

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 19-07
)
The Guam Power Authority Levelized)
Energy Adjustment Clause (LEAC)) **ALJ 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, 2019.¹
2. In its Petition, GPA requests that the Levelized Energy Adjustment Clause Factor ["LEAC"] be maintained at \$0.154242/kWh effective for meters read on or after February 1, 2019.²
3. GPA seeks to maintain the LEAC Factor at the same level implemented on May 1, 2018.³

BACKGROUND

4. For the LEAC period covered from February 1, 2018 through July 31, 2018, the PUC implemented a two-phased approach in increasing the secondary LEAC rate of 0.117718/kWh to \$0.147266/kWh, effective February 1, 2018, and then to \$0.154242/kWh, effective May 1, 2018, in anticipation of rising fuel prices.⁴
5. In its Petition dated June 12, 2018, in GPA Docket 18-15, GPA requested that PUC maintain the LEAC factor at \$0.154242/kWh for meters read on or after August 1, 2018, through January 31, 2019.⁵
6. In its Order dated June 26, 2018, the PUC authorized GPA to maintain the LEAC factor at \$0.154242/kWh for meters read on or after August 1, 2018, through

¹ GPA Petition to Set the LEAC Factor effective February 1, 2019, GPA Docket 19-07, filed December 14, 2018.

² Id. at p. 1.

³ Id.

⁴ PUC Order, GPA Docket 18-05, dated January 30, 2018 at p. 4.

⁵ GPA Petition to Set the LEAC Factor effective August 1, 2018, GPA Docket 18-15, filed June 12, 2018.

January 31, 2019.⁶ The Order determined that fuel prices were dropping and that GPA's "under-recovery" of fuel costs had dropped considerably.⁷

7. For the upcoming LEAC period, GPA continues to believe that the current factor of \$0.154242/kWh should be maintained in effect.
8. The basis for GPA's LEAC filing is the continuing instability in worldwide fuel prices, and its assumption that the market will remain within the \$65-\$69/bbl range during the period.⁸
9. GPA initially anticipated that its projected under-recovery on fuel will be \$5.05M by July 31, 2019.⁹
10. In a letter to the ALJ dated December 14, 2018, the Acting GPA General Manager states: "The petition for no change in the LEAC factor is mainly due to the impending outcome of an expected official general cooperation agreement between OPEC and non-OPEC entities that is expected within the next three months. This agreement will determine the agreed-upon level of production in their upcoming meeting later this month which may result in oil prices stabilizing in the \$65-\$70/Bbl range."¹⁰
11. In Consolidated Commission on Utilities Resolution No: 2018-27, the CCU authorized the GPA General Manager to petition the PUC for the LEAC rate to remain at \$0.154242/kWh for the period from February 1, 2019, through July 31, 2019.¹¹
12. The CCU also determined that it would not petition the PUC for a change in the LEAC factor for secondary voltage service customers as well as alternative voltage customers for the upcoming LEAC period.¹²

⁶ PUC Order, GPA Docket 18-15. dated June 26, 2018.

⁷ Id.

⁸ GPA Petition to Set the LEAC Factor effective February 1, 2019, GPA Docket 19-07, filed December 14, 2018, at p. 1.

⁹ Id.

¹⁰ Letter from Acting GPA General Manager to PUC ALJ, GPA Docket 19-07, Re: Levelized Energy Adjustment Clause Petition for the period of February 1, 2019 through July 31, 2019, dated December 14, 2018, at p. 1.

¹¹ CCU Resolution No. 2018-27, Authorizing the Management of the Guam Power Authority to Petition the Guam Public Utilities Commission for No Change in the Levelized Energy Adjustment Clause, adopted on November 27, 2018, at p. 2.

¹² Id.

ANALYSIS

13. In its instant Petition, GPA requests that the same LEAC factor that has been in effect since May 1, 2018, \$0.15242, remain in effect for the next six months.
14. A significant fact is that the LEAC factor accepted by GPA for the last three LEAC periods has not been fully adequate to reimburse GPA for its fuel costs. The purpose of the LEAC factor under Tariff Z is for GPA to recover the projected fuel expense for the next six-month LEAC period.¹³ Ideally, the LEAC factor would fully reimburse GPA for its fuel costs in the upcoming period.
15. The LEAC mechanism is a "pass through", which means that it is designed to cover all of GPA's fuel expenses. Ratepayers are supposed to pay a fuel charge that will fully reimburse GPA for its costs of fuel.
16. Yet, it is an established fact that GPA's acceptance of the current LEAC factor has consistently resulted in an under-recovery by GPA of its fuel costs in the last three LEAC periods. That means that the LEAC factor was set at a lower rate than was necessary to fully recover GPA's fuel costs.
17. GPA's "under-recovery" has reduced considerably during the past few LEAC periods. As of January 31, 2018, the under-recovery balance was \$16.8M.¹⁴ As of April 30, 2018, the under-recovery balance was reduced to \$12.2M; and by September 30, 2018, the under-recovery balance was further reduced to \$8.3M.¹⁵
18. However, even if the PUC maintains the current LEAC factor of \$0.154242 /kWh for the next six months, GPA estimates that it will still have a projected under-recovery on July 31, 2019, between \$5.3M and \$9.3M.¹⁶
19. What the foregoing means is that the proposed LEAC factor, \$0.154242 /kWh, is actually not adequate to fully recover GPA's fuel costs for the upcoming six-month

