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Mr. Frederick Horecky
Administrative Law Judge
Guam Public Utilities Commission
Suite 207, GCIC Building
Hagatna, Guam 96932

Letter Report on Proposed DSM Funding Approach - Docket No. 13-14

Dear Mr. Horecky,

Lummus Consultants International, Inc. ("Lummus Consultants") jointly with the Guam Power Authority ("GPA")[1] is pleased to submit this letter recommending that the Guam Public Utilities Commission ("GPUC" or "Commission") use funds from the Working Capital Fund to fund GPA'S demand side management (DSM) Program, called "Energy Sense." This recommendation creates the necessary funding for the DSM rebate initiatives planned for implementation this summer and for an undertermined period thereafter. Based on a long-term DSM Program Plan, to be submitted in the fall of 2015, newly recommended initiatives will also rely on this and future funding sources. The Commission issued an order on February 26, 2015 in Docket 13-14 accepting GPA's initial set of DSM Program initiatives – air conditioning and appliance rebate incentives that were described in a report filed by GPA on December 19, 2014 with the support of the collaborative team. The Comission order also set forth additional direction for ongoing collaboration and directed that the collaborative team expeditiously address the issue of Program cost recovery.

This letter report proposes to fund GPA's initial DSM initiatives through an anticipated excess in the balance of GPA's Working Capital Fund ("WCF"). The total balance of the WCF will be $34,878,000 as ofDecember 31, 2015 when the Pruvient settlement is fully reimbursed to the WCF. However, due to recent reductions in operations and maintenance expeditures, driven by a decrease in fuel prices, the balance requirement of the WCF as of October 1, 2015, will be $26,871,000 when the budget for Fiscal Year 2016 is approved by the CCU. The Working Capital Fund thus will have an excess balance of $8,107,000. Supporting calculations are included in Attachment A.

Recently, GPA announced that the WCF surcharge would be "deactivated" effective September 30, 2015. The original intended purpose of the WCF surcharge was to recover from ratepayers the interest and debt service costs of a 2010 subordinate bond issuance used to fill the WCF account to the required level. However, when the WCF surcharge ends on September 30, 2015, GPA will have spent more on subordinate bond debt service than it has recovered from ratepayers through the surcharge; i.e., GPA will have under-recovered an amount of $1,806,014 , which means that GPA will not have been fully reimbursed for the costs of the bond issuance. Supporting calculations are included in Attachment B.

Given the anticipated excess in the WCF balance in Fiscal Year 2016, which is a result of a decreased balance requiremenet, the Parties agree that it is appropriate to withdraw an amount of $1,806,014 from the WCF for the sole purpose of funding the DSM Program set forth herein and subsequently agreed to. Said amount is not intended to be funding for a pre-determined time period, as an example one or two years of DSM Program expenditures, nor is it intended to set a future annual funding level. Instead it shall be used until exhausted to fund the specific initiatives agreed upon by the Parties hereto. Once the

[1] Jointly "the Parties".

amount of $1,806,014 is exhausted, the Parties will need to discuss and agree upon a further mechanism and source of funding for future DSM activities.

Therefore, the Parties agree as follows:

1. It is necessary and appropriate to provide funding of direct DSM Program costs to GPA. Attachment C provides a summary of DSM-related costs identified in the Parties' discussions; these DSM-related costs include predominantly direct program costs. For each cost category, a description of the cost is provided, followed by an indication of whether the cost would be most appropriately recovered through base rates or through a funding source specifically designed to support DSM investment. Finally, an allocation approach is defined for each cost category that describes the documentation that will be relied upon to track each cost type and how costs will be allocated to specific DSM measures for the purpose of monitoring program cost/benefit metrics and reporting program information to the GPUC and other interested stakeholders. This "cost matrix" presented in Attachment C has been collaboratively developed by GPA, its consultant Leidos Engineering ("Leidos"), and the Commission's consultant Lummus Consultants.

