



CONSOLIDATED COMMISSION ON UTILITIES

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

**REGULAR MEETING OF
Guam Waterworks Authority
GPA Board Conference Room
5:00 p.m., Tuesday, November 27, 2007**

MINUTES

I. **CALL TO ORDER**

The Chairman called the regular meeting of the Guam Power Authority to order at 5:30 p.m. and announced that all four (4) Commissioners were present.

The attendance roster follows:

Commissioners:

Simon Sanchez	Chairman
Benigno Palomo	Vice-Chairman - GPA
Gloria Nelson	CCU Secretary
Eloy Hara	Vice-Chairman – GWA

Executive Management:

John Benavente	GM, Consolidated Utility Services (GMCUS)
Danny Santos	Asst. GM, Consolidated Administration (AGMCA)
Greg Cruz	Chief Financial Officer, GWA (CFO-GWA)
Randy Wiegand	Chief Financial Officer, GPA (CFO-GPA)

Legal Counsel:

Sam Taylor	GWA Staff Attorney
------------	--------------------

Management & Staff:

Don Antrobus	Chief Engineer
Bernie Sadler	Direct Responsible Charge / GWA
Jesse Lujan	GWA
Clint Huntington	GWA
Geigy Salayon	Customer Service Manager / GWA
Becky Balajadia	Customer Service / GWA
Gilda Mafnas	Comptroller, GWA
Anthony Chargualaf	Collection & Distribution Mgr. / GWA
Mark Miller	Production & Treatment Mgr. / GWA
John Quidachay	GWA
Ron Topasna	Pumping Sta. Supervisor, GWA

CCU/GWA 11/27/08 Meeting

Carmen Sian-Denton	Laboratory / GWA
Lani Mendiola	Board Secretary (Acting) / GWA
Chilang Fejeran	Admin. Asst. / GPA
Selma Guerrero	Admin. Asst. / GPA

Guest:

Phil Roberto	Sen. Espaldon's Office
Miguel Bordallo	DBC&A

II. APPROVAL OF MINUTES

There were no Minutes presented for approval at this meeting.

III. GM (CUS) Report

The GMCUS reported on the Conference that he attended in Washington D.C. where represent the utilities as part of the infrastructure group from Guam. The meeting was part of the planning for military build-up.

The Chairman invited the CCU to a luncheon scheduled for tomorrow at 11:30 a.m. at the Chinese Restaurant at the East West Business Complex. He will be presenting the GM Quarterly Awards to GWA Employees and invited the CCU to attend. It is a quarterly presentation and befitting to employees for their outstanding work and a job well done.

IV. COMMUNICATIONS

1. Public Comment – NONE

At this point the discussion moved forward to Section VI. Old Business.

VI. STAFF REPORTS

1. Legal - NONE

2. Human Resources

There was discussion on the head hunter for the GM and Engineering positions. The Staff Attorney advised that the contract is being prepared. He explained that there was an issue with licensing which has already been cleared. The Chairman advised that the head hunter will look for a GM candidate and licensed engineers.

Comm. Nelson asked the status of the scholarship for engineers. The GMCUS advised that a committee has been formed already and the program should be developed shortly for engineers. The in-service training for others would follow suit.

There was also discussion about the job announcements for 30-50 apprenticeship positions at GWA. The GMCUS reported that 99 applicants took the exam and of this 35 were interviewed and 20-25 have been ranked and ready for hire. An orientation was held today for all apprentices. He mentioned that this is in addition to the 18 trades helper already on board. They also went through the exam process.

M. Miller updated the Commission on the status of the federal training grant that would soon expire. He reported that a letter is prepared asking to reprogram the funds and to extend the

CCU/GWA 11/27/08 Meeting

expiration for an additional 6-12 months. It was mentioned that the training coordinator is Frank Roberto.

