GUAM CCU

CONSOLIDATED COMMISSION ON UTILITIES
Guam Power Authority | Guam Waterworks Authority
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SPECIAL BOARD MEETING
CCU Board Room, Gloria B. Nelson Public Service Building
10:30 a.m., Tuesday, October 24, 2023

MINUTES

1. CALL TO ORDER

Chairman Duenas opens CCU Special Board Meeting, October 24, 2023 at 10:40 a.m. Present in the meeting, Chairman Duenas, Commissioners Limtiaco, Sanchez, Santos, and Martinez. This special meeting is to meet with Alan Searle who has done our compensation studies in the past and continues to work with us. He will give us the results of the study for Guam Waterworks and Guam Power Authority.

Commissioners:

Joseph T. Duenas	CCU Chairman
Francis E. Santos	CCU Vice-Chairman
Pedro Roy Martinez	CCU Secretary
Michael T. Limtiaco	Commissioner
Simon Sanchez	Commissioner

Executives, Management, & Staff:

GPA
John Benavente, GM
Jennifer Sablan, AGMO
John Cruz, AGMET
John Kim, CFO
Jon-Rey Aguigui, HR
Joshua Manibusan, HR
Joyce Sayama, Communications
Sylvia Ipanag, P&R
Vladimir Navasca, IT
Lourissa Gilman, Utility Board Secretary

GWA
Miguel Bordallo, GM
Chris Budasi, AGMA
Tom Cruz, AGMO
Taling Taitano, CFO
Jeanet Owen, AGME
Therese Rojas, Legal Counsel
Michael Schniep, HR
Zina Pangilinan-Charfauros, HR
John Dixon, IT

Guests:
Alan Searle, Alan Searle & Associates
Naina Rao, KPRG (online)
David Castro, Guam Daily Post
Joe Taitano, Pacific Daily News

2. NEW BUSINESS

Alan Searle thanks the board and the utilities for giving him the opportunity to make this presentation. In preparing the presentation, it dawned on him that he has now been operating in Guam some 18 years and it goes back to 2007-2006 when he first did some work for the utilities.

He would like to take the opportunity to thank the utilities for the working relationship over the last 18 years. In between that time, some of the recent work has been with the University of Guam and the Guam Visitors Bureau. The model that was used continues to be extended around the island.

To start, what are the critical components of a compensation model? In short that are two models, Internal Equity and External Equity. What constitute a model... it's about being both internally equitable and externally competitive. We look at GovGuam, the basic percentage they have a heavy emphasis on internal equity using their job evaluation tool under the Hay Methodology and probably less on the external data. With regard to the Round Methodology, it's the other way around. I've always believed that you need to keep your finger firmly on the pulse when it comes to market data, in this case, the market data for every position within GPA and GWA. With our particular methodology, the two results there, we can bring them together by was of a regression analysis is probably the most visual result we can give. What it does, it shows clearly where both utilities are relative to the external marketplace. That one page document in of itself is worth a million dollars. It's the most valuable thing we can put on the table. With the regression analysis, we can pull that data together to generate a new pay schedule and implementation ranges for every cost option. One of the benefits of the model is that it is both structured and transparent.