2. The identified $1,806,014 of funds from the WCF shall be put into a new "Energy Sense Fund" used to support timely funding of DSM Program direct costs.

    a. The Energy Sense Fund will only be used to cover DSM costs authorized by the Commission and will not be used to fund other non-DSM projects.

    b. This funding proposal will be subject to the review and approval of the GPUC.

    c. Although the initial funding is higher than necessary to fund the initial rebate incentives introduced in mid-2015, the Parties agreed that the long-term goal is to expand the DSM Program to increase the energy and demand reductions from DSM. The initial over-funding will be available for research and development associated with DSM (after approval for such activity by the Commission) and other DSM Program initiatives.

3. A DSM accounting and reconciliation report must be submitted at least annually by GPA to the Commission for the following reasons: (1) to provide the Commission with justification for and accounting of DSM Program expenditures from the Energy Sense Fund; (2) to demonstrate to the Commission the success of the DSM Program implementation as compared to the DSM Program Plan and (3) to identify Program implementation or reporting modifications that may be necessary for the upcoming program year. This reconciliation is not equivalent to a monitoring and verification report of program savings – it is an accounting for budget as compared to actual spending, including a report on the activities, barriers to adoption anticipated and recommended program or implementation changes, and a projection for year-ahead expenditures.

    This accounting and reconciliation reporting process will include:

    a. Annual initiative-specific budgeting details, provided not later than 2 months in advance of the end of each fiscal year.

    b. For the initial year, quarterly participation and expenditure reports, which will be provided to the Commission to keep them informed of progress. These reports will become semi-annual and then annual as the process matures.

    c. At or near the end of each program year, GPA will report on budgeted expenditures compared to actual expenditures (direct program cost expenditures), participation expectations versus actual achievements, anticipated annual savings based on engineering estimates or original planned program savings estimates, funds still available, and proposed adjustments to program costs or implementation steps for the coming year based on lessons learned from the previous year's implementation.

The annual accounting and reconciliation report will include a written summary of program successes, failures, and mid-course adjustments, and the report will serve as the regulatory record supporting the appropriateness of the DSM investment until measurement and verification analysis is performed.

In support of this joint initial funding recommendation, five attachments are provided.

- ***Attachment A*** provides calculations explaining the anticipated excess in the WCF.***Attachment B*** provides calculations explaining the under-recovery of the total amount due to the WCF through the WCF Surcharge, as compared with subordinate bond debt service, when the surcharge is deactived on September 30, 2015.
- ***Attachment C*** provides a "Cost Recovery Matrix", which was collaboratively developed and agreed to and describes an identified list of the DSM or EE cost categories and how each will be recovered, tracked, and allocated.
- ***Attachments D and E*** provide selected excerpts from a "Draft Monitoring, Verification, and Reconciliation" document that is being collaboratively developed and agreed to. Attachment D focuses on the DSM reconciliation process and Attachment E focuses on a sample Energy Sense Fund protocol document, including how funds specifically designed to support DSM investment will be operated, audited, and modified, as needed.

The Parties further agree to continue discussions and to provide a joint recommendation to the Commission relative to the long-term recovery approach that should be used to appropriately fund future DSM Program investment once the $1.806,014 of funds have been exhausted.

The Parties respectfully submit this joint letter documenting our joint recommendations and providing the attached calculations and plans for the Commission's use.

Respectfully submitted,

Guam Power Authority	Lummus Consultants International, Inc.
John M. Benavente	Kathleen A. Kelly
General Manager	Director

Guam Power Authority
Working Capital Fund Requirement

		FY 15	FY 16
A	O&M Budget	$ 77,200	$ 75,800
B	Fuel Budget	$ 321,553	$226,139
C	IPP Costs	$ 19,905	$ 19,430
D	Total Budget (A+B+C)	$ 418,658	$321,369
E	**WC Fund Requirement (D/12)**	**$ 34,888**	**$ 26,781**
F	**WC Fund Balance as of 9/30/15 [(1)]**	**$ 34,878**	**$ 34,888**
G	Fund Shortfall/(Excess) (E-F)	$ 10	$ (8,107)

Note (1) Assuming the WCF is fully funded at the end of FY

Attachment B –Subordinate Debt Service vs. Working Capital Fund Surcharge Collection

