CONSOLIDATED COMMISSION ON UTILITIES
Guam Power Authority • Guam Waterworks Authority
P.O.BOX 2977 • Agana,Guam 96932

CONSOLIDATED COMMISSION ON UTILITIES
REGULAR MEETING OF
GUAM WATERWORKS AUTHORITY
GWA Conference Room
5:00 p.m., Tuesday, November 28, 2006

MINUTES

I. CALL TO ORDER

The Chairman called the regular meeting of the Guam Waterworks Authority to order at 5:15p.m. It was held at the GWA Conference Room. Three (3) Commissioners were present; Comm. Nelson was still off-island. Commissioner - elect Hara was also in attendance. Those present included:

Commissioners:

Simon Sanchez	Chairman
Benigno Palomo	Vice-Chairman - GPA
Tom Ada	Vice-Chairman - GWA & CCU Treasurer
Gloria Nelson	CCU Vice-Chair / Secretary **(Excused – Off-island)**
Eloy Hara	Commissioner Elect

Executive:

John Benavente	General Manager, Consolidated Utility Services (GMCUS)
David Craddick	General Manager, Guam Waterworks Authority (GMGWA)
Kin Flores	General Manager, Guam Power Authority (GMGPA)
Danny Santos	Asst. GM, Consolidated Admin., GPA/GWA (AGMCA)
Randy Wiegand	Chief Financial Officer (CFO)
Andy Balajadia	Asst. GM – Operations, GPA (AGMO)

Legal Counsel:

Sam Taylor	GWA Staff Attorney

Management & Staff:

Don Antrobus	Chief Engineer / Guam Waterworks Authority
Paul Kemp	Water/Sewer Maintenance Supervisor / GWA
Berney Sadler	Sewer Plant Supervisor / Production & Treatment, GWA
Victor Torres	IT Manager / Data Processing
Carmen Denton	Dededo Lab Supervisor / Laboratory Services
Francis Iriarte	Sp. Projects Engineer, GPA / Executive
Gilda Mafnas	Controller / Finance
Julie Adams	Human Resources
Mark Miller	Production & Treatment Systems Manager / GWA
Joe Punzalan	Permits & Inspection, GWA
Lenora Sanz	Controller, GPA / Finance
Joe Servino	
B. Lou Sablan	Special Asst., Ex. Mgmt. / GPA-GWA

Media:

Clint Ridgell	KUAM
Tony Mosley	PTI

Guests:
Carl Quinata Vice-speaker J. Brown's Office

II. APPROVAL OF MINUTES

1. GWA - October 11 2006 – (DRAFT)

The Minutes of October 11th was presented for approval. Comm. Ada moved to approve the Minutes subject to verification and written correction; Comm. Palomo seconded. On the motion to approve the Minutes, there was no further discussion or objection; the motion carried.

2. October 26, 2006 (PENDING)

The Minutes of October 26th was tabled pending completion.

III. GM (CUS) REPORT

The GMCUS reported on the recent Dept. of Interior (DOI) Small Business Opportunity Conference in Hawaii; He and Comm. Ada were presenters – he on alternative energy and Comm. Ada on infrastructure. The Conference is the 3rd of its kind and was very well attended with 600 participants. He shared with attendees that there is a substantial amount of construction within the next 5-10 years. He also mentioned some alternative energy programs being considered – the integrated resource plan and the deep sea water cooling system.

Comm. Ada added that the Conference went very well. His presentation was focused on the infrastructure opportunities that lie ahead. More importantly, he directed attendees to the GWA/GPA websites for more detailed information. In addition, he held meetings with six (6) companies, including the company that supports JD Edwards. He requested that JD Edwards meet with Veolia regarding GWA's information technology needs and how they would be able to support a computerized maintenance management system. There was another company that does environmental work (archeological studies); they have an office on Guam and would like to present to the Utilities their capabilities and resources. There was a lot of interest in Guam because of the pending military build-up. Guam was particularly attractive because it not only laid out the opportunities that would exist in the next few years but also show how these projects would be funded. The event also provided a good opportunity to network with other Pacific Island entities, in particular, the CNMI, with whom we want to build a closer relationship.

