



# CONSOLIDATED COMMISSION ON UTILITIES

Guam Power Authority • Guam Waterworks Authority  
P.O. BOX 2977 • Agana, Guam 96932

## GUAM POWER & WATERWORKS AUTHORITY REGULAR BOARD MEETING

GPA Board Conference Room  
5:30 p.m. June 7, 2011

### MINUTES

#### I. CALL TO ORDER

Chairman Simon Sanchez called the regular meeting of the Guam Power and Guam Waterworks Authority to order at 5:50 p.m. He announced that all five (5) Commissioners were present. He welcomed & congratulated Mr. Martin Roush on his new role as General Manager of Guam Waterworks Authority & thanked Mr. John Benavente for his diligence while filling the position of Interim GWA GM. Those in attendance include:

#### Commissioners:

Simon Sanchez	Chairman
Benigno Palomo	Vice Chair, GPA
Eloy Hara	Vice Chair, GWA
Gloria Nelson	Secretary
Joseph Duenas	Treasurer

#### Executive Mgmt:

John Benavente	GMCUS
Kin Flores	GPAGM
Martin Roush	GWAGM
Melinda Camacho	GPA-AGMO (A)
Randy Wiegand	GPA - CFO
Greg Cruz	GWA-CFO
Graham Botha	Staff Atty., GPA
Sam Taylor	Staff Atty., GWA

#### Management & Staff:

Simon Camacho	T&D Asst. Mgr. / GPA
Lenora Sanz	Controller / GPA
Tom Cruz	Engineering / GWA
Art Perez	Communications / GPA
Gilda Mafnas	Finance / GWA
John J. Cruz	SPORD Mgr. / GPA
Elaine Cruz	Human Resources / GWA
Doris Young	Customer Service /GWA
Pam Aguigui	Budget / GPA
Cora Montellano	Finance / GPA
Jesse Lujan	Collection & Distribution / GWA
Victor Torres	IT / GWA
Valerie Mafnas	Internal Audit / GPA
Paul Lujan	Equipt. Supt., GWA
Melvyn Kwek	IT / GPA
Paul Kemp	Asst. GM, Compliance & Safety / GWA

#### GUEST

Cyrus Luhr	Office of Sen. Tom Ada
Rick Unpingco	Asst. GM / Veolia Water
Laura Matthews	PDN
Fred Horecky	PUC

II. APPROVAL OF MINUTES - None

III. GM (CUS) REPORT - None

IV. GM REPORT

1. GPA

**a. System Update**

The discussion focused on the island-wide blackout on Saturday on June 4<sup>th</sup>. The GPAGM circulated a preliminary outage report. He said he requested the T&D line crew to do a high level / quick review on the distribution lines after the May 9<sup>th</sup> island-wide blackout. He said that the T&D crew did find a couple of lines needing replacement and effected the change immediately. At the same time, they also reported on other problems that would pose a significant risk and could pose a similar outage. To isolate the affected substation/s needing repair the GM approved the scheduled the take down of Cabras 1,2,3 & 4 to ensure the safety of the crews doing the maintenance. He said there were units available that would be sufficient to keep the IWPS up and were confident that the remaining units on the grid would be sufficient to handle the load. As it happened & unfortunately, the MEC Unit #8 tripped due to plant failure and resulted on a domino effect with the rest of the generation units. Why the system didn't stabilize is still being studied. It was necessary / critical to fix the substation and the GPAGM said it was a prudent decision to take the action that was done. GPA postured itself for the outage and did everything that it could to prevent any glitches but obviously lady luck was not with GPA that day. The GMCUS gave a brief explanation relative to megawatts, frequency and capacity related to the timing sequence of the blackout which clearly showed at what point MEC failed and how other units were subsequently affected. Both the GPAGM and the GMCUS said there were many lessons learned which management will note to reduce outages and blackouts in the future.

Comm. Duenas & cited some of the recommendations that management posed in their report – his point is management needs to do a little bit more proactive and the emphasis has to be on going forward and spending more money to make the machines work better. The GM said that in all protection blocks there are different thresholds and management can fine-tune the settings but it will cause nuisance outages due to the sensitivity. He added that the under-frequency load shedding scheme was designed prior to the tuning project. Now that the tuning project is almost complete where every unit is optimized with its response, management now is required to update the simulation modeling where the tuning and model matches. Comm. Duenas said management / CCU has talked about generator tuning for about a year and just wants to know what is taking so long.

