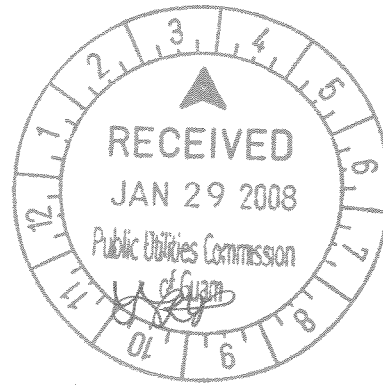


1 **D GRAHAM BOTHA, ESQ.**
2 **Legal Counsel**
3 **Guam Power Authority**
4 **1911 Route 16, Suite 227**
5 **Harmon, Guam 96913**
6 **Ph: (671) 648-3203/3002**
7 **Fax: (671) 648-3290**



8 **BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

9 IN THE MATTER OF:


DOCKET NO. 07-10

10 Guam Power Authority's Petition for Base
11 Rate Increase

12 **FILING OF GUAM POWER**
13 **AUTHORITY'S REBUTTAL**
14 **TESTIMONY REGARDING GPA'S**
15 **BASE RATE PETITION**

16 **COMES NOW**, the GUAM POWER AUTHORITY (GPA), by and through its
17 counsel of record, D. GRAHAM BOTHA, ESQ., and hereby submits GPA's Rebuttal Testimony
18 regarding GPA's Base Rate Petition. Testimony and exhibits of Joaquin C. Flores, Randall V.
19 Wiegand, William J. Kemp, Stanley J. Dirks and Kemm C. Farney are attached together with the
20 filing.

21 **RESPECTFULLY SUBMITTED** this 29th day of January, 2008.

22 
23 **D. GRAHAM BOTHA, ESQ.**
24 **GPA Legal Counsel**



GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

29 January 2008

Mr. Harry Boertzel, Esq.
Guam Public Utilities Commission
Suite 207, GCIC Building
Hagatna, Guam 96932
Email: hboertzel@guampuc.com
lpalomo@guampuc.com

**SUBJECT: Public Utilities Commission
Guam Power Authority Rebuttal Testimonies
REF: Docket No.: 07-10**

Dear Mr. Boertzel:

Attached for filing with the Public Utilities Commission is Guam Power Authority's Rebuttal Testimonies – Docket No.: 07-10 – GPA's petition for the approval of a base rate increase.

Yours truly,

Joaquin C. Flores, P.E.
General Manager

Attachments

Cc: GPA Commission on Consolidated Utilities, Board of Directors
File CFO BR 011 08

**BEFORE THE PUBLIC UTILITIES COMMISSION
APPLICATION OF GUAM POWER AUTHORITY
FOR BASE RATE INCREASE**

DOCKET NO. 07-10

REBUTTAL TESTIMONY OF

**JOAQUIN C. FLORES,
GENERAL MANAGER**

ON BEHALF OF

GUAM POWER AUTHORITY

Hagatna, Guam

January 29, 2008

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

In the Matter of)
Guam Power Authority's Petition for Base)
Rate Increase) Docket No. 07-10
)
)
)

AFFIDAVIT OF JOAQUIN C. FLORES

TERRITORY OF GUAM)
)

JOAQUIN C. FLORES, being first duly sworn on his oath, states:

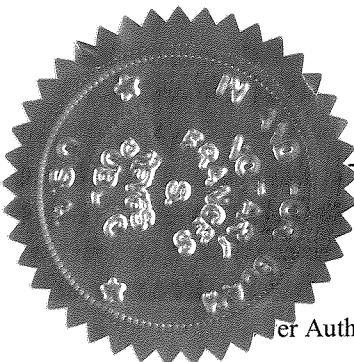
- 1. My name is JOAQUIN C. FLORES. My office is in Harmon, Guam, and I am employed by Guam Power Authority as the GENERAL MANAGER.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Guam Power Authority, consisting of eleven (11) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

[Signature]
JOAQUIN C. FLORES

Subscribed and sworn before me this 29th day of January, 2008.

[Signature]
Notary Public

FRANCES S. REYES
NOTARY PUBLIC
In and for Guam, U.S.A.
My Commission Expires: Oct. 02, 2010
P.O. Box 2977 Hagatna, Guam 96932



Commission expires: _____

REBUTTAL TESTIMONY OF

JOAQUIN C. FLORES,

GENERAL MANAGER

Docket No. 07-10

1. PURPOSE

1

2

3 **Q. WOULD YOU PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
4 **ADDRESS?**

5

6 A. My name is Joaquin C. Flores. I am the General Manager of the Guam Power Authority.

7 My Business address is 1911 Route 16 Harmon, Guam 96931.

8

9 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?**

10

11 A. Yes I have.

12

13 **Q. WERE YOUR QUALIFICATIONS SET FORTH IN THE ABOVE?**

14

15 A. Yes. A statement of qualification was contained in my testimony.

16

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18

1 A. The purpose of my testimony is to provide rebuttal of the testimony filed by GCG and
2 Mr. Gawlik. Also I will provide a general summary of the issues raised in this
3 proceeding and I will also reference supporting rebuttal testimony by other GPA
4 witnesses.

5
6 **Q. CAN YOU PROVIDE COMMENTS TO TESTIMONIES PROVIDED BY GCG**
7 **AND OTHERS?**

8
9 A. Yes. The CCU established a policy for a “single test-year”, “two-phase” rate case, to help
10 ease the burden of a significant base rate hike in the midst of unprecedented fuel price
11 increases. With significant deliberation, the CCU reached a delicate balance between
12 affordability and providing reliable, safe and efficient electric services to our customers.
13 The structure is quite unique and uncommon but we have all acknowledged the difficulty
14 in addressing issues from a single test year straddling multiple fiscal years. It is especially
15 difficult when parties know the second portion of this rate increase would take effect
16 October 1, 2008—only seven months later. Moreover, it has been close to 11 years since
17 GPA petitioned the PUC for a base rate adjustment and we all anticipated broad and
18 complex issues to be adjudicated. The methodology was presented to the Administrative
19 Law Judge who asked GCG whether it was feasible, and both GCG and GPA felt it
20 would be challenging but we also felt confident the format was within our capabilities.
21 GPA thus proceeded to develop its petition under this framework.

22

1 We believe evidence was formulated in a fashion beyond a single test year to meet the
2 objectives of a two phase approach. Projections for both GPA's needs and total revenues
3 over multiple fiscal years have been provided in sufficient detail for the PUC to make
4 informed policy decisions on several issues in this proceeding.

5
6 However, GCG and Mr. Gawlik have testified against a two phase approach in this
7 proceeding. Additionally, they have also taken exceptions to GPA's request in several
8 areas addressed in Phase I. My testimony will provide a general summary of substantive
9 issues where there are differences and/or reference rebuttal testimony by other GPA
10 witnesses who will provide alternatives to GCG's recommendations.

11
12 **Q. CAN YOU SUMMARIZE GPA'S REBUTTAL TESTIMONY ON THE**
13 **SUBSTANTIVE ISSUES?**
14

15 **A.** Yes. These matters are itemized below:

16
17 1. This is a single test year rate petition that should be phased in over two fiscal
18 years. In this proceeding GPA is seeking a rate increase of 19.72% or \$26.9
19 million in additional revenues. Two-thirds or about 13.15% increase in FY-08
20 (\$17.9 million for 12 months), and about one-third increase or 6.57% (\$9 million
21 for 12 months) starting at the beginning of FY-09. But without compression
22 being requested, and because rate relief was petitioned to take effect in February
23 1, 2008, less than 44.5% of its revenue requirements can be funded (two thirds or
24 only eight twelfths of the fiscal year will result in higher rates). Put another way,

1 GPA will only be able realize additional rate relief of \$11.9 million in FY-08
2 given the assumptions in its filing. This is a serious issue which may leave the
3 Authority significantly under funded.
4

5 2. Phase II of this rate proceeding has not been supported by GCG and Mr. Gawlik.
6 This recommendation will further aggravate GPA's financial position and hence
7 its ability to be effective, efficient and restore its investment grade credit rating.
8 GPA will essentially need to re-file another rate petition immediately to
9 implement in FY-09 our proposed Phase II base rates. We hope we are wrong in
10 this interpretation of their testimony. Issues precluding the Phase II portion of
11 GPA's request to effect are refuted below:

12 a. The number full time employees hired by GPA and the number of vacancies to be
13 filled have been capped by GCG. Details of GPA's position on this matter are
14 provided in testimony by Mr. Wiegand. In general, we believe vacancies are
15 already being phased in for the 66 existing budgeted positions over 2-3 years and
16 over 3-4 years for the eight new positions. GCG fails to include a significant
17 number of graduate Apprentices and other critical vacancies already in the
18 process of being actively recruited in FY-08. Additional graduate apprentices are
19 forthcoming over the next 4-5 years—GPA will have about 50 graduating
20 apprentices after FY-08. Mr. Wiegand also points out there may have been some
21 inaccurate adjustments by GCG in calculating funding needs for vacancies. Many
22 critical positions have remained vacant due to GPA's untenable financial position

1 and GPA does not believe it is in the ratepayer's best interests for such positions
2 to remain vacant any longer than necessary.

3
4 GPA believes there should not be any changes made to its plan for phasing in the
5 hiring of the new and vacant positions since the end result will end up with very
6 similar outcomes.

- 7 b. A focused management audit is required on the appropriate number of personnel
8 for GPA for Phase II. On this point there is a common objective. GPA agrees it
9 should strive for constant productivity and efficiency in all aspects of
10 operations—not just with staffing levels. We have interpreted Mr. Gawlik's
11 testimony as promoting typical benchmarking studies against other utilities.
12 However, simply taking statistics from other utilities is not by itself sufficient if
13 the underlying mechanisms that make these gains in productivity are not present.
14 As an alternative, the Authority recommends that staffing should be determined as
15 a result of assessing GPA's total business process and practices; determine what
16 are prevailing technologies that can be applied to enhance customer services;
17 opportunities in other public-private partnerships; and other services and
18 programs that will improve the overall efficiency of the Authority. It envisions
19 study results will ultimately entail strategic plans to migrate to better overall
20 operations in which a major component will involve structuring the size of
21 staffing, the expertise of staff, training needs and skill gaps of staff, upgrades to
22 infrastructure, etc desired which may potentially reorganize the corporate labor
23 structure of GPA. This would be a better, far beneficial effort to do.

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These studies will take time. GPA will not be able to get accurate and thorough study recommendations from this effort before Phase II as GCG insists. Alternatively, GPA proposes a reasonable migration to fill vacancies over two to three years for existing budgeted vacancies and 3-4 years for 8 new positions—allowing time for a quality study product. GPA is willing to address this thorough study in FY-09 to determine what strategic initiatives can help define total staffing levels and still have the flexibility to integrate apprentices and other critical employees into vacancies.

c. Review of payments from DPW for street lights is necessary. We disagree with GCG in the treatment of past due amounts for street lights. GPA must honor the CCU policy and is confident that their approach will prevail in providing an incentive to lower base rates only if the government appropriates for them AND pays. There is no doubt for the need to pay the long standing DPW arrears, and there is no question that the government cannot get away with free street light services. It is a question of where will the source of funds come from—base rates, temporary surcharge, short term loans, credit lines, government bonds, or other sources of payment. GPA has elected to pursue increasing base rates to cover the arrears simply because current conditions are bad for GPA. It cannot afford to be financially hampered while waiting for ongoing payment arrangements to be finalized and payments to be realized—critical operational needs are growing, maintenance is backlogged and growing, capital

1 improvements are well past due, our credit rating needs to be enhanced because of
2 poor emergency liquidity, and our overall financial poster is poor, but most
3 importantly, the level and quality of customer services needs drastic changes. As
4 Mr. Wiegand describes in his testimony, we have waited more than five years for
5 anything to materialize and thus GPA has taken a conservative view with this past
6 due amount. In our opinion, no better payment arrangement will be realized if
7 GPA disconnects street lights to force the government to pay in full in accordance
8 with the Authority Collection Policy. At the same time, we cannot partake in
9 jeopardizing the safety of the entire island community—a difficult quandary but
10 in deciding what is best for “public good,” we believe a financial burden is better
11 than unsafe neighborhoods. We are confident there will be a definitive payment
12 plan that is forthcoming and it will be similar to a term of five or more years.
13 GCG indicates GPA will raise rates permanently, but that is not a correct
14 characterization of the street light credit. GPA will “lower” its base rates
15 permanently in the exact dollar amount when paid by the government but it must
16 be able to continue its mission.

- 17
- 18 d. GPA’s ability to obtain TECP and a short term loan of \$10 million. This matter is
19 described in detailed contained in Mr. Wiegand’s rebuttal testimony. The PUC
20 should be mindful of this serious problem but denying Phase II portion of this
21 petition will exacerbate GPA’s difficulties in obtaining any financing to roll over
22 its \$20 million line of credit or a short term \$10 million loan. It may also result in
23 a funding short fall because the \$10 million short term loan was intended to pay

1 of FEMA related projects. The PUC has approved these projects but are not
2 included in the funding requirements for the capital program reviewed by Mr.
3 Gawlik.

4 e. Review of PUC policy for payment of other government receivables. Other than
5 issues related to DPW street lights, GPA does not agree that a new policy on this
6 matter is required for Phase II. GPA has kept the government current with its
7 monthly bills and entities such as the GPSS and GWA who have entered into
8 promissory notes are also meeting their obligations. The GMH has paid off any
9 past due balances to GPA.

10 f. Development of self insurance program in detail and undertake risk studies.
11 Although Mr. Gawlik and GCG have concurred with the GPA request to increase
12 the self insurance rate, they recommend to limiting the cap to \$10 million, and
13 they require a detailed risk assessment report before the October 2008 Phase II
14 implementation. GPA believes it is impractical to impose this requirement in
15 such a short time and given its limited internal resources. Furthermore, GPA
16 estimates, given the new self insurance rate, it will take a few years (at least three)
17 before the fund reaches the \$10 million cap. It would be appropriate on or about
18 that time to re-visit the issue and to determine more accurately the levels of
19 physical and financial risk to GPA. That is, we have time to build up the self
20 insurance fund with new rates; conduct necessary studies to determine risk
21 exposure; and refine the proposed program protocol. The steps should not impede
22 the implementation of Phase II base rates.

