GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES
PUBLIC SERVICES COMMISSION

IN THE MATTER OF THE LEVELIZED ENERGY ADJUSTMENT CLAUSE OF THE VIRGIN ISLANDS WATER AND POWER AUTHORITY.	)))))	PSC DOCKET NO. 289

2013 JAN 9 PM 2:12
PUBLIC COMMISSION ST.

PETITION FOR RECONSIDERATION

The VIRGIN ISLANDS WATER AND POWER AUTHORITY ("Authority"), by and through the undersigned counsel, pursuant to Title 30, Section 33 of the Virgin Islands Code, respectfully asks the Public Services Commission ("PSC" or "Commission") to reconsider and then vacate Paragraphs 2, 4 and 10 of Order No. 20/2013 dated January 3, 2013 in Docket No. 289 (the "Order") regarding the Authority's Levelized Fuel Adjustment Charge (LEAC), for the following reasons:

Paragraphs 2, 4 and 10 of the Order are invalid and null and void *ab initio* because they were entered in violation of the due process rights of the Authority under 30 V.I.C. Sections 20, 22, and 23 to have ten days prior written notice of the Georgetown Consulting Group's ("GCG") written complaint concerning its LEAC filing, and of PSC's intention to consider the issues addressed by it, including the opportunity to be heard and present evidence and witnesses in support of its position on the issue raised by the report at a formal hearing. Paragraphs 2, 4 and 10 of the Order reflect the decisions of the Commission made at its hearing held on December 18, 2012. At that hearing, the Commission relied on the *Report on the WAPA LEAC Factors for January 1, 2013* prepared by Georgetown Consulting Group (the "GCG Report"). The Commission's reliance on the report was objected to by the Authority at the hearing due to

insufficient time allowed to the Authority and Commission to review and respond to the 30 page report (plus exhibits) received just one business day prior to the hearing. GCG's report is dated December 15, 2012, a Saturday, and it is doubtful that even the Commissioners had more than one business day to review the report and its recommendation and to carefully contemplate the complete technical and other issues raised therein in order to reasonably exercise their fiduciary duty. Respectfully, the Commission should not have ignored the Authority's statement at the hearing that its due process rights were being violated nor should it have ignored the fundamental unfairness to the Authority in not being allowed an opportunity to put forward its reasoned response to the GCG report before decision was rendered based on it.

Paragraph 2

Paragraph 2 of the Order was entered in clear violation of the Authority's procedural due process rights and it contains erroneous factual assumptions and findings as set forth in the Authority's response filed herewith as Exhibit A. This paragraph of the Order deals with the parameters that impact the electric system LEAC rates. The Authority does not seek reconsideration of the approved level of the electric system LEAC rate as stated in the first paragraph of Order No. 21-2013. It seeks, however, reconsideration of the Commission's determination in Paragraph 2 of the Order that certain "assumptions" of GCG are reasonable and appropriate. The Authority submits they are not.

In paragraph 2, the Commission's Order states that it "adopts the findings and recommendations of its technical consultants as provided in its report. Given this unexplained over-arching adoption by the Commission, the Authority seeks reconsideration. In several important respects the information presented in the GCG Report is grossly misleading, incorrect, and counterproductive.

Paragraph 4

In Paragraph 4 of the Order, the Commission directed that all Minimum Filing Requirements (MFRs) must be included with future LEAC filings and that in the absence of all MFRs (including, but not limited to workable electronic spreadsheets) the filing will be returned as incomplete. The Authority believes this procedure will lead to unnecessary delays in considering the LEAC filing and potentially in implementing changes in the LEAC rate. This is likely to be harmful to the Authority's customers, in that it may lead to subsequent LEAC filings of a greater magnitude. Also, any delay in implementing LEAC rate changes can have dramatic effects on the ability of the Authority to meet its financial obligations and operate effectively. The Authority therefore seeks reconsideration of paragraph 4 to the extent stated herein and requests, in the alternative, that the Commission establish a procedure whereby, in the case of clear noncompliance with one or more of the Minimum Filing Requirements from a LEAC filing, a deficiency letter is issued within 5 days from the date of filing. The Authority would then supplement or correct its filing in response to the specific concerns expressed in that letter.

Finally, the Commission has not clearly delineated in one order for the sake of clarity and convenience all of the Minimum Filing Requirements so that there can be no doubt as to what is or is not an MFR. In the absence of an order delineating the extent and breadth of the Minimum Filing Requirements, the Authority, as it has done in the past, will act in good faith to make its next filing complete, and will work with the Commission to establish a definitive filing requirement that will guide development of future LEAC filings.

Paragraph 10

Finally, the Authority seeks reconsideration of paragraph 10 of Order 20-2013 to the extent that it seeks to require the Authority to develop an energy plan for the PSC when it asks the

Authority to "provide the Commission no later than January 31, 2013 the tactical and logistical implementation plans and measures it will take to achieve the five fuel diversification and energy efficiency strategies recently adopted by its Board, as well as the milestones for implementation." This paragraph requires the Authority to provide, by January 31, 2013, a detailed implementation plan addressing recommendations recently adopted by the Governing Board through its Energy Production Action Plan prepared September 2012 (EPAP). For the reasons more precisely set forth herein, the Authority advises that it is within the purview of the Authority's Governing Board, as authorized in its enabling legislation to approve all details supporting the implementation of the EPAP. Furthermore, as the Commission is aware, the EPAP is a document that is not expressly addressed to the rate-setting jurisdiction of the Commission and therefore, Paragraph 10 of the Order exceeds the jurisdictional authority of the Commission. Paragraph 10 of the Order is invalid because the PSC has no jurisdiction to oversee or compel the "development of a comprehensive plan to establish a "sound, balanced and reliable power system for the United States Virgin Islands" because this is unrelated to its power to set the Authority's rates.

ARGUMENT

II. The Order Was Entered In Violation Of The Right Of The Authority To Have Ten Days Prior Written Notice Of The GCG Report And An Adequate Opportunity To Be Heard And Present Evidence Thereon.

Prior to the December 18, 2012 PSC meeting, the Authority had a one-business day of notice of the contents of the GCG Report, which was relied on heavily by the Commission in entering Order Nos. 20/2013 and 21/2013 dated January 3, 2013. Given the lateness of the

delivery of the GCG Report to both the Commission and to the Authority, the Authority was not given any notice that the Commission would engage in an extensive discussion on the substance of the matters contained in the report and was not afforded an opportunity to address the GCG Report before the Commission's decision. The Orders are attached hereto as Exhibits B and C.

The PSC Has Violated Section 20, 21 and 22 of Title 30

Section 20, 21, and 22 of Title 30 of the Virgin Islands Code require that the Authority be given ten days prior notice of any complaint, including prior notice of the matters to be considered and determined, and an opportunity to be heard and to present evidence. However, the GCG Report which extensively complains about the forecasting and efficiency of the Authority was not effectively received and reviewed by representatives of the Authority until Monday, December 17, 2012 – one day prior to the technical consultants delivering their report at the PSC meeting held on December 18, 2012. The sheer length of the report and the gravity of the substantive matters addressed therein should have alerted the PSC that due process and fundamental fairness dictated that its review of the GCG Report and its contemplation of the issues raised therein could not take place at the December 18, 2012 meeting. Furthermore, even if the Commission elected not to consider the constitutional considerations that entitle a party to due process, it should have considered the Virgin Islands statutory mandate that governs its actions and mandate ten days' notice and an opportunity to be heard.

Collectively, Title 30, Sections 20, 21 and 22 of the Virgin Islands Code require that the Authority be given ten days' notice of a complaint lodged against it before the scheduling of a hearing thereon at which the Authority would have an opportunity to be heard at the formal hearing before the Commission could enter an order affecting its rates. Such notice would allow

the Authority to adequately address in writing and through witnesses and documentary evidence the issues raised by GCG on which PSC Order Nos. 20/2013 and 21/2013 were based.

Section 20 provides no order affecting

> **rates,** tolls, charges, schedules, regulations, **or act complained** of shall be entered by the Commission without a formal hearing. [Emphasis added].

Clearly a formal hearing should have been held on the GCG complaint concerning the Authority's petition for a LEAC rate increase before it entered Paragraphs 2, 4 and 10.

Section 21 also provides:

> The Commission shall **prior** to such formal hearings notify the public utility complained of that a complaint has been made, and **ten days after** such notice has been given the Commission may proceed to set a time and place for a hearing and an investigation as hereinafter provided. [Emphasis added].

In this instance, no such ten days' notice of the GCG complaint was given to the Authority nor was notice of a hearing thereon given to the public or to the Authority ten days in advance of the December 18 hearing. The Authority was not provided ten days after the required notice was to have been given before the matter complained of was scheduled for a hearing. Instead, effectively one business day after GCG filed its report with the PSC, the public heard only the substance of the GCG report without an adequate opportunity on the part of the Authority to respond.

In addition, Section 22 provides:

> **The Commission shall give the public utility and the complainant, if any, ten days' notice of the time and place when and where such hearing and investigation will be held and such matters considered and determined.** Both the public utility and the complainant shall be entitled to be heard and shall have process to enforce the attendance of witnesses. [Emphasis added].

Unquestionably, the ten day notice requirement of Section 22 was violated in spite of the Authority's objection on the record to GCG's report. The notice and agenda of the December 18 hearing did not contain the GCG report. The way to avoid such violations in the future is for the

Commission to require that GCG respond to the Authority's LEAC petition within ten days after it is filed and then place the report on its agenda for consideration at least ten days in advance of the date of the formal hearing. This would then allow the Authority ten days in advance of a scheduled hearing to review the GCG response and to address it on the merits. Had the PSC provided the Authority with its procedural due process rights, the Authority would have been better positioned to more fully and completely respond to the GCG report as it does now in its response attached hereto as Exhibit A, *after* the entry of the Order. But responding after the fact is not as effective or efficient as responding in advance of decision by the Commission. The entry of the Order and then its solicitation of information afterwards is clearly an example of putting the proverbial cart before the horse. Therefore, this petition for reconsideration should be granted and the challenged paragraphs in the Order should be rescinded in recognition of their procedural invalidity. They were entered in violation of Sections 20, 21 and 22 and are therefore null and void.

