MEMO ON ERRATA IN GCG'S REPORT

DATE: JANUARY 21, 2012

TO: JEFF JOHNSON, CHAIR

CC: SERVICE LIST

FROM: ED MARGERISON

RE: GPA LEAC (DKT 11-16) - ERRATA

It has come to my attention that an error was made in our review of the recent GPA LEAC filing and a correction should be brought to your attention (and the PUC). In our report, I incorrectly asserted that GPA had no hedging contracts in place after December 31, 2011. After reviewing the underlying data contained in the filing, it appears that GPA has two contracts that will be in force between January 2012 and June 2012. The hedging contracts are the "no cost collar" type contract with which you are familiar. The future prices used by GPA in its filing were such that the price each month was between the floor and ceiling and thereby no impact (credit or debit) was forecasted by GPA.

In our update of pricing, the ceiling price limit was exceeded in two months and therefore there should be a small credit to the total cost of fuel under GCG assumptions. This impacts all of the recommended LEAC factors to be implemented effective February 1, 2012, albeit very slightly. The narrative concerning the hedging program on page 8 reads as follows:

Fuel Hedging

As filed, GPA does not include any adjustment to fuel costs related to a fuel hedging program for the proposed LEAC factor for the next LEAC period. GPA's hedging contracts expired in December 2011. The two contracts that were effective for the period October 1 2011 through December 2011 were for about 25% of supply. Last year, GPA still employed the use of a "no cost collar" which established a floor and a ceiling price for fuel supply. GPA currently has no hedging contracts in place.

GPA has filed a separate petition to the PUC regarding a new hedging program and protocol. GCG is in the process of reviewing this filing and we cannot at this time make any assumption regarding the net impacts on the LEAC costs, if any. This was also the approach followed by GPA, as evident by the assumption of $0 related to fuel hedging in the projected "handling" costs.

This above narrative should be replaced by the following:

Fuel Hedging

As filed, GPA does not include any adjustment to fuel costs related to a fuel hedging program for the proposed LEAC factor for the next LEAC period. GPA currently has a contract with J. Aron effective for the period January 1 2012 through March 31, 2012 for 10 metric tons (MT) of supply. After the expiration of that contract, GPA will have two contracts in place for the period April 1, 2012 to June 30, 2012. One contract is with Morgan Stanley while the second is with Goldman Sachs, with each contract for 5 MT of supply. The details and price limits can be found on Schedule 8a of Corrected Attachment 1.

Since all of the projected prices in the original filing for the period January through June 2012 when these new contracts were in force were expected to be between the floor and ceiling prices, GPA correctly assumed no impact on the cost of fuel as a result of these hedging contracts. However, with our recommended update of prices the forecasted price of Number six oil will exceed the ceiling price of the J. Aron contract in February 2012 and the Morgan Stanley ceiling in April 2012. The total impact of the hedging contract is to credit (reduce) the total "handling charges" and cost of fuel for the six-month period ending July 31, 2012 by $164 thousand.

GPA has filed a separate petition to the PUC regarding a new hedging program and protocol. GCG is in the process of reviewing this filing and we cannot at this time make any assumption regarding the net impacts on the LEAC costs, if any.

Since the debit or credit from the hedging program impacts the handling cost portion of the total cost of fuel, Table 4 of our report should be revised to reflect the credit to the cost of fuel, but all of the other components or handling costs remain the same is in our original Table 4. The Corrected Table 4 should replace the original Table 4 as follows:

Table 4 Corrected – Handling Costs
Six Months Ending July 31, 2012

TOTAL Tristar Costs	$1,737,173
Tank Farm Management Fee (FY 12 Budget)	658,400
Ship Demurrage Cost (FY 12 Budget)	87,000
Fuel Hedging loss/gain (estimated)	**(163,750)**
Lube Oil (FY 12 Budget)	1,067,220
Subscription Delivery fee, Vacuum Rental, Hauling (FY12 Budget)	28,000
Sale of fuel to Matson	(549,717)
Inventory growth to be recovered this period 01/31/12 vs. 07/31/12	(1,062,915)
SGS Inspection (FY 12Budget)	122,151
Labor charges (FY 12 Budget)	83,120
L/C Charges, Bank Charges	-
TOTAL Handling Costs	$2,006,683

As a result of the above correction, the overall recommendation of GCG changes slightly. The following table is the corrected Table 1:

Table 1 - Corrected
Summary of LEAC Calculations

	Guam Power Authority Costs As Filed February 1-July 31, 2012	Guam Power Authority Costs As Filed April 1-July 31, 2012	GCG February 1-July 31, 2012
Cost of Number 6 Oil	$ 148,989,906	$ 99,518,208	$152,467,859
Cost of Number 2 Oil	2,910,638	1,843,850	2,947,217
Total Oil Costs	$ 151,900,544	$101,362,058	$155,415,077
Fuel Handling Costs	1,144,996	764,756	2,006,683
Total Fuel Costs	$ 153,045,540	$102,126,814	$157,421,759
Civilian Allocation	77.49%	77.49%	77.49%
Total LEAC Costs	$ 118,593,543	$ 79,137,104	$121,984,634
Under/(Over) Recovery	(152,632)	750,532	(152,632)
Net LEAC Costs	$ 118,440,911	$ 79,887,636	$121,832,002
Cost Recovery from Trans, Customers	NA	(3,899,480)	(5,994,370)
Total Distribution Fuel Costs	$ 118,440,911	$ 75,988,156	$115,837,632
Civilian Dist. Sales (mWh)	634,624	406,114	602,336
Proposed LEAC Factor ($/kWh)	0.18663	0.18711	0.19231
Current LEAC Factor	0.19222	0.18663	0.19222
Increase (Decrease) in Factor	(0.00559)	0.00048	0.00009
Average Use-Res (kWh)	1,000	1,000	1,000
Monthly Increase-Res.	$ (5.59)	$ 0.48	$ 0.09
Bill at Current Rates	$ 266.59	$ 266.59	$ 266.59
Increase/Decrease in Total Bill	-2.10%	0.18%	0.03%
Distribution LEAC Factor	0.18663	0.18711	0.19231
Primary - 13.8 KV	0.18663	0.18103	0.18654
34.5 KV	0.18663	0.17917	0.18462
115 KV	0.18663	0.17730	0.18270

Consistent with above correct Table 1, our recommendation for February 1 implementation of LEAC factors becomes:[1]

Customer		LEAC per kWh
Secondary - 13.8 KV	$	0.19231
Primary - 13.8 KV	$	0.18654
34.5 KV	$	0.18462
115 KV	$	0.18270

I apologize for any inconvenience or confusion this may have caused. I will be available to answer any questions.

[1] Note: Original Report Used 6 decimal places. GPA uses five with it filing.