

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 22-05
)
Guam Power Authority Levelized Energy)
Adjustment Clause (LEAC)) **ALJ REPORT**
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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 February 1, 2022, for the next six-month period.¹ In its Petition, GPA seeks to maintain the Fuel Recovery Factor at \$.171458/kWh effective for meters read on or after February 1, 2022. The change would reflect “no increase” in the LEAC factor and no increase for a residential customer utilizing an average of 1,000 kilowatt hours per month.²

If the current LEAC Factor is maintained at \$.171458/kWh for the next six-months, GPA projected in its Petition that there would be an under-recovery of \$17.6M by July 31, 2022.³

BACKGROUND

In GPA Docket 21-14, GPA had requested an increase in the LEAC Factor from \$.11000/kWh to \$.167564 effective for meters read on or after August 1, 2021.⁴ However, the PUC determined that : “Ratepayers will be able to accommodate...gradual increases more readily than one substantial increase which

¹ GPA LEAC Filing, GPA Docket 22-05, dated December 2, 2021.

² Id., at p. 1.

³ Id.

⁴ PUC Order, GPA Docket 21-14, dated July 29, 2021, at p. 1.

raised the LEAC Factor over 50% and the total Bill by over 30%...[T]he immediate raising of the LEAC Factor to \$0.167564...would be too great a financial impact on ratepayers given economic conditions caused by the COVID pandemic.”⁵

The PUC ordered three phased-in increases for the LEAC Factor: \$0.130400/kWh effective for meters read on or after August 1, 2021; \$0.150800/kWh effective for meters read on or after October 1, 2021; and \$0.171458/kWh effective for meters read on or after December 1, 2021.⁶ The LEAC Factor of \$0.171458/kWh has been in effect from December 1, 2021, to the present time.

GPA implemented the phased-in increases for the LEAC from the periods of August 2, 2021, through January 31, 2022, as ordered by the Public Utilities Commission.⁷

The average market price of residual fuel oil and diesel used in GPA's filing for the current LEAC period was approved at \$77.36/bbl for the six-month period ending January 31, 2022. The projected average price of residual fuel oil and diesel for the period ending July 31, 2022, is expected to reach \$87.48/bbl.⁸ GPA proposes to maintain the current LEAC Factor for the upcoming six-month period even though "...the most recent Morgan Stanley market projections indicate rising fuel prices..."⁹

GPA has also included an estimated \$1.5 million for costs associated with the Demand Side Management rebate program for the upcoming LEAC period.¹⁰

⁵ Id., at p. 5.

⁶ Id. and Exhibit "1" to the Order.

⁷ Consolidated Commission on Utilities GPA Resolution No.: FY2022-05, Authorizing the Management of the Guam Power Authority to Petition the Guam Public Utilities Commission to Maintain the Levelized Energy Adjustment Clause, adopted and approved on November 23, 2021, at p. 1.

⁸ Id. at p. 2.

⁹ Id.

¹⁰ Id.

The CCU authorized GPA to petition the PUC for the proposed secondary voltage LEAC rate of \$0.171458/kWh effective for the period from February 1, 2022, to July 31, 2022.¹¹

ANALYSIS

I. FUEL OIL PRICES AND THE LEAC UNDER-RECOVERY HAVE RISEN DURING THE PAST SIX MONTH LEAC PERIOD; THE LEAC UNDER-RECOVERY BALANCE HAS ALSO GROWN

Since the LEAC Factor of \$0.130400/kWh was approved for meters read on and after August 1, 2021, fuel prices have been erratic. Early in the LEAC period prices rose substantially, and then declined considerably. More recently prices have again increased. Overall, there has been an increase in the prices of residual fuel oil and diesel fuel over the past six months. Morgan Stanley fuel oil pricing figures indicate the following:

	8/2/21	10/5/21	12/1/21	1/12/22	1/20/22
SING HSFO 180 CST (per metric ton)	\$429.36	\$503.76	\$399.60	\$463.69	\$501.43
SING Gasoil 10 PPM (per barrel)	\$80.71	\$92.43	\$79.16	\$96.89	\$102.12 ¹²

¹¹ Id.