The Authority's Constitutional Due Process Rights Have Been Violated

The PSC's statutory violation of Sections 20, 21 and 22 of Title 30 also constitute violations of the Authority's constitutional right to due process. The PSC is bound by the due process requirements of the U.S. Constitution and by fundamental principles of fairness. *See, Pittsburgh v. Pennsylvania Public Utilities Commission,* 171 Pa. Super. Ct. 391, 90 A.2d 850. It cannot make a final determination without first observing the requirements of due process.

Under the basic principles of due process and fair play, the PSC cannot enter an order without giving notice to the Authority and an opportunity to be heard. See, *West Penn Power Company v. PPUC, 100 A.2d 110 (1953).* The requirement of due process of law in procedural

matters applies equally to proceedings before administrative tribunals as well as to judicial bodies. *See, Artmour Transportation Co. v. PPUC*, 10 A.2d 86 (1939).

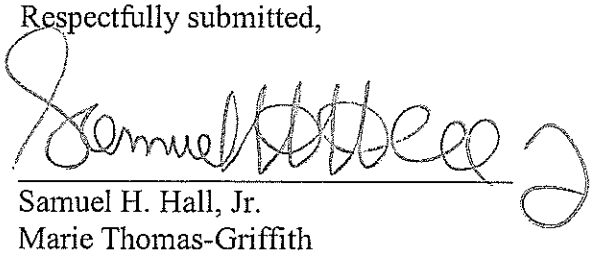
The PSC Has No Authority to require The Development of Comprehensive Plans

Paragraph 10 of the Order is also invalid because the PSC has no power to oversee the Authority's "development of a comprehensive plan to establish a "sound, balanced and reliable power system for the United States Virgin Islands" or to engage in any activity ancillary thereto. The development of such a plan is an exclusive responsibility of the Authority and it is unrelated to the PSC'S limited power to set the Authority's rates. Accordingly, it cannot develop such a plan or assess the Authority for the cost of its technical consultants to develop such a plan. Its power is limited to rate-setting. *V.I. Public Services Comission v. V.I. Water and Power Authority*, 49 V.I. 478 (V.I.S.C. 2008). Title 30, Section 105(14) vests exclusively in the Authority the power to "prepare, or cause to be prepared, plans, designs, specifications and estimates of costs for the acquisition, construction, reconstruction, extension, improvement, enlargement, or repair of any facility, and from time to time to modify such plans, designs, specifications and estimates."

Conclusion

In conclusion, for the reasons set forth herein, Paragraphs 2, 4 and 10 of the Order are null and void *ab initio*. The Commission should therefore grant this petition for reconsideration and vacate those provisions of the Order.

Respectfully submitted,



DATED: January 29, 2013

Samuel H. Hall, Jr.
Marie Thomas-Griffith
HALL & GRIFFITH
P.O. Box 305587
St. Thomas, U.S. Virgin Islands
00803-5587
Telephone: 340-715-2945
Fax: 340-776-8416
Email: sam@hallgriffith.com
mtg@hallgriffith.com

Lorelei Farrington, Esq.
General Counsel
VI WATER & POWER AUTHORITY
Post Office Box 1450
St. Thomas, U.S. Virgin Islands 00804-1450
(340) 774-6849
(340) 774-7513 (fax)

Counsel for the Petitioner Virgin Islands
Water & Power Authority

CERTIFICATE OF SERVICE

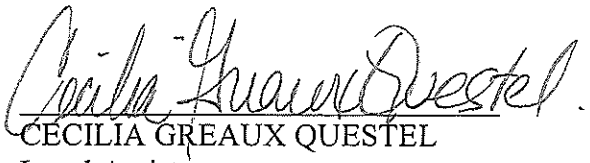
IT IS HEREBY CERTIFIED that an exact copy of the foregoing pleading was served on the following via hand delivery:

Boyd L. Sprehn, Esq.
Watts Benham & Sprehn
No. 1 Frederiksberg Gade
St. Thomas, Virgin Islands 00802
Counsel for PSC

PSC members and Executive Director
c/o Office of the Public Services Commission
Barbel Plaza

St. Thomas, Virgin Islands 00802

on the 29th day of January 2013



CECILIA GREAUX QUESTEL
Legal Assistant

The Authority's Response to PSC Orders 20/2013 and 21/2013 in Docket No. 289
and the
Report on the WAPA LEAC Factors for January 1, 2013
prepared by Georgetown Consulting Group

This is the response of the Virgin Islands Water and Power Authority (the Authority) to the Virgin Islands Public Service Commission's (the "Commission") Orders No. 20/2013 and 21/2013 in Docket No. 289 (the "Order") regarding the Authority's Levelized Fuel Adjustment Charge (LEAC) effective on January 1, 2013.

In preparing its Orders, which reflect the decisions of the Commission made at its hearing held on December 18, 2012, the Commission relied on the *Report on the WAPA LEAC Factors for January 1, 2013* prepared by Georgetown Consulting Group ("GCG" and the "GCG Report"). The Commission's reliance on the report was objected to by the Authority at the hearing due to insufficient time allowed to the Authority and Commission to review and respond to the 30 page report (plus exhibits for a total of 48 pages) received three days prior to the hearing. Accordingly, this answer of the Authority responds to certain aspects of the GCG Report. It also supports the petition for reconsideration of the Authority filed herewith. As set forth herein, the Authority seeks reconsideration in whole or in part of paragraphs 2, 4, and 10 of Order No. 20/2013.

Our response includes the following Sections.

I. Summary of the Authority's Response to the Commission's Order
II. Principal Issues with the GCG Report
III. Effects on the Authority of Under-Recovery of Fuel Costs
IV. Submittal of Information per the Commission's Order
V. LEAC Filing Improvements and Responses regarding the LEAC Process

For a complete understanding, all sections of this filing should be considered together.

I. Summary of the Authority's Response to the Commission's Order

The following provides a summary of the Authority's response to each of the numbered paragraphs in the Commission's Order dated January 3, 2013, a copy of which is attached hereto and made a part hereof as Exhibit "A". Please refer to the sections following this summary for additional information.

1. The Commission's Order states that it "adopts the findings and recommendations of its technical consultants as provided in its report", which report we refer to herein as the GCG Report.

   Given this unexplained over-arching adoption by the Commission, the Authority hereby provides notice that contemporaneously herewith it seeks reconsideration of various aspects of the GCG Report and the Commission's Order.

   The Authority believes that in several respects the information presented in the GCG Report is grossly misleading, incorrect, and counterproductive.

Moreover, the GCG Report contains numerous statements that might be interpreted as recommendations that are not enumerated in the Commission's Orders. Accordingly, the Authority asserts that the specific directives intended by the Commission are only those specifically included in the Commission's Orders.

At the hearing held by the Public Service Commission on December 18, 2012, the Commission adopted Commission Order Nos. 20/2013 and 21/2013 in Docket No. 289 and in so doing incorporated its adoption of the findings and recommendations of its technical consultants (Paragraph 2 of Order No. 20/2013). The Commission members received a copy of .the GCG Report dated December 15, 2012 on that date. On Saturday, December 15, 2012, after 5:00 pm., GCG sent an email to representatives of the Authority, which did not afford the Authority an opportunity to review the the GCG Report until the start of business on Monday, December 17, 2012. Given the short notice of the December 15, 2012 GCG Report, there was also no opportunity for the Authority to digest the contents of the 48-page document and to provide to the Commission for its due deliberation in advance of a decision on the Authority's LEAC Petition the Authority's response to the GCG Report. The Authority met with GCG on Monday, December 17th and early in the day on December 18th to discuss the GCG Report, particularly the LEAC increase, which was desperately needed for financial stability of Authority operations. GCG's transmission of the GCG Report to the Commissioners within less than 36 business hours prior to the hearing and the Commissioner's adoption of said report and recommendations of its consultants, when there clearly was an inadequate opportunity to review and consider the substantive and highly technical matters contained in the report, represents an impermissible violation of the Authority's due process rights, and of fundamental fairness. Pursuant to the petition for reconsideration filed herewith, , the Authority seeks to reconsider the Commission's adoption of the findings and recommendations of its technical consultants.

The Authority does not agree with many statements in the GCG Report. We will not waste the time of the Commission by addressing all areas of disagreement. However, the Authority believes it is essential to respond to a few principal concerns with the GCG Report. More information about the concerns summarized immediately below can be found in Section II of this filing titled - *Principal Issues with the GCG Report.*

a. GCG Misstates the Reasons for the Increase in the LEAC Rate Requested by the Authority

Page 1 of the GCG Report presents a differential analysis that is intended to identify the key components contributing to the proposed LEAC changes. The analysis prepared by GCG and presented in the GCG Report is in error.

GCG attributed 82% of the filed increase in the LEAC rate to the projection by the Authority of lower average system operating efficiency. The facts are that only

28% of the increase was attributable to that change. GCG also indicated the effect of the changes to assumed fuel prices was a reduction equal to (14%) of the total increase, when the facts show that the change in projected fuel prices contributed 39% of the total increase. The following table clarifies the comparison of these amounts.

