683,118
Staff Proposed Materials & Supplies Expense			2,084,093	\$2,242,139	\$2,460,667	\$2,690,777	\$2,933,118
Staff Proposed Materials & Supplies Adjustment			(\$750,000)	(\$750,000)	(\$750,000)	(\$750,000)	(\$750,000)

## 8. Legal Expense

- GWA's proposed Legal Expenses of \$1.5 million per year for the FY2025 through FY 2029 are based on the projected cost of litigation concerning GWA's Northern District Waste Treatment Plant, an ongoing proceeding. GWA's Proposed Legal Expenses in the FY 2023 True Up proceeding was also \$1.5 million and also based on litigation concerning the Northern District Waste Treatment Plant. As of June 30, 2024, GWA Legal Expenses are only \$176,904 less than 10% of GWA's budget for this line item. Staff proposes to reduce Legal Expense by \$750,000 in each year from FY 2025 through FY 2029. The Legal Expense adjustment is shown in the table below:

Guam Waterworks Authority							
Staff Proposed Legal Expense Adjustment							
Year	FY2024		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	As of June 30	Annualized					
GWA Proposed Legal Expense	\$176,904	\$235,872	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Staff Proposed Legal Expense			\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
Staff Proposed Legal Expense Adjustment			(\$750,000)	(\$750,000)	(\$750,000)	(\$750,000)	(\$750,000)

## 9. Other Expense

- GWA July 17, 2024 report showed that as of June 30, 2024 actual spending on Other Expense was significantly below budget, \$0.958 million vs. \$1.713 million, a 44% reduction. GWA proposes to increase spending on Other Expense to \$3.149 million, a 147% increase over FY 2024 annualized Other Expense of \$1.277 million. Other expense is included in the Contractual Expense group and like A&G expense, every Contractual category except Laboratory is under budget as of June 30, 2024. Staff proposes to adjust Other Expense to \$2 million in FY 2025, a 56% increase over FY 2024 annualized Other Expense. Other

Expense will increase by 5% annually from FY 2026 through FY 2029. Staff's proposed adjustment to Other Expense is shown in the table below:

<b>Guam Waterworks Authority</b>							
<b>Staff Proposed Other Expense</b>							
Year	FY2024		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	As of June 30	Annualized					
<b>GWA Proposed Other Expense</b>	\$957,644	\$1,276,859	\$3,149,196	\$3,301,126	\$3,400,160	\$3,009,358	\$3,099,639
<b>Staff Proposed Other Expense</b>			\$2,000,000	\$2,100,000	\$2,205,000	\$2,315,250	\$2,431,013
<b>Staff Proposed Other Expense Adjustment</b>			<b>(\$1,149,196)</b>	<b>(\$1,201,126)</b>	<b>(\$1,195,160)</b>	<b>(\$694,108)</b>	<b>(\$668,626)</b>

## 10. Credit Card Fees

- Staff opposes inclusion of credit card fees in GWA's expenses in this Docket. Staff's review of GWA's credit card expense projection reveals that about half their customers use credit cards to pay their bills. GWA is billed by the credit card companies for allowing customers to use their credit cards to pay bills. The fee is approximately 1.5% of the customer's bill. By permitting regulated water utilities to charge other customers credit card fees for those customers who pay their bills via credit cards as an unfair ratemaking practice. These fees, often termed as convenience fees, are shifted to customers who do not use credit cards for bill payments, thereby creating an inequitable allocation of costs. Many customers who do not use credit cards are often those who are financially disadvantaged or elderly individuals who prefer traditional payment methods. Forcing these groups to subsidize the convenience of others contradicts principles of fairness and equity that are fundamental to the regulation of essential services like water utilities.
- Another significant concern is the impact on trust and customer satisfaction. Staff believes that GWA customers expect their water utility bills to be straightforward and reflect only cost of their of their personal usage. Introducing indirect fees to benefit other customers can lead to confusion and mistrust, as customers may not fully understand why they are being charged extra or how these fees are calculated. This lack of transparency can damage the relationship between the GWA and its customers, reducing overall customer satisfaction and potentially leading to increased complaints and disputes.
- Finally, GWA almost doubled its projection of credit card fees, from \$600,000 annually to \$1,200,000 in FY 2025, with little justification or support. Staff proposes to eliminate credit card fees from GWA's revenue requirements. The adjustment can be shown in the table below:

<b>Guam Waterworks Authority</b>					
<b>Staff Proposed Adjustment to Credit Card Fees</b>					
Year	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>GWA Proposed Credit Card Fees</b>	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
<b>Staff Proposed Credit Card Fees</b>	\$0	\$0	\$0	\$0	\$0
<b>Staff Proposed CC Fees Adjustment</b>	<b>(\$1,200,000)</b>	<b>(\$1,200,000)</b>	<b>(\$1,200,000)</b>	<b>(\$1,200,000)</b>	<b>(\$1,200,000)</b>

## 11. Rate Stabilization Fund

- GWA is proposing to increase the rate stabilization fund (RSF) for 4 years beginning in FY 2026 by \$2.6 million annually. This is an unjustified rate increase to GWA customers plain and simple. Staff disagrees strongly with GWA's request. The rate increase request of \$2.5 million for each of four years takes place in environment where GWA has requested a 23% rate increase for the first year of the 5-year plan and about 72% cumulatively for the entire 5-year plan. No sufficient benefit from this arbitrary rate increase has been presented. GWA's cash balances are substantial and increasing. Between FY 2019 and FY 2024 as of June 30. (June 30 annualized) GWA's unrestricted cash balance increased from \$36.1 million in FY 2019 to \$52.7 million as of June 30, 2024. Staff recommends that this be removed as a revenue requirement. The table below reflects the impact of this removal:

Guam Waterworks Authority Staff Proposed Adjustment to Credit Card Fees					
Year	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GWA Proposed Credit Card Fees	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Staff Proposed Credit Card Fees	\$0	\$0	\$0	\$0	\$0
Staff Proposed CC Fees Adjustment	(\$1,200,000)	(\$1,200,000)	(\$1,200,000)	(\$1,200,000)	(\$1,200,000)

## 12. Revenue Adjustment

- Unlike prior RAM's submitted in Docket 19-08 True-Up proceedings, GWA decided to add an adjustment to expenses for the difference between the cash basis usage and revenue forecast developed in the two prior proceedings, and the accrual-based revenue contained in GWA's audited financial statement. To calculate this adjustment, GWA compares the forecasted cash-basis revenue from the RAM for the years FY 2020 through FY 2023 with the Net water and wastewater accrual-based revenues in the audited financial statements. GWA then calculated the difference between the two and calculated the average difference between projected cash bill revenues and average accrued revenue for the four-year period FY 2020 to FY 2023, which was about \$1.76 million. This amount was then grossed up by the percentage increase in rates.
- This adjustment simply measures the difference between cash based forecast revenue and the accrual-based bill revenue in audited financial statements.
- Utility forecasts of billed revenue are used primarily for infrastructure investment planning and ratemaking and budgeting. These forecasts are based on historical billing data, adjusted for anticipated changes in consumption patterns, weather conditions, economic factors, and rate changes and rely on numerous assumptions such as customer growth, changes in average use and other factors. They should be updated frequently to reflect actual billing data and

changing economic conditions, something GWA did not do in this proceeding. The forecast model, data and assumptions are from the 2020 Analytical Study.

- In contrast, billed revenue in audited financial statements represents the actual revenue recognized during the reporting period. It is used for financial reporting to stakeholders, including investors, regulators, and creditors. Billed revenue is recognized based on accrual accounting principles. Revenue is recognized when earned, not necessarily when cash is received. This revenue is based on actual bills issued to customers during the reporting period, adjusted for any billing corrections, disputes, or uncollectible accounts.
- GWA all regulated utilities bill customers on a cycle basis, not at the end of the month. Thus, billed usage in one month may contain consumption from 3 different months. For accurate financial reporting, utilities must adjust billed revenue to align with calendar months. This ensures that revenue is recognized in the correct accounting period. Utilities use proration; where revenue for bills issued mid-month is divided between the two months based on the number of days falling in each month, and, estimation; utilities may use estimates to allocate revenue correctly, especially for bills that span across month-end.
- As stated earlier, GWA did not include a comparable revenue adjustment in RAM versions used in the two prior proceedings, nor did they provide any support, documentation or analysis to explain the difference between historical forecast of billed revenue and billed revenue on audited financial statements, nor any support documentation or evidence to show why this difference will continue from FY 2025 through FY 2029.
- GWA did come close to meeting the burden of proof on this adjustment and Staff proposes that it should be removed. The table below shows the impact of removing the Revenue Adjustment:

<b>Guam Waterworks Authority</b>					
<b>Staff Proposal to Remove Revenue Adjustment</b>					
Year	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>GWA Proposed Revenue Adjustment</b>	<b>(\$2,165,149)</b>	<b>(\$2,370,839)</b>	<b>(\$2,572,360)</b>	<b>(\$2,791,010)</b>	<b>(\$3,028,246)</b>
<b>Staff Proposed Revenue Adjustment</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Revenue Adjustment</b>	<b>(\$2,165,149)</b>	<b>(\$2,370,839)</b>	<b>(\$2,572,360)</b>	<b>(\$2,791,010)</b>	<b>(\$3,028,246)</b>

## 13. Water Loss Reduction

### Background

- The lack of significant progress in reducing water losses under the previous 5-year rate plan has been a major concern.



- A major effort in the last 5-year plan proceeding, Docket 19-08, was to develop collaboratively, an approach to implement a water loss control program. As a result, GWA agreed to prepare an analytical study and recommend an approach. This was memorialized in the January 17, 2020 Stipulation as follows:

“For the period FY2020-2024 GWA's water loss reduction targets will be as determined through the study to be completed by March 31, 2021 with designated I benchmarks to reduce water losses by 20% as compared to its 2019 water loss level and to the median level of comparable water utilities in the US Mainland in less than twenty (20) years from 2019.”

- GWA’s goal of a 20% loss reduction from 2019 loss level was not achieved. GWA’s water loss level remained very high, about 60%, period of the plan from 2020 through 2024. The losses projected for the FY 2025 – FY2029 period remain at current high levels. The excess expense associated with producing twice as much water as is ultimately sold is high as should be the focus of joint agreement between GWA and Staff to present to the GPUC.