Look at Internal Equity. It is a job evaluation tool. GovGuam uses its own methodology called the Hay Methodology. We use one that was developed by Price Waterhouse. In essence what it does is job evaluation is a tool whereby it endeavors to asses each individual position not the employee holding those positions, but to assess the position using a variety of factors and to arrive to an overall figure at the end of the day. In the case of our tool, we use 12 Factors as you can see on the screen. Each one of those derives a numeric value which we can add up to give a total result for the position. In the case of GPA and GWA, there are the ranges there. Essentially very similar...averages 758 for GPA and averages 768 for GWA. What these results do is just start bringing together and do the first component of that regression analysis that I spoke about. Here we have the result for GPA so along the X-axis, we've got 12 valuation points. On the Y-axis, we have US Dollars. Quickly flip over to the results for GWA, you can see they're very similar, but what's not on that graph is market data. So, this is step one to generating that full regression analysis. In terms of market data, external equity, we spent a long-time gathering data. About 3-4 months in gather data for both GPA and GWA. There are a lot of positions involved and we gather a lot of data on every position. In your handout, Appendix A on both sheets pages 1 through 10, that is the results of the market data. It is very extensive. It covers fifth market percentile through the 95th. In terms of where we gather it from, One and Two...American Power Association and American Water Works Association, fairly standard, the US Bureau of Labor Statistics, US Department of Labor, Federal Government, etcetera, etcetera, etcetera. We also have third party providers that we gather a variety of sources in which we gather data from. So, it's a sort of a reciprocal exchange of data. In some cases, that's just the way the market is. The results that you see, I said pages One through 10, it represents the market percentile, the fifth through the 95th for every position within the utilities. I will also point out to the CCU that it also includes unclassified positions. In terms of looking at what the market is paying for those unclassified positions, please refer to that document. It will give you a guide. The 50th Market Percentile, is the market average.

Let's come back to the regression analysis, the following print out excludes the GMs, but includes data from the fifth right through the 95th 2022 Market Data they're an exponential regression line. Look at GPA for a start, the red line represents GPA. It's considered an average line through the data spots. The spots are a point for every employee. The dash lines are what the market is paying.

So, you got the fifth market percentile, the 25th, and the 50th. So, the 50th market percentile once again is the market average within the United States utilities. Essentially, the graph is showing that GPA right now approximates the fifth market percentile against utilities in the United States. It means 95% of the market in the United States are paying more than GPA. It's a bit of a hard hit, that one. That's what is showing. If you look at GWA, essentially it is a similar result. Basically, equate both utilities at being at the fifth market percentile. Comm. Sanchez replies, so Alan, that sort of where we were 17 years ago...fifth. Then we thought we were moving up the ladder to the 25th the last time I saw your presentation. But now, as the rest of the market has adjusted what they're paying people, we've fallen back to the fifth? Searle points out that's a very good point. In fact, in the very next slide, what I want to do is explain seven reasons as to why you are where you are at the moment. So, we'll discuss the seven factors and then I'll present the results of the costing to you.

Let's look at number one, I cannot over emphasize the importance of conducting regular market reviews. It's the backbone of the work with do. I used to say conduct one every three years, but bring that back down to conduct one every two years. Weather we do it or the HR in their respective utilities do it, at the end of the it needs to be done. The results when talking about the market review is pages one through 10. The basic premise is you cannot make strategic decisions on pay, unless you know the true market position. A little note on GovGuam's 22% increase...I suspect they would have struggled to do that. Why, step one, our models are different in terms of methodology. GovGuam is not monitoring every position within GovGuam in term of what the market is paying. We are for GPA and GWA. In terms of calculating the 22%, I did a little research as to how it was calculated. Essentially, they divided all the positions under the general pay plan into 12 categories. They assessed the average salaries of those positions within these categories then they compared them to GPA, GPA, the airport and the port in terms of comparable positions and the variance identified. They then went about using the same 12 categories in looking up the bureau stats in the states says about in terms about the average market position. They got two averages and looked at the variance of that, applied a weighting and came up with 22%. A little bit different. I think they would have found it difficult. You have to monitor the market to get yield results. For those interested, we did an analysis, the two black lines is the 50th and the 25th of what the utilities market is at the moment. The blue lines at the bottom are the 25th and 50th from the new adjusted pay schedule from GovGuam. What I want to show is the little bit of gap there. I'm thinking DOA's submission to GovGuam, to the government, they also make a note there that the 22% is going to fall short. I think that what they are doing is trying to become more competitive, it is very good and it is obviously where they need to start their growth. Unless you can clearly say where DOE is in the market or any other entity within GovGuam, unless you can clearly say where you are in the marketplace, it becomes a very difficult exercise. Just one last comment of 22%, it was across the board, it's a bit of a danger in doing that. Obviously, mainly people live on very high wages that may be outside of the market who get 22% as opposed to someone down at the bottom. It's not the best way in terms of handling it. Nonetheless, it's a step in the right directions of being externally competitive.