Proportion of the Filed LEAC Increase Attributed to:		
	GCG Report	**Factual**
Higher Fuel Oil Prices	(14%)	39%
Lower Generating System Operating Efficiency Forecast	82%	28%
Other factors	32%	33%
Total of Above Portions	100%	100%

Shown below is a comparison of a typical residential bill based on the proposed LEAC increase:

Description	Existing Bill	Proposed Bill	Increase - $	Increase -%
Typical Residential Bill (400 kWh/mo.)	$193.97	$207.09	$13.12	6.76%

The increase in the LEAC rate was $0.03280 per kWh, which represents an increase in the proposed LEAC factor from $0.383234 to $0.416033 per kWh or 8.56%.

As shown above, the 8.56% increase in the LEAC factor results in a 6.76% increase to a typical residential bill based on 400 kWh per month. Based on the corrected differential analysis above, approximately 2.63% of the 6.76% total increase is attributable to assumed fuel price increases, 1.89% is attributable to the forecast of operational efficiency, and the remaining factors, including changes to the recovery of deferred fuel balances, account for 2.24% of the 6.76% increase.

b. Deferred Fuel Balance:

The Authority's deferred fuel balance has resulted from the LEAC rates being set lower than necessary to recover all of the Authority's actual costs of fuel, especially over the last 5 years as fuel prices increased dramatically. GCG attributes the

existence of the deferred fuel balance as **"a condition of the Authority's own making."** This is a mischaracterization of the situation.

The deferred fuel balance for the Authority's electric system, including the debt issued to fund deferred fuel expense, was approximately $50 million at the end of September 2012. Our latest estimates indicate the deferred fuel balance has increased to $52 million as of the end of December 2012.

GCG implies that the deferred fuel balance resulted from the Authority's use of overly optimistic inputs of generating system efficiency that were never met. The facts are that the contributors to the deferred fuel balance include differences between several actual and estimated factors that affect the Authority's fuel costs, including customer loads, average fuel consumption per kWh produced, the generating units available and used to meet the loads on the Authority's system, station use, line losses, fuel consumed to produce heat used in the production of water, and fuel prices. The Authority was not in control of all of these factors.

Since July 2007, the Commission, based largely on recommendations and data provided by GCG, has consistently set the LEAC rate below the proposed rates filed by the Authority. In fact, the difference in the Authority revenue between filed and actual LEAC rates has been approximately $55 million. Accordingly, the deferred fuel balance is also the result of decisions made by the Commission based on recommendations by GCG.

c. Efficiency of Plant Operations:

The GCG Report states that:

- "...the level of production efficiency attained [by the Authority] is far below the industry average, and even further below current trends in production efficiency. An acceptable level of system efficiency would be in the range of 9500 to 10,000 BTU's/kWh, meaning that the Authority burns about 50% more fuel than an average system or 80% more than an efficient system," and

- the Authority "never meets its projected performance level and as a result consumes more fuel than it forecast being required. This is in spite of the Authority projecting its operational performance (i.e., heat rate for each of the plants or the kWh produced with a gallon of fuel) well below industry standards for the plants on the Authority's system; below the standards set by the Authority's consultants, Harris Group; and well below the equipment manufacturers' standards for operation, and

GCG's implication that the Authority's system can be operated at heat rates of 10,000 Btu/kWh or lower, as a whole or on either Island, is not supportable and is grossly misleading to the Commission and the Virgin Islands public.

That level of efficiency is **not achievable** by the Authority because of:

- the types and sizes of generation units installed on the St. Thomas and St. Croix systems,
- the size of those generation units in relation to the loads on each Island,
- effects on efficiency of meeting reasonable reliability criteria,
- the effects of environmental regulations on siting power generation units in the Virgin Islands,
- ambient conditions, and
- the fuel required to produce heat for water production.

The GCG Report is not correct in stating that the Authority operates "at efficiencies below the standards set by the Authority's consultants, Harris Group." The efficiency of the Authority's operations has been reasonably consistent with the estimated ranges of expected efficiency presented in the Harris Report.

GCG's use of manufacturer efficiency standards to benchmark the Authority's operating efficiency without appropriate adjustments completely discredits the creditability of the conclusions made in the GCG Report.

GCG is incorrect to conclude that the Authority operates "well below the equipment manufacturers' standards for operation." Manufacturer's "standards" or efficiency data generally refers to the output, efficiency, and other benchmarks a brand new generating unit must meet when operating at maximum output under a specific ambient and other operating conditions in order to be accepted by its purchaser. This data is not reflective of expected performance in use to serve a utility's loads over the unit's life. Moreover, the unit's efficiency degrades over time. As a result, the efficiency data provided by manufacturers simply cannot be used directly to benchmark the Authority's operation of the Authority's aging units under different ambient conditions serving load that changes throughout the day. Any attempt to do so is grossly misleading. Adjustments are needed to the manufacturers' data to account for negative effects of generating unit age and condition, planned and forced outages, load following, ambient conditions, fuel used for water production, and spinning and operating reserve reliability requirements faced by the Authority.

For comparative purposes only, the 2005 Harris Report referred to by GCG, which relies on data from 2003-2004, provides **theoretical** efficiency estimates that reflect allowances and adjustments for some of the real-world operating conditions. **It should be noted that the Harris Report has never been adopted by the Authority as a model for its operations.** Nonetheless, the Harris Report data is the best information available at this time to refer to as a guideline for ranges of

operating performance that may be expected from the Authority's generation system, even though some changes have been made to the generating units on the Authority's system since the report was prepared in 2005.

The GCG Report is misleading in concluding that "... the level of production efficiency attained [by the Authority] is far below the industry average, and even further below current trends in production efficiency." The Authority's situation is very different than the industry average. Comparing the Authority's efficiency with systems in the US and other large interconnected areas and other island electrical systems is not appropriate unless adjustments are made for differences in key factors that impact efficiency of generation systems. The differences include factors such as: the type of installed generation units, size of the systems, interconnections with other systems, load characteristics, size and number of generation units relative to the load levels served, effects of and differences in environmental constraints imposed by the US Environmental Protection Agency, sources of fuel, ambient conditions, and impacts of water production on fuel consumption. For instance, recent comparisons of the Authority to the Guam Power Authority system cited in the local press are highly inappropriate and misleading because of significant differences in all of these factors.

Finally, the GCG Report complains that the leased generating unit 25 has not provided anticipated improvements in efficiency. The facts are that the unit has allowed the Authority to avoid operating **much less efficient** generation units. Because of the unscheduled outages of other generating units, unit 25's primary benefit has been to prevent increases in system heat rate and therefore fuel costs that would have resulted from these unplanned outages. The generating unit outages that have impacted the use of unit 25 are clearly demonstrated from production operating reports. This point will be addressed in more detail in the RFM reconciliation report to be filed at a later date.

2. This paragraph of Order 20-2013 deals with the parameters that impact the electric system LEAC rate and the rate is specified in Order No. 21-2013. The Authority does not seek reconsideration of the approved level of the electric system LEAC rate as stated in the first paragraph of Order No. 21-2013. It will, however, seek reconsideration of the Commission's determination in Paragraph 2 of the Order that certain "assumptions" are reasonable and appropriate.

3. The Authority does not seek reconsideration of the approved level of the water system LEAC rate in Order No. 20/2013.

4. The Commission directed that all Minimum Filing Requirements (MFRs) must be included with future LEAC filings and that in the absence of all MFRs (including, but not limited to workable electronic spreadsheets) the filing will be returned as incomplete.

   The Authority believes this procedure will lead to unnecessary delays in considering the LEAC filing and potentially in implementing changes in the LEAC rate. This is likely to be harmful to the Authority's customers, in that it may lead to subsequent LEAC filings of a greater magnitude. Also, any delay in implementing the LEAC rate changes can have dramatic effects on the ability of the Authority to meet its financial obligations and operate effectively.

   The Authority therefore seeks reconsideration of paragraph 4 to the extent stated herein and will request, in the alternative, the Commission to establish a procedure whereby, in the case of a clear omission of one of the Minimum Filing Requirements from a LEAC filing, a deficiency letter would be issued within 5 days from the date of filing and the Authority would then supplement or correct its filing in response to the specific concerns expressed in that letter.

   Finally, the Commission has not clearly delineated in one order for the sake of clarity and convenience all of the Minimum Filing Requirements so that there can be no doubt as to what is or is not an MFR. The Authority will act in good faith to make its next filing complete in this respect and will work with the Commission to establish a definitive filing requirement that will guide development of future LEAC filings.

5. The Authority does not seek reconsideration to the Commission's Order to provide a detailed narrative to accompany each LEAC filing describing the request in detail and highlighting the reasons for under performance or better than expected performance of the generating units and the resultant fuel costs. Any proposed changes in the methodology, costs included or allocations must be fully explained in the narrative.

   The Authority points out that information provided for historical results will lag by one quarter due to the timing of filing requirements. For example, the data in the filing made in February 2013 for the period April through June 2013 will address the actual results for the period from October 2012 through December 2012.

6. The Authority does not seek reconsideration of this paragraph. A reconciliation of the deferred fuel accounts on its books and the deferred fuel amounts used in the LEAC calculations is presented below. All adjustments related to the reconciliation are fully explained. Please see Section IV titled: *Submittal of Information per the Commission's Order.*

7. The Authority does not seek reconsideration of this paragraph on the assumption that it refers only to the Electric System, as the Water System currently has no line loss surcharge in place. A complete reconciliation of the revenues and reserves from the Electric System Line Loss

Reduction Surcharge and the intended use of those funds will be provided no later than February 15, 2013. The Authority plans to provide a plan no later than February 15, 2013 regarding activities, interim performance levels, actions and completion of milestones.

8. The Authority does not seek reconsideration of this paragraph. The reason for the Authority's brevity in its LEAC petition on methodological changes was because the information now sought by the Commission's technical consultant had been provided to the technical consultant during meetings and conference calls and included in the permanent rate filing, all of which preceded the filing of the Authority's LEAC petition. Therefore, the Authority believes that it has complied with the portion of paragraph 8 of the Commission's Order related to methods used.

