

GWA and PUBLIC-PRIVATE PARTNERSHIP (PPP)

PROVIDING CHOICES FOR
OUR COMMUNITY AND
GWA EMPLOYEES

JANUARY 2005

EVERYONE ON GUAM WANTS THE SAME THING

- A GWA utility capable of providing:
 - Clean, safe, and affordable water
 - Quality service from employees who have the necessary tools, resources, and support to perform their work effectively.

THE PUBLIC DEBATE

- While maintaining ownership of our water, should CCU/GWA:
 - Continue to operate our water & wastewater systems, or
 - Contract with a private partner to operate the system for us?

COMMUNITY HAS FINAL SAY

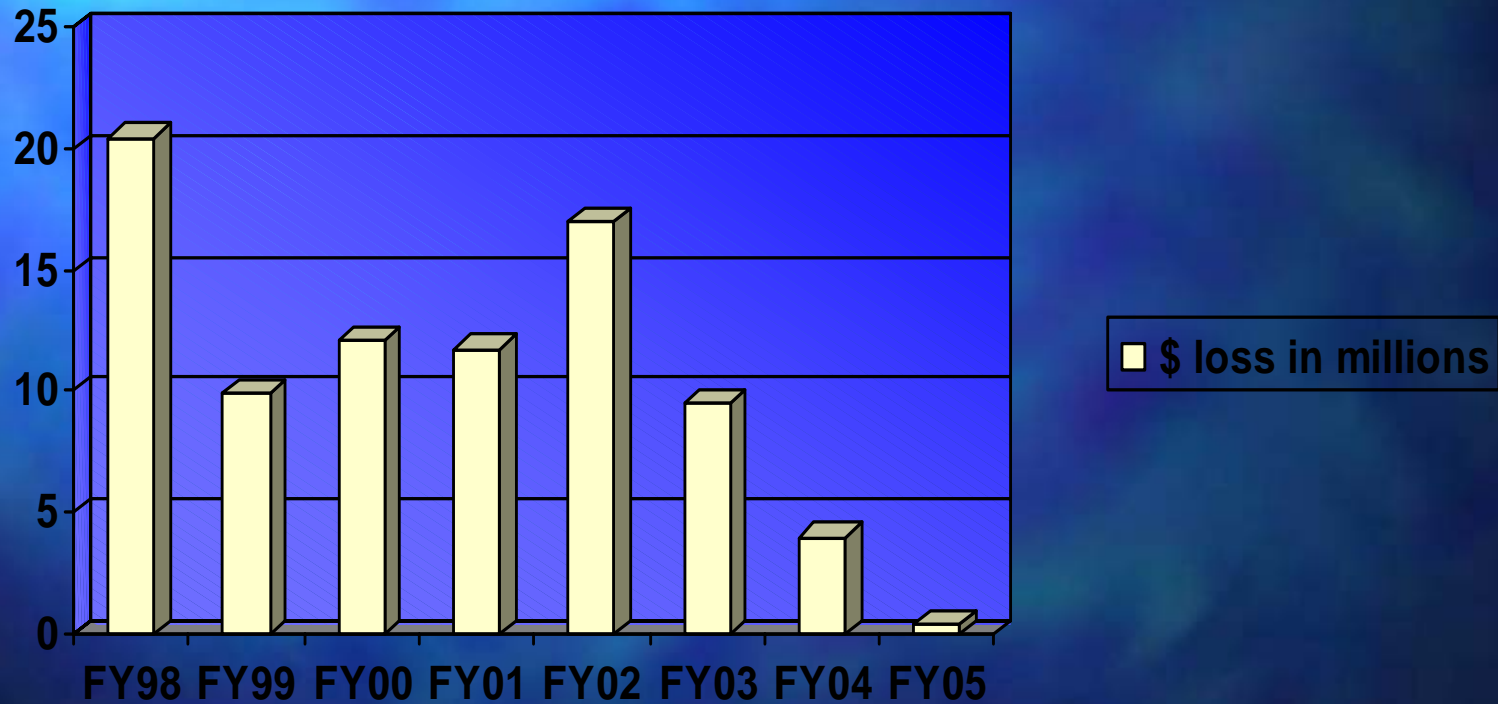
- The CCU does not have the final say.
- The people of Guam will have the final say thru their elected representatives in the CCU, the Legislature, and the Governor, or thru other means.

CUSTOMERS, CCU, & EMPLOYEES AGREE: GWA BADLY MANAGED FOR YEARS.

Gov't management has failed:

- To maintain and improve our water and wastewater systems,
- To provide GWA employees the materials, equipment and training needed to effectively serve customers.

