BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:	)	GPA Docket 15-27
	)	
The Guam Power Authority Levelized Energy Adjustment Clause (LEAC)	)	**PUC COUNSEL REPORT**
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	)	

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Petition of the Guam Power Authority ["GPA"] to set the LEAC Factor effective February 1, 2016.[1]

2. GPA requests that the PUC maintain the current Fuel Recovery Factor of $.104871/kWh effective for meters read on or after February 1, 2016. The change would reflect no increase in the LEAC for this LEAC period.[2]

BACKGROUND

3. On July 16, 2015, the PUC set the LEAC Factor at $0.104871 for the 6-month period commencing August 1, 2015. This factor represented a 1.4% increase in the total bill for a residential customer utilizing an average of 1,000 kilowatt hours per month (an additional $2.82 per month).[3]

4. Although GPA had requested a larger increase in the LEAC Factor [i.e. to $0.115688/kWh], the PUC determined that the Morgan Stanley fuel price forecasts had shown a decrease in the average price of fuel subsequent to the filing by GPA of its Petition.[4]

5. In its instant Petition, GPA submits that the LEAC factor for the upcoming 6-month period (February 1, 2016 through July 31, 2016) should remain the same. Although there has been "a slight decrease in fuel prices", GPA believes that certain events triggered by the Cabras 3&4 shutdown on August 31, 2015 (most importantly, a

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[1] GPA Petition to Set the LEAC Factor effective February 1, 2016, GPA Docket 15-27, filed December 15, 2015.
[2] Id. at p. 1.
[3] PUC Order, GPA Docket 15-15, dated July 16, 2015, at p. 5.
[4] Id. at p. 4.

substantial increase in use of the more expensive Diesel No. 2 fuel), dictates that there be no change in the Fuel Recovery Factor.[5]

6. GPA's Petition demonstrates that, since the Cabras 3&4 explosion, GPA costs for No.2 Diesel Fuel have risen substantially. Since the explosion, GPA has been required to utilize the more expensive No.2 Diesel Fuel in order to run the fast track generators and CTs. The cost for No.2 Fuel has risen from approximately $2M per month to between $4 and $5M per month.[6]

7. Although fuel prices have decreased, GPA is now incurring more fuel costs due to the use of the expensive No.2 Diesel Fuel for the fast track generators and the CTs.

8. GPA also indicates that, in accordance with prior discussions with the ALJ and the PUC Commissioners regarding the fuel pricing issue, GPA has, in its Petition, used the average of the 5 days forward pricing from Morgan Stanley Asia Morning Call dated November 24 through November 30, 2015.[7]

ANALYSIS

9. To determine applicable fuel prices herein, GPA used the average of 5 days forward pricing from Morgan Stanley Asia Morning Call dated November 24 through November 30, 2015.

10. Although GPA indicated that it would use the average of the 5 consecutive days' pricing "closest to the LEAC filing date", the 5 day period utilized by GPA (November 24 through November 30, 2015) was two weeks before GPA filed its Petition on December 15, 2015.

11. GPA indicates that it used the earlier November pricing period because the LEAC Petition had to be approved by the CCU Commissioners at its November meeting.[8]

12. The utilization by GPA of the MS fuel forecast pricing for the period of November 24 through November 30, 2015 does not appear to be appropriate: (1) the selected

[5] Id. at p. 1; see also letter from General Manager Benavente to ALJ Horecky, dated December 14, 2015, re: Levelized Energy Adjustment Clause Petition for the period of February 1, 2016 through July 31, 2016, dated December 14, 2015, at p. 1.
[6] See Attachment 1, Schedule 1 and Attachment II, Schedule 1 attached to GPA's Petition.
[7] See Letter from General Manager Benavente to ALJ Horecky, dated December 14, 2015, at p. 2.
[8] Phone Conference between PUC Counsel Horecky and Asst. CFO Montellano, December 28, 2015.

period occurred fifteen days before GPA filed its Petition; and (2) there was a substantial drop in fuel prices during December 2015.

13. Counsel requested that GPA Assistant CFO Cora Montellano recalculate the 5 day average of the MS fuel forecast.

14. On January 4, 2016, Ms. Montellano filed her updated "Proposed LEAC Rate".[9]

15. The "updated" calculation for LEAC (using the average of the MS Noon call dated December 24-31, 2015) indicates that its average price per barrel for No.6 RFO declined from the price utilized by GPA in its Petition from $46.19 per barrel to $38.71 per barrel. In addition, the average price per gallon of Diesel (No.2) had declined from $1.66 per gallon to $1.39 per gallon.[10]

16. Based upon the updated 5 day Morgan Stanley Fuel Price Forecast, Assistant CFO Montellano calculated that the applicable LEAC factor effective February 1, 2016, would be reduced from $0.104871 per/kWh to $0.088309 per/kWh, a decrease in LEAC of 15.8%.[11]

17. However, Counsel also noted that, in GPA's proposed LEAC factor, GPA had applied the $3M in insurance proceeds to reduce the beginning Fuel Cost under recovery for the LEAC period Feb. 1 to July 2016. GPA assumed that the insurance proceeds would become available at some point in the future.

