

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 21-14
)
Guam Power Authority Levelized Energy)
Adjustment Clause (LEAC)) **ALJ REPORT**
)
)
_____)



INTRODUCTION

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 August 1, 2021, for the next six-month period.¹ In its Petition, GPA seeks to increase the Fuel Recovery Factor from \$0.11000/kWh to \$0.167564/kWh effective for meters read on or after August 1, 2021.² The change would reflect a 52.33% increase in the LEAC Factor and a 28.13% increase in the Total Bill.³

GPA states that “[T]he basis for the LEAC filing is due primarily to the continuing increase in worldwide fuel prices. GPA believes that the market will increase to the \$77.36/bbl. range during the period.”⁴

BACKGROUND

Between February 1, 2020, and June 1, 2020, the PUC reduced the LEAC Factor from \$0.154242/kWh to \$0.086800.⁵ The LEAC Factor of \$0.086800 was in effect from June 1,

¹ GPA LEAC Filing, GPA Docket 21-14, dated June 10, 2021.

² Id., at p. 1.

³ Guam Consolidated Commission on Utilities, Resolution No. 2021-12, Authorizing the Management of the Guam Power Authority to Petition the Guam Public Utilities Commission for a Change in the Levelized Energy Adjustment Clause, adopted and approved on May 25, 2021, Exhibit “A”.

⁴ Id.

⁵ PUC Order, GPA Docket 20-13, dated January 28, 2021, at p. 1, fn. 4.

2020, through January 31, 2021.⁶ From February 1, 2021, through July 31, 2021, the PUC established the current LEAC Factor of \$0.110000/kWh.⁷

On January 28, 2021, the PUC authorized GPA to withdraw \$10M from the Self Insurance Fund to offset against the LEAC Under-Recovery.⁸ The PUC also authorized GPA to withdraw \$5M from the internally funded Capital Improvement Project Funds and to offset such amount against the LEAC Under-Recovery.⁹ In the current LEAC period, from February 1, 2021, to the present, GPA has not yet applied the Self Insurance and CIP Funds to the LEAC Under-Recovery. The estimated LEAC Under-Recovery as of July 31, 2021, will be \$30,379,234.00.¹⁰

For the upcoming LEAC period, GPA intends to apply the \$10M and \$5M for self-insurance and CIP funds to the LEAC Under-Recovery. Thus, the under-recovery balance as of August 1, 2021, will be \$15M. If the PUC raises the LEAC rate from \$0.11000/kWh to \$0.167564/kWh effective August 1, 2021, the estimated Under-Recovery as of January 31, 2022, will be \$7.5M.¹¹

In Resolution No. 2021-12, the Guam Consolidated Commission on Utilities authorized the General Manager of the Guam Power Authority to petition the PUC for the proposed secondary voltage LEAC rate of \$0.167564/kWh effective for the period from August 1, 2021, to January 31, 2022.¹²

⁶ Id., at pgs. 3-4,

⁷ PUC Order, GPA Docket 21-04, dated January 28, 2021, at p. 9.

⁸ Id., at p. 3.

⁹ Id., at p. 4.

¹⁰ CCU Resolution No. 2021-12, Exhibit "A", at LEAC Update-Historical LEAC Over/(Under) Recovery.

¹¹ GPA LEAC Filing, GPA Docket 21-14, dated June 10, 2021, at p. 1.

¹² Guam Consolidated Commission on Utilities, Resolution No. 2021-12, Authorizing the Management of the Guam Power Authority to Petition the Guam Public Utilities Commission for a Change in the Levelized Energy Adjustment Clause, adopted and approved on May 25, 2021.

