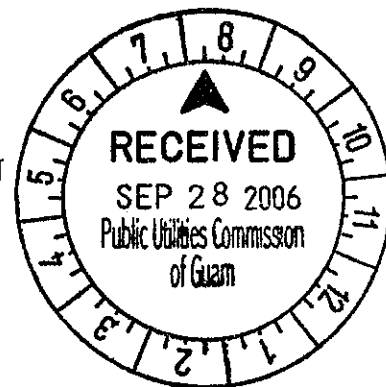


BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

GUAM POWER AUTHORITY
PROCUREMENT REVIEW

DOCKET 94-04



Regulatory Order

[Procurements, Collection Rule & LEAC Deferral]

This Order reviews: a) a number of Guam Power Authority [GPA] petitions for approval of procurements, which under PUC's February 2, 2006 contract review protocol order [Protocol] require regulatory approval before the procurement process begins; b) a petition for authority to amend GPA's collection policy; and c) a petition to defer the next LEAC adjustment to January 2007, including authorization to temporarily use its excess bond funds to temporarily bridge the deferral period.

1. Residual fuel oil [RFO] procurement amendment.

On September 22, 2006 GPA petitioned PUC for authority to amend specifications for the RFO procurement, as earlier approved by PUC on June 15, 2006. As GPA explains in its petition, these amendments are necessary to adjust to a lack of bidders, who are prepared to provide straight run fuel oil. By letter dated September 28, 2006, Georgetown [GCG] has recommended approval of the petition, subject to 4 conditions. As a collateral matter, GPA, when faced with the impending expiration of its existing RFO fuel contract with British Petroleum on July 31, 2006, decided to extend it for six months until January 31, 2007. Under this extension agreement, GPA will incur additional expenses, which triggered the requirement for regulatory review and approval.

2. \$10 million dollar short-term debt facility.

On May 3, 2006 GPA petitioned PUC for authority to borrow \$10 million dollars [5 years at 7% interest] for the following purposes: a) self reimbursement for purchase of \$2,085,230 in vehicles; b) replacement of its system control and energy management system [\$1 million]; and c) \$4,568,393 to partially fund the cost of converting eight partially FEMA funded pole hardening projects to underground¹. GPA's petition does not explain the intended use of the \$2,346,377 balance of the loan proceeds.

¹ Two of the eight conversion projects [Macheche to Guam International Airport and Macheche to San Vitores] are supported by separate GPA petition dated September 14, 2006. A ninth project

Under the Protocol, GPA is required to obtain approval of both the loan and the use of the loan proceeds. By its September 16, 2006 report, GCG recommends approval of the vehicle reimbursement and the management system.

GCG recommends that PUC approval of the \$4.5 million conversion projects be deferred for the purpose of requiring GPA to explain in greater detail the cause for the substantial increase in its estimated share of the cost of these projects. Exhibit B to the GCG report shows that 5 of the projects, for which GPA requests to use \$2,743,280 in loan proceeds [*the Chata'an projects and the Umatac drainage project*] are below the contract review threshold and are either completed or currently under construction. The only reason that these projects are subject to review is that loan proceeds would be used to finance them. With regard to these projects, PUC finds no reasonable basis for denying GPA's request for use of loan proceeds to finance GPA's updated share for these projects, as identified in Attachment A. With regard to the remaining four Pongsona Projects, which await FEMA notice to proceed [*projects 5, 6, 7& 9 on GCG Exhibit B*] and are of significantly greater cost, PUC concludes that GPA should be required, under ALJ oversight, to file additional explanation for the estimate increases and the status of FEMA review. This deferral will also enable PUC to more closely examine the proposed policy of converting GPA's transmission and distribution system to underground [*as further discussed in paragraph 4 below*].

PUC agrees with GCG's recommendation that GPA be required to petition PUC for use of the balance of the loan proceeds.

3. Cabras Fire Protection & Water Treatment.

By petition dated May 25, 2006, GPA requested regulatory authorization to enter into a \$3.5 million dollar procurement to upgrade its Cabras water treatment and fire protection systems. As a source of funding for these projects, GPA intends to use the short term financing provision in its Cabras performance management contracts, which will be repaid by general revenues. On September 20, 2006, GCG file a report, which recommends that the petition be approved. GCG recommends that GPA be required to provide the documents identified in its report.