3. Compliance

Mr. Kemp updated the Commission on issues relative to the compliance to the Stipulated Order (STIP) EPA has warned GWA about UGUM. A year ago GWA sent them a report that based on non-performance and rebuilding of UGUM, management completed all the specified requirements that was called for in the STIP and that GWA would continue with the upgrades and projects that have already been started under the grant. Another possible fine may come from Automated Meter Reader project and management has already submitted a report to EPA re related delays. Another possible risk is GWA's chlorination upgrade project which is also a grant project. He explained the delay for this project is mostly EPA's fault and that a letter to EPA addressing GWA's concerns has yet to be sent.

He mentioned that EPA reminded GWA regarding the Agana Outfall which is due in February and he confirmed that it may not be completed in time. However he did confirm that the other (2) outfall projects will be completed a year in advance of the deadline.

The GMCUS commented that EPA will meet with GWA on Monday afternoon and the GMCUS will present them an overview of GWA over and above the STIP agreement. The GMCUS feels that they are not aware of the improvements that have come about – GWA has a lot to brag about.

4. Chief Engineer

The CE submitted his report (copy in Master File) but it was not discussed.

5. Asst. GM Consolidated Administration

The AGMCA reported that commended Geigy Salayon and Becky Balajadia for their diligence and hard work in collections. He said they continue to look at accounts with exceptions and to act on their resolution. Illegal connections continue to be monitored; these incidents may be more rampant in the evenings under the cover of darkness. Another recent discovery is meter tampering. Customers now realize that the register is a key component that determines / reads the quantity of water consumed. This piece is forcibly being removed and then reinstated after the fact. He confirmed that those who report illegal connections are rewarded a \$500 bounty.

Other items reported include: the Disconnect Task Force are mobilized to disconnect the Tiyon accounts; commercial establishments are being audited for exceptions one customer at a time; a request for 144 shut off valves totaling \$14k has been processed – the plan is to complete the remaining 220 credit before the end of the month and then work on shut off vales that were installed before 4/2/07

There was discussion regarding illegal connection by contractors. Three things then follow: the Staff Attorney initiates a formal report to the AG; GWA collects the amounts due and water service is not provided until this amount is paid in full; a report is then forwarded to the Guam Contractor's Licensing Board so that their license can be lifted. Comm. Palomo recommended that water service or applications thereof not be acted upon in an effort to penalize contractors at fault. The Staff Attorney confirmed that if a contractor is in violation, their building permits are on hold until the violation has been resolved. GWA takes the step further by identifying who the property owners and presenting them a statement showing the amounts due. The SA said the latter has been very effective.

CCU/GWA 11/27/08 Meeting

The Chairman requested that management issue a press release on illegal connections and consequences and penalties thereof. The GMCUS says that a draft press release is on his desk for his review.

The GMCUS also mentioned several procurement matters in the hopper related to Administrations such as collection services, directors insurance, construction services, leak detection services to name a few.

6. Financial

The GWACFO reported that GWA will suffer a loss in FY07 – approximately \$1.2Million. He referred the Commission to page 4 of his financial report (copy in Master File) that gives a running comparison between FY 06 and FY07. In FY06 GWA reported an operating loss of \$5.8Million; FY07 while still a loss has substantially improved.

He highlighted some things that stand out in FY2007 which include the projection of \$1.2Million in labor that management hoped to be capitalized. He believed that GWA did not have the right processes in place to monitor these charges. Some were being expensed in O&M while others are being capitalized. The GMCUS agreed that work needs to be done to come to some consensus with managers to determine which projects fall under the different categories.

The CFO continued to report on the YE results as listed in his report – revenues improved by 8% over last FY; expenditures were reduced by 2% from prior FY. The Chairman said the good news is that GWA lost a lot less money and the bad news is that GWA still came out in the red.

The CFO said the numbers in October reflect very positively – anticipated income is projected at \$5Million. He said the debt service coverage is not where it should be in FY2007 it was 1.17 and the bond indenture requires that it be 1.25.