## **Outline of Proposed Water Loss Reduction Action Plan**

### **Immediate Action and Focus**

- It is imperative to that GWA direct significant focus on addressing water losses, as they critically affect GWA's operational and financial efficiency. While GWA has indicated a long-term plan to gradually replace most of the piping to mitigate water loss, given the recent increase in Navy water rates, GWA must develop a high priority action plan to reduce water losses as soon as possible.

### **Comprehensive Water Loss Study**

- GWA is required to provide a comprehensive water loss reduction strategy and report study to the Guam Public Utilities Commission (GPUC) within six months. This study should include:
  1. **Impact Analysis:** The study should present the impact of different scenarios for reducing water loss, including the associated investments and expenses.
  2. **Targeted Reductions:** Clearly outline the resulting targeted water loss reductions for each scenario, providing a roadmap for achieving a 20% water loss target.

### **Enhanced Monitoring and Reporting**

1. **DMA Implementation:** Continue with the District Metered Areas (DMAs) approach, ensuring complete coverage of the water distribution network. This includes dividing the network into 36 DMAs, covering 594 miles of main and 42,000 customer service connections.

2. **Leak Detection:** Implement a proactive leak detection program to survey the entire network four times per year, ensuring timely identification and repair of leaks.
3. **Automated Monitoring:** Utilize an automated DMA monitoring and control system for real-time data collection and analysis, facilitating efficient leak detection and resource allocation.
4. **Technical Assistance and Training:** Engage a water loss control specialist to provide technical assistance, supervise the implementation of the DMA system, and train GWA staff in comprehensive leak detection and water loss management.

### **Infrastructure and Long-Term Strategy**

1. **Immediate Repairs:** Prioritize immediate repairs and improvements to critical infrastructure to reduce undetectable background leakage.
2. **Long-Term Planning:** Develop a long-term strategy to prevent new leaks, including targeted infrastructure upgrades and replacements.

### **Conclusion**

To achieve a significant reduction in water losses, GWA must take decisive and immediate action. This includes conducting a comprehensive study on water loss reduction projects, implementing a robust monitoring system, and seeking expert assistance as required. By prioritizing water loss reduction, GWA can move towards achieving a more efficient and sustainable water supply system, meeting the 20% water loss reduction target within the current 5-year plan.

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**<sup>i</sup> Numerous methods exist to calculate utility water losses. The level above is the most basic which compares water produced and purchased to water sold to customers.**

1 **BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

2  
3 IN THE MATTER OF:

) GWA DOCKET NO. 24-05

4  
5 **GUAM WATERWORKS AUTHORITY'S**  
6 **FY2025 -2029 RATE APPLICATION**  
7 **AND REQUEST FOR RATE**  
8 **INCREASES**

) **JOINT STIPULATION RE:**

) **GWA'S FIVE-YEAR FINANCIAL PLAN**  
) **& FY2025 - FY2029 RATE INCREASES**

9  
10  
11  
12 This **JOINT STIPULATION** is between GUAM WATERWORKS AUTHORITY  
13 (“GWA”) and the GUAM PUBLIC UTILITY COMMISSION’S (“PUC”) consultants, acting as  
14 PUC Staff, GEORGETOWN CONSULTING GROUP, Inc. (“GCG”) hereinafter referred to as  
15 the Parties. The stipulation outlines a proposed settlement concerning the proposed water and  
16 wastewater rates, as well as other policy and implementation matters related to GWA's FY 2025-  
17 FY2029 Five-Year Financial Plan and its request for rate increases.

18  
19 **I. BACKGROUND**

20  
21 **WHEREAS**, GWA has entered into a Partial Consent Decree with USEPA (District Court  
22 of Guam order in Civil Case No. 24-00004 dated August 9, 2024), finalized after the previous  
23 GWA 5 Year Financial Plan, and faces additional regulatory requirements related to Per- and  
24 polyfluoroalkyl substances (PFAS) which have influenced GWA’s Capital Improvement  
25 Planning. This planning now anticipates \$899 million in encumbrance requirements for the  
26 FY2025–FY2029 period, as outlined in the current GWA Five-Year Plan petition; and  
27  
28

1           **WHEREAS**, GWA and GCG agree that the recent and significant increases in purchase  
2 rates for Navy water that GWA cannot influence and must pay, require both a change in near-  
3 term GWA action and an update to targets as part of GWA’s Water Loss Control Program; and

4           **WHEREAS**, the Guam Consolidated Commission on Utilities (CCU) under its  
5 budgetary authority in Public Law 26-76, by Resolution No. 11-FY2024, approved filing of the  
6 GWA Five-Year Financial Plan and Rate Increase Request Petition on March 4, 2024; and

7  
8           **WHEREAS**, GWA submitted an advanced draft petition on March 8, 2024, three months  
9 ahead of the ordered schedule, to allow an early review by GCG so as to help ensure that the  
10 PUC is able to complete its review and approval of GWA’s rate application before FY2025  
11 commences; and

12  
13           **WHEREAS**, in conformance with all applicable PUC rules and filing requirements (Part  
14 4: Application for Rate Relief, Rules 19 -21) GWA submitted a complete, final FY2025-FY2029  
15 Five-Year Financial Plan and Rate Increase Request Petition for the PUC’s review and approval  
16 on June 6, 2024, which was later adjusted on June 28, 2024 in response to GCG’s RFI’s  
17 incorporating significant but unforeseen increases for Navy water expense and several other  
18 expense modifications and adjustments requested by GCG to be taken into consideration for rate  
19 setting purposes that modified GWA’s request for rate relief. GWA and GCG also agreed that a  
20 modified draft financial plan be prepared by GWA to reflect preliminary information received  
21 from respondents to GWA and the Guam Economic Development Authority’s (“GEDA”) Request  
22 for Information [(RFI) 2024-001] “Short Term Construction and Infrastructure  
23 Financing Program”. The Parties agree that the financing available through the TECP plan  
24 permitted is the preferred course for short term financing and should produce cost savings that  
25 should be reflected in the revenue requirement recommended in this proceeding. As mentioned  
26 above, the draft modified financial plan was distributed to the Parties on June 28, 2024; and

27           **WHEREAS**, GWA’s Five-Year Financial Plan and Rate Increase Request Petition for  
28 the years FY2025 - FY2029 included updated rate filing schedules to meet all filing requirements  
in 12 GCA Chapter 12 and PUC rules and were produced and submitted by GWA in its updated

1 Rate Application Model (RAM) that fulfills requirements of the letter signed by the Parties on  
2 February 4, 2020 titled “Ancillary Items Agreed to in Support of the Stipulation Dated January  
3 17, 2020”; and

4 **WHEREAS**, GWA in its initial March 8, 2024 advance and June 6, 2024 final filing  
5 requested the PUC approve rate increases for all non-lifeline residential and commercial water  
6 and sewer rates of 29% in FY2025, 12.5% in FY2026, and 10% each year thereafter from  
7 FY2027-FY2029 and for an increase in lifeline rates of 12.5% in FY2026 based on financing its  
8 construction program with traditional long-term bonds. GWA also indicated that it produced an  
9 alternative calculation of the required rates under the condition that it used TECP for short term  
10 construction in which rates were significantly lower than the rates using traditional long-term  
11 bonds; and

12 **WHEREAS**, in the alternative, GWA also presented in its March 8, 2024 and June 6,  
13 2024 filings illustrative schedules that indicated non-lifeline residential and commercial water  
14 and sewer rates could be 17% in FY2025, 6% in FY2026-FY2028, and 15% in FY2029, and a  
15 6% increase in lifeline rates in FY2026, where the revised rate increases contemplate  
16 implementation of short-term construction financing enabled with the passage of Public Law 37-  
17 103 (e.g., Tax-Exempt Commercial Paper (“TECP”)); and

18 **WHEREAS**, GWA provided on June 28, 2024, an updated RAM that reflected use of  
19 Tax-Exempt Commercial Paper (“TECP”) and various operations and maintenance expenses  
20 increases due to unforeseen changes in Navy water rates and revisions to power and other  
21 expenses which affected the overall financial projections. The TECP RAM provided on June  
22 28<sup>th</sup> indicated non-lifeline rate increases 23.0% in FY2025, 9.5% in FY2026, and 8.5 % in  
23 FY2027- FY2029, and a 9.5% increase in lifeline rates in FY2026 which became the basis for  
24 stipulation discussions and updated rate relief request for GWA; and

25 **WHEREAS**, GWA and GCG conducted detailed Discovery throughout May, June and  
26 July 2024 involving the conduct of multiple video conference workshops and exchanges of  
27 information in response to 86 individual Requests for Information; and  
28

1  
2       **WHEREAS**, in compliance with Chief Administrative Law Judge Horecky’s scheduling  
3 Order issued on July 29, 2024, GWA received GCG’s proposed adjustments for the purpose of  
4 stipulation to GWA’s Five-Year Financial Plan on August 2, 2024 and the parties participated  
5 in stipulation negotiations from August 5<sup>th</sup> to August 12<sup>th</sup>; and

6       **WHEREAS**, the Parties have agreed to the following stipulation for purposes of  
7 determining the revenue requirements recommended in this proceeding and that replaces and  
8 supersedes the stipulation entered in Docket 19-08 dated January 17, 2020. However, the Parties  
9 do not agree on whether the PUC has adopted, to date, a specific policy regarding minimum  
10 Operating Fund balances mirroring the CCU’s resolution 17-FY2020, and acknowledge that  
11 GCG submits the provision in Section II, Paragraph 9.a. of the prior stipulation in Docket 19-08  
12 setting a minimum “fund balance target” of not less than \$3 million remains in force, while  
13 GWA submits that provision relates only to the FY2020 – FY2024 rate setting period and the  
14 “fund balance” does not equate to “Operating Fund balance” in the Rate Application Model  
15 (RAM). The Parties agree and recommend that this issue be developed and presented by both  
16 GWA and GCG to the PUC in the FY2026 true-up proceeding and that that PUC make the  
17 appropriate policy decision with regard to the issue in that proceeding; and

