



GUAM POWER AUTHORITY

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**CONSOLIDATED COMMISSION ON UTILITIES
REGULAR MEETING OF
GUAM POWER AUTHORITY
GPA Board Conference Room
5:00 p.m., Tuesday, May 17, 2005**

MINUTES

Chairman Simon Sanchez called the Regular meeting of the Consolidated Commission on Utilities to order to discuss GPA related matters. Chairman Sanchez announced that Comm. Ada is off-island and excused. The meeting was held at the GPA Board Conference Room and it started at 5:15 p.m.

ROLL CALL

Commissioners:

Simon Sanchez
Benigno Palomo
Tom Ada
Gloria Nelson

Chairman
Vice-Chairman - GPA
Vice-Chairman - GWA & CCU Treasurer – (EXCUSED – Off-island)
CCU Vice-Chair / Secretary

Executive:

John Benavente
Joaquin Flores
Danny Santos
Randy Wiegand

GPA General Manager (GPAGM)
GPA Asst. Gen. Manager, Operations (AGMO)
GPA/GWA Asst. GM, Consolidated Admin. (AGMCA)
Chief Financial Officer (CFO)

Legal Counsel:

Graham Botha

GPA Staff Attorney

Management & Staff:

Jennifer Sablan
Joyce Sayama
Tom Borja
John Crisostomo
Art Perez
Sylvia Tumaneng
Andy Balajadia
Jaime Pangelinan
Pam Aguigui
Richard Bersamin
John Cruz
Diony Tamondong

Generations Mgr. (A)
Mgmt Analyst / Executive
Facilities Manager / Facilities
Safety Administrator / Safety
Public Information Officer / Public Information Office
Engineer Supervisor/Planning & Regulatory
Manager of Engineering / Engineering
Supply Mgmt. Administrator / Procurement
Chief Budget Officer / Finance
Asst. Customer Service Mgr. / Customer Services
SPORD Manager / Strategic Planning Operations Research Div.
Comptroller / Finance

Media:

None

Guests:

David Taitano
Barb Stone
Jim Stone

PERI / PRI
PERI / PRI
PERI / PRI

II. **APPROVAL OF MINUTES**

A. **April 19, 2005 – (DRAFT)**

The Minutes of April 19th was presented for approval.

Comm. Nelson motioned to approve the Minutes subject to verification and written correction. Comm. Palomo seconded. With no objections or discussion, the motion passed.

III. **GENERAL MANAGER**

A. **System Update**

The GM reported 245 MW on reserve; he said that the other day generation hit 270 MW - the highest recorded since 2001 which recorded a peak of 281 MW. There is a substantial increase in load and attributed this to the weather. The whole island is air con sensitive – the hotter the day the more the demand.

RE Production, he said that May has increased by 2.27% vs. 2004 in system peak load; the average daily production (kWh) is up by 3.26%; it would take about 2 months to see the trending factor in order to properly forecast for projected energy production for the balance of 2005 and into FY2006.

RE LEAC, over recoveries are now being recorded and LEAC is about even. He said this is a direct result of the average cost of fuel oil (\$250k per metric ton) vs. the LEAC rate of \$240; he reported that a hedging contract mandate has been issued to lock-in the \$240 rate for the rest of the year; operations is producing 98% plus in base load generation. He reaffirmed that management is doing everything possible to generate power at the least cost; April ended with an over recovery of \$38k; May's figures are trending an under recovery of \$34k due to MEC #9's major overhaul, which has since been completed; LEAC should reflect an over recovery towards month's end.

The GM referred the Commission to a graph that showed IWPS Historical Monthly Peak Data. It indicated that 2005 is starting to hedge up to 2001 figures. He said what is notable is that GPA can now meet load demand spikes as they happen. The last two units under repair - Dededo CT #2 and Marbo CT (turned over by the Navy) are either under contract negotiations or awaiting parts for completion.

Comm. Palomo commented that 2001 seemed stronger than current trends and that it is not clear what the minimum average peak demand would be to meet consumers' needs. The GM explained that the graph showed monthly actual peak demands (the highest figure recorded for that particular month). He attributed the lower trending to the 9-11 incident, Typhoons Pongsona, Chataan and also the current economic conditions adding that the recovery process takes time. Regarding future load growth, the GM was confident that GPA is in the position to handle the projected growth anticipated.