- 1 g. Monitoring of actual civilian and Navy revenues against forecasted revenues. We
2 are puzzled with this requirement for Phase II. As Mr. Wiegand describes in his
3 rebuttal testimony, GCG has openly admitted during discovery that they believe
4 the revenue forecast is very aggressive, yet we see GCG making adjustments
5 upwards in the forecast. It is suspected there may be inadequate rate relief in
6 Phase I due to recommendations set forth by GCG and that Phase II will require
7 major adjustments from recommendations by GPA. Additionally, Mr. Kemp and
8 Mr. Farney have provided detail testimony on this matter. Mr. Kemp concluded;
9 GPA's adjusted forecasts of FY-08 Navy peak demands and energy consumption
10 should be adopted.
- 11 h. Determination of the appropriate CIP cap for Phase II. GPA does not understand
12 why this requirement is needed for Phase II. As the PUC is well aware, GPA is
13 required to submit its CIP budget each year to determine yearly caps. It must also
14 identify all projects subject to the existing Contract Review Protocol.
15 Testimonies from Ms. Camacho and Mr. Wiegand clearly indicate a total level of
16 CIP needs in the amount of \$22.4 million including customer line extensions--
17 \$20.3 million is already supported by Mr. Gawlik for Phase I excluding customer
18 line extensions. The small incremental amount for Phase II is \$2.1 million. As
19 Mr. Gawlik already points out in his testimony, GPA has a good understanding of
20 CIP rationing and cost-benefit methods in justifying and prioritizing its projects.
21 The practice will continue into Phase II.
- 22 i. Evaluating results of the upcoming load and cost of service study. GPA does not
23 agree with GCG on this issue. Firstly, the upcoming load and cost of service

1 study will not change our needs and revenue requirements for Phase I & II. Cost
2 of service is essentially an exercise to determine the proper allocation of GPA's
3 cost to serve a particular customer class. It is primarily based on their load
4 characteristics and their corresponding impacts to key functional areas of the
5 utility such a generation, transmission, customer services, etc. The main problem
6 is it takes time to conduct these studies, and it takes time for rate payers to
7 understand proposed changes in a new rate design. GPA believes for instance that
8 any change to its existing life line rates may involve a policy that is base on the
9 earnings of a customer rather than across the board application to all rate payers.
10 Furthermore, it is well known that certain rate classes are being highly subsidized
11 over others, but to make any changes to this current policy will entail healthy
12 public debate and deliberation before there is buy in. Mr. Kemp addresses this
13 issue more in detail but if parallel load study and cost of service studies were
14 completed by mid-FY-09, a new rate design would probably not take effect until
15 FY-10.

- 16
- 17 3. Details also contained in rebuttal testimony of Mr. Wiegand will address the
18 following issues:
- 19 a. Adjustments to O&M Labor and Non-Labor expenses.
 - 20 b. Increasing sales and revenue forecast by GCG.
 - 21 c. Deletion of the PUC approved \$10 million loan.
 - 22 d. Working Capital Fund
 - 23 e. Implementation of the Street Light Credit Surcharge

1 f. Debt Service Coverage Ratio

2 g. Self Insurance Fund

3

4 4. Testimony by Mr. Kemp will rebut recommendations by Mr. Brubaker and Mr.

5 Oliver relative to the substantive issues:

6 a. Adoption of Navy's forecast for demand and energy.

7 b. Assertion GPA's revenues will be higher if Navy's load forecast is used.

8 c. Allocation of IPP costs

9 d. Allocation of customer costs

10 e. Civilian rate design

11 f. Life line rates

12 Mr. Kemp also addresses the distinction between commission advisory staff and

13 ratepayer advocate, describes why these roles are separated in mainland U.S.

14 regulatory jurisdictions, and suggests ways to clarify GCG's role in this

15 proceeding to reduce an apparent conflict of interests.

16 5. Testimony by Mr. Farney will rebut recommendations by Mr. Brubaker and Mr.

17 Oliver relative to the GPA load forecast.

18

19 **Q. DOES THAT CONCLUDE YOUR PREFILED REBUTTAL TESTIMONY?**

20

21 A. Yes it does.

**BEFORE THE PUBLIC UTILITIES COMMISSION
APPLICATION OF GUAM POWER AUTHORITY
FOR BASE RATE INCREASE**

DOCKET NO. 07-10

**REBUTTAL TESTIMONY OF
RANDALL V. WIEGAND**

**ON BEHALF OF
GUAM POWER AUTHORITY**

Hagatna, Guam

January 29, 2008

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

In the Matter of)
Guam Power Authority's Petition for Base)
Rate Increase) Docket No. 07-10
)
)
)

AFFIDAVIT OF RANDALL V. WIEGAND

TERRITORY OF GUAM)
)

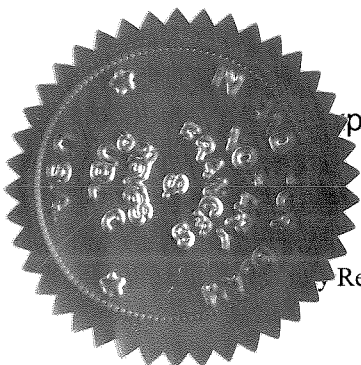
RANDALL V. WIEGAND, being first duly sworn on his oath, states:

- 1. My name is RANDALL V. WIEGAND. My office is in Harmon, Guam, and I am employed by Guam Power Authority as the CHIEF FINANCIAL OFFICER.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Guam Power Authority, consisting of fifteen (15) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

[Signature]
RANDALL V. WIEGAND

Subscribed and sworn before me this 29th day of January, 2008.

[Signature]
Notary Public



Expires: _____

FRANCES S. REYES
NOTARY PUBLIC
In and for Guam, U.S.A.
My Commission Expires: Oct. 02, 2010
P.O. Box 2977 Hagatna, Guam 96932

**REBUTTAL TESTIMONY OF
RANDALL V. WIEGAND**

Docket No. 07-10

1. PURPOSE

1

2 Q. **ARE YOU THE SAME RANDALL V. WIEGAND WHO SUBMITTED DIRECT**
3 **TESTIMONY IN THIS PROCEEDING?**

4

5 A. Yes, I am.

6 Q. **WHY IS IT BURDENSOME AND INEFFICIENT TO REQUIRE ADJUDICATION**
7 **OF THE FY09 PORTION OF THE BASE RATE PETITION IN A SEPARATE**
8 **PROCEEDING?**

9

10 A. As was discussed in GPA's direct testimony, the proposed FY2008 rate petition reflected
11 the CCU's policy judgment on how to mitigate the impacts of the proposed rate increase
12 to GPA's customers.

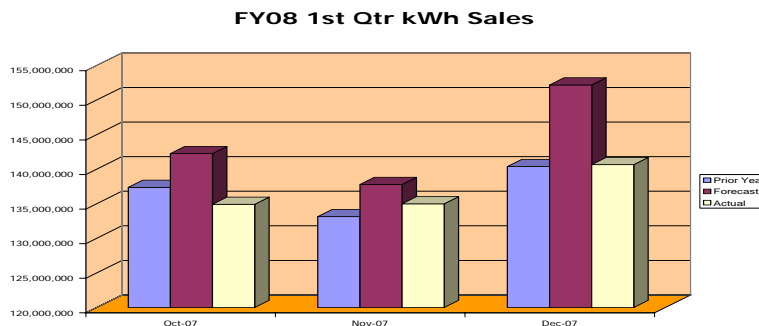
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14 The CCU placed GPA in a very difficult position by requiring the Authority to break up
15 its petition into two phases. GPA was having a very difficult time fitting a phased in
16 approach into the normal base rate petition format. In the August PUC status conference
17 GPA raised this issue in order to determine if it should request the CCU to revisit its
18 position prior to the filing of the base rate petition. GPA was concerned that a phased in
19 approach might require a separate base rate petition and hearing in FY09 which would tie
20 up GPA's management and internal resources and preclude attention to initiatives that
21 would improve efficiencies and enhance customer service. At the conference, GPA was
22 advised that a phased in approach would be entertained without the need for two separate

1 petitions, filings and hearings. Now, Georgetown has decided that they will recommend
 2 that the petition be divided into two separate cases. This puts GPA at a tremendous
 3 disadvantage as it based its filing strategy on input received during the August
 4 conference.

5
 6 **Q. DO YOU AGREE WITH GEORGETOWN’S RECOMMENDATION TO INCREASE THE REVENUE PROJECTION FOR GPA FOR FISCAL YEAR**
 7 **2008?**
 8
 9

10 A. No. GPA hired a consultant to perform a revenue forecast in the fall of 2006. At the
 11 time of the filing of the base rate petition, GPA recognized that the assumption of growth
 12 of 3.9 % was aggressive, however, GPA stated in its testimony that it was reluctant to
 13 make a change as it might be viewed as an arbitrary adjustment. However, now that GPA
 14 has some first quarter data, GPA no longer believes in theory that the forecast is
 15 aggressive, but GPA’s now has hard data reflecting a serious shortfall between the
 16 forecast of revenues and actual sales. The table below shows GPA’s actual revenues
 17 versus its forecast and depicts the reduction in revenues for the first quarter of Fiscal
 18 Year 2008.

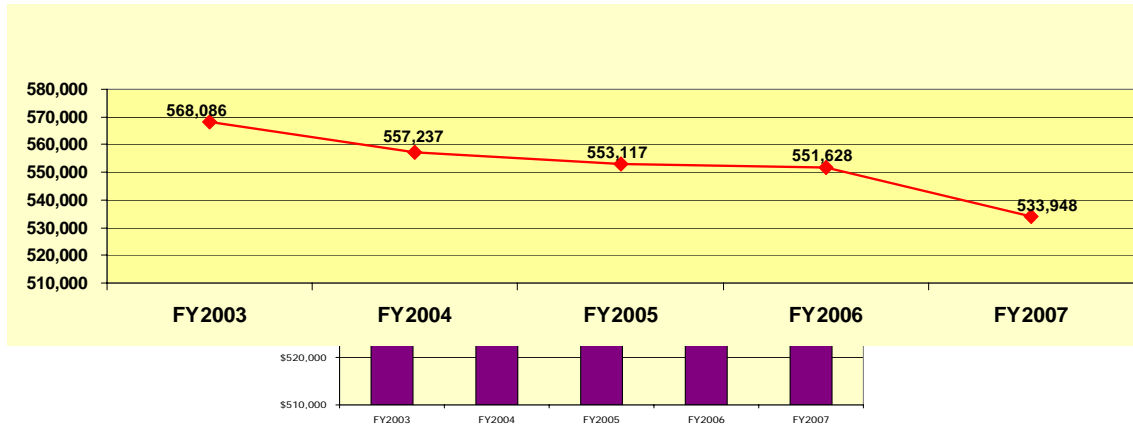


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 22

1 Rather than the nearly 4 % increase in sales that was forecast, GPA's actual sales have
2 been reflecting a 1% decrease. GPA was anticipating that GCG, after reviewing the
3 actual results for October 2007, may make a downward adjustment to GPA revenues.
4 GPA did not believe there was any chance that Georgetown would insert a net increase to
5 the revenue projection in the face of the dramatic shortfall of revenue being faced by the
6 Authority. GPA does not believe this is a fiscally responsible recommendation.

7
8 GPA should note that based on the actual to forecast comparisons, GPA will be
9 experiencing a revenue shortfall in excess of \$6.5 million. This adverse development
10 will require GPA to make some extreme modifications to its budget which will mean
11 changes predominantly to the capital project budget. This is the forecast upon which
12 GPA based all of its filings and all of its notices. Because of this, GPA does not believe
13 it has the ability at this late date to propose any adjustments to the revenue requirement
14 without placing the timing of this rate increase in jeopardy. GPA has determined it is
15 most appropriate to allow the revenue forecast to remain as filed. However,
16 notwithstanding this shortfall, GCG's filing contains recommendations which will require
17 even deeper cuts into its capital program. GCG's recommendations would reduce the
18 number of additional personnel to be hired to 13. If GPA hired additional personnel, the
19 primary source of funding would be a reduction in capital expenditures. GCG is also
20 recommending the cancellation of the \$10 million loan in addition to the debt service
21 payment associated with it. If GPA were to continue to fund the projects targeted for the
22 loan funding, GPA would need to make further reductions to its capital budget. As is
23 shown in the chart below, GPA's net asset values have been declining in recent years:

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10 The graph shows that the depreciation of plant assets has been outpacing GPA’s ability to
 11 finance and construct new plant assets in recent years. This trend cannot be allowed to
 12 continue without having the effect of degrading the operation of the system.

13

14 GPA recommends the Public Utility Commissioners to remain mindful of this large
 15 revenue decrease and its natural impact on the capital budget of the Authority as it
 16 considers other changes to GPA’s petition.

17

18 **Q. IN A PREVIOUS RATE ORDER, THE ADMINISTRATIVE LAW JUDGE**
 19 **ASKED FOR GPA TO PROVIDE UPDATES TO THE GEORGETOWN**
 20 **CONSULTING GROUP (GCG) WITH REGARDS TO THE STATUS OF GPA**
 21 **FINANCINGS. IN ADDITION TO THE UPDATES ALREADY PROVIDED,**
 22 **PLEASE PROVIDE AN UPDATE INCLUDING THE MOST RECENT**
 23 **INFORMATION ON GPA’S EFFORTS TO OBTAIN FUNDING FROM**
 24 **CAPITAL MARKETS.**

25

1 A. GPA has provided verbal updates to the GCG staff when he was on island. GPA has
2 provided additional updates in its testimony and data request responses. GPA is now
3 recapping the events that have taken place to date.

4

5 In 1998, GPA issued \$65 million of commercial paper notes which were enhanced by a
6 Line of Credit facility and a municipal bond insurance policy. \$45 million was
7 designated for working capital needs and \$20 million was immediately drawn down to
8 replace \$20 million of existing lines of credit.

9

10 On June 22, 2007 GPA petitioned the Public Utilities Commission for authorization to
11 convert its commercial paper program from a taxable status to a tax exempt status and to
12 increase the line amount from \$20 million to \$30 million. GPA received sufficient
13 authority to allow it to move forward in these goals. In July 2007, the Guam Economic
14 Development and Commerce Authority (GEDCA) issued a Request For Proposals for a
15 new Line of Credit Provider which would allow GPA to reduce the rate of interest paid
16 on the outstanding balance of the program. GEDCA received one response to its
17 proposal. GEDCA issued a notice of award and the process of entering into an agreement
18 with the bank was moving forward until the week before the final credit review was
19 complete. The week before the final credit review was complete, the municipal bond
20 insurance company wrote off \$740 million of obligations for which it was providing
21 insurance. After this write-off was disclosed, the bank determined it did not want to
22 move forward with the credit facility.

23

1 GPA then contacted the existing bank providing the Line of Credit facility and asked it
2 GPA could extend the existing agreement with them. The bank declined citing the
3 problems with the insurance company.

4
5 GPA contacted everyone it knew to see if another bank could be identified and after an
6 extensive search, GPA identified one bank that was interesting in expanding their service
7 area to include the pacific region. GPA provided its financial statements, its credit
8 reports, and a summary of the GPA business profile. It appeared the bank was willing to
9 issue the line of credit until they began to review the financial statements of the
10 government of Guam. They determined that the government's financial condition was of
11 such a dire nature so as to preclude any interest to do any business with any entity of the
12 government.

13
14 Under the terms of its agreement with the existing Line of Credit provider, in the event
15 GPA is unable to extend or replace the agreement, the Line converts to a loan with a three
16 year term. Additionally, in the event the municipal bond insurer's rating drops below
17 AAA, GPA is required to provide additional insurance or provide an additional
18 enhancement. There is only one bond insurer that has not been negatively impacted by
19 the sub-prime mortgage meltdown that is taking place on the mainland and GPA is
20 making efforts to contact them to discuss the possibility of providing insurance for the
21 Authority. However, GPA expects the premium to be significantly higher than the
22 premium which was included in its budget. If the Line of Credit were converted to a

1 loan, GPA would be required to make payments totaling \$6.8 million per year at an
2 interest rate of 16%.

3
4 The sub-prime mortgage crisis is having the impact of causing a shortage of cash in the
5 capital markets and most banks and financial institutions have become unwilling to
6 entertain GPA's non-investment grade credit.

