

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 18-05
)
The Guam Power Authority Levelized)
Energy Adjustment Clause (LEAC)) **PUC COUNSEL REPORT**
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INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Petition of the Guam Power Authority ["GPA"] to set the LEAC Factor effective February 1, 2018.¹
2. In its Petition, GPA requested that the Levelized Energy Adjustment Clause Factor ["LEAC"] be increased from \$0.117718/kWh to \$0.150824/kWh effective for meters read on or after February 1, 2018.²
3. On January 26, 2018, GPA submitted a new proposal for a two-phase LEAC factor increase during the next six month LEAC period.³ Under this approach, the LEAC factor would be \$0.147266 per kWh for the first three months of the LEAC period and \$0.154242 per kWh for the last three months of the LEAC period. The Summary of the Proposed LEAC Rate is attached hereto as Exhibit "1".

BACKGROUND

4. The basis indicated by GPA for the change in the LEAC factor is primarily the "continuing increase in worldwide fuel prices."⁴ The increase in fuel price is also attributable at least in part to "the recent news that OPEC and major non-OPEC producers will extend their existing output cuts for the rest of 2018 and imposed output caps on Libya and Nigeria to support oil prices."⁵ GPA believes that the market will remain within the \$55-60/bbl. range during the period.⁶

¹ GPA Petition to Set the LEAC Factor effective February 1, 2018, GPA Docket 18-05, filed December 21, 2017.

² Id. at p. 1.

³ Email from GPA Legal Counsel to PUC Legal Counsel Fred Horecky dated January 26, 2018.

⁴ Id.

⁵ Letter from Acting GPA General Manager John Cruz, to ALJ Fred Horecky, Re: Levelized Energy Adjustment Clause Petition for the period of February 1, 2018 through July 31, 2018, dated December 21, 2017.

5. Instead of recovering 100% of its fuel costs, GPA now proposes that it would, in its two-phase proposal, reduce the present LEAC under-recovery from roughly \$18M to \$9.14M.⁷
6. For the third consecutive LEAC period, GPA has taken proactive steps to lessen the large impact of a LEAC increase upon ratepayers. Rather than recovering 100% of the fuel cost under-recovery in this LEAC period, GPA prefers to gradually true-up the under-recovery by phasing in increases over subsequent LEAC periods.

ANALYSIS

7. If GPA were requesting a LEAC Factor to fully recover the estimated \$18M under-recovery in the upcoming LEAC period, the LEAC Factor would have to be increased to \$0.164995, which would constitute a 40.16% increase in the total bill.⁸
8. GPA has attempted to reduce the impact of the LEAC Factor by only seeking to recover roughly seventy percent of the fuel cost under-recovery in this LEAC period.
9. For a number of reasons, GPA's two-phase proposal should be adopted. It will result in reducing the present LEAC under-recovery; in addition its gradual increase in the LEAC factor should help to mitigate against future potential fuel price increases.
10. Although GPA has been proactive in seeking to mitigate the impact of LEAC increases upon ratepayers, it would be contrary to the purpose of LEAC to allow a large under-recovery to continue in existence. It could also be dangerous in a rising fuel price market, as the amount of the under-recovery could increase to the extent that it could not even be recovered over a number of LEAC periods.
11. Ratepayers will only be paying a LEAC factor for the first three months that will recover 62.5% of the fuel costs.
12. This two-phase approach is designed to address the dangers of a rising fuel price market. In the past week, the price of Brent Crude Oil futures has risen from \$68.83 to \$70.46 per 1,000 barrels.⁹ Based on this increase, the LEAC factor should

⁶ GPA LEAC Filing, GPA Docket 18-05, filed December 21, 2017, at p. 1.

⁷ Email from GPA Legal Counsel to PUC Legal Counsel Fred Horecky dated January 26, 2018.

⁸ GPA Summary of the Proposed LEAC Rate, Exhibit "1" hereto.

be raised appropriately. Otherwise, ratepayers could be subject to even more drastic increases during subsequent LEAC periods.

