GUAM PUBLIC UTILITIES COMMISSION
REGULAR MEETING
JANUARY 29, 2013
SUITE 202, GCIC BUILDING, HAGATNA

MINUTES

The Guam Public Utilities Commission [PUC] conducted a regular meeting commencing at 7:28 p.m. on January 29, 2013, pursuant to due and lawful notice. Commissioners Johnson, Pangelinan, McDonald, Perez, and Montinola were in attendance. The following matters were considered at the meeting under the agenda made *Attachment "A"* hereto.

1. Approval of Minutes

The Chairman announced that the first item of business on the agenda was approval of the minutes of December 11 and December 18, 2012. Upon motion duly made, seconded and unanimously carried, the Commissioners approved both sets of minutes subject to technical corrections.

2. Guam Waterworks Authority

The Chairman announced that the next item of business was GWA Docket 09-03, Petition for Rate Relief: Annual True-Up, Request for Extension of Multi-Year Filing, ALJ Report and Proposed Order. Counsel indicated that, under the current Stipulation between GWA and the PUC, GWA is required to file its multi-year rate plan by January 15, 2013. GWA has requested an extension. Even with an extension, GWA will still be able to go to the bond market in a timely manner. It needs additional time for filing of the plan. GWA has requested a March 1 deadline for filing of the multi-year rate plan. The ALJ agrees with that request and has prepared an order for the Commissioners' signature, which would extend the filing deadline to March 1, 2013. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the extension of the deadline for GWA's filing of its multi-year rate plan until March 1, 2013, and adopted the Order made *Attachment "B"* hereto.

The Chairman indicated that the next matter for consideration was GWA Docket 09-03, Petition for Rate Relief: Annual True-Up, Stipulation, ALJ Report, and Proposed Order. Counsel stated that what was before the Commissioners is the last fiscal year of the GWA five year rate plan. The original plan anticipated that there would be an 8% increase for this fiscal year. In the annual true-up process, GWA comes to the Commission and indicates whether the proposed increase is acceptable or not. GWA and PUC consultant Georgetown have now come to the Commission with a stipulation asking for approval of a compressed rate through the end of this fiscal FY 2013 at 9.15%. Mr. Blair of Georgetown will present the stipulation. Mr. Blair indicated that the previously projected increase for this year was 8%. In addition to the 8%, GWA also asked for an additional 2.85% or a total base rate of 10.85%. GWA also proposed new surcharges to recover solid waste tipping fees for leachate and a regulatory surcharge to recover certain regulatory-related fees incurred. In the Stipulation GWA and GCG agreed that there would be no new surcharges. The revenues that were to be recovered through those proposed surcharges would be recovered through base rates.

According to Mr. Blair, GWA and GCG also recommend in the Stipulation that the current surcharge of approximately 5.6% ("legislative surcharge", payments GWA is obligated to pay to cover the cost of retirement-retiree healthcare benefits, life insurance premiums and other related retiree costs) be reduced to an uncompressed surcharge of 4.5%, or a compressed surcharge of 2.63% for the remainder of FY 2013. GCG and GWA disagree concerning the projection of GWA's growth and demand. They have different views of the effect of GWA's meter replacement program and the amount of revenues which will result to GWA. The parties have stipulated to projected annual growth in revenues of 7.5%, which is a "soft" number. There is also disagreement between the parties as to GWA's ability to back-bill customers. The parties agreed to an assumption about the amount of back-billing that GWA could do, in the amount of $637,000. GWA will seek an interpretation from its auditors concerning the correct amount of back-billing that it may engage in. The parties have also reached understandings on GWA's projected power expenses and labor costs. GWA has agreed to reduce general O&M expenses. Furthermore, the parties have agreed to a working capital requirement of $4.53M.

The parties then considered what rate increase would be necessary to maintain the 1.75 debt service coverage ratio. That resulted in a base rate increase of 6.10%. As indicated at a compressed rate for the balance of FY13, the base rate would be approximately 9%. GCG remains concerned about GWA's water losses. It indicated that the result of the discussions is a recommendation for an increase of 6.1% in the base rate, which is 9% as a compressed rate. Mr. Blair and Greg Cruz of GWA engaged in a discussion concerning the rate impact effects of the rate increase on different classes of GWA customers.

The Chairman then asked for public comment from members of the public. Mr. Manny Camacho indicated that he was a consumer and a contractor who had been trying to get water and sewer at this time. He indicated that, other than the System Development Fee, which was being paid, there are also charges for upgrading the system to obtain water. Mr. Camacho was attempting to ascertain if this rate increase would also cover the cost of upgrading the system. Mr. Blair indicated that the system development charges were completely separate from the rates established by the PUC and are not covered in today's PUC rate proceedings. These are base rates that have nothing to do with the system development charge. Mr. Camacho responded that many customers are sharing the cost of upgrading the infrastructure, and he had hoped that the rate increase would cover the cost of upgrading the system and the replacement of water lines. Mr. Blair indicated that the system development charge was for new customers that are coming into the system for the first time. It's not for upgrading unless customers increase the size of their service line. The system development charge is separate money that is used for projects which are required to meet the expanded needs caused by development.

GWA General Manager Martin Roush indicated that GWA needed to replace many lines and had "a lot of catching up." All rates will eventually go to line replacement. GWA will need $7.5M a year just to break even. However the responsibility for new waterlines to new customers is that of the developer. Mr. Roush also indicated that GWA would usually waive the system development charge if the developer is extending water lines. Mr. Camacho indicated that he was already paying the system development charge, yet GWA wanted him to also pay the costs for replacement of the waterline from a requirement of six inches to two inches per hundred feet. Mr. Roush indicated that the rates do not cover this because if the developer is placing demands on the system, he is responsible. The Chairman asked for any further public testimony and there was none. Mr. Roush explained the differences between the treatment of sludge and leachate. The Chairman clarified that GWA is working with the US EPA regarding the Northern Treatment plant, but that the Agana plant would also be included.

Counsel then stated that the ALJ has prepared an Order which incorporates the recommendations of the provisions that Mr. Blair has covered. The Order would approve the compressed rate of 9.15% on GWA's basic non-lifeline and lifeline water and sewage rates (assessed through FY 2013) commencing on February 1st. The revised Tiyan interim rates, the revenue requirements, billing assumptions the impact of new meters and other matters are incorporated into the ALJ's Proposed Order. Commissioner Perez asked Mr. Blair to clarify the differences between the proposed rate for the true-up and the compressed rate. Mr. Blair indicated that the actual base rate increase is 6.1% but, with compression, it is rounded to 9.15%. The Chairman confirmed from GWA officials that the rate would go back down to 6.1% at the end of this fiscal year. Mr. Blair indicated that the sample bills show both compressed and uncompressed rates. GWA will recover in eight months what should have been recovered in 12 months.

The Chairman asked whether GWA could meet all the deadlines and reporting requirements for the next fiscal year. Mr. Roush indicated that 53 out of 54 of the federal order requirements had been met for this year and that GWA can meet all the deadlines in the federal order stipulation. Mr. Roush also indicated that the revenue effects of the new meters looked promising, but that GWA wants more data. It would take at least 60-70 days to get further data. Approximately 16,000 meters have been installed. 26,000 meters will be changed out by November 11. GWA is now changing out over 3,000 a month. He also indicated that GWA was curtailing Navy water purchases by close to 30%. The Chairman clarified that in the new billings there would be no new surcharges, and the legislative surcharge would be itemized on the bill. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the Stipulation of GWA and GCG setting water and wastewater rates for FY 2013, and adopted the Order made *Attachment "C"* hereto.

