



GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

July 27, 2007

COPY

Mr. Harry Boertzel, Esq. ALJ
Guam Public Utilities Commission
Suite 207, GCIC Building
Hagatna, Guam 96932



Dear Harry:

RE: GPA and GCG Stipulation on Line Loss Performance and Monitoring

This letter provides the reasons why the Authority has not stipulated with Georgetown Consulting Group (GCG) regarding a program to reduce system losses and unaccounted for energy. Exhibit A provides the GCG's latest position on this issue.

The Authority and GCG agree on many of the line loss principles. The Authority accepts the following points without reservation:

- Establishing minimum line loss and unaccounted for energy performance benchmarks will protect GPA ratepayers from LEAC rates containing fuel costs associated with line loss and unaccounted for energy levels above prudent levels.
- Reducing line loss and unaccounted for energy levels is in best interest of GPA and ratepayers and will result in a lowering of the LEAC rate charged ratepayers. Reducing line loss and unaccounted for energy is consistent with prudent electric power industry practices.

- At current fuel oil prices the LEAC rate impact of each percent of GPA line losses is estimated to cost ratepayers an additional \$1.5 million per year. Changes in fuel oil prices will have a corresponding impact on the LEAC rates charged ratepayers.
- In its November 30, 2006 report entitled “Projected Target for the Reduction of Unaccounted for Energy (System Losses)” GPA identified a preliminary line loss and unaccounted for energy performance target of less than six (6) percent by FY 2008; however, GPA believes it prudent to conduct a study of its system characteristics prior to establishing definitive long-term line loss and unaccounted for energy performance benchmark for use in setting future LEAC rates. This study will be initiated no later than September 1, 2007 and is expected to be completed no later than June 30, 2008.
- GPA currently does not have the cash resources necessary for continued implementation of its line loss mitigation program. The key line loss mitigation activities identified by GPA as requiring additional funding include:
 - ◆ Computer modeling of the GPA delivery system network.
 - ◆ Simulation analysis and studies optimizing improvements to the delivery system.
 - ◆ Consulting assistance and temporary staff augmentation to conduct modeling, analysis, and capital improvement studies.
 - ◆ Capital improvements to the GPA delivery system including but not limited to the addition of capacitors, transformer replacements, circuit phase balancing and economic conductor sizing.

First, the Authority will accept a performance standard for system losses and unaccounted for energy, wherein, if it does not meet these standards, then the Guam Public Utilities (PUC) may consider penalizing the Authority by denying portions of LEAC recovery. However, the Authority does not believe that punitive actions by the PUC should commence immediately with the period ending January 2008. The Authority

will agree to penalties for poor performance after the 24 month interim period, but under the following conditions:

- (a) Application of a % bandwidth where no penalty or bonus will be applied;
- (b) Creation of a system of rewarding a bonus for over achievement that can be banked for future use to credit any performance shortcomings.

The Authority may submit to an earlier adoption of the above system during the interim period under the following conditions:

- (a) Application of a 0.5% bandwidth where no penalty or bonus will be applied;
- (b) Creation of a system of rewarding a bonus for over achievement that can be banked for future use to credit any performance shortcomings.

The Authority believes that there is significant variance in month-to-month performance due to the varying nature of system loads. This is an even greater concern as Guam approaches a period of rapid load growth due to the activities of the military buildup. Additionally, models created for the purpose of analysis will have variances and errors as is typical for all such models. Therefore project results for reducing these losses may not reach expected targets.

The Authority considers that the 24 month interim period is a trial period to test and analyze the losses data, to model and simulate the T&D system to help identify reasonable line losses and mitigation levels, to implement and evaluate certain mitigation programs, and to determine what reasonable performance levels that are to be applied in the long term. Its position is that it will accept the interim period targets as benchmarks on progress and validation of study projections if there are no penalties associated with under-performance.

The Authority will agree to a post-interim period benchmark and bandwidth based on detailed analysis made collaboratively during the interim period.

Second, the Authority agrees that LEAC funds should be used as a mechanism to accelerate progress to reduce losses. However, the Authority had the prior understanding that access to these funds was to accelerate efforts because the long-term benefit that to

ratepayers merits this special treatment of the LEAC mechanism. In this case, the Authority does not believe it necessary to repay these funds out of base rates.

Third, the Authority believes that the provision of # 9 in Exhibit A is not workable and has the potential for micromanagement of the Authority. The Authority does not understand how the provisions of item 9 can be implemented without excessive review by the PUC.

Fourth, the Authority has considered the effect of distributed generation on system losses. The Authority believes that historic system loss and unaccounted for energy performance prior to Typhoon Pongsona may have significant performance gains over current operations through the use of distributed generation in place of baseload energy production. Therefore, the Authority does not believe that holding these historical numbers as a paragon for existing performance is relevant to the degree GCG posits.

In conclusion, the Authority believes that there is still room to find common ground and would like an extension in order to stipulate.

Respectfully,



JOAQUIN C. FLORES, P.E.

