

BEFORE THE COMMONWEALTH PUBLIC UTILITIES COMMISSION


LEVELIZED ENERGY ADJUSTMENT COST)
CLAUSE)
INVESTIGATION)
THE COMMONWEALTH UTILITIES)
CORPORATION)

DOCKET 09-01

NOTICE OF FILING OF THE REPORT OF GEORGETOWN CONSULTING GROUP,
INC., CONSULTANTS FOR THE CPUC

Pursuant to the Commission's December 19, 2008 Order in Docket No. 09-01,
Georgetown Consulting Group, Inc., Consultant for the CPUC, hereby files, through counsel
Robert T. Torres, Esq., its Testimony on CUC's Levelized Energy Adjustment Cost Clause in
Docket No. 09-01. The Testimony is attached herewith.

Respectfully submitted this 6th day of March 2009.


for Robert T. Torres, Esq.
Counsel for GCG, Inc.

**BEFORE THE COMMONWEALTH PUBLIC UTILITIES
COMMISSION**

**INVESTIGATION OF THE
COMMONWEALTH UTILITIES CORPORATION'S
LEVELIZED ENERGY COST CLAUSE**

April 1-September 30, 2009

DOCKET 09-1

March 6, 2009

1 **BEFORE THE COMMONWEALTH PUBLIC UTILITIES COMMISSION**
2 **LEVELIZED ENERGY COST CLAUSE**
3
4

5 In its December 19, 2008 Order in Docket 09-01 the Commonwealth Public Utilities
6 Commission (CPUC or Commission) found that the current fuel adjustment rate protocol
7 being used by the Commonwealth Utilities Corporation (CUC) should be restructured
8 into a levelized energy adjustment clause (LEAC) rate tariff, in the form recommended
9 by CUC and the Georgetown Consulting Group, Inc. (GCG) in a Fuel Adjustment Clause
10 Stipulation. The proposed LEAC tariff would establish a transparent process by which
11 just and reasonable fuel rates are established to enable CUC to recover its prudent fuel
12 and related expenses under regulatory oversight. The proposed LEAC tariff approved by
13 the CUC is consistent with generally accepted regulatory principles and was determined
14 to be in the public interest by the CPUC for the reasons set forth in the stipulation.
15

16 The parties were directed to collaboratively develop and file with CPUC by March 13,
17 2009 a documented proposal for the first semi-annual LEAC rate to be implemented
18 effective April 1, 2009. This Report presents GCG position concerning the
19 recommended changes to the current LEAC rate that should be approved by the CPUC
20 and implemented by CUC for the period April 1 to September 30, 2009.
21

22 GCG has prepared this brief report which will be shared with CUC for their comments
23 prior to March 13, 2009. We present herein the rationale supporting our
24 recommendation, a decrease to the LEAC rate.
25

26
27 **Background**
28

29 It was agreed in the December 12, 2008 LEAC stipulation that the LEAC rate and
30 resulting tariff would be determined on the basis of a transparent regulatory
31 process. This would allow CPUC the opportunity to reduce fuel expenses and
32 eliminate unreasonable expenses. In addition, to the preparation of a LEAC
33 report GCG was authorized and directed to investigate and file with the March
34 13, 2009 LEAC rate recommendations for regulatory scrutiny of specific fuel and
35 related expenses. In that regard, GCG recommends that during the course of this six
36 month LEAC period CUC work with GCG to develop Minimum Filing Requirements
37 that can be used for the filing, review and approval of future LEAC changes. The
38 purpose of use a Minimum Filing Requirement protocol is to provide a consistent set of
39 data that can be analyzed in the determination of future LEAC rates.
40

41 At the present time, the LEAC protocol is very basic and focuses primarily on key
42 variables such as: sales, fuel use, fuel pricing, regulatory costs, and capital for efficiency
43 improvements. Left out of the equation are issues such as: losses, a true-up mechanism,
44 station use, individual unit production costs and efficiency, and fuel use. These are all
45 enhancements that can be developed over time.
46

1 GCG is recommending that the LEAC rate be decreased from the current factor of
2 \$0.22989 per kWh to \$0.19327 per kWh effective April 1, 2009, a decrease of
3 approximately 16 percent in the current LEAC charge to reflect the reduction in oil prices
4 that have occurred. For a typical residential ratepayer this would result in an overall
5 decrease in a typical month's overall electric bill (base and LEAC) of about 12 percent.
6

7 The price of fuel oil is the primary factor contributing to this recommended decrease. We
8 have estimated the price of fuel oil for the upcoming six-month period based upon the
9 average of NYMEX forward pricing contracts for No. 2 oil. The current estimate is
10 approximately \$0.15/Gallon lower than the fuel price forecast used in the development of
11 the January 1- March 30, 2009 LEAC rate. Currently other than the price of fuel oil, the
12 LEAC only loosely consider the efficiency of the generating units and the level of losses.
13 This will become a more important factor as CUC completes its rehabilitation project and
14 brings back into operations more efficient generating units.
15