3. Guam Power Authority

The Chairman announced that the next item on the Agenda was GPA Docket 11-12, Petition for Review and Approval of Amendments to Renewable Energy Purchase Agreement with Quantum Guam Power, PUC Counsel Report, and Proposed Order. Counsel indicated that the Quantum Group was building a 20-megawatt solar facility. PUC previously approved the contract. Now Quantum has asked GPA for certain amendments to the contract. These have been outlined in the Counsel Report. One amendment provides for additional production by the solar plant of an additional 4,000 megawatts of renewable energy per contract year at an agreed upon price. The additional production rate is beneficial to ratepayers, as it is less than the minimum production requirement under the contract. There is also an amendment which authorizes GPA to pay an additional price to Quantum for this additional production. Another amendment would allow Quantum to have its obligations under the agreement performed by an Affiliate. It is contemplated that another party, Guam Solar Power, could lease the facility to Quantum. Quantum would still be liable to performance of its obligations under the contract, even though an affiliate such as Guam Solar was performing contract obligations. Finally, an amendment would clarify when Quantum is required to provide insurance under the contact. It would not be required until the actual mobilization on the project site to perform construction work on the facility. The amendments are all reasonable and protect GPA and the ratepayers' interests. Counsel recommends that the Commission approve the first Amendment to the contract and authorize GPA to enter into the amendments. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the First Amendment to the Quantum Guam Power Agreement and adopted the Order made *Attachment "D"* hereto.

The Chairman announced that the next item for consideration was GPA Docket 12-09, GPA Petition to Approve the Contract for Supply of RFO No. 6 to GPA, and PUC Counsel Report. Counsel indicated that GPA engaged in a procurement process for RFO No. 6 contract. It made an award to Vitol Asia and then filed a petition with the PUC requesting approval of the contract. However, this afternoon, GPA legal counsel informed Counsel that a protest has been filed regarding the procurement. GPA is now requesting that the PUC not act to approve the contract. GPA Counsel Graham Botha confirmed PUC Counsel's understanding. GPA is requesting a stay of the procurement and that the Commission not take action on the Petition. GPA will be filing another Petition to extend the current contract with Petrobras until the protest is resolved by either the OPA or the Superior Court. PUC Counsel indicated that there will likely need to be expeditious action by the PUC on this matter and possibly before the next meeting. He suggested that the Commissioners approve a procedure whereby the Chairman would be authorized to approve the extension subject to ratification by the Commission. At that time Commissioner Pangelinan indicated that he would recuse himself from participation in this matter, as a client of his law firm is the one who filed the protest. Upon motion duly made, seconded and unanimously carried, the

Commissioners approved the procedure suggested by Counsel for addressing GPA's request for extension of the Petrobras contract.

The Chairman announced that the next item of business on the agenda was GPA Docket 13-01, Petition for Approval of Cabras 3 Rotor Repair, PUC Counsel Report, and Proposed Order. Counsel indicated that his Report details the circumstances leading up to the discovery of the Cabras Rotor Shaft cracks. When the plant was taken down, GPA and its PMC discovered that there were cracks at the drive end of the rotor shaft. GPA received advice that it could not operate Cabras 3 because of the cracks, so the plant has been shut down. GPA has a plan whereby the manufacturer Alston Spain constructs a new rotor shaft in its plant off-island. A root cause analysis investigation will be conducted to determine the cause of the cracks in the shaft. A third party investigation will be conducted by Lloyd's Register ODS. At this time the cost estimated for the replacement of the rotor shaft alone is $4.5M. There may also be a problem with the rotor disc. If the disc has to be replaced, that would cost an additional 1.5M or a total cost of $6M.

Cabras 3 is one of GPA's most efficient units; since it is down, GPA will be using less efficient units, potentially the fast-tracks, thereby increasing fuel costs. However, the cost of this Cabras outage is not only the potential $6M, but between $13M and $23M for the additional fuel costs. If only the rotor shaft needs replacement, Cabras 3 could be back in operation by August of this year. If the rotor disc needs replacement the outage could last until August 2014. The availability of the Cabras 3 plant is also a factor that impacts the increase in the LEAC. GPA must do everything it can to bring the plant back into operation as soon as possible. There is no option that GPA has other than to repair the Cabras 3 rotor shaft in the most expeditious manner possible. There is an issue of where the funds for these repairs will come from. The repairs could be funded from revenue funds, the working capital fund, or self-insurance funds. These issues need to be explored further. At this point we do not know if the shaft cracks are "an insurable event" or not. For now Counsel recommends that the Commission approve the expenditure of $4.5M for GPA to start with the repairs.

The Order would further impose requirements upon GPA to file its root cause investigation with the PUC and notify PUC whether the repair is insurable or not, and to provide the PUC with the OEM analysis of the condition of the Cabras 3 plant once the unit is dismantled. Within 60 days of the PUC Order, GPA would provide the PUC with its final rehabilitation plan, cost and schedule for bringing Cabras 3 back to service, as well as periodic updates. GPA will also further report to the PUC as to whether the repairs are intended to be funded by revenue funds, working capital funds, or self-insurance funds, and a position statement on whether self-insurance funds could be properly utilized for this purpose. The Order would authorize the ALJ to commence a proceeding on the funding source. Mr. Blair asked whether the design of Cabras 3 was the same as for Cabras 4. GM Joaquin Flores indicated that it was. Mr. Blair asked whether there was any reason to suspect that there could be a similar problem in Cabras 4. Mr. Flores indicated that there was but it is difficult to determine by visual inspection. The root cause analysis will consider whether the fractures which occurred in No. 3 could occur in No. 4.

The Chairman asked when GPA would look at Cabras No. 4. GM Flores indicated that the plants will be examined as early as March. Commissioner Perez asked the GPA GM when GPA would know if there is an insurable situation. GM Flores indicated that the cause would be determined through the dismantling of the generator, independent third party engineer, and insurance underwriter/experts who will be on the ground by February. Assistant GM Melinda Camacho indicated that the report concerning the root cause analysis would be available in the beginning of April. John Benavente of GPA stated that the shaft is a single shaft and may have to be taken elsewhere for analysis to determine whether the cracks are occurring over time. The Chairman asked whether GPA knew at the present time whether the rotor disc might need repair. GM Flores indicated that special instruments would be needed to check the alignment and whether there is any warping. Mr. Benavente indicated that tremendous torque would crack the shaft. The Chairman asked whether if replacement of the disc was needed it could be airfreighted or would come by ship.

GM Flores indicated that there are other parties with priority for attention by the manufacturer. GM Flores indicated that it depends on whether GPA can negotiate "better position in the line" with the manufacturer. The shaft cannot be airfreighted. The rotor disc is a huge half shell and probably could be airfreighted. Assistant GM Camacho indicated that it is 100 tons for each shell. Mr. Blair asked whether, in the ratepayers' interest, the repairs could be expedited to restore Cabras 3 to service. Mr. Flores indicated that expediting this was a part of the thought process. GPA is doing everything to minimize fuel expense, including postponing turbine overhauls that are scheduled until the base loads are operating on a daily basis. GPA is attempting to juggle the outages to optimize fuel efficiency. Mr. Gabe Simon of Ken Corporation asked the GM of GPA whether the same crack could occur in generator 4. Are there other generators in the world we could look to for a history on this matter? GM Flores indicated that the manufacturer, Alston, indicated that there had been two failures out of all the units they have manufactured, but not of the same characteristics. This is a rare extraordinary event. Upon motion duly made, seconded, and unanimously carried, the Commissioners authorized $4.5M for GPA to make the Cabras 3 rotor repairs and adopted the Order made *Attachment "E"* hereto.

The Chairman announced that the next item on the agenda was GPA Docket 12-13, LEAC Filing, GCG Report, and proposed Order. GPA's original petition requested over a 2 cent increase in the LEAC factor from .18683 per kWh to .20768 per kWh. In addition GPA requested an increase to the working capital fund surcharge of .0061 per kWh for residential customers and increases to the Navy. The new fuel contract is a factor leading to the increase in the LEAC. With the premium charges under the new contract, the overall increase in the fuel contract is over 10% or $10.00 per barrel. The yearly cost of fuel may increase by as much as $30M. The second factor increasing the LEAC is the Cabras repair and the potential impact on the use of fuel. GCG's report utilizes the more recent forecasts by Morgan Stanley for No. 6 and No. 2 oil. GCG has have actually recommended a slightly higher increase for the LEAC than GPA originally projected. GCG also raised issues in its Report about the fuel hedging program. GPA has not made much progress on implementation of the program. It has not responded to prior Commission Orders about the status of the program and what's being done to implement the program. In the proposed Order, the Commission would express concern that GPA needs to do more to implement the fuel hedging program and that its efforts to date have not been sufficient. For the time being GPA appears to be complying with the interim unaccounted energy loss ratio of 7%. GCG further recommends that GPA's request for adjustment of the working capital fund surcharge be denied. GPA has requested WCF increases that relate to the cost of fuel. GCG's solution is to allow the current surcharge to continue in effect until GPA reaches the $34+M threshold. GPA does not appear to have concerns with this proposed solution.

