



# CONSOLIDATED COMMISSION ON UTILITIES

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

## GUAM WATERWORKS AUTHORITY REGULAR BOARD MEETING *GPA Board Conference Room* 5:00 p.m., January 6, 2009

### MINUTES

#### I. CALL TO ORDER

Chairman Simon Sanchez called the regular meeting of Guam Waterworks Authority to order at 5:08 p.m. He announced that all 5 Commissioners were present and welcomed newly administered Commissioners Gloria Nelson and Joey Duenas to the CCU; they both were sworn-in at a brief swearing-in ceremony / reception before the meeting. He added that Comm. Nelson was a returning Commissioner serving her second 4-year term and Comm. Duenas was newly elected serving his first 4-year term. Those present included:

#### Commissioners:

|                      |                 |
|----------------------|-----------------|
| Simon Sanchez        | Chairman        |
| Benigno Palomo       | Vice Chair, GPA |
| Eloy Hara            | Vice Chair, GWA |
| Gloria Nelson        | Secretary       |
| Joseph (Joey) Duenas | Treasurer       |

#### Executive Mgmt:

|                |                  |
|----------------|------------------|
| John Benavente | GMCUS            |
| Kin Flores     | GPAGM            |
| Len Olive      | GWAGM            |
| Andy Balajadia | AGMO. GPA        |
| Danny Santos   | AGMCA            |
| Randy Wiegand  | GPA-CFO          |
| Greg Cruz      | GWA-CFO          |
| Sam Taylor     | Staff Atty., GWA |

#### Management & Staff:

|                  |   |
|------------------|---|
| Don Antrobus     | Chief Engineer / GWA                    |
| Joey Claveria    | Asst. Chief Financial Officer / GWA     |
| Geigy Salayon    | RPU Supervisor / GWA                    |
| Paul Kemp        | Asst. GM, Compliance & Safety           |
| Mark Miller      | Asst. GM, Production & Treatment        |
| Heidi Ballendorf | Director of Communications / GWA        |
| Gilda Mafnas     | Controller / GWA                        |
| Victor Torres    | Manager, Computer Services              |
| Vincent Guerrero | Human Resources / GWA                   |
| Elaine Cruz      | Personnel Services Admin. / HR, GWA     |
| Jesse Lujan      | Asst. GM, Collection & Distribution     |
| Cora Montellano  | Asst. Chief Financial Officer / Finance |
| John Cruz, Jr.   | SPORD Mgr. / GPA                        |

#### Guests:

|               |  |
|---------------|--|
| Rick Unpingco | Veolia Water   |
| Tom Ada       | Senator, Committee on Utilities, Transportation, Public Works and Vet. Affairs |

## II. CCU ORGANIZATIONAL MATTERS

### 1. Election of Officers

The Chairman said the first order of business is the election of officers and opened the floor to discussion.

Comm. Palomo made a motion to elect the following Commissioner to the following positions; Comm. Hara seconded

- Simon Sanchez – Chairman
- Eloy Hara – Vice Chair for GWA
- Gloria Nelson – Secretary
- Joey Duenas – Treasurer

Comm. Duenas made a motion for the following appointment: and Comm. Hara seconded.

- Benigno Palomo Vice Chair for GPA

There was no further discussion or objection on the matter and the motion carried unanimously.

## III. APPROVAL OF MINUTES

The Minutes of October 7, 2008 was presented for approval.

Comm. Nelson moved to accept and approve the Minutes subject to verification and written correction; Comm. Palomo seconded. There was no further discussion or objection and the motion passed.

## IV. GM (CUS) REPORT

### 1. System Water Issues

The GMCUS asked to move this matter to the end of the Agenda because it may be an extensive discussion. He recommended discussing the business matters first. There was no objection.

The GMCUS said his presentation - "Well Maintenance Briefing" will give an overview of GWA's challenges, where they were, where they are today, where they are headed, various maintenance models being considered and relative action plans. This transcription will only highlight some of the GMCUS's comments. A copy of his presentation is in Master File and can be made available upon request. He stated that management has worked over the past 6 months to really look at what types of problems continue to plague operations. One area of focus is the wells and the other is the reservoirs. He said part of the biggest issue is identifying the problem and what to do about it.

Relative to the wells, for the past 2 months management placed a lot of emphasis on this area gathering data and analyzing the information to prioritize critical work. Two key elements are being addressed 1) Engineering is completing Standard Operating Procedures (SOP's) and 2) a Program Team made of both GPA/GWA staff has been established. He gave an overview of the SOP requirements and examples of current well imbalances. Some FY09 priorities he mentioned are to reduce well failures; to implement the leak detection contract to install GWA's SCADA system; to identify new well sites, to rehabilitate critical hard down wells; to implement a centralized system dispatch operations and to reorganize for effective operations.