GPA
Series 2010A Subordinate Lien Taxable Bonds
Working Capital Fund Borrowing vs Collection

Period Ending	Principal	Coupon	Interest	Debt Service	CIF/DSRF Bond Proceeds	$5.1M BOA Settleme	Net Debt Service GPA Portion	Surcharge Collection (1)	Over Under
10/1/2010			$ 606,806	$ 606,806	$ 606,806		$ -		
4/1/2011			$ 1,213,613	$ 1,213,613	$ 1,213,613		$ -		
10/1/2011		6.0%	$ 1,213,613	$ 1,213,613		$ 1,213,613	$ -		
4/1/2012			$ 1,213,613	$ 1,213,613		$ 1,213,613	$ -		
10/1/2012	$ 7,515,000	6.5%	$ 1,213,613	$ 8,728,613		$ 2,746,446	$ 5,982,167		
4/1/2013			$ 969,375	$ 969,375		$ -	$ 969,375	$ 5,487,591	$ (1,463,951)
10/1/2013	$ 8,000,000	7.5%	$ 969,375	$ 8,969,375		$ -	$ 8,969,375		
4/1/2014			$ 669,375	$ 669,375		$ -	$ 669,375	$ 11,197,654	$ 1,558,904
10/1/2014	$ 8,600,000	7.5%	$ 669,375	$ 9,269,375		$ -	$ 9,269,375		
4/1/2015			$ 346,875	$ 346,875		$ -	$ 346,875	$ 6,958,870	$ (2,657,380)
10/1/2015	$ 9,250,000	7.5%	$ 346,875	$ 9,596,875	$ 3,336,500	$ -	$ 6,260,375	$ 7,016,788	$ 756,413
Total	$ 33,365,000		$ 9,432,506	$ 42,797,506	$ 5,156,919	$ 5,173,671	$ 32,466,917	$ 30,660,903	$ (1,806,014)

Note (1) The WCF Surcharge was established to pay for the debt service and to be collected in 48 nonths.

Cost Recovery Matrix

No.	Cost Category	Description of Category	Recoverable Through DSM-Specific Funding	Recoverable Through Base Rates	Other	Allocation Approach
1	Administrative & General expenses	Expenses related to coordinating, advertising, and ongoing monitoring of cost accounting to ensure that costs and revenues and other data are being tracked appropriately on a day-to-day basis		X		Generally represents staff time that should be charged to a specific measure account wherever possible; GPA plans to create a new Business Unit code that will allow for hours tracking; time charging software should allow for comments for each hour billed that employees will be required to adhere to so that accounting runs can be generated that map labor costs to specific measures; note that per discussions with Lummus Consultants, the Parties agrees that if in the long run, a position is created that will only be filled to support DSM measures as the DSM program matures, then such costs would be recovered through the DSM-specific funding.
2	Grants[2]	Any grants that GPA receives associated with a given DSM measure			X	Given that grants are likely to be less frequent and targeted, they can be allocated either by program (if the grant is specific to a particular measure) or allocated based on another appropriate allocator – and tracked as appropriate to ensure reporting to GPUC is complete.

[2] "Grants" are not a direct program cost. They are included here for purposes of defining how they will be considered and accounted for in the context of GPA's DSM programs.

No.	Cost Category	Description of Category	Recoverable Through DSM-Specific Funding	Recoverable Through Base Rates	Other	Allocation Approach
3	Program Development	All activities necessary to get a program implemented, which includes program screening and evaluation of cost-effectiveness, and filing DSM plans and results with the GPUC	X			Based on estimated (and actual) scope(s) of work to evaluate future DSM program measures using outside technical expertise; should be tracked but not necessarily included in the evaluation of a measure's long-term performance (benefits); the current approach to evaluation of supply-side assets does not include the cost to develop planning assumptions around such assets for analysis, so if such costs are included in a DSM measure's benefits evaluation, the Parties agrees that a consistent approach should be used for supply-side asset evaluations
4	Promotional materials / Advertising	Costs associated with development of advertising materials (e.g. mail-outs, signs, radio or TV ads) that are over and above labor costs and content development that is purely labor time; would include printing costs and costs to purchase ad space or signage space, or cost associated with advertising support; also includes additional promotional admin costs (if any)	X			Costs to develop ads for specific measures should be available based on purchase orders for said ads; more global advertisements regarding the portfolio of programs can be allocated to specific measures based on an appropriate allocator; administrative costs can also be allocated to specific measures based on appropriate allocator