7
8 GPA has requested to enter into discussions with a bank that currently holds a letter of
9 credit facility of the Authority; however, GPA has not been given any reason to expect
10 this venture will work out any differently than the others. GPA is also negotiating with
11 the existing bank to extend the existing line, but they have repeatedly stated their interest
12 in getting out of the deal, have increased their premium rate, and have requested that
13 GPA find an alternative insurer for this facility.

14
15 **Q. WHAT IMPACT TO THESE DEVELOPMENTS HAVE ON GPA'S BASE RATE**
16 **PETITION?**
17

18 A. First, the PUC should clearly not rely on the additional \$10 million commercial paper
19 drawdown being available to GPA this year. Second, the PUC should be mindful of the
20 fact that GPA might be facing an unanticipated substantial payment requirement. GPA
21 could continue to be adversely impacted if the PUC decides to cut GPA's rate petition to
22 the bone and not allow the Authority any flexibility to adjust to such unforeseen
23 circumstances such as is being recommended by the Georgetown Consulting Group.
24 Third, the PUC should be mindful that much of these challenges have arisen as a result of
25 GPA's non-investment grade bond rating which is primarily resulting from liquidity

1 issues. If the PUC were to give GPA the rate increase it requires, GPA would be likely to
2 attain an investment grade credit rating in the near future which would open up more
3 financial alternatives to the utility.

4
5 **Q. DO YOU AGREE WITH GCG'S REPEATED USE OF THE THEME THAT THIS**
6 **BASE RATE INCREASE WOULD BE LOWER IF IT WERE NOT FOR BILLS**
7 **THAT WERE NOT COLLECTED FROM THE GOVERNMENT BETWEEN**
8 **FIVE AND 10 YEARS AGO?**
9

10 A. No. GPA has been arguing in this case that its revenue requirement should be established
11 by its cash needs demonstrated in its revenue requirement schedule. After the revenue
12 requirement has been determined, there should be a check to make sure the amount of the
13 increase exceeds the 1.75x minimum debt service coverage target. As has been
14 previously discussed, the Consolidated Commission on Utilities, in order to spread out
15 the impact of the rate case to GPA customers, required GPA to use a phased in approach
16 to meet or exceed the 1.75x threshold.

17
18 GCG appears to be arguing that the rates should be set at 1.75x regardless of the
19 demonstrated cash need of the utility.

20
21 If GPA's position is adopted and the revenue requirement schedule is determined to be
22 the basis for determining the amount of this rate increase, then the payments received by
23 the Guam Waterworks Authority and the Guam Public School System serve to offset the
24 amount of revenue requirement being sought by GPA. Therefore, the fact that amounts
25 are being collected would serve to reduce the impact of this rate increase.
26

1 If GCG's position is adopted in which rates are set at 1.75x annual debt service, then the
2 receivable from the government would not figure into the determination of the amount of
3 the rate increase at all.

4
5 The only way the long past due government receivable could play into this rate increase
6 would be if the entire amount were paid in a single amount which is not a realistic
7 position. GPA does not believe the PUC should set rates based on unrealistic
8 assumptions.

9
10 The CCU has devised a plan wherein a credit surcharge will be created to attempt to
11 encourage the Guam Legislature to appropriate funds to pay down the streetlight
12 receivable. The ratepayers also benefit from this plan as they receive a credit for every
13 dollar received from the government for payment of streetlight billings.

14
15 For these reasons, GPA believes it is not appropriate to repeatedly raise the issue of past
16 due streetlight receivables which were almost entirely accumulated between 1999 and
17 2002.

18
19 **Q. DOES GPA AGREE WITH THE GCG POSITION TO DISREGARD THE**
20 **CREDIT SURCHARGE PROPOSAL OF THE CONSOLIDATED COMMISSION**
21 **ON UTILITIES?**
22

23 **A.** No. The CCU is a board made up of members elected by the ratepayers of Guam to
24 advocate for ratepayer interests. One of the first policies adopted by the CCU when they
25 assumed office was to establish a non-discrimination policy wherein government

1 agencies were required to pay their on-going bills or face disconnection just like any
2 other customer of the Authority.

3
4 The CCU has been grappling with the issue of the past due streetlight receivable since
5 their early days in office. Attempts have been made to have the amount repaid from the
6 issuance of bonds, to negotiate with the Governor's Office, to negotiate with heads of
7 various agencies, to negotiate with the Legislature and to create public pressure through
8 the media and the threat of disconnections. These attempts have not been fruitful.

9
10 In June 2007, the CCU developed the idea of a credit surcharge tied to past due streetlight
11 billings. Within two weeks of announcing the idea, a bill had been drafted and passed the
12 Legislature appropriating funds for a repayment of the amount due. By October 2007,
13 GPA had received more than \$1.6 million in payment on these past due billings. This
14 was the first payment of any kind on this past due receivable in more than five years.
15 While GPA and the CCU recognize that the final decision on this matter is up to the
16 Public Utilities Commissioners, GPA believes they should assign a very heavy weighting
17 to the input of the CCU on this matter.

18
19 Additionally, GCG made the comment that creating the credit surcharge would cause the
20 amount to be permanently embedded in rates. As is shown in **Appendix A**, the impact of
21 effectively assuming a zero collection from the government for streetlights would be
22 permanently embedded into rates, but this is more than offset by the fact that GPA is
23 reflecting cash receipts from the Guam Waterworks Authority and the Guam Public

1 School System for past due billings. The impact of this source of cash is essentially
2 building these payments into permanent rates also. Thus, even after the netting of the
3 impact of all of these payments, the result is a net negative impact to GPA's rates. GPA
4 would prefer not to have this adverse impact, but this is the result of GPA's attempts to
5 spread sources and uses of cash over a five year period. Since this is consistent with
6 ratemaking best practices, GPA has willingly included this in its petition. However, there
7 is clearly no basis for GCG's claim that the credit surcharge plan unjustly places a
8 revenue stream in permanent rates.

9
10 **Q. DOES GPA AGREE WITH THE GCG POSITION TO FUND THE WORKING**
11 **CAPITAL FUND INCREASE WITH A ONE TIME DRAWDOWN OF**
12 **COMMERCIAL PAPER?**
13

14 A. No. In addition to the fact that it is highly unlikely that a commercial paper drawdown
15 will be available to GPA, the GCG plan omits the revenue source included in GPA's
16 petition to pay down the existing commercial paper program. As GPA has testified, the
17 \$20 million commercial paper program has been in fully drawn for 10 years and the debt
18 has been on GPA's books longer. The intent of the program was to allow GPA to have
19 some flexibility in meeting its working capital requirements, not to be a permanently
20 drawn line of credit. In the past, GPA has always matched the liability with the large
21 receivable due from the government of Guam. GPA had determined that when the
22 general obligation bond is issued, the proceeds will be used to pay down the commercial
23 paper.
24

1 Now that the government of Guam has issued a general obligation bond that did not
2 include repayment of the GPA receivables, and the CCU has proposed the credit
3 surcharge as a vehicle to collect the DPW streetlight receivable over a five year period,
4 GPA has determined that the paydown of the commercial paper program should be
5 matched to the collection of the government receivables. Thus, GPA included the
6 paydown of the taxable commercial paper program in its five year projection. In FY08,
7 GPA requested a revenue stream to fund the Working Capital Fund and in the following
8 years, that revenue stream would be dedicated to the paydown of the commercial paper
9 outstanding. GPA took this action as a rate planning strategy to spread out the impact of
10 these two cash uses and minimize the burden on GPA ratepayers.

11
12 **Q. WHAT WOULD BE THE IMPACT OF THE GCG RECOMMENDATION TO**
13 **REVOKE THE \$10 MILLION LOAN APPROVAL AND DELETE THE COST**
14 **WHICH WAS INCLUDED IN GPA'S PETITION?**
15

- 16 A. The adverse impact would be significant. GPA's purpose in requesting for authorization
17 of the loan was to free up some cash flow by spreading some capital costs over a period
18 longer than one year.

19
20 The Georgetown position is that the PUC should reverse the order authorizing the loan,
21 remove the loan principal and interest funding requirement and the problem will go away.
22 In fact, if the loan were to go away, costs that GPA was proposing to spread out over a
23 number of years would fall into a single year. Thus, if the loan authorization were to be
24 revoked, GPA's revenue requirement would be increased.

25

1 Shortly after Typhoon's Chata'an and Pongsonga struck the island in 2002, GPA was
2 awarded grants from the Federal Emergency Management Agency to place the
3 transmission lines for key load centers underground. FEMA would cover 90% of the
4 costs of the project and GPA would be required to fund the remaining 10%. These
5 projects would minimize damage to the transmission lines in the aftermath of future
6 typhoons, would facilitate a faster recovery for GPA customers not affected by those
7 lines, and would assure that GPA is able to continue sales either during or immediately
8 following a typhoon or other natural disaster. GPA has determined that these projects are
9 high priority projects with significant customer impact.

10
11 GPA was initially contemplating a loan of approximately \$4 million to cover the costs of
12 the emergency management system at GPA's power system control center. The idea was
13 that rather than absorbing large costs in a single year, the costs should be spread out over
14 a multiple year period. GPA determined that a short term loan should be sought to
15 provide a funding source for the equipment. Then, when actual quotes revealed FEMA
16 project costs had been under-estimated, and therefore, GPA had a significant funding
17 shortfall for these projects. GPA then determined that the loan amount sought should be
18 \$10 million and the FEMA projects should be included as a use of loan proceeds. At that
19 point in 2006, GPA sought and received PUC authorization to enter into the loan.

20
21 If the PUC now revokes the authority for the loan, GPA would require an alternative
22 funding source for the projects. The GCG testimony indicates that if the \$10 million loan
23 went away, then there would be a reduction of the \$2.3 million debt service principal

1 payment and there would be no other effect. In reality, rather than allowing GPA a
2 vehicle to spread costs out over a multiple year period, GPA would be faced with the full
3 revenue requirement of the FEMA projects in a very shortened timeframe.

4
5 GPA has taken great care to identify required projects of the Authority, scrutinize them,
6 prioritize them, and spread out the costs over a five year period so as to not unduly
7 burden ratepayers in a single period. If GPA were required to further cut into its capital
8 program to accommodate these FEMA project costs, it would mean that critical projects
9 would have to be deferred, GPA's five year capital plan would have to be extended, and
10 customers would have to wait longer for much needed system improvements.¹ (Please
11 note that as discussed previously, GPA's revenue projections appear to indicate there will
12 be a funding deficiency in FY08 in excess of \$6.5 million. Accepting GCG's proposal
13 would only exacerbate this funding shortfall.)

14
15 The terms that GPA was contemplating would require the use of a trustee for the
16 transaction. The lender would transfer the \$10 million to the trustee, but the funds would
17 not be released to GPA until GPA provided evidence that costs had been incurred. Thus,
18 the funds would not become available to GPA until they were expended.

19
20

¹ Officials from the U.S. Navy have made statements on repeated occasions that the service provided by GPA is not in accordance with their expectations. A report issued by the Government Accountability Office (GAO-07-1015) has indicated that GPA's transmission lines are antiquated and the system is not reliable, and voltage and frequency fluctuations are common". Apparently, this description came from the Department of Defense. Although, GPA disagrees with the tone of the language, GPA concurs that system improvements are required. GPA will not be able to make these improvements if its capital budget is severely degraded.

1 The parties should be reminded that GPA presented its rate increase proposal to the CCU
2 in May 2007. The proposal was approved in June 2007 at which time GPA filed its
3 ratepayer's bill of rights notices including the amount and rate impact of GPA's proposed
4 increase. Then GPA had to wait 90 days before it could file its base rate petition. In this
5 format, GPA does not have any opportunity to update its numbers for changes after the
6 initial presentation to the CCU. GPA believes it is bound by the schedules which were
7 presented to the CCU and published in the ratepayer's bill of rights notice. At the time
8 the schedules were created, GPA was expecting the loan proceeds to be received in Fiscal
9 Year 2007. However, predicting the drawdown schedule would have been very difficult
10 with so many variables involved including the fact that GPA has not yet received PUC
11 approval for all the requested loan uses. Due to the delays, execution of the loan has
12 been pushed into the test year or beyond.

13
14 The initial award of the \$10 million loan was given to a small capital finance company.
15 We had an extensive data exchange period and a lengthy wordsmithing period as we were
16 trying to work out security language that was acceptable to all parties involved. In the
17 end, we were unable to agree to language that would be consistent with GPA's Bond
18 Indenture Agreement.

19
20 After discussions were terminated with the first vendor who responded to the Request For
21 Proposals for loan financing, the other vendor was contacted. They went through a
22 lengthy internal credit review. In January 2008, GPA was notified by the bank that the
23 loan could not be extended without additional legislation being passed. The bank did not

1 believe that GPA had a sufficiently strong financial position to assure repayment of the
2 loan without additional security from the government. GPA believes this requirement
3 essentially ended the procurement process. GPA has contacted the Guam Economic
4 Development and Commerce Authority and requested that they re-solicit interested
5 parties for the loan.

6
7 In the event that the loan is not received, GPA will still have a need to manage and pay
8 for the projects. GPA is committed to funding the expenditures identified with the \$10
9 million loan. GPA is equally committed to ensuring that ratepayer's are not burdened
10 with the expenditures in a single year. Therefore, GPA recommends that the PUC leave
11 the loan authorization in place as well as the principal and interest repayment stream.
12 This will allow GPA the opportunity to continue its efforts to secure the loan and in the
13 event that GPA is unable to secure the loan, it will enable GPA the flexibility to manage
14 its capital expenditures over the next five years.

15
16
17 GCG has made continual references to the fact that GPA did not reflect the in and out of
18 the \$10 million proceeds in its revenue requirement schedule. This was explained in
19 discovery but was raised again in their testimony filing. In order to satisfy their need to
20 see the \$10 million loan included in the revenue requirement schedule, we have included
21 that version as **Appendix B.**

22
23 **Q. DOES GPA AGREE WITH THE REDUCTION OF \$1.7 MILLION FOR**
24 **INSURANCE COSTS?**

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A. No. It is generally not appropriate to “cherry pick” one or two cost changes during a rate case proceeding. There are generally pluses and minuses, under-estimations and over-estimations in many of the projected numbers in any rate petition. If all of the numbers for which additional information is learned after the filing, were changed, then the rate case would become untenable. In this case, shortly after GPA became aware of the fact that its efforts to reduce property insurance costs for Fiscal Year 2008 had been successful, GPA received a notice from the government indicating that retiree costs being assessed by the government had increased by \$.7M. GPA provided both of these changes, which essentially offset one another, to GCG during the discovery phase of the proceeding. Obviously, it is not appropriate to incorporate one significant cost reduction and not adjust for a significant cost increase. This would clearly not be consistent with practices in the mainland. If the PUC were to adopt the recommendations of GCG with regard to making changes adverse to the utility in isolation, the PUC would be unique among most other jurisdictions.².

Q. HAS GPA FREQUENTLY BEEN MAKING SLIGHT CHANGES TO THE FORMULA FOR THE CALCULATION OF DEBT SERVICE COVERAGE?

A. No. There are several comments in the Georgetown testimony about slight changes that GPA has been making to its debt service coverage calculation formula. If someone were not closely following the rate proceeding, they might come away with the idea that GPA has been frequently changing its debt service coverage calculation formula. In reality,

² See email correspondence with Mr. Dave Sheard, Assistant Administrator from the Wisconsin Public Service Commission as **Appendix C**. Mr. Sheard is an instructor of ratemaking at the Rate School conducted bi-annually by the Institute for Public Utilities.