GPA has further proposed that it be allowed to make quarterly LEAC filings rather than the present biannual filings. According to GPA CFO Wiegand, there is presently a lag in GPA's ability to recover the cost of its fuel. However GCG believes that the present LEAC tariff already allows a procedure for GPA to come to the Commission if there is a $2M over-recovery or under-recovery during a LEAC period for an adjustment. This procedure has been rarely used. Counsel believes that the present procedure does allow GPA to adjust the LEAC if necessary. In addition, four annual filings would create a continuous cycle of LEAC filings, review by PUC Consultants, readjustment, etc. Such process would greatly increase administrative costs and could potentially be burdensome. Counsel does not recommend that the four filing per year method be adopted. The system could also be contrary to the principle of rate stability for customers and implementation by GPA of its fuel hedging program could also reduce the risk of volatility of fuel prices.

The proposed order would raise the current LEAC factor by over two cents per kWh to .209271 for the basic customer. GPA has now set actual transmission level LEAC for customers for the transmission level. Counsel does not believe that a focused management audit on fuel procurement procedures, as recommended by GCG, is necessary at the present time; GPA has demonstrated that it made substantial efforts to contact over 40 potential fuel suppliers when it issued its fuel oil procurement. However, the Order does require reporting by GPA concerning its fuel hedging program by the next LEAC filing detailing implementation, progress and allocation of resources it is making to fuel hedging, etc. GPA is required to indicate consulting or other services it is using to tutor and shadow GPA employees on the implementation of the program. The Chairman asked Mr. Flores questions concerning the base load unit forecast over the next six month LEAC period and the taking down of Cabras 1, even though there was a 91% availability for base load generation for June. Mr. Flores indicated that such was correct. There had been several forced outages that GPA had to recover from for the June projected period.

The Chairman asked why the fuel hedging program hadn't been pursued more. GM Flores indicated that there had been competing priorities and they are trying to bring in experts to help GPA get up to speed. There is an option of bringing in employees to be trained. GPA will have to catch up. It is still committed to the hedging program. Mr. Flores indicated that GPA needed to bring in new personnel perhaps a graduate student, economist, or financial business major. Mr. Flores indicated that fuel cost had been flat recently. GPA is only hedging 25% through March of this year. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the LEAC Factor for the next six month period and adopted the Order made *Attachment "F"* hereto.

4. PUC Website

Counsel indicated that a lot of progress has been made on the website. Ideal has been given two years of cases for all of the utility dockets. The Administrator and Counsel have worked on redesign of the website and there could potentially be a launch at the end of the month. They have been working closely with Ideal and indicating how the tabs for the website should be implemented. Within a month we should be close to launch and an improved website. The Administrator has helped to insure that the minutes are up to date. Commissioner Montinola asked whether the website would be guampuc.com. Counsel indicated that it was still guampuc.com.

There being no further business, the Commissioners moved to adjourn the meeting.

Jeffrey C. Johnson
Chairman

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION
REGULAR MEETING
SUITE 202, GCIC BUILDING
414 W. SOLEDAD AVE. HAGATNA, GUAM
7:00 p.m., January 29, 2013

Agenda

1. Approval of Minutes of December 11 and December 18, 2012

2. Guam Power Authority
   - GPA Docket 12-13, LEAC Filing, GCG Report, Proposed Order
   - GPA Docket 11-12, GPA Petition for Review and Approval of Amendments to Renewable Energy Purchase Agreement with Quantum Guam Power LLC, PUC Counsel Report, Proposed Order
   - GPA Docket 12-09, GPA Petition to Approve the Contract for Supply of Residual Fuel Oil No. 6 to GPA, PUC Counsel Report, Proposed Order
   - GPA Docket 13-01, GPA Petition for Approval of Cabras 3 Rotor Repair, PUC Counsel Report, Proposed Order

3. Guam Waterworks Authority
   - GWA Docket 09-03, Petition for Rate Relief: Annual True-Up, Request for Extension of Multi-Year Filing, ALJ Report, Proposed Order
   - GWA Docket 09-03, Petition for Rate Relief: Annual True-Up, Stipulation, ALJ Report, Proposed Order

4. PUC Website
   - Report by Administrator and Legal Counsel on progress of Ideal Advertising, website input catch up

5. Administrative Matters

6. Other Business

ATTACHMENT A

RECEIVED
JAN 29 2013
Public Utilities Commission of Guam

BEFORE THE PUBLIC UTILITIES COMMISSION

PETITION OF GUAM WATERWORKS AUTHORITY FOR RATE RELIEF	**GWA DOCKET 09-03** **ORDER RE: EXTENSION OF DEADLINE FOR MULTI-YEAR RATE PLAN**

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the "PUC") pursuant to the September 28, 2012 Stipulation between the Guam Waterworks Authority ("GWA") and the PUC's water and wastewater consultants, Georgetown Consulting Group ("Georgetown"), the October 30, 2012 PUC Order approving the September 28, 2012 Stipulation, and the January 10, 2013 request by GWA to submit a five-year rate plan proposal by March 1, 2013, and to formally file a petition for approval of such multi-year rate plan by June 1, 2013. Pursuant to the September 28, 2012 Stipulation, Georgetown and GWA agreed that GWA would submit its next multi-year rate plan on or before January 15, 2013.

DETERMINATIONS

On September 28, 2012, GWA and Georgetown executed a stipulation, which made certain evidentiary stipulations and joint recommendations, related to the FY2013 true up. Included in the stipulation was a provision whereby the parties agreed that GWA would submit its next multi-year filing on or before January 15, 2013. On October 30, 2012, the PUC approved the September 28, 2012 Stipulation.

On January 10, 2013, GWA made a request to the Administrative Law Judge of the PUC (the "ALJ") requesting deferral of GWA's rate plan to March 1, 2013. In its request, GWA maintained the following:

ATTACHMENT B

> GWA was aggressive at the time because of concerns of the Ratepayers Bill of Rights but a recent conversation with our Bond Underwriter about the timing of our next bond financing confirmed that we have opportunity to file by March 1, 2013.
>
> GWA's 5 year CIP plan and financing schedule indicates that GWA will need to approach the capital market by November or December 2013 in order to obtain the necessary funding for the projects. Under this timeline, it appears GWA has another 45-60 days available to file and still be in a good position to approach the capital market by October 2013. The March 1 timeline proposes a formal filing by June 1 which would give the PUC the whole summer to undertake its due diligence review of the Rate Plan.

In addition, on January 24, 2013, GWA and Georgetown submitted a Stipulation, which again made certain evidentiary stipulations and joint recommendations, related to the FY2013 true-up. In the January 24, 2013 Stipulation, GWA agreed to "initiate pursuant to the Ratepayer Bill of Rights a new multi-year rate plan no later than April 1, 2013, which will incorporate the latest requirements of the U.S. E.P.A. Amended District Court Order."

On January 25, 2013, the Administrative Law Judge of the PUC (the "ALJ") filed an ALJ Report recommending approval of GWA's request. The ALJ found that based on the circumstances, GWA would be in a position to file its next multi-year rate plan by March 1, 2013. Accordingly, the ALJ found GWA's request to be reasonable. The ALJ reminded GWA, however, that it must comply with the Ratepayers Bill of Rights pursuant to 12 G.C.A. §12001.2.