18       **WHEREAS**, GWA’s FY2025-FY2029 Five-Year Financial Plan and Rate Increase  
19 Request is informed by the PUC policy on debt service coverage [(PUC Docket 19-08, FY2020  
20 Rate Decision, EX 1 (II)(4)(a-c) and (9)(a) (Feb. 27, 2020)] and CCU policies, particularly CCU  
21 Resolution 17 – FY2020 (Relative to Adopting a Debt service Coverage target of 1.50x and a  
22 Working Capital Reserve of 120 Days of Operation and Maintenance Expense), as well as the  
23 CCU’s resolution 07-FY2024 adopting a staff salary migration plan. GCG submits CCU policies  
24 are not determinative for the rate request recommended by both Parties and include appropriate  
25 adjustments required in this stipulation; and

26       **WHEREAS**, despite the powers and authority granted to the CCU in statute at 12 GCA  
27 Chapter 79 Section 79100 and 12 GCA Chapter 14 Sections 14105, 14203 and 14210 the Parties  
28 do not agree on the determinative financial performance policies that should apply to the

1 development of GWA's Five-Year Financial Plan and acknowledge that GWA submits that both  
2 CCU and PUC financial performance policies should be used, while GCG submits that only PUC  
3 financial performance policies can be used; and

4 **WHEREAS**, stipulated adjustments to GWA's filed FY2025-FY2029 Five-Year  
5 Financial Plan contemplate increases to water and wastewater rates and charges that are  
6 projected to gradually return GWA to compliance with appropriate financial performance  
7 policies (previously relaxed in response to pandemic related economic disruptions and continue  
8 for FY2025 and FY2026) and enable financing of GWA's Capital Improvement Program; and

9  
10 **WHEREAS**, true-ups of the projected FY 2026 – FY2029 rate increases will be  
11 conducted annually to update prospective rate increases to account for appropriate modifications  
12 of expense and revenue changes as has been done in the previous 5 Year Plans subject to review  
13 and approval by the PUC so as to ensure continued financial performance in compliance with  
14 appropriate policies, and CIP financing; and

15 **WHEREAS**, the annual true-ups will take into consideration actual billed revenues and  
16 expenses from prior and then current fiscal years, as well as new information (e.g., electric tariff  
17 filings) that indicate variances from previously projected revenues or expenses may be expected.  
18 The parties agree that the annual true-up proceedings should not represent a full new rate case  
19 filing but should take into account major variations shown by the indicated variances  
20 appropriately; and

21  
22 **WHEREAS**, the Parties have identified two unresolved issues that require PUC policy  
23 direction to finalize FY 2025 – FY2029 Rate Increases calculations and which are addressed in  
24 Attachments 2 and 3; and

25 **WHEREAS**, at PUC request, GWA issued a Request for Proposal to conduct a Staffing  
26 Study in compliance with 12 GCA 12102.2(d) but no responses were received. The Parties did  
27 review staffing and salary information as well as AWWA benchmarking data through the  
28 Discovery process; and



1           **WHEREAS**, the PUC has indicated that it will hold public meetings on August 13, 14  
2 and 15, 2024 to provide public briefings on the recommended stipulation between GWA and  
3 GCG concerning GWA's FY 2025 - FY2029 rate application.  
4

5 **NOW THEREFORE, the Parties Agree to the following Stipulated Provisions which it**  
6 **recommends for approval by the PUC:**

7  
8   **I.       PROPOSED STIPULATIONS**

9  
10           In support of GWA's FY2025-2029 Five-Year Financial Plan and Rate Increase Request,  
11 GWA and GCG, now stipulate that the following adjustments to (and affirmations of) GWA's  
12 filed financial plan and requested rate increases are appropriate and should be reflected in the  
13 PUC's FY2025-FY2029 Rate Decision and Order. Attachment 1 provides selected RAM  
14 schedules that reflect the first of two alternatives provided by the proposed stipulations,  
15 replenishment of the RSF, no card convenience fee (GWA's proposed position), and the creation  
16 of an additional regulatory asset in the amount of \$3 million. These schedules include: Schedule  
17 A-2: Historical and Forecasted Operating Results, Proposed Rates, Schedule K: Proposed Rate  
18 Adjustments, and Schedule L: Monthly Bill Impacts by Customer Class. The alternative  
19 proposal discussed by GCG is presented in Section II: PUC Policy Issues. The GCG proposed  
20 deferral of RSF replenishment would enable a 1.75% reduction in the FY2026 non-lifeline rate  
21 increase from that recommended by GWA; and imposing credit card transaction convenience  
22 fees would enable a further 1% reduction in the FY2026 non-lifeline rate increases from that  
23 recommended by GWA. The GCG proposed adjustments would reduce rate revenue  
24 requirements over the 5 Year Plan from FY2025 through FY2029 by \$17.5 million (or about  
25 2.0% of FY2025-FY2029 revenue requirements).

26           A discussion of the various stipulations agreed to follow below:

27           **1) Projected Revenues**  
28

1 a) **Revenue Adjustments** – In GWA’s filed Financial Plan, the revenue forecast included  
 2 revenue adjustments to capture the impact of billing adjustments made in the course of  
 3 ordinary business of the utility which are required to address initial billing errors that are  
 4 occasioned by different types of metering and billing issues in the field (e.g., meter  
 5 failures and mis-reads). GWA’s filed projection of the proposed revenue adjustment was  
 6 to lower net billed revenues by 1.43% based on the average adjustment for the last four  
 7 years of historical revenues. GWA subsequently revised its estimate of revenue  
 8 adjustments, from 1.43% to 1.36% of net billed revenues, to account for anomalies in the  
 9 historical data. For purposes of this stipulation, the Parties agree to use GWA’s revised  
 10 methodology. The table below shows the projected Revenue Adjustments in GWA’s  
 11 filed financial plan, adjustments, and the Revenue Adjustment forecast for the period  
 12 FY2025 – FY2029. The Parties acknowledge that either Party can submit proposed  
 13 changes to the Revenue Adjustment forecast in future proceedings with appropriate  
 14 justification.

Revenue Adjustment	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	(\$2,270,766)	(\$2,554,612)	(\$2,810,073)	(\$3,091,081)	(\$3,400,189)	(\$14,126,722)
Adjustment	\$356,181	\$443,665	\$534,450	\$632,307	\$740,739	\$2,707,344
Stipulated Amounts	(\$1,914,585)	(\$2,110,947)	(\$2,275,623)	(\$2,458,773)	(\$2,659,449)	(\$11,419,378)

21 b) **Interest Income – Operating Fund.** In GWA’s filed Financial Plan, Interest Income on  
 22 balances of the Operating Fund were projected to be \$1 million annually roughly based  
 23 on historical experience. The Parties stipulate that a preferable methodology for Interest  
 24 Income forecasting is to estimate earnings based on projected average Operating Fund  
 25 balances (by year) and authoritative projections of relevant interest rates. The table  
 26 below provides the projected Interest Income on Operating Fund balances in GWA’s  
 27

1 filed financial plan, stipulated variances, and the stipulated Interest Income forecast for  
 2 the period FY 2025 – FY2029 as agreed to by the parties.

Interest Income - Op Fund	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$5,000,000
Adjustment	\$568,788	\$85,457	(\$48,784)	(\$33,405)	\$25,256	\$597,313
Stipulated Amounts	1,568,788	1,085,457	951,216	966,595	1,025,256	\$5,597,313

6  
 7 **c) Interest Income - Construction Fund.** In GWA’s filed Financial Plan, Interest Income  
 8 on Construction Fund balances were not included in the flow of funds for the  
 9 Construction Fund. Earnings were anticipated by GWA to act as a hedge against  
 10 unanticipated construction cost escalation, and to decline with spending of bond  
 11 proceeds. The Parties stipulate that it would be preferable to recognize Interest Income  
 12 in the Construction Fund as these earnings may be available to fund projects and reduce  
 13 the need for borrowing. The Parties agree to a similar methodology for Interest Income  
 14 forecasting as applied for the Operating Fund where earnings are estimated based on  
 15 projected average Construction Fund balances (by year) and authoritative projections of  
 16 relevant interest rates. In this case, the relevant interest rates are higher to recognize  
 17 earnings potential of longer-term investment vehicles. The table below provides the  
 18 projected Interest Income on Construction Fund balances in GWA’s filed financial plan,  
 19 stipulated variances, and the stipulated Interest Income forecast for the period FY 2025  
 20 – FY2029 as well as the reductions in TECP as originally projected due to the availability  
 21 of additional construction funds from the interest earned as agreed to by the parties.  
 22  
 23  
 24

Interest Income - Construction Fund	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	\$0	\$0	\$0	\$0	\$0	\$0
Adjustment	\$6,435,408	\$3,696,682	\$2,961,515	\$2,879,251	\$2,879,251	\$18,852,106
Stipulated Amounts	\$6,435,408	\$3,696,682	\$2,961,515	\$2,879,251	\$2,879,251	\$18,852,106

2) **Projected Operating Expenses:**

a) **Power Expenses.** In GWA’s original filed Financial Plan (March 8, 2024), the Power Expense forecast for FY2025 through FY2029 was based on projected annual usage of about 61 million kWh at an average cost of about \$.042/ kWh in FY 2025 and about \$.39/kWh in FY 2026 through FY 2029 at approximately the same kWh usage. The Parties stipulate to a reduction in power expenses for FY 2026 – FY 2029 to more fully reflect anticipated reductions in GPA’s rates due to the Ukudu power plant that is scheduled to begin operation in September 2025. Revised power expense estimates are based on an anticipated net decrease to about \$.038/kWh in GWA’s FY2026 cost of power as well as revised usage projections for purposes of this stipulation with the anticipation that these rates will be subject to the true up process. The table below provides the projected Power Expenses in GWA’s filed financial plan, stipulated variances, and the stipulated Power Expense forecast for the period FY 2025 – FY2029.