The GMCUS announced that there is a scheduled public hearing on the Lifeline Rates on Monday, 12/4/06. There is some nervousness in supporting the bill that would benefit a specific category (low income families) and how it would affect the middle and high income consumers. The Chairman added that there have been several meetings with Sen. Brown regarding the Certified Technical Professional proposed legislation; the related Bill was reported out on the Floor and it is hoped that it would be passed by the Legislature shortly.

IV. GM (GWA) REPORT

1. GM07-07: Proposed 2007 Rate Increase

The GMGWA read his GM07-07(copy in Master File) asking for an 11.36% increase in water rates. The report included a spreadsheet showing budgeted costs with corrections for water purchases and debt service needs that were not part of the 2007 budget. It also contained a presentation showing some background information on CCU's plans for rate increases from 2005-2009 and where that plan is to date. He added that if the CCU approves this request, it still has to go before the PUC for their review and approval. He would like to get this request on the PUC April 2007

calendar. There was discussion about the related timelines. This action is the beginning of the required 90-day Public Notice in December, formal submission to PUC in December, PUC consideration in March-April and implementation in May sometime.

Comm. Ada said this is the first that he has seen of the request and is too much to digest in just one meeting. He recommended that the CCU acknowledge receipt of the information and come back in two weeks for further action.

Comm. Palomo agreed that he too is not ready to act on the request at this meeting. He mentioned that management has not been told why the rates have to be raised – specific examples of where the extra money would be allocated. Pubic perception is that rates are increased for salary adjustments and this is not true. Management has not done a good in letting the public know the details.

The Chairman also agreed that the Commission needs more information in order to make an informed decision regarding the request. He would like to see real bill examples; a better understanding the bond fund balances that could be allocated to village improvements; how the rate increase benefits the ratepayers; current/future cash flow versus debt service; a recap of the repayment of the current loan and the projected loan (from the Master Plan). If this could be provided to the Commission, it would be taken up in a subsequent meeting anticipated to be December 12th. He asked management to prepare and distribute this information to the Commission by next Tuesday, December 5th, a week before the December 12th meeting.

Comm. Palomo added that management needs to show the public how the system would collapse if the rates are not raised. He wanted specific examples of how complying with the Stipulated Order relates to fixing the system.

The Commission accepted the GM's request but asked that it be placed under Old Business in the December 12th GWA meeting.

At this point, the Commission decided to continue with discussion of rates and moved the Agenda forward to Section VI.1, GPA Resolution 206-46: Ratification of GPA's Petition to Increase LEAC. Discussion is noted in that section of the Minutes.

2. GM07-08: Additional Funding for Line Replacements

In his GM07-08, (copy in Master File), the GWAGM requested additional funding for line replacements which would be encumbered against remaining bond funds; $350k to pay for line replacement in villages and $450k for administrative costs for meter installation. The total $800k would come from bond funds. After this expense, there would still be a balance of $7.8million in the bond fund for line replacements.

There was discussion regarding the balance on the bond funds. It was mentioned that a large portion of the remaining funds would be used for the village line replacement program. The Chairman asked management to provide a detailed plan for the usage of the remainder. The GPAGM said he could provide it by the next CCU meeting.

There was discussion regarding the second request of the GM Report. Comm. Palomo asked if this was an amendment to the existing Kusakabe AMR contract which has been amended eleven (11) times already. The GPAGM noted that they could turn out to be the lowest bidder for this

procurement but confirmed that this would be a separate procurement and not part of the existing Kusakabe contract.

Comm. Ada motioned to approve the GWAGM's request to encumber $800k in bond funds for additional line replacements; Comm. Palomo seconded.

Comm. Palomo asked if there could be data available listing bond projects and status. The CFO said that this report is included in the September Financials and the Chair proceeded to point it out to the Commissioner.

On the motion, there was no further discussion of objection and the motion passed.