1 GPA has gone from the early nineties to this rate proceeding without making any changes
2 to the debt service coverage calculation formula.³ Shortly after submitting its testimony,
3 GPA was contacted by GCG to review its bond indenture to determine if interest income
4 should be included in the calculation of the debt service coverage ratio. GPA reviewed
5 the formula in its bond indenture, which is not a straight forward explanation, and
6 determined that interest income from certain funds should be included in the debt service
7 coverage formula. GPA advised GCG of this determination. GCG then asked GPA to
8 recalculate the debt service coverage ratio. In calculating the debt service coverage ratio,
9 GPA did not include a non-cash credit to interest income which is related to an up front
10 payment from a bond forward delivery agreement which was received and expended long
11 before the CCU took over governance of the authority. The purpose of the debt service
12 coverage ratio is to determine the amount of cash available to pay debt service each year.
13 Therefore, GPA did not include this non-cash credit in its debt service coverage
14 calculation. GCG, in its testimony, indicated that they believe the non-cash amount
15 should be included in the debt service coverage calculation. After reviewing GCG's
16 testimony on this subject, we sent an email to Stan Dirks who concurred with GPA's
17 position on this matter. (See Appendix D).

18
19 **Q. DO YOU AGREE WITH GCG'S POSITION RELATED TO THE PHASING IN**
20 **OF STAFFING INCREASES?**
21

22 A. No. GPA's plan is to phase in the hiring of vacant positions over a two year period and
23 new positions over a four year period. Thus, the plan for phasing in positions is very

³ GPA made a change to its debt service coverage formula in 2003 as a result of a change in accounting guidance from the Government Accounting Standards Board. However, the change was objected to by the analysts that provide credit ratings for the Authority and the practice was abandoned within a few months.

1 close to the position declared in the GCG testimony. Because the differences in the plans
2 are so close, GPA believes that its plan filed in its petition should remain intact.

3
4 GPA notes that the GCG analysis for the Phase I increase begins with the payroll
5 information from the Phase II portion of the rate increase. In other words, they begin
6 from 100% funding of new and vacant positions and reduce from there. In reality, GPA's
7 petition begins with 50% funding of vacant positions and 25% funding of new positions
8 which works out to phasing in the new positions over a two-plus year period.

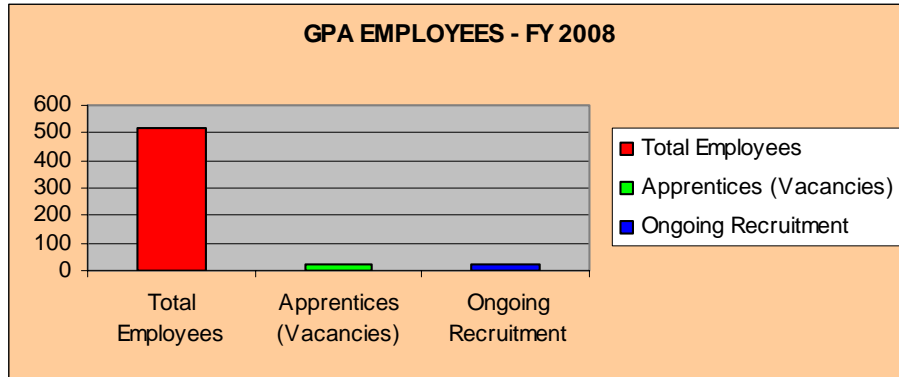
9
10 Additionally, GCG's analysis provides only 50% of the funding for the 26 positions it is
11 recommending. By making this change, they would only be allowing GPA to fill 13 of
12 the vacant positions. If GPA were to fill 13 vacancies in the next few months, it would
13 be unable to hire any additional employees as there would be no revenue stream to
14 support the certification of funds.

15
16 As the PUC knows, GPA has been having a very difficult time attracting and retaining
17 qualified personnel to serve in the Authority. In 2004, GPA initiated a four year
18 apprenticeship program in which GPA has worked with the Agency for Human Resource
19 Development within the government of Guam to train promising prospective employees
20 to fill many of the vacancies that GPA has been unable to fill with constant job
21 announcements. This year, many of the apprentices will become journeyman and will be
22 qualified to hold positions within the Authority. If the GCG plan is adopted and only 13
23 positions can be filled this year, then GPA will be forced to release the remaining

1 apprentices from commitment to GPA and GPA will have incurred training costs on
2 behalf of these personnel without receiving any benefit from their service to GPA.
3 Additionally, many of the other positions are critical to the Authority including IT
4 Manager, Internal Auditor, Generation Manager, Asst. Generation Manager and Credit
5 Manager. Many of these positions have remained vacant due to GPA's untenable
6 financial position and GPA does not believe it is in the ratepayer's best interests for such
7 positions to remain vacant any longer than necessary.

8
9 The following chart reflects the Fiscal Year 2008 efforts to attract additional staff to fill
10 the longstanding vacancies at the Authority. There have been 5 people hired so far in
11 FY08. There are 15 positions where applications have been received and the hiring
12 process is already underway. There are 22 apprentices that will be completing their
13 program in FY08. Under the GCG plan where only 13 positions would be allowed to be
14 hired during the year, that means that most of the apprentices would be freed of their
15 obligation to serve at GPA and would be able to seek higher paying job opportunities off-
16 island after being trained at the ratepayer's expense. GPA does not believe this is a
17 prudent action.

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19
20



1

| | | |
|-------------------------|---|------------|
| Total Employees | = | 516 |
| Apprentices (Vacancies) | = | 22 |
| Ongoing Recruitment | = | 20 |
| TOTAL | = | 558 |

2

3

GPA is an island utility. We do not have a vast labor pool to draw from such as is the case in the mainland. GPA’s staff planning has shown that a significant number of current GPA employees are eligible to retire from the Authority at this time. When the employees retire, GPA will not have the luxury of running an advertisement and attracting candidates from a utility in the next town. GPA has developed the apprenticeship program to ensure that the positions that have been vacated in recent years are able to be filled by capable, qualified employees. If the GCG recommendation is followed and the apprentices are released from their obligations, GPA and its ratepayers will be irreparably adversely impacted by the next wave of retirements at the Authority.

12

13

It is for these reasons that GPA believes there should not be any changes made to its plan for phasing in the hiring of the new and vacant positions.

15

16

Q. DOES GPA AGREE WITH THE GCG ASSUMPTIONS WITH RESPECT TO INCREASING PRODUCTIVITY OF GPA EMPLOYEES?

17

18

1 A. No. GPA does not believe it is appropriate to compare GPA to other utilities in the
2 mainland that have increased their productivity in recent years.

3
4 First, GPA believes many of the productivity improvements that have taken place result
5 from investments in technology infrastructure. In recent years, GPA has not been able to
6 invest in new technology due to its cash shortages. Further, the fact that GPA's Working
7 Capital Fund has remained unfilled has left GPA in a position where it has essentially
8 been unable to initiate capital projects of any kind for more than a year.

9
10 Also, because of the inability of the Authority to attract personnel to fill critical
11 operational vacancies, many of GPA's existing employees have been required to work
12 significant overtime hours and to work back to back shifts at times. These are not
13 circumstances which are conducive to taking advantage of productivity improvements.

14
15 GPA is seeking this rate increase to enable it to be in a position where it can implement
16 the new performance based evaluation program. This will enable GPA to change its
17 culture to allow the Authority to take advantage of productivity improvements which
18 should begin to be realized over the next three to five years.

19
20 **Q. DO YOU AGREE WITH THE GCG POSITION ON ESTABLISHING A SELF**
21 **INSURANCE FUND OF \$10 MILLION?**
22

23 A. The GPA position was that the fund should be filled to \$25 million and then an actuary
24 should be hired to estimate the appropriate cap level on a going forward basis. The PUC
25 would then review the actuary's report and would establish a new cap level based on the

1 report. The GCG position is that the cap should be set at \$10 million and an actuary
2 should be hired now to determine the appropriate cap. Then the PUC should adjust the
3 cap level based on the actuary's report. The variance in positions do not appear to be
4 materially different – one with respect to the timing of the actuarial study. GPA would
5 not be opposed to the Commission establishing a cap lower than \$25 million pending the
6 results of the actuarial study. GPA believes that the recommendation by GCG represents
7 the lower bound of an acceptable interim fund cap. If the PUC establishes a cap at a level
8 less than \$25 million, then it should extend the right to adjust the cap under this rate
9 proceeding, accordingly.

10

11 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

12

13 A. Yes

14

**BEFORE THE PUBLIC UTILITIES COMMISSION
APPLICATION OF GUAM POWER AUTHORITY
FOR BASE RATE INCREASE**

DOCKET NO. 07-10

**REBUTTAL TESTIMONY OF
STANLEY J. DIRKS**

**ON BEHALF OF
GUAM POWER AUTHORITY**

Hagatna, Guam

January 29, 2008

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

In the Matter of)
Guam Power Authority's Petition for Base)
Rate Increase) **Docket No. 07-10**
)
)
)

AFFIDAVIT OF STANLEY J. DIRKS

TERRITORY OF GUAM)
)
)

STANLEY J. DIRKS, being first duly sworn on his oath, states:

1. My name is STANLEY J. DIRKS. My office is in San Francisco, California and I am partner in the Law Firm of Orrick, Herrington and Sutcliffe.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Guam Power Authority, consisting of seven (7) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

STANLEY J. DIRKS

Subscribed and sworn before me this 29th day of January, 2008.

Notary Public

My commission expires: _____

REBUTTAL TESTIMONY OF

STANLEY J. DIRKS

Docket No. 07-10

1. PURPOSE

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Q. PLEASE STATE YOUR NAME, OCCUPATION AND PRESENT EMPLOYMENT.

A. My name is Stanley J. Dirks. I a partner in the law firm of Orrick, Herrington & Sutcliffe, 400, Sansome Street, San Francisco, California 94111.

Q. PLEASE DESCRIBE YOUR ACADEMIC BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I have an A.B. degree from Dartmouth College (1968) and a J.D. Degree from Stanford University (1975). I was a member of the Stanford Law Review (1974-1975). I was admitted to the State of California Bar in 1975. I was a member of the California Debt Advisory Commission Technical Advisory Committee during its inaugural decade (1983 – 1992). From time to time, I am a lecturer or panelist on tax-exempt finance for a variety of educational programs, including such programs for continuing education of lawyers and for the education of stated and local government officials. I was the editor and principal author of the California Debt Issuance Primer (a California Debt Advisory Commission publication). Power revenue bond law is one of my principal practice areas. I have practiced in these substantive areas for over 25 years and have acted either as bond counsel or underwriters’ counsel for many power revenue bond issuers and for several

1 billion dollars in principal amount of power revenue bonds. Orrick, Herrington
2 & Sutcliffe is the number one bond counsel firm in the nation by dollar volume of
3 tax-exempt bond financing, and is also the leading firm in the power revenue
4 bond area.

5 **Q. THE GEORGETOWN CONSULTING GROUP (GCG) HAS PROPOSED THAT**
6 **GPA'S BASE RATE PETITION BE REDUCED FROM THE \$17.9 MILLION**
7 **REQUESTED IN PHASE I OF THIS BASE RATE PROCEEDING TO \$4.7**
8 **MILLION. HAVING REVIEWED THE GRAPHS IN APPENDIX A, PLEASE**
9 **COMMENT ON WHETHER OR NOT THE CASH BALANCES RAISED ANY**
10 **CONCERNS REGARDING GPA'S ABILITY TO MEET ITS BOND**
11 **COVENANTS.**

12
13 A. As bond counsel to GPA (legal advisor for its revenue bond and commercial paper
14 financing programs), my primary concerns are as follows (capitalized terms used in the
15 following testimony have the meanings given to such terms in the Guam Power Authority
16 Revenue Bond Indenture):

17
18 (1) First, the intent of the provisions of the Indenture relating to the Working Capital
19 Fund is that the amount in the Working Capital Fund be increased to the Working
20 Capital Requirement (one month's Maintenance and Operation Expenses) and stay
21 there pending the occurrence of unusual events that result in monthly revenues not
22 being adequate to pay monthly expenses. Such unusual events might include a
23 natural disaster (e.g., a typhoon or earthquake) or major market change (e.g., a
24 dramatic increase in the price of oil). The Working Capital Fund is intended to be
25 available at upon such events to pay disaster recovery costs and other Maintenance
26 and Operation Expenses for which amounts are not available in the Revenue Fund.
27 The graphs, however, show the following patterns. Even during the period in early

1 2007 that the Working Capital Fund was gradually increasing, it was being drawn
2 upon every month in a way that significantly impaired its ability to perform the
3 intended function described above. Never during the course of 2007 were Revenues
4 adequate to fund monthly expenses and to increase the amount in the Working
5 Capital Fund by the amount intended by the Indenture--one-sixth of one month's
6 Maintenance and Operation Expenses. Later in the year, even the average amount in
7 the Working Capital Fund was declining from month to month, so that toward the end
8 of the year, there were parts of each month for which virtually no reserves were
9 available.

10
11 (2) Second, the intent of the Indenture provisions relating to the Surplus Fund is that all
12 "debt service coverage" (the amount by which required rates are supposed to produce
13 Revenues in excess of the sum of Maintenance and Operation Expenses and Bond
14 debt service) is to flow into the Surplus Fund and be the source (in fact the only
15 source) of amounts to pay the costs of capital improvement projects (CIPs) that have
16 not been funded by Bond proceeds. Certain CIPs are absolutely necessary during the
17 course of the year because they are critical to safety, compliance with law (including
18 environmental requirements), provision of continuous service (which is itself a safety
19 issue) and operation in an economically efficient manner (i.e., in a manner that results
20 in savings in the long run—including by retrofitting older facilities and by not
21 cancelling CIP contracts already signed). The graphs, however, show that for a large
22 part of the year 2007, monthly Revenues were not sufficient to pay the sum of
23 monthly Maintenance and Operation Expenses, make the required Bond debt service

1 deposits and make the required deposit to the Working Capital Fund. As a result,
2 nothing was (or should have been) deposited to the Surplus Fund.

3
4 (3) The Indenture does not provide any source of Revenues, other than the Surplus Fund,
5 to pay the costs of CIPs that are not disaster recovery costs. To the extent that the
6 System needs a source of Revenues to pay for CIPs, monthly Revenues must be
7 adequate to pay monthly Maintenance and Operation Expenses, make the required
8 Bond debt service deposits, make the required deposit to the Working Capital Fund
9 (one-sixth of one month's Maintenance and Operation Expenses) and pay for these
10 critical CIPs.

11
12 **Q. THE TESTIMONY OF THE GEORGETOWN CONSULTING GROUP**
13 **INDICATES THAT THE PUC SHOULD ADOPT A POSITION WHICH**
14 **ASSUMES FOR CASH FLOW PURPOSES THAT THE REMAINING**
15 **STREETLIGHT ARREARAGE OF APPROXIMATELY \$13 MILLION WOULD**
16 **BE COLLECTED OVER A TWO YEAR PERIOD. PLEASE COMMENT ON**
17 **ANY IMPACT THIS ASSUMPTION WOULD HAVE ON GPA'S COMPLIANCE**
18 **WITH ITS RATE COVENANT IN THE INDENTURE.**
19

20
21 A. Under the Indenture rate covenant, rates are required to be established so that such rates
22 "will yield Net Revenues" for the next twelve months equal to at least 1.30 times annual
23 debt service on the outstanding Bonds. Given the Government's nonpayment of the
24 streetlight arrearage for at least the last [four] years, with the exception of minor
25 payment[s] in [early 2007], and the Government's accrued General Fund current account
26 deficit of hundreds of millions of dollars, it would be unreasonable to base projected
27 revenues for rate covenant purposes on an assumption that the streetlight receivable will

1 be paid by the Government, unless there is significant additional security for its payment.

