



# GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN  
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August 5, 2010

COPY

**Mr. Jeffrey Johnson**  
Chairman  
Public Utilities Commission  
414 West Soledad Ave.  
Hagåtña, GU 96910

Subject: Docket 07-10 - Petition for Base Rate Increase  
**RE: Notification of Impending Move to the 25<sup>th</sup> Percentile**

Dear Mr. Johnson:

As you are aware, the Guam Power Authority began a dialog with the Guam Legislature over concerns it was having regarding its ability to attract and retain skilled employees necessary for the operation of the Authority. The end result of the meetings was the passage of a law in 2006 which established a process through which the Consolidated Commission on Utilities (CCU) could establish, revise and update salary scales for highly skilled personnel within the Authority.

It appears that those actions have met with less the complete approval of the Commissioners on the Public Utilities Commission. GPA is at a point where it is preparing to take an action to increase the pay scale from the 15<sup>th</sup> percentile to the 25<sup>th</sup> percentile and, as we have committed, we wish to notify the Commission of this impending action.

We would also like to take this opportunity to review the situation faced by the Authority and review the actions taken by the Authority to address the situation. We are confident that when presented with all the facts, the PUC will come to the same conclusion as did the Guam Legislature - that the steps taken by GPA to address this situation are prudent and reasonable.

## **Background**

Shortly after the Consolidated Commission on Utilities took office in January 2003 GPA management began a high level assessment of manpower. Two main observations were made: 1) Nearly half of the Authority's workforce would become eligible for retirement

within the next 10 years, and 2) there was a pattern developing of highly skilled employees leaving the Authority for higher paying jobs both on-island and off-island. GPA identified both of these observations as threats to the utility. The issue of the aging workforce was a threat because there is a very limited pool of skilled workers on the island and the location of Guam poses a significant impediment to recruitment. GPA does not have the ability to attract labor from a neighboring utility without substantial lifestyle changes. The employee exodus was highlighting the problem that the Government of Guam pay structure to which the Authority was subject had not been adjusted since the early 1990's.

To highlight the problem the pay scales were posing, GPA was allowed to offer \$26,000 per annum to entry level engineers and \$24,000 per year to entry level accountants. Engineering graduates on the mainland were commanding more than twice that amount and accounting graduates on the mainland were receiving nearly twice the amount for which GPA was allowed to offer. This makes it difficult to recruit highly skilled professionals to the Authority – even those who are from Guam but go to the mainland for their college education. However, the pay disparity was not only evident in professional positions, but GPA also encountered a series of employees who were finding their skills as linemen were in high demand in other utilities. GPA was paying its linemen approximately \$13/hr whereas utilities in the mainland were offering nearly \$30/hr. Some utilities were offering bonuses as high as \$25,000 for linemen willing to come work at their utilities. GPA lost six linemen to a utility in Anaheim California before it was able to stem the tide with the CTP program.

As the Commission is aware, the vast majority of positions at the Authority require a high degree of skill and technical expertise. The skill sets required by the Authority include lineman that work on and around high voltage lines, heavy equipment operators, meter technicians, relay technicians, project management and construction engineers, civil engineers, mechanical engineers, electrical engineers, environmental engineers, communication engineers, surveyors, control board operators, welders, system dispatchers, maintenance planners, computer programmers, database administrators, network administrators, etc. Additionally, we need skilled Human Resource professionals to help recruit and retain a qualified workforce. Through the development of technology positions such as accountants are now required to manage data and systems and technology and must have skills such as report writing which a decade or more ago were not part of the job requirement.

In response to this threat, GPA engaged the Guam Legislature in a dialog to address the situation faced by the Authority. The discussions resulted in the passage of Public Law 28-113 signed into law in April 2006 which authorized the Consolidated Commission on Utilities (CCU) to have authority over the establishment of pay scales for certified, technical and professional employees of the Authority. Under the terms of the rules promulgated by the CCU and approved by the Guam Legislature, the Authority conducted a study comparing market wages for utility positions in the mainland with the wages paid by the Guam Power Authority. When the study was completed, it revealed the pay disparity was much worse than believed. More than 99% of all positions within

the Authority were in the bottom 5% on the bell curve of utility wages. GPA recognized that while there was an immediate problem of highly skilled operations personnel leaving the utility, there was a gathering threat on the horizon for other highly skilled positions within the Authority including accountants, human resource personnel, procurement personnel, and customer service personnel. Based on these findings GPA expanded its definition of highly skilled personnel to include these professions. GPA did not engage the Guam Legislature on this issue in an attempt to avoid interaction with the PUC, GPA engaged the Guam Legislature because the barriers preventing GPA from addressing the crisis were statutory impediments.

