



BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 14-13
)
The Application of the Guam Power)
Authority to Reduce the Self Insurance) ORDER
Fund Surcharge.)
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INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority ["GPA"] Petition for Approval of Request to reduce the Self Insurance Fund Surcharge.¹
2. Pursuant to Public Law 32-140, enacted April 28, 2014, GPA requests that the PUC implement a 50% reduction in the self-insurance surcharge.²
3. Were GPA's Petition adopted by the PUC, the Self-Insurance Surcharge on Customers' Bills would be reduced from \$0.0029 per kilowatt hour (kWh) to \$0.00145 per kilowatt hour (kWh).³

BACKGROUND

4. In his Report dated July 7, 2014, PUC Counsel has outlined the history of the Self Insurance Program ["SIP"] and the Self Insurance Surcharge.⁴ The Commission adopts the outline of the history of Program and the background statement as set forth in Counsel's Report.
5. In GPA Docket 11-09, Phase II of GPA's Base Rate Relief Filing for FY2011, the Commission considered various revisions to the Self Insurance Program protocols, and the issue as to whether the SIP Reserve Cap should be raised from \$10M to \$20M.⁵
6. In its Order, the Commission approved raising the Cap from \$10M to \$20M, finding that "the parties have established that it is appropriate to raise the Cap..." The

¹ GPA Petition for Contract Review, GPA Docket 14-13, filed June 19, 2014.

² Id. at p. 1.

³ Attachment A to Guam Consolidated Commission on Utilities Resolution No. 2014-21, adopted June 3, 2014.

⁴ PUC Counsel Report, GPA Docket 14-13, dated July 7, 2014.

⁵ PUC Order, GPA Docket 11-09, adopted May 28, 2013.

Commission cited evidence from the SAIC Report that, in 2002, the total disaster charges to GPA work orders for Typhoons Chataan and Pongsona were \$38,453,272. GPA ratepayer cost for those typhoons was \$16,204,919.⁶

7. The Commission further determined that the proposed level for the self-insurance cap approximated an amount that could be necessary for disaster repairs in a worst case storm scenario. Both consultants for the PUC and GPA gave opinions at the scheduled hearing in the matter that the proposed cap of \$20M represented a reasonable amount to protect GPA against potential losses.⁷
8. Under the SIP Protocols adopted by the PUC, GPA was allowed to continue the same Self-Insurance Surcharge in effect [i.e. \$0.0029 per kilowatt hour (kWh) sold by GPA to civilians and \$0.0007 per kWh sold by GPA to U.S. Navy customers] until the amount in the SIP Reserve reached the SIP Reserve Cap of \$20M.⁸
9. GPA recently sought Legislative approval for the issuance of 2014 Revenue Bonds. The Guam Legislature approved the issuance of such bonds through the adoption of Public Law 32-140.⁹ Section 2 of said Public Law provides as follows:

"A new § 8244 is *added* to Article 2 of Chapter 8, Title 12, Guam Code Annotated, to read:

‘§ 8244. Self-Insurance Fund Surcharge Reduction. The GPA *shall* file a petition with the Guam Public Utilities Commission to reduce the GPA’s Self-Insurance Fund surcharge charged to ratepayers by *not less than* seventy percent (70%) of the Self-Insurance Fund surcharge in effect as of the enactment of this Act. GPA *shall* request the GPUC for such reduction *not later than* sixty (60) calendar days after the enactment of this Act, and such filing may be considered by the GPUC through an expedited schedule of review and approval by the GPUC.’”

10. In compliance with Section 2 of Public Law 32-140, GPA has filed the instant Petition. Instead of seeking to reduce the self-insurance fund surcharge to 70%, as

⁶ Id. at p. 3.

⁷ Id. at p. 3.

⁸ ALJ Report, GPA Docket 11-09, dated May 23, 2013, at p. 5.

⁹ Public Law 32-140, An Act to Add New §§8243, 8244, and 8245 to Article 2 of Chapter 8, Title 12, Guam Code Annotated, Relative to Approving the Terms and Conditions of Guam Power Authority Revenue Bonds to Finance Capital Improvements to the Island-Wide Power System, enacted April 28, 2014.

stated in the Public Law, GPA proposes to reduce the self-insurance charge by 50%. At the same time, GPA maintains that "PL 32-140 violates the bond covenants of GPA..."¹⁰ The Guam Consolidated Commission on Utilities also supports that position.¹¹

DETERMINATIONS

11. GPA indicates that the current balance in the Self Insurance Fund, as of May 31, 2014, was \$15,465,541. With the current surcharge rate, without any reduction, GPA estimates that the Self Insurance Fund will reach the cap of \$20M by December 15, 2015. However, with a 50% reduction of the surcharge, the cap will not be reached until August 2017. At the 70% rate indicated in Public Law 32-140, the Self Insurance Fund would not reach the cap of \$20M until October 2019.¹²
12. Reducing the current Self Insurance surcharge to 50% is not reasonable or prudent. The Commission previously found that it is desirable and advantageous to ratepayers to ensure that there are sufficient funds in the Self Insurance Fund to enable GPA to adequately respond to natural disasters such as typhoons. At a 70% reduction in the surcharge, the SIP Fund would not be filled until October 2019, over four years from now.
13. The Commission reiterates that it is important to fill the SIP Fund to \$20M as soon as possible. Such amount represents an amount that would realistically be needed for availability to GPA in the event of a serious disaster such as a major typhoon. Extending the time period during which GPA fills the Self Insurance Fund could leave it vulnerable and without adequate resources in the event of a major typhoon.
14. Guam has not experienced a major typhoon since 2002; based upon the history of such occurrences, it is entirely possible that Guam will at some point face a severe typhoon for which GPA will need adequate resources to fully undertake recovery efforts. Recently, a weather reporting agency stated that Guam and the CNMI could see an elevated risk of a typhoon during 2014.¹³ (emphasis added).

