

GUAM PUBLIC UTILITIES COMMISSION  
REGULAR MEETING  
January 31, 2019  
Suite 202, GCIC BUILDING, HAGATNA



MINUTES

The Guam Public Utilities Commission [PUC] conducted a regular meeting commencing at 6:35 p.m. on January 31, 2019, pursuant to due and lawful notice. Commissioners Johnson, McDonald, Cantoria, Pangelinan, Montinola, and Miller were in attendance. The following matters were considered at the meeting under the agenda included as *Attachment "A"* hereto.

**1. Approval of Minutes**

The Chairperson announced that the first item of business on the agenda was approval of the minutes of December 27, 2018. Upon motion duly made, seconded, and unanimously carried, the Commission approved the minutes subject to correction.

The Chairperson announced that the second item of business was approval of the minutes of the Special Meeting of January 17, 2019. Upon motion duly made, seconded, and unanimously carried, the Commission approved the minutes subject to correction.

**2. Guam Power Authority**

The Chairperson announced that the next item of business on the agenda was Guam Power Authority [GPA] Docket No. 19-07, Petition for Adjustment of the Levelized Energy Adjustment Clause [LEAC], ALJ Report, and Proposed Order. ALJ Horecky stated that every six months the LEAC comes before the PUC for adjustment based on actual fuel prices for the past six months and projected fuel prices for the next six months. ALJ Horecky stated that GPA filed its current LEAC Petition in December, 2018 at a time when there were dramatic decreases in fuel prices resulting in a cost of \$66 per barrel of fuel oil, and that in January, fuel prices steadily rose resulting in a cost of \$72 per barrel of fuel oil. ALJ Horecky stated that on January 24, 2019, the cost of CSC 180, Singapore High Sulphur Fuel Oil which is one of the indexes that GPA uses to monitor fuel rates, was \$388 per metric ton and as of today [January 31, 2019] the cost of that fuel rose to \$400 per metric ton, according to the updated Morgan Stanley Asia Morning Call Report. ALJ Horecky stated that due to increasing fuel prices it would be dangerous to recommend a decrease in the LEAC.

ALJ Horecky stated that Morgan Stanley reports estimating fuel prices for the entire year show a significant decrease in the price of fuel, these are estimates and it would be

problematic to base the LEAC on these estimates and that under its existing LEAC formula, the PUC uses the five day average of fuel prices taken ten days before the hearing to decide the LEAC. ALJ Horecky stated that GPA is requesting that the LEAC remain at its present rate, which, since May 1, 2018, is approximately 15 ½ cents [\$0.154242] per kilowatt hour. ALJ Horecky stated that he considered recommending a reduction of the LEAC to 15.2 cents or 15 cents per kilowatt hour, but the results of such a LEAC reduction were not encouraging.

ALJ Horecky also stated that for the past three LEAC periods, GPA experienced under-recovery, which means that there is a certain amount of costs that GPA does not recover, and the under-recovery resulted from GPA accepting a LEAC factor that was lower than the factor necessary to recover the costs of its fuel. ALJ Horecky stated that on January 18, 2018, GPA's under-recovery amount was \$16.8 million, in April, 2018 it was reduced to \$12.2 million, and by September 30, 2018, it was reduced to \$8.3 million. ALJ Horecky stated that when GPA filed this LEAC Petition in December, 2018, it estimated that by the end of the next LEAC period on July 31, 2019, its under-recovery would be reduced to \$5.3 million, but with the current rising fuel prices, GPA's under-recovery could grow to \$9.3 million by that date. ALJ Horecky stated that this is not a desirable situation and pursuant to Tariff Z, which deals with the LEAC, if GPA incurs an under-recovery in excess of \$2 million during the LEAC period it can file an interim petition to raise the LEAC to stop the under-recovery and that GPA has not done so in an honest effort to assist the ratepayers by accepting a certain amount of under-recovery. ALJ Horecky stated that the PUC should not lower the LEAC and that the PUC should work toward reducing GPA's under-recovery amount. ALJ Horecky stated that if fuel prices do in fact decline as they are estimated to, then the PUC could consider a reducing the LEAC for the next LEAC period. ALJ Horecky went on to describe some of the world events that could influence fuel prices during the next LEAC period such as agreements being negotiated between OPEC and non-OPEC countries and the political situation in Venezuela. ALJ Horecky recommended that the PUC maintain the LEAC at its current rate of \$0.154242 per kilowatt hours for meters read on or after February 1, 2019.