4. Underground Conversion of Village T&D Assets.

presented in the petition is for \$19,000 GPA cost share for a Umatac substation drainage modification.

By petition dated May 5, 2006, GPA petitioned for regulatory authorization to convert four previously approved bond funded village pole-hardening projects to underground projects. The conversion would add an additional \$9.3 million dollars in cost, which GPA proposes to fund from general revenues over the next fifteen years. There are no committed Federal funds for these projects. By report dated September 19, 2006, GCG has recommended that PUC defer consideration of the petition until GPA files and PUC considers the additional information identified in its report. GCG also points out that this petition reflects a GPA management decision to place the system's transmission and distribution assets underground [*at an estimated cost of \$670 million dollars*]. GCG recommends that before this conversion strategy is blessed by PUC, there should be an opportunity for public comment on whether the cost justifies the benefits to ratepayers. PUC is persuaded by GCG's recommendations.

5. Commercial paper program rollover.

GPA's current \$20 million dollar commercial paper program with Cathay Bank and the Federal Home Loan Bank will expire on November 8, 2006. The program is used to fund short-term cash requirements. By petition filed September 22, 2006, GPA requests that it be authorized to extend the program, at the same cost, for an additional year. By letter dated September 23, 2006, GCG recommends that the petition be approved.

6. ANZ Credit Facility Increase.

By petition filed on September 22, 2006, GPA has requested authority to increase the credit ceiling in its letter of credit with the Australia and New Zealand Banking Group from \$15 to \$20 million dollars. GPA uses the credit line to pay for fuel shipments. Recent increases in fuel costs require a larger credit line to pay for shipments. By letter dated September 23, 2006 GCG recommends that the petition be approved.

7. Regulatory Asset - Un-reimbursed Disaster Costs.

By petition dated September 22, 2006, GPA requested that PUC establish a \$13,725,000 regulatory asset under generally accepted accounting standards for recovery from the self insurance surcharge fund, as established by PUC order. GCG has advised that it will require time for it to conduct discovery on this petition.

8. Collection Policy Amendments.

By petition dated May 3, 2006, GPA has requested authorization to amend its collection policy for the purpose of tempering burdensome policy provisions regarding defective meter under and over billing. As a result of discussions between GPA and GCG, there is a joint recommendation that the collection policy be amended as follows:

a. Section 5(a)(1) of the policy be amended to read:

(1) The agreement shall require such customer to pay 25% of the balance of the past due bill and other amounts such customer owes the Authority, contemporaneous with the execution of the installment payment agreement, except for past due bills in excess of \$250,000, and except for customers with past due amounts resulting from defective [through no fault or actions of the customer], under-billing meters who shall pay 10% of the balance from such past due bill and any other amounts such customers owe the Authority contemporaneous with the execution of the installment payment agreement.

b. A new subsection 5(a)(2)(D) be added to read as follows:

(D) No later than 6 months after the date of the execution of the agreement for customers with past due amounts resulting from defective [through no fault or actions of the customer] under-billing meters. However, the 6-month term shall only be for past due amounts resulting from defective [through no fault or actions of the customer] under-billing meters.

c. A new subsection (1)(g)(3)(B) be added to read as follows:

(B) In accordance with 28 GAR 3153, in the event that, upon test, a meter is found to be registering more than two percent (2%) fast, GPA will refund to the customer the amount of the overcharge based on the corrected meter readings for the preceding three (3) months; provided, however, that if the registering error in the meter is due to causes the date of which can be reliably established, the overcharge will be computed back to but not beyond that date.

9. LEAC Deferral.

By petitions dated August 14 and 29, 2006, GPA has requested that the adjustment of the current LEAC rate be deferred from October 1, 2006 until January 2007. GPA has confirmed by letter dated September 21, 2006 that this deferral will not have a material negative impact on the funding of any projects or activity, which is necessary to the prudent operation of the utility. GPA asserts that it requires additional time to accurately forecast its fuel costs for the next LEAC period due to the need to replace expiring fuel contracts, to examine how to deal with an inability to acquire straight run residual fuel oil and to evaluate the recent trend toward lower fuel costs. It is estimated that GPA will incur an

additional under recovery of \$2.7 million dollars during the deferral period, which will result in an estimated cumulative under recovery as of January 2007 of \$10.1 million dollars. PUC should establish during the January 2007 regulatory session a timeline for GPA's recovery of this shortfall.