No.	Cost Category	Description of Category	Recoverable Through DSM-Specific Funding	Recoverable Through Base Rates	Other	Allocation Approach
5	Pre- and post-customer installation checks	Subcontractor labor that will be deployed to support implementation, including all phases of the approved December 2014 Implementation Plan as applied to current and future approved measures	X			All subcontractor costs should be tracked separately based on scope and budget for the subcontractor; if activities span multiple measures, staffing costs to be allocated based on an appropriate allocator; if specific inspections are conducted, then such expenses can be assigned directly to the specific measure; alternatively a timesheet program with specific by-hour comments could be used to map hours to measures vs. general program-level activities
6	Application & incentive processing	Subcontractor labor (or potentially GPA labor time) that will be deployed to support implementation, including all phases of the approved December 2014 Implementation Plan as applied to current and future approved measures	X			All subcontractor costs should be tracked separately based on scope and budget for the subcontractor; if activities span multiple measures, staffing costs to be allocated based on an appropriate allocator; if specific inspections are conducted, then such expenses can be assigned directly to the specific measure; alternatively a timesheet program with specific by-hour comments could be used to map hours to measures vs. general program-level activities (which can address GPA time as well consistent with item #1 above)
7	Rebates	The cost associated with the incentive provided to the Participant (e.g. rebates, co-funding, giveaways)	X			Tracking system should require direct allocation of costs for rebates to be equal to the agreed upon incentive level * # of participants per year for the measure; all such costs should be available on a by-measure basis

No.	Cost Category	Description of Category	Recoverable Through DSM-Specific Funding	Recoverable Through Base Rates	Other	Allocation Approach
8	Rebates by other Parties[3]	Rebates by Parties other than the utility, such as manufacturer rebates that could be bundled with the utility rebate			X	Tracking is important for program promotion and vendor relationship management; should be tracked but not allocated to any measure; the Parties agrees that it will be very difficult to keep track of all rebates by manufacturer by product, but that if such information is readily available, it can support the value proposition of uptake for the end-user; team also agreed that such costs would not be included in the analysis of a measure or the tracking of a measure's performance
9	Trade ally training	Subcontractor cost (as noted in items #5 and #6 above); alternatively, may represent GPA staff time	X			See #5 and #6 above, or #1 if GPA staff
10	Employee training	Subcontractor cost (as noted in items #5 and #6 above); alternatively, may represent GPA staff time	X			See #5 and #6 above, or #1 if GPA staff
11	Program monitoring and verification and evaluation costs	All efforts related to evaluation, monitoring and verification efforts that are associated with ensuring program participation and savings levels are accurate	X			Subcontractor cost (as noted in items #5 and #6 above), OR GPA labor time allocable as noted in item #1 above

[3] "Rebates by other parties" are not a direct program cost. They are included here for purposes of defining how they will be considered and accounted for in the context of GPA's DSM programs.

No.	Cost Category	Description of Category	Recoverable Through DSM-Specific Funding	Recoverable Through Base Rates	Other	Allocation Approach
12	Customer education for specific DSM program measures	Subcontractor cost (as noted in items #5 and #6 above); alternatively, may represent GPA staff time	X			Subcontractor cost (as noted in items #5 and #6 above) or #1 if GPA staff
13	Additional program specific hardware costs such as switches, relays, meters and communications infrastructure	Same as #7 above at the level at which the utility covers said cost for a given program	X			Per participant costs can easily be tracked by program; technology that is shared amongst multiple programs could be allocated based on an appropriate allocator
14	Conservation measures that are general in nature	Activities not associated with a specific DSM program, such as: energy conservation awareness; responding to customer inquiries; planning, and general supervision.		X		Utility staff time; allocable as based on #1 above
15	Research and Development activities	Activities related to research and development of new DSM measures (e.g. pilot programs); could be supported by subcontractors or could represent GPA time	X			See #5 and #6 above, or if GPA staff as in #1 above; team agrees that over the long-term, DSM-specific positions will likely be needed to support research and development, and this category covers such costs
16	Tracking and GPUC Reporting Costs	Subcontractor cost (as noted in items #5 and #6 above); Could also be GPA staff	X			See #5 and #6 above, or if GPA staff as in #1 above

