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Public Utilities Commission
GUAM

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

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

On January 6, 2016, Counsel submitted his Report herein to the PUC Commissioners. At that time, the recommended LEAC Factor for the upcoming six-month period was based upon the Morgan Stanley fuel forecast average December 24-31, 2015.

At its July 2015 meeting, the Commission indicated that it desired to use a fuel forecast for LEAC based upon an average of the five day period occurring 10 days before the PUC meeting. A copy of the transcript of that portion of the PUC Meeting of July 16, 2015, which deals with LEAC, is attached hereto as Exhibit "1".

GPA Assistant Chief Financial Officer Cora Montellano has recalculated the Morgan Stanley Fuel Forecast using the average of the MS Noon Call dated January 11-15, 2016. See Exhibit "2" attached hereto. The new proposed LEAC factor, effective February 1, 2016, is $.086613/kWh. This would be a decrease from the prior LEAC Factor of $.10487/kWh. The change represents a 9.2% decrease in the total bill for a residential customer utilizing an average of 1,000 kilowatt hours per month ($18.26).

The decrease in the LEAC Factor is the result of a decline in the average price per barrel of RFO from $46.19 in December, 2015, to $37.35 in the second week of January 2016. Similarly, the average price per gallon for diesel also declined in the same period from $1.66 to $1.21.

Counsel recommends that the PUC adopt a LEAC Factor of $.086613/kWh for meters read on after February 1, 2016. Counsel has prepared an Order for the Commissioners' consideration.

Dated this 22nd day of January, 2016.

Frederick J. Horecky
PUC Legal Counsel

GUAM PUBLIC UTILITIES COMMISSION
SPECIAL MEETING
JULY 16, 2015
SUITE 202, GCIC BUILDING, HAGATNA

MINUTES

The Guam Public Utilities Commission [PUC] conducted a special meeting commencing at 6:40 p.m. on July 16, 2015, pursuant to due and lawful notice. Commissioners Johnson, Perez, McDonald, Montinola and Niven were in attendance. The following matters were considered at the meeting under the agenda made *Attachment "A"* hereto.

1. Approval of Minutes

The Chairwoman announced that the first item of business on the agenda was approval of the minutes of May 28, 2015. Upon motion duly made, seconded and unanimously carried, the Commission approved the minutes subject to correction.

2. Guam Power Authority

The Chairman announced that the next item of business on the agenda was GPA Docket 15-15, Petition for Approval of LEAC Adjustment effective August 1, 2015, Slater Nakamura Report, and Proposed Order. Counsel stated that, for the Levelized Energy Adjustment Clause Process, the Commissioners tonight are considering the appropriate LEAC factor for the next six month period, from August 1, 2015 through January 31, 2016. This process was commenced when GPA filed its petition on June 15, 2015. GPA initially asked for an increase in the LEAC factor from 10.2 cents per kilowatt-hour to 11.5 cents per kilowatt-hour. This would have represented about a 6.8% increase in the total bill and a $13.63 per month for the average residential customer. GPA's justification for the increase was that worldwide fuel prices were increasing. It was anticipated that fuel would cost $68 per barrel in the new upcoming LEAC period.

PUC asked its consultant Slater Nakamura to conduct a review of GPA's LEAC filing. When GPA filed its petition, it used the Morgan Stanley fuel price forecast for May 25, 2015. Slater Nakamura properly decided to ask GPA for an updated fuel forecast. Fuel prices are always volatile; they are one of the most significant determinants of the LEAC factor for the upcoming period. Slater-Nakamura issued a discovery request to GPA and selected July 6, 2015, as the appropriate date for which to request the fuel forecast. Ordinarily, PUC Consultants will obtain an updated fuel forecast perhaps 10 days before the PUC meeting, or a few weeks prior. There is no rule requiring a specific date for the fuel forecast. The Consultants will normally select a date and then obtain the fuel forecast for that date.