The Chairperson asked if GPA had any comments and GPA General Manager [GM] Benavente stated that ALJ Horecky's summary was very good and that it is prudent to leave the LEAC as it currently is because GPA's under-recovery will not increase. The Chairperson stated that GPA could come back to the PUC to request an increase or decrease in the LEAC depending on how the price of fuel develops. A conversation ensued between the Chairperson and GPA GM Benavente wherein GPA confirmed that it still had a healthy working capital fund that enables them to keep the LEAC at its current rate and that GPA could come back to request a decrease in the LEAC if fuel prices decrease, and that GPA is not buying as much fuel because of rising prices. The Chairperson inquired as to what GPA's peak load is currently and GPA GM Benavente stated that it was 249 last year, 256 the year before that, and that he expected the peak load to be between 245 and 249, and that ESM, price elasticity, and drum conservation

is helping reduce the peak load. GPA GM Benavente also stated that about 7,000 GPA customers have taken advantage of the DSF at an average of about \$300 per customer, who purchased very efficient air conditioning which helps reduce their monthly costs.

The Chairperson asked if any of the Commissioners had any questions. Commissioner Montinola who inquired what GPA's under-recovery is now and GPA's Montillano stated that is was currently \$12 million and that it has been increasing since September, 2018. Commissioner Pangelinan moved to approve GPA's Petition for Adjustment of the LEAC at the LEAC's current rate, which motion was seconded by Commissioner Montinola. The motion carried unanimously.

### **3. Port Authority of Guam**

The Chairperson announced that the next item of business on the agenda was the Port Authority of Guam [PAG] Docket 18-04, Petition for Marina User Fee Rate Change, Supplemental Report by Slater Nakamura, Supplemental ALJ Report, and Amended Proposed Order. ALJ Alcantara stated that this matter has been with the PUC since 2018 and that PAG held outreach presentations at the Fisherman's Co-op in early 2018 to explain the new proposed rate structure. ALJ Alcantara stated that PAG's petition was reviewed by the PUC's consultant, Slater Nakamura, which provided a report on its investigation of the PAG's proposed user fees. ALJ Alcantara stated that pursuant to the Rate-Payer's Bill of Rights, public hearing concerning PAG's proposed user fees were held in Hagatna, Agat, and Dededo, in August, 2018. ALJ Alcantara stated that the ALJ Report was filed on August 28, 2018, which found that the marina user fee increases were just, reasonable, and necessary to finance PAG's obligations, capital improvement projects, and operating expenses, however, the report also found that the increases appeared to be insufficient to meet the operating expenses and investment needs of the marinas. ALJ Alcantara stated that in August, 2018, the PUC voted to table this matter to explore Slater Nakamura's recommendation that the PAG's proposed increases could be implemented in stages instead of all at once. ALJ Alcantara stated that on December 9, 2018, Slater Nakamura submitted their supplemental report recommending the implementation of PAG's proposed rate increases of their marina fees over a three-year period. ALJ Alcantara stated that the majority of the PAG's petition to increase its marina fees concerned fees for recreational vessels at the Hagatna Marina, with the existing \$2 monthly fee being increased to \$5.50 per foot per month for a 20-foot slip, \$6 per foot per month for a 30-foot slip, and \$6.50 per foot per month for a 40-foot slip. ALJ Alcantara stated that for the Agat Marina, the PAG requested that \$5.50 fee per foot per month for a 20-foot slip be decreased to \$5, that the existing \$5.50 per foot per month fee for a 40-foot slip remain unchanged, and that the existing \$5.50 per foot per month fee for a 60-foot slip be increased to \$6 per foot per month. ALJ Alcantara stated that the PAG was also requesting that its existing \$3.50 monthly fee for commercial users at the Hagatna Marina be increased to \$8.50 per foot per month for a

20-foot slip, \$9 per foot per month for a 30-foot slip, and \$9.50 per foot per month for a 40-foot slip. ALJ Alcantara also stated that the Slater Nakamura report indicates that the PAG's proposed increased would change fees for live-aboard vessels, and add mooring fees for transient vessels.