2 Use of an unreasonable assumption would be noncompliance with the rate covenant.

3

4 **Q. DOES THAT CONCLUDE YOUR PREFILED REBUTTAL TESTIMONY?**

5

6 A. Yes, it does.

**GUAM PUBLIC UTILITIES COMMISSION
APPLICATION OF GUAM POWER AUTHORITY
FOR GENERAL RATE INCREASE**

DOCKET NO. 07-10

REBUTTAL TESTIMONY OF

Kemm C. Farney, PhD

ON BEHALF OF

GUAM POWER AUTHORITY

Agana, Guam

January 29, 2008

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

In the Matter of)
Guam Power Authority's Petition for Base)
Rate Increase) Docket No. 07-10
)
)
)

AFFIDAVIT OF KEMM C. FARNEY

TERRITORY OF GUAM)
)

KEMM C. FARNEY, being first duly sworn on his oath, states:

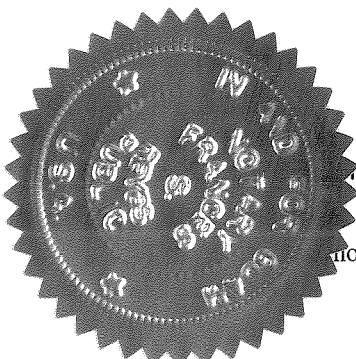
- 1. My name is KEMM C. FARNEY. My office is in Philadelphia, Pennsylvania and I am employed partner in PL Mangilao Energy, LLC (Mangilao), a Guam company specializing in engineering and economic consulting.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Guam Power Authority, consisting of four (4) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

[Handwritten signature of Kemm C. Farney]
KEMM C. FARNEY

Subscribed and sworn before me this 29th day of January, 2008.

[Handwritten signature of Frances S. Reyes]
Notary Public

FRANCES S. REYES
NOTARY PUBLIC
In and for Guam, U.S.A.
My Commission Expires: Oct. 02, 2010
P.O. Box 2977 Hagatna, Guam 96932



My commission expires: _____

Notary Rebuttal Testimony Farney

REBUTTAL TESTIMONY OF

Kemm C. Farney, PhD

Docket No. 07-10

PURPOSE

1

2

**Q. ARE YOU THE SAME KEMM FARNEY WHO SUBMITTED DIRECT
TESTIMONY IN THIS PROCEEDING?**

3

4

5

A: Yes, I am.

6

7

Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

8

A: This testimony rebuts the ill-founded assertion that it would be more prudent to use the

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forecast of future energy consumption that is being sponsored by the witness for the US

10

Navy and advocated by the witness from Georgetown Consulting Group. I will

11

demonstrate through this Rebuttal Testimony that their positions would not have yielded

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the best outcome in the past, and that the forecast sponsored by GPA should be preferred

13

for use in this proceeding.

14

15

DISCUSSION

16

17

**Q: WHY WOULD IT NOT BE PRUDENT TO SIMPLY ADOPT THE ENERGY USE
FORECAST BEING SPONSORED BY THE US NAVY?**

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19

20

A: As part of its normal annual budgeting process, GPA asks the US Navy to provide a

21

forecast of its expected energy purchases from GPA over the next five years. This

22

information is usually received from the US Navy in the form of a letter or an email

1 during the spring of the year. This procedure has been in place for many years, since at
2 least 2004.

3 When GPA tabulated the results of the information provided, it was found that the Navy
4 sometimes takes more, and sometimes takes less, than they indicate. In 2004 the Navy
5 said it would take 307,869,853 kWh. It actually took 288,457,612 kWh, 6.7% less than
6 they indicated. In 2005 they took 1.6% more than they indicated. In 2006 they took
7 5.8% less than they indicated, and in 2007 they took 2.7% more than they indicated.

8 Based upon this inconsistent historical pattern of the US Navy actually purchasing a
9 significantly different amount of electrical energy from GPA than they indicated they
10 would at the start of each budget year, it was our shared opinion that it would not be
11 prudent to simply adopt their forecasts uncritically. Instead, it was my recommendation
12 that we should review and consider their projections carefully, but develop our own
13 independent and objective opinion of their likely consumption based upon all of the
14 information available to us.

15 In accomplishing this objective, we used an econometric model of the Navy's electricity
16 consumption, taking into account the Navy's historical consumption, the state of Guam
17 economy – which is highly dependent upon the Navy's activity on the island, the real
18 price that the Navy pays to GPA for the electricity it consumes, and the weather.

19 The original version of this model was built by me, based upon my experience modeling
20 similar situations where a military presence has a strong impact on the local economy.

21 My original model was then delivered to GPA's Strategic Planning and Operations
22 Research Department (SPORD) and they prepared the budget forecast that is being used
23 as the current projection, in consultation with me. It was our shared opinion that the

1 resulting forecast was of a good technical quality and provided a sound basis for utility
2 planning and budgeting.

3

4

CONCLUSIONS

5

6 **Q. DO YOU BELIEVE THAT THIS COMMISSION SHOULD ADOPT THE**
7 **FORECAST PRESENTED BY THE US NAVY IN THIS CURRENT**
8 **PROCEEDING?**

9

10

11 A. No, I do not. I believe there is substantial evidence, as I have just discussed, the
12 Navy's actual 2008 consumption will be less than they are indicating. I believe that using
13 their forecast will have a harmful effect upon this Commission's final decisions in this
14 docket. This subject is discussed in greater detail by GPA witness William Kemp.

15

16 **Q. DO THE POSITIONS TAKEN BY NAVY AND GEORGETOWN CONSULTING**
17 **GROUP CAUSE YOU TO CHANGE ANY OF THE CONCLUSIONS YOU**
18 **REACHED IN YOUR DIRECT?**

19

20 A. No, they do not.

21

22 **Q. DOES THAT CONCLUDE YOUR PREFILED REBUTTAL TESTIMONY?**

23

24 A. Yes, it does.

**GUAM PUBLIC UTILITIES COMMISSION
APPLICATION OF GUAM POWER AUTHORITY
FOR GENERAL RATE INCREASE**

DOCKET NO. 07-10

REBUTTAL TESTIMONY OF

WILLIAM J. KEMP

ON BEHALF OF

GUAM POWER AUTHORITY

Agana, Guam

January 28, 2008

REBUTTAL TESTIMONY OF

WILLIAM J. KEMP

Docket No. 07-10

1. PURPOSE

1

2 **Q. ARE YOU THE SAME WILLIAM J. KEMP WHO SUBMITTED DIRECT**
3 **TESTIMONY IN THIS PROCEEDING?**

4 A: Yes, I am.

5

6 **Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7 A: This testimony rebuts certain ill-founded assertions or proposal contained in the
8 testimony of Maurice Brubaker on behalf of U.S. Department of the Navy (“Brubaker
9 Testimony”) and Bruce Oliver on behalf of Georgetown Consulting Group (“Oliver
10 Testimony”). Both of these witnesses take issue with elements of my Direct Testimony
11 or related portions of other direct testimony on behalf of Guam Power Authority
12 (“GPA”). I will demonstrate through this Rebuttal Testimony that certain of their
13 positions are factually incorrect, suffer from serious logical flaws, or advocate bad public
14 policy.

15

16 **Q: WHAT WERE THE CONCLUSIONS OF YOUR DIRECT TESTIMONY?**

17 A: My conclusions were as follows:

18 1. *Do the proposed Navy non-fuel rates for FY 2008 and FY 2009 comply with the*
19 *requirements of the Customer Service Agreement with the Navy?*

1 Yes. GPA has closely followed the requirements of the Customer Service
 2 Agreement in performing the transmission level cost-of-service in this filing, and
 3 developing the proposed Navy non-fuel rates accordingly.

4 2. *Do the proposed Navy non-fuel rates for FY 2008 and FY 2009 reflect GPA's full*
 5 *requested revenue requirement full costs of serving the Navy?*

6 Yes. The proposed Navy rates include the Navy's full allocation (but no more) of all
 7 the revenue requirement items included in the proposed civilian rates.

8 3. *Do the proposed Navy and civilian rates recover GPA's requested revenue*
 9 *requirement for FY 2008 and FY 2009?*

10 Yes. The proposed Navy and civilian rates for FY 2008 and FY 2009, when applied
 11 to the forecasted usage and billing determinants for those years, produce the
 12 requested levels of base revenue.

13

14

2. NAVY LOADS

15

16 **Q. MR. BRUBAKER ASSERTS THAT THE FY2008 FORECAST OF NAVY**
 17 **DEMANDS PROVIDED TO GPA BY NAVY WERE NONCOINCIDENT PEAK**
 18 **DEMANDS. [BRUBAKER TESTIMONY, PAGE 5]. WHY DOES GPA HOLD**
 19 **TO ITS POSITION THAT THESE WERE COINCIDENT PEAK DEMANDS?**

20

21

22 A. In response to a request from me while I was developing my direct testimony, Mr.
 23 John Cruz, Assistant General Manager for SPORD for GPA, asked the Navy for
 24 clarification on the type of demands represented in its 2008 load forecast. Mr. Joe Torre
 25 of the Navy responded over the telephone that its forecasted demands were coincident
 26 peak demands, and reflected Navy's contribution to the system peak. My use of the

1 Navy's forecasted demands in developing the Transmission-Level Cost-of-Service
2 (TLCOS) is consistent with Navy's stated definition.

3
4 **Q. MR. BRUBAKER RECOMMENDS ADOPTING NAVY'S FORECAST OF ITS**
5 **2008 ENERGY CONSUMPTION (356,883,000 KWH), RATHER THAN GPA'S**
6 **ADJUSTED FORECAST (331,811,620 KWH). [BRUBAKER TESTIMONY,**
7 **PAGE 6] WHY IS GPA'S ADJUSTED FORECAST A MORE REASONABLE**
8 **NUMBER?**

9
10
11 A. GPA witness Dr. Kemm Farney can address this more directly, since he is
12 sponsoring GPA's load forecast. My understanding is that GPA reviewed during
13 FY2007 how Navy's actual energy consumption was tracking vs. its forecast from March
14 2007. By September 2007 it was apparent that Navy's actual loads were significantly
15 lower than its forecast. GPA therefore adjusted downward Navy's 2008 energy
16 consumption forecast to match better with Navy's actual load trends. There was no basis
17 to assume that Navy's loads would suddenly jump up to its forecasted trend level.

18 In making this adjustment to Navy's forecast, GPA also considered the fact that
19 Navy's forecasted loads had been consistently higher than its actual loads in recent years.

20
21 **Q. WHY WOULD IT BE INEQUITABLE TO USE A NAVY LOAD FORECAST**
22 **THAT IS HIGHER THAN WHAT COULD REASONABLE BE EXPECTED?**

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24
25 A. The forecasted Navy demands and energy are used to allocate demand and energy
26 costs in the TLCOS. Overstated demand and energy levels in 2008 would allocate more
27 costs to Navy than its actual demands would indicate.

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Q. WHY WOULD NAVY THEN PROPOSE ADOPTION OF ITS HIGHER LOAD FORECAST?

A. Navy's rates are equal to its allocated costs divided by its forecasted peak demands and energy consumption. Use of Navy's higher load forecast would increase allocated costs to the Navy, but it would increase the denominator (kw-months and kwh) in the calculation of Navy's rates by an even larger proportion. The net result is that Navy's rates are lower with a higher load forecast. If lower rates are combined with actual loads that are well below forecasted loads (as would likely be the case with Navy's forecast), the result is significantly lower bills to the Navy and significant cost under-recovery for GPA. This is clearly not consistent with the principles of good utility ratemaking, prudent utility financial management, or sound regulatory policy.

Q. GEORGETOWN CONSULTING GROUP (GCG) WITNESS BRUCE OLIVER SUPPORTS USE THE NAVY'S FORECAST OF ITS LOAD. [OLIVER TESTIMONY, PAGE 26] WHY IS IT NOT FINANCIALLY PRUDENT FOR UTILITIES TO INCORPORATE UNREALISTICALLY HIGH LOAD FORECASTS IN THEIR RATEMAKING?

A. It is a matter of simple arithmetic. Non-fuel costs generally are fixed or semi-variable over the range of output volumes that may be considered in a rate case. That is, projections of non-fuel costs will increase substantially slower than projected loads, as higher load forecasts are considered. Therefore the numerator (costs) rises slower than

1 the denominator (loads) in the calculation of rates. Higher load forecasts lead to lower
2 rates, even though fixed costs have not changed and semi-variable costs may have
3 increased. (I note that neither Navy nor GCG account for the fact that GPA's non-fuel
4 energy costs would increase if higher GPA energy production is assumed.)

5 If actual loads turn out to be lower than forecasted, sales volumes and revenues
6 will be correspondingly smaller. Since the full level of forecasted sales would be needed
7 to recover fully the revenue requirement used for ratemaking, the utility's full cost-of-
8 service would not be recovered.

9 Thus, Navy has a natural bias toward higher forecasts of its loads. GCG and Mr.
10 Oliver are supposed to be neutral advisors to the Guam Public Utilities Commission
11 (Guam PUC), so it is unclear why they would favor unrealistically high load forecasts,
12 especially since they appear to support strengthening GPA's financial health.

13 For its part, GPA has adopted middle-of-the-road load forecasts for FY2008 and
14 FY2009, based on the best and most recent available load data and economic factors. It
15 has no intent to pad its forecasts on the high end, or to "low-ball" them. See Mr.
16 Farney's testimony.

17 The TLCOS, in combination with Navy rates based on allocated costs from the
18 TLCOS, will yield revenues equal to allocated costs. However, if the loads used for the
19 TLCOS and rate design are 7 percent higher than the loads that actually occur and are
20 billed to Navy (about the difference between the load forecasts of Navy and GPA), then
21 GPA will under-recover the allocated revenue requirement by that 7 percent figure.

22 This is admittedly fairly basic ratemaking logic, but may be useful to consider for
23 some of the Guam PUC commissioners who do have not extensive backgrounds in utility

1 regulation. Approval of overly aggressive load forecasts can result in the Navy or other
2 customer classes not paying their fair share of GPA's costs of service, with serious
3 negative financial impacts on GPA.

4
5 **Q. MR. OLIVER ASSERTS THAT GPA'S REVENUE FROM THE NAVY WILL BE**
6 **HIGHER IF NAVY'S LOAD FORECAST IS USED. [OLIVER TESTIMONY,**
7 **PAGES 27-28, 36, SCHEDULE BRO-1] IS HIS CALCULATION OF THE**
8 **REVENUE IMPACTS OF THIS CHANGE IN FORECAST ASSUMPTIONS**
9 **CORRECT?**

10
11
12 A. No. Mr. Oliver presents a misleading analysis of the revenue impacts of adopting
13 the Navy's higher load forecast. Schedule BRO-1 merely shows the difference between
14 the revenue produced with GPA's and Navy's forecasts of FY2008 Navy loads, at present
15 GPA rates. While it is obviously true that a higher sales volume will produce more
16 revenue than a lower sales volume at a given price, this comparison does little to
17 contribute to an understanding of the revenue impacts if the Navy's higher load forecast
18 is used in the TLCOS. As explained above, higher load forecasts will change the rate to
19 the Navy, because more costs will be allocated to the Navy, even while forecasted loads
20 increase proportionately more. The net result is that Navy's demand and energy rates
21 shrink as its forecasted loads grow. The lower rate is offset by higher sales. The
22 forecasted percentage recovery of allocated revenue requirement, if all costs are properly
23 counted and loads are as forecasted, is exactly the same (100%). That is the way the
24 TLCOS model logic works.