Inflation, the current rate of inflation is the highest in 40 years in 2022. Look at the graph, in 2022 it got up to 8%...the highest in 40 years. If you look at the last review done in 2017, it was obviously a lot more stable. In 2022, it jumped to 8% as of Sept 2023, it's come down to 3.7%. Why is it high? I'm not sure. It could be related to the COVID events in terms of the industry's response. But it is very high, it has had an impact in salaries and in terms of it starting to creep up. People are getting a bit cautious...trying to attracts and retain their employees.

Industry Salary Trends, national salary growth within the US is approximately 3% annually. Over the last few years within the utilities industry, this has exceeded the 3%. The last market review in 2017, fairly stable 2.6% then it started to increase. These particular reasons will have an effect that is pushing up salaries at the moment. People's response, you read about it every day, people are having difficulty getting their employees to come back into the office. I read about Amazon giving their management the authority to fire people if they don't come into the office for a least three days a week. Generally, salaries do sort of track the same as inflation, but we're not expecting an 8% increase. It has peaked a come back to 3.7%. But nonetheless, there is a trend for the utility's salaries in the last few years to increase.

Methodology, for each cost option, we're looking at costing of moving from the 15th percentile or 20th percentile, etc. for each cost option, we've identified implementation range. For example, Line Electrician II, this was basically the 15th market percentile we have an implementation range, very simply, we have a range minimum value and a range maximum value. The difference between these is five sub steps or five percent. Historically, as a comparator, we've have used the range minimum value. What I mean as a comparator, once we calculate and identified this value, we compare this value to all the Line Electrician 2s is the base salary above or below that figure that how we do that costing. One problem and part of this is that the maximum value the maximum range is actually where the true 15th market percentile is. So, we're costing at the 15th that is actually the true comparator, but we come back five sub steps. This we have done historically. Several times over the year since 2008, we have used this little buffer in between to allow for the inclusion of employee performance data. Whereby, we've collected the last three performance reviews on file. We've calculated those that have been performing extremely well where we're able to slot further up the chart. It's been a valuable tool, but we've moved away from it now. As a result of that, because we've been using this figure here which is 5% lower than the True Value. We look at the two reviews that were conducted in 2017 and 2020, it's probably GPA and GWA migrated to the 10th in 2017 into the 15th in 2020. Once again, that'll help explain why you might be thinking that you're going higher is it has been a little bit less than that. Moving forward, I won't be going into too much detail, but essentially that range maximum value is going to come down here so we'll still identify our implementation ranges. For those that do in HR, the range of minimum value will be the true value I would put the model that is based on.

Competitive Recruitment, recruitment on island particularly for specific positions is becoming very very competitive. Particularly, Engineers at the moment, but will extend out to IT, Skater technical positions. This is just some details from Naval Facilities Guam. Catch Catchy phrase, show me the money, trying to hit you these percentages here are a percentage of base salary. So, you get your base salary for hires from the US, extra 12% for COLA, 15% of locality fee, 12.38% foreign post differential. Either way, they're padding it up and it does look quite if you're an engineer in the states and possibly looking to come here. It doesn't seem to be consistent in terms if you look at the results from Naval facilities, it does vary between position that are endeavoring to recruit for, but particularly with Engineers, it's becoming very competitive. I am aware that both GPA and GWA has lost engineers recently. Once again, in part that's reflective of where you are in the market, but we obviously need to be competitive in that area. I just want to make a point on COLA here, COLA sort of raises the head a little bit when inflation's high. Obviously, it's a response that employers can give COLA allowance in time are tough invariably COLA is given as a percentage of base salary. I've always wrestled with it myself in terms of the percentage. Obviously, someone earning a lot of money, is a very good percentage. Someone on low wages gets a small amount of COLA. At the end of the day, a loaf of bread is a loaf of bread. In terms of what you're paying for those good and services. I think the way we do it in terms of our model, we have our regression line and whether you're above or below, the focus is on those that are below, those that are in need that are vulnerable in the marketplace do get that benefit of going to a higher market percentile.

