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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF GUAM**

PUBLIC UTILITIES

COMMISSION

GUAM POWER AUTHORITY -)
LEVELIZED ENERGY ADJUSTMENT) DOCKET 99-12
CLAUSE)

ORDER

On March 1, 2001 the Guam Public Utilities Commission [Commission] conducted a duly noticed public hearing in Room 202, GCIC Building, Hagatna to consider testimony on:

1. Commission consultant Georgetown Consulting Group's [Georgetown] report on Guam Power Authority's [GPA] accounts receivable and collection practices;
2. The establishment of a GPA levelized fuel charge for the period April 1, 2001 through September 30, 2001; and
3. GPA efforts, pursuant to the Commission's November 17, 2000 order, to retain consulting assistance to normalize the maintenance and operation of the Cabras baseload plants.

On March 6, 2001, the Commission, at a duly noticed and convened meeting and after deliberation on the above topics, adopted this Order by the affirmative vote of the Commissioners who signed below. Because of the significance of these topics to GPA's mission of providing reliable, reasonably priced power to the island, each will be separately addressed in this Order.

GPA's Accounts Receivable Crisis.

In its November 17, 2000 Order in this docket [Attachment A], the Commission recognized that GPA has struggled under a growing accounts receivable crisis, which could jeopardize its financial stability. Accordingly, the Commission directed its regulatory consultant Georgetown Consulting Group [Georgetown] to undertake a study of GPA's accounts receivable and to make recommendations for addressing the crisis.

The Georgetown report dated January, 2001 found that:

- a. GPA's pre-FY01 receivables exceeded \$63.2 million dollars.
- b. Guam Waterworks Authority, which is under Commission

jurisdiction, owes GPA over \$13.8 million dollars, not including amounts owed under GPA Tariff E.

c. The Utility Bank, which was created by statute to fund government line agency FY01 utility expenses, is underfunded by \$11 million dollars.

d. GPA has no disconnection policy for government accounts.

e. GPA's receivable levels may cause GPA's auditors to require an accrual for doubtful debts, which could put GPA in default under its bond covenants, impair its bond rating and restrict its ability to access financial markets. As this Georgetown finding [supported by legal opinion attached to the report] identified a risk of grave magnitude, GPA, at the Commission's request, sought the opinion of its auditor Ernst & Young [E&Y] on the subject. E&Y's March 1, 2001 response is made **Attachment B** to this Order. **The seriousness of GPA's financial risk if the Government of Guam does not address E&Y's concerns by March 31, 2001, cannot be overstated.**

In response to the above findings, GPA and Georgetown entered into an amended stipulation, dated March 2, 2001, [Stipulation] which proposes remedial activities. The stipulation is made **Attachment C** to this Order. Also worthy of note, is the Commission's receipt of the Public Auditor Doris Brook's March 2, 2001 letter to the Commission, which is made **Attachment D**.

After careful review and consideration of the above matters and the record in this docket, the Commission **HEREBY ORDERS THAT:**

A copy of this Order shall be transmitted to the 26th Guam Legislature, with the strong recommendation that it immediately commence appropriate proceedings to address the crisis articulated in E&Y's March 1, 2001 letter.

2. The Stipulation is approved. The Commission's administrative law judge [ALJ] is authorized and empowered to oversee GPA's compliance with the Stipulation, with full authority to issue such administrative orders as may be necessary or appropriate, in his judgment, to interpret and implement the stipulation. The Commission reserves the authority to review and approve a

¹ In its responses to Georgetown discovery [See *Appendix B at page 2 of Georgetown AR Report*], GPA asserted with regard to its disconnection service rules that "The Service Rules are being followed, except for GovGuam agencies, which provide essential services involving community, health, safety and welfare." "The Authority is not in a position to select which GovGuam agencies affect public health or public safety directly, as all GovGuam agencies will eventually impact on the public well being." GPA has since issued disconnection notices to all Gov Guam agencies, but without any clearly articulated policy for governing the process.

comprehensive GPA collection and disconnection policy, which shall be prepared by GPA under ALJ's oversight for Commission consideration at the May regulatory session.

- 3 ALJ shall oversee the commencement of prehearing proceedings for a public hearing during the May regulatory session at which the Commission will consider recommendations to enable Guam Waterworks Authority to pay its outstanding receivable to GPA, including amounts owed under GPA Tariff E. This order is intended to give GPA's auditor comfort that a source of revenue will be identified to retire this receivable.
- 4 ALJ shall oversee a Georgetown study of the recommendations contained in Public Auditor Brook's March 2, 2001 letter, with specific attention to her recommendation that the 1993 GPA management audit should be updated.²

2. *GPA Levelized Fuel Charge For Period April 1, 2001 through September 30, 2001.*

Georgetown and GPA have jointly recommended in the Stipulation, that the current fuel charge [\$0.053613] remain in place for the period April 1, 2001 through September 30, 2001.

