

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

GUAM POWER AUTHORITY  
LEVELIZED ENERGY ADJUSTMENT  
CLAUSE [LEAC]

GPA DOCKET 15-15



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 June 15, 2015, to the PUC.<sup>1</sup> GPA requested that the Levelized Energy Adjustment Clause Factor [“LEAC”], for the six-month period commencing August 1, 2015, be increased from \$0.102054/kWh to \$0.115688/kWh effective for meters read on or after August 1, 2015.<sup>2</sup> This increase in the LEAC factor would represent a 6.80% increase in the total bill or a \$13.63 increase for a residential customer utilizing an average of 1,000 kilowatt hours per month.<sup>3</sup>

The stated basis for the LEAC filing is a continuing increase in worldwide fuel prices. GPA believes that the market will remain within the \$60-70bbl range during the period.<sup>4</sup> In recent LEAC periods there had previously been a substantial decrease in the fuel prices and a reduction in the LEAC factor.<sup>5</sup>

On May 26, 2015, the Guam Consolidated Commission on Utilities, in Resolution No. 2015-31, authorized GPA Management to Petition the PUC for an increase in the LEAC for the period of August 1, 2015, through January 31, 2016, as set forth in GPA’s Petition.<sup>6</sup> The CCU indicated that the market price of fuel in the current LEAC period, originally projected to be \$60.94/bbl for the six-month period ending July 31, 2015, was currently projected to be \$65.55/bbl. The projected price for the period ending January 31, 2016, is \$68.60/bbl.<sup>7</sup>

In certain Questions to GPA , Set 1, 1-2, dated June 15, 2015, the PUC’s Consultant, Slater, Nakamura & Co. LLC [hereinafter “Slater”] requested that GPA provide a July 6, 2015 version of Morgan Stanley’s “Asia Noon Call.”

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<sup>1</sup> GPA LEAC Filing, GPA Docket 15-15, filed June 15, 2015, at p. 1.

<sup>2</sup> Id.

<sup>3</sup> Id.

<sup>4</sup> Id.

<sup>5</sup> PUC Ratification Order, GPA Docket 14-12, filed December 1, 2014; see also PUC Order, GPA Docket 15-08, dated January 29, 2015.

<sup>6</sup> CCU Resolution No. 2015-31, adopted May 26, 2015.

<sup>7</sup> Id.

The purpose of Slater's request was to update the fuel prices used for the LEAC factor calculation. On July 11, 2015, Slater submitted its Review of the Proposed LEAC Adjustment.<sup>8</sup>

Slater decided not to utilize the July 6, 2015, Morgan Stanley fuel estimates, but instead selected the June 30, 2015, Morgan Stanley forecast, in setting the LEAC factor.<sup>9</sup> The stated reason for relying upon the June 30 MS forecast was: "We also observed a precipitous drop (of 8.93%) in the price of RFO settlements in Singapore from June 30 through July 6 in four trading sessions. Similarly, between June 30 and July 6, Morgan Stanley reflected that price drop as if it would have a lasting impact on prices through the first quarter of 2016. Slater Nakamura is unable to test whether a nearly 9% price drop - occurring during a short week in the midst of a nearly 9% price drop - occurring during a short week in the midst of a holiday period marked by turmoil in securities markets due to events in Greece and China - could reasonably be expected to continue for the entire period when the revised LEAC factor would be in effect.

Given our inability to predict whether fuel markets will continue to reflect current conditions, we decided to rely upon the June 30 Morgan Stanley forecast in setting the LEAC factor." (Emphasis added).

Use of the June 30, 2015, Morgan Stanley fuel estimate would result in a LEAC factor of \$0.10849; this represents an increase of \$6.10 per month, or 3.04%, in the total bill for a residential customer using an average of 1,000 kilowatt hours per month.<sup>10</sup> However, use of the July 6, 2015, Morgan Stanley fuel estimate results in a LEAC factor of \$0.104871, an increase of \$2.80 per month, or 1.4%, in the total bill for a residential customer using an average of 1,000 kilowatt hours per month.<sup>11</sup> A true and correct copy of GPA's Calculation of Proposed LEAC Rate is attached hereto as Exhibit "1".

The issue squarely presented in this proceeding is which date for the Morgan Stanley fuel forecast should be used to determine the LEAC factor for the next LEAC period.

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<sup>8</sup> Slater, Nakamura & Co. Report on the Review of the Proposed Levelized Energy Adjustment Clause, GPA Docket 15-05, dated July 11, 2015.

<sup>9</sup> Id. at p. 11.

<sup>10</sup> Id. at p. 2.

<sup>11</sup> GPA CFO Cora Montellano, Calculation of Proposed LEAC Rate, submitted July 13, 2015.