7. Production & Treatment

The AGMPT, M. Miller reported that on the operation side, the biggest concern currently on his plate has do with matters related to high chloride levels in the wells. He said that this issue has affected some wells since they have been put into service. It was noted that of the 100 GWA wells 13 are adversely affected and it is his opinion that, of these, 5-6 must be replaced. He said he hoped to tie-in the related costs with the System Development Charge. He said that initially, management thought that this matter could be addressed by reducing the pump rates but through research, the CE and he determined that some wells were drilled too deep and should have never been developed. The worst case scenario is that if the wells cannot be rehabilitated by reducing the pumping, GWA may be forced to drill alternate well sites in better locations near by. He said that he and the CE will continue to research and study the matter taking all aspects into consideration such as funding, alternative funding and will come up with an action plan. He said in a couple of months, he should have something to present to the Commission.

Another matter that he discussed is the Ground Water Under the Influence (GWUDI) of surface water issue. He said that GEPA has scheduled related conferences and that everyone is welcome to attend. He warned that the discussions would be rather technical. The Conference will be held at the Marriott Hotel this Thursday and Friday.

He also mentioned that he is experiencing some inventory problems due to the delay in the bid processing for pumps and motors. He pointed out that the inventory shortage has caused the

repair time for some wells and is selective what wells to repair (depending on whether or not it is a critical well).

Comm. Nelson commented that perhaps it would be nice to post signs at GWA project sites to let the rate payers know instances when GWA is putting their tax dollars and revenues to work. The AGMPT said he would look into the recommendation for future projects.

The Chairman asked for an update on the performance of Veolia, GWA's PMC partner. The AGMPT reported that they have compiled a report of everything wrong with the system estimated to cost millions to repair. He also is doing the same assessment for comparison. These are items that are outside the Master Plan (having to do with facilities). The GMCUS added that management will be meeting with Veolia next week to discuss financing options available through them.

8. Collection & Distribution

The Collection and Distribution team of Jesse Lujan and John Quidachay reported on behalf of Tony Chargualaf, AGMCD. They reported on the ongoing Santa Rita project. They plan to move to Agat the first week of December. The project entails switching customers in the old lines to new distribution lines and the transferring of corresponding customer meters.

The Chairman asked the team to verify if the Weir residence in Santa Rita has improved water pressure. Dr. Weir has attended several village meetings in Santa Rita and complained about the lack of pressure. The Chairman received an update from Dr. Weir that his water pressure has not improved. He asked the team to look into this matter and to advise him that the referral came from the Chairman.

Mr. Lujan mentioned that the Route 17 area in Santa Rita is being affected by the transfer of water from the Sinifa tank to Agat. They are tied into the transmission line and every time the water is transferred, they lose water. The Team will alleviate this by installing a 6-in line at the top of the hill so that the residents in the area will be not affected.

The team also reported that they are preparing assessments in 5 northern areas i.e. Yigo, Dededo and Mangilao to name a few. The assessment is in preparation for the construction crew that is anticipated to come on board shortly. The GMCUS said part of management's goal is to address low pressure areas so that the construction crew will have a detailed list from which to begin their work. He also said that he is pleased with the progress of GWA's field crew, work orders are in place and additional vehicles and equipment are being put in place. The last to come will be solidifying the work force even more with the construction crew on board.

9. Communications - NONE

VII. OLD BUSINESS

1. Navy Water Purchase Update

The GMCUS referred to a letter in the packet addressed to Capt. Fuligni relative to the Navy's announced increase in water rates to GWA. In his letter the GMCUS thanked them for their reconsideration of the proposed rates which amounts to about \$1Million difference from the initial proposed rates. He also asked the Navy to provide a more detailed cost breakdown that arrived at the proposed rate and advised that GWA also did a similar cost analysis using the UGAM Reservoir as a basis due to the fact that it has many similarities with FENA. The end result of

CCU/GWA 11/27/08 Meeting

GWA's cost analysis was a variance of about \$6Million and in his letter, the GMCUS asked for further details on how the Navy arrived at their costs. He presented the Commission the letter for their review and comment.