Relative to reservoirs, the GMCUS noted some challenges he faces with the system – the most significant being that GWA's system is a dual transmission & distribution system – not like a typical water system; pressure zones are not clearly defined; recovery from main breaks is challenging; inadequate storage results in immediate service interruption; lack of SCADA impedes operations to name a few. He clearly pointed out in a detail graph showing the cause and effect of well failure vs. reservoir volumes – it was clear that there was no buffer / no room for error. Service interruption is almost always immediate when a well goes down.

He noted some significant operational changes – pressure zones were reconfigured and changes in the water source for some reservoirs were implemented to offer immediately relief to customers in critically affected areas like Barrigada and Hyundai i.e. Hyundai reservoir was being fed from Y-sengsong; Barrigada was being fed from Yigo; Yigo Reservoir was supplemented by Santa Rosa. In addition stand-by wells were activated.

In summary, the GMCUS reported that because of their efforts, reservoir levels improved and pressure zones showed marked improvement. Other pro-active activities are ongoing such as review of VFD well settings, tank assessments and repairs, summary of well capacities and others. He said that when he first took the helm at GWA, the Stipulated Order was the primary focus – he said now his attention will focus on operations. He is confident that new SOP's will decrease well failures in FY09.

The Chairman expressed his disappointment that the GMCUS reported that for 7 years (since the CCU has been in existence) it seems that GWA has gone backwards (referring to slide 8 & 10 in the presentation). He said he realizes that there are some things

that couldn't be done but there are some items on the list that should have been done or are being done. He said the CCU will do everything they can to help management but management must be vigilant and pro-active.

Comm., Hara spoke out on behalf of the new management team saying that this matter has been happening since the previous management. The Mayor concurred that the problem with Barrigada is a perennial problem but the Christmas incident was the worst. The GMCUS reassured the Commission that the current team has found a way to sustain the problem for now and will continue to work towards a permanent solution. He said he, he didn't like what he found and can appreciate the Chair's frustration adding that there is no other way to go but up and he is optimistic.

Comm. Nelson commended all the employees for all the improvements in the short time that she has been on board. She has seen a lot of accomplishments and is confident that more is forthcoming. The work that has been done with minimal funding is exceptional.

Comm. Duenas commented that it is important to focus on a business model that is based on the principal of building ratepayers confidence and integrity in GPA and GWA at an affordable price. It's all about perception and if people don't have confidence in GPA and GWA then we have failed.

Comm. Hara mentioned that he expected the GMCUS to take back the helm of overseeing both water and power but the GMCUS commented that he plans to work with the GWAGM to assist with pressing issues before leaving GWA completely. He said that the GMCUS's toughest job was to get the divisions within GWA to work together as a team. He is knowledgeable about the history of the agency. Today GWA is united and we have come a long way. He credited the GMCUS for pulling the team together – this was not the case even 6 months ago. It took the GMCUS more than a year to get GWA to where it is today.

Comm. Palomo said he is pleased with the progress but there is room for improvement.

The GMCUS said he is extremely proud of the team and said he is very critical over what he found. He hoped that everyone sees it as a mission and goal and the new standard to bring GWA to the next level.

## V. **GM REPORT**

### 1. Extension of Veolia Contract

General Manager Olive said that Veolia just completed the 2<sup>nd</sup> year of their management contract and said management is very satisfied as a management team with their performance. In the contract there is 1 more year and management agreed that within 6 months of that expiration (at minimum) they plan to begin negotiations. He announced to the Board that management will begin negotiations now, they will be recommending an extension of their contract and potential changes / amendment to existing terms are being discussed.

The Chairman commented that as good as Veolia's performance has been does management plan to embark on an internal review process. Mr. Olive said that management will definitely embark on a review and based on this come out with recommendations for changes, if any, for the contract extension. It was mentioned that the terms are 3 years with an option for another 3 years. The contract anniversary is July 31<sup>st</sup>.

Comm. Palomo asked for a progress report according to the original contract. Comm. Duenas supported Comm. Palomo adding that there must be a briefing once the evaluation is complete. This is important so that as management goes forward the Commission has a basis on judging where management is going. The Chairman said management already has an evaluation matrix in place and asked management to revisit that in the evaluation process.