Power Purchases	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	\$25,665,944	\$23,868,000	\$23,868,000	\$23,868,000	\$23,868,000	\$121,137,944
Adjustment	(\$4,365,890)	(\$4,394,532)	(\$4,394,532)	(\$4,394,532)	(\$4,394,532)	(\$21,944,018)
Stipulated Amounts	21,300,054	19,473,468	19,473,468	19,473,468	19,473,468	\$99,193,926

b) **Water Purchases** - GWA’s filed Financial Plan reflects GWA’s currently anticipated reductions in prospective Navy water purchases (largely enabled through ongoing water loss management program implementation) but not the extraordinary increases (from \$9.87/kgal to \$ 14.27/kgal to 27.04/kgal) imposed by the Navy in March 2024 effective in January 2024 and in April 2024. Accordingly, Water Purchase Expenses are currently projected to be substantially higher than as filed as illustrated in the table below:

Water Purchases	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	\$6,515,000	\$6,251,000	\$6,207,000	\$5,756,000	\$5,756,000	\$30,485,000
Adjustment	\$7,075,550	\$6,761,870	\$6,709,590	\$6,173,720	\$6,173,720	\$32,894,450
Stipulated Amounts	13,590,550	13,012,870	12,916,590	11,929,720	11,929,720	\$63,379,450

Due to the Navy’s (informal) indications that no reductions to this higher rate are anticipated over the rate application period, the Parties stipulate to GWA’s Water Purchase expense projections for purposes of GWA’s FY 2025 – FY2029 Financial Plan for purposes of this stipulation with the anticipation that these rates will be subject to the true up process. In addition, GWA stipulates to (further) prioritize reduction of Navy water purchase requirements as discussed below in Section I.(4)(a) and GWA will investigate and report to the PUC by January 1, 2025 on options for segregation of Navy Water Purchase expense recovery through a designated surcharge on GWA bills.

c) **Salaries and Benefits** – GWA’s submitted Financial Plan includes salary and benefits increases, reflecting anticipated staffing level growth, preliminary estimates for aligning salary levels with industry labor market standards, and full-year funding for newly added positions. Subsequent to GWA’s initial filing on March 8, 2024, revised estimates of staffing levels and salary migration costs were distributed to the Parties that projected materially higher Salaries and Benefits expenses. The Parties have stipulated to the Salaries and Benefits Expense levels indicated below that (1) incorporate updated salary migration cost estimates, (2) reducing salary expense increases to recognize challenges in accelerated hiring, particularly in light of military build-up influences on the labor market, and (3) recognize that hiring will occur over individual fiscal years such that full-year funding is not required.

Salaries and Benefits Expense	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	\$33,886,181	\$35,953,228	\$37,330,583	\$38,924,275	\$40,547,721	\$186,641,987
Adjustment	\$1,360,408	\$1,023,637	\$1,105,367	\$1,091,941	\$886,797	\$5,468,151
Stipulated Amounts	\$35,246,589	\$36,976,865	\$38,435,950	\$40,016,216	\$41,434,518	\$192,110,138

1 While personnel expense projections are based on projected staffing levels, the Parties  
 2 stipulate that these projected expense levels represent the salaries and benefits used to  
 3 develop GWA's rates in this proceeding.

4 The Parties stipulate that the levels of personnel and salaries and benefits expense are  
 5 appropriate for this proceeding based on GCG's review of GWA salaries and benefits  
 6 and 2023 AWWA benchmarking data.

7  
 8 **d) Capitalized Labor.** GWA's filed Financial Plan included increases in Capitalized Labor  
 9 to reflect increases in labor expenses related to GWA capital improvement projects that  
 10 are estimated based on methodology revisions outlined in the Capitalized Labor  
 11 analytical study conducted as part of the Comprehensive Review and Update process in  
 12 Docket 19-08. The implementation of this methodology results in Capitalized Labor  
 13 expenses of 13% of projected Salaries and Benefits expense. The Parties have stipulated  
 14 to the Capitalized Labor expense levels that reflect the stipulated revisions to Salaries  
 15 and Benefits expenses as shown in the table below.  
 16  
 17

Capitalized Labor	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	(\$4,405,203)	(\$4,673,920)	(\$4,852,976)	(\$5,060,156)	(\$5,271,204)	(\$24,263,458)
Adjustment	(\$176,853)	(\$133,073)	(\$143,698)	(\$141,952)	(\$115,284)	(\$710,860)
Stipulated Amounts	(\$4,582,057)	(\$4,806,992)	(\$4,996,674)	(\$5,202,108)	(\$5,386,487)	(\$24,974,318)

18  
 19  
 20  
 21  
 22 **e) Legal Expenses.** GWA's filed Financial Plan included a legal expense projection of \$1.5  
 23 million annually for each of the years FY2025 - FY2029. The Parties stipulate for  
 24 purposes of this stipulation that the latter 3 years of these projections be reduced from  
 25 \$1.5 million to \$1 million in recognition of the anticipated completion by the end of  
 26 FY2026 of adjudication of the Core Tech litigation; the Parties recommend that the Core  
 27 Tech actual litigation expenses for the years FY2025 and FY2026 be classified as a  
 28

Regulatory Asset as discussed below in Section I(4) (b). The table below provides the projected cash Legal Expenses in GWA’s filed financial plan, stipulated variances, and the stipulated Legal Expense forecast for the period FY2025 – FY2029.

Legal Expenses	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$7,500,000
Adjustment	\$0	\$0	(\$500,000)	(\$500,000)	(\$500,000)	(\$1,500,000)
Stipulated Amounts	\$1,500,000	\$1,500,000	\$1,000,000	\$1,000,000	\$1,000,000	\$6,000,000

**f) Other Expenses.** GWA’s filed Financial Plan included an Other Expense projection based on an individual line-item assessment of GWA’s needs for contracted services and other expenses captured in this expense category. These expenses are projected by GWA to increase in large part due to Partial Consent Decree and new regulatory compliance requirements. The Parties have stipulated to reductions to these projected expenses that preserve GWA’s capacity to comply with new and emerging operational requirements. The table below provides the projected Other Expenses in GWA’s filed financial plan, stipulated variances, and the stipulated Other Expenses for the period FY2025 – FY2029.

Other Expenses	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	\$3,149,196	\$3,301,126	\$3,400,160	\$3,009,358	\$3,099,639	\$15,959,479
Adjustment	(\$196,349)	(\$183,979)	(\$138,496)	(\$89,549)	(\$36,928)	(\$645,301)
Stipulated Amounts	2,952,847	3,117,148	3,261,664	2,919,809	3,062,711	\$15,314,179

**g) Materials and Supplies.** GWA’s filed Financial Plan included a Materials and Supplies Expense projection based on an individual line-item assessment of GWA’s needs. Like Other Expenses, these expenses are projected to increase in large part due to the Partial Consent Decree and new regulatory compliance requirements. The Parties have stipulated to reductions to these projected expenses that preserve GWA’s capacity to comply with these new and emerging operational requirements. The table below

provides the projected Materials and Supplies Expenses in GWA’s filed financial plan, stipulated variances, and the stipulated Other Expenses for the period FY2025 – FY2029.

Material & Supplies Expenses	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	\$2,834,093	\$2,992,139	\$3,210,667	\$3,440,777	\$3,683,118	\$16,160,796
Adjustment	(\$508,437)	(\$254,708)	(\$119,606)	(\$35,965)	(\$1)	(\$918,716)
Stipulated Amounts	2,325,657	2,737,431	3,091,061	3,404,812	3,683,118	\$15,242,079

**h) Bad Debt Expenses.** GWA’s filed Financial Plan included a projection of Bad Debt Expense based on FY2019 through FY2022 that indicated an average expense rate of approximately 2.1 percent of rate revenues. GWA’s new auditors (EY) have indicated that GWA’s method for Bad Debt expense estimating should be changed prospectively that will result in materially lower levels of recorded Bad Debt expense. Accordingly, the Parties stipulate that Bad Debt expenses will be projected at 0.74 percent of projected rate revenues. The table below provides the projected Bad Debt Expenses in GWA’s filed financial plan, stipulated variances, and the stipulated Bad Debt Expenses for the period FY2025 – FY2029.

Bad Debt Expenses	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
As Filed	\$3,067,628	\$3,449,987	\$3,771,973	\$4,134,629	\$4,537,933	\$18,962,149
Adjustment	(\$2,094,194)	(\$2,378,904)	(\$2,619,037)	(\$2,890,723)	(\$3,194,388)	(\$13,177,247)
Stipulated Amounts	973,434	1,071,083	1,152,935	1,243,906	1,343,544	\$5,784,902

**3) Capital Program and Financing**

**a) Capital Improvement Program.** GWA’s filed financial plan reflects a Capital Improvement Program (CIP) that contemplates \$899 million of capital project encumbrances in the FY2025 – FY2029 period. The Parties stipulate that the CIP encumbrance schedule reviewed during both the discovery period and stipulation negotiations has not changed from the GWA’s filing. However, as discussed further below in Section I(4)(a), the Parties stipulate that given the recent extraordinary increases



1 in Navy Water rates, heightened prioritization of water loss reductions that help minimize  
2 future Navy purchase requirements in order and will impact the encumbrance schedule.

3 **b) Short-Term Construction Financing.** GWA's filed Financial Plan on March 8, 2024  
4 presented capital program debt financing using traditional 30-year revenue bond  
5 instruments structured with levelized principal and interest payments for the  
6 determination of rates in this proceeding although GWA provided illustrative data on  
7 what an alternate rate recommendation would be using TECP. The TECP presentation  
8 was significantly lower than the traditional bond method for the years FY2025 and  
9 FY2026. GWA has issued a Request for Information about Short-Term Construction  
10 Financing options (as discussed in the Capital Financing Alternatives analytical study  
11 conducted as part of the Comprehensive Review and Update process in Docket 19-08)  
12 and has received responses from interested financial institutions. GWA will work with  
13 GEDA to issue a Request for Proposals to interested financial institutions as soon as  
14 practicable regarding short-term construction financing options. Preliminary information  
15 gleaned from the RFI issued in May 2024 (as well as GWA and GEDA financial advisors)  
16 affirm that cash-flow benefits may be secured through use of short-term construction  
17 financing instruments like Tax Exempt Commercial Paper ("TECP"), Bond Anticipation  
18 Notes ("BAN") and Floating Rate Notes ("FRN"). The Parties stipulate for the purposes  
19 of determining rates in this proceeding to the development of GWA's financial plan  
20 under the assumption that GWA will employ a short-term construction financing  
21 instrument as now allowed with passage of Public Law 37-103. For purposes of the  
22 stipulation, the Parties have agreed to model prospective construction financing based on  
23 the assumption of use of TECP under terms (e.g., interest rates on TECP notes, Letter of  
24  
25  
26  
27  
28

Credit fees) drawn from responses to the GWA/GEDA Request for Information and follow-up responses. However, it is noted that these terms, and even the selected short-term construction financing approach, are preliminary and subject to change based on market conditions and responses of GWA/GEDA's forthcoming Request for Proposals for short-term construction financing services. Any adjustments required because of finalized terms for these services once procured will be addressed in future true-ups. The table below provides the projected Debt Service expenses as filed in GWA's financial plan, stipulated variances, and the stipulated Debt Service expenses (for both long-term and short-term construction financing) for the period FY2025 – FY2029.