The GM added that integrated resource planning, demand-side management programs, load forecasting and rate planning (what GPA's rates would look like in the future based on the all the CIP needs) are examples of ongoing discussions to help develop a 10-year long-range plan. It is management's goal to complete this plan by the end of this fiscal or calendar year. The GM commented that aside from capacity issues, management is also improving protection mechanisms to maintain/strengthen reliability, underground line projects have become real,

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capacitors are being installed – all improvements that would strengthen the system to foster today's reliability and tomorrow's needs.

B. FEMA Update

The CFO reported that FEMA requested that project worksheets for Chataan be organized differently. It was a long drawn-out process, but it's done and in their hands. He said they would get back to us regarding the status of the \$1.2 million for Chataan. Regarding Pongsona, \$200k was received two weeks ago and more is expected in the next couple weeks. The process is slow and GPA is always responsive to their requests.

Comm. Nelson asked when the \$1.2 is expected to be paid. The CFO responded that it should be received before the next meeting. Comm. Palomo asked if there were any requests for reimbursements whereby GPA did not meet the specified requirement regarding documentation etc. The CFO confirmed there were some issues and referred to "ineligible amounts" (Line C in report). He added that there are some criteria that FEMA would pay for and some not. He gave examples of noted areas for the latter. Comm. Palomo asked if there were any instances where GPA asked for more than it should (an example given was a bottle of water for .50 and the request was for .75). The CFO said that for 90% of FEMA requests, the monies were already spent so the request is for actual receipts/expenses.

Comm. Palomo asked the CFO to brief them regarding GWA's FEMA issues. Comm. Nelson asked if GWA received the money, the CFO responded no. Comm. Nelson said if there were no funds received, what is there to document – just tell FEMA they did not receive the money. The CFO confirmed that \$2 million of that amount was not received, however, there was a few hundred thousands that GWA did receive. He said it is a difficult issue because GWA accrued approximately \$500k in over time charged to FEMA. He explained that when Mr. Craddick took charge it was a live issue and, as he was trying to figure out where all the money was charged, it became apparent that it was not going to be easy because the documentation was not being done properly, if done at all. Mr. Craddick has no confidence that he can prove to FEMA that the overtime was related to the storm. Comm. Nelson said that time and attendance records should be able to identify this data; supervisors should know staff distribution to substantiate actual field placement and duty. The Chairman commented that a "system of record" is a System and it could be used at GPA or GWA; why does GPA have it all together and GWA does not. He asked the CFO if GWA has a FEMA process system in place. The CFO responded by saying that the major issue is that the person responsible is spread too thin. When asked by Comm. Palomo if there is any expectation for recovering these funds. The CFO said that if there is no proper documentation to substantiate the claim then it may be that GWA will never recover the \$500k. It was discussed that this will definitely impact projected profits for year end.

The Chairman said it is inevitable that Guam would encounter more future storms and asked the AGMAC, Mr. Santos, to ensure that a FEMA "system of record" be established for GWA to prevent a similar recurrence.

C. GovGuam Receivables

The GM reported all Agencies current except for Dept. of Parks & Recreation. He requested to reserve his comments pending further investigation. He believed there may be a lien on them by Rev and Tax.

In response to Comm. Nelson's inquiry regarding DOE, discussion followed regarding DOE's \$14 million P-note balance (on page 3 of the GG Receivables Report). The GM explained how the P-note came to be and confirmed that the balance showing in the 1st page of the GG Receivables is separate from the one found on page 3.

There was discussion on the street light issue. The GM reported that he has been meeting with DPW regarding past streetlight debts and is hopeful that a resolution would soon be reached and a P-note initiated. The latter would be structured similar to the GMH, DOE and GWA, P-notes, whereby a set monthly installment would be agreed upon for the \$14 million in arrears plus payment for current billings. The GM said he has another meeting again next week. It was mentioned that there are 13,990 actual streetlights; GPA was billing them for 16,000 streetlights. The GM mentioned and the Chairman concurred that DPW would be credited the difference between 16,000 and 13,990 streetlights. The balance would then be the basis for the P-note.

