

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

GUAM POWER AUTHORITY
REGULATORY REVIEW

DOCKET 02-4



Regulatory Order

[LEAC, Procurement Approvals:(insurance, TECP, Excess bond proceeds, Cabras PMC);Line losses; Integrated Resource Plan]

This Order reviews: a] Guam Power Authority's [GPA] June 15, 2007 request that there be no recalculation of the current LEAC factor for the cycle commencing August 1, 2007 and ending January 31, 2008; b] GPA's petitions under PUC's contract review protocol for regulatory approval to: i] extend the term of its property and casualty insurance policy; ii] secure a new \$30 million dollar credit facility; iii] use excess bond proceeds; and iv] procure a performance manager for Cabras plants 1 & 2; c] a process for establishing regulatory benchmarks for GPA's reduction of line losses; and; d] a process for regulatory oversight of GPA's development of an integrated resource plan.

Findings

After careful review of the record for each of the regulatory matters discussed below and for good cause shown, the Guam Public Utilities Commission [PUC] makes the following findings:

1. LEAC.

Pursuant to GPA's Tariff Schedule Z, its LEAC factor is subject to recalculation every six months to enable it to recover the projected cost of its fuel and associated costs. Each recalculation under the tariff is subject to PUC's review and approval.

On June 15, 2007, GPA filed a report with PUC regarding its projected fuel costs for the next six-month cycle, commencing on August 1, 2007 and ending January 31, 2007. While GPA's adjusted projections under the tariff would require an increase in the LEAC factor from \$0.108893 per kilowatt hour to \$0.123957 per kilowatt hour [about an 8.7% increase in the average monthly residential bill], it requested that PUC approve no adjustment to the LEAC factor for the next six-month cycle.

On July 24, 2007, PUC's regulatory consultant [Georgetown Consulting Group (GCG)] filed its report regarding the GPA position. GCG asserts that GPA has

not provided convincing evidence why PUC should deviate from the requirements of the LEAC tariff. GCG points out that a decision not to increase the LEAC factor to cover projected increased fuel expenses during the next six months would expose GPA customers to significant rate shock in February 2008 when this deferred shortfall must be addressed as well as GPA's petition for a significant base rate increase.

On August 6, 2007, PUC conducted a noticed public hearing to consider the positions of GPA and GCG on the issue of whether the LEAC factor should be recalculated in accordance with the requirements of GPA's Tariff Schedule Z for the next six-month cycle. At the hearing, GPA informed PUC that after considering the GCG report and in light of a steady increase in fuel costs since its June 15, 2007 report, it now supports the GCG position that the LEAC factor should be recalculated pursuant to the requirements of Tariff Schedule Z. Given GPA's change of position, there is nothing in the record to support a deviation from the tariff requirement that the LEAC factor be adjusted based on the best available projections of GPA fuel expenses for the next cycle. Accordingly, GPA and GCG's joint recommendation that the LEAC factor for the period commencing August 13, 2007 and ending January 31, 2008 should be increased to \$0.123957 per kilowatt-hour should be approved.

2. Contract Review Petitions.

Pursuant to PUC's February 2, 2006 contract review protocol order, as amended, GPA has filed four petitions, which are before PUC for consideration:

a. Cabras performance management.

On May 30, 2007, GPA petitioned PUC for authorization to proceed with the procurement process for a new performance manager for Cabras plants 1 & 2 to replace the current contract, which expires on December 31, 2007. By report dated July 27, 2007, GCG recommends that PUC approve the petition. As GCG points out in its report: "The use of PMC contracts has enabled GPA to move from a plant operating environment of day-to-day crisis management to a more proactive operating environment. The successful results of past PMC activities have been well established as well as customer benefits. We believe that GPA continues to need a PMC for the management of Cabras 1 & 2 operations and maintenance." The petition should be approved.

b. Excess bond proceeds.

On June 29, 2007 GPA petitioned PUC for authorization to use excess bond funds to fund a load research/cost of service study; an integrated resource plan; and a

long-term transmission study. By report dated July 25, 2007, GCG recommends that excess bond proceeds be authorized to fund these projects, subject to the following conditions: i] GPA obtains legal comfort that such uses are permissible under applicable bond covenants; ii] the scope of the load and cost of service studies should be subject to regulatory review; and iii] the scope of the long range transmission study should be integrated into the process discussed in paragraph 3 of this Order. GPA has not objected to these recommendations. The petition should be approved subject to these conditions.

c. TECP.