Debt Service Expenses	FY 2025	FY 2026	FY 2027	FY,2028	FY 2029	Total
As Filed	\$46,525,561	\$54,764,058	\$64,984,124	\$76,470,940	\$84,635,627	\$327,380,312
Adjustment	(\$7,763,330)	(\$15,859,729)	(\$24,254,166)	(\$32,960,319)	(\$36,208,702)	(\$117,046,246)
Stipulated Amounts	38,762,231	38,904,329	40,729,958	43,510,621	48,426,926	\$210,334,065

**c) Debt Service Coverage Targets.** The Parties agree that policies previously adopted by the Commission that contemplate targeting a minimum Debt Service Coverage ratio of 1.50x (using industry standard calculation methods) are not modified by this stipulation. The Parties stipulate that recommended rate increases in this stipulation are structured to produce approximately the same Debt Service Coverage ratios as included in GWA's filed Financial Plan for the years FY2025 and FY2026 which are below the 1.50x coverage standard to acknowledge the substantial rate increases required and that the 1.50x coverage standard is to be achieved gradually.

**4) Other Issues**

**a) Water Loss Management Program Implementation.** The Parties stipulate that GWA will continue to implement and execute its Water Loss Control Program under the guidance of its water loss consultant in accordance with the terms of the existing and

1 PUC-approved contract through this 5-year rate plan period. Given the accelerated  
2 economic payback and financial benefit of reducing Navy water purchases as  
3 demonstrated by GCG, the Parties agree to request the PUC not require GWA to obtain  
4 prior PUC approval under the Contract Review Protocol to procure and issue design or  
5 construction contracts for the work identified in this section. Similarly, the Parties agree  
6 to request that the PUC promptly grant approval of any Bond Fund Reallocation petitions  
7 for the purposes of funding the projects identified in this section. GWA will prioritize  
8 the following actions:  
9

10 **(1) Leak detection and repairs in Agat-Santa Rita District Metered Areas**  
11 **(DMAs):** immediate and continuing prioritization of repair of leaks in these  
12 DMAs which are supplied by Navy water purchases.  
13

14 **(2) Identify and replace asbestos cement pipe (ACP) and undersized (2-inch**  
15 **galvanized steel) water lines in the Agat-Santa Rita DMAs and Southern**  
16 **Water System (Talofofo through Umatac) DMAs:**  
17

18 (a) Execute prioritization and design activities for the pipe replacements in these  
19 areas in accordance with the water loss control program DMA data and  
20 analysis as soon as practicable. GWA will execute such projects for the four  
21 (4) DMAs with the highest projected water savings for the Southern Water  
22 System DMAs served by the Ugum Water Treatment Plant with the intention  
23 of using such savings to offset Navy water purchases in the Central Water  
24 System.  
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1 (b) Issue Invitations for Bid (IFBs) and Execute Line Replacement Construction  
2 Projects in accordance with Guam procurement regulations for the prioritized  
3 projects identified in this paragraph.

4 **(3) Construction of the Brigade Pump Station Improvement Project:** In parallel  
5 with the pipe replacement projects contemplated in paragraph 4(a)(2), GWA will  
6 immediately issue an IFB and execute a construction contract for the Brigade  
7 Pump Station Improvement Project to allow for the increased conveyance of  
8 GWA produced water from wells in the Northern Water System and/or the Ugum  
9 WTP in the Southern Water System to the Central Water System specifically to  
10 reduce reliance on purchased Navy water.  
11

12 **(4) Construction of the Santa Rita Springs Improvement and Expansion**  
13 **Project:**

14  
15 (a) Design: GWA will immediately proceed with the design of this project and  
16 provide for the design completion to coincide with the completion of projects  
17 outlined in paragraphs 4(a)(2) and 4(a)(3) above.  
18

19 (b) Construction: GWA will issue an IFB for this project and begin construction  
20 only after completion of projects outlined in Paragraphs 4(a)(2) and 4(a)(3)  
21 above. As much as may be possible, the construction should allow for  
22 continued operation of the Santa Rita Springs facility. However, GWA will  
23 attempt to provide additional non-Navy source water to this service area from  
24 the execution of projects identified in paragraphs 4(a)(1) through 4(a)(3) to  
25 maintain current supply levels from Santa Rita Springs so as not to incur  
26  
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1 additional Navy water purchases while the Santa Rita Springs project is under  
2 construction.

3 **(5) Regular Updating of Water Loss Control Program Goals:** GWA will conduct  
4 an annual review of Water Loss Control Program and DMA implementation  
5 progress and analyze prospective pipe replacement and other related capital  
6 projects for water loss control. Such efforts will be conducted in coordination  
7 with GWA's water loss management consultants and will be used to update Water  
8 Loss Control Program goals using appropriate metrics as outlined in the WLCP  
9 and prior water loss analytical study conducted as part of the Comprehensive  
10 Review and Update in Docket 19-08.  
11

12 **(6) Reporting on Water Loss Control Program:**

13 (a) GWA will include annually updated goals and progress in the existing semi-  
14 annual Water Loss Control Program reporting provided to the PUC.  
15

16 (b) On or before January 3, 2025, GWA will submit a brief report outlining the  
17 plan of action to achieve the priority projects outlined in paragraphs 4(a)(1)  
18 through 4(a)(4).  
19

20 **b) Regulatory Assets.** The Parties stipulate that it is appropriate in this proceeding to  
21 establish a regulatory asset related to various expenses items that are subject to significant  
22 uncertainty or are appropriate to be capitalized for other policy reasons. A regulatory  
23 asset, done appropriately in accordance with accounting guidelines, permits expenses  
24 from one period to be capitalized (resulting in lower expenses for that period) and then  
25 amortized over an appropriate future period as approved by the Commission with rates  
26  
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1 approved by the Commission to recover the amortized expenses. The Parties agree that  
2 it is appropriate to create a Regulatory Asset for the following expenses:

3 **(1) Docket 19-08 Adjudication Expenses** – GWA incurred approximately \$3.2  
4 million in expenses to adjudicate Docket 19-08 related to GWA’s FY2020 –  
5 FY2024 Financial Plan and Five-Year Rate Increase Request and has recorded  
6 these expenses as a regulatory asset. These expenses included but were not  
7 limited to the completion of the Analytical Studies supporting the Comprehensive  
8 Review and Update process, RAM development, and other rate case expenses.  
9 GWA’s auditors have indicated that these expenses should either be amortized as  
10 a Regulatory Asset or written off. The Parties stipulate to request the PUC order  
11 that this regulatory asset be recovered annually over the 5-year amortization  
12 period FY 2025 – FY2029.  
13  
14

15 **(2) FY2025 and FY2026 Legal Expenses** - The parties agree that legal expenses are  
16 also subject to a great deal of uncertainty. There is a significant current  
17 proceeding involving the Northern District Wastewater Treatment Plant. The case  
18 is in various stages in the Guam Superior and Guam Supreme Courts and the  
19 outcome of those proceedings will determine the scope and timing of future  
20 efforts. GWA has included an annual estimate of \$1.5 million for legal expenses  
21 in each of the 5 Year Financial Plan years in this proceeding, similar to annual  
22 estimates made in prior fiscal years. Actual legal expenses in recent years have  
23 been below the annual \$1.5 million estimate. The Parties agree in this proceeding  
24 that a regulatory asset be created for Debt Service calculation purposes for  
25  
26  
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1 FY2025 and FY2026, estimated at a total of \$3 million, and amortizing the \$3  
2 million at 3% over 5 years beginning in FY2027.

3 -----

4 The Parties further stipulate that additional expenses in FY2025 may be classified  
5 as a Regulatory Asset and amortized in a single year, FY2026, subject to the  
6 review and affirmation of compliance with applicable accounting standards as  
7 documented in the order issued by the PUC ALJ, with the objective of having -  
8 to the extent practicable and allowed in conformance with established accounting  
9 standards - approximately equal rate increases in FY2025 and FY2026. The  
10 additional amount of expenses (beyond that associated with Docket 19-08  
11 expenses and legal expenses) to be reduced for debt service calculation purposes  
12 in FY2025 and then amortized in FY2026 is estimated between \$3 and \$4 million.  
13 Based on the case proposed by GWA, with RSF replenishment and without credit  
14 card convenience fees, this would enable level rate increases of 11.5% in FY2025  
15 (both lifeline and non-lifeline) and FY2026 (non-lifeline only). Based on the case  
16 proposed by GCG, without RSF replenishment and with credit card convenience  
17 fees, this would enable level rate increases of 10.0% in FY2025 (both lifeline and  
18 non-lifeline) and FY2026 (non-lifeline only).  
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24 **II. PUC POLICY ISSUES**

25 The Parties have resolved all but two previously disputed issues. The Parties have agreed  
26 to present the differences in positions of the Parties and have the Commission decide the issues  
27 based on the positions presented. The issues that are contested relate to:  
28

1 a) **Fees for credit card use.** Customers are permitted to use their credit cards to pay their  
2 bills. With each use of the credit card for transactions, GWA is charged a transaction fee.  
3 These fees are included in GWA's projected Administration and General operating  
4 expense category in its financial plan. The cost is approximately \$1.5 million annually  
5 and will cost ratepayers \$7.5 million over the 5 Year Plan period. This is 0.9% of total  
6 system revenue requirements over this period, and would provide for a 1% reduction in  
7 rate relief requested for FY2026. The PUC Policy decision relates to whether these  
8 expenses are to be recovered as a component of rate revenue requirements and is charged  
9 to increase rates to all customers or whether a separate convenience fee should be  
10 imposed for those customers electing to use credit cards to pay for their water and sewer  
11 bills and lower bills by \$7.5 million to all customers.