ALJ Alcantara stated that the December 9, 2018 Slater Nakamura Supplemental report indicated that the PAG's proposed fee increases were inconsistent between the Agat and Hagatna Marinas, that the fees had not been increased in many years, that the fees were not based on the cost of marina operations, and that the fees impacted a small but very vocal number of Guam citizens. ALJ Alcantara stated that ultimately, Slater Nakamura recommends the PUC approve a three-year phased implementation of the marina fee increases. ALJ Alcantara stated that Slater Nakamura recommend that the fee increases for the Agat Marina be implemented immediately and to implement the greater of the slip fees for both a year or two after its implementation of the fees. ALJ Alcantara stated that Slater Nakamura recommends that the fee increases for the Hagatna Marina be implemented over a two-year period with the first year increasing the fees by one half of the PAG's requested increases, and implementing the remaining half of the increases, as well as requested decreases in fees, in the second year, and implementing the greater of the slip fees for both lengths in year three. ALJ Alcantara stated that Slater Nakamura also recommended that within three months, PAG provide the PUC with a comprehensive plan for the marinas that includes: (1) The cost of marina operations inclusive of salaries, annual expenses, and plant capital improvement projects; and (2) An approach for generating additional revenue that could be used to offset the increase in slip fees. ALJ Alcantara stated that Slater Nakamura also recommends that the PAG address charging a passenger fee for commercial vessels embarking passengers for water sports, that the PAG consider implementing a parking fee for use of the marina parking lots, and that the PAG a separate fee structure for older citizens on a fixed income.

ALJ Alcantara recommends that the PUC approve the PAG's proposed increase in marina user fees and he recommends that the fees be implemented in accordance with the three-year phased approach described in Attachment A of Slater Nakamura's December 9, 2018 Supplemental Report.

The Chairperson inquired as to whether the phased approach would have a one-third of the increase in each year or whether they arrive at the final fee increase in year 3 and ALJ Alcantara stated that for the Hagatna Marina, 50% of the proposed fees would be implemented in the first year and the remaining 50% in the second year, and that in year 3, PAG would be required to assess based on the larger of the boat length or length of the slip. PAG's Commercial Manager Nelson stated that was correct and the third year would just be the full slip fees. Commissioner Montinola inquired as to whether PAG could charge the slip fees in the third year or whether they were staggered throughout the three years as well and PAG's Commercial Manager Nelson stated that the existing fee and half the proposed increase would be implemented in the first year

and the second half of the proposed increase in the second year, plus the larger of the slip length or vessel length. The Chairperson inquired as to the differences in slip lengths at the Agat and Hagatna Marinas and PAG Commercial Manager Nelson confirmed that the slip lengths at Agat were 25, 40, and 60, and that the slip lengths at Hagatna were 20, 30, and 40, and that for recreational vessels the proposed fee increase for the Agat Marina was \$5.50 per foot for a 40-foot slip and the proposed fee increase for Hagatna was \$6.50 for the same size slip. PAG Commercial Manager Nelson stated that the higher proposed increase in fees for the Hagatna Marina was due to the greater demand and activity at the Hagatna Marina. The Chairperson inquired as to whether there were open spaces at the Agat Marina and not at the Hagatna Marina and PAG Commercial Manager Nelson stated that there were some open spaces in the Agat Marina and that after they complete their plan to construct Dock B there will be an additional 40 slips for recreational vessels carrying passengers for water sports and that it is PAG's goal to work with that to determine a special rate for transient recreational fishing, and not those who use the marinas to store their boats for a long-term monthly basis, but for those who come on week-ends and need to store their boats for that week-end or a week or two and a rate would be established for that purpose.