   Based on the technical consultant's review of the Authority's LEAC filing, the consultant subsequently requested a reconciliation of all the appropriate credits and debits related to the production of RO water from the inception of the 2012 contracts on each Island. This reconciliation will be provided in accordance with the Commission's Order by January 31, 2013.

9. The Authority does not seek reconsideration of this paragraph. An analysis to support the continued use of the IDE units into calendar year 2013 and not redeploying the temporary units on St. Thomas to St. Croix will be provided in accordance with the Commission's Order by January 31, 2013.

10. The Authority seeks reconsideration of paragraph 10 of Order 20-2013. This paragraph requires the Authority to provide by January 31, 2013 a detailed implementation plan addressing recommendations recently adopted by the Governing Board through its Energy Production Action Plan prepared September 2012 (EPAP). For the reasons more precisely set forth in the Authority's Petition for Reconsideration, the Authority advises that it is within the purview of the Authority's Governing Board, as authorized in its enabling legislation to approve all details supporting the implementation of the EPAP. Furthermore, as the Commission is aware, the EPAP is a document that is not expressly addressed to the rate-setting jurisdiction of the Commission and therefore, Paragraph 10 of the Order exceeds the jurisdictional authority of the Commission.

    Notwithstanding, the foregoing and without waiving any limits that exist on the Commission's authority to mandate an implementation plan, the Authority provides additional information below. Please see Section IV titled: *Submittal of Information per the Commission's Order.*

11. The Authority does not seek reconsideration of this paragraph. The approved LEAC rate is in effect as per paragraph 11 of the Commission's Order.

II. Principal Issues with the GCG Report

GCG Misstates the Reasons for the Increase in the LEAC Rate Requested by the Authority

Page 1 of the GCG Report presents a differential analysis that is intended to identify the key components contributing to the proposed LEAC changes. The analysis prepared by GCG and presented in the GCG Report is in error.

GCG attributed 82% of the filed increase in the LEAC rate to the projection by the Authority of lower average system operating efficiency. The facts are that only 28% of the increase was attributable to that change. GCG also indicated the effect of the changes to assumed fuel prices was a reduction equal to (14%) of the total increase, when the facts show that the change in projected fuel prices contributed 39% of the total increase. The following table clarifies the comparison of these amounts.

Reasons for the January 2013 LEAC Increase Correction of the GCG Report				
	GCG Report Analysis [1]		Corrected Analysis by Authority [2]	
Component	Contribution	% of Difference	Contribution	% of Difference
Fuel Oil Prices	($0.00463)	(14%)	$0.0128	39%
Efficiency Forecast	$0.02676	82%	$0.0093	28%
Deferred Fuel / Others	$0.01067	32%	$0.0107	33%
Total	$0.03280	100%	$0.03280	100%

[1] Amounts derived from GCG Report, page1.
[2] Amounts corrected by Authority staff.

Shown below is a comparison of a typical residential bill based on the proposed LEAC increase:

Description	Existing Bill	Proposed Bill	Increase - $	Increase -%
Typical Residential Bill (400 kWh/mo.)	$193.97	$207.09	$13.12	6.76%

The increase in the LEAC rate was $0.03280 per kWh, which represents an increase in the proposed LEAC factor from $0.383234 to $0.416033 per kWh or 8.56%. As shown above, the

8.56% increase in the LEAC factor results in a 6.76% increase to a typical residential bill based on 400 kWh per month.

Based on the corrected differential analysis above, approximately 2.63% of the 6.76% total increase is attributable to assumed fuel price increases, 1.89% is attributable to the forecast of operational efficiency, and the remaining factors, including changes to the recovery of deferred fuel balances, account for 2.24% of the 6.76% increase.

Deferred Fuel Balance

The Authority's deferred fuel balance has resulted from LEAC rates being set lower than necessary to recover all of the Authority's actual costs of fuel, especially over the last 5 years as fuel prices increased dramatically.

Figure 1 below shows the accumulation of the deferred fuel balance since the beginning of FY2008. All balances shown include the outstanding debt used to finance a portion of deferred fuel expense. Figure 1 clearly shows that the deferred balance continues to be a significant issue. The shortfall in fuel related revenue is adversely affecting the Authority's ability to function effectively and as efficiently as it otherwise could.

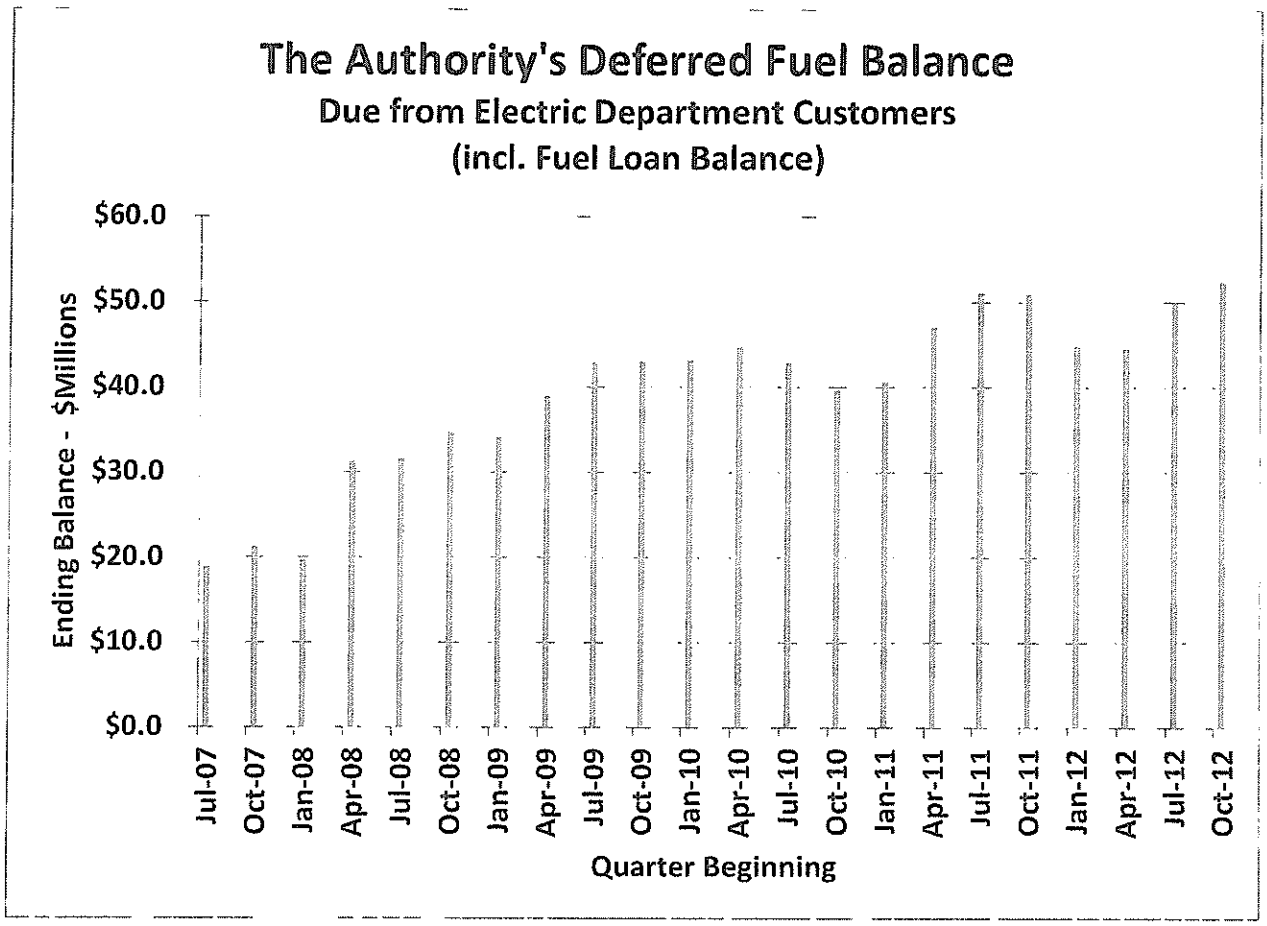


Figure 1 The Authority's Deferred Fuel Balance

The GCG Report places the responsibility for the deferred fuel balance solely on the Authority's failure to meet generation efficiency "targets" reflected in the LEAC filings in 2012. This is misleading and inaccurate.

The generating unit efficiency inputs included by the Authority in the LEAC reports have not been targets. Instead the efficiency inputs have solely been used for estimating fuel costs to be recovered through the LEAC rate. The Authority has been optimistic in projecting unit generation efficiencies in order to maintain the lowest charges possible to customers. GCG and the Commission have severely criticized the Authority's efforts to hold LEAC rates down by using optimistic efficiency projections and have insisted that we should always use the most realistic estimates of generating unit efficiency in our LEAC rate filings. Considering the iput from the Commission and GCG and to avoid the adverse effects of further under-recovery of fuel

costs, the Authority now plans to prepare future LEAC filings projecting fuel costs using the most reasonable estimates available for generation unit efficiency.

Contributors to the deferred fuel balance include differences between **actual** and **estimated** variables that impact fuel costs and LEAC rate levels. These variables include customer loads, fuel consumption per kWh produced (efficiency), generating unit status changes, station use, line losses, fuel used to produce water, and fuel prices. The Authority cannot control all of these factors. Fuel prices are well outside the Authority's control. In addition, factors outside of the Authority's control in many cases have impacted the operating status of the units on the system and the amount of fuel used to produce water.

Moreover, GCG has made recommendations and the Commission has made decisions that have impacted the recovery of fuel costs over time. For instance, since July 2007, the level of the LEAC Rate requested by the Authority would have produced revenues approximately $55 million higher than the LEAC rates approved by the Commission based on recommendations from GCG over the time period.

