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May 1, 2024

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37th Guam Legislature
163 Guam Congress Building
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Chalan Santo Papa
Hagatna, Guam 96910
Via email: office@senatorperez.org

Subject: Testimony of Chairman Jeffrey C. Johnson, Guam Public Utilities Commission

Re: Bill No. 274-37 (COR), An Act to Add a New §14242 and §14243 to Article 2, Chapter 14, Title 12, Guam Code Annotated, Relative to Creating a Commercial Paper Program for the Guam Waterworks Authority, Approving the Terms and Conditions of the Issuance of Guam Waterworks Authority Revenue Bonds, and Authorizing Guam Waterworks Authority to Obtain Loans from Time to Time Through the Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) Program, and Related Matters

Dear Senator Perez:

INTRODUCTION

The Guam Public Utilities Commission ["PUC"] appreciates the opportunity to comment on proposed Bill No. 274-37 (COR).

The Guam Waterworks Authority ["GWA"] has submitted its fourth Five-Year Financial Plan to the PUC. The plan includes an \$898M investment in the GWA Capital Improvement Program

["CIP"], of which \$780M will need to be borrowed. The proposed funding addresses: 2024 Partial Consent Decree compliance requirements and remediation of certain emerging contaminants such as PFAS and Dieldrin; reduction of water loss; and the implementation of a Supervisory Control and Data Acquisition ["SCADA"] and general plant and miscellaneous projects.

In Section 1, Legislative Findings and Intent, *I Liheslaturan Guåhan* affirms that "authorizing GWA to use a combination of short-term and traditional financial tools such as TECP (i.e. Tax-Exempt Commercial Paper) or "similar short-term debt instrument, Water Infrastructure Finance and Innovation Act ["WIFIA"] loans and Municipal Bonds, provides the best options for minimizing rate increases needed to align GWA's long-term planning objectives and regulatory compliance obligations."

The Bill also authorizes the issuance of additional revenue bonds not to exceed the principal amount of \$560M, refunding and refinancing bonds, and bond anticipation notes.

The PUC fully supports the Bill. The enactment of this Bill provides numerous financing alternatives to GWA, will result in substantial rate savings for the ratepayers of Guam, and is fully in the interest of the ratepayers.

I.
THE DEVELOPMENT OF A COMMERCIAL PAPER PROGRAM FOR GWA, AND FINANCING ALTERNATIVE TO BOND ISSUANCE, WAS THE PRODUCT OF A JOINT COLLABORATIVE EFFORT BETWEEN GWA AND PUC IN THE 2020 RATE PROCEEDINGS, GWA DOCKET 19-08

Pursuant to a Stipulation of the parties entered in 2020, the PUC determined that GWA would undertake various analytical studies to support its FY2022 Comprehensive Review and Update of GWA's financial plan, including "Financing and Alternatives to Bond Issuance." GWA completed and filed with the PUC its Financing and Alternatives to Bond Issuance study on May 30, 2021. The GWA Analytical Study on Financing Alternatives showed that the commercial paper program had the potential to produce reduced interest expenses during the period it was in use. The Guam Consolidated Commission on Utilities authorized GWA management to initiate the planning process to determine the availability of implementing a commercial paper program for the next bond financing.¹

Bill No. 274-37 is the culmination of the collaborative work done by GWA and PUC to implement a commercial paper and financing alternative program.

II.
THE COMMERCIAL PAPER PROGRAM AND OTHER FINANCING ALTERNATIVES AUTHORIZED BY BILL NO. 274-37 WILL ASSIST GWA IN MEETING THE OBJECTIVES OF ITS FIVE-YEAR FINANCIAL PLAN AND COMPLETING ITS REQUIRED CIP PROGRAM.

¹ Georgetown Consulting Group Inc. Panel Testimony, GWA Docket 19-08 (PHASE 2), dated October 22, 2021.

The current five-year financing plan includes an \$898M investment in the CIP program, of which GWA indicates that \$780M will need to be borrowed. If GWA does not have a commercial paper program available, it intends to issue bonds in FY2025, FY2027, and FY2029 in the par amounts of \$250M, \$310M, and \$220M respectively. However, this Bill would authorize issuance of commercial paper by GWA up to an amount of \$360M, which, as demonstrated below, would save substantial amounts of money for the ratepayers of Guam. The availability of commercial paper could possibly enable GWA to reduce the number of bond issuances to one.

The estimated cost to address EPA compliance requirements for water and wastewater in the current 5-year CIP is \$561M. The cost of the 5-year CIP to replace piping and reduce water loss is \$203M. The estimated cost to implement SCADA for water and wastewater systems is \$36M. The remaining \$98M is for general plant facility improvements and equipment replacement.