PAG Commercial Manager Nelson requested to expand on some issues PAG raised in its December 27, 2018 email to the PUC and the Chairperson stated that PAG had several points that it may want to go over. PAG Commercial Manager Nelson stated that the first issue was the implementation of the fee structure and that the PAG's counter-offer to the phase approach was that the rates for commercial operators be implemented immediately and that the proposed incremental approach be used for recreational fisherman. PAG Commercial Manager Nelson stated that the PAG wants the ability to adopt a special interim rate without going to the PUC first, and that this program should allow the PAG to establish a rate for a six-month period at the end of which the PAG would report to the PUC the interim rate, its results, its cost recovery, and whether the rate was just and reasonable. PAG Commercial Manager Nelson stated that the PAG has made great headway in its cost accounting and tracking the true expenses of operating the marinas. He also stated that in regards to Slater Nakamura's recommendation that PAG develop a report to implement or recommend a per-passenger fee with a true cost accounting for PAG's capital improvement plans for the marinas, that means that instead of having three months for the marina capitol improvement plan we have six months, but within the first 90 days give us the authority to run down the per passenger fee and do not implement it with the PAG's existing authority without going to the PUC first within the six months, provided we go through a series of meetings with marina users, get their vibe, before we implement those fees.

The Chairperson inquired as to whether PAG was referring to recreational or commercial fees and whether PAG wanted leeway to set those fees. PAG Commercial Manager Nelson stated he was referring to the commercial fees and stated that this was a two-fold issue because marinas are storage facilities by virtue of function and that

some of them are used for commercial activities, primarily para-sailing, dolphin watching, discovery diving and these activities result in a lot a passengers crossing the docks, and that charter activity has declined. PAG Commercial Manager Nelson stated that the only rate PAG is chasing is the per-passenger fee and that they have reports indicating as many as 250,000 to 400,000 tourists walking the docks per year and rather than arbitrarily charging them a dollar, PAG wants to sit down with their tenants and show them what they are going to spend the money on, what needs to be done, and place these monies in a lockbox so that they can only be spent on these particular projects, and that PAG has recommendations from prior projects and studies in place but PAG needs buy-in from its board of directors before it can put together the plan, implement it, and bring it before the PUC.

The Chairperson stated that when people are used to a rate for a very long time, to avoid shock, the PUC goes for a five-year period of time and he inquired from the PAG, if that were proposed would PAG take any issue with it instead of a three-year plan. PAG Commercial Manager Nelson stated that the PUC has the discretion to do that, but to delay the level of increase for a period of five years would result in a level of increase far greater than it is today.

The Chairperson inquired as to whether the senior citizen rate was for both recreational and commercial and PAG Commercial Manager Nelson stated that it was for both because we have some long-time charter operators some of whom are the fore-fathers of charter operations on Guam and the special manamko fee has to be applied to both recreational and charter operations. PAG Commercial Manager Nelson stated that the only problem is that it will be a challenge to determine which individuals are operating as entities without knowing who owns the entities, but he thinks they will be okay because the old-time operators are well known, and PAG has yet to quantify a manamko rate and the effect it will have on revenue.

The Chairperson inquired as to whether PAG's potential per-head passenger fee would allow PAG to lower their proposed rates if they are getting high levels of income and PAG Commercial Manager Nelson stated that it would and he also stated that PAG's current petition is to right-size its facilities to be consistent with its market and to increase its revenues to make improvements. PAG Commercial Manager Nelson stated that PAG was able to replace Dock A, its primary commercial pier in Hagatna, eight years ago, and today, there is a need to replace it with an aluminum dock, all the other the other docks, B, C, D, G, P, and A, C, D, and the floating dock in Agat, are aluminum frame, composite top docks which are more expensive but last much longer and require less maintenance. The Chairperson inquired as to whether grant money was used to construct those docks and PAG Commercial Manager Nelson stated that in Agat, \$600,000 was PAG funded and \$900,000 came from Department of Interior [DOI] discretionary funding, and for Hagatna, 82 ½ and 17 ½ cost share between PAG and the Department of Agriculture, and the ship piling work was provided by DOI discretionary funds and the Governor's Office.

PAG GM Respicio stated that one of the things that caught his attention was the marina users and other opportunities to generate more revenue, maybe moving toward per-passenger fee structures instead of a flat-rate. PAG GM Respicio stated that PAG should ask for a 90-day stay to allow PAG to go back to the marina users and come back to the PUC with a different way to capture the revenue the PAG needs to enhance the area. PAG GM Respicio stated that it would be fair for PAG to move toward a per-passenger fee, if they don't make money by having passengers, why should we tax them and if they make a lot of money by having passengers, PAG will be the end receiver of that. Commissioner Montinola stated that this idea made sense. The Chairperson asked PAG if it was requesting that the PUC not decide the petition this evening and give PAG a 90 day stay and PAG GM Respicio confirmed that this was its request.

