

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 18-15
)
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 August 1, 2018.¹
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 August 1, 2018.²
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, 2108, 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. The actions of GPA and the PUC in implementing a two-pronged increase in the LEAC were propitious: the CCU Resolution submitted with GPA’s Petition indicated that the LEAC under-recovery balance of \$16.8M, as of January 31, 2018, is estimated to be reduced to \$9.5M by July 31, 2018.⁵

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

² Id. at p. 1.

³ Id.

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

⁵ Guam Consolidated Commission on Utilities Resolution No. 2018-11, 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 and approved on June 5, 2018.

6. Thus, GPA's projection was that \$7.3M of the under-recovery would be recovered in the prior LEAC period as of July 31, 2018, as a result of the two LEAC increases.⁶
7. A reason offered by GPA for maintaining the current LEAC Factor for the next LEAC period is that the average market price of fuel in the initial GPA filing for the current LEAC period was approved at \$65.23/bbl for the 6-month period ending July 31, 2018. The current projection for the same period is \$63.73/bbl.⁷
8. When it filed its current petition, GPA anticipated that the projected price of fuel for the next LEAC period, from August 1, 2018 through January 31, 2019, would be \$77.13/bbl.⁸
9. GPA further estimated that if the expected price of fuel did not exceed \$77.13/bbl, and the current LEAC rate is retained, the under recovery by the end of LEAC period of January 31, 2019, will be between \$7.1M and \$10.1M.⁹
10. The letter of the GPA General Manager states: "The petition for no change in the LEAC factor is mainly due to the possibility that OPEC and its allies may decide to boost their production in their upcoming meeting later this month which may result for oil prices to be in the \$65-70/bbl [range]. The oil market has rebalanced and the price of fuel continues to decline in the past two weeks."¹⁰
11. For informational purposes and the consideration of the Commissioners, Counsel is attaching certain graphs concerning historical LEAC rates for as Exhibit "1".¹¹

ANALYSIS

12. In addition to the possible OPEC actions, there appear to be two reasons that support maintaining the LEAC factor at its current level. First, fuel prices are dropping; second, the expected under-recovery for the next LEAC period has been going down.

⁶ Id. at p. 1.

⁷ Id. at p. 1.

⁸ Id. at p. 1.

⁹ Letter from General Manager John Benavente, GPA, to ALJ Horecky, PUC, GPA Docket 18-15, Re: Levelized Energy Adjustment Clause Petition for the period of August 1, 2018 through January 31, 2019, at p. 1.

¹⁰ Id.

¹¹ These materials were presented to the CCU Commissioners in their Board Packets for their meeting on June 5, 2018.

13. Fuel prices may decrease further during the upcoming LEAC period. The NYMEX WTI indicates fuel prices are expected to drop from a current level of \$65.06/bbl to \$62.57/bbl in the first quarter of 2019. On June 15, 2018, the WTI fell sharply by \$1.83/bbl (to \$65.06/bbl). That and other cost indexes such as Singapore 180 CST, are indicated in the Report from Mitsui Bussan Commodities Ltd., dated June 15, 2018, attached hereto as Exhibit "2".¹²
14. The June 15, 2018, Report from Mitsui Bussan Commodities Ltd. that increases in fuel supply may lead to downward pressure upon fuel prices.¹³
15. Fuel price five-day averages between May 11 and June 8 of the Morgan Stanley Noon Call suggest that the fuel prices have trended downward recently. See Exhibit "3" attached hereto.¹⁴
16. The most recent Fuel Clause Reconciliations for the current and upcoming LEAC periods indicate an under-recovery as of July 31, 2018, of \$7,728,892; the projected under-recovery as of January 31, 2019, is \$9,047,091.¹⁵ These are lower under-recoveries than GPA originally projected when it filed its Petition on June 12, 2018.
17. While there is still a projected additional increase of \$1.3M in the under-recovery during the next LEAC period, such an increase would not ordinarily trigger an interim GPA petition for increase in LEAC during the LEAC period, where there is a required \$2M threshold increase.¹⁶
18. Should the fuel price increase above the projected \$77.13/bbl., GPA reserves the right to file a proposed new LEAC rate in October 2018 to be effective November 1, 2018.¹⁷

¹² Mitsui Bussan Commodities Ltd, Report dated June 14, 2018, provided by GPA Assistant Chief Financial Officer Cora Montellano to ALJ Horecky on June 15, 2018.

¹³ PUC Counsel notes that GPA Assistant Chief Financial Officer Cora Montellano has been extremely diligent in providing numerous and periodic updates on changes in fuel prices since the filing of GPA's Petition on June 12, 2018.

¹⁴ GPA Prediction of average Fuel Price per Bbl-RFO and per Gal-Diesel through June 8, 2018, and GPA Summary of Proposed LEAC Rate dated June 14, 2018.

¹⁵ Fuel Clause Reconciliations provided by Assistant CFO Cora Montellano to ALJ Horecky on June 15, 2018.

¹⁶ GPA Tariff Z.

¹⁷ Guam Consolidated Commission on Utilities Resolution No. 2018-11, 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 and approved on June 5, 2018, at p. 2.

RECOMMENDATION

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

Dated this 18th day of June, 2018.

Frederick J. Horecky
PUC Legal Counsel