By letter report dated September 1, 2006, GCG has recommended that the petition be granted, subject to the following conditions: a] the next filing be made by November 15, 2006; b] a draft integrated resource plan be provided to GCG by November 2006; c] PUC establish line loss benchmarks during the January 2007 LEAC proceeding; and d] GPA will not seek an emergency adjustment during the deferral period. GCG also recommends that GPA be permitted to use \$4.85 million dollars in excess bond funds for approved LEAC related expenses during the deferral period provided that it account for the use of such funds and reimburse the bond fund from LEAC proceeds in a manner to be established by PUC in January 2007.

After careful review of the foregoing and for good cause shown, on motion made, seconded and carried by the affirmative vote of the undersigned commissioners, the Guam Public Utilities Commission **ORDERS THAT:**

1. GPA's September 22, 2006 petition to amend specifications for its RFO procurement is approved, subject to the conditions proposed by GCG in its September 28, 2006 letter. ALJ is authorized and directed to oversee GPA's compliance with these conditions. PUC further ratifies GPA's extension of its fuel supply contract with British Petroleum.
2. GPA's May 3, 2006 petition to enter into a \$10 million dollar short-term debt facility is approved. GPA is authorized to use the debt proceeds: a] to provide reimbursement for \$2,085,230 in vehicle expenses; b] to fund a \$1 million dollar replacement of its energy management system; and c] to fund project numbers 1,2,3,4 and 8 as identified in Exhibit B of GCG's report in an amount not to exceed \$2,744,000. ALJ shall oversee further proceedings to examine the other four conversion projects and to solicit public comment on the conversion of GPA's transmission and distribution to an underground system. GPA is directed to file a separate petition to request access to the projected \$2,346,377 loan surplus.
3. GPA's May 25, 2006 petition for authority to procure upgrades to its Cabras fire protection and water treatment systems, in an amount not to exceed \$3.5 million dollars is approved. GPA shall provide PUC with the documents requested in GCG's September 20, 2006 report.

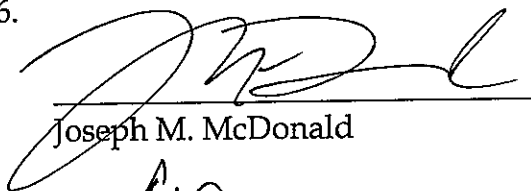
4. PUC consideration of GPA's May 5, 2006 petition for authorization to convert its T&D assets in four villages to underground is deferred pending further administrative proceedings under ALJ oversight, as recommended in GCG's September 19, 2006 report.
5. GPA's September 21, 2006 petitions for authorization to roll over its commercial paper program for another year and to increase its ANZ credit facility from \$15 to \$20 million dollars are approved.
6. PUC consideration of GPA's September 21, 2006 petition for establishment of a regulatory asset for unreimbursed disaster costs is deferred pending GCG's review of the petition under ALJ oversight.
7. GPA's May 3, 2006 petition to amend its collection policy, subject to the revised text discussed above, is approved. GPA shall file an amended policy with PUC.
8. GPA's August 2006 petitions to defer the readjustment of the current LEAC factor until the January 2007 regulatory session is approved. GPA shall: a] file its LEAC petition not later than November 15, 2006; b] provide GCG with its draft integrated resource plan not later than November 15, 2006; and c] not request interim relief during the deferral period. ALJ shall oversee the development of GPA and GCG's positions on line loss benchmarks for PUC consideration during the January LEAC proceeding. GPA is authorized to utilize not to exceed \$4.85 million dollars from its excess bond funds for LEAC approved expenses, provided that PUC shall require GPA to reimburse the fund from LEAC revenues under a timeline to be established during the January 2007 session. The current LEAC factor shall remain in full force and effect until further PUC order.

Dated this 28th day of September 2006.


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