

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 17-17
)
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, 2017.¹
2. As a result of its Updated Proposed LEAC Rate, dated January 11, 2017², GPA now requests that the PUC increase the current Fuel Recovery Factor of \$0.086613/kWh to \$0.105051, effective for meters read on or after February 1, 2017. The change would represent a 10.2% increase in the total bill for a residential customer utilizing an average of 1,000 kilowatt hours per month (an increase of \$18.44 per month).

BACKGROUND

3. In its Order dated July 28, 2016, the PUC maintained the LEAC Factor at \$0.086613/kWh for meters read on or after August 1, 2016. The same LEAC Factor was continued in effect for the upcoming LEAC period that had been in effect for the prior six month LEAC period.³
4. The basis proposed by GPA for the increase in the LEAC Factor is primarily the “continuing increase in worldwide fuel prices.”⁴ The price of Residual Fuel Oil has increased by 20% from the last LEAC filing in June 2016.⁵ GPA believes that the market will remain within the \$48-54/bbl range during the period.⁶

¹ GPA Petition to Set the LEAC Factor effective February 1, 2017, GPA Docket 17-17, filed December 14, 2016.

² Email from Cora Montellano, GPA Asst. CFO, to PUC Counsel Fred Horecky, dated January 11, 2017, with GPA Proposed LEAC Rate-Updated.

³ PUC Order, GPA LEAC Petition, GPA Docket 16-10, dated July 28, 2016.

⁴ GPA LEAC Filing, GPA Docket 17-17, filed December 14, 2016, at p. 1.

⁵ Email from Cora Montellano, GPA Asst. CFO, to PUC Counsel Fred Horecky, dated January 11, 2017, with GPA Proposed LEAC Rate-Updated.

⁶ GPA LEAC Filing, GPA Docket 17-17, filed December 14, 2016, at p. 1.

5. GPA also asserts that the increase in fuel prices is attributable at least in part to OPEC's decision to cut production by \$1.3M barrels per day.⁷
6. On January 11, 2017, GPA Assistant Chief Financial Officer Cora Montellano submitted GPA's Proposed LEAC Rate-Updated, a true and correct copy of which is attached hereto as Exhibit "1".
7. Based upon GPA's Proposed LEAC Rate-Updated, the estimated under-recovery in the upcoming LEAC period is \$22M. The under-recovery has increased by \$4.3M since the date of the original filing in December 2016.⁸
8. GPA is only requesting that it recover \$11M, one-half of the \$22M estimated under-recovery, in the upcoming LEAC period.⁹

ANALYSIS

9. If GPA were requesting a LEAC Factor to fully recover the estimated \$22M under-recovery in the upcoming LEAC period, the LEAC Factor would have to be increased to \$0.123494, which would constitute a 20.4% increase in the total bill.¹⁰
10. GPA has taken proactive steps to lessen the impact of a large LEAC increase by only requesting recovery of one-half of the under-recovery in the current period. Thus, there will be a more gradual true-up of fuel oil costs by phasing in increases over the two (2) LEAC periods.¹¹
11. GPA's approach appears to make sense, as there is some uncertainty as to how the election of the new U.S. Administration and recent OPEC decisions will affect fuel prices. The future trend of oil prices, as of yet, is unclear.
12. GPA has also reduced the impact of the LEAC increase by applying \$4.6M from the Cabras No. 3 & 4 explosion insurance proceeds to offset the fuel under-recovery.¹²
13. The application of such proceeds to reduce fuel costs is reasonable, as there was a drastic increase in the use of diesel fuel in the combustion turbines and fast tracks

⁷ Id. at p. 1.

⁸ Email from Cora Montellano, GPA Asst. CFO, to PUC Counsel Fred Horecky, dated January 11, 2017, with GPA Proposed LEAC Rate-Updated (Exhibit 1).

⁹ Id.

¹⁰ Id.

¹¹ CCU Resolution No. 2016-72, adopted December 6, 2016, at p. 2.

¹² Id.