No.	Cost Category	Description of Category	Recoverable Through DSM-Specific Funding	Recoverable Through Base Rates	Other	Allocation Approach
17	Performance Incentives[4]	Cost associated with providing the utility an incentive for meeting or exceeding certain pre-determined performance metrics, either on a by-measure or total DSM program basis				Allocation approach and recoverability TBD.

Notes:

1. Participant costs (or the costs to be borne by the Participant) may be valuable to track as a function of the certification and measure participation requirements (e.g. proof of purchase) in order to maintain data on actual capital outlays by Participants as input into additional investigations for new measures and/or as a baseline to evaluate whether to increase/reduce incentive levels for measures. However, such costs are not a component of the costs to be recovered as part of the surcharge.

2. Programs will be perceived as fairer if GPA allocates costs across customers in proportion to "benefits received" per the National Action Plan for Energy Efficiency ("NAPEE") Customer Perspectives report (2009). Allocating on "number of participants" may be best in some cases and not best in others.

[4] "Performance Incentives" are not a direct program cost. They are included here for purposes of defining if and how they will be considered and accounted for in the context of GPA's DSM programs, which is currently under discussion by the Parties and still to be determined.

Section 3
RECONCILIATION PROCESS

GPA will provide to the GPUC on at least an annual basis, an accounting of all direct costs incurred by the DSM Program, how funding provided was spent, and the expectation of expenditures and funding for the coming year. GPA will also provide the amount of lost energy- and demand-related revenues attributable to DSM Program implementation.

It is intended that GPA DSM Program direct costs, including labor and expenses, will be tracked using a separate DSM Business Unit. Staff directly and indirectly assigned to the DSM Program will track labor hours using specific timesheet codes attributable to DSM Business Unit "parent" and "children" work orders. At least initially, it is envisioned that there will be distinct DSM parent work orders established to capture activities and expenses related to the Residential appliance rebate initiative (clothes washers and dryers to start), the Residential AC rebate initiative, Communications and Marketing, Stakeholder Engagement, GPUC Reporting, and any other specific DSM initiatives identified as part of the DSM Program Plan to be filed in August, which may include additional Residential appliances and lighting efficiency initiatives, Commercial applications, Time-of-Use Rates, and others.

GPA has decided to brand its current and future DSM and energy efficiency initiatives under the name "Energy Sense," a Program name that was used by GPA for its past DSM initiatives.

[Attachment C, presented just prior to this Attachment D, contains the agreed upon list of expected direct program costs as well as a differentiation between which costs would be recoverable through a DSM-specific funding mechanism (as described in further detail in the next section) versus GPA's existing base rates. There may be updates to this document as we proceed through the process and we will notify the Commission if changes may be necessary.]

3.1 Long-term Funding Approaches for DSM

Discussion by the Parties focused on a DSM-specific funding mechanicam, such as a surcharge, as opposed to base rate recovery for DSM funding in order to facilitate keeping the funds separate from other resources and to make it evident to customers that GPA is activiely supporting the efficiency activities of customers. Many jurisdictions fund DSM with separate surcharges. It has been agreed by GPA, Lummus Consultants, and the ALJ that a surcharge may be an effective long term recovery approach. The issues of an incentive and lost revenues has not been decided. Base rate recovery is beneficial if GPA and the GPUC prefer not to highlight the adoption of DSM program implementation and funding of this program by customers. Base rate recovery, with proper use of accounts, discipline in allocating to those accounts and in managing the funding, could be a workable funding solution.