The Commission hereby adopts the findings made in the January 25, 2013 ALJ Report and, therefore, issues the following:

ORDERING PROVISIONS

Upon consideration of the record herein, the January 25, 2013 ALJ Report, and for good cause shown, on motion duly made, seconded and carried by the affirmative vote of the undersigned Commissioners, the Commission hereby ORDERS the following:

1. GWA shall file its next multi-year rate plan by March 1, 2013.

2. GWA is ordered to pay the PUC's regulatory fees and expenses, including and without limitation, consulting and counsel fees, and the fees and expenses associated with the instant docket. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the PUC.

SO ORDERED this 29th day of January, 2013.

Jeffrey C. Johnson
Chairman

Joseph M. McDonald
Commissioner

Rowena E. Perez
Commissioner

Filomena M. Cantoria
Commissioner

Michael A. Pangelinan
Commissioner

Peter Montinola
Commissioner

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JAN 29 2013
Public Utilities Commission of Guam

BEFORE THE PUBLIC UTILITIES COMMISSION

PETITION OF GUAM WATERWORKS AUTHORITY FOR RATE RELIEF	GWA DOCKET 09-03
	ORDER RE: ANNUAL TRUE UP FOR FY2013 RATES

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the "PUC") pursuant to the PUC's July 27, 2009 Rate Decision, the July 14, 2009, August 31, 2011, the September 28, 2012, and the January 24, 2013 Stipulations between the Guam Waterworks Authority ("GWA") and the PUC's water and wastewater consultants, Georgetown Consulting Group ("Georgetown"), filed in this docket. Pursuant to the July 14, 2009 Stipulation, GWA is required to provide the PUC with certain updated information annually.

DETERMINATIONS

On July 13, 2012, GWA submitted its annual "true up" report (hereinafter referred to as the "Annual True Up" or "FY2013 True Up"). On August 31, 2012, the Administrative Law Judge of the PUC (the "ALJ") transmitted GWA's report to Georgetown for its review. Thereafter, Georgetown undertook preliminary discovery with respect to the issues related to GWA's submission. On October 1, 2012, GWA and Georgetown filed a Stipulation wherein the parties agreed to certain findings and recommendations for the PUC. On October 30, 2012, the PUC approved the September 28, 2012 Stipulation.

ATTACHMENT C

Thereafter, Georgetown and GWA engaged in further discussions, as well as the exchange of financial information, related to the Annual True Up. On January 17, 2013, GWA and Georgetown transmitted a Stipulation to the ALJ, which made further findings and joint recommendations related to the PUC's review of the True Up. The Stipulation also contained a revised Revenue Implementation Program, as well as financial schedules used to support GWA's True Up. On January 24, 2013, the parties filed an executed version of the Stipulation, which is attached and incorporated hereto as "Exhibit A," and referred to herein as the "Stipulation." On January 25, 2013, the ALJ issued an ALJ Report detailing his findings and recommendations regarding the Stipulation.

A. July 13, 2012 True Up

In the Annual True Up, GWA maintained that "[t]he planned rate increases for FY2013 include the following: 1) 8% rate increase in Basic and Non-lifeline rates across all water and wastewater customer classes; and 2) 8% increase in Lifeline rates across all water and wastewater customer classes."[1] GWA further maintained that "[t]he increases set out in the 2009 Rate Plan form part of the basis of GWA's proposed FY2013 budget requests, however, due to financial and operational challenges, the assumptions and targets proposed in the 2009 Rate Plan were not achieved."[2] Accordingly, GWA proposed the following: an increase in Basic and Non-lifeline rates of "an additional 2.85% across all water and wastewater customer classes in order to meet FY2013 revenue requirements."[3]

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[1] GWA's Annual True Up in GWA Docket 09-03 ("Annual True Up"), p. 1 (July 13, 2012).

[2] Annual True Up, p. 1.

[3] Annual True Up, p. 1.

In addition, GWA submitted that the Legislative surcharge should be reduced from its current rate of 5.6% to 4.40%.[4] GWA maintained that this surcharge, which is restricted to paying for health care benefits and annuities of GWA's retirees, must be adjusted annually to "replicate the obligation mandated by public law."[5]

GWA also proposed the addition of a new Tipping Fee surcharge at 1.70% "across all water and wastewater customer classes except lifeline customers" in order to pay "the Landfill Receiver (GBB) for bio-solids disposals at the Landfill."[6] GWA maintained that "[t]his amount was calculated to amortize the pre-FY2013 unpaid tipping fee obligation over the course of 1 year and at which time the surcharge is scheduled to expire."[7]

GWA further proposed the addition of a new 1.36% Regulatory surcharge, which will fund GWA's regulatory expenses.[8] GWA submitted that this surcharge would replace the expired GPA/Navy/PUC surcharge.[9]

B. <u>January 24, 2013 Stipulation</u>

1. <u>Basic, Lifeline, and Non-Lifeline Rates</u>

In the January 25, 2013 ALJ Report, the ALJ found that, pursuant to the January 24, 2013 Stipulation, Georgetown recommended the PUC's adoption of

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4 Annual True Up, p. 1.

5 Annual True Up, p. 3.

6 Annual True Up, p. 2.

7 Annual True Up, p. 3.

8 Annual True Up, p. 2.

9 Annual True Up, p. 3.

"Attachment 1" of the Stipulation, or the newly revised Revenue Implementation Program, as well as the PUC's adoption of an "additional revenue award of an overall increase in Lifeline and non-lifeline rate elements of 6% for FY2013."[10] The ALJ found that a review of the financial schedules attached to the Stipulation, however, indicated a rate increase of 6.10% assessed on all Basic, Lifeline, and Non-Lifeline rate elements.

The ALJ further found that pursuant to Georgetown's recommendation, in order to assess a compressed rate, which would account for the earlier months of FY2013, "the increase in Lifeline and non-Lifeline rates if implemented on February 1, 2013 shall be 9%."[11] The ALJ again found that a review of the financial schedules attached to the Stipulation, however, indicated a rate increase of 9.15% assessed on all Basic, Lifeline, and Non-Lifeline rate elements, as opposed to 9%. The ALJ concluded that the parties intended to propose a 9.15% increase on these rate elements.

With respect to GWA's Lifeline rates, the ALJ found that pursuant to 12 G.C.A. §12004 of the Public Utilities Commission and the Guam Telecommunications Act of 2004, the "General Lifeline Rates may only be increased when the total actual overall cost of providing service to all classes of customers, increases by no less than twenty percent (20%)." 12 G.C.A. §12004. The ALJ determined that since there has been a 20% increase in the cost of service, and since the PUC had already approved a rate increase of 8% with respect to GWA's Lifeline rate pursuant to the PUC's 2009 Rate Order, GWA's Lifeline rate may be increased under these circumstances.

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[10] Stipulation FY2012 Annual True Up for FY 2013 Rates ("Stipulation"), p. 5 (Jan. 24, 2013).

[11] Stipulation, p. 5.

Based on the administrative record established in this docket, along with the representations made by the parties in the Stipulation, the ALJ recommended that the PUC approve the proposed increase of 9.15% with respect to GWA's Basic, Non-lifeline, and Lifeline water and sewage rates, to be assessed through FY2013, beginning February 1, 2013, and which already includes a compression of rates to account for the months in FY2013 during which these rate increases were not assessed.

2. Tipping Fee, Regulatory Surcharge, and Legislative Surcharge

With respect to the proposed Tipping Fee and Regulatory Surcharge, the ALJ found that GWA and Georgetown agreed that these fees would not be established, but will instead be recovered "in rate components of all other customer tariffs."[12] With respect to the Legislative surcharge, the ALJ found that Georgetown and GWA recommended that the surcharge should be reduced to 2.63%.[13] Based on the recommendation of the parties, the ALJ recommended that the PUC approve the reduction of the Legislative surcharge from 5.6% to 2.63%.

3. Tiyan Interim Rates

With respect to GWA's Tiyan interim rates, the ALJ found that GWA and Georgetown recommended that these rates be extended through FY2013 and that these rates also should be subject to the same rate increase discussed above.[14] The ALJ therefore recommended that these rates continue to be assessed through FY2013, beginning

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[12] Stipulation, p. 2.