12  
13  
14 b) **Proposed replenishment of the Rate Stabilization Fund (RSF).** With respect to the  
15 Rate Stabilization Fund, GWA has proposed to transfer \$2.5 million per year between  
16 FY2026 – FY2029 from its Operating Fund to replenish the Rate Stabilization Fund  
17 depleted in FY2023 and FY2024 to cover previously unanticipated Power Purchase  
18 expenses (FY2023) and Water Purchase expenses (FY2024) and enable compliance with  
19 covenanted Debt Service Coverage requirements. The proposed replenishment would  
20 increase rates in FY2026 by 1.75% or increase rates by \$2.5 million and for each year  
21 thereafter for a total increase of \$10 million in rate revenue requirements (or 1.2 percent  
22 of total revenue requirements over the five-year period). The PUC Policy issue is whether  
23 to begin RSF replenishment in FY 2026 or defer RSF replenishment beyond the FY 2025-  
24 FY2029 financial plan period.  
25  
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The Parties' respective positions are discussed in Attachments 2 and 3. In addition, as noted in Section I(4)(b) above, a PUC policy issue relates to whether recovery of Navy Water Purchase expenses be provided through a separate designated surcharge on water and sewer bills.

### III. SUMMARY OF RATE INCREASE ALTERNATIVES

Provided in the table below are the alternative non-lifeline water and sewer rate increases that would be required to meet stipulated revenue requirements over the FY2025-FY2029 period. Insofar as O&M expenses are projected to increase in excess of 20 percent in FY 2025 from FY 2024, the last time that there was a lifeline rate increase, lifeline rate increases equal to the non-lifeline rate increase scheduled in FY 2025 are contemplated under each alternative scenario (in compliance with 12 GCA §12105 of the Public Utilities Commission and the Guam Telecommunications Act of 2004).

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>GWA Position*</b> : Stipulations without credit card convenience fee and with RSF replenishment (Base Case)	14.00%	8.75%	7.75%	7.75%	7.75%
<b>GWA Position</b> : Stipulations without credit card convenience fee and with RSF replenishment + Added \$3M in Reg Asset	11.5%	11.5%	7.75%	7.75%	7.75%
<b>GCG Position</b> : Proposed Stipulations with credit card convenience fee and without RSF replenishment	14.00%	6.00%	7.75%	7.75%	7.75%
<b>GCG Position*</b> : Proposed Stipulations with credit card convenience fee and without RSF replenishment + Added \$4M Reg Asset	10.0%	10.0%	7.75%	7.75%	7.75%
<ul style="list-style-type: none"> <li>GWA submits that proposed classification of additional regulatory assets requires implementation consistent with authoritative accounting standards.</li> </ul>					

The Navy Water Purchase Expense surcharge option does not alter the rate increase requirements but rather represents an alternative billing format for this expense recovery. GCG

1 submits that a Navy Water Purchase surcharge should be implemented as soon as practicable;  
2 GWA submits that such a surcharge may be most expeditiously implemented in conjunction with  
3 rate design modifications to be considered for the FY2026 true-up.

4 **IV. CONCLUSION**


5 The Parties hereby agree and stipulate to the above for recommendation to the GUAM  
6 PUBLIC UTILITIES COMMISSION for consideration and approval in GWA Docket 24-05.

7 **SO STIPULATED** this 28<sup>th</sup> day of August 2024.

8  
9  
10 **GUAM WATERWORKS AUTHORITY**

**GEORGETOWN CONSULTING  
GROUP, INC (GCG)**

11  
12   
13 \_\_\_\_\_  
14 THERESA G. ROJAS, ESQ.  
Legal Counsel

  
13 \_\_\_\_\_  
14 JAMSHED MADAN  
Chief Officer

**Attachment 1: Base Case**

**Schedule A-2: Historical and Forecasted Operating Results, Proposed Rates**

**Schedule K: Proposed Rate Adjustments**

**Schedule L: Monthly Bill Impacts by Customer Class**

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## Schedule A-2

Historical and Forecasted Operating Results, Proposed Rates

	Historical Year	Current Year	Forecast Year	Forecast Year	Forecast Year	Forecast Year	Forecast Year
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>Non-Lifeline Rate Increase</b>	5.50%	16.70%	11.50%	11.50%	7.75%	7.75%	7.75%
<b>Lifeline Rate Increase</b>	0.00%	16.70%	11.50%	0.00%	0.00%	0.00%	0.00%
<b>CASH SOURCES</b>							
Water Service Revenues	69,672,862	79,688,942	88,925,862	98,629,586	106,414,887	114,866,692	124,054,863
Legislative Surcharge	2,147,271	2,798,810	2,878,526	2,943,197	2,993,276	3,247,303	3,523,421
Water SDC Revenues							
Water Rate Revenues	\$ 71,820,133	\$ 82,487,752	\$ 91,804,388	\$ 101,572,783	\$ 109,408,163	\$ 118,113,996	\$ 127,578,284
Wastewater Rate Revenues	37,478,560	43,590,855	48,990,256	53,661,863	57,609,850	62,021,984	66,874,252
Other Revenues	567,167	515,000	515,000	515,000	515,000	515,000	515,000
Rate Revenue Adjustment	(3,044,250)	(1,714,471)	(1,914,585)	(2,110,947)	(2,271,182)	(2,449,566)	(2,644,248)
Bad Debt Adjustment	(421,467)	(2,262,236)	(973,434)	(1,071,083)	(1,150,741)	(1,239,349)	(1,336,013)
<b>Total Operating Revenues<sup>1</sup></b>	<b>\$ 106,400,142</b>	<b>\$ 122,616,900</b>	<b>\$ 138,421,625</b>	<b>\$ 152,567,616</b>	<b>\$ 164,111,090</b>	<b>\$ 176,962,066</b>	<b>\$ 190,987,275</b>
Interest / Investment Income	1,972,141	1,000,000	1,588,788	1,085,457	946,869	949,420	984,696
Rate Stabilization Transfers Out (In) <sup>2</sup>	18,050,000	-	-	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)
<b>TOTAL SOURCES</b>	<b>\$ 126,422,283</b>	<b>\$ 123,616,900</b>	<b>\$ 139,990,413</b>	<b>\$ 151,153,074</b>	<b>\$ 162,557,959</b>	<b>\$ 175,411,485</b>	<b>\$ 189,471,971</b>
<b>CASH USES</b>							
Power Purchases <sup>3</sup>	24,397,961	21,843,028	21,300,054	19,473,468	19,473,468	19,473,468	19,473,468
Water Purchases	7,038,954	5,900,000	13,590,550	13,012,870	12,916,590	11,929,720	11,929,720
Salaries & Benefits <sup>4</sup>	27,272,268	29,705,247	35,246,589	36,976,865	38,435,950	40,016,216	41,434,518
Admin & General <sup>5</sup>	9,023,292	9,687,858	13,745,782	14,773,203	15,517,545	16,240,293	16,947,087
Contractual Expense	5,575,264	7,464,494	9,320,454	9,865,533	9,667,501	9,487,820	9,797,762
Retiree Expense	3,560,495	3,755,617	4,495,403	4,623,703	4,759,489	4,902,860	5,053,931
O&M Subtotal	\$ 76,868,234	\$ 78,356,244	\$ 97,698,832	\$ 98,725,641	\$ 100,770,543	\$ 102,050,378	\$ 104,636,486
Debt Service	39,036,678	38,762,231	38,904,329	40,729,958	43,510,621	48,426,926	59,776,636
Internally Funded Capital (IFCIP)	2,836,370	8,784,879	12,500,000	8,000,000	12,000,000	19,000,000	17,000,000
<b>TOTAL USES</b>	<b>\$ 118,741,281</b>	<b>\$ 125,903,354</b>	<b>\$ 149,103,161</b>	<b>\$ 147,455,599</b>	<b>\$ 156,281,164</b>	<b>\$ 169,477,304</b>	<b>\$ 181,413,121</b>
<b>Net Annual Cash Flow</b>	<b>\$ 7,681,002</b>	<b>\$ (2,286,453)</b>	<b>\$ (9,112,748)</b>	<b>\$ 3,697,474</b>	<b>\$ 6,276,795</b>	<b>\$ 5,934,182</b>	<b>\$ 8,058,850</b>
<b>DEBT SERVICE COVERAGE</b>							
Net Revenues	\$ 49,554,049	\$ 45,260,657	\$ 42,291,581	\$ 52,427,432	\$ 61,787,416	\$ 73,361,107	\$ 84,835,485
Adjustment, Regulatory Asset	-	-	3,840,800	(2,159,200)	(1,277,200)	(1,277,200)	(1,277,200)
Adjustment, Capitalized Labor	3,075,928	4,159,140	4,582,057	4,806,992	4,996,674	5,202,108	5,386,487
Adjustment, Other <sup>6</sup>	673,200	715,649	701,500	708,515	715,600	722,756	729,984
Revenues Available for Debt Service	\$ 53,303,177	\$ 50,135,445	\$ 51,415,937	\$ 55,783,740	\$ 66,222,490	\$ 78,008,772	\$ 89,674,756
Total Debt Service	39,036,678	38,762,231	38,904,329	40,729,958	43,510,621	48,426,926	59,776,636
<b>Debt Service Coverage</b>	<b>1.365</b>	<b>1.293</b>	<b>1.322</b>	<b>1.370</b>	<b>1.522</b>	<b>1.611</b>	<b>1.500</b>
<b>Additional Revenue Requirement</b>							
Additional annual revenues needed to meet DSC target of 1.5x			\$ 6,940,557	\$ 5,311,198	\$ -	\$ -	\$ -
Forecasted EOY operating reserves			\$ 32,478,801	\$ 32,913,628	\$ 33,923,937	\$ 35,108,190	\$ 36,478,104
Minimum reserve requirement, 120 days			\$ 32,120,164	\$ 32,457,745	\$ 33,130,041	\$ 33,550,809	\$ 34,401,036
<b>Total Additional Revenues Needed</b>			<b>\$ 6,940,557</b>	<b>\$ 5,311,198</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Days O&M, EOY Operating Reserves			121	121	122	125	127
<b>OTHER INFORMATION</b>							
SDC Revenues	1,359,167	1,165,000	1,165,000	1,165,000	1,165,000	1,165,000	1,165,000
Depreciation	30,768,912	28,817,076	29,424,588	29,996,235	30,751,472	31,506,554	32,358,124
<b>Net Operating Income</b>	<b>\$ 3,198,092</b>	<b>\$ 20,767,721</b>	<b>\$ 17,045,261</b>	<b>\$ 29,817,733</b>	<b>\$ 38,750,749</b>	<b>\$ 49,772,241</b>	<b>\$ 60,544,152</b>
Non-Operating Revenues (Expenses)	23,907,738	6,195,000	6,195,000	6,195,000	6,195,000	6,195,000	6,195,000
Interest Expense	(28,671,774)	(28,282,065)	(27,735,778)	(27,161,815)	(26,588,065)	(25,944,565)	(25,255,165)
Capital Contributions	13,120,737	33,674,000	33,674,000	30,000,000	30,000,000	4,000,000	4,000,000
<b>Change in Net Position</b>	<b>\$ 11,554,793</b>	<b>\$ 32,354,656</b>	<b>\$ 29,178,484</b>	<b>\$ 38,850,918</b>	<b>\$ 48,377,684</b>	<b>\$ 34,022,676</b>	<b>\$ 45,483,987</b>