Exhibit "1"

GPA provided an updated Morgan Stanley fuel forecast for July 6. But Slater Nakamura decided that it did not want to use that forecast and instead would use the forecast for June 30, 2015. Its rationale was that, between June 30 and July 6, 2015, there had been an over 8% worldwide decrease in the price of fuel based upon events occurring in the China Market and in Greece with its indebtedness. Slater felt that there was a precipitous drop in fuel prices and then it could not verify that the price decrease would continue to affect the fuel market in the future. However, Slater quoted Morgan Stanley as indicating that the decrease would have a lasting effect and this decrease in fuel prices would continue to affect fuel prices into 2016.

Counsel does not concur with consultant Slater's reasoning that July 6 forecast was "not reliable". First, the Morgan Stanley forecast itself is supposed to be the bench mark. Normally a date for the updated Morgan Stanley report is selected relatively close to the PUC LEAC hearing which would establish the bench mark. The PUC has never previously engaged in a discussion as to whether the particular date or Morgan Stanley bench mark is reliable or not. Beyond that, it is a very difficult matter to say what fuel forecast is reliable and which is not. Fuel prices are constantly changing and can go up or down. There is no evidence provided in the Slater-Nakamura report as to why the July 6 fuel forecast was unreliable or less reliable than June 30 forecast.

Counsel recommends that the PUC utilize the July 6 Morgan Stanley forecast. The process must be fair and open and somewhat blind, impartial. A particular date cannot be picked because it helps GPA or it helps the ratepayer for that matter. The Forecast must be an accurate, fair reflection of the current state of the fuel market. PUC should not engage in a process for every LEAC determination where it engages in a question as to whether the date selected for the Morgan Stanley forecast is reliable or not. There are protections in the LEAC system to rectify any inaccurate fuel forecast. If GPA has a $2M either under or over recovery on fuel, it can come to the Commission during the LEAC and ask for a readjustment. There is a mechanism for dealing with a fuel forecast that turns out to be ineffective or not accurate.

CFO Cora Montellano of GPA has graciously provided updated Morgan Stanley fuel forecasts, which are attached as Exhibit 1 to the proposed Order. This Exhibit gives Commissioners a view of how the fuel prices have moved for the period from June 30 through July 15. This is not an inquiry that Commissioners should ordinarily undertake. A date should be selected. But Exhibit 1 indicates that the July 6 price, which would result in the LEAC factor of 10.48 cents per kilowatt-hour, has roughly remained constant through the 15th of July. The factor on July 15 is 10.42 cents per kilowatt-hour. To promote openness and consistency, there should be a blind selection of a date for the fuel forecast with no intent to either benefit GPA or the ratepayers but to select a fair current price for fuel. The proposed Order suggests the Commissioners should accept the July 6 Morgan Stanley fuel forecast. The fuel forecast for the date recommended by Slater, June 30, would have resulted in about a 3% overall increase in the LEAC factor and over $6.00 per month the average ratepayer utilizing a 1000 kilowatt per month.

The July 6 fuel factor results in a 1.4% increase in the total bill or $2.82 per month for the average residential customer. Commissioners have the option of selecting any of the dates proposed or even allowing the LEAC factor to remain as it is. Counsel recommends against that: it is important to have a procedure where a particular date is identified, selected and utilized for determining the LEAC factor. ~~Counsel suggested a procedure whereby a date 10 days before the PUC meeting is selected for the Morgan Stanley fuel forecast; an average of either three or five days before that date could be utilized to get an accurate reading of fuel prices during that period.~~ Use of the Morgan Stanley fuel price forecast for July 6 will result in a 10.48 cent per kilowatt-hour price for residential customers and concomitant rates for the other primary and transmission line customers. This would be effective on August 1. GPA would once again come before the PUC December 15 for a new fuel factor for February 1, 2016. The Working Capital Fund Surcharge will remain the same as it has been in the past.

The Chairman asked whether the CFO Montellano had any comments to share. She indicated that the fuel price today, for July 16 has also come down some more. It's very volatile. GPA is agreeable to using July 6 Morgan Stanley fuel forecast. ~~The Chairman asked Ms. Montellano if she agreed with the idea of picking a date 10 days out from the PUC meeting and then doing an average for future LEACS. CFO Montellano was agreeable with that plan.~~ GPA does have a protection with being able to adjust the LEAC through an interim filing. Ms. Montellano would prefer a five day average rather than a three day average for determining the factor. The Chairman asked whether that would be consecutive days. Ms. Montellano indicated that it would.