How do we counter this problematic recruitment? Obviously, you said migrating to higher market percentile is one option and that's what this review is about, but your also have a couple other options that are at your fingertips. Those for both John and Miguel, Above Step Recruitment and migrating selected positional groups.

Above Step Recruitment, we need to review the terminology of the wording on this, but the tools do exist for you to do that. I remember years ago, John, I think you were having trouble with a generation manager, it's just those types of things. Miguel, you're looking for a chief engineer, certainly look at the market data and all the position there and how much you need to go further up the line in terms of making it attractive. Once again, you may just need to review the verbiage on that, but again that's a tool that you should use more than perhaps have done in the past.

The other option is what we just called Migrating Selected Positional Groups. It's here where you have a group that is exposed to attraction or attention...you got heavy recruitment and we can move that group above the rest. For example, we look at this just take a plot of the engineering as it is in GPA, so this is just engineering as a group. Probable similar 5% down the bottom start to increase a little bit down here. I would still say at the end of the day, you're not very competitive as a group when it comes to engineering. If you look at GWA, line B, different here. Miguel, I think it clearly show in your absence of your chief engineer, it's not there, but I think what it shows is that your next senior supervisor engineer P.E.s, you're paying well, you're trying to look after them which is obviously where you want to be, you want to keep them. What both of you have got in terms of a tool, that you can move engineering as a group or IT, what could be a higher market percentile than the rest. We'll talk later on about moving utilities to a certain market percentile, but even with that, you could elect to go a higher market percentile for a particular group. For this particular example, the rate the utilities at the 20th, we could have engineering at the 30th. The option is there to do this and I would certainly suggest you seriously look at doing that. Looking at the situation, with regarding Engineers, that's getting extremely competitive.

Rewarding Qualification, is a very important. Both utilities are vulnerable to the dynamics of a changing workforce at the moment. You've got a lot of older employees that are retiring, but unwilling to learn and acquire new skills, but that probably is the case for a lot of situations. You've got the older population, but we also want to look to retain those that are moving up through the ranks and obviously for them to obtain new skills as moving forward. How can we do that? One of the challenges is to identify the specific qualifications of those CTP positions. A lot of it gets lost in translation. People can get employment in a role here on Guam by not necessarily having the formal qualifications, but you can take that position through your experience and skills, etc., etc. I can relate to that, but you as the employer what you want to do is that you want that employee to gain and achieve the particular qualifications that are relevant to the position. How can we do that? This is one option I will put on the table; you have a differential if we just take your engineer supervisor, yes, we can still have our implementation range. For example, at the 15th market percentile the range minimum would be the 15th market percentile, but have a differential. In this particular example, the differential was actually in sub steps up to here. So, if someone does have a PE qualification, professional engineer qualification, you can put them on there. I'll mention this as a differential because what's important is when we migrate to a higher market percentile, it's important to retain that differential. So, you can go for that 15th to the 20th and there still be that 10 points, 10 sub step differential. There are different ways you can do it, you could for smaller, less critical qualifications, but still important, you can have it go up 8 sub steps. The beauty of the pay schedule and having sub steps allows for that sort of tool to be introduced.