Comm. Duenas also touched base on a second recommendation- "to create a SOP" and questioned why there is no SOP in place yet. He said this is a wakeup call & that management needs to look at not only generation but other areas as well and do an indepth look at what is still missing to create the SOP's needed.

Comm. Hara said that the generation units have been allowed to deteriorate so badly and said GPA is doing everything it possibly can to address the issues & put the system back to optimum levels but it takes money and time. The 5-year CIP plan has just been completed and all the items that have been discussed will be addressed.

Comm. Palomo said GPA is doing a good job but there are certain vulnerabilities and management needs to look at the matter from the ratepayers point of view. The GMCUS said the good news is management has a plan and the team is working hard to shorten the blackout recovery time. The ideal is zero tolerance and management is always going to strive for this goal.

Comm. Nelson's concern is that consumers may have issues with damage to their appliances & wants assurance that each case will be handled properly and expeditiously. She added that we all learn with every blackout and that the law of nature is that we will probably have yet another – we just need to be prepared.

**b. Government Receivables**

This was not discussed.

**c. System Losses**

This was not discussed.

2. GWA - None

V. COMMUNICATIONS

1. Public Comments - None

VI. NEW BUSINESS

1. GPA

**a. Resolution 2011-30: Relative to Customer Information System**

Resolution 2011-30 requests the Commission to authorize GPA to enter into a contract agreement with Scientific Applications International Corporation (SAIC) to conduct a Customer Information System (CIS) assessment and recommendation project for both

GPA and GWA in determining the requirement for the next software package to be purchased by the utilities. GPA purchased a software in 2003 but it fell short of meeting the expectations of many at the Authority. GPA was awarded a Smart Grid grant which includes among other things, the purchase of a CIS. GPA's Smart Grid Program Office agrees that in order to have an optimal Smart Grid project implementation, it is necessary to upgrade its CIS to ensure the capability of receiving all of the data that will become available with the Smart Grid infrastructure. GMCUS, John Benavente directed that whatever CIS package is purchased by GPA it must also be capable of meeting the needs of the Guam Waterworks Authority to include the capability of consolidating the billing process between the 2 utilities in the future. GPA management has determined that there needs to be a needs assessment at both GPA and GWA relative to the CIS and should result in a recommendation / requirement for the next CIS package to be purchased. The RFP for Comprehensive Technical Services issued in conjunction with the Smart Grid Program Management Office included this type of assessment in the scope of work described in the contract. Said contract was awarded to SAIC who estimated the respective costs be \$430k for GPA and \$236k for GWA. The cost of the work was substantially higher than the initial estimate of the Authority so the Smart Grid PMO has been tasked to be significantly involved in the oversight of the scope and progress of the project. GPA anticipates that the actual cost will be less than the overall estimate of \$665.7k. In order to assure continued forward progress toward the implementation of Smart Grid, the GPAGM authorized SAIC to initiate the project but to keep the cost below or not to exceed his authorized obligating authority of \$250k. GPA now is asking the CCU to enter into this task order in excess of the GM's authority.

Comm.Duenas motioned and Comm. Nelson seconded to approve Resolution 2011-30. There was no further discussion or objection and the motion carried.

**b. Resolution 2011-31: LEAC Adjustment August 2011 – February 2012**

The GPAGM said that a work session took place back in April (when management wanted to effect a mid-term LEAC adjustment). He said not much has changed per last Thursday's forecast. The projections in sales and efficiencies in units have remained the same. The only change is the price of oil which is now over \$100 per barrel which has been reflected in the various scenarios. This translates to an increase of .03 per kWh hour. This means LEAC will increase by 18% and \$13% on the overall bill. Sample billings for lifeline rate customer and others were calculated & distributed for review. Management said the deadline to file with PUC is June 15<sup>th</sup> and will take effect with meters read after August 1 2011 and will remain in place for 6 months, ending in February 2012.

Comm. Hara motioned and Comm. Palomo seconded to approve Resolution 2011-31. There was no further discussion or objection and the motion passed unanimously.