GWA's OPERATING LOSSES



GWA EMPLOYEES KNOW HOW BADLY THE SYSTEM HAS BEEN MANAGED

- GWA employees have unfairly been blamed for the failure and mismanagement of the system.

GIVEN THE MANY PROBLEMS, PPP CONSIDERED PREVIOUSLY AS ALTERNATIVE

- Over the past 7-yrs, elected officials have passed six laws to partially or completely privatize the operation and management of GWA .
- PPP was public policy, even before the creation of the CCU.

GIVEN THE MANY PROBLEMS, PPP CONSIDERED PREVIOUSLY AS ALTERNATIVE (cont'd)

- U.S. EPA has firmly warned of a possible takeover because GWA does not consistently meet federal clean and safe drinking water standards.
- ***EPA considers our system a threat to the public health of our people***

2002 USEPA Lawsuit

- Water system in danger of contamination
- Violation of federal laws protecting water system and environment
- Improper maintenance
- Management unqualified
- Operators not qualified or certified

GWA IS OPERATING BETTER, BUT MAJOR CHALLENGES REMAIN

- Nov '02: CCU is elected by ratepayers - voters, and is accountable directly to the ratepayers-voters.

CCU-elect persuades EPA not to place GWA into immediate receivership and hire a private operator of their choosing to take over GWA.

GWA IS OPERATING BETTER, BUT MAJOR CHALLENGES REMAIN (cont'd)

- Jan '03: CCU hires experienced GM and CFO based on qualifications.
- Dec '03: CCU rejects proposal by BOS contractor (Raytheon) to privatize GWA, as required by public law. CCU wants any privatization to be subject to competitive bid, and not sole source.

GWA IS OPERATING BETTER, BUT MAJOR CHALLENGES REMAIN (cont'd)

- Jun '03 - GWA and EPA agree to:
 - 74 specific changes (the Stipulated Court Order) to improve GWA,
 - plans to invest a minimum of \$250M to rebuild the system and improve all operations.

This is the first major plan developed by GWA (in three decades) to fix the system.

GWA IS OPERATING BETTER, BUT MAJOR CHALLENGES REMAIN (cont'd)

- CCU/GWA has improved management and operational practices leading to improvement of GWA finances.
- To begin upgrading the systems, PUC approved two rate increases totaling 14% in 2004, the first increases in 8-yrs. It is projected that GWA will require additional rate increases of 5%-15% over the next few years.

CCU/GWA Develop Financial Plan to Rebuild/Improve GWA

GWA seeking tax exempt bonds

Jan. 05	\$15 million	short term debt
Feb. 05	\$7 million	short term debt
Jun. 05	\$96 million	long term debt
May 06	\$60 million	long term debt
Total	\$178 million	

GWA IS OPERATING BETTER, BUT MAJOR CHALLENGES REMAIN (cont'd)

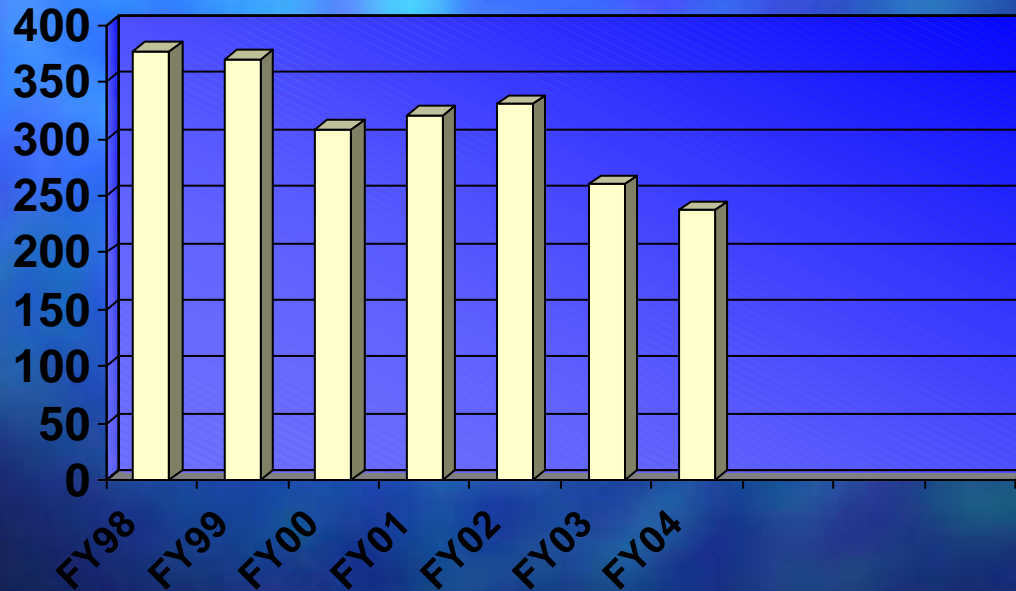
- Nov '04: GWA hires underwriters UBS/Paine Webber and Citigroup to issue GWA's first revenue bond by June 2005.
- GWA will purchase modern "radio-read" meters for \$15 million before end of Jan 2005.