Lastly, Target Market Percentile, we've been talking about moving to the 10, 20, 30th and 40th, but what is the target at the end of the day? It makes sense that it should be the 50th market percentile. That's the market average within the United States and as a target, I think you want to be there. Once you get more than the 50th, you start to become a market leader in your own right. Not necessarily do you want to be in that position, you want to become competitive, but you necessarily want to be a leader in that particular field. One strategy is for employees less than the 50th market percentile, increments to be continued to be added to base salary as they are now. For someone who's over the increment is paid out at a lump sum versus it being added based salary. It's a good move, it's a win win strategy. It is both the employees still getting their increment, the win-win for the employer and so far as that little base salary amount is not being added so it's still being held back so it's a win-win. If you want to look at it for both utilities in terms of how many are over, it might be a little hard to see, but this is GPA...there's the 50th market percentile looks like you've got one employee. For GWA, again a bit hard to see, but probably one, two, three, four maybe fifth one possibly. It comes back to what I've said about being able to implement that and GCC are doing it right now, by the way. They've moved to paying out people above the 50th market percentile by way of a lump sum. But what it does come back to what I was saying before about monitoring the market. In order to do this, you need to know what the 50th market percentile is every year. There's a challenge to do this...you can do the full market reviews every two years but obviously to look at maybe to what extent the market has moved in the intervening year, apply that percentage, calculate it and look who's above or below it. I hope I touched on a little bit as to some of the reasons you are where you are. Obviously, we're here at the moments to look as the cost results.

Structural Adjustment, when I talk about migrating to higher market center, obviously, we have our red line here at the moment, talking about moving that red line to a more competitive market position. We've examined five cost option moving to the 10th, 15th, 20th, 25th and 30th the results are the 2022 Market Data. Slight error on the bottom here, I think EPA works on a two-year cycle for their budget, but I understand GWA is on a one-year cycle. My apologies here for a little bit of an error. I know certainly for GPA, there a $2 million dollar amount set aside per annum to allow for structural adjustment. We've taken the assumption that the same exist for GWA.

The cost results that you've got in the handout, are based on migrating the utility from the current staffing pattern from now the 10th now to the 15th, etc. If you want to look at the variance between them you got to look at between the 15th and the 20th to look how much in between times. We've also gone ahead and added some additional calculations which I think you will be interested in, they included helping to offset that transition by taking into consideration the full performance being paid annually. Let's get into it.

So, for GPA, we've got two options. Option 1 is talking about FY24 going from the 20th to the 30th. Option 2 going from the 25th market percentile to the 30th. Similar amount in terms of the two options, in terms of your $2M budget per annum, certainly Option A fits within that. Option 2, a little over in the first year, but in the second year, you can see on both cases, considerably less. Why these are initially high is because you have current employees some high some low and by moving them to the first transition, we actually pull that together to be a lot tighter. Once it tighter, going from the 20th to the 30th is less and going to the 25th to the 30th is less. So, both options, you're looking around for GPA at about $2.7M. In terms of what is the preference, if possible, I would go with 2. Why? Obviously, you're going to a higher market percentile you want to make yourself start to get more competitive in time and I realize with the moment, but come January for example, GPA, you could be a the 25th and the 30th the following year. Just look at the GPA results, keep in mind that both these results are contingent upon the pay for performance being paid out on an annual basis. In case of GPA, FY24, the first payment will be done in January that'll be paid out then you can migrate to the 20th for $1.7M. John, 80% of your employees at the moment are below the 20th market percentile. It hurts a little bit; I mean that's quite significant and 88 below the 30th. We look at Option 2, once again you're going from the 25th market percentile to the 30th. You might see why it's not applicable here. Obviously, this first part is the first step in the process it gets everyone to the new pay schedule. Once we do the second component here, all these people are already on the new pay schedule we're just moving those that are below. So even though you have 81 employees are still below the 30th, they're already on the pay schedule and we don't have to actually adjust them. So, once again just for GPA, those are the cost results roughly $2.7M.

For GWA, Option 1, here the same options going from the 20th to 30th,25th to 30th. Once again, in terms of whether the funds are available, here you are a little bit over, if is it your $2M budget on an annual basis. Once again if you can go to that the second year is actually a lot more less demanding. Option 2, again this would be the same ideal if GPA can do it, it would be excellent if GWA could follow suit. I know it's a little bit of a stretch, Miguel, in terms of doing that, I take comfort in the fact in the fact that the second year is only $180K. I know it's easy for me to say that, but the initial hit is obviously in here at the moment as well. Once again contingent upon those pay for performance being paid out. Miguel, right now you've got 88% of your employees below the 20th market percentile. That is a little bit higher to GPA's 80%. And, the second option, Option 2, once again going from the 25th to the 30th. Once again, the summary, so $2.7 for GPA and $3.1, we at roughly $400K difference between the utilities. Thank you.