1 non-assignable costs can then be distributed to cost objectives through the cruder and
2 more indirect method of cost allocation.

3 GPA's general debt has been used to fund investments across all the functions
4 (Production, Transmission, Distribution, Customer Accounting). The related debt service
5 costs cannot be specifically assigned to particular functions, and is appropriately
6 allocated to the functions based on the proportion of net rate base. In contrast, all costs
7 for IPP purchases relate only to the Production function. There is no reason – other than
8 Navy's desire to minimize its rates at the expense of the civilian classes – to allocate to
9 other functions costs that are clearly Production-related.

10 **4. ALLOCATION OF CUSTOMER COSTS**

11
12
13 **Q. MR. OLIVER CRITICIZES GPA FOR USING A STUDY OF CUSTOMER**
14 **WEIGHTING FACTORS THAT IS OLD AND OUTDATED. [OLIVER**
15 **TESTIMONY, PAGES 17-18] DOES GPA HAVE PLANS TO USE MORE**
16 **RECENT DATA?**

17
18 **A.** Yes. I agree with Mr. Oliver that the customer weighting study needs to be
19 updated, ideally with GPA-specific data. As he points out, the study of customer
20 weighting factors relied on by GPA in its current filing is more than 20 years old.

21 GPA has recently obtained from Maui Electric Company a copy of the customer
22 weighting factors used in its 2007 general rate case. This material only became available
23 publicly in late 2007.

1 To set the context, customer weighting factors are intended to reflect the
 2 comparative costs of various components of customer-related costs, for the various
 3 customer classes.

4 The Customer Accounting costs per customer were weighted as follows, in Maui
 5 Electric’s studies from ~1986 and 2007:

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|----------------------------------|---------------------|----------------------|-----------------------|---------------------------|--------------------------|-----------------------|---------------------------|
| CLASS | FY2008 CUSTOMERS | OLD CUSTOMER FACTORS | | | UPDATED CUSTOMER FACTORS | | |
| | | WEIGHTING FACTOR | WEIGHTED CUSTOMERS | ALLOCA- TION FACTOR | WEIGHTING FACTOR | WEIGHTED CUSTOMERS | ALLOCA- TION FACTOR |
| 1 R - Residential | 37,110 | 1.00 | 37,110 | 78.38% | 1.00 | 37,110 | 76.02% |
| 2 G - Small General Nondemand | 3,052 | 1.27 | 3,876 | 8.19% | 1.36 | 4,151 | 8.50% |
| 3 J - Small General Demand | 1,519 | 2.14 | 3,251 | 6.87% | 2.64 | 4,010 | 8.22% |
| 4 P - Large Power | 170 | 1.47 | 250 | 0.53% | 3.30 | 561 | 1.15% |
| 5 H - Private Streetlighting | 570 | 1.35 | 770 | 1.63% | 1.00 | 570 | 1.17% |
| 6 S - Small Government Nondemand | 640 | 1.27 | 813 | 1.72% | 1.36 | 870 | 1.78% |
| 7 K - Small Government Demand | 456 | 2.14 | 976 | 2.06% | 2.64 | 1,204 | 2.47% |
| 8 L - Large Government | 53 | 1.47 | 78 | 0.16% | 3.30 | 175 | 0.36% |
| 9 F - Public Streetlighting | 164 | 1.35 | 221 | 0.47% | 1.00 | 164 | 0.34% |
| 10 Total | 43,734 | | 47,344 | 100.00% | | 48,815 | 100.00% |

6 As can be seen, Maui Electric’s study found that the cost of Customer Accounting
 7 had grown relatively more expensive for non-residential customers, but had become
 8 relatively cheaper for streetlighting customers.

9 GPA concurs with GCG’s recommendation that GPA perform or adapt a
 10 customer costs study in parallel with the upcoming load study, so that costs of the
 11 Customer function (Customer Service and Customer Accounting) are properly allocated
 12 to Navy and the civilian customer classes.
 13

14
 15 **Q. MR. OLIVER RECOMMENDS ASSIGNING A PORTION OF GPA CUSTOMER**
 16 **SERVICE COSTS (E.G. METER CAPITAL AND O&M COSTS) TO NAVY.**
 17 **[OLIVER TESTIMONY, PAGE 11] IS THIS A SENSIBLE**
 18 **RECOMMENDATION?**

19
 20

1 **Q. DOES GPA SHARE THE CONCERN EXPRESSED BY MR. OLIVER THAT ITS**
2 **CIVILIAN RATE DESIGN NEEDS TO BE UPDATED? [OLIVER TESTIMONY,**
3 **PAGES 40-49]**
4
5

6 A. Generally speaking, yes. Sending the right price signals to customers can do
7 much to help achieve GPA's objectives for improving the aggregate load profile of its
8 customers and minimizing the long run cost of providing reliable service.

9 In particular, GPA has already requested and received approval for funding to
10 conduct a year-long study of the load characteristics of its customer classes. As Mr.
11 Oliver points out, such a study will provide a foundation for understanding GPA's actual
12 costs of service by customer class. Other smaller studies will also be helpful in
13 determining equitable methods of allocating GPA's system costs.

14 Assuming that GPA's financial health allows such preparatory studies to be
15 completed, GPA anticipates a full civilian cost-of-service study could be undertaken in
16 mid-2009. This means that any general changes in civilian rate design would likely take
17 effect in FY2010.

18

19 **6. ADVISORY STAFF ROLE**

20

21 **Q. WHAT ARE YOUR OBSERVATIONS ON THE ROLE THAT GEORGETOWN**
22 **CONSULTING GROUP IS PLAYING IN THIS GENERAL RATE CASE**
23 **PROCEEDING?**
24
25

1 A. To advocate for the interests of customers (and against proposed rate increases),
2 ratepayer advocate organizations may be funded by the state. They are most often
3 housed as a “Division of Ratepayer Advocate” within the PUC or a “Office of Public
4 Counsel” within the state Attorney General’s office. The precise organizational names
5 vary. In some jurisdictions, there is no separate ratepayer advocate organization, and
6 PUC “staff” argue for ratepayer interests. But even in those jurisdictions, advisory staff
7 to the commissioners are kept separate.

8 The ratepayer advocate staff are treated as interveners in utility rate cases, and
9 must abide by the rules applying to all interveners. Like the utility and other interveners,
10 ratepayer advocate staff are prohibited from having ex parte (i.e., non-public) contact
11 with commissioners on any matters relating to ongoing regulatory proceedings. This is a
12 procedural safeguard to ensure objectivity by the commissioners, and prevent exercise of
13 undue influence on them.

14 Since their role is to represent the interests of the ratepayer (and not the utility),
15 ratepayer advocate staff almost always take positions recommending significant cuts to
16 requested utility revenue requirements. They very rarely suggest increases in revenue
17 requirements, as that could raise rates to customers.

18

19 **Q. WHY ARE THESE TWO ROLES SEPARATED, IN MAINLAND U.S.**
20 **REGULATORY PRACTICE?**

21

22

23 A. The roles of commission advisory staff and ratepayer advocate are consciously
24 separated, to prevent a natural conflict of interests. The separation of roles also helps
25 ensure procedural fairness to all parties.

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Q. WHY DOES GCG APPEAR TO BE SERVING AS BOTH ADVISORY STAFF AND RATEPAYER ADVOCATE IN GPA RATE PROCEEDINGS?

A. My understanding is that GCG has been retained directly as advisors to the Guam PUC commissioners. They certainly have substantial non-public access to the commissioners, and do not appear to be restricted by any ex parte rules. In sense, they are serving as advisory staff.

On the other hand, the general direction of the recommendations by GCG witnesses Madan and Margerison in this case, and in many prior GPA rate cases, has been to reduce GPA’s requested revenue requirement, and to minimize near term rates to customers. GCG typically does not suggest any ways to increase GPA’s revenue requirement. Madan and Margerison propose adjusting GPA’s revenue requirement downward for favorable developments since GPA filed its case, but ignore or refuse to acknowledge post-filing changes that would increase GPA’s revenue requirement. GCG’s positions are certainly characteristic of a ratepayer advocate role.

Q. WHY SHOULD THE GUAM PUC SEPARATE THE ROLES OF ADVISORY STAFF AND RATEPAYER ADVOCATE?

A. First, the roles should be separated because it is the prevailing regulatory practice in the U.S., for the good reasons described above. In GPA’s interactions with utilities from other jurisdictions, and in the very wide regulatory experience of me and my

1 Continuation of the current system, wherein GPA is subject to two rounds of cuts
2 to its rate proposals and the commission's advice is consistently biased toward short-term
3 concerns, is a recipe for long-term financial weakness and poor service quality. The
4 people of Guam deserve better.

5
6 **Q. WHY IS THE CURRENT OVERLAP OF GCG ROLES POTENTIALLY IN**
7 **VIOLATION OF THE DIRECTIVES OF GUAM LAW?**

8
9
10 A. The most recent expression of the Guam legislature's policy directives for the
11 Guam PUC on utility regulation is the Telecommunications Act of 2004. Section
12 12104(d) of this act states: "The Commission shall apply, to the extent practicable,
13 generally accepted regulatory practices in other United States jurisdictions." In addition,
14 the Customer Service Agreement with the Navy, which was approved by the Guam
15 Legislature and played a large part in the creation of the Guam PUC, requires GPA to
16 follow generally accepted ratemaking practices. Mr. Madan has also testified or made
17 statements to GPA that GPA should follow generally accepted regulatory practices.

18 If GCG's overlap in roles is inconsistent with generally accepted regulatory
19 practices in the U.S., it may be violation of Guam statutes and legislative intent.

20
21 **7. CONCLUSIONS**

22
23 **Q. WHAT ARE YOUR CONCLUSIONS ON THE CENTRAL ISSUES ADDRESSED**
24 **IN YOUR REBUTTAL TESTIMONY?**

1 A. My conclusions are as follows:

- 2 • GPA's adjusted forecasts of FY2008 Navy peak demands and energy
3 consumption should be adopted. GPA exercised good judgment in adjusting
4 Navy's forecasts from early 2007 (in the stated units provided by Navy) to
5 account for the persistent tendency of Navy's actual loads to fall short of Navy's
6 forecast. This tendency was evident in 2007, as well as earlier years.
7 Overestimating Navy's in the TLCOS and Navy rate design would cause a
8 significant under-recovery of GPA's costs of serving the Navy. Such an under-
9 recovery would defeat the whole purpose of this general rate case, which is
10 intended to help restore GPA's financial strength and ability to provide quality
11 service to its customers.
- 12 • The costs of GPA's power purchases from IPPs should remain assigned to the
13 Production function. They are plainly Production costs, and should not be
14 allocated partially to the Transmission or Distribution functions.
- 15 • To the extent possible, GPA should record and assign to the Navy-specific
16 function in the TLCOS any customer-related costs that are solely due to service to
17 the Navy.
- 18 • The Guam PUC should consider a means test for the lifeline rate, if the main
19 objective is to maintain affordability of basic electric service.
- 20 • GPA is willing and ready to work collaboratively with GCG and other interested
21 parties on civilian rate design issues, with the intent to propose a streamlined,
22 more economically efficient, and more equitable set of civilian rates in the first
23 general rate case filing after completion of the load study in early 2009.

RVW Appendix A

Government of Guam Note Payment Impact on Base Rate

Government of Guam Note Payment Impact on Base Rate

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|----------------|----------------|----------------|----------------|----------------|
| 1 Base Revenues | \$ 136.2 | \$ 139.0 | \$ 147.7 | \$ 157.7 | \$ 159.9 |
| 2 Credit for DPW Streetlight Payments | \$ (2.4) | \$ (3.6) | \$ (3.6) | \$ (3.6) | \$ (3.6) |
| 3 Revenue from Allowed Rate Change | \$ 17.9 | \$ 26.9 | \$ 26.9 | \$ 26.9 | \$ 26.9 |
| 4 Other Revenues | \$ 8.7 | \$ 8.6 | \$ 6.2 | \$ 6.2 | \$ 5.9 |
| 5 Total Revenues | \$ 160.4 | \$ 170.9 | \$ 177.2 | \$ 187.2 | \$ 189.1 |
| 6 Add Note Payments: | | | | | |
| 7 Note Payment from DPW | \$ 1.8 | \$ 2.9 | \$ 3.0 | \$ 3.3 | \$ 3.5 |
| 8 Note Payment from GMH & GPSS | \$ 4.0 | \$ 4.4 | \$ 4.6 | \$ 2.2 | \$ 2.3 |
| 9 Total | \$ 5.8 | \$ 7.3 | \$ 7.6 | \$ 5.5 | \$ 5.8 |
| 10 Total Cash Available | \$ 166.2 | \$ 178.2 | \$ 184.8 | \$ 192.7 | \$ 194.9 |
| 11 Less O&M and IPP Costs: | | | | | |
| 12 O&M | \$ 67.1 | \$ 72.5 | \$ 75.6 | \$ 78.9 | \$ 83.9 |
| 13 IPP's | \$ 41.6 | \$ 42.2 | \$ 42.7 | \$ 43.3 | \$ 43.8 |
| 14 Total | \$ 108.7 | \$ 114.7 | \$ 118.3 | \$ 122.2 | \$ 127.7 |
| Amount Available for CIP's, Debt Service and Other Working Capital Requirement | | | | | |
| 15 | \$ 57.5 | \$ 63.5 | \$ 66.5 | \$ 70.5 | \$ 67.2 |

RVW Appendix B

Sources and Uses Of \$10M Loan

Sources and Uses of \$10M Loan

| <u>Source:</u> | <u>Amount</u> | <u>PUC</u> | |
|---|----------------------|------------------------|----------|
| | | <u>Approval</u> | |
| Loan Proceeds | \$ 10,000,000 | Yes | |
| | | | |
| <u>Uses:</u> | | | |
| Vehicles | \$ 2,085,230 | Yes | Note (1) |
| Energy Management System | \$ 1,107,304 | Yes | Note (1) |
| <u>FEMA Projects (GPA Share):</u> | | | |
| Harmon To Tanguisson 34.5 Underground Lines | \$ 719,754 | No | Note (2) |
| Harmon To Tumon 34.5 Underground Lines | \$ 756,725 | Yes | |
| Agana To Tamuning & P-202 Underground Lines | \$ 2,696,411 | Pending | Note (3) |
| Tamuning To Tumon 34.5 Underground Lines | <u>\$ 1,016,443</u> | Yes | |
| Sub-total | \$ 5,189,333 | | |
| Contingencies | <u>\$ 1,618,133</u> | | |
| Total Uses | <u>\$ 10,000,000</u> | | |

Notes: (1) The total of \$2.8 million were spent and funded in FY 06 and FY 07.

(2) For PUC submission.