3. GM07-09: Puntan Dos Amantes Easement

The GWAGM said that he is seeking the Commission's position regarding the Administration's plans to develop the land surrounding the Northern Treatment Plan area – the Harmon Cliff Line /Fuel Tank Area. The Staff recommended that Management seek Board approval to work with the Administration to obtain easements before the plan is approved. Supposedly the military returned the land to the government who gave it back to the landowners without reserving any of the easements. This may be in violation of existing laws or conditions on return of the lands. The easements are for the largest sewer lines and lift station on the island as well as many smaller waterline easements. The GWAGM mentioned that several meetings have been called on this matter because the Administration would like to build a small community there. It was also mentioned that the Gutierrez vs. GPA case stems from the exact same logic.

The Chairman said he received strong indication from the Legislature that the Administration's plans would not pass. This presents a host of legal and financial issues for GWA.

Legal Counsel cited a section of law Section 22-135 that states that the original land owner of transferred lands must reserve easements and easements for existing utilities. The Chairman said he believed this law was repealed in the 25th Legislature. Counsel said that it was not directly repealed.

Comm. Ada said that management needs to start an analysis on how to buy back the easements.

Chairman Sanchez said that management is asking for support from the Commission to begin work with the Administration. On the GWAGM's request GM07-09, the Commission had no objection and supports management's efforts to explore the ramifications of the Puntan Dos Amantes Plan and how if affects or impact GWA.

4. GM07-10: Asst. CFO Position (Possible Ex. Session)

The GWAGM submitted his request to initiate the hiring of an Asst. CFO in his GM07-10 (copy in Master File). He said there are a couple of resumes submitted for review and may be viewed in Executive Session if the Board so chooses. He also said that he would not object to having the CFO handle the hiring.

There was discussion regarding the scope of work for this individual and whether or not he/she would be accountable for both GPA and GWA. The GWAGM noted in his letter of request that the Stipulated Order restricts the use of this person to GWA.

It was decided to initiate a temporary position to place someone temporarily to satisfy the Stipulated Order before the November 30th deadline.

The Legal Counsel advised that due to the CCU Enabling Act relative to how the position is filled, the Title should be Asst. General Manager of Finance rather than Asst. Chief Financial Officer. Comm. Palomo referred to the Organizational Chart, there should be clarification if this position is a staff position or a line position.

A vote was taken to move this matter to Executive Session. There was no objection and discussion was moved to Executive Session.

5. GM07-11: Chief Engineer Contract (Possible Ex. Session)
This matter was tabled.

V. COMMUNICATIONS

1. Public Comment – None

2. Letter from GEDCA re Property Development in Piti
GEDCA letter dated 11/22/06 advised that they, together with Guam Ancestral Lands are initiating efforts to lease former military properties at Polaris Point to private developers to create jobs, revenue and increased economic activity. They are requesting the Commission's assistance and that of GWA, to extend public water and wastewater services to the Polaris area. The Commission asked management to look into the request, get more information and report back to the Commission.

VI. OLD BUSINESS

1. GPA Resolution 2006-46: Ratification GPA's Petition to Increase LEAC
The GPAGM said at the last meeting he presented a plan to recover $17million in under recovery in 12 months. At that time, the Commission asked management to prepare scenarios with an 18 and 24 month plan for comparison. The GPAGM provided a handout addressing the CCU's request (copy in Master File). The GPAGM walked the Commission through the presentation where they posed questions from time to time for more clarification.

A chart showing the original 12-month proposed LEAC recovery plan was included in the presentation showing that it would actually take 18 months to fully recover the projected $17million under recovery. The GPAGM attributed this to the anticipated periodic fuel increases.

He said that the assumption that is uniform throughout all the analogies is reflecting marginal increases in revenue, fixed cost for delivery (transportation and freight rates), and 1.5% increase per annum on operating expenses. In addition, these (3) scenarios assumes that the LEAC rate would not be changed for 2 years.

For the 18-month scenario or three (3) LEAC periods, the rate increase on LEAC is 7.01%. This translates to an increase (for residential ratepayers) of $7.80 or 4.79%. The ending balance at 6/30/07 would be $10.4 million and on 12/31/07 $7.4 million. The LEAC rate to consumers is reduced and the rate of over recovery is less. However, due to adjustments in fuel prices there would be a $10mllion under recovery balance at 12/31/08 verses $5million for the same period under the original 12-month scenario. The GPAGM said the problem is that the under recovery would not go any lower than $10million and it would begin to ascend upward once more.