In January 2008 GPA made the initial move to bring all Authority wages up to the fifth percentile. The cost of this action including benefits was \$3.0 million. In January 2009 GPA made a second adjustment to bring all Authority wages to the high 10<sup>th</sup> percentile/low 15<sup>th</sup> percentile. The cost of this action including benefits was \$2.1 million. This means that the Authority has moved its employees to a pay level wherein 85% of utility employees in the U.S. are paid more than GPA employees. So far GPA has deferred any adjustment to wages for Fiscal Year 2010 due to budgetary shortfalls. At the pace GPA is currently on, it will reach its goal of having all employees at the 50<sup>th</sup> percentile by 2020. GPA's total labor costs for Fiscal Year 2009 were \$33 million which represents approximately 8.5% of GPA's total revenues for the year.

Since raising the issue of personnel costs with the Guam Legislature, the Port Authority of Guam, the Guam International Airport Authority, and the Guam Community College have all sought and received similar wage scale authorizations. The Guam Legislature has also mandated a government-wide pay scale review of all positions within the general government. This should be taken as further evidence that GPA's actions were a prudent response to a challenging labor market for highly skilled employees.

The Authority has been highly criticized throughout the government of Guam and in the local media for the actions it has taken with respect to the adoption of the new wage scale as authorized by the Guam Legislature. GPA maintains that its actions were prudent and reasonable. GPA does not believe the criticisms of its actions in this regard have any rational basis.

When the issue of the certified, technical and professional legislation was first discussed in the context of a rate case in 2008, an initial concern raised by the Georgetown Consulting Group was that GPA should not be paying its employees salaries comparable to mainland utilities unless GPA can show that its work force is as productive as mainland utilities. GPA believes the Baker Tilly Management and Organizational Assessment has demonstrated that productivity differences between GPA and many mainland utilities is not significant. However, even if that were not the case, GPA hopes the Commission can appreciate that in order to the Authority to bring in the technology that can make GPA employees more productive, GPA must first be able to attract highly skilled employees that can implement, manage and maintain such technologies. It would not be practical to expect that GPA could become an industry leader in productivity when the utility is an industry laggard with regards to salaries and wages.

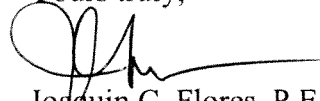
GPA wishes to ask the Commission what steps it would have taken differently than those taken by GPA. GPA does not believe the Commissioners would have stood by and allow the best and brightest employees of the Authority leave the utility. GPA does not believe the Commissioners would have accepted a situation wherein equipment reliability was decreasing and outages were increasing. GPA believes the Commissioners would have taken steps necessary to stabilize the Authority and ensure the utility has the ability to recruit and retain the skilled professionals required to properly operate the island wide power system.

Due to budget constraints the certified, technical, and professional employees of the Authority have not seen any change in pay for the last 19 months. They were entitled to their annual performance increments in January, 2010. As we have explored the payment of the performance increments in a time frame around October 1, 2010 or before, we have noticed that the difference between the cost of implementing the performance increment and the cost of moving to the 25<sup>th</sup> percentile is about \$300,000. Therefore, GPA is planning on moving its workforce to the 25<sup>th</sup> percentile.

As the General Manager, I realize that the job of transforming the utility into a best-in-class organization is just beginning. However, I hope that the Commission would concede that substantial progress has been made during the last several years. GPA believes that keeping a qualified work force is essential in order for improvements to continue at the Authority. We hope this letter will help the PUC understand why we believe it is essential for GPA to make the move to the 25<sup>th</sup> percentile in the near future.

Please don't hesitate to contact me should you wish to discuss these matters further.

Yours truly,

A handwritten signature in black ink, appearing to read 'J. Flores', with a long horizontal flourish extending to the right.

Joaquin C. Flores, P.E.  
General Manager