

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:)	GPA DOCKET10-03
)	
GUAM POWER AUTHORITY'S FILING REGARDING FUEL HEDGING PROGRAM)	ORDER
)	
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INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon Filing of the Guam Power Authority ["GPA"] for review and approval of GPA's Fuel Hedging Program.¹

BACKGROUND

2. The Georgetown Consulting Group ["GCG"] has set forth the Regulatory Background of GPA's Fuel Hedging Program in its report filed herein on March 21, 2012, which is adopted herein.²
3. On January 27, 2012, GPA filed an Addendum to the Filing on its revised Fuel Hedging Program.³ Therein GPA submitted its substitute "Revised" "DRAFT" Risk Management Procedures relative to its fuel hedging program.⁴
4. In its Filings, GPA petitions for four items of relief:
 - (1) Approval of the revised Fuel Hedging Program;
 - (2) Authorization to purchase and sell put and call options in any combination as determined by the model to provide optimum protection for the authority;
 - (3) Authorization to monetize fuel hedging gains when consistent with the model; and

¹ GPA Filing re: Fuel Hedging Program, GPA Docket 10-03, filed December 22, 2011.

² GCG Review of GPA Fuel Hedging Petition, GPA Docket 10-03, filed March 21, 2012.

³ GPA Addendum to its Filing re: Fuel Hedging Program, GPA Docket 10-03, filed January 27, 2012.

⁴ Id.; See Draft Risk Management Procedures (Price Risk Management of Fossil Fuels), dated December 2011, attached to the Addendum.

- (4) Approval of the separate policy and procedure manuals developed by GPA, in conjunction with SAIC, to assist GPA personnel in the use of the hedging model and the management of its fuel hedging program.

DETERMINATIONS

5. GCG has done a thorough review of the GPA Fuel Hedging Program; subject to certain recommendations, it recommends that the PUC approve GPA's Fuel Hedging Program and the other relief requested by GPA.
6. PUC adopts the reasoning and conclusions of GCG, and determines that the Fuel Hedging Program of GPA, as well as the other relief requested, should be approved.
7. A number of factors, as identified by GCG, support the conclusion that GPA's proposed Fuel Hedging Program should be approved:
- (a) The program of GPA is designed to identify future consumer exposure to movements in fuel prices, quantify the impact of these exposures, and to mitigate the impacts of these exposures.⁵
 - (b) As a result of "back-casting" (GPA's after the fact application of its model to the fuel crisis of 2008), the results that could have been achieved under the proposed fuel hedging program would have averted the negative performance of the prior program.
 - (c) The proposed hedging activities are consistent with industry best practices currently pursued by electric and natural gas utilities within the mainland US.⁶
 - (d) The proposed program utilizes a disciplined approach, the employment of additional financial instruments, and the use of a proposed statistical model.⁷ By using a disciplined approach, GPA intends to conduct hedging transactions for the purchase call options as well as using the zero cost

⁵ GCG Report re: Review of GPA Fuel Hedging Petition, GPA Docket 10-03, filed March 21, 2012, at p. 7.

⁶ Id. at p. 8.

⁷ Id. at p. 8.

caller approach; it has revised its target to gain hedge coverage for 100% of its fuel supply. Put options would also be utilized.⁸

(e) GPA has done a due diligence assessment in developing its fuel hedging program and has selected appropriate financial instruments for such program.⁹

8. However, the fuel hedging program and formula utilized by GPA are extremely complex; implementation of the program confronts GPA with a number of challenges:

(a) GPA must commit appropriate human resources to the program;

(b) SAIC should “shadow” GPA activities during the first 6 to 12 months of hedging operations, and such activity should continue until GPA has adequate internal resources in place;

(c) The integrity of the model is a concern, including the security of the software platform and risks of intentional/unintentional tampering or changes to the model;

(d) It will be critical for GPA to seek sufficient personnel with the required skill sets to continue operating the hedging program, and to guard against the risk of personnel leaving;

(e) Reporting is a critical element of the proposed fuel hedging program; there should be reports filed on fuel hedging along with the existing regulatory reporting with every LEAC filing, and operational reporting to the CCU. Initial reporting should include a calculation of Value at Risk (VaR).

(f) At the end of the first year there should be an audit done, and thereafter an audit would occur on a two-year basis.¹⁰

(g) After the second year of the program there should be a reassessment and refinement of the program.¹¹

⁸ See GPA Filing re: Fuel Hedging Program, Docket No. 07-10, filed March 15, 2010, Fuel Hedging Program Draft at pgs. 1-5.

⁹ GCG Report re: Review of GPA Fuel Hedging Petition, GPA Docket 10-03, filed March 21, 2012, at p. 8.

¹⁰ GCG Report re: Review of GPA Fuel Hedging Petition, GPA Docket 10-03, filed March 21, 2012, at pgs. 9 - 10.

9. GCG, as part of its recommendation to approve GPA's hedging program, has set forth a series of fourteen (14) recommendations for improvement of GPA's Fuel Hedging Program. The GCG recommendations are attached hereto as Appendix A and incorporated herein by reference. GPA should carry out such recommendations and implement them as part of its Fuel Hedging Program.

ORDERING PROVISIONS

After careful review of the record herein, GPA's Filing Re: Fuel Hedging Program, the Draft Risk Management Procedures, the GPA Addendum Filing, and the GCG Report, for good cause shown and on motion duly made, seconded, and carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. GPA's Filing Re: Fuel Hedging Program, which requests approval of the revised fuel hedging program, is hereby approved.
2. The recommendations and reasoning contained in the GCG Report are also adopted; approval of GPA's fuel hedging program is conditioned upon acceptance by GPA of the recommendations of GCG and implementation by GPA thereof.
3. GPA is authorized to purchase and sell put and call options in any combination as determined by the model to provide optimum protection for the Authority.
4. GPA is authorized to monetize any fuel hedging gains when consistent with the output of the model.
5. The PUC approves the separate policy and procedure manuals developed by GPA.
6. GPA shall fully carryout the reporting and audit requirements as set forth in the GCG recommendations; reports on the fuel hedging program will be included with the LEAC Reports, and there shall be operational reports to the CCU.
7. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and

¹¹ GCG Report re: Review of GPA Fuel Hedging Petition, GPA Docket 10-03, filed March 21, 2012, at pg. 10.

Order
GPA Filing Re: Fuel Hedging Program
GPA Docket 10-03
March 26, 2012

expenses is authorized pursuant to 12 GCA §§12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

Dated this 26th day of March, 2012.

Jeffrey C. Johnson
Chairman

Rowena E. Perez
Commissioner

Joseph M. McDonald
Commissioner

Michael A. Pangelinan
Commissioner

Filomena M. Cantoria
Commissioner