¹² These prices are compiled from the Morgan Stanley Asia Morning Call Price Indications dated August 1, 2021, October 5, 2021, December 1, 2021, January 4, 2022, and January 15, 2022.

During the present LEAC period, SING HSFO 180 CST prices increased by 16.8%. SING Gasoil 10 PPM increased by 26%.

Even though there were three successive increases in the LEAC Factor over the past six months, the LEAC under-recovery balance has increased considerably during the current LEAC period. In July 2021, GPA estimated that the LEAC under-recovery balance would be \$7M as of December 1, 2021.¹³ However, the actual under-recovery balance as of December 1, 2021, was \$19.7M.¹⁴ The likely reason for the under-recovery was that the two LEAC price increases on August 1, 2021, and October 1, 2021, were not sufficient to allow GPA to fully recover its fuel prices. As shown by the above chart of Morgan Stanley pricing, there was a large increase in fuel prices between August 2, 2021, and October 5, 2021.

II. GPA'S FILING IN EARLY DECEMBER 2021 PREDICTED THAT THE LEAC UNDER-RECOVERY WOULD BE \$17.6M AS OF JULY 31, 2022

In its Petition, based upon November 2021 fuel oil prices, GPA anticipated that the LEAC under-recovery would be \$20.6M as of January 31, 2022. However, the projected under-recovery was expected to be approximately \$17.6M by July 31, 2022.¹⁵

By maintaining the LEAC factor at \$.171458/kWh for the upcoming LEAC period, it was anticipated, based upon the original Petition, that the under-recovery would drop from \$20.6M to \$17.6M, a decrease of \$3M. Progress would have been made by GPA in reducing the LEAC under-recovery.

¹³ PUC Order, GPA Docket 21-14, Exhibit 1, dated July 29, 2021.

¹⁴ Phone Conference between PUC ALJ Fred Horecky and GPA CFO John Kim on January 6, 2022. The \$19.7M figure does not include a \$5M offset from GPA's CIP Funds.

¹⁵ GPA LEAC Filing, GPA Docket 22-05, dated December 2, 2021, at p. 1.

While the LEAC under-recovery balance would still be at a very high, and undesirable level, the reduction in the under-recovery anticipated for the upcoming LEAC period was potentially encouraging and the under-recovery balance seemed to be headed in the right direction.

III. GPA'S UPDATED FUEL OIL PRICING IN JANUARY 2022 INDICATES THAT FUEL PRICES HAD INCREASED MORE RAPIDLY THAN ANTICIPATED IN GPA'S PETITION, AND THAT THE LEAC UNDER-RECOVERY WILL BE \$23.4M BY JULY 31, 2022

The updated Morgan Stanley fuel oil pricing for January 10, 2022, through January 14, 2022, indicated that fuel prices had increased considerably since GPA filed its Petition on December 2, 2021. Based upon the Morgan Stanley fuel oil pricing from November 8, 2021, through November 12, 2021, GPA had initially estimated in its Petition that the average price per Bbl-RFO in the upcoming LEAC period (Feb.-July 22) would be \$82.76, and \$95.93 as the average price per Bbl-Diesel. As a result of the increase in fuel prices, the updated Morgan Stanley fuel oil prices for the LEAC period (Feb.-July 22) are now projected to be \$84.40 per Bbl-RFO and \$101.79 per Bbl-Diesel. See GPA Proposed LEAC Rate, attached hereto as "Exhibit A".¹⁶

While it appeared when GPA's Petition was filed in December 2021 that the LEAC under-recovery would decrease from Feb. 22 to July 22 in the amount of \$3M, it now appears that the LEAC under-recovery will increase by \$2.6M to \$23,210,000 as of July 31, 2022.¹⁷ Where a LEAC under-recovery balance increases by \$2M during the six-month levelized period, GPA may readjust the Fuel Recovery Charge to recover such deficit, subject to PUC approval.¹⁸

¹⁶ Email from John Kim, GPA CFO, to Fred Horecky, PUC ALJ, dated January 19, 2022.