## VI. **COMMUNICATIONS**

### 1. Public Comments (2 min. per person)

Mayor Jesse Palican, Mayor of Barrigada, expressed his concern regarding the low to no water pressure in December on Route 16 and 8. He said 73 business and 85 homes are on this route and he had a slew of complaints. He asked for an assessment and status update. The Chairman asked the GMCUS to discuss the Barrigada issue (which was part of his presentation) now since the Mayor was present. The transcription of the GMCUS presentation is found in Section IV.1 above.

There was some discussion about the Barrigada land that was returned to families by the Navy near Kinny's café. The concern was related to the infrastructure on the land. The Mayor was advised that families have to be educated that the infrastructure is not something that GWA is responsible for.

## VII. **NEW BUSINESS**

### 1. Ratification of Resolution 2008-39: Relative to Christmas Holiday

Resolution 2008-39 was presented for ratification; GPA is a public corporation and technically does not need to follow the Governor's executive order. A poll vote was taken to approve the holiday and for the record it has to be ratified.

Comm. Nelson motioned to approve Resolution 2009-09; Comm. Hara seconded. There was no further discussion or objection and the motion carried.

2. Resolution 11-FY2009: Approving Leases with ITE for Malojloj and Yigo

Staff Atty. Taylor reported that GWA received a request from ITE which is now PTI Pacifica Inc. to lease some sites for the GWA property in Malojloj and Yigo. This is the same property that was formerly leased by GTA and he mentioned that the agreement with ITE is structured similarly to that of GTA - \$750 per month per site. The exception is with GTA they provided 5 free phones as part of the agreement – but because currently GWA has adequate communications the phones are no longer needed and in lieu of the phones, he negotiated that the monetary value of the phones (as expressed in the GTA contract) be added to the contract with ITE. The total lease amount with \$1,350 per month per site or \$32,200 per year. PTI Pacifica also agreed to install a back up generator on both sites. They are indemnifying GWA for anything that happens to their equipment.

Comm. Nelson recommended amending Line 31 to add “and PTI Pacifica Inc.” after the word “and”.

Comm. Duenas was concerned about control access to the area and Legal Counsel said PTI is entities to reasonable access. The Commissioners asked that PTI be required to provide a record / journal / log of the times & visits to the sites; Legal Counsel advised that the way the lease is written, the failure to do so would result in a breach. Another concern the Comm. referenced was relative to PTI's ability to transfer the lease. Legal Counsel said they have the ability but only with GWA's consent.

Comm. Palomo asked the GWAGM for his recommendation; Mr. Olive confirmed that he recommends approval.

Comm. Duenas motioned to approve the resolution as amended; Comm. Nelson seconded. There was no further discussion or objection and the motion carried.

3. Veolia Contract Negotiations

Discussed in Section V.1 above.

VI. **OLD BUSINESS**

1. GPA Resolution 2009-01: Authorization for Loan Agreement with Cathay Bank

The GPAGM said that this resolution stems from a line of credit that was fully extended to \$20Million; it was first established as a tax exempt commercial paper program which was underwritten every 120 days through a separate underwriter – Goldman Sachs. One of the criteria was that GPA had to maintain an investment grade credit rating and in 2003 when GPA was downgraded to junk bond status it triggered a chain of unfavorable events which resulted in the tax exempt commercial paper being converted into a taxable commercial paper program with higher interest rates and fees. No principal was being paid otherwise GPA could not afford much needed capital improvement projects to be funded. Management was further advised that if for any reason Goldman Sachs, could no longer service the fund, it would trigger a technical default notice and a demand from Cathay Bank & GPA would have to pay the outstanding \$20Million balance in full. Another requirement was that GPA would maintain bond insurance on the program which would be at a credit rating of AA or better. Since the inception of the program AMBAC Assurance Corp. provided the bond insurance and their credit rating has been AAA. Six months ago AMBAC's rating was downgraded from AAA to AA and then further downgraded to BBB on November 2008. This triggered Cathay Bank to issue a technical default notice to GPA demanding immediate payment for \$20Million. GPA advised Cathay Bank that it could not pay the \$20Million and Cathay now has the right to make a claim on the existing insurance policy with AMBAC which would not only create a negative mark on GPA's credit profile but would also lead to a claim on the part of AMBAC to have the \$20Million loan paid over a 12 month period. This action would require extreme cuts to GPA's budget and would pose significant hardship to GPA's customers. Management has been working with AMBAC to extend the terms longer than 12 months but it does not appear that such a loan will be offered.