One significant example of the adjustments to the filed LEAC rate occurred for the period from July through September 2012. The Authority requested a LEAC rate based on projected fuel prices averaging $117 per barrel. The Commission approved a LEAC rate level based on a fuel price of $101 per barrel, based on a recommendation from GCG. The actual fuel price was $123 per barrel over that period. The difference in the revenues to the Authority from that fuel price driven decision by the Commission (which was based on GCG's recommendation) significantly contributed to fuel revenues being $7 million less than fuel costs in that 3 month period, which increased the deferred fuel balance by that same amount.

This shortfall in revenues had a material, adverse effect on the funds available to the Authority to carry out all of the Authority's operations. In particular, the shortfall often results in deferral of scheduled preventative maintenance and improvement plans, which has resulted in equipment failures and related increases in cost of generating unit repairs as explained further below in Section III titled: *Effects on the Authority of Under-Recovery of Fuel Costs.*

Efficiency of Operations

As noted above, the GCG Report is highly critical of the Authority's system efficiency, or more specifically, the system heat rate (Btu of fuel consumed, per kWh of electricity produced), which is the inverse of efficiency (which is electricity produced, per unit of fuel consumed). In fact, GCG irresponsibly and incorrectly asserts that:

- the Authority's efficiency is well below industry standards for the plants on the Authority's system; below the standards set by the Authority's consultants, Harris Group; and well below the equipment manufacturers' standards for operation, and

- "...the level of production efficiency attained [by the Authority] is far below the industry average, and even further below current trends in production efficiency. An acceptable level of system efficiency would be in the range of 9500 to 10,000 BTU's/kWh, meaning that the Authority burns about 50% more fuel than an average system or 80% more than an efficient system."

Unfortunately, GCG has not provided any meaningful support for the above statements, because they are in fact not supportable.

The key facts are:

1. GCG's implication that the Authority system can be operated at heat rates as low as 9,500 to 10,000 Btu/kWh or lower is **not accurate and is misleading** to the Commission and the public.

2. The efficiency of the Authority's operations **has been reasonably consistent** with the estimated ranges of expected efficiency presented in the Harris Report.

3. It is **inappropriate and therefore misleading** to use the efficiency data from manufacturers and other generation systems to benchmark the Authority's performance without making appropriate adjustments for significant real world differences that impact actual performance. GCG's use of manufacturer and industry efficiency standards to benchmark the Authority's operating efficiency, without appropriate adjustments, completely discredits the creditability of the conclusions made in the GCG Report.

GCG is incorrect to conclude that the Authority operates "well below the equipment manufacturers' standards for operation." The manufacturer's "standards" or efficiency data generally refers to output, efficiency, and other benchmarks a **brand new** generating unit must meet when operating at full output under specific ambient and other operating conditions in order to be accepted by its purchaser. This data is not reflective of expected performance in use to

serve a utility's loads over the unit's life. Moreover, the unit's efficiency degrades over time. As a result, the efficiency data provided by manufacturers simply cannot be used directly to benchmark the Authority's operation of the Authority's aging units under different ambient conditions serving load levels that change each hour. Any attempt to do so is grossly misleading. Adjustments are needed to the manufacturers' data to account for negative effects of real world factors faced by the Authority, such as generating unit age and condition, load following requirements, ambient conditions, fuel consumed in providing heat for water production, and spinning and operating reserve reliability requirements.

Figures 2 and 3 on the following pages show actual 2012 heat rates, in Btus (of fuel consumed) per kWh (of electricity produced), compared to ranges of theoretical heat rates presented in the Harris Report, for the Authority's STX and STT systems, respectively. These ranges are offered for comparative purposes only, as the best available data at this time.

The lines and symbols on these graphs have the following meanings:

1. ***Lower dotted line*** = an ideal estimate that **does not account** for important realities that will cause operation at less than full efficiency -- such as unit age and condition, ramping the units' outputs up and down to follow load, and reliability requirements.

2. ***Higher dotted line*** = estimates of expected efficiency when less efficient generation units need to be operated due to outages of more efficient generation units

3. ***Middle solid line*** = Expected target for good operations assuming normal unit availability and normal water production steam loads

4. ***Dot labeled 2012*** = average heat rate for 2012 plotted based on average hourly load level in MW

STX Plant Heat Rates
Comparison of Historical Actual to Harris Report

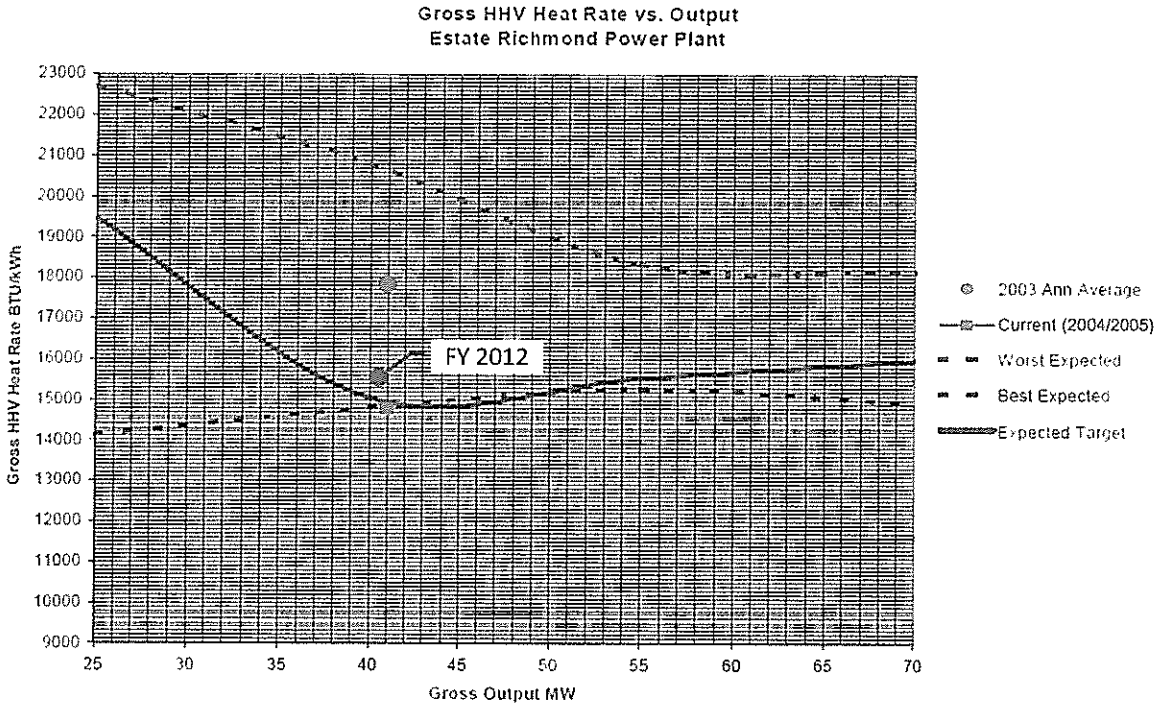


Figure 2 - STX Harris Report Heat Rates

From Figure 2 above, it is clear that the efficiency at which the generating units were operated on St. Croix (STX) in 2012 was reasonable in comparison to the analysis presented in the Harris Report. Even with adjustments for the heat recovery steam generator (HRSG) that was installed in 2010, the actual heat rate at STX was well within expected ranges considering the real world issues of the types and sizes of generating units installed and load levels on the St. Croix portion of the Authority's system.

STT Plant Heat Rates
Comparison of Historical Actual to Harris Report

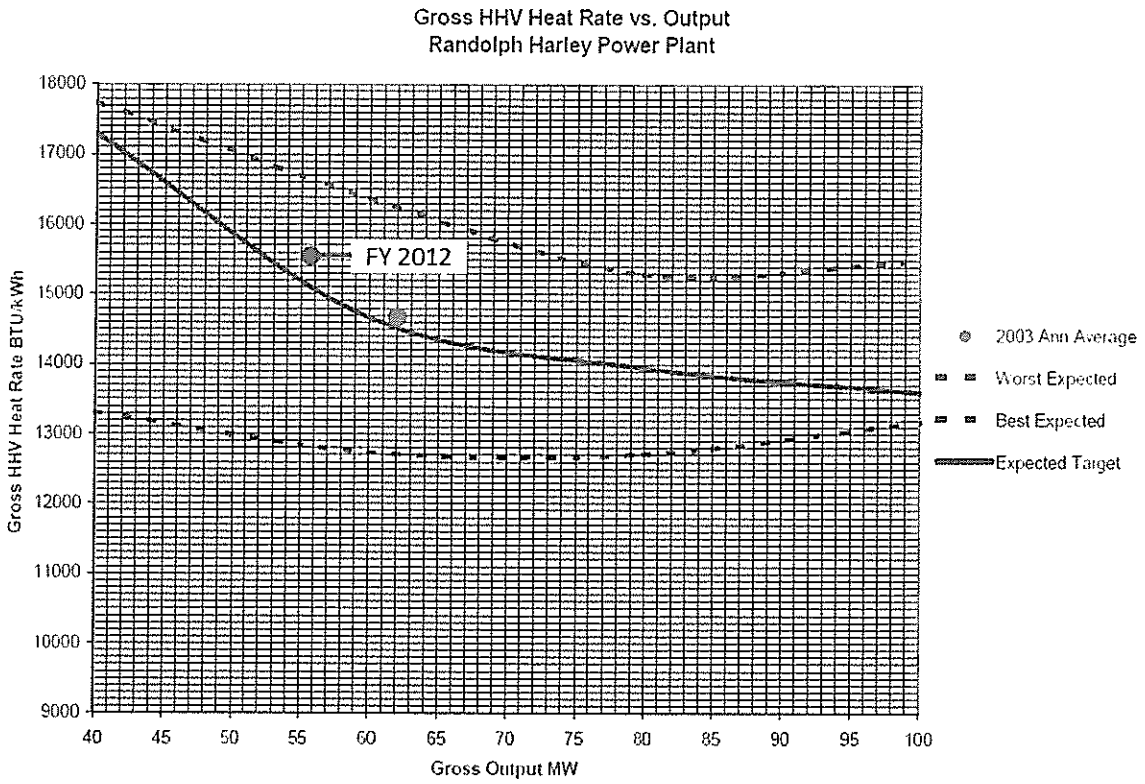


Figure 3 - STT Harris Report Heat Rates

From Figure 3 above, it is also clear that the operation of the generating units on St. Thomas (STT) in 2012 was reasonable in comparison to the analysis presented in the Harris Report, which considered the real world issues that impact the efficiency of the St. Thomas portion of the Authority's system.