The Chairperson asked if there were any more questions or comments and Commissioner Miller asked where the Harbor of Refuge was located because it was not mentioned in any of the rates proposed by PAG. PAG Commercial Manager Nelson stated that it was next to GPA at Cabras and that boats would go there during typhoons because it is secure and always calm and that there are no fees because it does not have slips, only mooring blocks. Commissioner Montinola inquired as to whether PAG's proposed fees applied to the Harbor and Refuge and PAG Commercial Manager Nelson confirmed that they did not. Commissioner Montinola inquired as to whether PAG planned to impose any fees on the Harbor of Refuge and PAG Commercial Manager Nelson stated that in the absence of a dock, no, but it has a per vessel charge and the structure was built by PAG, costs a \$100,000 per year and operates as a co-op of sorts, and PAG has increased its capacity from 22 to 55. Commissioner Montinola inquired as to whether the Harbor of Refuge was the place PAG intended to impose the transient rates and PAG Commercial Manager Nelson stated that those rates would be implemented at the Agat Marina.

Commissioner Montinola stated that the concept of a passenger fee makes sense because whoever is doing the most wear and tear on the ports should pay out. Commissioner Montinola moved to approve PAG's request to table their petition for ninety days so that PAG can come back and present the PUC with PAG's new rates, its passenger fee, and any adjustments to its manamko rate, which motion was seconded by Commissioner Miller. The motion carried unanimously. PAG GM Respicio inquired as to whether PAG could come back before the PUC regarding its petition prior to the expiration of ninety days and the Chairperson confirmed that it could.

#### **4. Administrative Matters**

The Chairperson indicted that the next item of business was the PUC Travel Policy. ALJ Horecky presented a revised draft of the policy that he developed with the help of Ms. Palomo and that it contained the areas he believed should be revised. ALJ

Horecky stated that he modernized the policy by making it applicable to the commissioners, ALJ, legal counsel, and off-island consultants. ALJ Horecky stated that Section 5 of the policy has a procedure for requesting travel that requires a pre-authorization request and a form would have to be made for that purpose. ALJ Horecky stated that Section 6 of the policy is new and authorizes two trips per year for conferences or educational purposes for the commissioners, ALJ, legal counsel, and the administrator to limit costs, and any other necessary travel would have to be pre-approved by the Chairperson and Vice-Chairperson. ALJ Horecky stated that under Section 7 of the policy, people can purchase their air fare and the PUC Administrator can reimburse them prior to their trip, and that for other travel expenses, the person can show their receipts and get paid for the entire amount of their trip and under Section 8, you show your hotel and food expenses and request reimbursement from the PUC Administrator. ALJ Horecky stated that he considered a per-diem approach, but he did not think it was in the spirit of the Government of Guam travel law, although its not clear whether it applies to the PUC, because you could not get an extra reimbursement later. ALJ Horecky stated that there is flat rate of \$300 per day for Hawaii, the U.S. mainland, and Asia, and \$200 per day for Micronesia and the Commonwealth of the Northern Marianas Islands. ALJ Horecky stated that under Section 8, the procedure requires filing a statement detailing what your reimbursable expenses are. ALJ Horecky stated that Section 9 of the policy remains the same and that there were minor changes to Section 10 allowing for use of business class if a duration of a trip was in excess of five hours and requiring economy if the trip were less than five hours. ALJ Horecky stated that the policy requires all who travel for the PUC to make a written report within 60 days and that all commissioners should review the rules.

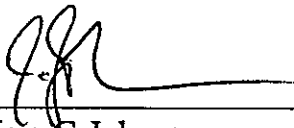
Commissioner Montinola inquired whether Section 6 of the policy required approval by both the Chairperson and Vice Chairperson for travel in excess of two trips per year and ALJ Horecky confirmed such travel required the approval of both the Chairperson and Vice-Chairperson and that the PUC could change it to one if they thought that was too burdensome. ALJ Horecky stated that it should be changed because Section 5 of the policy only requires the Chairperson's approval for TRAs. Commissioner Pangelinan stated that Section 8 of the policy also has "chairman or" but that one has "chairman or vice-chairman" and we should be consistent. Commissioner Montinola suggested that the language be changed to chairperson or vice-chairperson and the Chairperson stated that if he was not on Guam, then the vice-chairperson would be the acting chairperson automatically. Commissioners Montinola and Miller inquired as to whether the per-diem dates would include one day for departure, one day for return, and three days for a conference, and ALJ Horecky stated that would be correct. Commissioner Montinola stated that he agreed with the use of business class for trips in excess of five hours because that was similar to a policy his former employer had. A discussion ensued between the Commissioners and ALJ Horecky concerning the different classes of seats on flights and different conferences that the Commissioners may be interested in attending and the dates they are held.