Comm. Palomo asked for a summary of the streetlights i.e. primary, secondary and village. The Comptroller, Mr. Tamondong, confirmed that the adjustment of 13,990 could be summarized by classification: primary, secondary and village. The GM said one of the main problems with streetlights is the lack of a documented policy. He said that the Mayor's Council, DPW, and the Legislature were all forwarded the draft streetlight policy. He said Management Analyst Sayama would follow-up with status this week and would try to firm it up next week. Once approved, Engineering would issue related work orders to reset the streetlights according to the new policy.

The GM also mentioned that management would look at reducing the streetlight rates in the future. It currently is at \$24 and the new rate would be around \$15-\$16.

D. Administration Dept. Reports

Human Resources and Customer Services Reports were presented for review and discussion. The GM referred the Customer Service Division Overview – a summary of total work orders generated in the various businesses offices: Harmon, Agat and others. The report was a new format which offered a birds-eye view/breakout of total monthly transactions/customer interaction within the whole of Customer Service Division. Also included in the report was a customer breakdown by village location and book cycle, as requested by Comm. Palomo. It was mentioned that the new GPA Agana Central Customer Service location at the Agana Shopping Center would open around July 1st. Renovations would begin next week. The site is a full service customer service location for GPA customers only; GWA customers may only pay their bills. The Chairman said he would like to improve this and add more service for GWA customers at all GPA service locations.

E. System Losses

The AGMO referred to the updated Report. He said that management is getting closer to nailing down a performance standard for losses – 6-7%. The total back billings of the 8800 account reviewed is about \$1.6 million or an annualized recovery of about \$937k. The meter task force has discovered that the Navy Metering is one of the major areas where losses occur. The report noted recovered revenues of about \$433k for the first 5 months of 2005. This is the average actual billing increase over the estimated bill for Navy alone. There is about \$1.8 million pending subject to Navy's approval. Once finalized, he anticipates a meeting with the Navy to come to terms and final resolution. The AGMO reported that all Navy metering have been addressed and reported an additional \$90k in average monthly revenue. The AGMO said Navy tracking would continue for about a year. He also said that eventually the System Losses Report would be discontinued because the metering process has come full cycle.

The AGMO said this whole process is part of the big scheme to identify what losses are today. Once truly defined, targets could then set as a goal for the operations group to meet or perhaps better on an annual basis.

It was mentioned that the Customer Service Agreement (CSA) with the Navy was for the entire Navy business. At the time it was an opportunity for GPA to take the Navy out of the power business and for GPA to takeover their entire power system. The 18-month bill back limitation was part of the negotiations. The GM advised that the Navy has been very cooperative thus far regarding this issue. It was also mentioned that the bill back limitation for regular customers is only four (4) months.

IV. COMMUNICATIONS

A. Public Comment - None

B. Other - None

V. LEGAL COUNSEL

The Staff Attorney reported that there are two (2) cases pending litigation: the Morrico Equipment Case (bucket truck protest) is set for a status hearing in July 2005. He said it is interesting to note that there has been no responses filed by either of the two (2) other defendants – Fleet Services Inc. and International Bridge who were both served last month. He said it is possible that they are content to see the outcome between Morrico and GPA.

A trial date has been set for the other case – Pacific Security Alarm, for November 2005. The issue regarding this case is that the losing bidder sued GPA over the fact that their competitor (who had the lower bid) was not paying the correct wage. GPA response is that GPA is not the enforcing entity in this regard.

VIII. OLD BUSINESS

A. Streetlight Payment Update

The GM is still working with the Governor and Legislature to resolve this issue.

IX. NEW BUSINESS

A. Telephone Service Extension – Resolution 2005-011 (Ratification)

This resolution was polled and was introduced for ratification by the Commission. The GM explained that GTA was originally a government entity and is now a private corporation.

Comm. Nelson motioned to approve Resolution 2005-011. Comm. Palomo seconded.