Meanwhile, the Vice President of Cathay Bank who has been working on the GPA account prepared a case for Cathay's credit review committee where Cathay would enter into a 3-year loan with GPA at market based interest rate and was successful in getting a reversal of the demand for immediate payment. This resolution documents the history of this matter and management is asking the Commission for their approval to enter into the 3-year agreement with Cathay Bank. The GPAGM highly recommended that the Commission approve the resolution.

Comm. Nelson motioned to approve the resolution; Comm. Palomo seconded. There was no further discussion and the motion passed.

2. Update on Moratorium

GWAGM reported that all the bidding docs and requirements are ready and the plan is to release the bid on January 9<sup>th</sup>. There will be a 45-day bid period thereafter. The GM also congratulated Veolia for their efforts in getting the RFP process together. The goal is to lift the moratorium before April 1<sup>st</sup>. The Governor's signature on the bill is the last piece and the consensus is that there will not be any delay.

### 3. Update on System Development Charge (SDC)

Staff Atty. Taylor reported that the petition for the SDC was submitted in April last year. PUC indicated a concern re the methodology and the appropriateness of the SDC which is the equity method as opposed to the incremental cost method or a hybrid thereof. GWA submitted a brief and with ALJ's order GWA succeeded in convincing the PUC that GWA's methodology is appropriate and consistent with the statute. PUC adopted and recommended the SDC and GWA was notified of the intention to move forward with the process. GWA will move towards having a stipulation as Georgetown and GWA are in concurrence in making a joint recommendation to PUC for adoption.

Comm. Duenas commented that GWA's 5-year plan proposed 4 rate increases and about \$300Million in bonds. The Plan said that if the increases and bonds were adopted everything would be fine. The GMCUS concurred adding that part of the Plan included \$5Million a year in anticipated SDC charges. Comm. Duenas asked what the basis was for the \$5Million and the CFO responded that it included new meters installations and other historical needs. Comm. Duenas expressed his concern re the SDC – he said there will be times where new project developments (from which the SDC is based) will spike and identified / gave examples of huge developers like the one by the old hospital, Ypao Beach and Gun Beach who combined would have about 2,000 units; the SDC on these projects will be about \$14million. The Chairman said that if there is a boom in development, there will be related boom in SDC which will allow GWA to build more wells, tanks and additional infrastructure / distribution.

Comm. Duenas believes that the SDC does not cancel out the impact of GWA on the Guam Land Use Commission (GLUC) – the amount of money that the SDC generates may not be sufficient to fund the impact that super projects of this magnitude bring to the system. The Chairman disagreed stating that once the SDC comes into play, there will no longer be the need to negotiate with developers additional out of pocket expenses. Comm. Duenas is concerned stating that there may be some unintended consequences.

### 4. Financial Plan, Cost of Service, Customer Lifeline Program Final Report

The CFO said the Commission approved the 5-year financial plan last November and agreed to approve management's recommendation to defer any action on the cost of service and lifeline program until management and CCU had time to review the report. The CFO said he is submitting management's recommendation (copy in Master File) and said there are several alternatives to enhance the equitability of GWA rates, to make amends to basic meter charges and to modify rate blocks etc. He said he provides it to the Commission for further review and information.

The Chairman said that GWA asked the PUC to move on the 5-year rate plan but to postpone the lifeline rate and any related changes until management / CCU has had a chance to make its recommendation to the PUC. He added that this is at the heart of the rate case adding that while management has asked for a year's delay, he would like the rate case to take effect this summer even without cost of service / lifeline changes. He'd like the lifeline proposal / rate schedule to be ready for the next rate case

Chairman Duenas asked management to prepare a timeline for the process; the GMCUS said he will include plans for related work sessions, discussions, changes, approvals etc; Comm. Palomo asked for more background / information on the company that prepared the study – Camp Dresser & McKee Inc. (CDM).

## VIII. STAFF REPORTS

### 1. Legal – None

### 2. Financial

The final YE Audit is planned for end of February. He said meter sales are dropping. The CFO said he would like the CCU to compare this year's performance with last year's actual rather than budget because the budget was predicated on the \$12.9 rate relief which is not in effect. He reported the debt service coverage for FY08 is 1.25. The Chairman said the GWAGM is preparing to formally request the PUC for an investigation into the impact for power and navy rate hikes to GWA. Comm. Duenas said he would like to sit with the CE to discuss the Navy water issues and the Chairman asked him to provide Comm. Duenas with all the correspondences related to the Navy and their recent rate hikes.