In its Filing, GPA has considered for possible proposals for the new LEAC rate effective August 1, 2021. These four rates are set forth in Exhibit "1" attached hereto [LEAC Update-Proposed Rate].¹³ The calculation for GPA's proposed new LEAC Factor, effective August 1, 2021, is attached hereto as Exhibit "2".¹⁴

ANALYSIS

I. An Increase in the LEAC Factor is required because of the Drastic Rise in Fuel Oil Prices.

The present LEAC Factor of \$0.11000/kWh has been insufficient to pay for GPA's fuel costs. As of January 31, 2021, the Under-Recovery balance was \$13,230,995. That Under-Recovery Balance has now risen to approximately \$30,379,234 as of July 31, 2021.¹⁵

The following chart shows the dramatic increase in fuel oil pricing reflected by the Morgan Stanley pricing figures over the past nine months:

	November 4, 2020	February 1, 2021	April 5, 2021	May 12, 2021	July 16, 2021
SING HSFO 180 CST (per metric ton)	\$266.48	\$329.73	\$371.40	\$388.69	\$413.64
SING Gasoil 10 PPM (per barrel)	\$43.91	\$60.89	\$67.80	\$73.84	\$78.54

¹³ CCU Resolution No. 2021-12, Exhibit "A" [LEAC Update-Proposed Rate].

¹⁴ CCU Resolution No. 2021-12, Exhibit "A".

¹⁵ CCU Resolution No. 2021-12, Exhibit "A", at LEAC Update-Historical LEAC Over/(Under) Recovery.

It appears that there has been a roughly 25%-28% increase in fuel prices during the present LEAC period. In terms of prices paid by GPA for RFO per barrel, prices rose from \$57.28 per barrel in November 2020 to \$59.15 per barrel in January 2021, and to \$74.92 per barrel in May 2021.¹⁶ GPA anticipates that the average price barrel for RFO for the upcoming LEAC period from August 2021 through January 2022 will be \$75.14 per barrel; the average price per Bbl for Diesel will be \$83.93.¹⁷

The LEAC Under-Recovery increased from \$13,230,995 on January 31, 2021, to \$30,379,234 as of July 31, 2021. The increase in the Under Recovery Balance demonstrates that the LEAC rate of \$0.11000/kWh was inadequate to recover GPA's full fuel cost in the current LEAC period. To fully recover the fuel cost in the current period, the LEAC Rate would have needed to be readjusted to \$0.181534 (this calculation does not include or consider the \$15M which GPA will offset against the LEAC Under-Recovery).¹⁸

The CCU has noted in its Resolution that the average market price of residual fuel oil and diesel used in the initial filing for the LEAC period ending January 31, 2021, was approved at \$53.82/bbl; however, the current projection for the same period now is \$68.62/bbl. Again, this fact demonstrates that LEAC rate of \$0.11000/kWh during the current LEAC period was inadequate to pay the full price of GPA's fuel oil.¹⁹

That fuel prices have been rapidly rising is also evident from the spike in gasoline prices experienced by the automobile drivers of Guam. Attached hereto as Exhibit "3" is a

¹⁶ CCU Resolution No. 2021-12, Exhibit "A" [LEAC Update-GPA RFO Purchases (per Barrel)].

¹⁷ Id.

¹⁸ GPA Petition, LEAC Reconciliation Attachment.

¹⁹ CCU Resolution No. 2021-12, at p. 2.

chart indicating illustrative gas prices per gallon for regular gas. Since January of this year, gas prices have risen over \$.84 per gallon.

II. Based upon its Petition, GPA's Request to increase the LEAC rate from \$0.11000/kWh to \$0.167564/kWh is justified.

GPA considered four proposals before arriving at its conclusion that the LEAC Rate should be increased to \$0.167564 per kWh. These proposals are set forth in Exhibit "1" attached hereto. The first proposal, for full Recovery of the \$30 million under-recovery, would require an increase in the LEAC Factor to \$0.204189. Such a factor would result in a nearly 86% increase in LEAC and a monthly increase in the Total Bill of over 46%. The average residential monthly bill for a user of 1000 kWh would increase by \$94.19.

Under a second proposal, GPA would apply the \$15M Capex and Self-Insurance Funds to the \$30M Under-Recovery. Thus, as of August 1, 2021, there would be an under-recovery balance of \$15M. A LEAC Factor of \$0.179772 would be designed to fully recover the under-recovery balance of \$15M. However, such a factor would result in a 34.10% increase a total average residential bill and a monthly increase of nearly \$70.

GPA determined that the fuel price increase in the first two proposals would be too burdensome for ratepayers.