(3) GCG recommended for approval but no PUC order approving the project.

RVW Appendix C

**Email Correspondence
from
David A. Sheard, P.E.**

Randy,

I asked my rate auditor team leader for some assistance in answering your question. Basically her reply below is that we would not adjust the revenue decrease without likewise giving consideration to the same period expense increase. I think the Wisconsin approach on this is fairly typical of most other states.

Dave

David A. Sheard, P.E.
Assistant Administrator
Division of Water, Compliance
And Consumer Affairs
Ph. (608) 266-9640
david.sheard@psc.state.wi.us

From: Butzlaff, Kathy PSC
Sent: Monday, January 28, 2008 1:26 PM
To: Sheard, Dave PSC
Subject: RE: Rate Setting Question

I think we're on the same page. If we become aware of any material changes prior to the hearing (usually by the utility asking for a revision) we need to take into account all the changes we become aware of. It would not be reasonable to make the one change the utility wanted and ignore other material changes. At least in Wisconsin, if the change was material enough (and seemed reasonable to make at first glance) but we did not have enough time before the hearing, the hearing may need to be adjourned and reconvened at a later date when our revised proposal was ready.

Dear Mr. Sheard,

I hope you don't mind if I ask a generally rate setting question.

If a municipal utility has filed a rate case and then later it is discovered that there is a \$1.7 million reduction in an expense and a \$1.1 million dollar increase in another expense and if it is learned that the revenues are coming in sufficiently lower than forecast, would your commission propose an adjustment only for the \$1.7 million reduction in expenses. Do you believe your commissions practice to be consistent with most jurisdictions in the U.S.?

Thank you,

Randy Wiegand

RVW Appendix D

Email Correspondence from Stanley Dirks

RVW APPENDIX D

Randall V. Wiegand

From: Dirks, Stanley [sdirks@orrick.com]
Sent: Wednesday, January 23, 2008 8:14 AM
To: CCU
Cc: Abola, Brooke
Subject: RE: Quick Question

As you and I have discussed from time to time, I think of the rate covenant as saying that rates need to be set so that on a projected basis, net cash income bears a certain relationship to cash expense and cash debt service. (It's all about the cash, man.) So I would not treat the accrual (if that is the right word) of the interest income (the phantom income) as being "Revenues" for rate covenant purposes. It should have been treated as Revenues in the year received.

Note from the indenture that: "Net Revenues" means, for any particular period, all of the Revenues **received** during such period less all Maintenance and Operation Expenses incurred during such period. (Emphasis added.)

Likewise, the definition of M&O Expenses excludes non-cash items such as depreciation.

You can't pay debt service on the bonds with accrued receivables.

Stan

From: CCU [mailto:rwiegand@ccuguam.com]
Sent: Tuesday, January 22, 2008 1:22 PM
To: Dirks, Stanley
Cc: Abola, Brooke
Subject: Quick Question

Stan,

An issue has come up in our rate case with the PUC. As you will probably recall in 2001, GPA received a large prepayment of interest as a result of entering into a bond forward delivery agreement with a bank. Accounting rules require that gains be spread out over the life of the contract from which the gains arise. Therefore, each year, GPA amortizes interest resulting from that contract - a non cash adjustment. As you are probably aware, the funds were received by GPA in 2001 and were spent in 2003, and therefore, have not been available to the Authority for nearly five years.

The question is: should the interest amortization be included in GPA's debt service coverage calculation?

Thanks,

Randy

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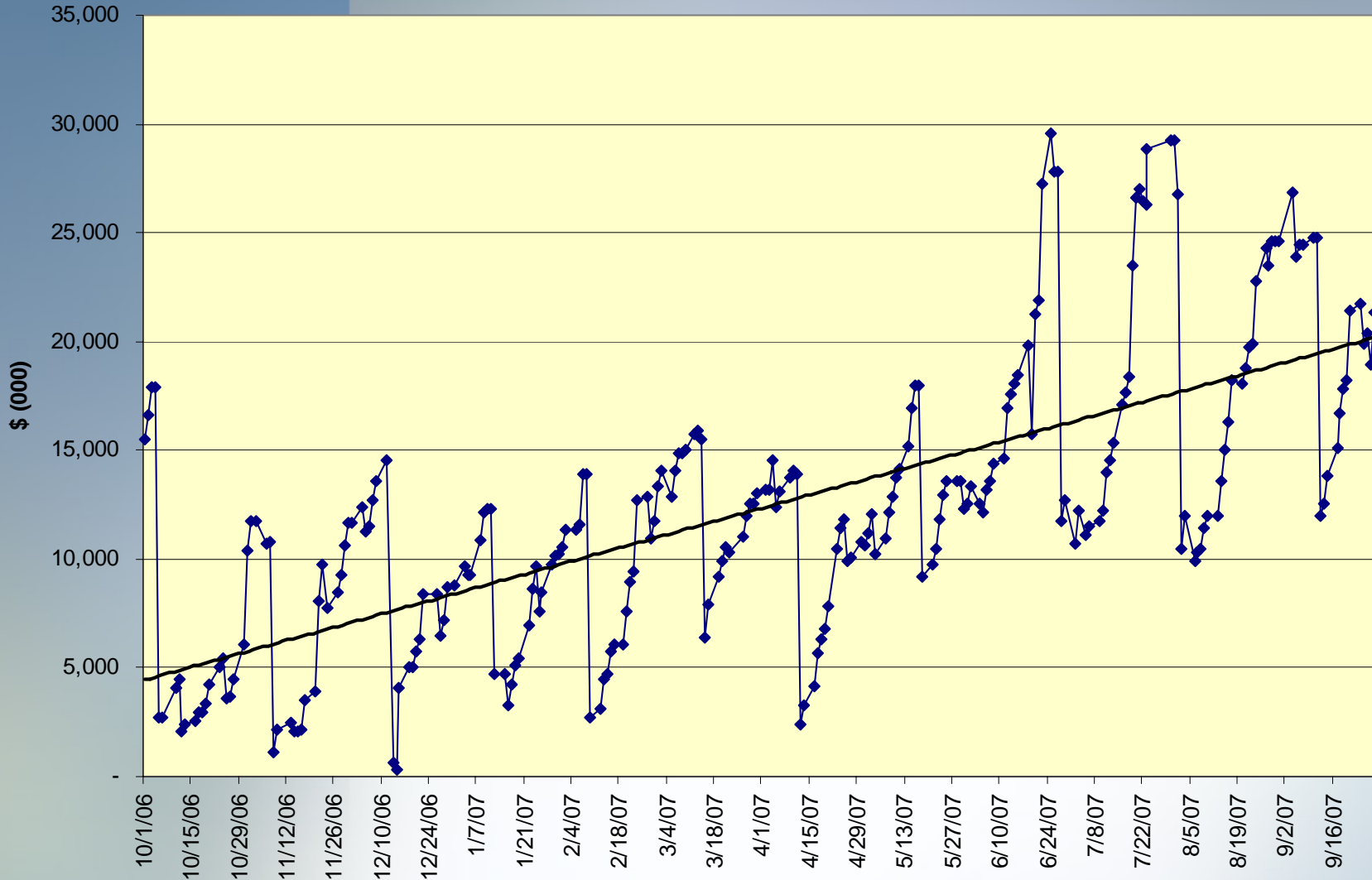
For more information about Orrick, please visit <http://www.orrick.com>

SJD Appendix A

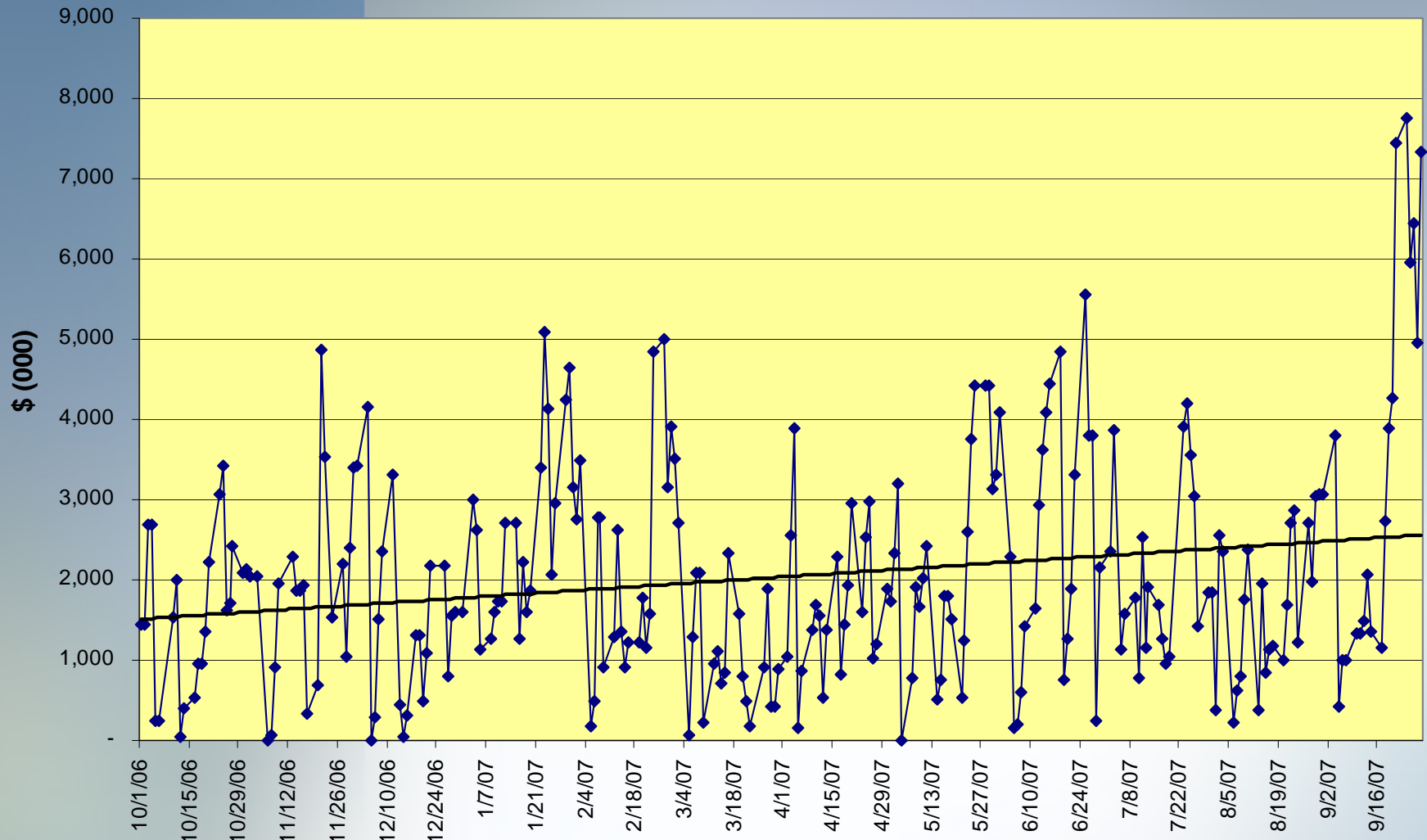
Cash Balances

FY07 DAILY BALANCES

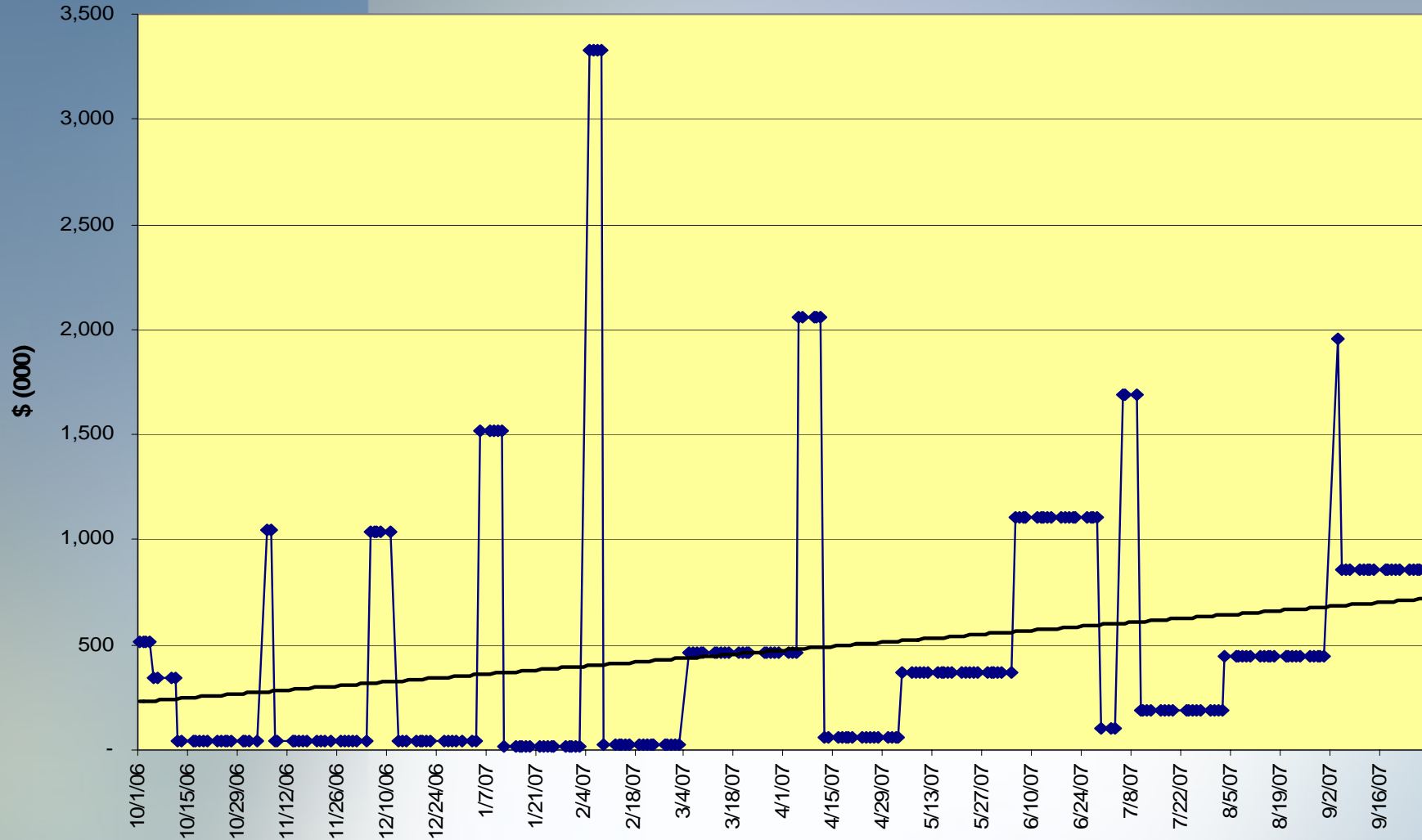
Total of Working Capital Fund, Revenue Fund and Surplus Bond Fund



