

FREQUENTLY ASKED QUESTIONS
about
PRIVATIZING GUAM WATERWORKS

1. What is the rush to privatize?

The “rush” is not to privatize; the “rush” is to fix GWA’s long-standing problems as soon as possible and in the best way possible. The “rush” is to insure GWA meets all deadlines required by the EPA Stipulated Order.

2. Why consider privatization?

The CCU wants to determine if a public-private partnership (PPP) would better deliver services faster, more reliably and more affordably.

Hiring a private partner to operate all or parts of our system has been required by a number of laws since 1997, but has not been implemented. The government operation of GWA has resulted in over \$80 million of losses in ratepayer money (since 1997) and did not improve the system nor provide adequate support to the employees tasked with operating and maintaining the system.

3. What law authorizes the CCU to privatize GWA under this model?

There is no law that currently allows GWA to find a partner under a concession privatization model. That is why the CCU must first propose such a law in order to proceed with creating and evaluating RFP’s for a concession partnership.

If the law is not passed by the Legislature, the CCU cannot proceed with this type of partnership model. The CCU, however, can still implement the other laws that allow for full or partial privatization of GWA.

4. Is Privatization a done deal?

NO. The CCU is working with our community to bring consensus to the best way to repair, manage and upgrade GWA’s service.

The proposed legislation to allow CCU/GWA to obtain proposals, from interested private partners, is undergoing public scrutiny now and will continue to be debated by our elected officials and the public.

The current process is just the beginning of an extensive community debate over the best way to insure GWA meets the future expectations of ratepayers.

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5. Why not focus on improving GWA as a public corporation?

The CCU/GWA is improving GWA as a public corporation while also exploring the potential of a PPP. Examples of improvements include:

- Hiring qualified General Manager and Chief Engineer.
- Reduced operating expenses; savings used for O&M,
- Obtained PUC approval to raise rates; fund CIPs,
- CCU/GWA convinced EPA to work with Guam to meet national standards, instead of having EPA force GWA to be turned over to private hands, as was almost done in late 2002,
- CCU/GWA identifying local laws and regulations that hinder GWA's ability to act more efficiently and independently ("the Barriers legislation"); expected to be submitted to Legislature by end of January 2005.
- Initiate development of Master Plan to meet future growth in demand

6. Why fix GWA then give it to a private company?

It will take a number of years to "fix" GWA. It will not happen overnight since there are so many projects needed to fix GWA. The real question is whether GWA can fix the system faster and more affordably than a private partner. No matter who fixes the system, the "fixed" system will remain owned by the people of Guam.

7. Why spend \$4 million "exploring" PPP when that money could be used to fix the system?

Over the next 5 to 10 years, GWA estimates a requirement of at least \$400M to modernize and maintain our system. The \$4M that may be spent on a PPP investigation represents 1% of the total amount GWA will need to spend for improvements.

The CCU believes it is worth spending the \$4M to determine the best way to operate the new GWA reliably, efficiently and affordably, especially in light of the mismanagement and huge financial losses of recent years under government management.

There are strong opinions in Guam for and against privatization. The CCU believes it has an obligation to present ratepayers the best options available so that community consensus can occur. The public debate presently on-going is healthy and necessary. The CCU is confident the community will unite behind the best approach that best meets our people's needs for today and tomorrow.

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8. Why a Full Concession PPP? Current Laws allow for BOT and partial partnership.

Hiring a private partner to operate the entire system, instead of just parts of the system, is being proposed as an alternative to existing laws for the following reasons:

- The size of GWA's system lends itself to being operated by a single operator, instead of multiple operators,
- Financing processes to borrow money for capital improvements would be significantly less complicated,
- A single operator insures more consistency in wages and training for all employees, not just the ones who work in plants operated by the private partner,
- A single operator will not have to deal with the historic inconsistency of government management that could still occur if only part of the system is privatized. For example, if GWA returns to the day unqualified managers are hired, reasonable rate increases are politically blocked, and employees are not supported, then the private partner running a particular plant could be also forced to deal with these conditions that could hurt their operation as well.
- GPA has successfully used partial privatization to manage its plants, using GPA employees under private management. Partial privatization and Build-Own/Operate-Transfer have worked for GPA because GPA has the credit rating to be able to borrow money. GWA does not currently enjoy a similar credit rating,
- Think of Concession as BOT for the entire system.