Are the any questions? Comm. Sanchez asks, so, between John, Miguel and Alan, can you remind us how the pay for performance works, this is base salary that you're showing us, right? How does it work, GWA, whoever can answer it. The typical dollar annually, and the same for GPA? How does it work and what's the typical incremental... Searle states, I can help with that. I think the model they both use at the moment is one that actually the military follow whereby managers of a particular department can award a certain percentage of the range on offer to the employees so for example, if I was manager in charge of T&D for example, I could give, I think, 3% increase to percentage of my employees. Personally, I think it's a good model. I've looked at performance options over the years and I think some may say that is very structured and everyone could be doing well, but as a manager, I think if forces you to identify those that are performing well. If you don't have that control in place, you run the risk of everyone getting a three, everyone getting a four. One of the difficulties to reflect back to GovGuam, is that there's no distinction to be able to identify a top performer from a mediocre performer and everyone gets the same increment and that's a problem. What happens is that it starts to fall into disarray and people don't like filling out the forms. There is also the risk within the utilities of that doing that happening as well. So, we've got to be on tight. You really need a simplistic but an effective tool to be able to do it but manages themselves. It's a part of my role to actually assess the performance of my employees. I should actually be remunerated for me actually doing that work. To come back, it's based on a percentage basis, Simon. At the moment, the range is form zero from 1, 2, or 3%.

John Benavente states, I think that way it works actually, it used to be zero to 6% early on. At that, it was three for an average person and then four to six. Now, it's two, three, and four. For an above average performer and then an excellent performer and even within the organization there is a cap, how many can be provided based on that. It does reward the above average person.

Comm. Sanchez asks, so, if I make my base salary is $25K and I get a 3% pay for performance, I could get $750.00 additional added to my base pay...my base stays the same. Comm. Santos interject, no, added to the base. Comm. Sanchez states, oh, it is added to the base, okay. GM Benavente states, at the 3%, you're slotted into the next step. Comm. Sanchez clarifies, you actually bump my base pay, but then that's all captured in that data. GM Benavente states, actually those who are performing come up above certain levels because they keep performing.

Searle thinks is could be very valuable for the CCU at the start of the financial year to look at that. What range is on offer, I mean I say that to actually all the boards that I talk to. What I mean by that is if you've had a good year, yes, the range could be 2, 3, 4% or 3, 4, 5% for an exceptional year. But, if it's been tough, maybe you're saying it's going to be 1, 2, 3% this year. That's been very prudent in terms of how you manage it, but again, it's something the board could look at the start of each financial year in terms of what performance range is off. I think right now it's 2, 3, 4%.

GM Bordallo states, it now is if it hasn't been a good year we defer. Comm. Sanchez states, which is zero percent. Bordallo agrees. Sanchez states, well at least your exercising discretion which is sort of the idea.

Searle begins, with the other point is the pay schedule that we use here is lots of sub steps. They're all in a 1% increment between the sub steps and it makes it very easy to go up. Two sub steps, 2%, up three sub steps 3%, etc. Comm. Santos asks, how do you differ with respect to GovGuam in increments? Searle responds, the pay schedule on the GovGuam doesn't have sub steps. They just go on steps and the steps do vary between each step. But there's no facility to have that broken down. A mediocre performer and a top performer we still get the same increment if you know what I mean. Here, because of the sub steps, we can split it down and give someone 1%, we can give someone zero if need be. That is the main different is actually in the format in the pay schedule itself. Comm. Santos askes, now, with respect to only talking about salaries, do you take into account benefits? If we came and said to the employee, this year we hope to convince our Legislature to carve out health benefits and we can come to the employee and say we're going to pay for all your medical insurance. Searle responds, yeah, historically we've left benefits out of the model. I think in the costing that you've got there in the hand out there, I think we calculate benefits as being 40% of total compensation. Just to give you a figure in there as well, but it's showing in those last pages of the handout... Comm. Sanches responds, that retirement, health, that's the whole fact, retirement is the whole piece of it.