18. Counsel concurs that it is appropriate for GPA to use insurance proceeds to offset the increased fuel costs. Since the Cabras explosion resulted in increased fuel costs for GPA, insurance proceeds should be used to cover such costs (i.e. reliance upon No.2 Diesel for the fast track generators and CTs). However, as of yet, the insurance company has not agreed to pay any specific amounts nor are such funds presently available to GPA to offset fuel costs.

19. Given the absence of any commitment for such funds or their availability, Counsel believes that it is prudent for GPA not to presently assume that such funds are available to offset the LEAC.

[9] A copy of Assistant CFO Montellano's updated Proposed LEAC Rate is attached hereto as Exhibit "1".
[10] Id.
[11] Id.

20. Counsel thus requested that Assistant CFO Montellano update the Proposed LEAC Rate to take out the assumption that $3M would immediately be available.

21. Upon further refinement of the calculations, Ms. Montellano calculated that only $2M would be available for fuel costs from the insurance proceeds, rather than the $3M initially anticipated. GPA anticipates that a total $15M will be available as "Extra Expense Coverage" to cover the costs of the Aggreko temporary generation services. The annual costs for the Aggreko services for 2016 are estimated at approximately $13M, leaving only $2M for fuel expense. See "Monthly Payment Schedule-Aggreko", attached hereto as Exhibit "2".[12]

22. The updated Proposed LEAC factor, without the $2M insurance proceeds, would be $0.091656/kWh for residential customers on meters read on or after February 1, 2016. This updated calculation, without the $2M, is set forth in the fourth column on Exhibit 1 [W/O $2M Updated Effective 2/01/2016].[13]

23. Should GPA subsequently receive the $2M in insurance proceeds, it should then apply such funds to the LEAC.

24. This proposed LEAC factor would represent a 6.6% decrease in the total bill and a 12.6% decrease in LEAC for a residential customer utilizing an average of 1,000 kilowatt hours per month. The average monthly decrease for such residential customer would be $13.22.[14]

RECOMMENDATION

25. Counsel recommends that the PUC, for the 6-month period commencing February 1, 2016, decrease the LEAC Factor from $0.104871 per/kWh to S$0.091656 for meters read on or after February 1, 2016.

26. A Proposed Order is submitted herewith for the consideration of the Commissioners.

[12] Exhibit 2.
[13] Exhibit 1.
[14] Id.

Dated this 6th day of January, 2016.

Frederick J. Horecky
PUC Legal Counsel

GPA
Proposed LEAC Rate

		Proposed [6] Eff 2/01/2016	Updated [7] Eff 2/01/2016	Updated [8] Eff 2/01/2016	W/O $2M Updated [8] Eff 2/01/2016
1	Average Price per Bbl-RFO	$ 46.19	$ 40.80	$ 38.71	$ 38.71
2	Average Price per Gal-Diesel	$ 1.66	$ 1.52	$ 1.39	$ 1.39
3	Number 6 (HSFO/LSFO)	$ 45,575	$ 40,252	$ 38,198	$ 38,198
4	Number 2 (Diesel) [1] [2] [3]	19,430	17,714	16,236	16,236
5	Renewable (Solar)	5,630	5,630	5,630	5,630
6	TOTAL COST	$ 70,636	$ 63,596	$ 60,065	$ 60,065
7	Handling Costs	4,432	4,415	4,399	4,399
8	Total Current Fuel Expense	$ 75,067	$ 68,012	$ 64,463	$ 64,463
9	Civilian Allocation	79.15%	79.15%	79.15%	79.15%
10	LEAC Current Fuel Expense	$ 59,417	$ 53,833	$ 51,024	$ 51,024
11	Deferred Fuel Expense [4]	2,986	1,430	1,754	3,754
12	Total LEAC Expense	$ 62,404	$ 55,263	$ 52,778	$ 54,778
13	Less: Trans. Level Costs	(3,874)	(3,423)	(3,269)	(3,393)
14	Distribution Level Costs	$ 58,529	$ 51,840	$ 49,509	$ 51,386
15	Over recovery at the end of the period [5]	$ 265			
16	Adjusted Distribution Level Costs	$ 58,794	$ 51,840	$ 49,509	$ 51,386
17	Distribution Level Sales (mWh)	560,638	560,638	560,638	560,638
18	LEAC Factor Distribution	0.104871	0.092467	0.088306	0.091656
19	Current LEAC Factor Distribution	0.104871	0.104871	0.104871	0.104871
20	Increase/(Decrease)	(0.000000)	(0.012404)	(0.016562)	(0.013215)
21	Monthly Increase/(Decrease) - 1000 kWh	$ (0.00)	$ (12.40)	$ (16.56)	$ (13.22)
22	% Increase/(Decrease) in LEAC	0.0%	-11.8%	-15.8%	-12.6%
23	% Increase/(Decrease) in Total Bill	0.0%	-6.2%	-8.3%	-6.6%
24	Discount (3%) - Primary 13.8 KV	0.101512	0.089673	0.085643	0.088868
25	Discount (4%) - 34.5 KV	0.101282	0.089417	0.085386	0.088632
26	Discount (5%) - 115 KV	0.099877	0.088216	0.084245	0.087441

