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Public Utilities Commission
of Guam

BEFORE THE PUBLIC UTILITIES COMMISSION
OF GUAM

GUAM POWER AUTHORITY
LEVELIZED ENERGY ADJUSTMENT CLAUSE [LEAC]

DOCKET 99-12

ORDER

Regulatory Matters Under Consideration

This Order addresses regulatory matters related to Guam Power Authority's *[GPA]* August 19, 2004 petition for relief under Guam Public Utilities Commission's *[PUC]* LEAC protocol:

1. *LEAC Factor [10/1/04 - 3/31/05].*

In accordance with the protocol established by PUC Order dated January 29, 1996, as amended by Order dated March 14, 2002, GPA requests that PUC leave the current LEAC factor in place, without change, for the period October 1, 2004 to March 31, 2005. Included in the current LEAC factor [$0.059753 per kWh] is a funding mechanism, which enabled GPA, during the LEAC cycle ending September 30, 2004 to recover $3 million dollars in deferred fuel expenses. Pursuant to PUC's September 24, 2003 Order, this revenue stream will be reduced in the upcoming LEAC cycle to permit GPA to recover no more than $1 million in deferred fuel expenses. *Accordingly, the current LEAC factor will recover during the upcoming cycle $2 million dollars more than is needed to cover projected fuel and related expenses during the cycle.* Nevertheless, GPA and Georgetown agree that it would be imprudent to lower the LEAC factor for two reasons: a] GPA's fuel hedging contract will expire on December 31, 2004, thereby putting GPA at risk to pay the market price for fuel. Under the hedging contract, GPA was protected from fuel prices in excess of $23.71 per barrel for number six oil. b] Fuel prices are currently over $50 per barrel for crude oil. The $2 million dollar reserve would provide GPA some protection from the significant increase in the cost of fuel, which GPA will experience when its current hedging contract expires.

2. *GPA Generation Performance Standards.*

PUC's September 2003 LEAC Order directed GPA and Georgetown Consulting Group *[PUC's independent regulatory consultant - GCG]* to develop the following documents in preparation for PUC's October 2004 LEAC hearing:

a. A comprehensive plan for GPA's management of its generating assets.

b. Performance standards, which would be used by PUC commencing October 1, 2004 to determine the prudence of incurred fuel costs.

c. A system performance standard, which would be used by PUC commencing October 1, 2004 to determine GPA's entitlement to recover the balance of its deferred fuel expenses *[$5.3 million]*.

GPA and GCG have requested that PUC's consideration of these documents, including the standard, which will be used to determine GPA's entitlement to recovery of deferred fuel expenses in the current LEAC cycle, be deferred until the January 2005 regulatory session. In its September 21, 2004 LEAC report, GCG finds that GPA has made significant progress in the development of these three work products.

3. *Cabras 3&4 Baseload Plants PMC.*

GPA has requested an extension of the October 1, 2004 deadline, which was established by PUC Order dated September 24, 2003 for GPA to bring the Cabras 3 & 4 baseload plants under private management. GPA requests that the deadline be extended to December 1, 2004. GPA has encountered complexities in the procurement process, which have extended the time necessary to award the contract.

4. *GPA Line Losses.*

In its September 21, 2004 LEAC report *[at page 7]*, GCG finds that there has been a disturbing increase in GPA line losses over the past three years. A 3% reduction in these losses *(assuming equal reduced production from each unit)* would result in reduced fuel costs of over $3 million dollars per year. GCG recommends that GPA be ordered to file with PUC a plan of action to reduce these line losses and quarterly reporting on its progress.

5. *Cabras 3&4 Lubrication Oil.*

In its September 2003 LEAC Order, PUC authorized GPA to recover lubrication oil, which is consumed in the Cabras baseload units 3 and 4 combustion process *[lube oil]* as an allowable expense under the LEAC protocol. This ruling was supported by a GPA/Georgetown stipulation dated September 17, 2003. Thereafter, GCG requested and was granted relief from the stipulation, which caused the need for an evidentiary hearing on the allowability of the expense. During its October 1, 2004 LEAC hearing, PUC received evidence and argument from GPA *[in support]* and GCG *[in opposition]* to the continued recovery of lube oil as an allowable expense under the LEAC protocol.