### 3. Production & Treatment

M. Miller said the GMCUS reported on most of the P&T issues. He said that most of the wells are up and running and that in itself is a big improvement as before they were not working at all. He added that another sign that P&T is improving is the number of residents who show up at CCU meetings to express their concerns / complaints with the CCU – the number continues to dwindle. He added that he is glad that the GMCUS is on board because he brings unity between water and power. When he talks about the lack of SOP's he means global SOP's that involve both water & power - engineering and operations. The GMCUS has identified numerous improvements and can't wait to implement them. He said he is excited about 2009 because the Team that the GMCUS is building is different than anything that he has seen in the past.

The Chairman asked Mr. Miller the difference between the GPA/GWA team of the past and today and he said the finger pointing has stopped and the work that needs to be done is getting done. The GMCUS is vital in the process; there was always a reluctance from members in the past. There is now cooperation and getting the job done as quickly as possible.

4. Collection / Distribution

Jess Lujan said there is a 6-inch main water break in Inarajan. He updated numbers in his Collection and Distribution report. He said that complaints increased last month probably due to the Barrigada incident. Comm. Palomo asked what the cause of the water breaks and Jess said they are old asbestos pipes and they are fragile.

The GWAGM advised the CCU that he is setting up a Utility Coordination Council which would include all agencies that have any dealings / commonalities with GWA such as DPW, GTA, Marianas Cable, and GPA. The first meeting is scheduled later this month. The goal is to create a venue to discuss common interests such as fees, project schedules, clearances, protection of assets and others. It's on everyone's radar screen.

Comm. Duenas mentioned that safety is #1 in his mind and encourages management to please not sacrifice safety for expediency or cost.

5. Asst. GM Consolidated Administration

The AGMACA reported that R2 receivers have been installed and testing is ongoing. A full month report of the entire route will be ready at the end of the month. There was discussion regarding meters that still are not functioning – he reported that 5,000 meter read meters that are not electronically read. Metron Farnier continues to visit GWA to try to fix the problem & they do massive change out of their transponders – it is a 20% failure rate which was deemed very high; it was mentioned that this batch is read manually. The GWAGM reported that he has a schedule teleconference with Metron Farnier tomorrow morning he is planning a trip for them to visit Guam again and he and the AGMACA will point them in the direction that they have not been yet. The Chief Engineer said he has had discussions with the USEPA to discuss the challenges that GWA faces with the meters and a possible extension for this STIP project. In addition, the CE said that he and the CFO did a review and calculation of the meter relative to added revenues and the increase / improvement in billing is only 2% in residential areas whereas in larger commercial accounts, it was significantly larger.

6. Chief Engineer

The CE reported on various projects – the outfalls are 95% complete; over the last few weeks testing of some shut down options have been taking place; the Old Agat contract is in place and the projects will be active in 2 months; phase II Sinajana project has been awarded; Santa Rita Rte 5 will be completed soon; FEMA project to repair the Mangilao tank is on schedule; comprehensive tank inspection is dragging – contractors are working on some figures and will get back to management.

The Chairman announced that the CE will be leaving – returning back to Alaska at the end of March. He said an opportunity has come that will be good for his family and these options may not be available in the future. The GWAGM said a recruitment process to find a replacement for Don will be starting soon via AWWA and through a recruiting company and the local newspapers.

7. Compliance / Safety

Mr. Kemp said they are focusing on what the community needs and not what the STIP says. There are only 6 items left on the pending list – the Master Plan is now the focus.

8. Human Resources - None

9. Communications / PIO

Heidi Ballendorf, PIO, reported that the Celebrity Tap Water Delivers Campaign has been launched. She said as soon as funds become available the ads will run on radio. Some celebrities include Gary Denton – who talks about the aquifers, Lou Leon Guerrero who talks about the importance of water. The other campaign is Drinking Tap Water Through the Generations – it will feature a family.

VIII. **ANNOUNCEMENTS**

1. Next CCU Meeting

The Chairman scheduled the next CCU meeting for GPA on January 27<sup>th</sup> and February 10<sup>th</sup> for GWA.

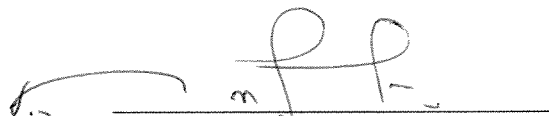
IX. **ADJOURNMENT**

There being no further business to bring before the Commission, the meeting was adjourned at 8:30 p.m.

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bls

Attested:

  
SIMON A. SANCHEZ II, Chairman

  
GLORIA B. NELSON, Secretary