### DETERMINATIONS

1. In LEAC dockets, the PUC has historically used the Morgan Stanley fuel forecasts to determine the appropriate cost of fuel for determining the LEAC factor for the forecast period. In this case, GPA used the Morgan Stanley fuel forecast for May 25, 2015 in its Petition, which was filed June 15, 2015. Use of such forecast would result in a 6.8% increase in the total bill or a \$13.63 increase for a residential customer utilizing an average of 1,000 kilowatt hours per month.
2. In reviewing GPA LEAC Petitions, it has been customary for PUC Consultants to obtain an updated Morgan Stanley fuel forecast on a date within a few weeks before the PUC hearing at which the LEAC Petition will be considered. There is no specific rule as to which date should be selected. The Consultant designates a date, and the Morgan Stanley estimated fuel price forecast for that date is used in determining the fuel factor.
3. Here PUC Consultant Slater designated a date for the updated Morgan Stanley fuel price forecast, July 6, 2015, but then determined it would not use the July forecast because the June 30 forecast was "more reliable." A determination of the relative "reliability" of fuel price forecasts for different dates is difficult, if not impossible. Fuel prices are normally volatile. A forecast is merely an estimate.
4. The reliability of fuel prices for the next six month period cannot be predicted with certainty. The date of a particular Morgan Stanley fuel price forecast is a snapshot in time. If the fuel price forecast on a particular date later turns out to have been inaccurate, there are protections built into the LEAC process. GPA can petition the PUC for an interim LEAC factor if it has a \$2M over or under recovery during a particular LEAC period. Furthermore, fuel price forecasts are always updated and reconciled in the next LEAC proceeding.
5. There are no specific facts or evidence showing that the June 30 forecast is "more reliable" than the July 6 forecast.
6. Slater itself points out that, based upon the drop in fuel prices between June 30 and July 6, Morgan Stanley reflected that price drop as if it would have a lasting impact on prices through the first quarter of 2016. Morgan Stanley indicated that the price drop would have a lasting impact on fuel prices. Slater does not counter the Morgan Stanley reflection that the drop in fuel prices will be

“lasting.” Slater only states that it was “unable to test whether a nearly 9% price drop could reasonably be expected to continue for the entire LEAC period.”

7. There is an additional reason to believe that the July 6, 2015, Morgan Stanley forecast should be utilized. The LEAC factors for July 6, July 8, July 10, and July 13, based upon the updated Morgan Stanley fuel forecasts, range between \$0.101352 and \$0.104871. Each of the Morgan Stanley forecasts indicate fuel pricing for Number 6 (HSFO/LSFO) and number 2 (Diesel) that are far below the Morgan Stanley pricing for May 25 and June 30.<sup>12</sup>
8. The original justification offered by GPA for a 6.8% increase in the LEAC factor was the “continuing increase in worldwide fuel prices.” GPA based its request upon the May 25 Morgan Stanley estimate that the average cost of fuel would be \$68.60, effective August 1, 2015. However, the more recent Morgan Stanley estimate, i.e. the July 6 estimate, indicates that fuel prices are in fact decreasing. It is now estimated that, effective August 1, 2015, the average price of fuel per barrel will be \$64.15.
9. The Morgan Stanley July 13<sup>th</sup> estimate continues to show a decrease in the average price of fuel, to \$63.66 per barrel.<sup>13</sup>
10. The Commission should therefore adopt the LEAC factor based upon the Morgan Stanley Fuel price forecast of July 6, 2015. Furthermore, it is reasonable and prudent to adopt the LEAC factors as set forth in GPA Revised Schedule 1, attached hereto as Exhibit “2”.
11. This change represents a 1.4% increase in the total bill (rather than the 6.8% requested by GPA or the 3.04% increase suggested by Slater). There will be an increase of \$2.82 in the total bill for a residential customer using an average of 1,000 kilowatt hours per month.

### **ORDERING PROVISIONS**

After carefully reviewing the record in this proceeding, having considered the LEAC Filings of GPA and the Report of Slater, Nakamura & Co. LLC, and after discussion at a duly noticed public meeting held on July 16, 2015, for good cause shown and on motion

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<sup>12</sup>Id.

<sup>13</sup>GPA CFO Cora Montellano, Calculation of Proposed LEAC Rate, submitted July 13, 2015.



duly made, seconded and carried by affirmative vote of the undersigned Commissioners, the Guam Public Utilities Commission hereby **ORDERS** that:


1. The current singular LEAC factors are hereby adjusted effective August 1, 2015, as shown in the following table:

LEAC	
<u>Delivery Classification</u>	<u>\$ per kWh</u>
Secondary -	\$ 0.104871
Primary - 13.8 KV	\$ 0.101512
Primary - 34.5 KV	\$ 0.101202
Transmission - 115 KV	\$ 0.099877

This change represents a 1.4% increase in the total bill for a residential customer utilizing an average of 1,000 kilowatt hours per month (\$2.82 per month).

