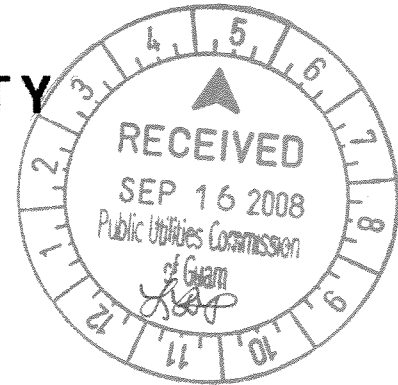


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# GUAM POWER AUTHORITY

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



September 16, 2008

Jeff Johnson, Chairman  
The Guam Public Utilities Commission  
Suite 207, GCIC Building  
Hagatna, Guam 96932

RE: GCG's Response to GPA's request for an increase in its LEAC factor

Dear Chairman Johnson:

Attached is GPA's response to Georgetown Consulting Group's (GCG) report dated September 5, 2008 addressing the issue particularly on Sales (and Losses). In summary, GPA requests the PUC to reject the GCG recommended \$438,415 deferred recovery as unsupported. Any adjustment that is made as a result of loss values now or in the future will be extremely detrimental to GPA's ability to operate efficiently. GPA believes the PUC will agree and reach the same conclusions after review and consideration of the LEAC filing data.

Should you have any questions regarding this matter, please do not hesitate to call me at 648-3180.

Sincerely,

A handwritten signature in black ink, appearing to read "JCF", written over a horizontal line.

Joaquin C. Flores, P.E.

*JCF* General Manager, Guam Power Authority

Attachment

cc: Harry Boertzel, ALJ  
Edward Margerison  
Jamshed Madan  
John Benavente, CUS

GPA Request for Revised LEAC Effective October 1, 2008  
Response to GCG September 5, 2008 Report  
**Sales (and Losses)**

**GPA Response:**

In its response to the GPA LEAC request GCG stated:

*"We recommend that an adjustment for the additional losses projected by GPA be made in the determination of the current LEAC factor. This is not a disallowance. When the LEAC period has actual results and the next factor is being determined, the PUC should evaluate whether a permanent adjustment for the projected losses should be made. When the LEAC period has actual results and the next factor is being determined, the PUC should evaluate whether a permanent adjustment for the projected losses should be made. The PUC should take into consideration whether the delay in performing the studies is a valid reason to increase LEAC charges to customers. GPA should specifically argue in the next LEAC filing (December 15, 2008) whether these cost should be included. We require that GPA fully explain the delay and causes therefor for line loss reduction consistent with the PUC order."*

GPA's response is to request the PUC to reject the GCG-recommended \$438,415 deferred recovery as unsupported and does not warrant reducing the funds available for GPA operations and maintenance of the power system. GPA believes the PUC will agree and reach the same conclusions after review and consideration of the LEAC filing data. The PUC's decision will be based on the following:

- GPA's performance in reducing energy losses is to be commended, not penalized
- the insignificance of the impact to energy losses attributable by the delay of the transmission study
- GPA's 12 month loss reduction performance is highly commendable yet "doomed to fail" using the current loss performance standard measurement methodology.

**GPA's Loss Mitigation Performance**

Concurrent to its LEAC filing, GPA provided a report on historical GPA Generation, Sales, and Loss Data including the six month period from January 2008 through June 2008. This report included percent losses data averaged over the trailing 12 month and 24 month periods (refer to Exhibit A). The 24 month average percent losses are used to compare GPA loss reduction performance to the interim PUC line loss standard. For this six month period, GPA's 24-Month Ave System Loss % was 7.52%, or .22% over the 7.3% PUC loss standard. Although GPA missed the 24 month loss target, it points out that the 12-month average loss is 7.36% or only .06% over the loss standard. And calculating the performance of the first six months of CY 2008, the 6-month average loss is 6.92% or better than the standard by .38% even allowing for the unexplained spike of 11.91% in March 2008. Are these the results of a utility that is sitting

on its hands, or one that is actively and diligently working to reduce its unaccounted for energy and line losses.

If we assume that the data above reflect true energy losses (and GPA's position is that this is not the case and that the energy loss methodology requires further analyses and correction), GPA will argue that this more recent information is a better indication of GPA performance than the 24-month average. We trust that GCG agrees with this assessment even if it did not mention this greatly improved performance.