In discussion, the Chairman asked what happens with the phone system after July 31st (the Resolution asked for extension of services up to that time). Facilities Manager, Tom Borja, responded that he has been negotiating to get a new phone system in place – RFP's have been released. It was reported that it is anticipated that this would happen by August 1st. The resolution is intended to keep GTA in place pending the outcome of the RFP.

On the motion, there was no objection to the language, with no further discussion or objection, the motion passed.

B. MOU Supply Purchase of Refined Waste Oil – Resolution 2005-012

In support of Resolution 2005-012 there was a joint presentation with GPA and Pacific Environmental Resources, Inc. (PERI). The AGMO asked PERI principles to introduce themselves. Mr. David Taitano and Mr. Jim Stone assisted the AGMO with a power point presentation (copy not provided Master File). Referring to the presentation, the AGMO cited a list of benefits to enter into the MOU with PERI - a cost savings to the Authority of \$272k per year being one of them. The AGMO said that waste oil is trucked from the MEC plants, all gas stations and processed at the GPA main oil water separator (as a community service). The water and sludge and is then incinerated at the Cabras 1&2 stations. Because the oil is not refined, problems develop with boiler inefficiencies, operations and maintenance, pump wear and tear. The waste oil that is left over is very dirty, with little heating/energy value. The proposed process by PERI would include a pre-treatment refining process that is supplemented with diesel or other product that is blended and sold back to GPA. The difference between the PERI process and GPA's current process is that the PERI product is pure product that is within GPA's specification.

Mr. David Taitano, General Manager of PERI, added that GPA was the pioneer of the used oil refining process 15 years ago. He mentioned that the Ada administration forced GPA to accept used oil from other sources like Unitek, South Pacific Environmental and others. The GM corrected Mr. Taitano, by saying that GPA was not "forced" but stood tall to support the island's automotive community by accepting their waste oil and developing the current refining process. Mr. Taitano said that PERI has probably recycled upwards of 2 million gallons of used oil through the years. Past usage has been good but because of economic reasons, lately, the sale of used oil has been slow. The PERI/GPA merger would allow a better handling of used oil on the island. The AGMO added that the merger would also show that GPA is promoting a good environment through the recycling of this waste product. The PERI/GPA avenue is a win win situation for everyone. The GM said this is also another excellent example of another form of public / private partnership.

In response to Comm. Nelson's question regarding savings to ratepayers, the AGMO summarized the collateral benefits – the promotion of environmental stewardship by reducing emissions into the air; a recycling mechanism / avenue to offset the increased production of

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waste oil as a result of improved efficiency in base load generation. The AGMO added that the fuel that would be derived from PERI is equal to or better than GPA's specification and the cost would be 5% less than current prices (per barrel). There would also be no premium charge for delivery as is the case with British Petroleum. The Chairman commented that the ratepayer may have a small cost impact but the environmental aspect of burning the fuel vs. dumping far outweighs the incremental cost.

In response to Comm. Nelson's question about how cost savings were determined, the AGMO responded that a GPA staff calculated it based on O&M expense.

Comm. Palomo asked at what cost GPA accepted waste oil from the community. The GM responded that it was during his first administration that GPA initiated waste oil refining facility. The community wanted GPA to purchase their waste oil, the alternative was for them to ship the used product off-island. GPA invested in an environmentally safe waste oil / water separator; he said waste oil has little heating value, it is the blending and refining of the product that reconstitutes it.

Comm. Palomo asked about EPA's role in the refining process. Mr. Taitano responded that all the oil PERI accepts is inspected by EPA before processing for PCB, heavy metals etc. The AGMO referred to the document in the PERI handout that reflects that Guam / USEPA permitted PERI for this refining process. It was mentioned that if the oil is contaminated with PCB, no one can touch it.

Comm. Nelson wanted assurance that the MOU was in accordance with applicable federal and local laws. The Staff Attorney confirmed and added that PERI is required to provide insurance, they are ultimately responsible should there be a spill.

On the motion, Comm. Nelson motioned to approve Resolution 2005-012. Comm. Palomo seconded. There being no further discussion or objection, the motion passed.