The Chairman said that he met with Capt. Fuligni last Monday and apologized that he had not shared the outcome of that meeting with the GMCUS and the Commission in advance of this letter being written. There is one clarification that might force part of the letter to be rewritten. The cost shown in his original letter - \$14Million is the cost for the Navy to run the entire water system, not just the surface water treatment plant but also the 19 wells and their distribution system. While the GMCUS's letter is correct in that we would like to review their figures, he told the Capt that GWA would prepare a list of specific questions we would like clarified. He also mentioned to the Capt. that he would like to submit his figures to PUC for their 3rd party review to see if it is reasonable. Other matters he discussed included looking at merging the two systems and the Capt. said it is not an overnight process. The Chairman told the Capt. that clearly operating 2 different systems is not cost effective for everyone. He said he believes the consensus of the Commission is to continue to pursue to engage discussions with the Navy re their costs to reach a consensus of a fair price, verifying this information through their submissions to the Fed. Government and to continue to lobby with Congresswoman Bordallo to begin the process to introduce legislation to convert the Navy to a customer of GWA using the GPA legislation from the late 80's early 90's as a model. The letter to Congresswoman Bordallo is still pending but this was the consensus of the Commission.

The Capt. did mention that the Federal Govt. plans to invest in upgrades to the system and if they are aware that the system may be taken over by the local government, they may not readily make the investment as planned.

The Chairman said that, if it pleases the Commission, he would work with the GMCUS to reshape the letter to request that they further clarify their figures; GWA would be willing to pay a fair price but in order for GWA to determine what is a fair price, more information re their cost is needed. He said that for the most part, the letter presented is accurate but the segment comparing UGUM to their cost must be removed.

2. Commercial Paper Update

Management presented a report (copy in Master File) to update the Commission on GPA's existing Taxable Commercial Paper Program. The GPAGM said that in 1998 GPA established a Tax Exempt Commercial Paper (TECP) program and secured a \$20Million loan enhanced by a letter of credit and also insured by a separate entity – AMBAC. Because of the demise of GPA's credit rating to junk bond status, further changes to the program ensued and the TECP reverted to a Commercial Paper Program (TCP). The latter rolls over every 270-days, is underwritten by Goldman Sachs every 120-days. This scenario has been going on now for 20 years.

The issue is that the TCP renewal is in November 2007 and GPA proceeded to solicit an RFP for a new provider / facility and there was only (1) respondent – KBC Bank. The negotiations were entered into and GPA's credit review was pending. Their Brussels Credit Review Committee then determined that GPA's was not credit worthy and denied the credit. This left GPA without a proposal or a substitute entity. Currently, GPA pays only the interest and not the principle on the \$20Million loan. Cathay Bank is the current provider for the facility and they have the letter of credit with the Federal Home Loan Bank, a federal entity. It is the reason that the program went from a tax-exempt to commercial paper which is 34% more expensive in fees – approximately \$1.2 - \$1.3M in interest payments annually. In the event no interest payment is made the LC provider

CCU/GWA 11/27/08 Meeting

comes in and guarantees the payment, the line of credit reverts to a loan and if the loan payments are not made then AMBAC steps in and liquidates the entire instrument altogether.

The GPAGM mentioned that early-on, management solicited the Commission to increase the line to \$30Million because fuel shipments were increasing steadily and the additional \$10Million will help relieve GPA's cash crunch.

Another issue is that Cathay Bank has expressed that they are no longer interested in providing the credit facility. They extended the existing program until January 2008; GPA is going to ask them for to further extend until March 2008. Meanwhile, AMBAC's stocks have taken a nose-dive due to the sub-prime fiasco and Cathay is not happy with them as the insurer. GPA proposed a new insurer – MBIA but they disagreed.

