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8 **BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

9 **IN THE MATTER OF:**

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

12 **DOCKET NO. 07-10**

13 **REBUTTAL TESTIMONY REGARDING**  
14 **IMPLEMENTATION OF PHASE II RATE**  
15 **INCREASE**

16 **COMES NOW**, the GUAM POWER AUTHORITY (GPA), by and through its counsel  
17 of record, D. GRAHAM BOTHA, ESQ., and hereby submits its rebuttal testimony in regards to  
18 the Georgetown Consulting Group's filing with the Public Utilities Commission.

19 **RESPECTFULLY SUBMITTED** this 9<sup>th</sup> day of February, 2010.

20 **D. GRAHAM BOTHA, ESQ.**  
21 **GPA Legal Counsel**

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## GPA Rebuttal Testimony

### **1.75x Debt Service Coverage Level**

Page 5 line 17 of the Georgetown testimony makes a reference to the 1.75x debt service coverage ratio target established by the Public Utilities Commission. The comments indicate the target level was first established in Phase I of this rate proceeding. GPA wishes to clarify that the 1.75x minimum debt service coverage target has been mentioned in numerous rate filings over nearly two decades and is a well established ratemaking guideline of the PUC.

### **The Calculation of the Budgeted Fuel Cost**

Page 19 Line 15 of the Georgetown testimony states that they are “troubled” by the level of fuel expense forecasted by GPA. GPA believes there is nothing in its forecasted fuel expense to be troubled about.

Each August, GPA makes a forecast of what its fuel and fuel related costs will be for the next 12 months. GPA brings the forecast to the Consolidated Commission on Utilities (CCU) for review and approval. Once approval is received, GPA files the approved budget with its Trustee. Once the budget is filed with the Trustee, GPA calculates the Working Capital Fund Requirement as defined in its bond indenture agreement. The approval from the CCU authorizes the level of expenditures that can be made for fuel for the upcoming fiscal year. GPA believes it is appropriate to add some conservatism to its fuel forecast to ensure that the time of the CCU and management is not tied up with requests for additional authorizations of fuel expense. As the calculations below reflect, based on GPA’s best data, its estimated fuel costs for Fiscal Year 2010 are \$224,885,000 as opposed to the budgeted amount of \$236,374,000. .

Fuel Expense (\$000) FY 2010	Amount
Projected Fuel Expense - Oct 09 thru Jan 10 LEAC	\$ 68,597
Projected Fuel Expense - Feb 10 thru Jul 10 LEAC	\$ 117,216
Projected Fuel Expense - Oct 09 thru Jan 10	\$ 39,072
Total	\$ 224,885
FY 10 Fuel Budget	\$ 236,374
Difference	\$ (11,488)
<b>% Variance</b>	<b>-4.86%</b>

This amount is within 5% of the budget that was forecast six months ago. GPA believes that forecasting a budget amount within 5% in this volatile fuel market should not be something over which anyone should be troubled.

### **The Timing of the WCF Surcharge**

The Georgetown testimony proposes the rates be uncompressed, the petition for the \$15 million loan be withdrawn, and a Working Capital Fund surcharge should be established to bring the Working Capital Fund balance up to its required level. The proposed start date is no later than August 1, 2010. An implementation date of August 1, 2010 would require additional severe cuts to GPA's budget. GPA does not believe there are any hindrances which would require a start date later than April 1, 2010. Therefore, GPA believes any action by the PUC on this issue should be entertained with the understanding that the target implementation date is April 1, 2010.

### **Fund Transfers to the Working Capital Fund**

Page 21 of the Georgetown testimony proposes that GPA transfer funds from some of its accounts to fund the Working Capital Fund shortfall. They explain that they tried to get an answer from discovery but were not certain how to interpret the response.

GPA had difficulty interpreting this discovery request and did not understand what Georgetown was getting at. GPA deposits all of its revenues collected into its Revenue Fund. On the fifth of each month the balance in the Revenue Fund is swept through a series of funds as described in the funds flow requirements of its bond indenture. One of these funds is the Working Capital Fund. This is the only condition in the indenture wherein a deposit to the Working Capital Fund is made. After the required payment to the Working Capital Fund is made, the remaining funds are deposited into the Surplus Fund. Once funds get into the Surplus Fund, GPA is allowed to utilize those proceeds for capital improvement projects. There is no other fund from which GPA is authorized to disburse funds for capital projects. The only time GPA is required to transfer funds out of the Surplus Fund is in the event there are not sufficient funds to make a required bond payment. GPA does not transfer funds from the Surplus Fund in order to ensure that funds are available to pay for capital improvement projects. Once a week, GPA prepares its checks and transfers for the payment of expenses. The checks are drawn upon the Operating and Disbursement Account. Prior to releasing the checks, GPA transfers funds in the approximate amount of the checks to be disbursed from its Revenue Fund into the Operating and Disbursement Account. This fund is quickly depleted after its checks are cashed. In Summary, the funds in the Revenue Fund are swept over the Working Capital Fund on the fifth of each month and it would not be appropriate to transfer funds from the Operating and Disbursement Account or the Surplus Fund into the Working Capital Fund on the fifth of each month.