[13] Stipulation, p. 3.

[14] Stipulation, p. 5.

February 1, 2013, with such rates subject to the same rate increase set forth in the January 24, 2013 Stipulation.

4. Revised Revenue Implementation Program

In the January 25, 2013 ALJ Report, the ALJ found that the provisions concerning the revised Revenue Implementation Program submitted by Georgetown and GWA were reasonable. As a result, the ALJ recommended that the PUC approve the provisions contained in "Attachment 1" of the Stipulation.

Specifically, the ALJ recommended that the PUC require GWA to prepare a monthly "billing consumption analysis" that "tracks the consumption patterns of the Badger meters installed subsequent to July 2012,"[15] as set forth in the Revenue Implementation Program; that the PUC require GWA to test its meters annually, which shall include the random testing of no less than 160 residential, government, and small commercial meters, as well as require GWA to submit a report summarizing the results of such testing by October 1 of each year; that the PUC require GWA to file a report identifying "potential ways" it can minimize U.S. Navy water purchases by June 30, 2013 as set forth in the Revenue Implementation Program[16]; and that the PUC require GWA to file a report on the "actual cost of performance for chemicals and sludge removal associated with the conversion of the Northern District Wastewater Treatment Plan to advanced primary treatment" as set forth in the Revenue Implementation Program.[17]

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[15] Stipulation, "Attachment 1."

[16] Stipulation, "Attachment 1."

[17] Stipulation, "Attachment 1."

5. **Backbilling**

With respect to the issue of backbilling, the ALJ found that GWA and Georgetown agreed to split the backbilling revenue evenly between FY2012 and FY2013. Since there was some disagreement on when the backbilling revenue should be recorded, the ALJ recommended that the PUC require GWA to submit its recommendation pertaining to this issue by May 1, 2013.

6. **Multi-Year Rate Filing**

With respect to GWA's next multi-year rate filing, the ALJ found that the Stipulation indicated that GWA would initiate the filing of its next multi-year rate plan no later than April 1, 2013, and that this filing would include the "latest requirements of the U.S. E.P.A. Amended District Court Order."[18] The ALJ, however, recommended that the PUC require GWA to submit its next multi-year rate plan by March 1, 2013, as contemplated in GWA's January 10, 2013 request to the ALJ for an extension on the originally proposed deadline.

7. **Other Findings Contained in the Stipulation**

With respect to the other findings contained in the Stipulation, the ALJ determined that, based on the record, the joint findings were reasonable. The ALJ therefore recommended that the PUC adopt the findings set forth in the January 24, 2013 Stipulation.

The Commission hereby adopts the findings made in the January 24, 2013 Stipulation, as well as the January 25, 2013 ALJ Report; and, therefore, issues the following:

[18] Stipulation, p. 5.

ORDERING PROVISIONS

Upon consideration of the record herein, the January 24, 2013 Stipulation between Georgetown and GWA, and the January 25, 2013 ALJ Report, and for good cause shown, on motion duly made, seconded and carried by the affirmative vote of the undersigned Commissioners, the Commission hereby ORDERS the following:

1. The proposed increase of 9.15% on GWA's Basic, Non-lifeline, and Lifeline water and sewage rates, is APPROVED and shall be assessed through FY2013, commencing February 1, 2013, and which already includes a compression of rates to account for the months in FY2013 during which these rate increases have not assessed.

2. The proposed reduction of the Legislative Surcharge from 5.6% to 2.63% is APPROVED, commencing February 1, 2013.

3. GWA's Tiyan interim rates shall continue to be assessed through FY2013. However, commencing February 1, 2013, such rates shall be subject to the same rate increase set forth in Paragraph 1 above.

4. The revised Revenue Implementation Program, contained in "Attachment 1" of the January 24, 2013 Stipulation is APPROVED.

5. GWA shall prepare a monthly billing consumption analysis pursuant to the Revenue Implementation Program, commencing February 1, 2013.

6. GWA shall test its meters annually, which shall include the random testing of no less than 160 residential, government, and small commercial meters, as well as require GWA to submit a report summarizing the results of such testing by October 1 of each year.

7. GWA shall file a report identifying ways it can minimize U.S. Navy water purchases, pursuant to the Revenue Implementation Program, by June 30, 2013.

8. GWA shall file a report on the actual cost of performance for chemicals and sludge removal associated with the conversion of the Northern District Wastewater Treatment Plan to advanced primary treatment, pursuant to the Revenue Implementation Program, by June 15, 2013.

9. GWA shall submit its recommendation pertaining to when backbilling revenues should be recorded, as discussed in the January 24, 2013 Stipulation, by May 1, 2013.

10. GWA shall submit its next multi-year rate plan by March 1, 2013, as contemplated in its January 10, 2013 request to the ALJ for an extension on the originally proposed deadline.

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11. GWA is ordered to pay the PUC's regulatory fees and expenses, including and without limitation, consulting and counsel fees, and the fees and expenses associated with the instant docket. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the PUC.

SO ORDERED this 29th day of January, 2013.

Jeffrey C. Johnson Chairman	Joseph M. McDonald Commissioner
Rowena E. Perez Commissioner	Filomena M. Cantoria Commissioner
Michael A. Pangelinan Commissioner	Peter Montinola Commissioner

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RECEIVED
JAN 29 2013
Public Utilities Commission of Guam

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:	)	GPA Docket 11-12
Guam Power Authority's Petition for Contract Review of Renewable Energy Acquisition Pursuant to GPA's Integrated Resource Plan	)	ORDER

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Petition of the Guam Power Authority of ["GPA"] for contract review and approval of Amendments to the Quantum Guam Power, LLC ["Quantum"] Renewable Energy Purchase Agreement.[1]

BACKGROUND

2. On December 19, 2011, the PUC approved the Quantum Guam Power and Pacific Green Resources solar/wind projects as renewable energy contracts, subject to the completion of the System Impact Study.[2]

3. On June 11, 2012, PUC found that the System Impact Study had been completed by GPA's Consultant R.W. Beck, and that Quantum Guam Power had accepted all terms and conditions thereof. The requirements for contract approval as set forth in the December 19, 2011 Order had been satisfied, and the renewable Energy Purchase Agreement between Quantum Guam Power LLC and the Guam Power Authority was given final approval by the PUC.[3]

4. With its present Petition, GPA has submitted a proposed "FIRST AMENDMENT TO RENEWABLE ENERGY PURCHASE AGREEMENT."[4] Therein GPA proposes various amendments to the Purchase agreement including provisions for "Additional Production" of renewable energy, allowance for performance of Seller Quantum's obligations under the Agreement by proposed Lessor Guam Solar Property LLC, or any affiliate of Seller, and clarification that Seller Quantum would

[1] GPA Petition for Contract Review and Approval of Amendments to the Quantum Guam Power, LLC Renewable Energy Purchase Agreement, GPA Docket 11-12, filed January 9, 2013.
[2] PUC Order, GPA Docket 11-12, dated December 19, 2011.
[3] PUC Order, GPA Docket 11-12, dated June 11, 2012.
[4] Attachment to GPA Petition herein, GPA Docket 11-12, filed January 9, 2013.

ATTACHMENT D

not be required to obtain and maintain the insurance prescribed in Section 11.2 of the Power Purchase Agreement until such time as Seller, Lessor, or any affiliate or contractor of Seller is mobilized on the Project site to perform construction work on the Facility.[5]

5. The Guam Consolidated Commission on Utilities approved the amendments to the Quantum Guam Power LLC Renewable Energy Purchase Agreement by resolution dated December 12, 2012.[6]

6. The Report of PUC Counsel herein, dated January 14, 2012, outlines the proposed Amendments in full and is adopted by the Commission.[7]

DETERMINATIONS

7. The provision for "Additional Production" allows for the production of up to 4,000 MWh of renewable energy to be produced per contract year by the facility in excess of the Minimum Production for that Contract Year. The provision appears to be beneficial to GPA, the parties, and ratepayers in that it allows GPA to obtain additional renewable energy at a cost which is less than that for the Minimum Production under the contract.[8]

8. Quantum has requested that it be allowed to be the lessee of the plant, and that Seller functions under the Purchase Agreement could be performed by Lessor Guam Solar Power LLC. GPA alleges that this arrangement will facilitate bank financing for the project in that the ownership of the plant/property will be in an entity separate from the Operator of the plant (which would be Quantum).[9]

9. GPA's interests would appear to be protected, as "Seller shall remain liable to perform, or to cause to be so performed, all Seller obligations under the agreements and to cure any Seller default thereunder."