Also note from Figure 4 below that the Harris Report indicates that the average heat rate that reasonably can be expected from operations of the Authority's resources to serve the Authority's 2012 STT load levels is on the order of 30 to 70% higher than the range from the 9,500 to 10,000 Btu/kWh that the GCG Report incorrectly asserts would be "acceptable." The error in GCG's assertion is even larger, if the St. Croix system is also taken into account.

Comparison of the Authority's Attainable Efficiency Levels to GCG's Recommended Acceptable Level

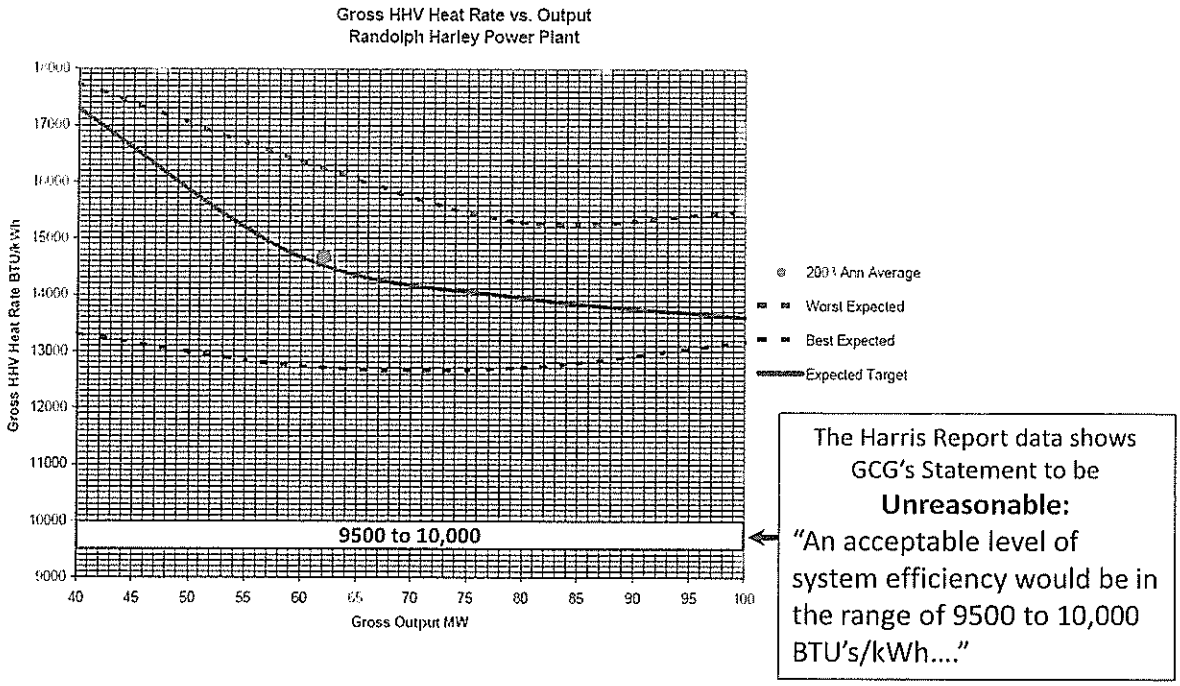


Figure 4 GCG's "Acceptable Level" Is Not Reasonable

As shown on Figure 5 below, the actual Authority total system heat rates have varied quarter to quarter over the past 5 fiscal years due to changes in the operational status of the Authority's generation units, loads, and water production requirements. It is also clear from Figure 5 that the Authority's system efficiency is improving as a result of the various maintenance and unit improvement initiatives being implemented by the Authority and funded by revenues from the electric system.

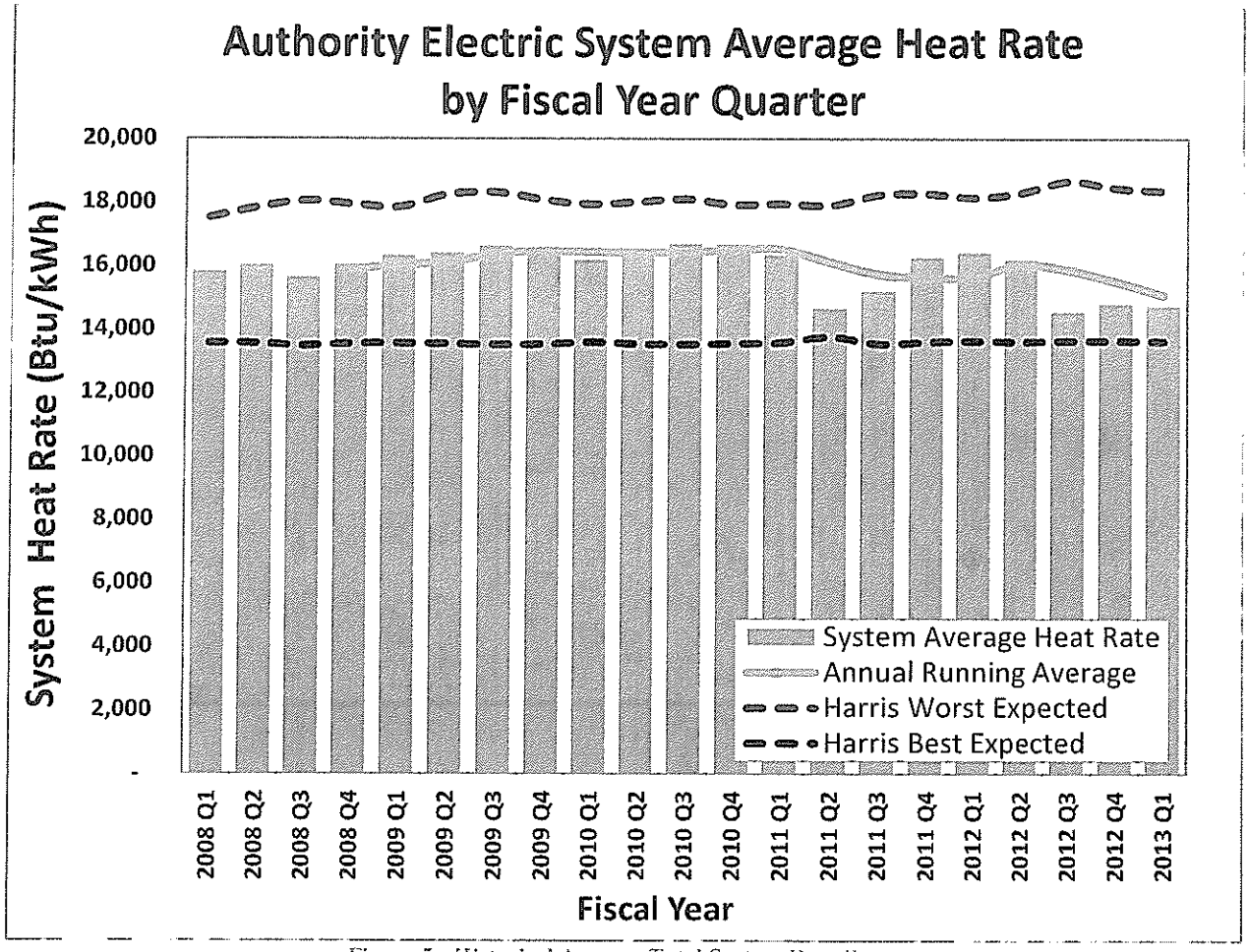


Figure 5 - Historical Average Total System Heat Rates

Undoubtedly, the Authority's average system heat rate over the last few years has been impacted by problems caused by deferred maintenance, unforeseen outages, extensions to planned outages, and water production requirements, as documented in the monthly production reports. All of these issues have been adversely affected by continuous cash constraints. Nonetheless, over this period, the above chart clearly shows that:

- the Authority has operated at efficiency levels that are in line with the ranges expected in the theoretical analysis presented in the Harris Report that reflects allowances and adjustments for some of the real world operating conditions faced by the Authority, and
- the efficiency of the Authority's systems has been improving.

The historical and expected improvement in efficiency is greatly aided by the adoption by the Commission of the RFM, but adequate recovery of fuel costs is absolutely essential for the Authority to have the financial resources necessary to fund the improvements that are necessary to keep improving the efficiency of the system.

GCG also errs by using system heat rates achieved by others to indicate the Authority's efficiency is 50% to 80% more costly to the Authority customers than it should be. Comparing the Authority's efficiency with other electrical systems is not appropriate without adjusting for differences in the types and sizes of installed generation, size of the systems, interconnection with other systems, load levels and characteristics, size of generation units relative to the load levels served, and impacts of water production on fuel consumption. In particular, recent comparisons in the local press of the Authority to the Guam Power Authority (GPA) system are highly inappropriate and misleading because of differences in the systems in all of these areas.