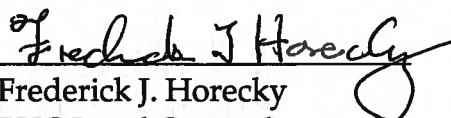
after the Cabras No. 3 & 4 explosion. In FY 2015, diesel fuel consumption was 9,400,524 gallons. Diesel fuel consumption increased in FY 2016 to 37,639,350 gallons.¹³

14. GPA has attempted to reduce the impact of the LEAC Factor by only seeking to recover one-half of the fuel under-recovery in this LEAC period, and by applying insurance proceeds to the under-recovery. The increase in the LEAC Factor is due to rising fuel prices and is beyond GPA's control.
15. In accordance with the established PUC protocol updating fuel prices based upon MS Noon Call January 5-11, 2017, the LEAC Factor should be increased as set forth in the GPA Proposed LEAC Rate-Updated, a copy of which is attached hereto as Exhibit "1".
16. Although Fuel Prices decreased slightly for the period of January 12-18, 2017¹⁴, the PUC should continue to adhere to the protocol that it established in its January 25, 2016, Order. There is a need to recover as much of the fuel under-recovery balance during the upcoming LEAC period. Otherwise the ratepayers will be confronted with a larger under-recovery balance during the next LEAC period.

RECOMMENDATION

17. Counsel recommends that the PUC approve a LEAC Factor of \$0.105051 for the six-month period commencing February 1, 2017, on meters read on and after February 1, 2017.
18. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 23rd day of January, 2017.


Frederick J. Horecky
PUC Legal Counsel

¹³ GPA Work Session Packet, January 19, 2017, Exhibit "D".

¹⁴ Email from Cora Montellano, GPA Asst. CFO, to PUC Counsel Fred Horecky, dated January 20, 2017, with GPA Proposed LEAC Rate-Updated.

GPA

Proposed LEAC Rate-Updated

	@ Full Cost Recovery Proposed Eff 2/01/2017	@ 1/2 Cost Recovery ⁽²⁾ Proposed Eff 2/01/2017
1 Average Price per Bbl-RFO ⁽¹⁾	\$ 58.56	\$ 58.56
2 Average Price per Gal-Diesel ⁽¹⁾	\$ 76.51	\$ 76.51
3 Number 6 (HSFO/LSFO)	\$ 60,894	\$ 60,894
4 Number 2 (Diesel)	17,688	17,688
5 Renewable (Solar)	5,405	5,405
6 TOTAL COST	\$ 83,988	\$ 83,988
7 Handling Costs	3,173	3,173
8 Total Current Fuel Expense	\$ 87,160	\$ 87,160
9 Civilian Allocation	78.90%	78.90%
10 LEAC Current Fuel Expense	\$ 68,767	\$ 68,767
11 Deferred Fuel Expense	9,717	9,717
12 Cabras 3&4 Insurance Proceeds	(4,600)	(4,600)
13 Total LEAC Expense	\$ 73,884	\$ 73,884
14 Less: Trans. Level Costs	(4,562)	(3,880)
15 Distribution Level Costs	\$ 69,322	\$ 70,004
16 Under recovery at the end of the period		\$ (11,034)
17 Adjusted Distribution Level Costs	\$ 69,322	\$ 58,970
18 Distribution Level Sales (mWh)	561,343	561,343
19 LEAC Factor Distribution	0.123494	0.105051
20 Current LEAC Factor Distribution	0.086613	0.086613
21 Increase/(Decrease)	0.03688	0.01844
22 Monthly Increase/(Decrease) - 1000 kWh	\$ 36.88	\$ 18.44
23 % Increase/(Decrease) in LEAC	42.6%	21.3%
24 % Increase/(Decrease) in Total Bill	20.4%	10.2%
25 Discount (3%) - Primary 13.8 KV	0.119892	0.101987
26 Discount (4%) - 34.5 KV	0.119559	0.101704
27 Discount (5%) - 115 KV	0.118139	0.100496

Notes:

(1) The forward prices of RFO and Diesel are based on MS Noon Call from Jan. 5-11, 2017, 5-day average 10 days before the PUC meeting.

(2) Due to high volatility in the fuel price, GPA is still recommending to recover only \$11 million, 1/2 of the \$22 million estimated under recovery i
The under recovery increased by \$4.3 million from the last filing in December 2016.