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[5] Id. at p. 3.
[6] CCU Resolution No. 2012-83, issued December 12, 2012.
[7] PUC Counsel Report, GPA Docket 11-12, dated January 22, 2013.
[8] Price per MWh for the first contract year under the Renewable Energy Purchase Agreement is $195.00 per MWh. For "Additional Production" under the First Amendment, the price is $185.00 per MWh
[9] Presentation by GPA at Meeting between Counsel and GPA Officials at GPA on January 15, 2013.

10. The amendment regarding Insurance Requirements merely clarifies the time at which Seller Quantum is required to obtain and maintain insurance as prescribed in Section 11.2 of the Power Purchase Agreement. Such insurance is not required until Seller, Lessor, or any affiliate or contractor of Seller is mobilized on the Project site to perform construction work on the facility.[10] It is reasonable to only require such insurance when work on the project commences.

ORDERING PROVISIONS

After a review of the record herein, GPA's Petition for Review and Approval of Amendments to Renewable Energy Purchase Agreement with Quantum Guam Power, LLC, 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 "First Amendment to Renewable Energy Purchase Agreement" with Quantum Guam Power is hereby approved.

2. The proposed contract amendments are reasonable, prudent and necessary and will facilitate the construction of the renewable energy facility and the provision of renewable energy to the consumers of Guam.

3. The GPA General Manager is authorized to execute the proposed First Amendment to Renewable Energy Purchase Agreement.

4. GPA shall file a fully executed copy of the First Amendment with the PUC.

5. GPA shall continue to comply with the reporting requirements for the renewable resource projects in accordance with the Implementation Protocol.

6. 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.

[10] Id. at Section 8.

Dated this 29th day of January 2013.

Jeffrey C. Johnson
Chairman

Joseph M. McDonald
Commissioner

Rowena E. Perez
Commissioner

Filomena M. Cantoria
Commissioner

Michael A. Pangelinan
Commissioner

Peter Montiola
Commissioner

RECEIVED
JAN 29 2013
Public Utilities Commission of Guam

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:	GPA DOCKET 13-01
GUAM POWER AUTHORITY'S PETITION FOR APPROVAL OF CABRAS 3 ROTOR REPAIR	ORDER

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Petition of Guam Power Authority ["GPA"] for Approval of Cabras 3 Rotor Repair.[1]

BACKGROUND

2. During an inspection on November 8, 2012, GPA and its Performance Management Contractor (PMC), Korea East West Power ["EWP"] discovered that there were cracks at the drive end of the rotor shaft on Cabras Unit 3 Rotor (which were discovered while the unit was offline).[2]

3. The root cause of the cracks is presently unknown. A third party forensic specialist will conduct an investigation to determine the root cause of the cracks and provide a report of his findings.[3]

4. At present, GPA's plan is to issue two contracts through its PMC, EWP, with Alstom Spain, the original manufacturer of the shaft, and Doosan, the General Manufacturer. Alstom Spain will be responsible for, *inter alia*, supply of the rotor shaft and rotor disk assembly, balance and testing of the generator. Doosan will be responsible for engine inspection and assessment and other repairs.[4]

5. GPA's Program Management Office, R.W. Armstrong will contract work with Lloyd's Register ODS for investigation of the failure and the conduct of a third party root cause analysis.[5]

6. The approximate cost for replacement of the rotor shaft and the root cause analysis

[1] GPA Petition for Approval of Cabras #3 Rotor Repair, filed January 11, 2013.
[2] Id. at p. 1.
[3] Id. at p. 1.
[4] Id. at pgs. 1-2.
[5] Letter from General Manager of GPA, Joaquin Flores, dated January 11, 2013, attached to the Petition herein.

ATTACHMENT E

is estimated to be $4.5M.[6] However, further analysis could possibly lead to a conclusion that the rotor disc must also be replaced. Such replacement would result in an additional cost of $1.5M, or a total cost of $6M.[7]

7. The Cabras 3 40MW slow speed generator is one of GPA's most efficient units. GPA seeks to return the unit to service as expeditiously as possible.[8]

8. At the very least, it is expected that Cabras 3 will be out of service for no less than 235 days, and, depending upon what is found once the unit is fully inspected, could be out of service for as long as 575 days.[9]

9. At present GPA has no knowledge as to what caused the cracks in the rotor shaft.[10] At this time GPA is also unable to determine "if this is an insurable event."[11]

10. On January 22, 2013, the Guam Consolidated Commission on Utilities ["CCU"] approved GPA's repair plan for the Cabras 3 rotor shaft, granted GPA's request to petition the PUC for approval of the plan, and authorized the GPA General Manger to contract for up to $6M for work necessary to return Cabras Unit 3 to service.[12]

11. PUC Counsel filed his Report with the PUC dated January 26, 2013.

DETERMINATIONS

12. As GCG pointed out in its Report on LEAC, not only will GPA, and ultimately ratepayers, bear the cost of repair for Cabras Unit 3, there will be an additional cost for fuel oil to the ratepayers that will result from the unavailability of the unit and the use of less efficient units. It is projected that the outage of the unit will have a direct cost, inclusive of extra fuel oil and the cost of repairs to consumers, of

[6] Id. at p. 2; Exhibit C thereto, a Preliminary Cost Estimate and Breakdown.
[7] Id.
[8] Letter from General Manager of GPA, Joaquin Flores, dated January 11, 2013, attached to the Petition Herein, at p. 1.
[9] GCG Report, GPA Docket 12-13, Request for LEAC Factors effective February 1, 2013, filed January 23,2013, at p. 5.
[10] Conference between PUC Legal Counsel and GPA Officials, including Joaquin Flores, Melinda Camacho, and Sal Managa.
[11] Letter from General Manager of GPA, Joaquin Flores, dated January 11, 2013, attached to the Petition herein, at p. 1.
[12] CCU Resolution No. 2013-05.

somewhere between $13 and $23 Million depending on the length of Cabras 3 unavailability.[13]

13. It must be a top priority of generation operations personnel to minimize the impact of the Cabras 3 outage and to return the unit to serviceability at the earliest date possible.[14]

14. It appears that GPA has no option other than to undertake the Cabras 3 repairs on as expedited a basis as possible. The lack of availability of Unit 3 has a significant impact on the system dispatching as the 40 Mw slow-speed generator is one of GPA's most efficient units. The expeditious return of the unit to service is of utmost importance.[15]

15. Given the nature of the present situation, there does not appear to be any option other than to authorize GPA to proceed with its repair plans in as expeditious a manner as possible.

16. At present it cannot be determined whether the loss caused by the Cabras 3 outage will be covered by insurance. It is also unclear as to whether the repairs should be funded by Revenue Funds, Working Capital Fund, or Self Insurance There is not presently sufficient information before the Commission to determine whether the Self Insurance Fund could properly be utilized.

ORDERING PROVISIONS

Upon consideration of the record herein, the GPA Petition for Approval of Cabras 3 Rotor Repair, and the PUC Counsel Report, for good cause shown and on motion duly made, seconded and unanimously carried by the undersigned Commissioners the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. For the time being, GPA should be authorized to proceed with the dismantling of the generator, and manufacturing/installation of the new rotor shaft.

2. GPA is authorized to expend up to the amount of $4.5M. GPA indicates that such amount will be minimally sufficient for the time being to cover the cost of Alstom's and Doosan's work indicated in Exhibit C to its Petition, as well as the third party

[13] GCG Report, GPA Docket 12-13, Request for LEAC Factors effective February 1, 2013, filed January 23, 2013, at p. 5.
[14] Id.
[15] Letter from GPA GM Joaquin Flores to PUC dated January 11, 2013.

root cause analysis (Lloyd's Register ODS). Should a need be determined to install a new rotor disc, GPA can further petition the PUC for the necessary additional funds.