C. A/E Service for Fire/Smoke Detection (GPA-RFP-04-006) – Resolution 2005-013

The AGMO asked the Commissioners to approve A&E services for \$299.9k that exceeded the GM's obligating authority. He said the purpose of the contract is to conduct detailed assessment of all GPA's transportation facilities and power plants, for discrepancies with the fire code. Some have already been identified by insurance engineers who conducted an inspection in November 2004 and delineated that there are several items that needed to be mitigated. In order to satisfy this need and hopefully reduce GPA's insurance premiums, GPA must hire an on-island engineering consultant with a fire protection expert, to inspect all GPA sites. They will make their assessment and make recommendation to upgrade code and standards (where needed), list and design them for construction and installation.

In response to Comm. Nelson's inquiry relative to keeping the cost at or below \$250k to circumvent Board approval, the AGMO replied that the original proposal was much higher than \$299k. He said GPA negotiated very hard to bring the pricing down and this was their firm and final offer after many weeks of negotiations. The quote includes the assessment and design services for mitigating these discrepancies. The GM commented that there was a time where GPA almost failed to acquire general plant insurance because of the lack of previous management to work on / mitigate safety issues that were cited as a result of inspections.

Everyone was in agreement that this process was very important. The GM said this would also help management identify CIP goals for the future. The AGMO said that some of GPA's fire protection systems are obsolete and are not in accordance to code, such as the halon system.

On the motion, Comm. Nelson moved to approve Resolution 2005-013. Comm. Palomo seconded. With no further discussion or questions, the motion passed.

D. Update of Bank Signatories – Resolution 2005-014

The CFO said that Resolution 2005-014 would accomplish several things. The update would add the signature of the new Comptroller, Mr. Diony Tamondong, to all banking institutions and remove the Chairman's signature (because there was never a need to obtain it in the past). In addition, this resolution would increase the amount requiring two signatures from \$2500 to \$10,000 and allow the five (5) signatories (noted in the resolution) to authorize ACH and wire transfers.

In response to Comm. Palomo's inquiry regarding whether the individuals listed were insured, the CFO confirmed that all parties listed were bonded. They are John Benavente, Joaquin Flores, Randy Wiegand, Cora Montellano and Diony Tamondong.

On the motion, Comm. Palomo motioned to approve Resolution 2005-014. Comm. Nelson seconded. With no further discussion or objection, the motion passed.

There was discussion whether GWA had the same policy as GPA relative to the approval of all purchases over \$250k. The CFO responded that this policy is not formally documented via resolution, but GWA does put it in practice. The Chairman said that perhaps it could be documented in the future.

E. Underground of 8" Tanguisson Pipeline, Rte 8&16 – Resolution 2005-015

The GM said Resolution 2005-015 is another project that supports GPA's environmental awareness. In 1999, an assessment was made on the 8" Tanguisson Pipeline that runs along Route 8 & 16; it noted that the pipes were in poor condition due to corrosion. The GM said that this pipeline is currently exposed and is a potential environmental hazard, should it be damaged. The fence that once protected it from Route 8 traffic has been removed. Currently, concrete poles run parallel to the pipeline in an effort to offer some sort of barrier / protection. The GM is requesting the Commission to approve a \$1.2 million project to underground 1.3 quarter miles of piping that extends from the GMF Post Office to the Church of Latter Day Saints in Barrigada. He said once done, this would allow direct access to the Tiyan sports field – baseball, football, soccer, from Route 8.

Comm. Nelson asked the availability of the \$1.2 million, the GM reported that it is available and part of GPA's planned CIP for this fiscal year.

Comm. Palomo asked whether the fuel line along Harmon Loop is underground. The GM confirmed that it is an Air Force line and it is underground. The pipeline in question is a Navy line that runs from Cabras power plant through Sasa Valley, along Route 8 & 16, behind the old Black Construction and then underground to Tanguisson. It was noted that the portion of pipeline that would remain above ground would be in the Toto area and a secured area near the

post office. The GM said that management would try to identify grants to put that portion of the pipeline underground or to plan for it in future CIP projects. .

Comm. Palomo said it is an excellent plan and the public would be pleased because property could be better developed. The GM said GPA will work with DPW in future press releases once the project is completed.

Comm. Nelson motioned to approve Resolution 2005-015. Comm. Palomo seconded. With no further discussion or objection, the motion passed.