With the third proposal, which is favored by GPA, the \$15M of Capex and Self-Insurance Funds would be applied as of February 1, 2021, to leave a \$15M Under-Recovery.²⁰ The LEAC Factor of \$0.167564 would result in a remaining under-recover

²⁰ When GPA withdraws \$10M from the Self Insurance Funds, it will be required to reinstitute the Ratepayer Self Insurance Surcharge, effective August 1, 2021. Protocol IX of the SIPP states: "The Self Insurance Surcharge will remain in effect until the amount in the SIP Reserve reaches the SIP Reserve Cap

of \$7.5M as of January 31, 2022, thus constituting a 50% recovery of the under-recovery balance. Such proposal constitutes a middle ground which allows GPA to make progress in reducing the under-recovery balance. To the extent possible, it attempts to mitigate ratepayer impact. The average monthly increase for a residential user of 1,000 kWh will be \$57.56. This proposal is more reasonable than the others, which would substantially increase ratepayer fees.

To help ratepayers, GPA will be utilizing non-fuel revenues of \$15M to offset the ratepayer impact. There is no solution under which GPA can avoid a substantial increase in LEAC.

The fourth proposal reviewed by GPA is what is referred to as a "Break-Even", with no recovery of the under-recovery. Such an approach would still result in an under-recovery at the end of the next LEAC period of \$15M, with a charge at \$0.155356 per kWh.

Updated fuel prices supplied by GPA indicate that the "no-recovery" proposal is not adequate and will likely result in an even much larger under-recovery as of January 31, 2022. As discussed in the following section of this Report, the updated fuel pricing submitted by GPA on July 20, 2021, indicates that fuel prices have increased considerably even since GPA filed its Petition on June 10, 2021.

III. Updated Fuel Pricing suggests that a LEAC Factor of \$0.167564/kWh will not be adequate because of the increase in fuel prices since May,

and shall be reinstituted at any time the balance in the SIP Reserve thereafter falls to less than \$18,000,000." Effective August 1, 2021, according to GPA CFO John Kim, ratepayers using 1,000 kWh will be charged \$2.90 per month under the Self Insurance Surcharge, and higher amounts to Commercial and Government classes based upon usage. The Surcharge would remain in effect from August 1, 2021, to March 31, 2024.

2021; the PUC should adopt a LEAC Factor of \$0.171458/kWh.

GPA's initial proposal in its Petition for a LEAC Factor of \$0.167564 was based upon fuel pricing from May 6 through May 12 of 2021. However, since May 12 alone, fuel prices for HSFO and Diesel have increased by roughly 6.4%. GPA's proposal could not have considered these subsequent fuel price increases. When GPA filed its Petition for a LEAC Factor of \$0.167564/kWh, the estimated Under-Recovery Balance as of January 31, 2022, was \$7.5M.

In 2015, the PUC adopted a procedure whereby GPA is required to update its LEAC fuel forecast based upon the five-day period which is ten days before the meeting at which the PUC determines the LEAC Factor.²¹ The PUC then sets the LEAC Factor based upon the updated fuel prices.²² In accordance with this procedure, GPA CFO John Kim submitted the updated Morgan Stanley Fuel Pricing to PUC on July 20, 2021.²³ The updated fuel prices result in an estimated fuel price increase for the next six months from \$75.14 per Bbl-RFO to \$77.16, and from \$83.93 per Bbl-Diesel to \$89.35. To now reduce the Under-Recovery balance to \$7.5M, the LEAC Factor would have to be raised to \$0.175527.²⁴ If the LEAC Factor is set at \$0.167564/kWh, the Under-Recovery balance as of January 31, 2022, would now be \$12.4M.²⁵ The estimated Under-Recovery is now nearly \$5M more than when GPA filed its Petition.

GPA has also submitted an alternate calculation, which would set a LEAC Factor of \$0.171458 (see Exhibit "5" attached hereto); such a Factor would result in an Under-

²¹ PUC Order, GPA Docket 15-27, dated January 25, 2016, at p. 3.

²² Id.

²³ Emails from GPA CFO John Kim to PUC ALJ Fred Horecky dated July 20, 2021.