13. The updated fuel prices from Morgan Stanley Asia Noon Call from January 15-19, 2018, also indicated that, overall, fuel prices are rising. While the price per barrel of Residual Fuel oil had decreased from \$65.76 to \$65.23, the price per gallon of Diesel had increased from \$83.16 to \$89.86. Overall, the necessary LEAC factor for 75% recovery increased from \$0.150824 per kWh to \$0.153177 per kWh.¹⁰
14. For the six month LEAC period, the average residential customer utilizing 1,000 kWh will pay on average an additional \$33.09 per month. This increase represents a 15.59% increase in the total bill. Attached hereto as Exhibit "2" is a Summary of the average LEAC increase over the six month period.

RECOMMENDATION

15. Counsel recommends that the PUC approve GPA's proposed two phase increase of the LEAC Factor for the six-month period commencing February 1, 2018.
16. The PUC two-phase proposal for the increase in the LEAC Factor, dated January 26, 2018, should be adopted. Under this approach, the LEAC factor would be \$0.147266 per kWh for the first three months of the LEAC period and \$0.154242 per kWh for the last three months of the LEAC period, in accordance with the Summary of the Proposed LEAC Rate attached hereto as Exhibit "1".
17. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 29th day of January, 2018.

Frederick J. Horecky
PUC Legal Counsel

⁹ Brent Crude Oil futures, www.nasdaq.com.

¹⁰ Email from Cora Montellano, GPA Asst. CFO, to PUC Counsel Fred Horecky, dated January 22, 2018, with GPA Proposed LEAC Rate, January 15 -19, 2018 Pricing, Updated Filing.

GPA

Summary of the Proposed LEAC Rate

- 1 Average Price per Bbl-RFO
- 2 Average Price per Gal-Diesel
- 3 Number 6 (HSFO/LSFO)
- 4 Number 2 (Diesel)
- 5 Renewable (Solar)
- 6 TOTAL COST
- 7 Handling Costs
- 8 Total Current Fuel Expense
- 9 Civilian Allocation
- 10 LEAC Current Fuel Expense
- 11 Deferred Fuel Expense
- 12 Total LEAC Expense
- 13 Less: Trans. Level Costs
- 14 Distribution Level Costs
- 15 Under recovery at the end of the period
- 16 Adjusted Distribution Level Costs
- 17 Distribution Level Sales (mWh)
- 18 LEAC Factor Distribution
- 19 Additional 20% Under Recovery for the Last 3 Months
- 20 Less: Applicable Trans. Level Costs
- 21 Additional Distribution Level Costs
- 22 Distribution Level Sales (mWh)-Last 3 Months
- 23 LEAC rate to cover the 20% Additional Recovery
- 24 Adjusted LEAC Factor Distribution
- 25 Current LEAC Factor Distribution
- 26 Increase/(Decrease)
- 27 Monthly Increase/(Decrease) - 1000 kWh
- 28 % Increase/(Decrease) in LEAC
- 29 % Increase/(Decrease) in Total Bill
- 30 Discount (3%) - Primary 13.8 KV
- 31 Discount (4%) - 34.5 KV
- 32 Discount (5%) - 115 KV