OTHER IMPROVEMENTS

- More training provided to employees → more employees earning the necessary certifications to do their job.
- The number of employees reduced while improving service → doing more with less, and using the savings to pay for improvements.

Employee Count

GWA Manpower



OTHER IMPROVEMENTS

- Stop Water shifting
- Ugum functional
- Expenses 22% lower
- Leak reduction
- Certified operators
- Chief Engr hired
- Warehouse stock
- Repair backlog and OT reduced
- Pump station Bkup
- GWA reorganized
- Compete With PPP
- Significant reduction of sewer overflows

Service has improved to some problem areas

- Southern Villages dependant on Ugum
- Santa Rita Springs area
- Route 8, Barrigada
- Chalan Koda, Dededo
- Upper Barrigada Hts.

DESPITE IMPROVEMENTS, CHALLENGES REMAIN

- Inconsistent water pressure.
- Slow response time on leak repairs.
- Sporadic Sewage overflows.
- Transmission and distribution line upgrades.
- Protection of water resources; inadequate WW system.

DESPITE IMPROVEMENTS, CHALLENGES REMAIN

- EPA remains critical of GWA for:
 - failures in operations to ensure proper disinfections.
 - Not enough certified operators

DESPITE IMPROVEMENTS, CHALLENGES REMAIN

- EPA remains critical of GWA for: (cont'd)
 - Not identifying changes to local laws that act as barriers to GWA's independence and ability to fix system faster.
 - Lack of back-up generators for operations of wells and sewer stations.
- EPA continues to warn GWA of non-compliance with the Clean Water Act and the Safe Drinking Water Act.

PPP ALTERNATIVES EVALUATED

- CCU has hired consultants to help determine whether a PPP would better serve the public interest.
- CCU evaluated different types of PPP:
 - Partial
 - Full (Concession)
 - Sale

PPP ALTERNATIVES EVALUATED

(cont'd)

- CCU maintains clear policy that the people of Guam will always own the water resources and operating systems.
- **CCU will never sell GWA.**

PPP ALTERNATIVES EVALUATED

- CCU chose PPP-Concession as the best alternative:
 - People of Guam retain ownership of all water and all system assets;
 - GWA system is well suited to a single operator of an integrated water and wastewater system;
 - The extensive improvements needed are better managed and financed by a single operator than by splitting operations into separately managed entities.

PPP ALTERNATIVES EVALUATED

(cont'd)

- Concession model reduces the amount of undue political interference over management, employees, and service to customers.
- Concession approach gives operator sufficient time to manage, improve and finance system changes in order to keep rates affordable.

Proposed Legislation for PPP-Concession

The CCU is currently pursuing legal authority from the Governor & Legislature to obtain proposals from private companies to fully operate, maintain and expand GWA's system under a franchise (proposed legislation).

Proposed Legislation for PPP-Concession

- Proposed legislation requires GWA employee involvement and provides that consultants be hired on behalf of employees.
- Employees involved with creation and evaluation of RFP solicitations to ensure employees are involved in all critical steps.

EVALUATION OF PPP-CONCESSION PROPOSALS

- Evaluations to be based on:
 - Water and wastewater utility experience,
 - Operations and management capability,
 - Employee benefits
 - Comparison of PPP to GWA rate increases,
- CCU can reject proposals, but CCU cannot implement a Concession PPP proposal without final approval by the Legislature and Governor.

TENATIVE TIMELINES

- CCU/GWA will submit proposed Concession legislation with public testimony to the 28th Guam Legislature
- If passed into law, RFP, Pre-qualification of Bidders, Bidder due-diligence, final proposals is expected to take 9-15 months.

TWO CHOICES BETTER THAN ONE (OR NONE)

The people of Guam and GWA employees can soon have two options for operating their water/wastewater systems:

- An improving GWA under government management, and
- An alternative proposal from a reputable company.

TWO CHOICES BETTER THAN ONE (OR NONE)

- CCU has an obligation to identify the best way to operate the system for Guam.
- CCU wants to avoid a takeover by US EPA.

PEOPLE OF GUAM WILL MAKE THE RIGHT CHOICE

- The people of Guam will debate and evaluate two options for fixing our system and operating it for the future.
- We have confidence that the people of Guam and the GWA employees will unite behind the approach that best meets Guam's needs for today and tomorrow.