By authorizing GWA’s use of commercial paper, Water Infrastructure Finance and Innovation Acts loans, United States Department of Agriculture loans, and bank loans, as well as GWA revenue bonds, the Legislature will greatly expand the financial tools available to GWA to fund its Capital Improvement Program.

III.
THE AVAILABILITY OF A COMMERCIAL PAPER PROGRAM WILL SIGNIFICANTLY REDUCE THE AMOUNT OF FINANCING COSTS THAT GWA WILL BE REQUIRED TO PAY OVER THE 5-YEAR PERIOD.

As Bill No. 274-37 points out, TECP will allow GWA to issue short-term debt instruments (commercial paper) to finance capital needs for GWA’s CIP on an “as needed” basis while projects are in design and construction, deferring issuance and payment of long-term debt (bonds) until projects are completed and in use. “TECP has lower borrowing costs compared to long-term bonds because it only requires GWA to pay interest on funds drawn for the work as it is constructed rather than borrowing and paying for capital and interest on larger bond issuances up front.” If GWA is required to issue three series of revenue bonds, without the option of commercial paper, it will experience an 118% increase in bond debt service from \$38.8M in FY2024 to \$84.6M in FY2029.

GWA has recently prepared a chart demonstrating the difference in costs for the five year rate period depending upon whether commercial paper (TECP) is available to GWA:

<i>Long-term Financing Costs - TECP RAM</i>					
Commercial Paper Fees	2,295,000	2,295,000	2,295,000	2,295,000	2,295,000
Commercial Paper Interest	530,833	2,473,333	5,635,000	1,750,000	5,250,000
New Senior Debt Service	-	-	-	7,088,977	14,177,934
Subtotal	\$ 2,825,833	\$ 4,768,333	\$ 7,930,000	\$ 11,133,977	\$ 21,722,934
<i>Long-term Financing Costs - As Filed RAM</i>					
Commercial Paper Fees	-	-	-	-	-
Commercial Paper Interest	-	-	-	-	-
New Senior Debt Service	8,242,997	16,485,993	26,707,309	36,928,625	44,182,462
Subtotal	\$ 8,242,997	\$ 16,485,993	\$ 26,707,309	\$ 36,928,625	\$ 44,182,462
DIFFERENCE	\$ 5,417,163	\$ 11,717,660	\$ 18,777,309	\$ 25,794,648	\$ 22,459,508
					\$ 84,166,289 5-yr total

If GWA does not have the commercial paper option, it will be required to pay additional financing costs in the amount of \$84,166,289. That amount would need to be recovered from ratepayers in rate revenues.

IV.
THE AVAILABILITY OF A COMMERCIAL PAPER PROGRAM
AND OTHER BORROWING OPTIONS COULD REDUCE THE RATE INCREASE
REQUESTED IN THE 5-YEAR FINANCIAL PLAN FROM A CUMULATIVE 71.5%
RATE INCREASE TO A CUMULATIVE 50% RATE INCREASE, A REDUCTION OF
21.5% OVER THE 5-YEAR PERIOD.

Without Commercial Paper, the following are the rate increases which GWA will seek over the next 5-year period:

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%

However, with the availability of Commercial Paper and other loan options, the rate increase requested by GWA would be as follows:

Schedule A-3	FY2025	FY2026	FY2027	FY2028	FY2029
Non-Lifeline Rate Increase	17.0%	6.0%	6.0%	6.0%	15.0%
Lifeline Rate Increase	0.0%	6.0%	0.0%	0.0%	0.0%

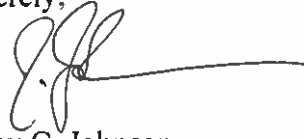
It should be noted that the above increases are **cumulative**; however, without TECP, the **compounded** increase is **93.2%**; with TECP, the **compounded** increase is **60.3%**.

CONCLUSION

The PUC presently has a pending case for rate increases filed by GWA for the next 5-year period. No specific increases have yet been approved by the PUC at the present time. The availability of a Commercial Paper Program for GWA and other loan options will result in a substantial decrease in the rates that ratepayers will pay for water and wastewater over the next 5-year period. The availability of commercial paper will be a great benefit to the ratepayers of Guam. The desirability of passage of such a program is obvious. The PUC recommends that the Guam Legislature pass Bill No. 274-37 to decrease the amount of water and wastewater rates that Guam ratepayers will pay.

Thank you for your consideration of this Testimony.

Sincerely,

A handwritten signature in black ink, consisting of stylized initials and a long horizontal line extending to the right.

Jeffrey C. Johnson
Chairman
Guam Public Utilities Commission