There are very substantial differences in the systems operated by the GPA and the Authority. The Authority is one system financially, but STT and STX represent two small systems electrically. Generating units on one of the Islands cannot be used to serve electrical loads on the other. The differences in the size of the systems and the types and efficiencies of electric generating units installed on the systems are highlighted by the following chart. Differences in environmental permitting considerations and system size have resulted in very significant differences in the type and therefore efficiency of the generating units on the two systems.

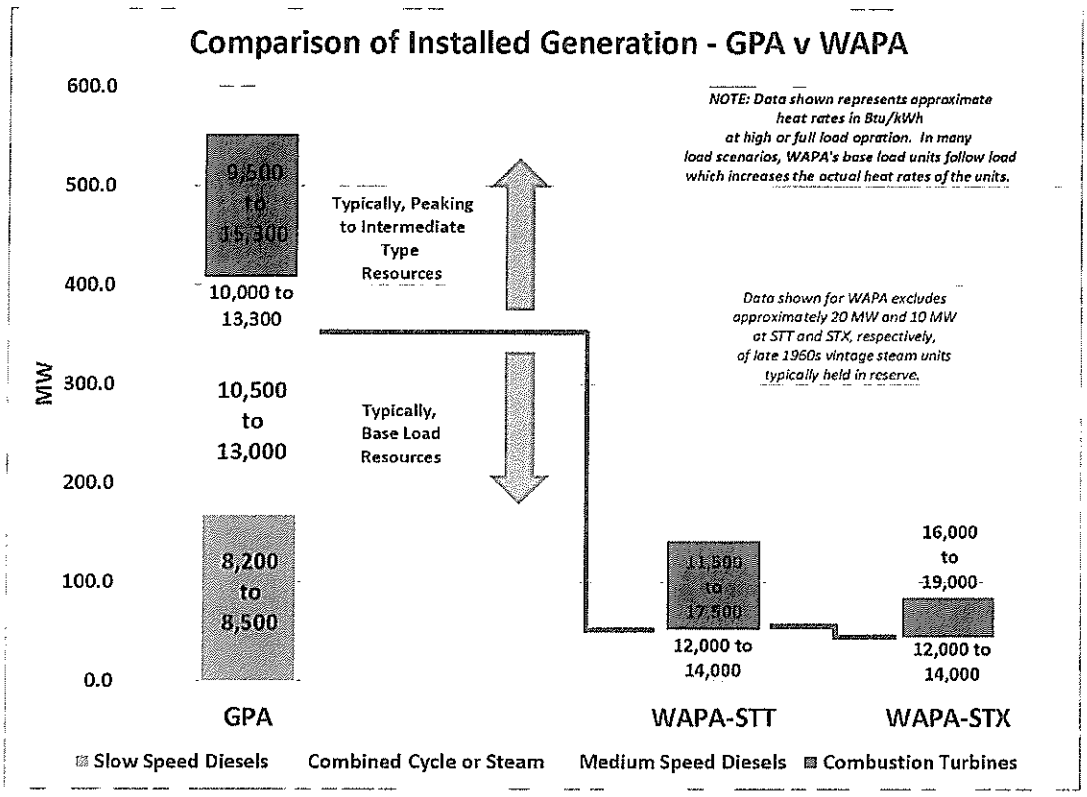


Figure 6 - Comparison of GPA and Authority Installed Generation

Note from Figure 6 above that a very major difference between the Authority and GPA is that GPA has been able to utilize very efficient slow speed and medium diesel technology, but the Authority has not.

Slow speed diesels were considered by the Authority, but environmental impacts, as noted below on Figure 7, eliminated that possibility for the Authority.

Slow and medium speed diesels are not now considered an option for the Authority unless changes in technologies, fuel, regulations, or other circumstances improve the environmental acceptability of these types of resources enough to make these more efficient types of resources worth considering again.

Past Study: SLOW SPEED DIESELS NOT AN OPTION for the Authority

1. Slow speed diesels have much better heat rates and can burn cheaper, dirtier fuels
2. Air impacts in our locale would be significantly greater than from existing turbines
3. No pollution control technology has been demonstrated to reduce NOx emissions enough to meet air quality requirements
4. Air permits not possible at existing plants

Source: Study prepared by MACTECH now AMEC

Figure 7 - Slow Speed Diesels Not an Option for the Authority

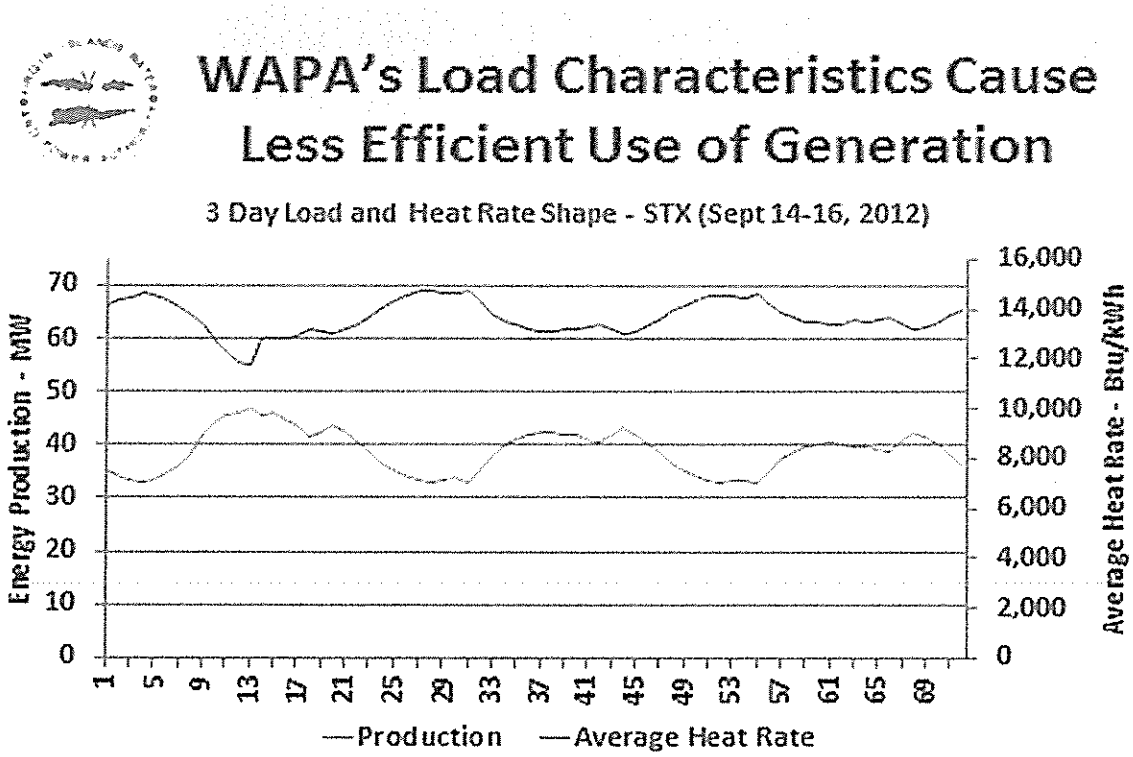
The relatively small size of the Authority's two electrical systems is a major factor that has impacted the type and size of generation units that can be installed on the system. The relationship of unit size to load levels also causes the Authority's resources to be operated at less than full efficiency in most hours of the year. This reality explains why the heat rate curves increase dramatically as they are plotted against progressively lower Authority loads on the graphs shown as Figures 2, 3, and 4 on preceding pages.

The following Figure 8 further illustrates this point.

The lower line on Figure 8, referenced to the left axis, represents the hourly load levels on the STX system for a 3 day period in September 2012. During this period, the Authority's generation units on STX were operating in the more efficient combined cycle mode, meaning the heat recovery steam generators (HRSG) were being used to produce steam from heat that would otherwise be wasted, which was then used in a turbine to produce "free" electricity.

The higher line, referenced to the axis on the right side of the chart, shows the approximate calculated average heat rate on STX in each hour.

Note that in hours in which loads are lower, the average heat rate is significantly higher. In fact, the average heat rate varies from approximately 12,000 Btus/kWh to 15,000 Btus/kWh over this three day period -- primarily due to the variation in load on the system. In fact, the generation units on STX did not operate at maximum output and therefore maximum efficiency in any hour in this three day period, due to the level of load on the system. This three day period was not unusual; in fact, it is quite typical!



Source: Prepared by nFront Consulting with PRMG, Inc. based on data supplied by WAPA

Figure 8 - The Authority's Load Characteristics Impact System Operating Efficiency Very Significantly

The bottom line on efficiency is that the GCG Report is very misleading and incorrect in conveying to the Commission and the public that "the Authority burns about 50% more fuel than an average system or 80% more than an efficient system."

The Authority deals daily with the realities of the generation units installed on its system, their age and condition, the large size of the most efficient resources relative to the loads to be served, and the impacts of water production requirements. Given the real world conditions the Authority faces, it is unnecessarily damaging to the Authority for GCG to convey such an inaccurate impression of the status and effectiveness of the Authority's operations.

Future improvements in the efficiency of operations of the Authority's electric system will depend on the ability of the Authority to execute the 5 year capital plan for generating improvements and scheduled maintenance and add a new waste heat generator on St. Thomas. The degree to which the Authority will be able to implement these improvements will be impacted significantly by the extent to which revenues are high enough to recover ongoing expenses, including fuel costs through the LEAC.

In addition, the Authority is further evaluating and moving toward implementation of the plan to convert the fuel used from oil to natural gas. Fuel conversion is expected to reduce maintenance costs and the price of fuel. In addition, fuel conversion may allow more flexibility in implementing generation technologies in the future because of reduced emissions. However, some portion of those benefits will be offset by reductions in efficiency in operation of the existing generation units on the system. For more information about ongoing efforts to improve the Authority's system, please see the discussion of the Energy Production Action Plan in Section III of this filing below.