2. GPA should file for a change in the LEAC factors to be effective February 1, 2016 on or before December 15, 2015.
3. As requested by GPA, the current Working Capital Fund Surcharge of \$0.00466/kWh for civilian customers and \$110,374.00/month for the Navy shall remain in effect. This Surcharge is for the payment of debt service on the replenishment of the WCF from bond funds.
4. 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 16th day of July, 2015.

  
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Jeffrey C. Johnson  
Chairman

  
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Rowena E. Perez  
Commissioner

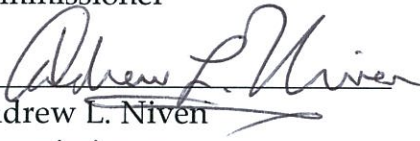
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LEAC  
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July 16, 2015



Joseph M. McDonald  
Commissioner



Peter Montinola  
Commissioner



Andrew L. Niven  
Commissioner

Michael A. Pangelinan  
Commissioner

Filomena M. Cantoria  
Commissioner

## GPA

## Proposed LEAC Rate

	Revised Proposed Eff 8/01/2015	Updated 6/30/15 Proposed Eff 8/01/2015	Updated 7/06/15 Proposed Eff 8/01/2015
1 Average Price per Bbl	\$ 68.60	\$ 65.63	\$ 64.15
2 Number 6 (HSFO/LSFO)	\$ 80,047	\$ 76,577	\$ 74,846
3 Number 2 (Diesel)	5,566	5,253	5,165
4 Renewable (Solar)	2,291	2,291	2,291
5 TOTAL COST	\$ 87,904	\$ 84,121	\$ 82,302
6 Handling Costs	3,364	2,482	1,814
7 Total Current Fuel Expense	\$ 91,268	\$ 86,603	\$ 84,116
8 Civilian Allocation	77.89%	77.89%	77.89%
9 LEAC Current Fuel Expense	\$ 71,090	\$ 67,456	\$ 65,519
10 Deferred Fuel Expense	(1,472)	(2,657)	(2,684)
11 Total LEAC Expense	\$ 69,617	\$ 64,799	\$ 62,835
12 Less: Trans. Level Costs	(4,288)	(4,008)	(3,887)
13 Distribution Level Costs	\$ 65,330	\$ 60,791	\$ 58,949
14 Add: Over recovery at the end of the period	\$ -	\$ -	\$ -
15 Adjusted Distribution Level Costs	\$ 65,330	\$ 60,791	\$ 58,949
16 Distribution Level Sales (mWh)	564,706	562,104	562,104
17 LEAC Factor Distribution	0.115688	0.108149	0.104871
18 Current LEAC Factor Distribution	0.102054	0.102054	0.102054
19 Increase/(Decrease)	0.013634	0.006095	0.002817
20 Monthly Increase/(Decrease) - 1000 kWh	\$ 13.63	\$ 6.10	\$ 2.82
21 % Increase/(Decrease) in LEAC	13.4%	6.0%	2.8%
22 % Increase/(Decrease) in Total Bill	6.8%	3.0%	1.4%
23 Discount (3%) - Primary 13.8 KV	0.111983	0.104685	0.101512
24 Discount (4%) - 34.5 KV	0.111641	0.104365	0.101202
25 Discount (5%) - 115 KV	0.110180	0.102999	0.099877



Updated 7/8/15 Proposed Eff 8/01/2015	Updated 7/10/15 Proposed Eff 8/01/2015	Updated 7/13/15 Proposed Eff 8/01/2015	Updated 7/15/15 Proposed Eff 8/01/2015
\$ 63.15	\$ 64.12	\$ 63.66	\$ 64.09
\$ 73,685	\$ 74,814	\$ 74,284	\$ 74,782
4,929	5,056	4,977	4,997
2,291	2,291	2,291	2,291
\$ 80,906	\$ 82,161	\$ 81,553	\$ 82,071
569	1,603	1,091	1,586
\$ 81,474	\$ 83,764	\$ 82,644	\$ 83,657
77.89%	77.89%	77.89%	77.89%
\$ 63,461	\$ 65,244	\$ 64,372	\$ 65,161
(2,734)	(2,734)	(2,725)	(2,724)
\$ 60,727	\$ 62,510	\$ 61,647	\$ 62,437
(3,756)	(3,867)	(3,813)	(3,862)
\$ 56,970	\$ 58,643	\$ 57,834	\$ 58,575
\$ -	\$ -	\$ -	\$ -
\$ 56,970	\$ 58,643	\$ 57,834	\$ 58,575
562,104	562,104	562,104	562,104
0.101352	0.104328	0.102888	0.104206
0.102054	0.102054	0.102054	0.102054
(0.000702)	0.002275	0.000834	0.002153
\$ (0.70)	\$ 2.27	\$ 0.83	\$ 2.15
-0.7%	2.2%	0.8%	2.1%
-0.4%	1.1%	0.4%	1.1%
0.098106	0.100987	0.099592	0.100869
0.097806	0.100678	0.099288	0.100560
0.096526	0.099360	0.097988	0.099244



## Schedule 1

EXHIBIT 2