¹³ Guam Power Authority Schedule "Z", Levelized Energy Adjustment Clause (LEAC).

¹⁴ PUC Order, GPA Docket 18-15, dated June 26, 2018, at p. 1.

¹⁵ CCU Resolution No. 2018-27, Authorizing the Management of the Guam Power Authority to Petition the Guam Public Utilities Commission for No Change in the Levelized Energy Adjustment Clause, adopted on November 27, 2018, at p. 1.

¹⁶ Letter from Acting GPA General Manager to PUC ALJ, GPA Docket 19-07, Re: Levelized Energy Adjustment Clause Petition for the period of February 1, 2019 through July 31, 2019, dated December 14, 2018, at p. 1; see also Email from GPA Asst. CFO Cora Montellano to PUC ALJ Fred Horecky, dated January 22, 2019, with updated Fuel Price Analysis for Proposed LEAC Rate, with average forward fuel pricing from January 14-18, 2019.

period. In its most recent update, GPA estimates that for full recovery of its fuel costs for the period of February 1, 2019, through July 31, 2019, the LEAC factor would have to be set at \$0.169056.¹⁷

20. There have been some fuel price reductions in the last few months that suggest the possibility of a downward trend in fuel prices over the next year. RFO Platts Pricing and Premiums showed a reduction in per barrel fuel price from \$64 in November to about \$57 per barrel in January 2019.¹⁸ ULSD Platts pricing also showed a per barrel reduction from \$82 in November to \$70 in January 2019.¹⁹ But, to determine GPA's fuel cost, the premium of about \$11 per barrel must be added its fuel prices.²⁰
21. The Morgan Stanley Asia Morning Call for January 24, 2019, also indicates positive estimated fuel price trends for this year. Its price for January 2019, Singapore HSFO 180 CST is \$388.08 per metric ton, or approximately \$61.6 per barrel. When the \$11 per barrel premium is added, that would indicate GPA ratepayer fuel prices in the range of \$72 per barrel. However, its estimate for the first quarter of 2020 drops to \$317.39 per metric ton, or \$50 per barrel, which would be in the range of \$62 per barrel for GPA with the premium added.²¹
22. These trends are only estimates, and do not necessarily reflect what the actual fuel prices will be over the next year. GPA believes that there could be an increase in fuel prices over the next few months resulting from a cooperation of OPEC and non-OPEC countries to limit the supply of fuel.²²
23. In addition, GPA points out that declines in fuel prices do not necessarily have an immediate impact on its fuel prices that GPA pays. Under its "first in/first out" fuel usage principle, it first uses more expensive fuel previously purchased.

¹⁷ Email from GPA Asst. CFO Cora Montellano to PUC ALJ Fred Horecky, dated January 22, 2019, with updated Fuel Price Analysis for Proposed LEAC Rate, with average forward fuel pricing from January 14-18, 2019.

¹⁸ GM Report, RFO Platts Pricing and Premiums, submitted in CCU Commissioner Packet for Work Session on January 17, 2019.

¹⁹ GM Report, ULSD Platts Pricing and Premiums, submitted in CCU Commissioner Packet for Work Session on January 17, 2019.

²⁰ Id.

²¹ Morgan Stanley Asia Morning Call (Morgan Stanley Commodities Commentaries), January 24, 2019.

²² Letter from Acting GPA General Manager to PUC ALJ, GPA Docket 19-07, Re: Levelized Energy Adjustment Clause Petition for the period of February 1, 2019 through July 31, 2019, dated December 14, 2018, at p. 1.