¹⁷ Id.

¹⁸ GOA Schedule "Z", Levelized Energy Adjustment Clause, Tariff FY 2016.

In addition, in GPA Docket 21-14, the PUC ordered that GPA apply \$10M from the SIP Fund and \$5M from CIP Funds as of August 1, 2021, to offset the LEAC under-recovery Balance.¹⁹ GPA has applied the \$10M from the SIP Fund. However, GPA now takes the position that it cannot apply actual CIP funds to offset the under-recovery balance. This is also a reason for the deficit in the under-recovery balance.

IV. THERE ARE THREE OPTIONS REGARDING THE LEAC FACTOR FOR THE NEXT SIX-MONTH PERIOD THAT THE PUC COMMISSIONERS CAN CONSIDER

A. No Increase in the LEAC Factor (maintain at \$.171458/kWh)

The problem with this option is that the LEAC under-recovery will increase by \$2.6M to \$23,210,000 as of July 31, 2022. The LEAC under-recovery balance would still be at the highest levels ever in July 2022, in the \$20-30M range. If there is no increase, the Commission would very likely have to increase the factor for the 6-month period after August 1, 2022. At some point GPA must recover the under-recovery balance. A huge under-recovery balance could also negatively affect GPA's credit rating at some point.

B. Full Recovery (raise the Factor to \$0.209582)

The LEAC under-recovery balance would be \$0 as of July 31, 2022. The value of this approach is that GPA will be "made whole" for the amounts that it has expended for fuel. However, a full recovery factor would set a rate which would be difficult for ratepayers to bear—a nearly four cent increase in the current price of fuel per kWh, which would constitute a \$38.12 monthly increase in the average residential bill. The

¹⁹ PUC Order, GPA Docket 21-14, dated July 28, 2021, at p.7.

increase would be a 14.17% increase in the total bill and a 22.24% increase in the LEAC factor.²⁰

C. Factor to Prevent further Growth of the Under Recovery Balance
(\$0.180837)

The LEAC under-recovery balance is roughly \$17.6M as of January 31, 2022. If the LEAC factor is set at \$0.180837, the LEAC under-recovery balance will remain the same as of August 31, 2022, roughly \$17.6M.²¹ This approach is most consistent with Tariff Z, under which the PUC is supposed to determine the price of fuel for the next LEAC period and set a factor which will fully recover the price of the fuel used during that period. It is advantageous to prevent further growth in the under-recovery balance. Setting the LEAC factor at this level will also possibly prevent the need for a further LEAC increase effective August 1, 2022. Otherwise, a larger increase will be necessary at that time to recover the growing under-recovery balance. This increase, roughly one cent per kWh, would constitute an average monthly increase of \$9.38--a 3.49% increase in the total bill and a 5.47% increase in the LEAC factor.²²

RECOMMENDATION

The Administrative Law Judge recommends that the PUC increase the LEAC factor to \$0.180837/kWh for meters read on and after February 1, 2022. This factor would prevent further growth in the under-recovery balance and could prevent the need by the PUC to further increase the LEAC factor for the LEAC period commencing August

²⁰ See Exhibit "B" attached hereto, LEAC Comparison of Three Possible Scenarios (Email from John Kim, GPA CFO, to Fred Horecky, PUC ALJ, dated January 21, 2022.

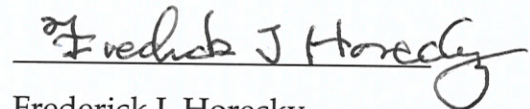
²¹ Id.

²² Id.

1, 2022. Otherwise, a larger increase will be necessary at that time to recover the growing LEAC under-recovery balance.

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

Dated this 22nd day of January 2022.

A handwritten signature in black ink, reading "Frederick J. Horecky". The signature is written in a cursive style with a large, stylized "F" and "H".