²⁴ Id.

²⁵ Id., see Exhibit 4 attached hereto, updated GPA Proposed LEAC Rate.

Recovery of \$10M as of January 31, 2021.²⁶ The change would reflect a 56% increase in the LEAC Factor and a 30.04% increase in the Total Bill. Such factor should be adopted by PUC. An Under-Recovery Balance of \$12.4M under a LEAC Factor of \$0.167564/kWh is not acceptable. Ratepayers would start off “in the hole” at the end of the next LEAC period, and future additional, and likely substantial, LEAC increases would be required to recover the Under-Recovery Balance.

Technically, under Tariff “Z”, there should not be any Under-Recovery Balance. The LEAC Factor is supposed to recover the actual total cost of fuel purchased by GPA. The best solution, and the one that will be least painful to ratepayers in the long run, is to recover as much as possible of the Under-Recovery Balance during the upcoming LEAC period. This approach is also most consistent with required PUC procedure, which requires the PUC to set LEAC factors based upon the updated fuel prices for the five-day period which is ten days before the PUC meeting.

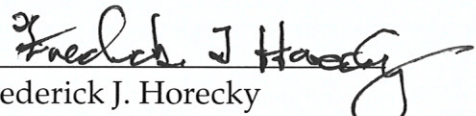
RECOMMENDATION

The Administrative Law Judge recommends that the PUC set the LEAC Factor for the next six (6) month period at \$0.171458/kWh. GPA should apply \$10M from the SIP Fund and \$5M from CIP Funds at the beginning of the upcoming LEAC period to offset the projected LEAC Under-Recovery.

A Proposed Order is submitted herewith for the consideration of the Commissioners.

²⁶ Proposed LEAC Rate, Exhibit 5 attached hereto (Email from GPA CFO John Kim to PUC ALJ Fred Horecky dated July 22, 2021).

Dated this 26th day of July 2021.


Frederick J. Horecky
Chief Administrative Law Judge

LEAC Update - Proposed Rate

8

Average Price per Bbl-RFO
 Average Price per Bbl-Diesel
 Number 6 (HSFO/LSFO)
 Number 2 (Diesel)
 Renewable (Solar)
 TOTAL COST
 Handling Costs
 Total Current Fuel Expense
 Civilian Allocation
 LEAC Current Fuel Expense
 Estimated DSM for this period
 Deferred Fuel Expense at the beginning of the period
 Total LEAC Expense
 Less: Trans. Level Costs
 Distribution Level Costs
 Over recovery/(Under) at the end of the period
 Adjusted Distribution Level Costs
 Distribution Level Sales (mWh)
 LEAC Factor Distribution
 Current LEAC Factor Distribution
 Increase/(Decrease)
 Monthly Increase/(Decrease) - 1000 kWh
 % Increase/(Decrease) in LEAC
 % Increase/(Decrease) in Total Bill
 Discount (3%) - Primary 13.8 KV
 Discount (4%) - 34.5 KV
 Discount (5%) - 115 KV

Full Recovery of \$30 million	Start period at \$15M Under Recovery (After \$5M Capex & \$15 Self-Insurance)			Break-even (No Recovery)
\$ 75.14	Full Recovery (Recovery \$15M)	50% Recovery (Recover \$7.5M)		\$ 75.14
\$ 83.93	\$ 75.14	\$ 83.93		\$ 83.93
\$ 76,604	\$ 83.93	\$ 83.93		\$ 76,604
29,011	\$ 76,604	\$ 76,604		29,011
4,407	\$ 29,011	\$ 29,011		4,407
\$ 110,022	\$ 4,407	\$ 4,407		\$ 110,022
6,453	\$ 110,022	\$ 110,022		6,453
\$ 116,476	\$ 6,453	\$ 6,453		\$ 116,476
80.328%	\$ 116,476	\$ 116,476		80.328%
\$ 93,563	80.328%	80.328%		\$ 93,563
\$ 1,500	\$ 93,563	\$ 93,563		\$ 1,500
30,379	\$ 1,500	\$ 1,500		15,379
\$ 125,442	\$ 15,379	\$ 15,379		\$ 110,442
(6,611)	\$ 110,442	\$ 110,442		(5,030)
\$ 118,831	(5,821)	(5,426)		\$ 105,412
\$ -	\$ 104,621	\$ 105,017		\$ (15,000)
\$ 118,831	\$ -	\$ (7,500)		\$ 90,412
581,966	\$ 104,621	\$ 97,517		581,966
0.204189	581,966	581,966		0.155356
0.110000	0.179772	0.167564		0.110000
0.09419	0.110000	0.110000		0.04536
\$ 94.19	0.06977	0.05756		\$ 45.36
85.63%	69.77	57.56		41.23%
46.03%	63.43%	52.33%		22.17%
\$ 0.158084	34.10%	28.13%		\$ 0.150711
\$ 0.197513	\$ 0.174397	\$ 0.162554		\$ 0.150277
\$ 0.195082	\$ 0.173895	\$ 0.162086		\$ 0.148427
	\$ 0.171754	\$ 0.160091		