### **Lifeline Adjustment**

GPA's petition did not address the issue of lifeline rates as it determined that would be more appropriately addressed in the context of the FY11 rate case in which the cost of service and rate design work will be completed. This would enable the PUC to make decisions on the lifeline rate at the same time as they are considering a variety of additional rate design issues. However, as GPA stated during the discovery process, if

the PUC determines they would like to address the lifeline issue in this proceeding, GPA will not object to such an action.

### **TLCOS Cost Assignment**

GPA agrees with the Georgetown position on the assignment of Independent Power Producer costs to the production functional cost. It was GPA's position in the Phase I rate proceeding that costs that can be attributed to a particular function should be assigned to that function and only costs that cannot be easily assigned to a functional cost should be allocated across the functional cost areas. In preparing its Transmission Level Cost of Service Study, GPA determined it should follow the settlement which was made Phase I rate proceeding. It was an oversight that GPA did not request to reserve the right to request for a final determination on this issue during or before the FY11 rate proceeding. GPA appreciates that fact that Georgetown has requested for the reservation in their testimony and the Authority believes that such reservation should be included in the any final orders issued by the Commission.

### **Debt Service Covenant**

Page Line of the Georgetown testimony states that the GPA bond indenture debt service coverage covenant is 1.25x. GPA wishes to clarify that its bond covenant requires 1.3x debt service coverage.

### **Inventory Issues**

The Georgetown testimony stated that they did not have sufficient evidence to opine whether GPA's inventory levels are low. GPA named inventory levels as one of many indicators of the tight liquidity condition faced by the Authority. GPA disagrees with most of the Georgetown discussion of such inventory levels. GPA has two types of inventory: 1) items that are fast moving and require constant monitoring, procuring, and re-ordering, and 2) generation equipment items where there is one or a few parts are maintained in the event an emergency replacement is required. In the case of many of these latter type of parts, they were transferred at the time the plants were turned over to GPA and are maintained as safety stock. The fast moving items which are mostly T&D items often have balances below safety stock levels or are completely out of stock. GPA does not need a study to show that its stock levels are too low for many fast moving parts. One easy way to demonstrate this fact was by a comparison of the dramatic decreases in materials inventory over a number of years. GPA believes that the need to maintain significant safety stock levels to ensure a fast recovery in the aftermath of a natural disaster and the significant generation inventory make it difficult to make direct comparisons with mainland utilities. GPA concurs that an inventory study should be performed in order to determine the appropriate range of inventory valuations.

## STAFFING ISSUES - Rebuttal to GCG Testimony

GPA disagrees that the PUC affirm the GCG's Phase 1 test year staffing recommendation that revenue requirements reflect a staffing level of 542 FTE's. The Authority has a remainder of 22 apprentices of which 13 are expected to complete all requirements for certification and graduate in the summer months. Thus exceeding the test-year staffing level of 542 FTE's. The remaining 9 apprentices are anticipated to complete the program in FY 2011 further exceeding the test-year. Therefore, the 542 FTE staffing level is insufficient. Moreover, the Authority has a contractual obligation to each apprentice completing certification requirements that upon graduating from the program the apprentice shall have an employment obligation to GPA of two (2) years for every one (1) year of training that is completed.

While GPA is consistent with the trends being experienced by the world-wide utility industry with anticipated losses of key operating personnel over the course of the next 7 to 10 years, GPA will continue its aggressive initiatives to ensure the skills required of its critical positions are maintained and developed. This is of importance since GPA does not have the luxury of a large pool of applicants with the knowledge and experience required of critical positions readily available.

The movement of CTP positions from the 5<sup>th</sup> through the 50<sup>th</sup> market percentiles are not automatic and is subject to budgetary approval of the CCU. This is in accordance with CCU Resolution No. 01-FY 2008. The PUC should not require GPA to update the wage study although it is prudent to do so. The management should have the discretion to determine when to conduct any update. CTP costs do not include benefits.