GENERAL MANAGER

GUAM POWER AUTHORITY

EXHIBIT A

GCG Latest Position

—Discussion Outline—
**GPA Line Loss and Unaccounted For Energy
Performance and Monitoring Principles**

1. Establishing minimum line loss and unaccounted for energy performance benchmarks will protect GPA ratepayers from LEAC rates containing fuel costs associated with line loss and unaccounted for energy levels above prudent levels.
2. Reducing line loss and unaccounted for energy levels is in best interest of GPA and ratepayers and will result in a lowering of the LEAC rate charged ratepayers. Reducing line loss and unaccounted for energy to the levels previously exhibited by GPA is consistent with prudent electric power industry practices.
3. In recent years, GPA's line loss and unaccounted for energy performance has deteriorated, peaking at 10.2 percent when measured as a percentage of net power production. GPA has responded by initiating implementation of a comprehensive program in 2004 for managing excessive losses and unaccounted for energy. This program has improved line loss and unaccounted for energy performance; however, GPA line loss performance remains above GPA's historical performance and there is considerably more that can be done to improve performance.
4. At current fuel oil prices the LEAC rate impact of each percent of GPA line losses is estimated to cost ratepayers an additional \$1.5 million per year. Changes in fuel oil prices will have a corresponding impact on the LEAC rates charged ratepayers.
5. In its November 30, 2006 report entitled "Projected Target for the Reduction of Unaccounted for Energy (System Losses)" GPA identified a preliminary line loss and unaccounted for energy performance target of less than six (6) percent by FY 2008; however, GPA believes it prudent to conduct a study of its system characteristics prior to establishing definitive long-term line loss and unaccounted for energy performance benchmark for use in setting future LEAC rates. This study will be initiated no later than September 1, 2007 and is expected to be completed no later than June 30, 2008.
6. Prior to establishing a definitive long-term line loss and unaccounted for energy performance standard GPA shall be provided an extra year beyond the FY 2008 target identified in its earlier November 30, 2006 report on system losses for the purpose of completing previously identified line loss mitigation measures. Until July 2009, a 24-month line loss performance phase-in period will be used by the PUC to monitor actual GPA line loss performance and to hold GPA accountable.
7. Interim line loss and unaccounted for energy performance standards shall be effective starting with the August 2007-January 2008 LEAC rate period. These interim performance standards shall be calculated on a (i) net power generation basis, (ii) 24-month trailing average basis, and (iii) shall be phased-in over a 24-month period enabling GPA to make the any system modifications in accordance with its

November 2004 report. The interim phase-in performance standards for the periods identified below are as follows:

- a. Six-month period ending January 2008—7.6 percent
- b. Six-month period ending July 2008—7.3 percent
- c. Six-month period ending January 2009—7.0 percent
- d. Six-month period ending July 2009—6.5 percent*

The interim standard for the six-month period ending July 2009 is subject to review of the line loss reduction study to be completed and provided to the PUC no later than June 2008. The review of the February-July 2009 interim performance standard and the establishment of a definitive long-term line losses and unaccounted for energy performance standard for all future LEAC rate proceedings shall then be completed collaboratively by GPA and GCG and reported to the PUC for final action no later than October 31, 2008.

8. In the event GPA's line loss and unaccounted for energy performance does not meet the performance standards set under item 7, the PUC during subsequent LEAC rate proceedings shall consider the specific circumstances surrounding GPA's failure to meet the performance standard and determine what action, if any, it may pursue including the potential to disallow from recovery any of the excess fuel costs included in any LEAC rate proposed to be charged consumers. Any disallowance would be a penalty for poor performance.
9. It is recognized that that a disallowance of excess fuel costs may have a detrimental impact on cash flow potentially resulting in GPA making adjustments to its operations. Any such operational adjustments made by GPA adversely impacting ratepayers due to cuts in areas such as delivery system or power plant maintenance shall be deemed by the PUC to be imprudent action on behalf of GPA and may result in additional penalties including further disallowances.
10. GPA currently does not have the cash resources necessary for continued implementation of its line loss mitigation program. The key line loss mitigation activities identified by GPA as requiring additional funding include:
 - a. Computer modeling of the GPA delivery system network.
 - b. Simulation analysis and studies optimizing improvements to the delivery system.
 - c. Consulting assistance and temporary staff augmentation to conduct modeling, analysis, and capital improvement studies.
 - d. Capital improvements to the GPA delivery system including but not limited to the addition of capacitors, transformer replacements, circuit phase balancing and economic conductor sizing.
11. GPA in its upcoming base rate proceeding shall include in its revenue requirement filing adequate human and capital resources necessary to provide the funding to support all required line loss mitigation activities (computer modeling, simulation, studies, operation, maintenance, and construction activities) prudently performed by

an electric utility in the course of its day-to-day business. Upon PUC approval of new base rates GPA's line loss mitigation program shall be fully implemented and continue to produce ongoing ratepayer benefits.

12. At any time in the future GPA determines it cannot adequately provide the human or financial capital or other resources necessary to meet the performance standards set under this stipulation, it has the obligation to notify the PUC and seek rate relief. Failure to do so may result in the disallowance of fuel expenses determined not to be prudently incurred.
13. Until final action is taken by the PUC on GPA's upcoming base rate case filing, GPA in its LEAC rate filings may include a cumulative allowance of up to \$1.5 million (\$500k in any single LEAC rate period) which shall be collected from ratepayers and used by GPA exclusively for the line loss mitigation activities contained in its "Quality Management Plan for the Cost-Effective Reduction of Unaccounted for Energy." All line loss related LEAC revenues collected and expended by GPA to control line losses shall be repaid (credited back to ratepayers through the LEAC rate) by GPA within a 2-year period beginning February 1, 2009. GPA may use future bond funds, lines of credit, internally generated capital, or other unencumbered sources available for repayment of this obligation.
14. Until that time GPA meets the performance standards outlined in item 7 GPA shall provide the PUC for monitoring purposes a quarterly loss reduction compliance report. The report should be (i) in a format approved by the PUC, (ii) present relevant information concerning production, sales, and losses and unaccounted for energy, (iii) present line loss performance data in a manner that provides for each of the three months covered by the quarterly report the actual trailing 24-month average, 12-month average, and current month line loss performance, (iv) status update of its "Quality Management Plan for the Cost-Effective Reduction of Unaccounted For Energy", and (v) address actions being taken to bring it into compliance with the performance standards. The quarterly loss reduction compliance report may also be posted on the GPA website no later than 21 days after the end of the quarter.