GPA

Proposed LEAC Rate (\$000)

7.5M Under Recovery as of 01.31.22	
MS Pricing 05.06.21 to 05.12.21 Aug 21- Jan 22	
Average Price per Bbl-RFO	\$ 75.14
Average Price per Bbl-Diesel	\$ 83.93
Number 6 (HSFO/LSFO)	\$ 76,604
Number 2 (Diesel)	29,011
Renewable (Solar)	4,407
TOTAL COST	\$ 110,022
Handling Costs	6,453
Total Current Fuel Expense	\$ 116,476
Civilian Allocation	80.328%
LEAC Current Fuel Expense	\$ 93,563
Estimated DSM for this period	\$ 1,500
Deferred Fuel Expense at the beginning of the period	15,379
Total LEAC Expense	\$ 110,442
Less: Trans. Level Costs	(5,426)
Distribution Level Costs	\$ 105,017
Over recovery/(Under) at the end of the period	\$ (7,500)
Adjusted Distribution Level Costs	\$ 97,517
Distribution Level Sales (mWh)	581,966
LEAC Factor Distribution	0.167564
Current LEAC Factor Distribution	0.110000
Increase/(Decrease)	0.05756
Monthly Increase/(Decrease) - 1000 kWh	\$ 57.56
% Increase/(Decrease) in LEAC	52.33%
% Increase/(Decrease) in Total Bill	28.13%
Discount (3%) - Primary 13.8 KV	\$ 0.162554
Discount (4%) - 34.5 KV	\$ 0.162086
Discount (5%) - 115 KV	\$ 0.160091

Mobil Gas Price

Gas price	
7/18/2013	4.68
1/7/2014	4.73
	4.88
7/4/2014	4.98
8/8/2014	4.83
10/21/2014	4.57
	4.38
12/1/2014 \$	4.18
12/11/2014 \$	3.98
12/18/2014 \$	3.83
1/8/2015 \$	3.68
1/16/2015 \$	3.57
2/24/2015 \$	3.83
6/12/2015 \$	4.12
7/16/2015 \$	3.98
8/21/2015 \$	3.77
8/28/2015 \$	3.57
12/22/2015 \$	3.55
1/8/2016 \$	3.46
1/22/2016 \$	3.35
2/12/2016 \$	3.25
3/10/2016 \$	3.41
5/24/2016 \$	3.61
7/27/2016 \$	3.51
10/8/2016 \$	3.65
12/15/2016 \$	3.86
6/21/2017 \$	3.76
10/20/2017 \$	3.86
1/1/2018 \$	3.88
1/8/2018 \$	4.03
1/31/2018 \$	4.18
4/1/2018 \$	4.22
5/14/2018 \$	4.42
10/9/2018 \$	4.52
11/14/2018 \$	4.43
11/22/2018 \$	4.33
12/3/2018 \$	4.23
12/18/2018 \$	4.13
12/24/2018 \$	4.00
1/8/2019 \$	3.90
3/1/2019 \$	3.99
3/14/2019 \$	4.15