FY07 DAILY BALANCES REVENUE FUND ACCOUNT

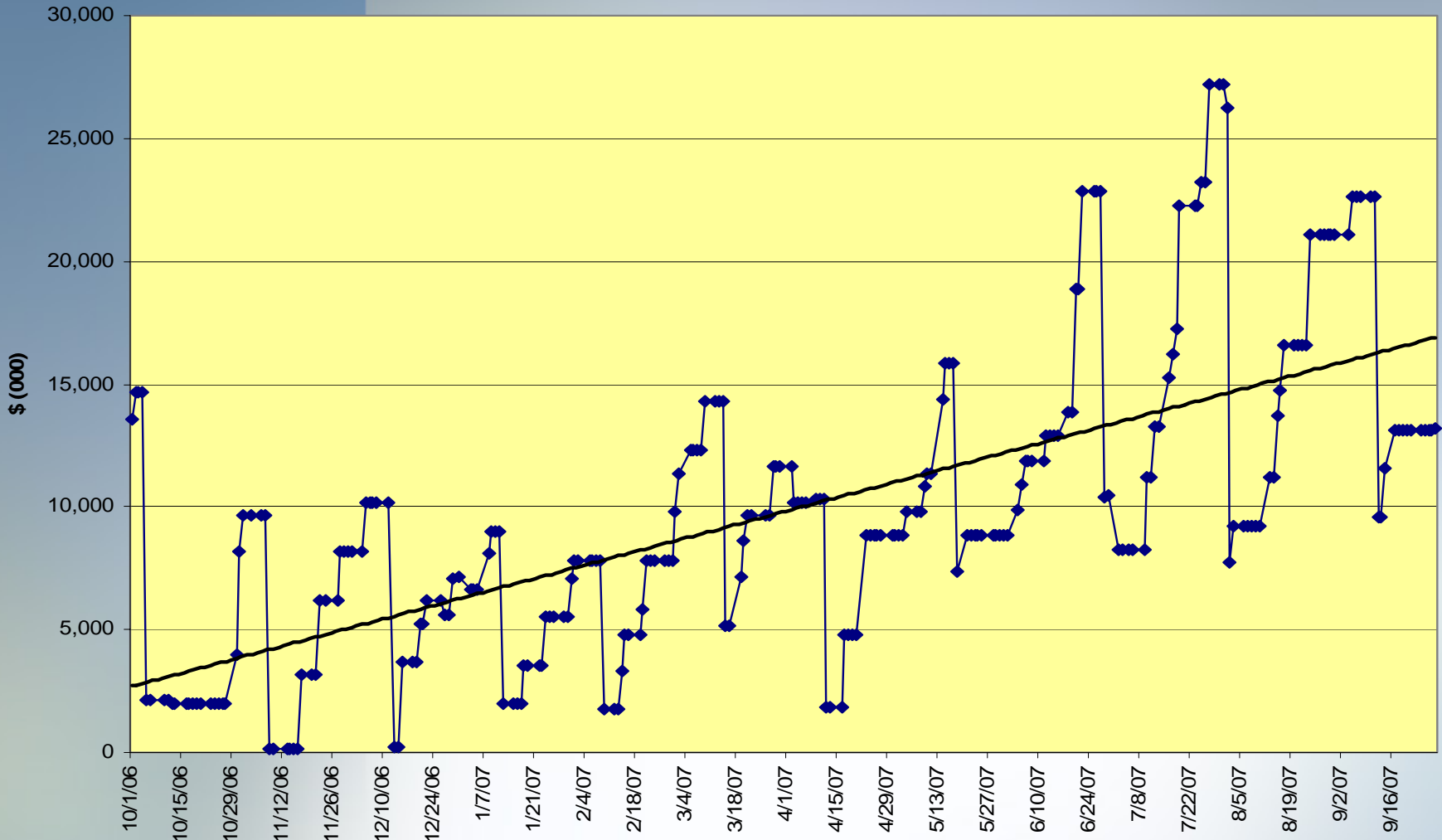


FY07 DAILY BALANCES SURPLUS FUND ACCOUNT



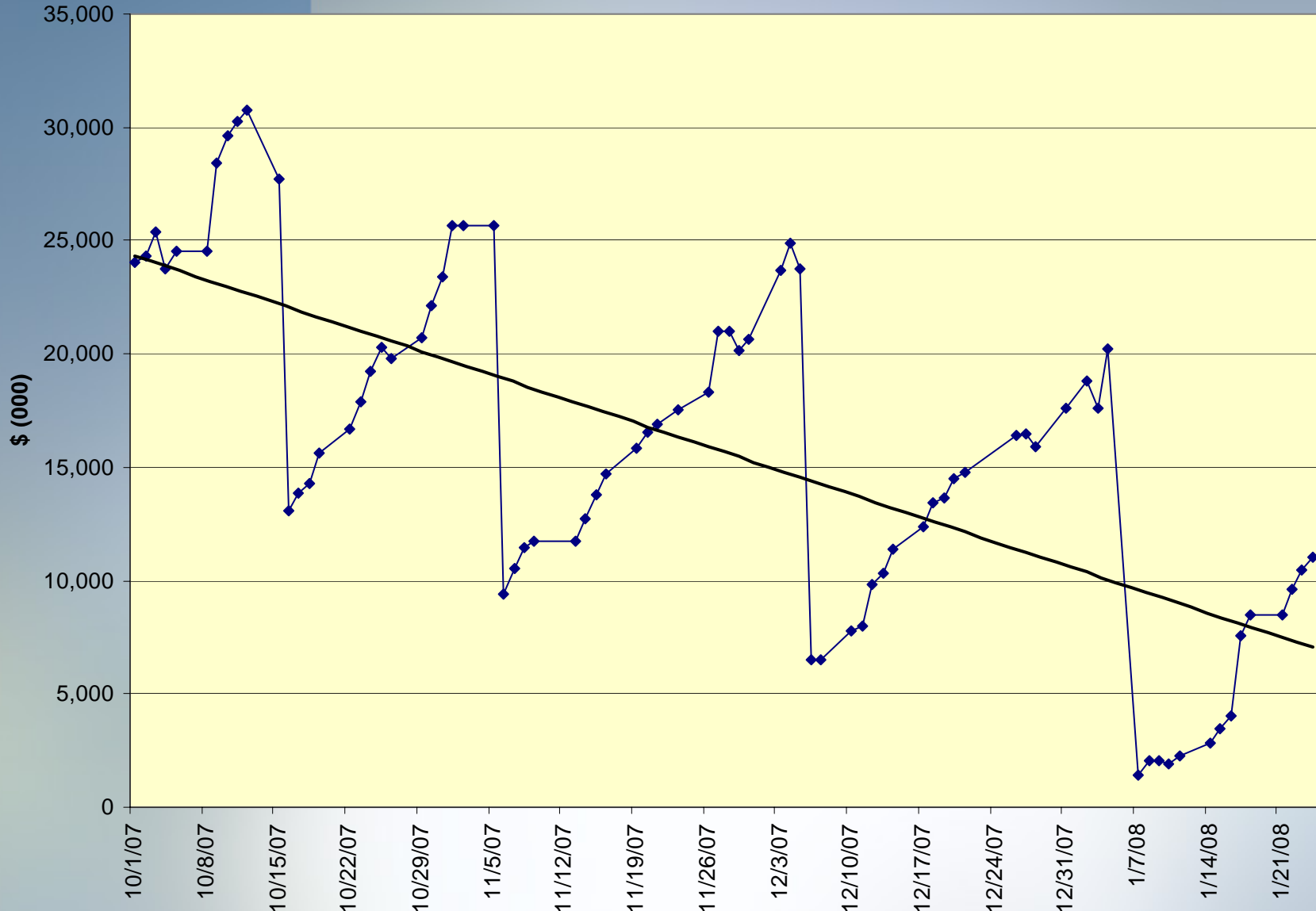
FY07 DAILY BALANCES

Working Capital Fund



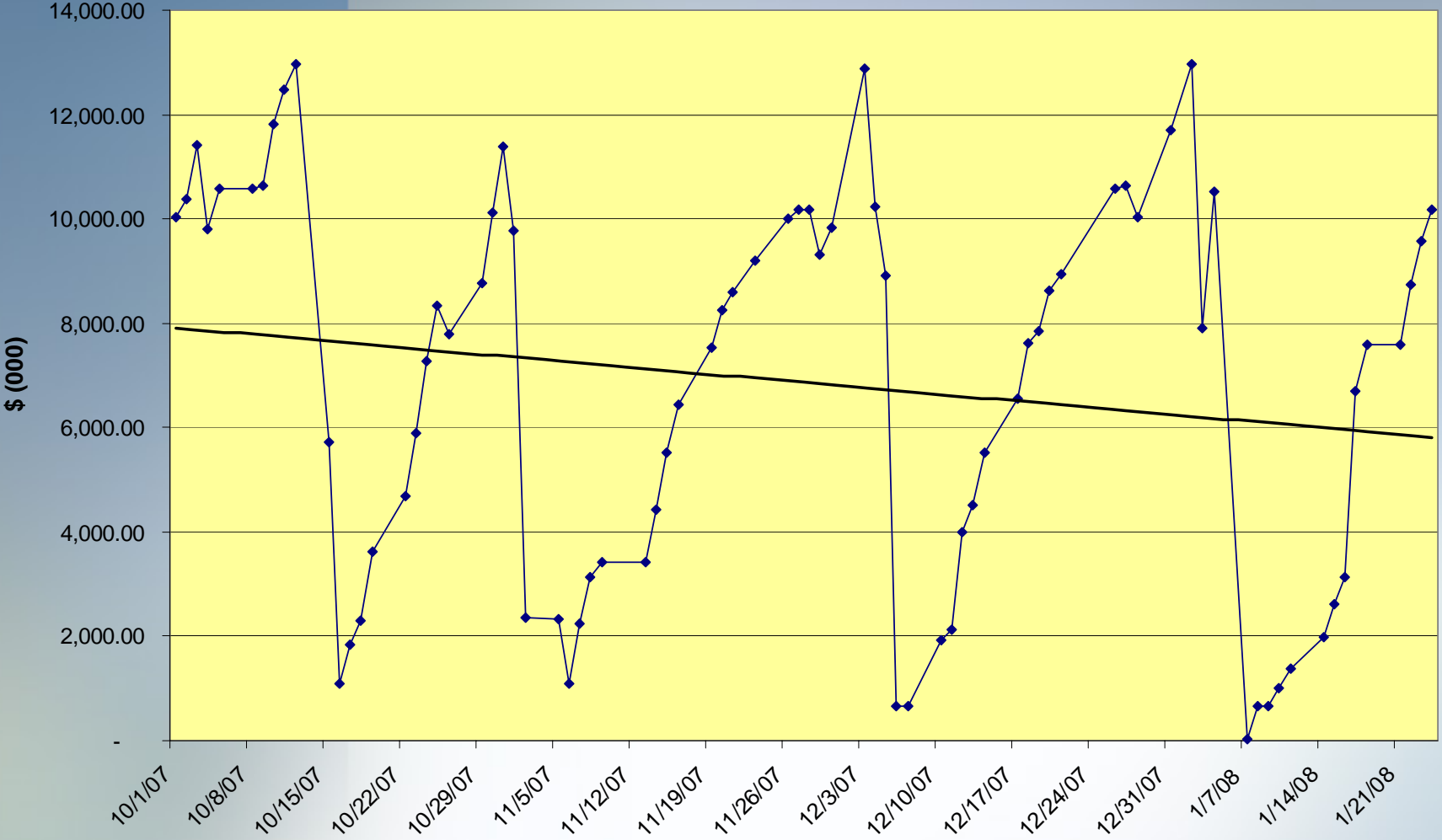
FY08 DAILY BALANCES

Total of Working Capital Fund, Revenue Fund and Surplus Bond Fund



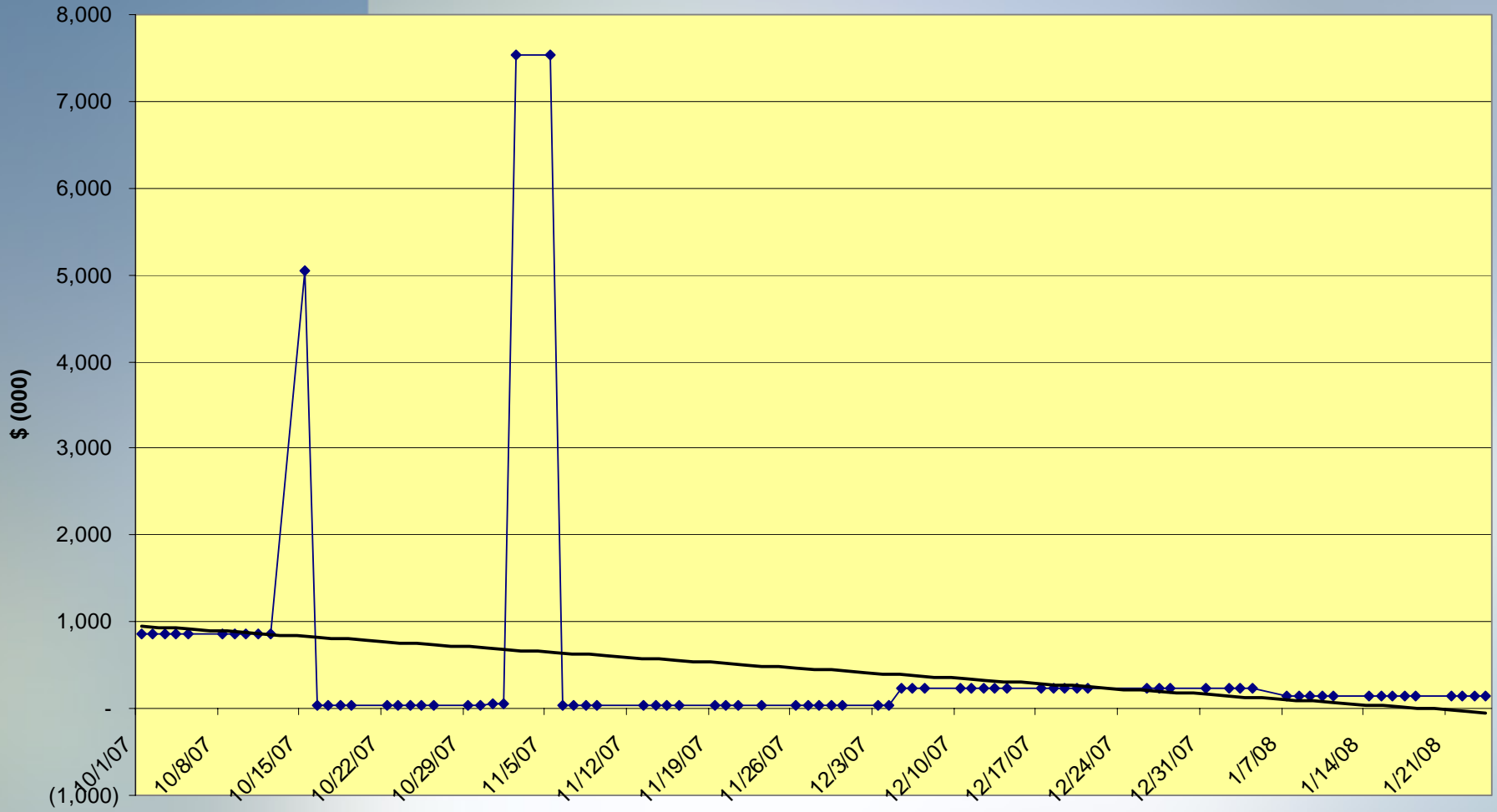
FY08 DAILY BALANCES

Revenue Fund Account



FY08 DAILY BALANCES

Surplus Fund Account



FY08 DAILY BALANCES

Working Capital Fund