1 - Includes leachate and Navy revenues; excludes system development charge revenues

2 - FY 2023 value includes \$12.4 million of ARPA funds which was used to offset debt service coverage requirements

3 - Operational efficiencies related to Ukudu treatment plant are reflected in FY 2026 and beyond

4 - Capitalized labor, which does not represent a cash impact, is not included in this calculation of annual net cash flow

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

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Joint Stipulation RE: GWA's FY2025 – FY2029 Five-Year Financial Plan And Rate Increase Request & GCG's Proposed Adjustments

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**Schedule K**  
Proposed Rate Adjustments

	Proposed Rates					
	Existing	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>Water Rates</b>						
<b>Monthly Base Charge<sup>1</sup></b>						
3/4 inch	\$30.62	\$34.15	\$38.08	\$41.04	\$44.23	\$47.66
1 inch	\$35.73	\$39.84	\$44.43	\$47.88	\$51.60	\$55.60
1.5 inch	\$56.06	\$62.51	\$69.70	\$75.11	\$80.94	\$87.22
2 inch	\$71.41	\$79.63	\$88.79	\$95.68	\$103.10	\$111.10
3 inch	\$127.55	\$142.22	\$158.58	\$170.87	\$184.12	\$198.39
4 inch	\$178.55	\$199.09	\$221.99	\$239.20	\$257.74	\$277.72
6 inch	\$331.57	\$369.71	\$412.23	\$444.18	\$478.61	\$515.71
8 inch	\$484.59	\$540.32	\$602.46	\$649.16	\$699.47	\$753.68
10 inch	\$663.15	\$739.42	\$824.46	\$888.36	\$957.21	\$1,031.40
12 inch	\$790.63	\$881.56	\$982.94	\$1,059.12	\$1,141.21	\$1,229.66
<b>Volumetric Rates</b>						
<b>Residential</b>						
Tier 1 Threshold	5 kgals	5 kgals	5 kgals	5 kgals	5 kgals	5 kgals
Tier 1 Rate	\$ 3.51	\$ 3.92	\$ 3.92	\$ 3.92	\$ 3.92	\$ 3.92
Tier 2 Rate	\$14.58	\$16.26	\$18.13	\$19.54	\$21.06	\$22.70
<b>Non-Residential<sup>2</sup></b>						
Commercial-1	\$18.12	\$20.21	\$22.54	\$24.29	\$26.18	\$28.21
Commercial-2	\$18.12	\$20.21	\$22.54	\$24.29	\$26.18	\$28.21
Commercial-3	\$18.12	\$20.21	\$22.54	\$24.29	\$26.18	\$28.21
Hotels	\$18.12	\$20.21	\$22.54	\$24.29	\$26.18	\$28.21
Government	\$18.12	\$20.21	\$22.54	\$24.29	\$26.18	\$28.21
Agriculture	\$5.82	\$6.49	\$7.24	\$7.81	\$8.42	\$9.08
Irrigation	\$6.02	\$6.72	\$7.50	\$8.09	\$8.72	\$9.40
<b>Wastewater Rates</b>						
<b>Monthly Base Charge<sup>3</sup></b>						
3/4 inch	\$32.14	\$35.84	\$35.84	\$35.84	\$35.84	\$35.84
1 inch	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1.5 inch	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2 inch	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3 inch	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
4 inch	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
6 inch	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
8 inch	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
10 inch	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
12 inch	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Volumetric Rates</b>						
Residential	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Commercial-1	\$9.99	\$11.14	\$12.43	\$13.40	\$14.44	\$15.56
Commercial-2	\$24.34	\$27.14	\$30.27	\$32.62	\$35.15	\$37.88
Commercial-3	\$33.75	\$37.64	\$41.97	\$45.23	\$48.74	\$52.52
Hotels	\$24.34	\$27.14	\$30.27	\$32.62	\$35.15	\$37.88
Government	\$14.28	\$15.93	\$17.77	\$19.15	\$20.64	\$22.24
Leachate	\$14.72	\$16.42	\$18.31	\$19.73	\$21.26	\$22.91
Navy	\$14.28	\$15.93	\$17.77	\$19.15	\$20.64	\$22.24
<b>Legislative Surcharge</b>						
Surcharge	3.80%	3.50%	3.20%	3.00%	3.00%	3.00%

1 - The Agriculture customer class receives an approximate 3.4% discount to the water base charge for all meter sizes

2 - Non-residential volumetric water rates are applied to all levels of demand

3 - Currently, only residential customers - regardless of meter size - receive a \$32.14 monthly wastewater charge

# Schedule L

## Monthly Bill Impacts by Customer Class

Customer Class	Meter	Kgals	Forecast Years					Total	
			FY 2024	FY 2025	FY 2026	FY 2027	FY 2028		FY 2029
Residential	3/4 inch	5	\$81.47	\$90.79	\$94.74	\$97.71	\$101.00	\$104.53	\$23.06
				11.4%	4.4%	3.1%	3.4%	3.5%	28.3%
Nominal change				\$3.29	\$3.95	\$2.97	\$3.29	\$3.53	
Percentage change				11.4%	4.4%	3.1%	3.4%	3.5%	
Residential	3/4 inch	7	\$111.74	\$124.44	\$132.16	\$137.96	\$144.38	\$151.29	\$39.55
				11.4%	6.2%	4.4%	4.7%	4.8%	35.4%
Change				\$12.70	\$7.72	\$5.80	\$6.42	\$6.91	
Percentage change				11.4%	6.2%	4.4%	4.7%	4.8%	
Residential	3/4 inch	12	\$187.41	\$208.59	\$225.71	\$238.59	\$252.84	\$268.20	\$80.79
				11.3%	8.2%	5.7%	6.0%	6.1%	43.1%
Change				\$21.18	\$17.12	\$12.88	\$14.25	\$15.36	
Percentage change				11.3%	8.2%	5.7%	6.0%	6.1%	
Commercial-1	3/4 inch	30	\$844.91	\$939.58	\$1,045.00	\$1,124.08	\$1,211.48	\$1,305.42	\$460.51
				11.2%	11.2%	7.6%	7.8%	7.8%	54.5%
Change				\$94.67	\$105.42	\$79.08	\$87.40	\$93.94	
Percentage change				11.2%	11.2%	7.6%	7.8%	7.8%	
Commercial-2	2 inch	500	\$19,584.37	\$21,777.05	\$24,217.73	\$26,047.34	\$28,070.69	\$30,249.14	\$10,664.77
				11.2%	11.2%	7.6%	7.8%	7.8%	54.5%
Change				\$2,192.68	\$2,440.68	\$1,829.61	\$2,023.35	\$2,178.45	
Percentage change				11.2%	11.2%	7.6%	7.8%	7.8%	
Commercial-3	3/4 inch	50	\$2,373.51	\$2,639.51	\$2,934.88	\$3,156.68	\$3,401.91	\$3,665.73	\$1,292.22
				11.2%	11.2%	7.6%	7.8%	7.8%	54.4%
Change				\$266.00	\$295.37	\$221.80	\$245.23	\$263.82	
Percentage change				11.2%	11.2%	7.6%	7.8%	7.8%	
Hotel	4 inch	500	\$19,695.58	\$21,900.69	\$24,355.19	\$26,195.17	\$28,229.97	\$30,420.76	\$10,725.18
				11.2%	11.2%	7.6%	7.8%	7.8%	54.5%
Change				\$2,205.11	\$2,454.50	\$1,839.98	\$2,034.80	\$2,190.79	
Percentage change				11.2%	11.2%	7.6%	7.8%	7.8%	
Government	1.5 inch	200	\$6,191.52	\$6,886.18	\$7,658.37	\$8,237.02	\$8,877.92	\$9,566.25	\$3,374.73
				11.2%	11.2%	7.6%	7.8%	7.8%	54.5%
Change				\$694.66	\$772.19	\$578.65	\$640.90	\$688.33	
Percentage change				11.2%	11.2%	7.6%	7.8%	7.8%	
Agriculture	3/4 inch	20	\$151.53	\$168.49	\$187.40	\$201.73	\$217.46	\$234.48	\$82.95
				11.2%	11.2%	7.6%	7.8%	7.8%	54.7%
Change				\$16.96	\$18.91	\$14.33	\$15.73	\$17.02	
Percentage change				11.2%	11.2%	7.6%	7.8%	7.8%	
Irrigation	3/4 inch	20	\$156.76	\$174.45	\$194.10	\$208.93	\$225.19	\$242.73	\$85.97
				11.3%	11.3%	7.6%	7.8%	7.8%	54.8%
Change				\$17.69	\$19.65	\$14.83	\$16.26	\$17.54	
Percentage change				11.3%	11.3%	7.6%	7.8%	7.8%	