The Chairperson announced that the next item on the agenda was the FY2018 PUC Annual Report. ALJ Horecky stated that the report is required by 12 G.C.A. §12104 and that the PUC has been filing this report every year, except for 2010, and that the report summarizes the PUC's meeting agendas and the matters that it considered, it covers everything the PUC has done, and trends, and he has included a draft letter to the Governor and the Speaker, and that the Chairperson has signed it.

The Chairperson announced that the next item on the agenda was the Cabras 3 and 4 Insurance Summary Information Report that was submitted for information purposes only. The Chairperson inquired as to whether the GPA had \$72 million remaining from the original \$125 million settlement and ALJ Horecky confirmed that is what the report indicates and that GPA was required to submit this report in GPA Docket No. 18-09. A discussion ensued between the Chairperson, ALJ Horecky, Commissioner Montinola, and Commissioner Miller concerning GPA's use of the insurance proceeds that have been approved by the PUC and the \$4 million payment GPA made to the insurance adjuster who negotiated the \$125 million insurance settlement and GPA's intent to use the remaining settlement proceeds on the construction of its new plant.

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



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Jeffrey C. Johnson  
Chairperson

ATTACHMENT A

THE GUAM PUBLIC UTILITIES COMMISSION

NOTICE OF PUBLIC MEETING

**NOTICE IS HEREBY GIVEN** that the Guam Public Utilities Commission [PUC] will conduct a regular business meeting, commencing at 6:30 p.m. on January 31, 2019, at Suite 202 GCIC Building, 414 W. Soledad Ave., Hagatna.

The following business will be transacted:

**Agenda**

1. Approval of Minutes of December 27, 2018
2. Guam Power Authority
  - GPA Docket 19-07, Petition for Adjustment of the Levelized Energy Adjustment Clause (LEAC), ALJ Report, and Proposed Order
3. Port Authority of Guam
  - PAG Docket 18-04, Petition for Marina User Fee Rate Change, Supplemental Report by Slater Nakamura, Supplemental ALJ Report, and Amended Proposed Order
4. Administrative Matters
  - PUC Travel Policy
  - FY2018 PUC Annual Report
  - Cabras 3 & 4 Insurance Summary Information Report (for informational purposes only)
5. Other Business

Further information about the meeting may be obtained from the PUC's Administrator Lou Palomo at 472-1907. Those persons who require special accommodations, auxiliary aids, or services to attend the meeting should also contact Ms. Palomo.

**This Notice is paid for by the Guam Public Utilities Commission**

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF: ) GPA Docket 19-07  
)  
The Guam Power Authority Levelized )  
Energy Adjustment Clause (LEAC) ) **ORDER**  
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**INTRODUCTION**

1. This matter comes before the Guam Public Utilities Commission [“PUC”] upon the Petition of the Guam Power Authority [“GPA”] to set the LEAC Factor effective February 1, 2019.<sup>1</sup>
2. In its Petition, GPA requests that the Levelized Energy Adjustment Clause Factor [“LEAC”] be maintained at \$0.154242/kWh effective for meters read on or after February 1, 2019.<sup>2</sup>
3. GPA seeks to maintain the LEAC Factor at the same level implemented on May 1, 2018.<sup>3</sup>

**BACKGROUND**

4. For the LEAC period covered from February 1, 2018 through July 31, 2018, the PUC implemented a two-phased approach in increasing the secondary LEAC rate of 0.117718/kWh to \$0.147266/kWh, effective February 1, 2018, and then to \$0.154242/kWh, effective May 1, 2018, in anticipation of rising fuel prices.<sup>4</sup>
5. In its Petition dated June 12, 2018, in GPA Docket 18-15, GPA requested that PUC maintain the LEAC factor at \$0.154242/kWh for meters read on or after August 1, 2018, through January 31, 2019.<sup>5</sup>
6. In its Order dated June 26, 2018, the PUC authorized GPA to maintain the LEAC factor at \$0.154242/kWh for meters read on or after August 1, 2018, through January

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

<sup>2</sup> Id. at p. 1.