Commissioner Niven asked Legal Counsel whether, if oil prices fluctuated considerably, could the PUC have updated information and either the Commission or at least the Chair adjust the LEAC rate. Counsel indicated that under Tariff Z, GPA would file a petition that triggers consideration of the LEAC. The Chairman indicated there could be a mid-course correction if the LEAC are increased. There have been cases where GPA did not come to the Commission even where there was a significant increase in the fuel price. Commissioner Niven asked whether if the fuel price went way down or way up, there could be an adjustment as early as November 1 based on information in September and October. Counsel indicated that there could be such an adjustment.

Interim LEAC filings are generally handled in an expedited manner. In one case the Chairman approved an emergency petition by GPA for increase in LEAC subject to Commission ratification. CFO Montellano pointed out that at one point fuel price per KWH was at 14.6 cents and went down to 10.2 cents. That was in November, and GPA came in for a reduction. Commissioner Montinola clarified that there will also be a change in the LEAC factor if prices continue to go down. The Chairman confirmed that

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	W/O $2M Updated (9) Eff 2/01/2016
1	Average Price per Bbl-RFO	$ 46.19	$ 40.80	$ 38.71	$ 38.71	$ 37.35
2	Average Price per Gal-Diesel	$ 1.66	$ 1.52	$ 1.39	$ 1.39	$ 1.21
3	Number 6 (HSFO/LSFO)	$ 45,575	$ 40,252	$ 38,198	$ 38,198	$ 36,853
4	Number 2 (Diesel) (1) (2) (3)	19,430	17,714	16,236	16,236	14,191
5	Renewable (Solar)	5,630	5,630	5,630	5,630	5,630
6	TOTAL COST	$ 70,636	$ 63,596	$ 60,065	$ 60,065	$ 56,674
7	Handling Costs	4,432	4,415	4,399	4,399	4,377
8	Total Current Fuel Expense	$ 75,067	$ 68,012	$ 64,463	$ 64,463	$ 61,051
9	Civilian Allocation	79.15%	79.15%	79.15%	79.15%	79.15%
10	LEAC Current Fuel Expense	$ 59,417	$ 53,833	$ 51,024	$ 51,024	$ 48,323
11	Deferred Fuel Expense (4)	2,986	1,430	1,754	3,754	3,441
12	Total LEAC Expense	$ 62,404	$ 55,263	$ 52,778	$ 54,778	$ 51,764
13	Less: Trans. Level Costs	(3,874)	(3,423)	(3,269)	(3,393)	(3,206)
14	Distribution Level Costs	$ 58,529	$ 51,840	$ 49,509	$ 51,386	$ 48,559
15	Over recovery at the end of the period (5)	$ 265				
16	Adjusted Distribution Level Costs	$ 58,794	$ 51,840	$ 49,509	$ 51,386	$ 48,559
17	Distribution Level Sales (mWh)	560,638	560,638	560,638	560,638	560,638
18	LEAC Factor Distribution	0.104871	0.092467	0.088109	0.091656	0.086613
19	Current LEAC Factor Distribution	0.104871	0.104871	0.104871	0.104871	0.104871
20	Increase/(Decrease)	(0.000000)	(0.012404)	(0.016562)	(0.013215)	(0.018258)
21	Monthly Increase/(Decrease) - 1000 kWh	$ (0.00)	$ (12.40)	$ (16.56)	$ (13.22)	$ (18.26)
22	% Increase/(Decrease) in LEAC	0.0%	-11.8%	-15.8%	-12.6%	-17.4%
23	% Increase/(Decrease) in Total Bill	0.0%	-6.2%	-8.3%	-6.6%	-9.2%
24	Discount (3%) - Primary 13.8 KV	0.101512	0.089375	0.085613	[illegible]	0.083997
25	Discount (4%) - 34.5 KV	0.101202	0.089417	0.085396	0.088632	0.083735
26	Discount (5%) - 115 KV	0.099377	0.088816	0.084345	0.087541	0.082724

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 last model run.

(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 period.

(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

(9) Updated using average of MS Noon call dated January 11-15, 2016

Exhibit "2"