BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

GUAM POWER AUTHORITY
LEVELIZED ENERGY ADJUSTMENT **GPA DOCKET 12-13**
CLAUSE [LEAC]

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

---

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

[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.
[15] Id. at p. 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 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:

---

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

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

Rowena E. Perez

Chairman

Commissioner

Joseph M. McDonald
Commissioner

Michael A. Pangelinan
Commissioner

Filomena M. Cantoria
Commissioner

Peter Montinola
Commissioner