Searle response, it's roughly, 40% of total compensation of benefits, roughly. Comm. Sanchez asks, what's our contribution to retirement? The employer side? Comm. Santos responds, 29.... What is it? Does anybody know? Comm. Sanchez asks, what's our employer contribution? Comm. Santos mentions, employer contribution is about 26% on payroll, right? Because it's the largest single... Comm. Sanchez replies, no, no, no, payroll is one of our lowest expenditures here. LEAC is more expensive and Debt Service is more expensive. Comm. Santos mentions, maybe he is equating it to GovGuam.

Chairman Duenas, responds, Alan, first off, the presentation that you made on the screen, you're going to give that to us? Searle responds, yes. Comm. Santos states, it's on Board Books, under CCU, correct? Chairman Duenas replies, okay, good. Searle apologizes he could not get the presentation to the board sooner. Chairman Duenas second questions is if he heard Searle correctly, the utilities should be updating the market survey every year, is that correct? Searle response, certainly every two years and that result is what is on pages one to ten. That is what I'm saying you need to keep on top of. Do that certainly every two years, whether we do it or HR does it within the respected utilities, it has to be done. The basic premise said before you have to be able to know where you are in the market to make informed strategic decisions on pay. Chairman Duenas agrees, that's an important one. Okay, we have employees from top to bottom, now, our general managers for examples, we may be paying them at a higher percentile than the rest of the company, is that a good thing, bad thing? Searle responds, you can have a differential, I mean, the beauty of that document, page one to ten, includes all unclassified positions. So, if you decide to go to the 30th market percentile for all employees, yes, you could have a small differential. In terms of your top management, they could be paid at the 40th market percentile. You got the market data in front of you in terms of what the market is paying. The 50th market percentile is the market average. We do some work for fuel companies; petrol companies and they have a policy that top management get paid at the 75th market percentile. The rest are paid at the 50th. This has always been the case. Its probably why petrol is so high, but I mean, that's just their strategy of how you do it.

Chairman Duenas states, I have to tell you because the difference is you have engineers and they're engineers and they grow up, but when you get to the level of the general manager or CEO of the company, you have to be more of a business person in addition to the engineer. That has to be recognized somehow. Look at the president of a bank, he stops being a credit officer and becomes more of a marketing person. That's what time trying to say, that there are specific talents that go there. Searle replies, I think it's up to all of you to decide on what the differential should be. If you know that the model is being implemented at the 30th market percentile, yes, there can be a differential that high for the senior management, but I would strongly advise that you certainly make reference to or use that data that's in the appendix. That's what I'm saying should be reviewed every two years.

Chairman Duenas asks, in terms of pay for performance, the five steps in between? Searle responds, that's the implementation ranges. Chairman Duenas agrees, okay, the implementation ranges. That's the call of management. Searle inserts, we just use it for costing purposes, for recruitment. You see HR uses it as a range. There's a range that's the implementation range so they're identified for each cost option for every position. GM Bordallo responds, for the current schedules that you've given us in the current implementation ranges based on the current market percentile. This is the first year where the minimum of the range is actually at... Searle interject, correct, correct. So, if we're talking the 30th market percentile, the range minimum value will be the 30th market percentile so hopefully, we'll see a little bit better improvement.

GM Benavente states, it's very difficult to recruit and retain and your suggestion is to increase the percentile, right, to 25 up to 30, 35%. Searle replies, it certainly something you want to look at, I mean, it's been a rough road recently. GM Benavente states for example, recently everyone's pulling our IT right now... Comm. Sanchez replies, but general managers, we can bring down the percentile to off-set the budget... Comm. Santos responds, he's being funny.

