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September 17, 2008

Jeff Johnson, Chairman
The Guam Public Utilities Commission
Suite 207, GCIC Building
Hagatna, Guam96932

Re: GPA Request to Reject GCG's LEAC (Line Loss) Recommendation

Dear Mr. Johnson:

This letter is in response to Guam Power Authority's ("GPA" or "Authority") request of September 16, 2008 to reject the Georgetown Consulting Group, Inc. (GCG's) recommended $438,415 recovery of excess line losses as part of the current LEAC rate as unsupported. To the contrary, as we will show below and as fully supported in our September 5 report, the GCG recommendation concerning the recovery of excess line losses at this time is fully supported by a preponderance of evidence in this proceeding and, more importantly, supported by the existing PUC order concerning GPA's line loss performance.

As presented in our September 5, 2008 LEAC rate report we cite the specific record from an earlier PUC proceeding wherein it was determined that:[1]

> *The following interim line loss standards are adopted by PUC commencing with the February -July 2008 LEAC cycle, which shall remain in place through July 31, 2009 when long term standards will be established by PUC. These interim standards shall be calculated on a net power generation and on a 24 month trailing average basis:*
>
> - *Six month period ending July 2008 - 7.3%*
> - *Six month period ending January 2009 – 7.0%*
> - *Six month period ending July 2009 – 7.7%*

In our LEAC report we indicated the potential consequences should GPA fail to meet the interim targeted loss ratio. The PUC determined that:

> *In the event GPA does not meet the interim standards set forth in paragraph 5 above, PUC will examine as part of its LEAC review the specific circumstances surrounding GPA's failure to meet the standard - and will determine what*

[1] PUC Order, Docket 04-02, November 2, 2007, ¶ 5.

regulatory action would be appropriate, including the potential disallowance of associated fuel expenses[2].

Our September 5, 2008 report is based upon an existing PUC order which specifies the line loss benchmark for the subject LEAC period. GCG does not have the authority to change the line loss benchmarks set by a PUC order and/or to include a new benchmark which exceeds that currently established by the PUC. We believe GPA misunderstands this critical aspect of our review and perhaps has over reacted without full consideration of the essential facts upon which our report is based.

In our report we have made an adjustment to bring the line loss level in the determination of the current LEAC factor to the level prescribed by existing PUC order. The purpose of this adjustment is to reflect in the filing the currently approved PUC benchmark for line losses. *It should be recognized that the dollar amount associated with line losses exceeding the current line loss benchmark set by the PUC is not a disallowance.* Any decision concerning the treatment of the excess line loss amount would only be made following a hearing by the PUC at which time the actual results for the current LEAC period would be known as well as other factors that should be taken into consideration. This would be accomplished as part of the next LEAC factor. At that time the PUC would be in a position to evaluate whether a permanent adjustment for any excess losses should be made or whether other facts justify different treatment including the potential wavier of any amounts determined to be in excess of the existing line loss benchmarks. Only then will the PUC have the actual facts (actual line loss level achieved and other contributing factors) upon which to base a decision on this matter. The PUC can then take into account whether matters like the delay in performing the transmission studies, concerns about the methodology used to measure line losses, and other considerations such as the continued improvement in GPA's line loss performance are valid reasons to then increase LEAC charges to customers. GPA would be free to argue in the next LEAC filing (December 15, 2008) the deposition of these matters and whether these costs should be included in the next LEAC.

If you wish to discuss this further, please do not hesitate to call.

Cordially,

Jim Madan

Jamshed K. Madan
CC: William J. Blair, Esq.

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[2] PUC Order, Docket 04-02, November 2, 2007, ¶ 5.