#### Transmission Study Impact

GPA strongly disagrees with the GCG's attempt to portray the delay in completing the transmission study as having significant impact and import in the reduction of line losses. GPA had indicated to GCG in a brief telephone conversation that the transmission planning study was not progressing because one of the project engineers is on maternity leave, the planning group was inundated with other important projects (the Integrated Resource Plan among these). From GPA's perspective, effective transmission system loss reduction projects are quite limited. These include (1) use of distributed generation dispatch to reduce line loadings such that more fast track units are online, (2) change out circuit conductors to larger sizes and reduce wire resistance, (3) install capacitors on the distribution system to lower transmission line loadings. The first two options are not cost effective, especially if the intent is solely to reduce losses. The third option is what most electric utilities use to reduce transmission system line losses. In fact, for the GPA system, power factor improvements on the distribution system must be completed before line loss reductions on the transmission system are achieved. As reported in an earlier RFI, the distribution medium range analysis is continuing with GPA pursuing cost information for consultant support to accelerate the modeling and analysis of the primary distribution system, complete the medium range plan, and implement system improvements. The areas where GPA believes the loss reductions exist are in the distribution system, and in customer metering and billings.

#### Loss Performance Measurement Methodology

GCG uses the difference between the GPA Loss forecast of 7.5% and the PUC Loss Standard of 7% as the basis of what it calls the excess cost of \$549,980 that should be "adjusted" from GPA's request. GCG goes further to add that there is an additional cost of \$1.650 million dollars annually from these excess losses. If nothing else, GCG knows how to capture the attention of people reading their reports. But just how real are these claimed excess losses and costs. GPA states that GCG's numbers should be taken with lots of salt. As shown in the GPA Loss Mitigation Performance section above, there is a major difference between the % loss from the 24 month average and the 6 month loss averages. The purpose of the 24 month numbers is not to calculate real losses, but to "smooth" the monthly % loss variances and argue against the use of a tolerance band in meeting the performance standard. That's all! But this fact does not seem to concern GCG. The "realness" of their projected excess losses is nonsense. Such misuse of the "average" loss calculations is a cause of concern for GPA especially as these can be and are being used to base reductions of cost recovery requests.

GPA would like to discuss further other problems with the misuse of the loss standards. In the GCG report the consultants point to the PUC 7% loss performance standard for the coming period ending in January 2009. How realistic is the achievement of this goal. As the GPA loss reports show, the last twelve months have been very close to the PUC target of 7.3%, and the six month data show GPA's 6.92% average loss significantly outperforming the loss standard. While this recent data support the achievability of a 7% loss level, the standard is based on the 24 month average. GPA will show in the following discussion that the use of the trailing 24-month average % losses methodology will not allow GPA a fair opportunity to meet the interim PUC loss standard from the *Exhibit A* report, GPA's average % loss for the 24-month period at the end of June 2008 is calculated at 7.52%. The PUC standard for the next 6-month period ending in December 2008 is 7%. As asked earlier, how realistic is the achievement of this .52% reduction. Using the 24-month average loss methodology, GPA calculated that it would have to improve its average monthly loss % to 5.25% for the next 6-month period to achieve the 7.0% average losses % !!! We have provided *Exhibit B* to show how we obtained this average (iteration and substitution). Does GCG or the PUC really expect GPA to accomplish this goal?? Is it realistic to expect GPA to complete studies and capital projects, implement continuing billing improvements, identify metering errors, and find and correct meter tampering and theft of service instances so that at the end of December 2008 the 24-month average % loss will be 7.0%. Does anyone really know whether all the above efforts will result in a line loss level of 7%? Although, GCG cannot show that this is possible it proceeds in the report as though this standard is achievable. GPA disputes the achievability of this standard and argues that it is doomed before it even begins. And if the PUC's and Georgetown's expectation is that GPA must achieve this goal or face permanent cost disallowance penalties, then there exists a significant lack of understanding of the line loss issue and loss mitigation process. This method guarantees that GPA's efforts these next few months may be for naught!!

GPA regrets having to rehash the issue of line loss standards here, but the negative recommendation by GCG despite our laudable efforts underscores the need for GPA's to continue to articulate on the loss issue. Although we earlier used the same data to toot our accomplishments, we are still of the opinion that the use of the current GPA report is not correct for determining energy losses (and we are still reviewing and studying how we can improve this report). How can a standard be meaningful when the month-to-month variances can exceed 200%, there is no tolerance or error margin that can be applied, and the methodology can ensure that the standard cannot be met.?