The option is to negotiate with another bank – Scotia Bank of Canada. GPA will solicit them under a sole source procurement and it is hoped that they will accept AMBAC as the insurance provider. It is hoped that by January – February 2008, Scotia Bank will be on board and would have assumed the \$20Million existing line, plus an additional \$10Million for a total of \$30Million credit facility. If this fails, GPA would probably have to tap into its working capital fund to liquidate the \$20Million line of credit.

There was discussion on the history of the \$20Million line of credit. The GPAGM confirmed that it was a combination of no LEAC adjustment, and resorting to using cash to pay for fuel shipments. This scenario went on for several months / years. In addition, they were not collecting from the Government of Guam, whose bill was already up at \$54Million in receivables; collection / disconnection was not up to par; there were other operational expenses such as typhoon repairs. He said the lion's share of this was that the Government was not paying their bills. Today they still owe \$27Million of the original \$54Million.

The repayment issue was discussed. The GPAGM noted that there are existing notes in place that are being paid down and while receivables are still high, they are trending down with the exception of the street lights. In October, \$2.65Million was received for street lights and about \$1.5Million was applied to the past 2-3 years. He added that the Base Rate Petition to the PUC included a street light credit, an incentive for the Government to appropriate/fund/pay. The scenario being for every \$3.6Million that the GovGuam pays over 5-years would result in a reduction of the base rate for all rate classes.

The GPAGM said his immediate plan is to lock-in negotiations with Scotia, with AMBAC as the insurance provider and the Commission to authorize GPA to enter into a new line of credit. Otherwise, GPA will end up with an \$8Million payment which it cannot afford to do at this time. GPA can pay it off in full but to do so will make GPA extremely vulnerable and will negatively affect GPA's rating even further.

The GPAGM said that for now, he is just advising the Commission on the background and dilemma he is facing and will return in December hopefully with better news. The Chairman asked him to prepare for his December update an analysis of how GPA's plans to pay off this note.

The CFO commented that currently GPA has a Double B Rating and it is difficult to get the banks to work with us; if GPA can get back its Triple B Rating, it would open up the doors. This is why it is so important for GPA to improve its credit rating.

Comm. Palomo recommended that a synopsis of the background of this issue be included

3. Toto Oil Spill Resolution

The GPAGM presented Resolution 2007-31 to the Commission for approval. It is relative to increasing the GM's approval authority for arbitration services related to the Toto Oil Spill. The GM advised that the proposed budget to complete the project is \$350k and his approval authority is limited to \$250k. The plan is to complete the project in 2-4 months but anything can happen. The CFO commented that this is management's best estimate; it is assumed that the project would be litigated in March if no other issues arise.

McCarter English is the law firm handling the arbitration. Comm. Nelson questioned if the additional funds was budgeted and the CFO responded that they did budget a cushion just in case it is needed. The total cost for the project to date is \$3.6Million and it is hoped that after the arbitration process, GPA's insurance will cover this cost plus the attorney's fees and any other related costs.

The CFO said the issue is that the oil had seeped into the ground and GEPA advised that if it deteriorates, it could pollute the aquifer. An environmental engineer that was hired by the insurance company, National Union, advised that it would remediate on its own while both GPA's and GEPA's engineer disagreed. GPA could not risk polluting the aquifer so GPA went forward with the clean-up. It was mentioned that GPA's insurance policy with National Union is about \$450k per year.

Comm. Hara motioned to approve Resolution 2007-31; Comm. Palomo seconded. There was no further discussion or objection and the motion passed.