For the 24-month analysis, the GPAGM said it gets worse. For the first 11-12 months it showed a downward trend hitting it's lowest around Oct-Nov 2007 then it begins to ascend upward ending the 24-month period with under recovery of about $15million.

The GPAGM reiterated that management did the best they could to keep the figures realistic with marginal growth and operating expenses in check. Right now revenues generated from base rates is going towards funding fuel costs; nothing is going into working capital.

There was discussion regarding working capital. The presentation included a graph showing GPA's required working capital for June 07 – December 08 based on the operating expense budget (fuel, O&M and IPP costs) for 1-month reserve the requirement is $24million. The graph showed that in June 07 the working capital is only $4.5 million and is projected to descend through December 08.

The Chairman said that going forward, the LEAC cannot slide back anymore. Future LEAC does have to stay current. It is not the Commission's intent to have no LEAC adjustments for the 24-month period.

The Chairman said the 12-month plan or current proposal by management is a 12% LEAC adjustment for fuel and 7% overall increase to the total bill; the 18-month plan is an 8% LEAC adjustment and 4.79% overall increase to the total bill. The 12% increase would keep future LEAC adjustments to a minimum, if any, and would recover the entire $17million under recovery if prices stay the same. The 8% LEAC adjustment would recover approximately half of the under recovery leaving a balance of $10million. Management would still have to make up the balance and consider any changes in fuel costs.

The GPAGM said he is concerned about the working capital because there is little room for error. There was more discussion regarding the different scenarios and variables. The GPAGM talked about Quick Ratio and how the different scenarios affect it. He also spoke of its effect on debt service ratio. Both would be impacted negatively.

After further discussion, the GPAGM's recommendation is still the 12-month plan. Comm. Ada said he was comfortable with information that he has been given and would rather go with the 12% increase because he is concerned about how LEAC affects the working capital and how the domino effects that can happen if O&M to base loads are not performed due to the lack of (working capital). The CFO explained that the last couple of shipments were paid from excess bond funds. He is concerned that should a typhoon occur there would be no cash. The GPAGM said the compelling argument is that fuel expense is dipping into working capital which is a reserve fund. In addition, he is now seeing aging payables. The GMCUS said he is concerned that payables are being affected and the under recovery is inflated and continues to rise. The Chairman said the under recovery is a recent episode. In the first 3 years of the CCU, the under recovery was whittled down from $13million to $4million and in the last year it has gone back up $14million due to the fact that the LEAC was not adjusted correctly in past LEAC periods. This needs to be passed on because GPA cannot afford to front these differentials in fuel. Comm.- elect Hara said he supports the GM's position and agrees with the GMCUS to move forward with the 12% increase now. The GPAGM said he has no wiggle room and his borrowing power is tapped out. Comm. Palomo said that power is crucial to a family and what is moving him toward the 12% increase is

the fact that the recent data on the cost per kWh hour in other Pacific Islands i.e Saipan and the Hawaiian Islands as compared to Guam. Even with the proposed 12% increase, Guam's kWh's

cost per hour is still significantly cheaper (about half of Guam's cost per kWh hour). Comm. Palomo commented that if the CCU approves the 12% request, management must aggressively maintain other areas such as collections and others.

The Chairman wanted reconfirmation that the resulting cost per kWh hour is .17 per kWh hour and is significantly lower than Oahu and .32 per kWh hour; it would allow the recovery of $17million in current under recovery; it lessens future LEAC's.

Comm. Palomo recommended to amend Resolution 2006-46 and to include cost per kWh hour in the resolution.

Comm. Ada motioned to approve the 11.7% LEAC adjustment recommended by management; Comm. Palomo seconded.