3. GPA shall file its third party (Lloyds) root cause investigation report with the PUC as soon as available.

4. GPA shall notify PUC as soon as it determines whether the Cabras 3 repair is an insurable event or not.

5. GPA shall provide PUC with the OEM analysis of the condition of Cabras 3 once the unit is dismantled.

6. Within 60 days of the PUC Order herein, GPA shall provide the PUC with its final rehabilitation plan, cost, and schedule for bringing Cabras 3 back to service.

7. GPA shall provide PUC periodic updates with any significant new information concerning the status of the Cabras 3 repair.

8. Within fifteen days of the PUC Order herein, GPA shall provide a report to PUC as to whether the repairs are intended to be funded by Revenue Funds, Working Capital Funds, or Self Insurance Funds. Said Report shall include a position on whether Self Insurance Funds can properly be utilized for this purpose. Prior to any expenditure of funds for the repair(s), GPA shall advise the Administrative Law Judge of the source of the funds. The ALJ may approve the source for such funds, subject to review by the PUC. The ALJ will report on any action taken hereunder to the PUC.

9. 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 29th day of January, 2013.

Jeffrey C. Johnson	Rowena E. Perez
Chairman	Commissioner

Joseph M. McDonald
Commissioner

Michael A. Pangelinan
Commissioner

Filomena M. Cantoria
Commissioner

Peter Montinola
Commissioner

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JAN 29 2013
Public Utilities Commission of Guam

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

GUAM POWER AUTHORITY
LEVELIZED ENERGY ADJUSTMENT CLAUSE [LEAC]

GPA DOCKET 12-13

ORDER

In accordance with the protocol established by Guam Public Utilities Commission [PUC] Order dated January 29, 1996, as amended by Order dated March 14, 2002, Guam Power Authority [GPA], transmitted its LEAC Filing, dated December 18, 2012, to the PUC.[1] GPA requested that the Levelized Energy Adjustment Clause Factor ["LEAC"], for the six-month period commencing February 1, 2013, be increased from $.18683/kWh to $.20768/kWh.[2] Furthermore, due to the increase in fuel costs, GPA requests an increase to Working Capital Fund Surcharge of $.00061/kWh for a residential customer using an average of 1,000 kWh per month and a monthly increase of $13,157 to Navy billings.[3]

As its justification in the increase in the LEAC factor, GPA indicates: "although market prices for high sulfur fuel oil have been fairly flat since the last fuel rate was established, GPA's next supply agreement will be impacted by the scarcity in blending component products required to meet GPA's fuel oil specifications... The premium portion of the contract will increase significantly as a result of the higher cost of blending components."[4] In addition, GPA desires to move to a system of quarterly LEAC filings, rather than the current semi-annual filings.[5] GPA submits that such quarterly filings will lead to "more regularity in the setting of GPA's fuel rate."[6]

Consultant Georgetown Consulting Group, Inc. ["GCG"] filed its Report re: GPA Request for a LEAC Factor Effective February 1, 2013.[7] In accordance with its historical position, GCG asserts that the most recent forecast of fuel prices provides a better estimate of the total cost of fuel for GPA for the upcoming

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[1] GPA LEAC Filing, GPA Docket 12-13, filed June 15, 2012.
[2] Id.
[3] Id.
[4] Letter from GPA General Manager to PUC Administrative Law Judge re: LEAC for the period February 1, 2013 through July 31, 2013, GPA Docket 12-13, dated December 18, 2012.
[5] Id. at p. 1.
[6] Id.
[7] GCG Report, GPA Docket 12-13, Request for a LEAC Factor Effective February 1, 2013, filed January 23, 2013.

LEAC period.[8] Based upon the updated Morgan Stanley fuel price forecasts for both No. 6 and No. 2 oil on January 17, 2013, fuel price projections for the next six-month period are now slightly higher than the fuel prices originally projected by GPA in its Petition.[9]

GCG's Report details the factors that have led to an increase in the LEAC rate: (1) the new Vitol contract for No. 6 Fuel Oil, which significantly increases the "premium component" of the cost of fuel to GPA and its customers. The additional cost is approximately $33M per year, or slightly more than 10% of GPA's annual fuel budget;[10] (2) the Cabras 3 Extended Outage, resulting in damage to the rotor shaft; since Cabras 3 is one of GPA's most efficient units, the outage will increase fuel costs to GPA customers resulting from the use of more expensive generation units.[11]

GCG has also addressed the status of GPA's Fuel Hedging Program. It concludes that GPA has not filed the reports required by prior PUC Orders, has not addressed the necessary steps and guidelines prepared by GCG, and has done very little to implement its new fuel hedging program.[12] At present the only "hedge" utilized by GPA is "a costless collar- -the same hedging instrument used by GPA before the PUC authorization of new hedging instruments."[13] GCG has proposed that PUC compel GPA to report on the status of the new fuel hedging program and what plans GPA has to implement such program. PUC adopts this recommendation of GCG, as it concludes that GPA has not taken sufficient steps nor shown adequate progress in implementing the new fuel hedging program.

GCG further indicates that GPA's analysis shows that it is achieving an unaccounted for energy ratio of 6.6% based upon a rolling average 24 months ending September 2012[14]; thus, GPA is meeting the interim standard of 7% set by the PUC Order of January 2009. GPA has also complied with the prior PUC Order requiring it to incorporate the loss multipliers previously developed in its transmission loss study and used in the most recent base rate proceeding for the

[8] Id. at p. 8.
[9] Id.
[10] Id. at p. 4.
[11] Id.
[12] Id. at pgs. 10-12.
[13] Id. at p. 11.
[14] Id. at p. 13.

purpose of determining the secondary, the two primary, and transmission service classification loss multipliers.[15]

With regard to GPA's request for a Working Capital Surcharge Adjustment relating to fuel costs, GCG recommends that such adjustment be denied.[16] GCG submits that GPA will be able to fund its WC Fund Requirement of $34.452M with the current surcharge rate by the end of the current LEAC period (July 31, 2013).[17]

GCG indicates that GPA has further renewed its request for quarterly LEAC filings. In addition to the current semi-annual filings on December 15 and June 15 of each year, GPA proposes to file two other abbreviated ("interim") filings during the year at the midpoint of each of the LEAC periods (March 15 and September 15). In these interim filings, GPA would adjust only for updates to actual results in the months that were projected in the semi-annual filings and update for revised fuel price forecasts.[18]

PUC concurs with GCG that a quarterly proposal is not necessary at present. Under the current LEAC tariff, GPA has the option to file interim rate increase requests once the level of under-recovery exceeds $2M, or rate decrease requests if the over-recovery exceeds $2M. GPA has rarely used this existing mechanism. If, as CFO Wiegand's testimony indicates, GPA is under recovering fuel expense during the LEAC period, it may avail itself of the current under recovery mechanism.

Two additional LEAC filings per year would place GPA, the PUC, and the PUC consultants in a continuous administrative cycle of LEAC filings, evaluations, adjustments and readjustments of the LEAC. Such a process would increase administrative burden and cost. In addition, continuous changes in the LEAC rates are contrary to the principle that ratepayers should be provided with rate stability to the highest degree possible. PUC also reminds GPA that implementation of its new fuel hedging program will reduce GPA's risks regarding volatile fuel prices.

After carefully reviewing the record in this proceeding and the January 23, 2013, Report of GCG, and after discussion at a duly noticed public meeting held on

[15] Id. at p. 15.
[16] Id. at pgs. 16-17.
[17] Id. at p. 17.
[18] Id. at p. 17.