In retrospect, the GPA decision to acquiesce in accepting the interim PUC loss standards without the proper analyses did not exhibit good judgment. At that time GPA believed that GCG would work cooperatively with GPA to address the line loss problem. GPA did not consider that GCG would recommend penalizing the Authority by the disallowance of costs because of a .22% difference!! In this case, GPA may be the victim of its inability to articulate to the PUC the correctness of its arguments and the fallacies of the opposing position. However, just because GPA may fail to make its arguments clear should not be used to punish it by withholding justified cost recovery.

GPA hopes that in the near future the PUC will instruct the parties to revisit the interim loss standard, specifically to determine a tolerance band to be used in recognition of the loss %

variances possible, and to improve the calculation methodology to provide for realistic values. And the PUC can eliminate the use of cost disallowances until the matter of GPA system line loss management and reduction is better defined and understood. The recommendation of the recent GCG report greatly worries GPA that it may be subject to unfair and unjust treatment in the matter of energy loss mitigation.

#### Recommendations

Finally, in reaching its decision relative to the LEAC filing request and specifically the impact of Sales (and Losses), the PUC should recognize GPA's recent significant line loss improvements and accomplishments; the PUC should also recognize the difficulties associated in trying to quantify and mitigate this electric power parameter known as losses.

As stated in the GCG's report, GPA has presented its justification and action plan for consideration by the PUC in its semi-annual line loss progress report. Consequently, GPA maintains that, based on the information provided by GPA thus far, the PUC is able to provide a determination that GPA is actively working towards reducing losses and reject the adjustment recommended by GCG. GPA again recommends that no adjustment, disallowance, or penalty be allowed.

**EXHIBIT A  
GROSS GENERATION, SALES, LINE LOSSES  
FY 2008**

	<u>24-Month</u>	<u>12-Month</u>	<u>Jun-08</u>	<u>May-08</u>	<u>Apr-08</u>	<u>Mar-08</u>	<u>Feb-08</u>	<u>Jan-08</u>
A Gross Generation	3,752,078,128	1,880,810,962	151,981,488	161,952,355	159,149,960	156,750,925	142,000,940	157,761,807
B Station Use	207,188,132	104,104,137	7,768,253	8,428,676	8,633,244	9,087,617	7,350,736	8,555,007
C Net Send Out (A-B)	3,544,889,996	1,776,706,825	144,213,235	153,523,678	150,516,715	147,663,308	134,650,204	149,206,800
D Sales to Navy (@34.5Kv)	668,492,514	338,690,760	27,744,124	28,422,610	32,357,409	26,180,617	24,269,947	29,180,475
E GPA-metered (C-D)	2,876,397,482	1,438,016,065	125,101,068	125,101,068	118,159,306	121,482,691	110,380,257	120,026,325
F Power factor adj.	0	0	0	0	0	0	0	0
G Adjusted (E-F)	2,876,397,482	1,438,016,065	125,101,068	125,101,068	118,159,306	121,482,691	110,380,257	120,026,325
GPA KWH Accountability:								
H Sales to customers	2,609,884,084	1,307,326,251	107,772,262	117,868,459	109,756,599	103,902,570	101,501,381	109,978,607
I GPA use-KWH	6,037,667	2,986,523	242,410	251,802	239,068	237,295	232,728	259,582
No of days	731	366	30	31	30	31	29	31
J Unaccounted for KWH (G-H)	<u>266,513,398</u>	<u>130,689,814</u>	<u>8,696,849</u>	<u>7,232,610</u>	<u>8,402,707</u>	<u>17,580,121</u>	<u>8,878,876</u>	<u>10,047,718</u>
Ratio of Unaccounted KWH:								
K Ratio to Gross Generation (J/A)	7.10%	6.95%	5.72%	4.47%	5.28%	11.22%	6.25%	6.37%
L Ratio to Net Generation (J/C)	7.52%	7.36%	6.03%	4.71%	5.58%	11.91%	6.59%	6.73%