F. Resolution 2005-016 – HSD Name Change to Doosan Engine Co.

This Resolution was not originally on the Agenda. The Staff Attorney explained that GPA has an existing PMC contract with HSD Engine Co., Ltd. HSD has informed GPA that their name has changed from HSD Engine Co., Ltd. to Doosan Engine Co., Ltd. He further advised that there is no change in the content of the contract only in the corporate name of HSD. He asked the Commission to authorize the Chair and the GM to sign the amended contract previously under HSD Engine Co., to their new name – Doosan Engine Co. Ltd.

Comm. Nelson motioned to approve Resolution 2005-016. Comm. Palomo seconded. There was no further discussion or objection and the motion passed.

G. March 2005 Financials

A DRAFT March Financial Statement was presented to the Commission. The CFO said the Comparison – Budget v. Actual Report included in the packet is not in final form; finance is still trying to work out the differences noted in the last meeting. He asked the Comptroller to make his report.

The Comptroller referred to the last page of the handout – “Comparison – Budget v. Actual”. He explained that the projections are based on the FERC accounts rather than the usual budget format of “cash basis” and object code. He said the budget submitted earlier only show what is being approved relative to requisitions and purchase orders. It does not include the allocations, clearing accounts and non-cash items. On the new schedule – “Comparison – Budget v. Actual”, it shows account classifications by FERC accounts as shown in the Statements of Operations. He proceeded to provide an oral report of the Summary and Analysis found on the first page of the Financial Statement Overview (copy in file).

The Chairman asked what the anticipated projected net loss would be by year-end. The GM said that management is trying to do all they can to break even. The Chairman asked management to project out actual figures for the balance of the year to derive at a more realistic picture using current trends. He asked why T&D has expensed a million more than last year. The Comptroller cited overtime as a major factor. The AGMO said the “non-cash” amount is hurting T&D and he would look at this closer.

The Chairman said his concern (the big picture) is that the rating agencies have criticized GPA for not raising base rates and Management has resisted any efforts to do so. This is compounded by the fact that GPA’s debt service coverage is off target – 1.33 v. 1.75. When rating agencies realize this they are going to pound GPA for not going to PUC to ask for a base rate increase. The Chair said if Management does not raise rates, they’ve got to hold

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costs/expenses. The Chair said his concern is that as good as GPA is doing in many aspects, bills must get paid and bond holders must be pleased. He said GPA is selling 2% less power this year than last year and added that the next review by the rating agencies may force GPA into a base rate increase.

The GM said management is cognizant of this dilemma and will work with the management team to formulate a plan of action and present it to the Commission at the next meeting. The GM said that management's goal is to end the year in a profit. The Chairman asked to see a projection for the year based on actual figures. The GM said a lot of work has been done to get the System up to par and now focus could be given to finances. The AGMO said that perhaps the Navy metering alone is a significant off-set. The Chairman agreed but reiterated that the rating agencies perceive that GPA should be raising the base rates. If this current financial trend continues, then GPA does not leave itself any choice. To avoid this from happening, costs have to be minimized. This could mean slowing down some projects until revenues hit projections. The Chairman said there are two (2) ways to get money from ratepayers – raise rates or cut costs. Management has to convince the Commission that they have done everything possible to cut costs before affecting ratepayers. He added that there are a lot of good things going on but management is not covering the cost – he asked the GM, AGMO and the CFO to keep a close eye on this and to find some balance.

X. OTHER BUSINESS

XI. ANNOUNCEMENTS

A. Future Meeting Dates

The Chairman announced that the next CCU meeting would be at GWA on June 7, 2005. He asked the GM to include any GPA items for urgent review in GWA's Agenda. It was mentioned that the next CCU/GPA meeting would be the first Tuesday in July.

B. Other

XII. EXECUTIVE SESSION

There was no Executive Session

XIII. ADJOURNMENT

With no further discussions to bring before the Commission, the meeting was adjourned at 7:10 p.m.

Attested:


GLORIA B. NELSON, Secretary


SIMON SANCHEZ II, Chairman

//bls

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Approved subject to verification and written correction