In discussion, Comm. Ada said that he supports the resolution because of the negative impact that would happen if it is not implemented and named a few examples. Comm. Palomo complimented the GPAGM for his presentation. The Chairman said that no one likes rate increases but management has pointed out several red flags that would happen if this LEAC rate increase does not move forward. He said 10 years ago GPA did not have the capacity to generate energy and to repair its base loads, because of the same problem – the lack of cash. He does not want to go down that road again. He added that GPA needs the money that has been advanced from bond funds, working capital and others so that management can keep the operating side of the house going. It is clear that GPA cannot afford not to recover these funds. He encouraged ratepayers to conserve energy and tasked management to find ways to help ratepayers through incentives. If PUC approves the request, the average ratepayer would see an increase of about $11-15 in their monthly bill.

The Chairman asked that the Resolution 2006-46 be amended as recommended by Comm. Palomo and ratified at the next CCU meeting.

On the motion, The Chair asked for oral votes, there were 3 ayes and 0 nays; Comm. Nelson was off-island and did not vote on this matter. There was no further discussion or objection; the motion passed.

At this time, the Chairman called for a brief recess. It was 7:05 p.m.

At 7:15 p.m., the Chairman called the meeting back to order. The Agenda moved to Section IV.2., GM Report 07-08: Additional Funding for Line Replacements. Comments are noted in that section of the Minutes.

VII. NEW BUSINESS

1. September 2006 Financials

The CFO asked the Controller to make the present the Financials to the Commission. The Financials included the Balance Sheet, Budget v. Actuals, Bond Fund Projects, Comparative Analysis and Cash Flow (copies in Master File).

The Controller gave an overview of the various data above. Some highlights she mentioned include: Retained earnings for FY06 is $197million vs. $200.7million budget – a shortfall of

$3.3million; O&M was overspent by $1.8million; Budget was in anticipation of an 8% increase in the rate change which only 3% was approved; adjustment of overstated revenues in FY05;

In summary the $3million shortfall for FY06 was attributed to: Less revenue, increased power and water purchases, increased benefits (due to actuarial for retirement), increased equipment rental (due to the non-shipment of sewer pumper trucks)

The CFO advised that water/power and materials/supplies are tracked manually – they are not tracked in the system and he said that something should be done to track this better because the system does not automatically prevent the overspending

Management needs to monitor budgets versus actuals more stringently. Expenses are easier to control. *The Chairman asked management to see the comparison of Actuals for FY05 vs. FY06.* Management needs to track the actuals more stringently and advise the GWAGM and the CCU when expense exceeds budget – this tie has to be strengthened.

He also asked Management to revisit he rate relief request and if there are any adjustment, to provide it to the Commission by next week if it is to be revised on December 12th.

The Chairman said that in FY05 retained earnings was $1million, FY06 reflects a loss of $3.3million. The figures indicate that we are going backward and management and the Commission needs to understand why. *He reiterated the need to review FY05 vs. FY06 actuals.*

He asked the Commission to review the balance of the reports and send questions to the Controller and Chief Financial Officer if needed.

2. GWA Employee's Association

The Staff Attorney asked the Commission for approval for GWA to establish an employees association. He presented Articles of Incorporation and By-laws in their packet (copy in Master File). There was discussion as to the need of CCU's approval. Legal Counsel advised that in order for Fees to be withheld and deposited into a bank account, formal approval of the governing body must be obtained in order to establish an account at any financial institution.

The Chairman advised that the Commission does not object to employees of GWA setting up and initiating an employees association.

VIII. ANNOUNCEMENTS

1. Future Meeting Dates

The Chairman announced that the next CCU meeting will be at GPA on December 5th and GWA on December 12th.

IX. EXECUTIVE SESSION

The Chairman recesses the regular session at 9:00 p.m.; Executive session began at 9:05 p.m.

1. Personnel Issue 07-01: Asst. CFO Issue

This item was discussed in Executive Session

2. **Personnel Issue 07-02: CE Contract Issue**
This item was not discussed.

Executive Session adjourned at 9:20 p.m. and the Chairman called Regular Session immediately.

In Regular Session, Comm. Ada motioned to Personnel Issue 07-01 as discussed in Executive Session; Comm. Palomo seconded. With no further discussion or objection, the motion carried.

X. ADJOURNMENT
With no further discussions to bring before the Commission, the regular meeting was adjourned at 9:25 p.m.