EXHIBIT B  
Guam Power Authority  
Fuel Clause Reconciliation  
Fiscal Year 1999

	GPA-Raw Generation, Sales, and Loss Data (Historical LEAC)				Loss Data		Loss Performance			
	Civilian & Navy Sales	Plant Use	T & D Losses	Company Use	Gross Generation	Total Sales (Inclusive of Company Use)	Net Generation	Monthly System Loss %	24-Month Trailing Ave. System Loss %	Monthly Change 24-month Ave. System Loss %
Jun-06	141,671,676	8,382,342	12,669,096	289,668	162,723,114	141,671,676	154,340,772	8.21%	7.21%	-0.12%
Jul-06	141,306,339	8,276,793	3,981,447	263,627	153,564,579	141,306,339	145,287,786	2.74%	6.81%	0.39%
Aug-06	135,755,134	8,681,237	15,225,920	263,999	159,662,291	135,755,134	150,981,054	10.08%	7.09%	-0.28%
Sep-06	137,160,271	8,591,052	14,581,594	279,095	160,332,917	137,160,271	151,741,865	9.61%	7.28%	-0.20%
Oct-06	137,378,380	9,106,872	8,100,749	257,190	154,586,001	137,378,380	145,479,129	5.57%	7.16%	0.12%
Nov-06	133,140,223	8,802,936	13,407,806	243,873	155,350,965	133,140,223	146,548,029	9.15%	7.29%	-0.13%
Dec-06	140,377,481	8,471,349	10,741,707	240,323	159,590,538	140,377,481	151,119,189	7.11%	7.28%	0.01%
Jan-07	133,797,127	8,316,899	10,979,521	273,062	153,093,547	133,797,127	144,776,648	7.58%	7.30%	-0.02%
Feb-07	117,581,359	7,060,797	13,654,367	239,701	138,296,522	117,581,359	131,236,725	10.40%	7.45%	-0.15%
Mar-07	131,653,779	8,487,965	10,016,380	224,809	150,158,124	131,653,779	141,670,159	7.07%	7.43%	0.02%
Apr-07	137,862,179	8,432,694	11,885,381	252,717	158,180,254	137,862,179	149,747,560	7.94%	7.46%	-0.03%
May-07	140,029,828	9,067,911	14,519,461	250,437	163,617,200	140,029,828	154,549,289	9.39%	7.55%	-0.10%
Jun-07	146,317,487	9,787,491	8,729,252	262,311	164,834,229	146,317,487	155,046,738	5.63%	7.46%	0.09%
Jul-07	148,564,594	9,821,760	6,012,265	263,811	164,399,619	148,564,594	154,577,859	3.890%	7.30%	0.16%
Aug-07	135,863,419	9,492,770	13,072,263	259,250	158,428,452	135,863,419	148,935,682	8.78%	7.36%	-0.06%
Sep-07	132,055,325	8,422,781	11,632,925	252,202	152,111,031	132,055,325	143,688,250	8.10%	7.54%	-0.07%
Oct-07	134,926,068	8,940,809	14,679,459	244,868	158,546,336	134,926,068	149,605,527	9.81%	7.61%	-0.07%
Nov-07	134,982,364	8,429,571	11,749,201	264,934	155,161,136	134,982,364	146,731,565	8.01%	7.51%	0.10%
Dec-07	140,689,181	9,172,913	12,704,820	238,573	162,566,914	140,689,181	153,394,001	8.28%	7.85%	-0.34%
Jan-08	139,159,082	8,555,007	10,047,718	259,582	157,761,807	139,159,082	149,206,800	6.73%	7.73%	-0.12%
Feb-08	125,771,328	7,350,736	8,878,876	232,728	142,000,940	125,771,328	134,650,204	6.59%	7.57%	0.16%
Mar-08	130,083,187	9,087,617	17,580,121	237,295	156,750,925	130,083,187	147,663,308	11.91%	7.62%	-0.06%
Apr-08	142,114,008	8,633,244	8,402,707	239,068	159,149,960	142,114,008	150,516,716	5.58%	7.69%	-0.06%
May-08	146,291,069	8,428,676	7,232,610	251,802	161,952,355	146,291,069	153,523,679	4.71%	7.61%	0.08%
Jun-08	135,516,386	7,768,253	8,696,849	242,410	151,981,488	135,516,386	144,213,235	6.03%	7.52%	0.09%
								5.25%	7.63%	
								5.25%	7.43%	
								5.25%	7.25%	
								5.25%	7.24%	
								5.25%	7.08%	
								5.25%	7.00%	