16 **Recommended LEAC Rate**

17
18 We recommend a LEAC rate of \$ \$0.19327 per kWh which should be established
19 effective April 1, 2009 for the period April 1- September 30, 2009. The LEAC rate is
20 comprised of the following elements:
21

- 22 1. A \$0.14912 per kWh element for CUC fuel oil costs, generation lubricant costs,
23 transportation and handling costs, taxes and other associated costs as billed by the
24 fuel supplier;
25
- 26 2. A \$0.01574 per kWh element to fund the purchase over an 18 month period of a
27 30 day fuel inventory as well as to provide for variations from projected fuel
28 prices that result in unrecovered costs. We are unaware of the current status of
29 using LEAC funds authorized since January 1, 2009 to build up the 30 day
30 inventory. CUC should be prepared to discuss this during the upcoming
31 regulatory conference.
32
- 33 3. A \$0.00285 per kWh element to fund CPUC invoices for regulatory fees and
34 expenses and for the procurement or employment of financial and technical
35 expertise to develop the information, analysis and reports reasonably necessary
36 for continuing implementation of the LEAC tariff and CPUC directives. To date
37 CUC has not paid any CPUC invoices although there is a requirement that
38 invoices be paid within 20 days of receipt. We recommend that this issue be
39 discussed during the upcoming regulatory conference to provide for an
40 appropriate solution.
41
- 42 4. A \$0.02556 per kWh element to fund a reserve to support CPUC approved power
43 generation measures, which CUC can establish by petition would increase the
44 availability, efficiency and reliability of its generating units, thereby reducing fuel
45 costs.
46

1 Attached to this report is a copy of the Excel worksheet used to derive the recommended
2 LEAC rate.
3

4 We bring to your attention that CUC was to provide CPUC with a monthly informational
5 report, which details the month end fuel oil inventory balance at its power plant facilities.
6 That monthly report was to be filed with CPUC no later than the 15th day of the
7 following month. We are not aware whether CUC filed the first such report on February
8 15th.
9

10 CUC was also to provide CPUC with a monthly report, no later than the 15th day of the
11 following month, which details any use of that portion of the LEAC rate element for
12 expenses related to financial and technical expertise. We believe that CUC has exercised
13 the option to use a portion of these funds for the purpose of retaining financial and
14 technical expertise. Similarly, we have not seen the monthly report that would have been
15 due on February 15th.
16

17 This concludes our report.

	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09
Lube Oil Requirement in Gals						
Saipan	26,721	26,721	26,721	26,721	26,721	26,721
Tinian	0	0	0	0	0	0
Rota	254	254	254	254	254	254
Total Lube Oil Requirement	26,975	26,975	26,975	26,975	26,975	26,975
CUC Lube Oil Costs						
Saipan	\$162,852	\$162,852	\$162,852	\$162,852	\$162,852	\$162,852
Tinian	\$0	\$0	\$0	\$0	\$0	\$0
Rota	\$1,529	\$1,529	\$1,529	\$1,529	\$1,529	\$1,529
Total Lube Oil Cost	\$164,381	\$164,381	\$164,381	\$164,381	\$164,381	\$164,381
Total CUC Fuel & Lube Oil Requirement (\$)						
Saipan	\$2,670,612	\$2,670,612	\$2,670,612	\$2,670,612	\$2,670,612	\$2,670,612
Tinian	\$493,215	\$493,215	\$493,215	\$493,215	\$493,215	\$493,215
Rota	\$191,366	\$191,366	\$191,366	\$191,366	\$191,366	\$191,366
Total Requirement	\$3,355,193	\$3,355,193	\$3,355,193	\$3,355,193	\$3,355,193	\$3,355,193
Over/(Under) Recovery (3-Month Amort)	\$0	\$0	\$0	\$0	\$0	\$0
Projected LEAC Expense-Fuel & Lube Oil Recovery	\$3,355,193	\$3,355,193	\$3,355,193	\$3,355,193	\$3,355,193	\$3,355,193
6-Month Fuel & Lube Oil Element of LEAC Rate						
Fuel & Lube Oil Expense	\$20,131,159					
kWh Sales	135,000,000					
LEAC Fuel & Lube Oil Rate Element	\$0.14912					
30-Day Inventory Element (18-month amortization)	\$0.00828					
Volatility Element (@ 5% of Fuel/Lube Oil Requirement)	\$0.00746					
Regulatory and Technical Support Element (see Note 1)	\$0.00285					
Generation Efficiency Element (see Note 2)	\$0.02556					
6-Month LEAC Rate	\$0.19327					

	6-Month Costs	Note 2:	6-Month Costs
Note 1:			
CUC Accounting & Regulatory Support	\$80,000	PMC Expenses	\$450,000
CPUC Regulatory Expense	\$270,000	PMC Reserve & RFP Development	\$0
Miscellaneous	\$35,000	CIP's	\$3,000,000
Total	\$385,000	Total	\$3,450,000