1

2 **Attachment 2: Rate Stabilization Fund Policy Issue**

3

4 **GCG Position:**

5 GCG opposes the additional cost of implementing annual additions to the RSF at this  
6 time as it adds \$10 million to customers' bills in a period of substantial rate increases over the  
7 period FY 2026 through FY 2029. The prior use of RSF funds in the prior 5 Year Plan was made  
8 possible by GWA establishing a RSF in prior years from rates previously charged to ratepayers.  
9 This RSF was depleted in the prior 5 Year Plan proceeding that helped reduce rates in those years  
10 having paid for them in prior years. The differences from the prior proceeding, to this proceeding,  
11 where there was an RSF available and funded for use are many:

- 12
- 13 • The improvement in GWA's cash position is significant. In the prior proceeding GWA  
14 indicated that it was cash strapped. In this proceeding GWA has a substantial balance of  
15 unrestricted funds of \$53 million which includes a fully funded O & M reserve of \$14.9  
16 million. The O & M reserve is a required bond indenture ~~required~~ reserve to standby for  
17 unexpected expenses. In addition to these unrestricted funds GWA has also \$114 million  
18 in restricted funds which also includes \$19.6 million in OMRRRF funds that is a reserve  
19 fund available for operational expenses. No justification has been provided as to why  
20 these significant funds are not sufficient to provide for unseen expenses.
  - 21 • The benefits in concrete rate terms in this proceeding of establishing the RSF and  
22 charging ratepayers an additional \$10 million in rates is nowhere to be found in the  
23 record. Discussions suggesting that the establishment of the RSF would improve GWA's  
24 bond rating is nowhere supported with what the corresponding increase in rates would be  
25 to achieve the improved rating. The increased rates to support a rating upgrade has not  
26  
27  
28

1           been provided and we believe that the required rate increase to support an increased  
2           coverage ratio (that would be a prime mover for a rating increase) would be substantial.

- 3           ● If the Commission were inclined to entertain increasing rates to re-establish a RSF, GCG  
4           would recommend that it be considered in a rate environment of low rate increases – say  
5           in an environment of serial increases below 3%. With this 5 Year Plan GWA’s  
6           construction from the Master Plan is perhaps two thirds completed and a further 5 Year  
7           Plan will be required. This 5 Year Plan will further strengthen GWA’s financial  
8           condition.  
9           condition.

10           GCG recommends that the consideration of implementation of the RSF be deferred to  
11           the next 5 Year Plan.

12  
13 **GWA Position:**

14  
15           GWA’s filed financial plan requests the replenishment of its Rate Stabilization Fund with  
16           transfers from the Operating Fund of \$2.5 million per year from FY 2026 – FY2029. Inclusion  
17           of this transfer amount in revenue requirements is anticipated to require a 1.75% increase in rates  
18           in FY 2026 alone and provide for gradual replenishment of the RSF by \$10 million by FY2029.

19  
20           GCG’s recommended alternative to defer RSF replenishment “until an environment of  
21           serial rate increases below 3% is effectively moot as it is unlikely that GWA will be in such an  
22           environment for the foreseeable future given known and emerging regulatory compliance  
23           requirements, asset management needs and the pipe replacement work required to achieve water  
24           loss reductions (rightfully highlighted by GCG as urgent).

25  
26           GCG’s contention that GWA is cash rich and therefore not in need of an RSF fails to  
27           acknowledge the critical role of the RSF in managing Debt Service Coverage requirements.

28           Replenishment of the RSF would enable GWA to defer revenue recognition in the year earned



1 for Debt Service Coverage calculation purposes and then apply RSF funds in periods when GWA  
2 faces coverage challenges, thereby helping GWA to meet covenanted Debt Service Coverage  
3 requirements and avoid technical default (as would have been the case in FY2023 when GWA  
4 incurred unanticipated spikes in Power Purchase expenses that were partially covered with RSF  
5 transfers).

6  
7 GCG's suggestion that existing fund balances established from already recognized prior  
8 year revenues can be used to pay for unanticipated expenses fails to recognize that these balance  
9 transfers would not be recognized as revenues for Debt Service Coverage calculation purposes.  
10 GWA would have still fallen into technical default if it paid for the unanticipated Power expenses  
11 in FY2023 by just drawing down its OMRRE. And, of course, many of GWA's fund balances  
12 related to restricted funds are not available to fund O&M expenses.  
13

14 Moreover, GWA (and the Government of Guam) have committed to certain Covenants  
15 in GWA's Bond Indenture, including Section 6.13 (see inset below), which require that the  
16 Authority not permit any default to occur or do anything to impair the security intended in the  
17 indenture.  
18

19 **SECTION 6.13 Compliance with Indenture. The Authority (and the Government**  
20 **as to Section 6.17) will faithfully observe and perform all the covenants, conditions and requirements of**  
21 **this Indenture, and will not suffer or permit any default to occur hereunder, or do or permit to be done, in,**  
22 **upon or about the System, or any part thereof, anything that might in any way weaken, diminish or impair**  
23 **the security intended to be given pursuant to this Indenture.**

24 GWA submits that properly funding the RSF (which is identified and provided for in the  
25 Indenture (see Section 5.01) is necessary to prevent default, as described above, strengthen and  
26 not weaken the security intended in the Indenture, and fulfill GWA's covenants under that  
27 Indenture.  
28

1 GCG's contention that the benefits of a Rate Stabilization Fund are not addressed in the  
2 record is similarly specious. The benefits are noted in the filed testimony [of Taling Taitano (pp.  
3 5, 8) and Eric Rothstein (pp. 9, 16) and Bordallo (p. 4)] and credit rating agency reports including,  
4 for example, the following excerpt from Standard & Poor's November 2023 rating report:

5 *The rating reflects the substantial capital needs of the system and recently narrowing*  
6 *coverage and use of rate stabilization funds (RSF) and American Rescue Plan Act funds*  
7 *for sufficiency. Management implemented several positive improvements in operations*  
8 *and continues to invest in the system, which we expect will improve resiliency and*  
9 *efficiency. However, the remaining near-term capital plan is complex and largely*  
10 *mandated. Management has experience with projects that have unique climate and*  
11 *regulatory sensitivities which we expect will support execution. Further, balancing*  
12 *necessary asset investments with rate affordability may pressure financing performance*  
13 *in our view. Give the tempered economic recovery and current market position,*  
14 *implementing the rate increases needed to maintain healthy financial performance may*  
*be difficult. The current rating assumes management and the Public Utility Commission*  
*(PUC) will take steps necessary to increase rates to meet internal debt service and*  
*liquidity targets and replenish RSFs. The negative outlook reflects a one in three chance*  
*that the rating could be lowered given the uncertainty around future financial*  
*performance. (emphasis added)*

15 As GCG notes the: "RSF was depleted in the prior 5 Year Plan proceeding ... to reduce  
16 otherwise significant rate increases to the extent possible. Their recommended indefinite deferral  
17 of RSF funding risks not having the ability to similarly reduce significant rate increases in the  
18 future simply to avoid a 1.75% increase in FY2026. Especially in light of the exceptional  
19 volatility in O&M expenses in the immediately preceding two fiscal years, GWA asserts that it is  
20 appropriately prudent to manage financial risks with the gradual RSF replenishment contemplated  
21 in its filed Financial Plan.  
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## **Attachment 3: Credit Card Charges Policy Issue**

### **GWA Position:**

GWA opposes the implementation of a convenience fee for customers choosing to make payments with a credit card for the following reasons:

- GWA considers credit card processing fees a standard cost of doing business, much like the facility, equipment and employee salaries in its current infrastructure to collect cash payments. Credit card payments eliminate these higher costs for such transactions because most of these are self-service and require no GWA human resources. Absorbing these costs is part of providing a seamless and convenient payment experience for its customers. Passing these costs onto customers can create an additional burden, potentially affecting their ability to manage expenses.
- Imposing a credit card convenience fee will require significant modifications to our mobile app, website payment portal, and point-of-sale systems. These updates will involve considerable time and financial resources, potentially outweighing the benefits of the fee. The development, testing, and deployment of these changes will also temporarily disrupt our operations, affecting customer service and satisfaction.
- Implementing a convenience fee will likely result in more customers opting to pay with checks, increasing the administrative burden of collections due to bounced checks and decreasing the likelihood of receiving payment. According to the Guam Office of Public Accountability audit, handling bounced checks incurs significant costs and resource allocation as well as increase bad debt. In contrast, credit card payments shift this burden to the bank, streamlining our operations and reducing the risk and cost associated with non-sufficient funds.
- Both GWA and the Guam Power Authority strive to align policies that impact customers to eliminate confusion. Implementing a credit card fee for GWA customers but not for GPA customers contradicts this approach, leading to inconsistency and potential

1 customer frustration. Consistent policies between GWA and GPA are crucial for  
2 maintaining a clear and unified approach to customer service.

3 GWA urges the PUC to maintain the current policy of absorbing credit card processing  
4 fees as a standard business expense.

5  
6 **GCG Position:**

7  
8 GCG recommends that the use of credit cards be permitted but that those using the card  
9 pay the 1.5% charged by the credit card company to GWA as a convenience fee which has more  
10 and more become an alternative for many transactions for all customers. For example a \$100  
11 invoice to a customer would give the option of paying \$100 in cash or check but \$101.50 with a  
12 credit card. A convenience charge for a credit card is not uncommon. This would place the cost  
13 burden on the customer that created it, a solid regulatory principle, and remove the spreading of  
14 \$1.5 million in cost to those customers that do not use credit cards (and do not collect the benefits  
15 provided customers for using their credit cards such as miles) and for all other customers as well.  
16 \$1.5 million in annual cost increases is a total of \$7.5 million to be paid by ratepayers and is not  
17 insignificant in a period of significant rate increases requested by GWA without these additional  
18 burdens!  
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