January 29, 2013, for good cause shown and on motion duly made, seconded and carried by affirmative vote of the undersigned Commissioners, the Guam Public Utilities Commission hereby ORDERS THAT:

1. The current singular LEAC factors are hereby adjusted effective February 1, 2013, as shown in the following table:

Delivery Classification	LEAC $ per kWh
Secondary -	$ 0.209271
Primary – 13.8 KV	$ 0.200192
Primary – 34.5 KV	$ 0.199340
Transmission – 115 KV	$ 0.195712

   This change reflects an 8.34% increase in the total bill for a residential customer utilizing an average of 1,000 kilowatt hours per month ($22.44 per month) and a 12.01% increase from the current LEAC rate.

2. GPA should file for a change in the LEAC factors to be effective August 1, 2013 on or before June 15, 2013.

3. The current WCF surcharges of $0.00778 per kWh for civilian customers and monthly fixed charge of $179,852 for Navy shall remain in effect until the WCF is filled. Changes in the fuel component of the WCF may be changed with the next LEAC filing as envisioned by the protocol in future LEAC proceedings unless fund is at the required level of reserve.

4. Although GCG has recommended that the PUC authorize, direct, and undertake a focused management audit evaluating the operational and managerial aspects of the fuel oil procurement functions of GPA, PUC will not order such an audit at the present time. Within 30 days from the date of this order, GPA shall file its position statement with regard to the necessity for a "focused management audit" of GPA's fuel oil procurements as set forth in the GCG Report dated January 23, 2013, at pgs. 2-3 and Recommendation No. 4. GPA shall address the specific recommendations of GCG in this regard and indicate whether such an audit would be helpful in assisting GPA with improvement of its fuel oil procurement function.

5. To date, PUC is not satisfied with the steps taken by GPA or the progress made with respect to the implementation of its new fuel hedging program.

GPA shall file no later than the date of the next LEAC filing a report detailing the implementation of the new fuel oil hedging program approved by the PUC in March 2012. GPA should demonstrate its progress in providing the key resources necessary to implement the PUC approved fuel hedging program and the 14 earlier fuel hedging recommendations adopted in Docket 10-03. Specifically, GPA should address the actions it has taken to: (i.) to provide the required and appropriate human resources needed to execute GPA's hedging needs, (ii.) demonstrate that its hedging personnel are properly trained on the use its hedging model and hedging instruments available in the market, (iii.) the retaining of an independent party to "shadow" GPA activities until GPA demonstrates it has adequate internal resources in place and has mastered the hedging model, (iv.)inclusion in its hedging program the option for GPA to hedge 100% of its fuel requirement to maximize price protection to consumers and prevent margin calls on GPA, and (v.) file fuel hedging reports with the PUC with the existing LEAC regulatory reporting which should include a calculation of Value at Risk (VaR).

6. GPA has again proposed a quarterly LEAC filing scenario based upon its Liquidity Study. In addition to the two presently required filings on December 15 and June 15 of each year, additional abbreviated filings are proposed to be made at the midpoint of each of the LEAC periods (March 15 and September 15). At present GPA has not met its burden to show a revision of the present LEAC procedure is required, or that its quarterly proposal is necessary. The recent LEAC protocol already provides an option whereby GPA may file interim rate increase requests once the level of the under-recovery exceeds $2M. There is also a re-filing option for over recovery. PUC is reluctant to institutionalize more frequent changes in the LEAC rates; a quarterly procedure could be confusing to ratepayers and result in volatile and frequent changes in the LEAC rate. Finally, the administrative burdens placed by such a procedure upon the PUC, its consultants, and GPA as well are not in the interest of effective utility regulation.

7. 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 29th day of January, 2013.

Jeffrey C. Johnson
Chairman

Rowena E. Perez
Commissioner

Joseph M. McDonald
Commissioner

Michael A. Pangelinan
Commissioner

Filomena M. Cantoria
Commissioner

Peter Montinola
Commissioner

Errata

GCG January 23, 2013 Report on GPA LEAC Rates Effective February 1, 2013

Page 1—paragraph 3

Delete: GPA's filing contains three distinct loss multipliers for these customers of 3%, 4% and 5%, depending upon the level of service delivered at 13.8kV or 34.5kV distribution and 115kV transmission, respectively.

Insert: GPA's filing contains four distinct loss multipliers—1.002298 for secondary delivery customers and 0.958814, 0.954737, or 0.937359 for customers receiving service at 13.8kV or 34.5kV distribution and 115kV transmission, respectively.

Page 6—Table 1

Delete:

Table 1- As Filed
Derivations of the LEAC factors

	GPA Filing	GPA Amended	GCG Recommend.
	($000s)	($000s)	($000s)
Number 6 (HSFO/LSFO)	$137,631	$137,933	$ 138,741
Number 2 (GPA)	8,056	8,056	8,056
TOTAL COST	$145,687	$145,989	$ 146,797
Handling Costs	9,358	9,354	9,473
Total Current Fuel Expense	$155,045	$155,343	$ 156,270
Civilian Allocation	80.86%	80.86%	80.86%
LEAC Current Fuel Expense	$125,374	$125,615	$ 126,364
Deferred Fuel Expense	4,205	4,205	4,205
Total LEAC Expense	$129,579	$129,820	$ 130,570
Less: Dist/Trans. Level Costs	(6,303)	(6,314)	(6,351)
Secondary Service Level Costs	$123,276	$123,506	$ 124,219
Secondary Service Level Sales (mWh)	593,579	593,579	593,579
LEAC Factor – Secondary Service	**0.207683**	**0.208070**	**0.209271**
Current LEAC Factor –Secondary Service	0.186834	0.186834	0.186834
Increase/(Decrease)	0.020849	0.021236	0.022437
Monthly Increase - 1000 kWh	$ 20.85	$ 21.24	$ 22.44
Total LEAC Expense	$129,579	$129,820	$ 130,570
Total Sales (mWh)	624,617	624,617	624,617
LEAC Secondary Service	0.207454	0.207840	0.209040
Distribution 13.8 kV Discount (3%)	**0.201230**	**0.201605**	**0.202769**
Distribution 34.5 kV Discount (4%)	**0.195193**	**0.195557**	**0.196685**
Transmission 115 kV Discount (5%)	**0.197081**	**0.197448**	**0.198588**

Insert:

Table 1- As Corrected
Derivations of the LEAC factors

	GPA Filing	GPA Amended	GCG Recommend.
	($000s)	($000s)	($000s)
Number 6 (HSFO/LSFO)	$137,631	$137,933	$ 138,741
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Total LEAC Expense	$129,579	$129,820	$ 130,570
Total Sales (mWh)	625,631	625,631	**625,631**
LEAC Secondary Service	0.207454	0.207840	**0.208791**
Distribution 13.8 kV	**0.198190**	**0.199280**	**0.200192**
Distribution 34.5 kV	**0.198064**	**0.198433**	**0.199340**
Transmission 115 kV	**0.194459**	**0.194821**	**0.195712**

Page 15—paragraph 2

Delete: The entire paragraph starting with "GPA in the past has proposed adjustments or discounts of…"

Insert: GPA has complied with prior PUC order and has adopted and incorporated the loss multipliers previously developed in its transmission loss study and used in the most recent base rate proceeding for the purpose of determining the secondary, the two primary and transmission service classification loss multipliers as shown in the summary table below:

Loss Multipliers	
Secondary delivery	1.002298
13.8 kV delivery	0.958814
34.5 kV delivery	0.954737
115 kV delivery	0.937359

These loss multipliers should be periodically adjusted based upon GPA's most recent loss performance data.

Page 19—Recommendation 1

Delete: The table in recommendation 1:

Delivery Classification	LEAC $ per kWh
Secondary -	$ 0.209271
Primary - 13.8 KV	$ 0.202769
Primary - 34.5 KV	$ 0.196685
Transmission - 115 KV	$ 0.198588

Insert:

Delivery Classification	LEAC $ per kWh
Secondary -	$ 0.208791
Primary - 13.8 KV	$ 0.200192
Primary - 34.5 KV	$ 0.199340
Transmission - 115 KV	$ 0.195712

Page 21—Recommendation 9

Delete: Recommendation 9 in its entirely.

Errata No. 2 (January 29, 2013)
GCG January 23, 2013 Report on GPA LEAC Rates Effective February 1, 2013

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