Attested:

SIMON A. SANCHEZ II, Chairman

GLORIA B. NELSON, Secretary

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CONSOLIDATED COMMISSION ON UTILITES
REGULAR MEETING OF
Guam Waterworks Authority
Tuesday, 11/28/06, 5:00 p.m.

SUMMARY OF MOTIONS, RESOLUTIONS & PENDING ACTIONS

I. MOTIONS & RESOLUTIONS

ITEM #	AGENDA ITEM	MOTION OR RESOLUTION	VOTES
1	**Approval of Minutes OCTOBER 11, 2006**	The Minutes of October 11th was presented for approval. Comm. Ada moved to approve the Minutes subject to verification and written correction; Comm. Palomo seconded. On the motion to approve the Minutes, there was no further discussion or objection; the motion carried.	Ayes – 3 Nays – 0 Abstained – 0 Absent - 1
2	**GM07-08: Additional Funding for Line Replacements**	Comm. Ada motioned to approve the GWAGM's request to encumber $800k in bond funds for additional line replacements; Comm. Palomo seconded. Comm. Palomo asked if there could be data available listing bond projects and status. The CFO said that this report is included in the September Financials and the Chair proceeded to point it out to the Commissioner. On the motion, there was no further discussion of objection and the motion passed.	Ayes – 3 Nays – 0 Abstained – 0 Absent – 1
3	**GPA Resolution 2006-46: Ratification GPA's Petition to Increase LEAC**	Comm. Ada motioned to approve the 11.7% LEAC adjustment recommended by management; Comm. Palomo seconded. In discussion, Comm. Ada said that he supports the resolution because of the negative impact that would happen if it is not implemented and named a few examples. Comm. Palomo complimented the GPAGM for his presentation. The Chairman said that no one likes rate increases but management has pointed out several red flags that would happen if this LEAC rate increase does not move forward. He said 10 years ago GPA did not have the capacity to generate energy and to repair its base loads, because of the same problem – the lack of cash. He does not want to go down that road again. He added that GPA needs the money that has been advanced from bond funds, working	Ayes – 3 Nays – 0 Abstained – 0 Absent - 1

		capital and others so that management can keep the operating side of the house going. It is clear that GPA cannot afford not to recover these funds. He encouraged ratepayers to conserve energy and tasked management to find ways to help ratepayers through incentives. If PUC approves the request, the average ratepayer would see an increase of about $11-15 in their monthly bill. On the motion, The Chair asked for oral votes, there were 3 ayes and 0 nays; Comm. Nelson was off-island and did not vote on this matter. There was no further discussion or objection; the motion passed.	
4	**GM07-10: Asst. CFO Position (Possible Ex. Session)**	In Regular Session, Comm. Ada motioned to Personnel Issue 07-01 as discussed in Executive Session; Comm. Palomo seconded. With no further discussion or objection, the motion carried.	Ayes – 3 Nays – 0 Abstained – 0 Absent - 1

II. PENDING ACTION

ITEM#	AGENDA ITEM	PENDING ACTION	RESPONSIBLE PARTY
1	**GM07-07: Proposed 2007 Rate Increase**	The Chairman also agreed that the Commission needs more information in order to make an informed decision regarding the request. He would like to see real bill examples; a better understanding the bond fund balances that could be allocated to village improvements; how the rate increase benefits the ratepayers; current/future cash flow versus debt service; a recap of the repayment of the current loan and the projected loan (from the Master Plan). If this could be provided to the Commission, it would be taken up in a subsequent meeting anticipated to be December 12th. He asked management to prepare and distribute this information to the Commission by next Tuesday, December 5th, a week before the December 12th meeting. Comm. Palomo added that management needs to show the public how the system would collapse if the rates are not raised. He wanted specific examples of how complying with the Stipulated Order relates to fixing the system. The Commission accepted the GM's request but asked that it be placed under Old Business in the December 12th GWA meeting.	GWAGM CFO

		when expense exceeds budget – this tie has to be strengthened. He also asked Management to revisit he rate relief request and if there are any adjustment, to provide it to the Commission by next week if it is to be revised on December 12th.	