**c. Resolution 2011-32: Relative to Payment in Lieu of Taxes**

In Resolution 2011-32, management is requesting the CCU to authorize GPA to enter into a settlement agreement for the Payment in Lieu of Taxes (PILOT) being assessed of GPA by the Department of Administration. The GM said that discussions between GPA and the governor's Chief of Staff and Legal Counsel presents an opportunity for GPA to settle the issue relative to the PILOT matter. In 1985 the 18<sup>th</sup> Guam Legislature enacted P.L. 18-15 that stated that for the risk assumed by Guam taxpayers in operating the power, telephone, water, sewer and air / sea port operations, a fund transfer policy should be instituted as a General Fund reimbursement. It provided that four (4) utilities – the Port, Airport, GTA and GPA be assessed \$3.5Million per year from operating surpluses. The law also stated that in no event shall the transfer of funds from the agencies to the General Fund violate the terms or conditions of any Bond Covenant of any of the named agencies. The law was never implemented but was amended once, repealed and then re-enacted three (3) times by various legislatures – the most recent being the 27<sup>th</sup> Guam Legislature with the current version being P.L. 27-110. GPA received a billing from DOA dated March 31<sup>st</sup> for \$12Million for 14 assessments of \$875k each FY between FY1998 to FY2011.

A legal analysis has been presented to the CCU in Executive Session detailing the potential defenses and probable successes of each scenario.

After executive session, the Commission amended the resolved section of the Resolution 2011-32 was amended to read "The GM of Guam Power Authority is authorized to approach the PUC to approve the settlement of 3 years at \$875k or \$2.625M and to get a rate surcharge necessary to cover cost of the settlement and to cover cost of PILOT on an ongoing bases starting with FY2012.

Comm. Hara motioned and Comm. Duenas seconded to approve Resolution 2011-32 as amended. There was no further discussion or objection and the motion carried.

**d. Resolution 2011-33: Relative to Amending TG Engineer Contract**

Resolution 2011-33 is requesting the Commission to authorize a change order to the TG Engineers, PC for the tuning and testing of GPA's generators. In January 2010, TG Engineers was awarded the contract to test and tune GPA's system generators in the amount of \$400,000. As a result of the work, TG Engineers recommended the following: - the Mark V improvements at Cabras 1&2, the governor upgrade at Cabras 3&4 and upgrades to the exciter systems at Tanguisson 1&2 and Cabras 3&4. These improvements are scheduled to be completed by November 2011. Subsequent to these improvements, another series of analysis, tuning and testing is required to be performed to the generators. GPA has negotiated a change order to the original contract totaling \$188.4k for the testing and tuning after the correction of these deficiencies as well as training for power plant operators, PSCC dispatchers and engineers.

Comm. Nelson motioned to approve Resolution 2011-33; Comm. Hara seconded.

In discussion, Comm. Duenas recommended to amend the Resolved section 2 striking the phrase "in obligating authority from \$250,000" completely from the sentence.

On the motion, there was no further discussion or objection and Resolution 2011-33 was approved as amended.

**e. Resolution 2011-34: Fuel Hedging Strategy Revision**

The CCU had a work shop on the fuel hedging issue. The CFO said this is the next step in the progression – the addition of statistics to the decision making process. There will be little management discretion. There will be set parameters that all parties will agree and whatever the model says that what will be hedged based on what's going on at the time and price volatility in the market. The CFO is asking to forward the hedging to PUC for their approval.

Comm. Nelson motioned to approve and Comm. Hara seconded to approve Resolution 2011-34. There was no further discussion or objection and the motion passed.

**f. Resolution 2011-35: Amendment of Petrobas Contract for RFO 6**

The GPAGM is requesting the Commission to petition the PUC for an amendment to the current fuel contract. He said GPA's fuel supplier – Petrobas has realized that there is a problem with the existing contract, in particular, how GPA configures its fuel cost. The current contract uses a fixed conversion factor of 6.6 barrels per metric ton to convert the fuel price for \$/MT to \$/barrel. In the first year of the contract, the effect of the fixed conversion factor resulted in a lower fuel price in \$/barrel than its true equivalent price in \$/MT by about \$3Million with Petrobas absorbing the additional cost and with GPA benefiting a savings in the same amount. Petrobas is requesting for an amendment to certain provisions of the contract; GPA reviewed the proposal and negotiated the offer with Petrobas. GPA agreed to change the calculation of the contract price from \$/barrel to \$/MT to eliminate the use of the conversion factor. This will correct the calculation of the contract price but the savings previously gained by GPA will be lost. GPA also accepted offers from Petrobas that would generate savings to the Authority by extending the credit line of \$30M that would save GPA about \$938k per year thru the elimination of letter of credit fees. Petrobas would also increase the heating value limit from a minimum of 5.90 to 6.10 MBTU/Barrel that would save GPA about \$7M in reduced fuel consumption. Lastly, Petrobas will add other quality control parameters such as Hydrogen Sulfide, Mercaptan Sulfur and Odor tests to address the concern over the odor issues without adding cost to GPA. Management confirmed that the proposal negotiated with Petrobas is reasonable and would ultimately benefit the Authority and ratepayers.