<sup>3</sup> Id.

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

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

31, 2019.<sup>6</sup> The Order determined that fuel prices were dropping and that GPA's "under-recovery" of fuel costs had dropped considerably.<sup>7</sup>

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

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<sup>6</sup> PUC Order, GPA Docket 18-15. dated June 26, 2018.

<sup>7</sup> Id.

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

<sup>9</sup> Id.

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

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

<sup>12</sup> Id.

1. The ALJ filed his Report dated January 29, 2019. The PUC adopts the statement of Background therein and the recommendations stated in the Report.
2. The ALJ filed his Report dated January 29, 2019. The PUC adopts the statement of Background therein and the recommendations stated in the Report.

### DETERMINATIONS

3. The LEAC factor accepted by GPA for the last three LEAC periods has not been fully adequate to reimburse GPA for its fuel costs. The purpose of the LEAC factor under Tariff Z is for GPA to recover the projected fuel expense for the next six-month LEAC period.<sup>13</sup> Ideally, the LEAC factor would fully reimburse GPA for its fuel costs in the upcoming period.
4. The LEAC mechanism is a “pass through”, which means that it is designed to cover all of GPA’s fuel expenses. Ratepayers are supposed to pay a fuel charge that will fully reimburse GPA for its costs of fuel.
5. Yet, it is an established fact that GPA’s acceptance of the current LEAC factor has consistently resulted in an under-recovery by GPA of its fuel costs in the last three LEAC periods. That means that the LEAC factor was set at a lower rate than was necessary to fully recover GPA’s fuel costs.
6. GPA’s “under-recovery” has been reduced considerably during the past few LEAC periods. As of January 31, 2018, the under-recovery balance was \$16.8M.<sup>14</sup> As of April 30, 2018, the under-recovery balance was reduced to \$12.2M; and by September 30, 2018, the under-recovery balance was further reduced to \$8.3M.<sup>15</sup>
7. However, even if the PUC maintains the current LEAC factor of \$0.154242 /kWh for the next six months, GPA estimates that it will still have a projected under-recovery on July 31, 2019, between \$5.3M and \$9.3M.<sup>16</sup>

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<sup>13</sup> Guam Power Authority Schedule “Z”, Levelized Energy Adjustment Clause (LEAC).

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

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

<sup>16</sup> Letter from Acting GPA General Manager to PUC ALJ, GPA Docket 19-07, Re: Levelized Energy Adjustment Clause Petition for the period of February 1, 2019 through July 31, 2019, dated December 14, 2018, at p. 1; see also Email from GPA Asst. CFO Cora Montellano to PUC ALJ Fred Horecky, dated

8. The proposed LEAC factor, \$0.154242 /kWh, is actually not adequate to fully recover GPA's fuel costs for the upcoming six-month period. In its most recent update, GPA estimates that for full recovery of its fuel costs for the period of February 1, 2019, through July 31, 2019, the LEAC factor would have to be set at \$0.169056.<sup>17</sup>
9. There have been some fuel price reductions in the last few months that suggest the possibility of a downward trend in fuel prices over the next year. RFO Platts Pricing and Premiums showed a reduction in per barrel fuel price from \$64 in November to about \$57 per barrel in January 2019.<sup>18</sup> ULSD Platts pricing also showed a per barrel reduction from \$82 in November to \$70 in January 2019.<sup>19</sup> But, to determine GPA's actual fuel cost, the premium of about \$11 per barrel must be added for actual fuel prices.<sup>20</sup>
10. The Morgan Stanley Asia Morning Call for January 24, 2019, also indicates positive estimated fuel price trends for this year. Its price for January 2019, Singapore HSFO 180 CST is \$388.08 per metric ton, or approximately \$61.6 per barrel. When the \$11 per barrel premium is added, that would indicate GPA ratepayer fuel prices in the range of \$72 per barrel. However, the Morgan Stanley estimate for the first quarter of 2020 drops to \$317.39 per metric ton, or \$50 per barrel, which would be in the range of \$62 per barrel for GPA with the premium added.<sup>21</sup>
11. These trends are only estimates, and do not necessarily reflect what the actual fuel prices will be over the next year. GPA believes that there could be an increase in fuel prices over the next few months resulting from a cooperation of OPEC and non-OPEC countries to limit the supply of fuel.<sup>22</sup>