9. What if the private contractor walks out of the contract?

If the private contractor walks out on its contract, its performance bond will be cashed in and other financial penalties for non-performance or breach of contract will be imposed. The performance bonds and penalties will be significant, sufficient to return the system back to GWA to continue operations or to hire a new contractor. The contractor will pay the performance bond and penalties, not GWA.

10. Why 25 years? Current laws allow only two years.

If a private operator is expected to invest its own money in upgrading the system, they must be allowed enough time to insure that their investment is repaid at a reasonable rate while keeping ratepayer rates affordable. The twenty-five year time period has evolved as the average time that successful partnerships have used. For these same reasons, GPA's BOT partnerships are at least 20 years.

The proposed Concession legislation will allow for a longer-term contract than current law, if passed. Without amending existing law, GWA will not be able to find a long-term partner, like GPA.

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11. Can Guam get out of the contract if we decide it is better for GWA to operate the system itself?

YES. The contract will allow GWA to take back the system for cause (i.e. failure of the contractor to perform) or to buy out the remaining years of the contract if GWA and the community believes it can do a better job.

12. How will the government/people maintain control if transparency is lost in private corporation board meetings?

If GWA hires a private partner to operate our system, the private partner will be required by contract to meet specific performance standards and all federal and local laws that ensure clean and affordable water always.

GWA will maintain control of the contractor thru this contract. If the contractor fails to meet contract requirements, the contractor can be penalized or terminated. If terminated, a performance bond will be cashed in by GWA and GWA and the people of Guam can then determine whether to hire a new contractor or take back the system and employees under government management and control.

Regardless of how the contractor manages itself, it must perform the contract or lose the opportunity to serve the people of Guam. The ultimate control of the system remains with the people of Guam, CCU/GWA.

13. Is it true that 80% of the U.S. is returning or keeping water utilities in public hands?

Approximately 80% of US systems are public, 20% private. Of the 400+ privately operated systems that were due for contract renewal, studies show that 92% of the contracts were renewed and kept under private operation

What matters most is that the people of Guam make the best decision on the best way to manage GWA. Under government management, the people of Guam clearly have expressed great unhappiness. The question still is, "Can GWA be turned around better, faster, cheaper under government or private management?"

14. Why do we want to let someone else make a profit from our water?

If a private partner can provide better service at lower costs to ratepayers, then the fact that they also may make a profit is no reason, in and of itself, not to have a partner operating our system.

A related question that should also be asked is: "Would it have been better to allow a private contractor to make a reasonable profit while improving service, rather than allowing GWA as a public utility to lose tens of millions of dollars of ratepayer money while not improving the system and effectively maintaining it?"

Our community is now paying back the years of losses thru higher rates and poor service.

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**15. If GWA's bond money goes thru, will it go the private company?
Who will pay for it?**

When GWA secures its first bond money, the money will go to build specific projects that will improve the system. The money does not go to the private partner; it goes to fix the system.

Ratepayers will pay all money needed to operate and pay for system improvements. The projects funded by GWA bonds will require ratepayers to continue to pay for them, even if GWA eventually hires a private partner. Future improvements, whether made by GWA or its contractor, will be paid by ratepayers. The question remains: Which is the most affordable way to fix GWA?

16. What is taking so long for GWA to float bonds?

The primary reasons it is taking so long for GWA to raise financing are:

- GWA has a terrible financial history, losing over \$80 million since becoming autonomous in 1997. With a bad history, no one will lend money to GWA until it improves its finances thru better management, cost reductions and rate increases,
- The last time GWA received bond money to fix the system was in 1989, when the Government of Guam had to borrow the money for GWA since GWA could not borrow it on its own, unlike GPA and GTA. That bond money is not being repaid by GWA ratepayers, but is being repaid by Guam taxpayers since the bond is an obligation of the General Fund.