3/26/2019	\$	4.25
4/13/2019	\$	4.35
6/4/2019	\$	4.20
6/13/2019	\$	4.10
7/18/2019	\$	4.20
8/21/2019	\$	4.10
9/18/2019	\$	4.25
10/4/2019	\$	4.15
1/8/2020	\$	4.25
1/24/2020	\$	4.15
2/5/2020	\$	4.05
3/3/2020	\$	3.95
3/10/2020	\$	3.85
3/27/2020	\$	3.50
4/1/2020	\$	3.30
4/8/2020	\$	3.15
4/17/2020	\$	3.05
4/24/2020	\$	2.98
5/7/2020	\$	3.13
5/19/2020	\$	3.28
6/4/2020	\$	3.43
6/12/2020	\$	3.58
12/17/2020	\$	3.78
1/10/2021	\$	3.88
1/23/2021	\$	3.98
2/12/2021	\$	4.10
2/18/2021	\$	4.20
3/2/2021	\$	4.30
3/17/2021	\$	4.42
5/7/2021	\$	4.52
6/11/2021	\$	4.62
7/2/2021	\$	4.72

GPA

Proposed LEAC Rate (\$000)

As Updated	
MS Pricing 07.12.21 to 07.16.21	
Aug 21- Jan 22	
Average Price per Bbl-RFO	\$ 77.16
Average Price per Bbl-Diesel	\$ 89.35
Number 6 (HSFO/LSFO)	\$ 78,669
Number 2 (Diesel)	30,884
Renewable (Solar)	4,407
TOTAL COST	\$ 113,960
Handling Costs	6,453
Total Current Fuel Expense	\$ 120,414
Civilian Allocation	80.328%
LEAC Current Fuel Expense	\$ 96,727
Estimated DSM for this period	\$ 1,500
Deferred Fuel Expense at the beginning of the period	17,108
Total LEAC Expense	\$ 115,334
Less: Trans. Level Costs	(5,426)
Distribution Level Costs	\$ 109,909
Over recovery/(Under) at the end of the period	\$ (12,392)
Adjusted Distribution Level Costs	\$ 97,517
Distribution Level Sales (mWh)	581,966
LEAC Factor Distribution	0.167564
Current LEAC Factor Distribution	0.110000
Increase/(Decrease)	0.05756
Monthly Increase/(Decrease) - 1000 kWh	\$ 57.56
% Increase/(Decrease) in LEAC	52.33%
% Increase/(Decrease) in Total Bill	28.13%
Discount (3%) - Primary 13.8 KV	0.162554
Discount (4%) - 34.5 KV	0.162086
Discount (5%) - 115 KV	0.160091

GPA**Proposed LEAC Rate (\$000)**

As Updated	
MS Pricing 07.12.21 to 07.16.21	
Aug 21- Jan 22	
Average Price per Bbl-RFO	\$ 77.16
Average Price per Bbl-Diesel	\$ 89.35
Number 6 (HSFO/LSFO)	\$ 78,669
Number 2 (Diesel)	30,884
Renewable (Solar)	4,407
TOTAL COST	\$ 113,960
Handling Costs	6,453
Total Current Fuel Expense	\$ 120,414
Civilian Allocation	80.328%
LEAC Current Fuel Expense	\$ 96,727
Estimated DSM for this period	\$ 1,500
Deferred Fuel Expense at the beginning of the period	17,108
Total LEAC Expense	\$ 115,334
Less: Trans. Level Costs	(5,552)
Distribution Level Costs	\$ 109,783
Over recovery/(Under) at the end of the period	\$ (10,000)
Adjusted Distribution Level Costs	\$ 99,783
Distribution Level Sales (mWh)	581,966
LEAC Factor Distribution	0.171458
Current LEAC Factor Distribution	0.110000
Increase/(Decrease)	0.06146
Monthly Increase/(Decrease) - 1000 kWh	\$ 61.46
% Increase/(Decrease) in LEAC	55.87%
% Increase/(Decrease) in Total Bill	30.04%
Discount (3%) - Primary 13.8 KV	\$ 0.166331
Discount (4%) - 34.5 KV	\$ 0.165852
Discount (5%) - 115 KV	\$ 0.163810