On June 21, 2007, GPA petitioned PUC for authorization to request GEDCA to issue a request for proposal for a \$30 million dollar tax exempt commercial paper credit facility, which would replace and increase its existing \$20 million dollar taxable paper facility. By its July 20, 2007 report GCG has recommended that the petition be approved, subject to the following conditions: i] GPA should obtain regulatory approval for the use of the credit proceeds; and ii] a portion of the proceeds must be used to retire the existing TCP facility. GPA has not objected to these conditions. The petition should be approved subject to these conditions.

d. Insurance contract extension.

On June 18, 2007, GPA petitioned PUC for authorization to extend its property, boiler and machinery insurance policy for another year. By report dated July 29, 2007, GCG recommends that the petition be approved. The petition should be approved.

3. GPA Line Loss Performance and Monitoring.

In its February 1, 2007 Regulatory Order, PUC emphasized its continuing concern regarding line losses, which impose additional rate burden on GPA customers. GPA is directed to fully comply with ALJ directives, which will prepare this subject for regulatory action in the May 2007 regulatory session. Notwithstanding this directive and the history of this regulatory issue, as recounted in ALJ's October 25, 2006 letter, GPA and GCG have not been able to agree to a regulatory benchmarking and monitoring protocol for line losses. *[Each percentage of reduction in line losses would reduce fuel expenses by \$1.5 million dollars.]*

This lack of progress requires the commencement of formal regulatory proceedings to establish these important benchmarks. Accordingly, ALJ should be authorized and directed to oversee further proceedings, including an evidentiary hearing if necessary, which will enable PUC to take definitive action on this regulatory issue during the October 2007 regulatory session.

4. Integrated Resource Plan.

PUC has long supported GPA's development and use of an integrated resource planning process as a foundation for meeting the future energy needs of its customers. Regulatory proceedings during the early 1990s [*Docket 90-02*] considered a twenty-year resource plan, which was developed by R.W. Beck. In that proceeding, regulatory interest centered on reliability criteria, Navy customer service agreement requirements, load forecasting, least cost planning and demand side management. Significant results of this regulatory process were: i] a regulatory finding that the study describes the basic planning characteristics [i.e., potential demand, demand-side management opportunities, available generating technologies, etc.] that PUC should consider in its review of future GPA applications for approval of new generating facilities; and ii] a stipulated process to guide regulatory involvement in implementing the plan.¹

The 1990 Beck IRP, which was projected to cover the period 1990 to 2009, has outlived its useful life. PUC supports GPA's decision, that given its dependency on costly fuel oil and given anticipated growth from tourism and military expansion, it is both timely and important that a new IRP be undertaken. GPA has recently engaged the services of R.W. Beck to guide it through a new planning process, which is outlined in GPA's July 18, 2007 White Paper. The White Paper calls for GPA management of the planning process under a twenty-one step 329 day timeline. In contrast, Georgetown asserts that the planning process should be closely overseen by ALJ². ALJ recommends that GPA manage the process provided that: i] it meets the multi-step 329 day timeline; ii] the process proceeds in close consultation with PUC staff; and iii] the proposed plan is subject to a full regulatory review and approval process, with participation by interested parties and stakeholders. PUC agrees with ALJ's recommendation. ALJ should be authorized and directed to oversee a regulatory process, which assures that his recommendations are met.

Ordering Provisions

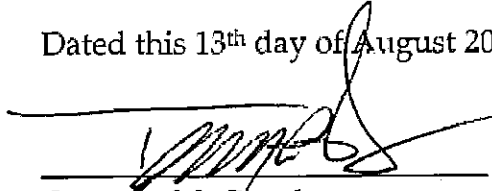
After careful review of the above findings, for good cause shown and on motion duly made, seconded and carried by the affirmative vote of the undersigned commissioners, the Guam Public Utilities Commission **HEREBY ORDERS THAT:**

¹ See Georgetown – GPA Stipulation on Generation Approval Procedures dated December 13, 1991 in Docket 99-02.

² See Georgetown Staff Updates dated April 18, 2007 and July 28, 2007.


1. A LEAC factor of \$0.123957 shall be used by GPA for all civilian bills, for meters read on and after August 13, 2007 and through the period ending January 31, 2008 to recover its forecasted fuel and related expenses for that period and the balance of its deferred fuel expense. *WSP*
2. The four procurements discussed in section 2 of the Findings section of this Order are hereby approved, subject to GPA's compliance with the conditions described in said section 2.
3. ALJ is authorized and directed to oversee regulatory proceedings, including if necessary an adjudicatory hearing, which will lead to PUC's establishment during its October 2007 regulatory session of regulatory benchmarks and a monitoring protocol for GPA line loss performance.
4. ALJ is authorized and directed to oversee regulatory activities, which assure that his recommendations regarding regulatory interaction with GPA's integrated resource planning process are implemented.

Dated this 13th day of August 2007.



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