Since the CCU took over, GWA has improved its financial picture significantly. Better management, cost cutting and rate increases have been implemented. GWA now can approach the bond market on its own. GWA recently hired its first underwriter ever, UBS/Paine Webber, to obtain a financeable credit rating in order to float a bond. If all goes well, GWA could have the first \$110 million by June 2005.

GWA also is nearing completion of two small loans totaling almost \$25 million to provide meters and working capital for GWA. It is expected that the small financing will be completed by February 2005. These will be the first monies GWA has borrowed on its own.

17. Has CCU look at other utilities, similar in size and circumstance to GWA, for benchmarks that could be useful to GWA?

The court order establishes many essential benchmarks and standards GWA must meet. Additionally, GWA management is now formalizing other performance standards and "best practices" appropriate for GWA.

Identifying and establishing performance standards will be a continuing effort. These standards and benchmarks will be required of GWA, whether operated as a public utility or operated by a private partner.

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18. Why are we selling our water?

No one is proposing that our water be sold. If a private partner is hired, the partner will operate our system in order to clean/distribute our water. No ownership rights will be transferred to the private partner.

While we always will own the water, the debate is whether or not we should operate GWA's system by hiring a private partner to do it for us. At the end of a contract, the water system returns to GWA who can again decide whether to operate our system as a public utility, retain the same contractor, or hire a new contractor. The people of Guam always will maintain control over their water and their operating system.

19. How much will water cost in the next 5 years?

GWA must raise rates 5%-15% over the next 3-5 years in order to have the money needed to rebuild and maintain the system. The private partner will have to prove and guarantee, via contract, that it can rebuild and maintain the system at lower cost to ratepayers than the rate increases proposed by GWA.

The proposed legislation will allow CCU to obtain these competitive proposals from potential partners in order to compare their proposed rate increases to the ones proposed by GWA. We will never know what private partners will charge or save ratepayers unless CCU is allowed by law to solicit proposals, as proposed by the Concession legislation.

20. Has the CCU researched the failures of privatization?

The CCU will research failed privatizations and successful privatizations. The goal is to avoid the mistakes of failed privatizations and copy the best practices found in successful partnerships. The consultants hired have experience in creating successful partnerships and are very knowledgeable in unsuccessful partnerships.

21. Will the private company be responsible for the USEPA Stipulated Order?

YES. The private partner must meet all requirements of the USEPA Stipulated Order as well as all applicable local and federal laws and rules.

22. Will the Private operator be allowed to charge whatever it wants to operate the system?

NO. Like GWA, the private partner will have to apply for rate increases from the Public Utility Commission (PUC). No rates can be changed without PUC approval.

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23. How can we ensure low income families will not be charged a rate they cannot afford?

Like GWA, the private partner will have to charge a lower “lifeline” rate for those in need. The current lifeline rate GWA charges must be changed since it does not adequately benefit the people intended to be assisted.

As part of the barriers legislation, GWA is proposing allowing GWA and PUC to change the current lifeline rates set by law in order to target the benefit to those most in need. If allowed, GWA and PUC will design a better lifeline rate. This rate will still be applied to the private partner. Any future change in the lifeline rate will require PUC approval.

24. Why not invest money to get training for certification and more materials & supplies instead of pursuing privatization?

GWA management has attempted, with some success, to train and prepare employees to take the certification test required of employees. However, GWA still does not have enough certified operators to operate the systems.

The Stipulated Order also requires training and the creation of Standard Operating Procedures for training and operations. GWA management is currently working to establish a comprehensive training program.

25. What is the status of the Barriers Legislation? Why not push that?

The CCU is currently working on proposed legislation to remove statutory “barriers” that needlessly hinder GWA’s ability to operate more independently and effectively as a public utility. The proposed legislation is expected to be submitted to the Legislature by the end of January 2005. CCU will be actively seeking the support of the Legislature and the Governor.

Despite the fact that CCU is investigating the PPP option, effort is being simultaneously expended to continue do all that is needed to enable GWA to improve its service capabilities.

26. What is the incident rate of residents getting sick from GWA water?

There are no available data to link GWA water quality directly to resident illness due to bad water. However, there is much data to show GWA does not consistently meet national standards for clean safe drinking water and for avoiding large sewage spills into our aquifer and oceans. Ratepayers expect GWA to meet all national and local standards.