VIII. NEW BUSINESS

1. System Development Charge

The GMCUS advised that the System Development Charge (SDC) is a work in progress. It is part of GWA's Master Plan. He said there is an urgency to move the program forward because Tumon Bay's waste water is at capacity and it is difficult to accommodate additional development in the area. GWA has had several meetings with Developers who have interest in new development in Tumon. He has had several meetings with Sen. Espaldon and Developers and some discussions touched on districting and funding. GWA's consultant – Pros Consulting was here from 11/12-14 and developed a SDC based on GWA's data today. Some things for consideration are to reconfigure the existing system to enable it to accept additional load. One of the developers contracted Duenas and Bordallo to analyze potential solutions and related costs to reconfigure the system. Meanwhile, GWA needs to look at the funding aspect, perhaps offering credits to existing developers to get the construction going.

A draft model SDC has been developed and presented to the Commission. He referred the Commission to page 5 of the draft which lists proposed SDC charges for various meter sizes. The charges range from \$8k for a 5/8" residential meter to \$3.6Million for a 16" meter. The GMCUS recommended a work session for the CCU to go over the details in order to pose questions or clarifications. The proposed SDC and overview is presented to night for information only.

The GWACFO commented that the Consultant explained that there are two methods for calculating the SDC – the incremental approach and the equity buy-in approach. The latter was the approach that was used to calculate GWA's System Development Fees. Because management used the equity approach, the calculations were geared towards arriving at the equity that the existing users

had on the system. Historical costs were factored-in, meter sizes were also considered because it dictates the demand on the system. The costs noted on page 5 are the outcome after doing the calculations. In addition, GWA's debts were also considered such as the Bond because it is attached to the existing facilities. Another consideration is the capital work in progress – projects that would turn into assets in the future. He made special mention that the historical numbers used in the calculations were converted into current year dollars to see what those factors are today. From these numbers, management then arrived at the % of existing users, equity in the system and it is these numbers drove the actual calculation of the System Development Fees found on page 5.

Comm. Nelson recommended that the management conduct a work session to go over the process in detail and then bring the presentation to the masses via public village meetings. The Chairman said this program will impact all new development and agreed that the CCU needs to understand it and the public i.e. developers, contractors and engineers must also be made to understand the thought process and how it was calculated.

The Chairman rationalized managements thought process. He mentioned that many years ago when PUAG started a similar program, they assessed SDC's but then didn't make good on the infrastructure as promised and as a result, had to return some of the money. The current SDC program stipulates that the funds are restricted to capital improvement and cannot be used for operations. With the proposed SDC, if GWA adds on infrastructure for a new development it can do so without burdening existing customers who have built up equity in the system through the years by making their monthly payment for their bills. It is unfair for new development to now be added onto the system for free. If the system's capacity is limited and cannot support the new development then it is only fair that the new development be responsible for upgrading the system so that it can accommodate them. He said in a nutshell this is the rationale for imposing a System Development Charge and the concept for the equity buy-in.

The Chair said the former GM, David Craddick made this same recommendation but it took GWA a year to get a Consultant on board. The SDC has always been required by Guam Law, it is definitely required by the Federal Stipulated Order and is included in the Master Plan. Management agrees that it should be a way to fund future growth. Lastly, he pointed out it is a common industry practice everywhere else. A closer look will reveal that the concept has been closely modeled by the AWWA methodology.

The Chairman asked management to plan a working session and to give some thought as to the best way to reach out into the community. There was discussion on how to get the Consultant involved in the work session and it was mentioned to do a conference call with him rather than fly him in. The Chair pointed out the GWA's experience with the SDC is limited to the last four (4) weeks and it is important to have someone with experience to defend the process and methodology. It was decided to have the work session sometime in January 2008.

IX. ANNOUNCEMENTS

A. Future Meeting


The Chairman announced that the next meeting of the Commission is scheduled for 12/7/07 and will be a GPA and GWA meeting; only policy matters would be placed on the Agenda.

X. EXECUTIVE SESSION - NONE

XI. ADJOURNMENT

With no other business to bring before the Commission, Comm. Palomo motioned to adjourn the meeting; there was no objection and the meeting adjourned at 8:40 p.m.

Attested:


SIMON A. SANCHEZ II, Chairman


GLORIA B. NELSON, Secretary

//bls//