Chairman Duenas responds, seriously though, I think it is very important because we are very competitive. I like the way you described the military of the Department of Defense or the federal government's pay and how they are very aggressive in recruiting and retaining their people and that to me is a great concern for engineers, for IT people, for top management people. We do have senior management folks besides the general managers. Searle mentions, it particularly volatile for engineers at the moment. John and Miguel, I would certainly look at that option in term of we got to decide whether is it just my chief engineer or a particular position or do we want to migrate that as a group to a higher market percentile? I'm more than happy to help you with that if you want to do that. We can just keep improving it until we are competitive. Comm. Sanchez asks, the wage data you're providing now is this the latest survey? Searle states it is based on 2022 data, yes, it is. Comm. Sanchez asks, so we would do another one next year 2024, next year? Searle replies, conceivable, yeah. But it's whether we do it or you yourselves do it. Comm. Sanchez asks, and we're asking out engineer, GMs to evaluate what we pay engineers? Chairman Duenas comments, as we go forward, we passed a resolution adopting the CTP wage scale and this market percentile concept back in 2006 or 2007, when you first came here. If I remember correctly, I read that resolution and one thing that stuck in my mind is we were going to get to the 50th percentile within 10 years, that was the resolution. So, as the two general managers decide to put their resolution together, be very careful on what we do. I really believe that if you're going to represent something to your labor, that you should stick to it if you're going to do it in 10 years, you do it in 10 years. If you're not going to do it in 10 years, then don't say it. Comm. Sanchez states, if you don't have the money, you can't predict the money in 10 years. Chairman states, therefore you word the resolution differently, okay? Comm. Sanchez states, it's a goal. My memory says we were trying to get to the 25th percentile because we were at the fifth. Whatever it was, the idea that I liked was we as a board said we want to migrate our people up, do it over time to mitigate, to minimize rate payer impact and I think, collectively, we've done a good job. We've also seen the world has taken on a different face than 20 years ago where we've had inflations. You got all the issues that Alen describes then a particular sector of labor like engineers, in our case, is beyond some of the world events that have raised salaries in general. The engineering department has been raised even more on a competitive basis is the nature of the world apparently. Chairman Duenas reiterates, his point being, he would encourage the two general managers to really work on the resolution. That they should be in the driver's seat on that. Of course, we will discuss it at the CCU... Comm. Sanchez states, because actually it is our policy. Chairman Duenas states, he understands, but he is trying to encourage them to rally focus in their recommendations to us. To put in where they believe things should be so that we can consider it. We make the decision, I get that, but I want them to put their recommendations in place. Searle states, as a last comment, I've just got two costings coming up again here. I think, if possible, option two for both utilities are where the target you want to go. I think it will be a little tough in that first year, but if somehow you can not necessarily split it but accommodate it over the two years. That'll get you to the 25th market percentile inn case of GPA, in January and the following year to the 30th for the following year. For GWA, again 25th to the 30th, a little bit tougher to get to the 25th, but again in the following year you could be at the 30th market percentile. I think option two for both is the ideal and if it can be down, I think where you want to go, it'll certainly be a boost in terms of making you more competitive in the marketplace.

Chairman Duenas asks the general managers if they have any other questions? Both respond, no. Chairman reminds all that this issue will be taken up another time and not decisions will be made today. He just wanted the Commission to be briefed and this can come up when the GMs are both ready. It will be a joint resolution. We're both going to go at the same time.

3. ADJOUNMENT

Chairman Duenas states with no other questions, he calls for a motion to adjourn. Comm. Santos motions to adjourn the meeting; Comm. Martinez and Sanchez second. Meeting is adjourned at 11:35 AM.

//s/
Lourissa Gilman

Attested

JOSEPH T. DUENAS, Chairman

PEDRO ROY MARTINEZ, Secretary

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