Notes:

(1) Assuming Aggreko is online January 2016, fuel savings of at least $5M in this LEAC period.

(2) Assuming Cabras 2 is back online in March 2016 after major overhaul and producing from 45 MW to 66 MW.

(3) Assuming Cabras 1 is back full load in June 2016 after installation of the new transformer.

(4) The beginning Fuel Cost under recovery for the LEAC period Feb 1-Jul 2016 is reduced by $3M insurance proceeds, $2M is the updated amount in the

(5) The LEAC rate will remain the same, as such the projected ending Fuel Cost over recovery is too minimal and will be carried forward to the next LEAC

(6) PUC filing using the average of MS Noon call dated November 24-30, 2015

(7) Updated using average of MS Noon call dated December 7-11, 2015

(8) Updated using average of MS Noon call dated December 24-31, 2015

GPA
Monthly Payment Schedule-Aggreko

		Jan-16	Feb-16	Mar-16	Apr-16
1	Capacity	*40*	*40*	*40*	*40*
2	Monthly Energy Production-Estimate	*25,455*	*22,434*	*15,682*	*25,836*
3	Energy Conversion Charge ($4.40/MWh)	$ 112,002	$ 98,710	$ 69,000	$ 113,678
4	Shipping Costs Amortization	$ 104,456	$ 104,456	$ 104,456	$ 104,456
5	Capacity Fee ($17.31/kW/Month)	691,697	691,697	691,697	691,697
6	Fixed O&M Charge ($/Month)	185,630	185,630	185,630	185,630
7	Total Fixed Charge (4+5+6)	$ 981,783	$ 981,783	$ 981,783	$ 981,783
8	Total (Variable+Fixed) (3+7)	$ 1,093,785	$ 1,080,493	$ 1,050,783	$ 1,095,461
9	Purchase Order Amendment (Fire Lane)	$ 249,000	0	0	0
10	Grand Total	$ 1,342,785	$ 1,080,493	$ 1,050,783	$ 1,095,461

Note:

1 The $2M difference will be applied against the under recovery in the LEAC, assuming the Insurance will pay GPA's claim for Extra Expense of $15

May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
40	*40*	*40*	*40*	*40*	*40*	*40*
20,481	*14,400*	*14,400*	*15,027*	*14,400*	*16,484*	*14,400*
$ 90,115	$ 63,360	$ 63,360	$ 66,119	$ 63,360	$ 72,530	$ 63,360
$ 104,456	$ 104,456	$ 104,456	$ 104,456	$ 104,456	$ 104,456	$ 104,456
691,697	691,697	691,697	691,697	691,697	691,697	691,697
185,630	185,630	185,630	185,630	185,630	185,630	185,630
$ 981,783	$ 981,783	$ 981,783	$ 981,783	$ 981,783	$ 981,783	$ 981,783
$ 1,071,898	$ 1,045,143	$ 1,045,143	$ 1,047,902	$ 1,045,143	$ 1,054,313	$ 1,045,143
0	0	0	0	0	0	0
$ 1,071,898	$ 1,045,143	$ 1,045,143	$ 1,047,902	$ 1,045,143	$ 1,054,313	$ 1,045,143

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Dec-16	Total	Extra Expense Ins. Coverage	Variance [1]
40			
20,918	*219,917*		
$ 92,041	$ 967,635		
$ 104,456	$ 1,253,469		
691,697	8,300,366		
185,630	2,227,560		
$ 981,783	$ 11,781,395		
$ 1,073,824	$ 12,749,030		
0	249,000		
$ 1,073,824	$ 12,998,030	$ 15,000,000	$2,001,970