Comm. Hara motioned and Comm. Duenas motioned to approve Resolution 2011-35. There was no further discussion or objection and the motioned passed.

**g. Resolution 2011-36: Ratepayer's Bill of Rights**

In Resolution 2011-36, management is asking the Commission to authorize GPA to file a Ratepayer's Bill of Rights Notice in anticipation of the filing of a petition to PUC for a base rate increase as required by law. GPA has committed that at its next filing, it will include a Load Study and a full Cost of Service Study in order to ensure that the costs of providing service to each rate class are being properly assigned to each rate class. The last time this was done was in 1993 and determined at that time that the system was operating at its peak at approximately 5 p.m. The recently completed Load Study indicated that the system peak has now moved to 8 p.m. and is being driven by the residential class of customers. The Study also indicates that a greater portion of the generation costs of the system should be shifted from other customer classes to the Residential customer class. R.W. Beck is finalizing GPA's ten (10) year Financial Management Plan to be used as a tool to determine the impact of current regulatory decisions on the Authority's credit profile for the next decade and GPA intends to file the Plan with the PUC as the basis for its rate petition. GPA also plans to make its rate structure more consistent with industry standards by increasing its Customer charge to a level more consistent with industry practices and by the introduction of true demand charges to Civilian demand customers – more effectively aligning costs to the customers responsible for the costs. The establishment of an accurate Load Study has been a very challenging aspect of the rate petition since there are many significant variables for which there is very significant instability. Because of this GPA has crafted a very conservative forecast for use in filing its Ratepayer's Bill of Rights Notice. While it is too late to incorporate into this rate filing, GPA has also started exploring options re Bond financing which may have the impact of reducing the impact of this rate increase. GPA will continue to explore that option as the Ratepayers Bill of Rights Notice moves forward.

Comm. Duenas motioned to approve Resolution 2011-36; Comm. Palomo seconded.

The Chairman said this rate increase is necessary to begin to pay the Principle and Interest on the \$200M that GPA borrowed. This is consistent with GPA's historic approach to gradually reach a level where P&I are addressed. GPA will raise rates 10.5% over the next 3 years and will give GPA the cash flow to address P&I and other needed upgrades / repairs.

He added that this is the first time that a utility will submit a 2-prong approach – a base rate adjustment for gross revenues and a reallocation of rate design / structure - all the different classes will contribute differently than it used to. The Chair added that this filing will generate \$41M annually beginning on 2015. The CFO said most of the revenues will be used to address debt service.

On the motion to approve, there was no further discussion or objection and the motion carried.

**h. April 2011 Financials**

This matter was tabled.

**2. GWA**

**a. PUC \$20M Order**

This matter was moved to Executive Session.

After Executive Session, Comm. Hara motioned and Comm. Duenas seconded to authorize GWA and Legal Counsel Sam Taylor to appeal the PUC ruling to Superior Court.

The Chairman reiterated that under Guam law, a utility can appeal a PUC ruling to Superior Court and GWA is exercising its right accordingly.

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

**VII. OLD BUSINESS - None**

**VIII. ANNOUNCEMENTS**

**Next CCU Meeting: GPA - July 12 / GWA - July 26**

The Chairman announced that the next CCU meeting would be on July 12<sup>th</sup> for GPA and July 26<sup>th</sup> for GWA.

The regular meeting was recessed Executive Session started immediately. It was 8 p.m.

**IX. EXECUTIVE SESSION**

**1. Payment in Lieu of Taxes**

This matter was discussed.

**2. PUC \$20M Order**

This matter was discussed.

The Chairman called the Regular meeting back to order at 9:20 p.m.


**X. ADJOURNMENT**

There being no further business to bring before the Commission, the meeting was adjourned at 9:21 p.m.

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Attested:

  
SIMON A. SANCHEZ II, Chairman

  
GLORIA B. NELSON, Secretary