¹⁰ GPA Petition for Contract Review, GPA Docket 14-13, filed June 19, 2014, at p. 1.

¹¹ Guam Consolidated Commission on Utilities, Resolution No. 2014-21, adopted June 3, 2014, at p. 2.

¹² CCU Resolution No. 2014-21, adopted June 3, 2014, at Attachment A.

¹³ Pacific ENSO Update, 1st Quarter, 2014, Vol. 20, No. 1, issued February 7, 2014 [a Quarterly Bulletin of the Pacific El Niño/Southern Oscillation Applications Climate (PEAC) Center Providing Information on Climate Variability for the U.S.-Affiliated Pacific Islands], at p. 5.

15. The average GPA customer who utilizes 1,000 kWh per month presently pays \$2.90 per month for the Self Insurance Surcharge. The reduction proposed by GPA would only reduce the surcharge by \$1.45 a month for such average customer. The potential benefit of a minimal reduction in the surcharge is not worth the risk of a lack of preparedness by GPA in the event of a typhoon.
 16. Customers are accustomed to the self-insurance surcharge at the current rate, as the surcharge has been in effect for many years. GPA's proposal would likely delay filling the fund to its Cap for at least two years. Reducing the current surcharge will increase the risk that GPA will be underfunded in the event of a typhoon.
 17. In addition, at the present rate, the Cap will reach \$20M by December 2015. At that point, customers will be entirely relieved of paying the self-insurance surcharge at all for so long as the balance in the SIP Reserve does not fall below \$18M. However, under the proposed 50% reduction, ratepayers will be required to continue to make self-insurance surcharge payments for two years after December 2015.
 18. Were GPA's proposal adopted, GPA could be vulnerable and unable to fully deal with future typhoons. GPA's Supplemental Filing seeks to mitigate such risk by making the surcharge reduction "temporary": the surcharge reduction would be temporary with a termination date of either the date on which the Self-Insurance Fund cap is reached or the date on which a significant uninsured loss is incurred by the Authority.¹⁴
 19. GPA's attempt to terminate the surcharge upon the date of a significant uninsured loss does not eliminate the risks or dangers. If a major typhoon occurred at the end of this year or in the first half of next year, GPA could be left without the full amount of funding presently provided by the self- insurance surcharge. The Self Insurance Fund would not have been built up as quickly, and not to the \$20M cap. Even if the self-insurance surcharge reduction were terminated after a "significant uninsured loss" by GPA (however such is defined), it would take additional time for GPA to build the fund up to the cap level. During such period of restoring the fund to the cap level, GPA could be left without sufficient funding to address typhoon damage.
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¹⁴ Supplemental Filing for Reduction of Self-Insurance Fund Surcharge, GPA Docket 14-13 [Letter from GPA General Manager Joaquin C. Flores to Frederick J. Horecky, PUC ALJ, Ref: Reduction of Self-Insurance Fund Surcharge, dated June 24, 2014, at p. 2].


20. Artificial reductions in the self-insurance surcharge are risky to ratepayers, as they could jeopardize GPA's ability to restore power to ratepayers after a major typhoon.

ORDERING PROVISIONS

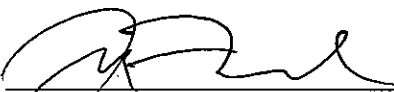
After review of the record herein, GPA's Petition to Reduce the Self Insurance Fund Surcharge, and the PUC Counsel Report, for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. GPA's Request to reduce the Self Insurance Fund Surcharge is denied.
2. The Self Insurance Surcharge, as well as the current SIP Protocols, shall remain in effect to ensure that GPA has sufficient funds to meet the repair requirements of a major typhoon.
3. 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 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 31st day of July, 2014.



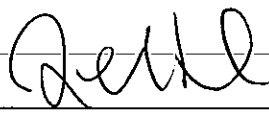
Jeffrey E. Johnson
Chairman



Joseph M. McDonald
Commissioner





Rowena E. Perez
Commissioner

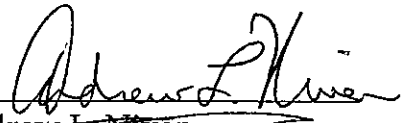


Peter Montinola
Commissioner

Order
Application to Reduce
Self-Insurance Fund Surcharge
GPA Docket 14-13
July 31, 2014


Michael A. Pangelinan
Commissioner


Filomena M. Cantoria
Commissioner


Andrew L. Niven
Commissioner