24. The PUC has previously determined that, before the LEAC factor is set for a particular period, an updated LEAC fuel forecast price should be prepared based upon the average of the five-day period which is ten days before the meeting at which the PUC determines the LEAC factor.²³
25. Based upon prior PUC precedent, the Commission should place reliance upon the updated fuel pricing estimates for the period of the five-day average, January 14-18, 2019. A true and correct copy of that calculation is attached hereto as Exhibit "1".²⁴
26. That five-day average shows an increase in fuel pricing for RFO from \$66 per barrel when GPA's petition was filed in December to nearly \$72 per barrel in January 2019. There was also an increase of \$3.00 for Diesel.²⁵
27. When GPA filed its Petition, it anticipated an under-recovery of \$5.3M if the current LEAC factor was retained. However, the updated LEAC analysis now indicates that, with the current LEAC rate, the under-recovery at the end of the upcoming LEAC period could be as high as \$9.34M.²⁶
28. With there still projected to be an under-recovery by GPA on July 31, 2019, between \$5.3M to \$9.3M, the ALJ does not believe it to be prudent to speculate on the possibility that fuel prices will decline as a basis for reducing the LEAC factor. Tariff Z allows GPA to petition the PUC when it has a cumulative under recovery balance of more than \$2M during the six-month levelized period.²⁷
29. Given the projected size of the under-recovery balance at \$9.34M as of July 31, 2019, it is not appropriate to reduce the LEAC factor at the present time. Any reduction in the LEAC factor could increase under-recovery to an even greater amount than \$9.34M.

²³ PUC LEAC Order, GPA Docket 15-27, dated January 25, 2016, at p. 2.

²⁴ Email from GPA Asst. CFO Cora Montellano to PUC ALJ Fred Horecky, dated January 22, 2019, with updated Fuel Price Analysis for Proposed LEAC Rate, with average forward fuel pricing from January 14-18, 2019.

²⁵ Id.

²⁶ Id.

²⁷ Guam Power Authority Schedule "Z", Levelized Energy Adjustment Clause (LEAC).

30. The ALJ, as a check on fuel prices, requested that the GPA Assistant CFO update fuel prices for the period of January 21-25, 2019. That updated analysis is attached hereto as Exhibit "2".²⁸
31. The further Update indicates that the fuel under-recovery by GPA would increase if the LEAC rate were reduced. If the LEAC factor were reduced to \$0.148867, the under-recovery would be increased to \$13.156M.²⁹ It is not desirable for the LEAC under-recovery to be at such high levels.
32. If fuel prices continue to decline, and the under-recovery is further reduced substantially, the PUC can again consider whether to reduce the LEAC factor in July of 2019.
33. The PUC should not reduce the LEAC factor at the present time due to the risk of an increased fuel price under-recovery by GPA.

RECOMMENDATION

29. Counsel recommends that the PUC maintain the Fuel Recovery Factor at \$0.154242/kWh effective for meters read on or after August 1, 2018.
30. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 29th day of January, 2019.

Frederick J. Horecky
Chief Administrative Law Judge

²⁸ Email from GPA Asst. CFO Cora Montellano to PUC ALJ Fred Horecky, dated January 28, 2019, with updated Fuel Price Analysis for Proposed LEAC Rate, with average forward fuel pricing from January 21-25, 2019.

²⁹ Id.

GPA

Proposed LEAC Rate (\$000)

	A	B	C	D
	PUC Filing Proposed Eff 2/01/2019	No Change in LEAC Updated PUC Filing Proposed Eff 2/01/2019	LEAC Rate Set @ \$0.15/kWh Updated PUC Filing Proposed Eff 2/01/2019	At Full Recovery Updated PUC Filing Proposed Eff 2/01/2019
2 Average Price per Bbl-RFO	\$ 66.73	\$ 71.73	\$ 71.73	\$ 71.73
2 Average Price per Gal-Diesel	\$ 83.03	\$ 86.46	\$ 86.46	\$ 86.46
4 Number 6 (HSFO/LSFO)	\$ 63,994	\$ 68,791	\$ 68,791	\$ 68,791
5 Number 2 (Diesel)	39,097	40,715	40,715	40,715
6 Renewable (Solar)	5,582	5,582	5,582	5,582
7 TOTAL COST	\$ 108,673	\$ 115,087	\$ 115,087	\$ 115,087
8 Handling Costs	4,312	4,312	4,312	4,312
9 Total Current Fuel Expense	\$ 112,985	\$ 119,399	\$ 119,399	\$ 119,399
10 Civilian Allocation	81.24%	81.24%	81.24%	81.24%
11 LEAC Current Fuel Expense	\$ 91,791	\$ 97,002	\$ 97,002	\$ 97,002
12 Deferred Fuel Expense	14,058	13,156	13,156	13,156
13 Total LEAC Expense	\$ 105,849	\$ 110,158	\$ 110,158	\$ 110,158
14 Less: Trans. Level Costs	(5,832)	(6,143)	(6,143)	(6,393)
15 Distribution Level Costs	\$ 100,017	\$ 104,015	\$ 104,015	\$ 103,765
16 Under recovery at the end of the period	\$ (5,345)	\$ (9,343)	\$ (11,947)	\$ -
17 Adjusted Distribution Level Costs	\$ 94,672	\$ 94,672	\$ 92,068	\$ 103,765
18 Distribution Level Sales (mWh)	613,792	613,792	613,792	613,792
19 LEAC Factor Distribution	0.154241	0.154241	0.150000	0.169056
20 Current LEAC Factor Distribution	0.154242	0.154242	0.154242	0.154242
21 Increase/(Decrease)	(0.00000)	(0.00000)	(0.00424)	0.01481
22 Monthly Increase/(Decrease) - 1000 kWh	\$ (0.00)	\$ (0.00)	\$ (4.24)	\$ 14.81
23 % Increase/(Decrease) in LEAC	0.00%	0.00%	-2.75%	9.60%
24 % Increase/(Decrease) in Total Bill	0.00%	0.00%	-1.70%	5.95%
25 Discount (3%) - Primary 13.8 KV	\$ 0.149579	\$ 0.149579	\$ 0.145759	\$ 0.168973
26 Discount (4%) - 34.5 KV	\$ 0.149148	\$ 0.149148	\$ 0.145389	\$ 0.163500
27 Discount (5%) - 115 KV	\$ 0.147312	\$ 0.147312	\$ 0.143950	\$ 0.161488