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January 22, 2019, with updated Fuel Price Analysis for Proposed LEAC Rate, with average forward fuel pricing from January 14-18, 2019.

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

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

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

<sup>20</sup> Id.

<sup>21</sup> Morgan Stanley Asia Morning Call (Morgan Stanley Commodities Commentaries), January 24, 2019.

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

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

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

<sup>24</sup> Exhibit 1 to the ALJ Report dated January 29, 2019; see also Email from GPA Asst. CFO Cora Montellano to PUC ALJ Fred Horecky, dated January 22, 2019, with updated Fuel Price Analysis for Proposed LEAC Rate, with average forward fuel pricing from January 14-18, 2019.

<sup>25</sup> Id.

<sup>26</sup> Id.

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

19. The ALJ, as a check on fuel prices, requested that the GPA Assistant CFO update fuel prices for the period of January 21-25, 2019. That updated analysis is attached as Exhibit "2" to the ALJ Report.<sup>28</sup>
20. The further Update indicates that the fuel under-recovery by GPA would increase if the LEAC rate were reduced. If the LEAC factor were reduced to \$0.148867, the under-recovery would be increased to \$13.156M.<sup>29</sup> It is not desirable for the LEAC under-recovery to be at such high levels. Such under-recovery would simply become a future debt that must be paid by ratepayers.
21. If fuel prices decline over the next six months, and the under-recovery is further reduced substantially, the PUC can again consider whether to reduce the LEAC factor in July of 2019.
22. The PUC should not reduce the LEAC factor at the present time due to the risk of an increased fuel price under-recovery by GPA.

### ORDERING PROVISIONS

After carefully reviewing the record in this proceeding, having considered the LEAC Filing of GPA and the PUC Administrative Law Judge Report, and after discussion at a duly noticed regular meeting held on January 31, 2019, 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. GPA is authorized to maintain the Fuel Recovery Factor at \$0.154242/kWh effective for meters read on or after February 1, 2019.
2. The current singular LEAC factors are hereby maintained at the same present rates, effective August 1, 2018, as shown in the following table:

LEAC	
Delivery Classification	\$ per kWh
Secondary -	\$ 0.154242
Primary – 13.8 KV	\$ 0.149579

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<sup>28</sup> Exhibit 2 to the ALJ Report dated January 29, 2019; see also Email from GPA Asst. CFO Cora Montellano to PUC ALJ Fred Horecky, dated January 28, 2019, with updated Fuel Price Analysis for Proposed LEAC Rate, with average forward fuel pricing from January 21-25, 2019.

<sup>29</sup> Id.




Primary – 34.5 KV	\$ 0.149148
Transmission – 115 KV	\$ 0.147312

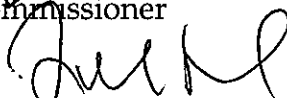
For the entire LEAC period, these changes represent a 0% increase in the total bill for a residential customer utilizing an average of 1,000 kilowatt hours per month.


3. GPA should file for a change in the LEAC factors to be effective August 1, 2019, on or before June 15, 2019.
4. As requested by GPA, the forecast of the Working Capital Fund Requirement will remain the same, so there will not be a change in the Working Capital Surcharge for the period of February 1, 2019, through July 31, 2019.
5. 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 §§12103(b) and 12125(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

Dated this 31st day of January, 2019.

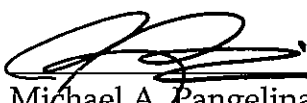
  
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Jeffrey C. Johnson  
Chairman


  
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Joseph M. McDonald  
Commissioner

  
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Peter Montinola  
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Mark Miller  
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Rowena E. Perez  
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Michael A. Pangelinan  
Commissioner

  
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Filomena M. Cantoria  
Commissioner