Determinations

At a duly noticed and convened public meeting held at 6:00 p.m. on October 14, 2004, PUC having considered the above regulatory matters and after discussion, consideration of the evidentiary record and (except as noted in paragraph 5 below) by the affirmative vote of at least four commissioners and for good cause shown hereby finds that:

1 The current volatility in the worldwide fuel market and GPA's impending loss of its fuel hedging contract justify leaving the current LEAC factor in place for the next LEAC cycle *[October 1, 2004 – March 31, 2005]*. The actual revenues and expenses during the cycle will be examined and appropriate adjustments will be made in accordance with the LEAC protocol at the next LEAC hearing [March 2005].

2. Reasonable grounds have been presented for postponing PUC's consideration of GPA's generation management plan, the system performance standard and the deferred fuel recovery standard until the January 2005 regulatory session. PUC should defer any consideration of an incentive mechanism until further notice.

3. Reasonable grounds have been presented for granting GPA's request for an extension of the deadline for engaging a private manager for the Cabras 3&4 baseload plants until December 1 2004.

4. GPA should be directed to file with PUC not later than December 1, 2004 an action plan to reduce its line losses and to file quarterly reports on its progress.

5 GPA has provided persuasive evidence that lube oil should continue as an allowable expense under the LEAC protocol. In reaching this determination, PUC finds that:

    a. James Guest from FERC is of the opinion that it would not be unreasonable to include the cost of lube oil under FERC account 501 [fuel].

    b. Lube oil is burned in the combustion process and serves to lubricate the piston rings and liner during this process. It also possesses anti-wear characteristics, dispersants and detergents to ensure minimum deposits on the piston and ring grooves. It has a BTU coefficient similar to that of the fuel oil used in the generators.

c. The Wisconsin Public Service Commission has adopted regulations, which permit within the definition of "fuel" "any type of material converted to electric energy".

d. Georgetown concedes that whether to permit GPA to recover lube oil under the LEAC protocol is a matter within the Commission's discretion.

e. GPA has made the business decision to pursue the recovery of the lube oil expense under LEAC *[approximately $1.2 million per year]* and to focus on increased productivity from its generation plants *in lieu of* seeking a general rate increase. GPA presently has a coverage ratio of about 1.5x. PUC has established a 1.75x coverage ratio as the benchmark for ratemaking. Rate revenues would need to be increased by about $6.8 million dollars in order to increase GPA's coverage ratio by 25 basis points. Accordingly, GPA's ratepayers are benefited by GPA's business decision.

f. Levelized fuel adjustment clauses [LEAC] are an exception to traditional regulation. Normally, a utility is prohibited from charging any rate other than the last rate approved by the Commission in a base rate case. Commission approval of the use of LEAC permits GPA to make adjustments in its charges to customers without the level of scrutiny and public notice applied in base rate proceedings. Accordingly, PUC should carefully examine any cost which GPA seeks to fund under LEAC.
(Commissioner Lim did not support determination number 5).

NOW, THEREFORE, after carefully reviewing the record in this proceeding, including the above determinations, and after discussion at a duly noticed public meeting held on October 14, 2004, for good cause shown and on motion duly made, seconded and carried by the affirmative vote of the undersigned commissioners, the Guam Public Utilities Commission hereby **ORDERS THAT:**

1. A LEAC factor of $0.059753 per kWh shall be used by GPA for all civilian bills, effective October 1, 2004 through March 31, 2005 to recover its forecasted fuel and related expenses for that period.

2. PUC reaffirms its September 24, 2003 ruling that lube oil is an allowable expense under the LEAC protocol. (Commissioner Lim voted against this order provision).

3. Under ALJ's oversight, GPA and GCG shall work toward a consensus on the GPA comprehensive generation management plan and on the two performance standards discussed earlier in this Order. These matters will be brought before PUC for consideration during the January 2005 regulatory session. As part of its review of the system performance standard, which will be used to determine GPA's entitlement to recover the $5.3 +/- balance of its deferred fuel expenses, PUC will determine what, if any, recovery GPA shall be entitled to in the current LEAC cycle. Any PUC consideration of an incentive mechanism is deferred until further notice.

4. The deadline by which GPA shall engage a private manager for the Cabras 3 & 4 baseload plants is extended to December 1, 2004.

5. On or before December 1, 2004, GPA shall file an action plan to reduce its line losses to FY01 levels. Until further notice, GPA shall file quarterly reports with PUC on its progress in reducing these losses.

Dated this 14th day of October 2004.

Terrence M. Brooks

Edward C. Crisostomo

Gerald M. Woo

Rowena E. Perez

Joseph M. McDonald

Richie T. Lim

Filomena M. Cantoria