	@ Full Cost Recovery Proposed Eff 2/01/2018	@ 50% Cost Recovery Proposed Eff 2/01/2018	@ 62.5% Cost Recovery Proposed Eff 2/01/2018	@ 62.5% Cost Recovery plus Additional 20% Recovery the Last 3 Months Proposed Eff 2/01/2018	@ 75% Cost Recovery Proposed Eff 2/01/2018
1 Average Price per Bbl-RFO	\$ 65.23	\$ 65.23	\$ 65.23	\$ 65.23	\$ 65.23
2 Average Price per Gal-Diesel	\$ 89.86	\$ 89.86	\$ 89.86	\$ 89.86	\$ 89.86
3 Number 6 (HSFO/LSFO)	\$ 64,848	\$ 64,848	\$ 64,848	\$ 64,848	\$ 64,848
4 Number 2 (Diesel)	33,177	33,177	33,177	33,177	33,177
5 Renewable (Solar)	5,610	5,610	5,610	5,610	5,610
6 TOTAL COST	\$ 103,635	\$ 103,635	\$ 103,635	\$ 103,635	\$ 103,635
7 Handling Costs	5,725	5,725	5,725	5,725	5,725
8 Total Current Fuel Expense	\$ 109,360	\$ 109,360	\$ 109,360	\$ 109,360	\$ 109,360
9 Civilian Allocation	80.91%	80.91%	80.91%	80.91%	80.91%
10 LEAC Current Fuel Expense	\$ 88,485	\$ 88,485	\$ 88,485	\$ 88,485	\$ 88,485
11 Deferred Fuel Expense	17,863	17,863	17,863	17,863	17,863
12 Total LEAC Expense	\$ 106,348	\$ 106,348	\$ 106,348	\$ 106,348	\$ 106,348
13 Less: Trans. Level Costs	(6,697)	(5,737)	(5,977)	(5,977)	(6,217)
14 Distribution Level Costs	\$ 99,651	\$ 100,611	\$ 100,371	\$ 100,371	\$ 100,131
15 Under recovery at the end of the period	\$ -	\$ (15,237)	\$ (11,428)	\$ (11,428)	\$ (7,618)
16 Adjusted Distribution Level Costs	\$ 99,651	\$ 85,374	\$ 88,943	\$ 88,943	\$ 92,513
17 Distribution Level Sales (mWh)	603,962	603,962	603,962	603,962	603,962
18 LEAC Factor Distribution	0.164995	0.141956	0.147266	0.147266	0.153177
19 Additional 20% Under Recovery for the Last 3 Months				2,285,514	
20 Less: Applicable Trans. Level Costs				(143,925)	
21 Additional Distribution Level Costs				2,141,589	
22 Distribution Level Sales (mWh)-Last 3 Months				306,986	
23 LEAC rate to cover the 20% Additional Recovery				0.006976	
24 Adjusted LEAC Factor Distribution	0.164995	0.141956	0.147266	0.154242	0.153177
25 Current LEAC Factor Distribution	0.117718	0.117718	0.117718	0.117718	0.117718
26 Increase/(Decrease)	0.04728	0.02364	0.02955	0.03652	0.03546
27 Monthly Increase/(Decrease) - 1000 kWh	\$ 47.28	\$ 23.64	\$ 29.55	\$ 36.52	\$ 35.46
28 % Increase/(Decrease) in LEAC	40.16%	20.08%	25.10%	31.03%	30.12%
29 % Increase/(Decrease) in Total Bill	22.27%	11.13%	13.92%	17.20%	16.70%
30 Discount (3%) - Primary 13.8 KV	\$ 0.166007	\$ 0.137082	\$ 0.142813	\$ 0.149579	\$ 0.148545
31 Discount (4%) - 34.5 KV	\$ 0.159546	\$ 0.136687	\$ 0.142402	\$ 0.149148	\$ 0.148117
32 Discount (5%) - 115 KV	\$ 0.157582	\$ 0.135005	\$ 0.140649	\$ 0.147312	\$ 0.146293

GPA

Summary of the Proposed LEAC Rate

	Proposed Eff 2/01/2018
1 Average Price per Bbl-RFO	\$ 65.23
2 Average Price per Gal-Diesel	\$ 89.86
3 Number 6 (HSFO/LSFO)	\$ 64,848
4 Number 2 (Diesel)	33,177
5 Renewable (Solar)	5,610
6 TOTAL COST	\$ 103,635
7 Handling Costs	5,725
8 Total Current Fuel Expense	\$ 109,360
9 Civilian Allocation	80.91%
10 LEAC Current Fuel Expense	\$ 88,485
11 Deferred Fuel Expense	17,863
12 Total LEAC Expense	\$ 106,348
13 Less: Trans. Level Costs	(6,121)
14 Distribution Level Costs	\$ 100,227
15 Under recovery at the end of the period	\$ (9,142)
16 Adjusted Distribution Level Costs	\$ 91,085
17 Distribution Level Sales (mWh)	603,962
18 LEAC Factor Distribution	0.150812
19 Current LEAC Factor Distribution	0.117718
20 Increase/(Decrease)	0.03309
21 Monthly Increase/(Decrease) - 1000 kWh	\$ 33.09
22 % Increase/(Decrease) in LEAC	28.11%
23 % Increase/(Decrease) in Total Bill	15.59%
24 Discount (3%) - Primary 13.8 KV	\$ 0.146252
25 Discount (4%) - 34.5 KV	\$ 0.145831
26 Discount (5%) - 115 KV	\$ 0.144036