Notes: The updated filing reflects the actual under recovery through November 30, 2018 and the average forward pricing from January 14-18, 2019

GPA
Proposed LEAC Rate (\$000)

	A	B	C	D
	PUC Filing Proposed Eff 2/01/2019	Jan 14-18 MS Pricing No Change in LEAC Updated PUC Filing Proposed Eff 2/01/2019	Leave the Under Recovery at \$13.2M Updated PUC Filing Proposed Eff 2/01/2019	Jan 21-25 MS Pricing No Change in LEAC Updated PUC Filing Proposed Eff 2/01/2019
2 Average Price per Bbl-RFO	\$ 66.73	\$ 71.73	\$ 71.73	\$ 73.11
2 Average Price per Gal-Diesel	\$ 83.03	\$ 86.46	\$ 86.46	\$ 87.24
4 Number 6 (HSFO/LSFO)	\$ 63,994	\$ 68,791	\$ 68,791	\$ 70,112
5 Number 2 (Diesel)	39,097	40,715	40,715	41,082
6 Renewable (Solar)	5,582	5,582	5,582	5,582
7 TOTAL COST	\$ 108,673	\$ 115,087	\$ 115,087	\$ 116,775
8 Handling Costs	4,312	4,312	4,312	4,309
9 Total Current Fuel Expense	\$ 112,985	\$ 119,399	\$ 119,399	\$ 121,084
10 Civilian Allocation	81.24%	81.24%	81.24%	81.24%
11 LEAC Current Fuel Expense	\$ 91,791	\$ 97,002	\$ 97,002	\$ 98,371
12 Deferred Fuel Expense	14,058	13,156	13,156	13,195
13 Total LEAC Expense	\$ 105,849	\$ 110,158	\$ 110,158	\$ 111,566
14 Less: Trans. Level Costs	(5,832)	(6,143)	(5,628)	(6,143)
15 Distribution Level Costs	\$ 100,017	\$ 104,015	\$ 104,530	\$ 105,423
16 Under recovery at the end of the period	\$ (5,345)	\$ (9,343)	\$ (13,156)	\$ (10,751)
17 Adjusted Distribution Level Costs	\$ 94,672	\$ 94,672	\$ 91,374	\$ 94,672
18 Distribution Level Sales (mWh)	613,792	613,792	613,792	613,792
19 LEAC Factor Distribution	0.154241	0.154241	0.148867	0.154241
20 Current LEAC Factor Distribution	0.154242	0.154242	0.154242	0.154242
21 Increase/(Decrease)	(0.00000)	(0.00000)	(0.00537)	(0.00000)
22 Monthly Increase/(Decrease) - 1000 kWh	\$ (0.00)	\$ (0.00)	\$ (5.37)	\$ (0.00)
23 % Increase/(Decrease) in LEAC	0.00%	0.00%	-3.48%	0.00%
24 % Increase/(Decrease) in Total Bill	0.00%	0.00%	-2.16%	0.00%
25 Discount (3%) - Primary 13.8 KV	\$ 0.149579	\$ 0.149579	\$ 0.1443570	\$ 0.149579
26 Discount (4%) - 34.5 KV	\$ 0.149148	\$ 0.149148	\$ 0.1439410	\$ 0.149148
27 Discount (5%) - 115 KV	\$ 0.147312	\$ 0.147312	\$ 0.1421690	\$ 0.147312

Notes: The updated filing reflects the actual under recovery through November 30, 2018 and the average forward pricing from January 14-1