III. Effects on the Authority of Under-Recovery of Fuel Costs

The impact on the Authority of the cash constraints that result from deferring recovery of fuel costs is extremely significant. The Authority is a public entity. The revenue and debt proceeds available to the Authority must continuously cover all expenses and expenditures. The Authority cannot absorb shortfalls in funds by reducing the return earned by equity stockholders as an investor owned utility would. If there is a shortfall in revenue, cash reserves have to be tapped, payables increased, and/or expenditures for preventative maintenance or improvements deferred or reduced. So, the under recovery of fuel costs in any period can directly cause a deferral in essential generating unit maintenance, repairs and improvements. This deferral reduces the reliability and efficiency of the generation system and typically leads to unscheduled outages, system emergencies, less reliable service, lower system operating efficiency, higher fuel costs, and even higher costs when maintenance and repairs are performed under "emergency" conditions.

As an example of the impacts of under recovery of fuel costs on the Authority, as discussed above the shortfall in fuel revenue for Quarter 1 FY 2013 amounted to $7 million. This $7 million shortfall in revenue was not anticipated at the time FY 2013 generation unit maintenance and improvement budgets were developed. The shortfall had a significant effect on the cash position of the Authority, which adversely affected the Authority's ability to implement its FY 2013 budgets for unit improvement, preventative maintenance, and repairs, which totals $11.4 million in total for St. Thomas and St. Croix for the entire fiscal year. The revenue shortfall of $7 million in the first three months of the year represented 61% of the total capital budget for production plant maintenance and repairs for the entire fiscal year, which directly caused the Authority to defer some scheduled work. As a result of maintenance deferral, a planned repair became a larger, more costly emergency repair. This cycle of maintenance deferral beyond reasonable time frames due to cash constraints, followed by reduced reliability, unscheduled outages, increases in average system heat rates and fuel costs, and more costly emergency repairs has been repeated time after time over the last several years

The Authority has made great strides in its efforts to diversify its energy sources and desires to continue to be responsive to the needs of the public. The Authority also looks forward to improving its infrastructure, ensuring that it continues its movement away from total dependence on oil and toward increasing its energy efficiencies. The fundamental issues that the Authority faces and seeks to redress all require necessary funding. However, the Authority has been limited, in part, by a regulatory approach that focuses on providing it with the bare minimum it needs to survive.

IV. Submittal of Information per the Commission's Order

This section presents information that is responsive to the Commission's Order pertaining to requirements for additional information regarding deferred fuel balances and the Authority Board's Energy Production Action Plan.

Reconciliation of Deferred Fuel Account Balances

Figure 9 below reconciles the deferred fuel receivables shown on the Authority's unaudited Balance Sheet to the deferred fuel balance reported in the LEAC filing as of September 30, 2012. The period ending September 30, 2012 represents the most current actual reporting period contained in the LEAC Filing for 3rd Quarter beginning January 2013.

Figure 9 - LEAC Reconciliation as of September 30, 2012

Description	Amount ($000)
Deferred Fuel (Balance Sheet) [1]:	
Current Portion of Deferred Fuel	$24,507
Long-term Portion of Deferred Fuel	25,091
Total Deferred Fuel (Balance Sheet)	$49,598
Deferred Fuel (Schedule 1- LEAC Filing 3rd Quarter)	
LEAC Filing Schedule 1 (Column (d) Row 37) [2]	$31,216
Adjustment for Prepaid GO Note [3]	18,000
Total Deferred Fuel (Schedule 1-LEAC Report)	$49,216
Current Period Variance	$382
Net Electric Credits from New Water Production Allocation Method [4]	($353)
Electric Reduction in Debt Service Payment [4]	($29)
Amount Unaccounted For	$0

[1] Unaudited as of September 30, 2012.
[2] As provided in the LEAC Filing for the 3rd Quarter beginning January 2013.
[3] Amount previously excluded from the LEAC Filing in Schedule 1 to reflect the financing strategy associated with the Series 2012 Bonds and the recovery of this portion of the deferred fuel through base rates as included in the permanent rate filing proposed for adoption in July 2013.
[4] Amounts will require adjustments to the unaudited Balance Sheet by Authority staff.

Energy Production Action Plan

To the extent that the Commission, by virtue of Paragraph 10 of Order 20/2013, intended to seek a tactical and logistical plan for implementing the EPAP, the Authority recommends that the Commission refer to Section 8 of the EPAP, which represents the most recently developed information regarding targeted schedules and milestones for the recommendations referenced in the document.

The EPAP is an internal strategy document of the Authority prepared by the Governing Board intending to provide an outline for future resource planning recommendations that the Authority's management should consider when developing future electric system resource plans and strategies. As noted in the second paragraph of the EPAP: "This plan represents a description of the options currently available to VIWAPA for the reduction of energy costs as understood by the Board." The EPAP represents potential strategies, but does not represent an official resource plan adopted by the Authority nor does it reflect a commitment to the specific actions or milestones referenced in the document.

The EPAP identifies potential strategies for modifying the Authority's electricity production resources, including recommendations to:

- Improve the efficiency of the existing system resources;
- Install new sources of fuel for use in on-island generating resources, including liquefied petroleum gas, liquefied natural gas, and/or coal;
- Electrically interconnect the St. Thomas electric system to the Puerto Rico Electric Power Authority (PREPA) through an undersea transmission line;
- Develop new solar and wind renewable energy resources; and
- Pursue biomass and ocean thermal energy technologies as alternatives to Authority base-loaded generating resources.

These strategies represent strategies that could be considered by the Authority either separately or collectively, but do not represent a resource plan reflecting implementation of all strategies as part of the Authority's comprehensive resource portfolio.

While the Authority certainly recognizes the potential value of implementing the strategies discussed in the EPAP, the plan is dynamic in its nature and recommendations and schedules are subject to change as better information becomes available and additional planning and implementation studies are performed. Several studies must be completed before many of the milestones outlined in the EPAP can be defined, including, most importantly, planning studies to assure that the proposed resources represent cost-effective decisions for the Authority, updating preliminary project designs and cost estimates, and submission of offers from potential vendors and developers. Additionally, approvals of facility permitting, negotiation of contracts for equipment procurement, and facility construction and commissioning reflect activities that are only partially within the control of the Authority, the timing of which will necessitate adjustments to the schedule once resource decisions have been made.

While recognizing that the EPAP reflects a strategy-planning document, the Authority has nonetheless begun initial planning and implementation activities contained in the EPAP, as follows.

1. Reverse osmosis installations are under construction at the Randolph Harley Plant Facility and at the Estate Richmond Plant Facility and are scheduled for commencement during calendar year 2013.
2. The Authority has begun discussions with the Authority's Bond Counsel and Underwriters regarding use of the gasoline tax revenue collected by the VI government as an equity source to secure new debt financing for the Authority.
3. The Authority has completed a Request for Qualifications to secure LNG and LPG fuel supply for use in the Authority's generating resources and is currently in discussions with prequalified suppliers as it develops term sheets for the next phase of procurement.
4. The Authority has issued a Request for Proposals to conduct an environmental impact study related to the installation of an undersea transmission cable and interconnection with PREPA.
5. The Virgin Islands Energy Office, working with the Authority, has installed wind anemometry equipment throughout St. Thomas and St. Croix to measure and document wind characteristics for the islands as an initial step to investigating the potential for wind generation on the islands.
6. The Authority is working with multiple Independent Power Producers to install and integrate photovoltaic systems into the St. Thomas and St. Croix electric systems; the first photovoltaic systems are scheduled for commercial operation during the spring of 2013.
7. The Authority has been working with Waste Management on St. Thomas, who is planning for the installation of landfill gas generating equipment at their facility.

V. LEAC Filing Improvements and Responses regarding the LEAC Process

The Authority intends to address the need for improvements in the LEAC filing process. In order to implement the improvements, the Authority has procured the services of Public Resources Management Group, Inc. and nFront Consulting, LLC to assist the Authority with future LEAC filings. The costs of these consulting services will be recovered as a regulatory expense as are the costs of the Commission's technical consultant, GCG. The specific improvements that the Authority intends to implement over the next several LEAC filings include:

1. Document publications and resources relied upon in the LEAC filings, establish protocols for internal management review and provide training for Authority staff involved in the LEAC filing process.
2. Work with the commission to clarify and define the filing requirements related to the LEAC.
3. Revise LEAC analytical workbooks/spreadsheets to:
    a. increase the transparency with respect to calculations and formulas within the LEAC workbooks;
    b. consistently and clearly distinguish between inputs and assumptions and calculations;
    c. build in controls to ensure accuracy of calculations;
    d. include a detailed summary of non-fuel adjustments, credits an debits related to water system allocations, deferred fuel balances, and various capital surcharges such as RFM and Line Loss Reduction;
    e. incorporate schedules to reconcile the true-up balances shown in the LEAC workbook to the Authority's financial statements; and
    f. incorporate a "differential analysis" to compare the proposed LEAC to the prior period proposed LEAC to assist in evaluating the reasons for any changes to the LEAC factor.
4. Improvement to the basis for fuel cost calculations based on more realistic generating performance criteria recognizing issues such as potential forced outage rates and generating unit availability, as the Commission and GCG have indicated we should,.
5. Consideration of updates to budgeted sales/production projections as appropriate to reflect the most recent trends. Past LEAC filings have relied on the adopted budget sales/production forecast for the Fiscal Year even when actual sales reflect significant variances from the budget.

6. Prepare narrative summaries with disclosure of assumptions regarding fuel prices, operating performance, deferred fuel balances and proposed changes to the LEAC methodology.