Frederick J. Horecky
Chief Administrative Law Judge

GPA

Proposed LEAC Rate (\$000)

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

Actuals as of Sept 2021		Actuals as of Nov 2021	
No Change		No Change	
MS Pricing 11.08.21 to 11.12.2021		MS Pricing 01.10.2022 to 01.14.2022	
Feb 22 - Jul 22		Feb 22 - Jul 22	
\$	82.76	\$	84.40
\$	95.53	\$	101.79
\$	65,181	\$	66,477
\$	44,139	\$	47,029
\$	9,718	\$	9,718
\$	119,037	\$	123,224
\$	8,753	\$	8,753
\$	127,790	\$	131,977
	79.794%		79.794%
\$	101,969	\$	105,310
\$	1,500	\$	1,500
\$	18,496	\$	20,786
\$	121,965	\$	127,596
\$	(5,991)	\$	(5,991)
\$	115,974	\$	121,605
\$	(17,578)	\$	(23,210)
\$	98,395	\$	98,395
	573,876		573,876
	\$0.171458		\$0.171458
\$	0.171458	\$	0.171458
\$	-	\$	-
	0.00%		0.00%
	0.00%		0.00%
\$	0.166331	\$	0.166331
\$	0.165852	\$	0.165852
\$	0.163810	\$	0.163810

GPA
Proposed LEAC Rate (\$000)

EXHIBIT A

	Actuals as of Nov 2021	Actuals as of Nov 2021	Actuals as of Nov 2021
	No Change	Scenario \$17.5 Under-Recovery	Scenario Full Recovery
	MS Pricing 01.10.2022 to 01.14.2022	MS Pricing 01.10.2022 to 01.14.2022	MS Pricing 01.10.2022 to 01.14.2022
	Feb 22 - Jul 22	Feb 22 - Jul 22	Feb 22 - Jul 22
Average Price per Bbl-RFO	\$ 84.40	\$ 84.40	\$ 84.40
Average Price per Bbl-Diesel	\$ 101.79	\$ 101.79	\$ 101.79
Number 6 (HSFO/LSFO)	\$ 66,477	\$ 66,477	\$ 66,477
Number 2 (Diesel)	\$ 47,029	\$ 47,029	\$ 47,029
Renewable (Solar)	\$ 9,718	\$ 9,718	\$ 9,718
TOTAL COST	\$ 123,224	\$ 123,224	\$ 123,224
Handling Costs	\$ 8,753	\$ 8,753	\$ 8,753
Total Current Fuel Expense	\$ 131,977	\$ 131,977	\$ 131,977
Civilian Allocation	79.794%	79.794%	79.794%
LEAC Current Fuel Expense	\$ 105,310	\$ 105,310	\$ 105,310
Estimated DSM for this period	\$ 1,500	\$ 1,500	\$ 1,500
Deferred Fuel Expense at the beginning of the period	\$ 20,786	\$ 20,786	\$ 20,786
Total LEAC Expense	\$ 127,596	\$ 127,596	\$ 127,596
Less: Trans. Level Costs	\$ (5,991)	\$ (6,318)	\$ (7,322)
Distribution Level Costs	\$ 121,605	\$ 121,278	\$ 120,274
Over recovery/(Under) at the end of the period	\$ (23,210)	\$ (17,500)	\$ -
Adjusted Distribution Level Costs	\$ 98,395	\$ 103,778	\$ 120,274
Distribution Level Sales (mWh)	573,876	573,876	573,876
LEAC Factor Distribution	\$0.171458	\$0.180837	\$0.209582
Current LEAC Factor Distribution	\$ 0.171458	\$ 0.171458	\$ 0.171458
Increase/(Decrease)	-	0.00938	0.03812
Monthly Increase/(Decrease) - 1000 kWh	\$ -	\$ 9.38	\$ 38.12
% Increase/(Decrease) in LEAC	0.00%	5.47%	22.24%
% Increase/(Decrease) in Total Bill	0.00%	3.49%	14.17%
Discount (3%) - Primary 13.8 KV	\$ 0.166331	\$ 0.175404	\$ 0.203284
Discount (4%) - 34.5 KV	\$ 0.165852	\$ 0.174898	\$ 0.202699
Discount (5%) - 115 KV	\$ 0.163810	\$ 0.172745	\$ 0.200204

EXHIBIT "B"