The funds collected from the selected recovery mechanism will be placed into an Energy Sense Fund which would be used exclusively for DSM[5]. Labor and expense costs will be tracked through a separate Energy Sense Business Unit. The protocols for withdrawals from the fund would be similar to types of protocols currently in place for the Self-Insurance Fund, and although necessarily different than the Self-Insurance protocols, it will have similar types of checks and balances in place to ensure that the fund is not growing excessively or being used for unrelated activities and expenses. A draft mockup of the Energy Sense Fund Management Protocols is provided in the next Section.

3.2 Reconciliation of Direct Costs and Funding

It is envisioned that the Energy Sense funding will be adjusted upward or downward on a periodic basis (at a minimum annually) so that the selected recovery method captures adequate, but not excessive, revenues to fund the DSM Program including a GPUC-approved "reserve amount," in case DSM initiative uptake is greater than expected. Beginning in FY 2016, at least 60 days prior to the end of the fiscal year, we envision GPA filing GPUC-approved data in tabular format showing all direct cost expenditures incurred over the previous time periods (FY 2015 and FY 2016). Labor and expenses by expense type would be broken down by parent work order for the Energy Sense Business Unit. On a side-by-side basis, GPA would also provide the expected level of expenditures for the upcoming two fiscal years (FY 2017 and FY 2018).

The amount of Energy Sense funding received from the previous/current fiscal year, and the expected level of Energy Sense funding for the next two years would also be provided, along with the current fund balance and the expected fund balance at the end of each fiscal year given both the current funding rate and the requested change in the funding rate (either up or down). In this way, the GPUC would be able to easily discern the amount that would be available in the Energy Sense Fund if no change was made to the selected recovery method versus increasing or decreasing funding from the selected recovery method.

The GPUC would review the filing and make a determination as to the appropriate level of funding for the upcoming fiscal year, given the past and future expected expenditures and previous/current level of funds available. The new funding rate would go into effect around October 1 each year. As described in the draft mockup of the Energy Sense Fund Management Protocols in the next Section, GPA would have a specific audit of the DSM Program and its cost accounting done periodically and the Auditor's report would be provided to the GPUC. We envision this specific audit being conducted every three years or so.

[5] There has been discussion of future sustainability efforts perhaps to be included at a later date, however, there has been no agreement as yet.

Section 4
SAMPLE ENERGY SENSE FUNDING MANAGEMENT PROTOCOLS

4.1 Exclusions

Items not covered under the DSM Program would specifically be listed here.

4.2 Operation of Fund

The Energy Sense Fund shall be activated immediately upon approval by the Guam Public Utilities Commission. Energy Sense Funds will be deposited immediately into an Energy Sense Fund account. The funding shall remain in effect and be adjusted on an annual basis to reflect the actual level of GPUC-approved DSM Program Plan expenditures and estimates for the upcoming year, accounting for any over- or under-collection from previous time periods as well as a reserve to accommodate additional DSM initiative uptake on the part of participants. Beginning in FY 2016, GPA will file with the GPUC a DSM Program expected expenditures and funding report no later than 60 days prior to the end of the fiscal year. The funding level and mechanism for the upcoming period (assumed to be the upcoming fiscal year) will be adjusted based on the agreed upon and approved expected funding and past and future expenditure levels.

4.3 Allowable Expenditures

Expenditures may be drawn from the Energy Sense Fund to cover approved DSM-related direct costs (TBD: and if allowable, lost revenues). These costs are described in the Table XX.

Insert Table of agreed upon, approved direct costs and other costs.

4.4 Warranties

GPA shall make all efforts to seek redress from manufacturers/retail sellers of any products that are determined to not meet their stated efficiency targets and deemed to be defective. Any recoveries made from such warranty claims shall be refunded to the Energy Sense Fund.

4.5 Audit

On a periodic basis, (assumed to be every three years) the Authority shall employ an independent audit firm to perform a special procedures engagement in order to express an opinion as to whether or not the expenditures were made in compliance with the DSM program. A copy of the report from the independent auditor shall be provided to the Audit Committee of the Consolidated Commission on Utilities with a copy provided to the Guam Public Utilities Commission.

4.6 Protocol Modifications

There can be no modifications to the Energy Sense Fund protocols without the written authorization of the Consolidated Commission on Utilities and the Guam Public Utilities Commission.