By its February 25, 2000 order in Docket 99-12, the Commission established the regulatory practice of conducting oversight hearings to review Georgetown and GPA positions on the establishment of prospective levelized fuel charges.³ This regulatory practice was commenced and shall continue to enable the Commission to evaluate the reasonableness of the fuel charges being passed through to GPA customers under the levelized fuel charge. In September, 2000, Commission proceedings to establish the current levelized fuel charge, Georgetown asserted, without challenge by GPA, that GPA ratepayers in FY00 paid over \$15 million dollars in unreasonable fuel charges, because GPA was unable to reasonably maintain and operate its Cabras baseload generating plants.⁴ As part of prehearing activities on this subject, ALJ posed questions to Georgetown and GPA by his December 4, 2000 letter on the nature and

² In testimony before the Commission at its March 1, 2001 public hearing, Senator Joe Ada, who chairs the legislative committee with oversight of GPA, also recommended that the Commission update the 1993 GPA management audit.

³ The February 25, 2000 Order states in part: "The Commission emphasizes its serious concern over the operational problems at GPA operated Cabras units, which in this time of economic trouble for the island, has required GPA ratepayers to incur unnecessary fuel expenses. Until GPA's generation problems are clearly diagnosed and resolved, the Commission will use the six month LEAC rate setting process as a surveillance tool.

⁴ In its testimony contained in **Attachment E**, GPA objects to the Commission's reference to its fuel costs as being unreasonable. The record is clear that GPA's loss of management expertise and its lack of an effective collection policy to control government receivable levels, which deprived GPA of adequate funds to maintain the Cabras plants, have been root causes in the accrual of unreasonable fuel charges. The regulatory issue is not whether unreasonable fuel expenses have been incurred, but what should be done to eliminate them.

limits of Commission regulatory authority to address such unreasonable expenses. The Commission is not satisfied with the responses of Georgetown and GPA to ALJ's questions [Attachment E] and will, therefore, direct that ALJ order further detailed responses from them for consideration at the May regulatory session.

After careful review and consideration of the above matters and the record in this docket, the Commission **HEREBY ORDERS THAT:**

- 1 A fuel recovery charge of \$0.053613 per kWh is approved and shall be used for all civilian bills, effective April 1, 2001 through September 30, 2001 to recover GPA's fuel expenses for that period. This represents no change in the fuel charges to civilian customers for this period.
- 2 ALJ is directed to obtain more detailed positions, with supporting memoranda of law, from GPA and Georgetown on the issues addressed in Attachment E. The Commission will consider these issues during the May regulatory session.

3. Cabras Management Contract.

Under the authority conferred on the ALJ by the Commission's November 17, 2000 order [see Attachment A], GPA has entered into an interim management contract [IMC] with Edison O&M Services for Cabras 1 and 2. The IMC is intended to serve as a bridge to a permanent management agreement for the Cabras plants, which is expected to be in place before year's end. At GPA's request, the IMC was limited to Cabras 1 and 2 because GPA has an existing management agreement with Hanjung-Samsung-Daewoo for Cabras 3 and 4.⁵ At the March 1, 2001 public hearing, GPA briefed the Commission on the purpose and objectives of the IMC. The Commission finds that the IMC and the development of a permanent management agreement for the entire Cabras plant [1-4] are important remedial steps in eliminating the cause of unreasonable fuel expenses.

After careful review and consideration of the above matters and the record in this docket, the Commission **HEREBY ORDERS THAT:**

ALJ is directed to establish a protocol to keep the Commission informed of IMC activities. The Commission expects quarterly reports on these activities.

- 2 In furtherance of the Commission's November 7, 2000 order, IMC phase 2 activities shall require ALJ's prior approval.

⁵ GPA has a consulting agreement dated February 17, 1999 with Hanjung-Samsung-Daewoo, who designed and installed Cabras 3&4 to provide training, management mentoring, O&M technical advice and quarterly engine overhauls. The agreement does not contain a provision with fixes its term.

3. ALJ shall establish a protocol for the development and approval of the PMC, including the issue of whether it should cover Cabras 3 and 4.

Dated this 6th day of March, 2001.



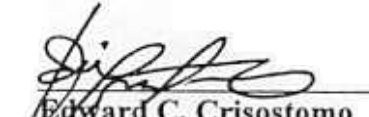
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