

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:)	
)	GPA DOCKET 12-08
)	
THE APPLICATION OF THE GUAM POWER AUTHORITY REQUESTING APPROVAL OF THE UTILITY SERVICES CONTRACT (USC) WITH THE U.S. NAVY)	PUC COUNSEL REPORT
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INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission [“PUC”] upon the Petition of the Guam Power Authority [“GPA”] requesting Approval of the Utility Services Contract (USC) with the U.S. Navy.¹

BACKGROUND

2. GPA currently provides electric service to the Navy under the Customer Service Agreement (CSA) which was effective August 1, 1992. The CSA expires on July 31, 2012.²
3. Both parties, GPA and the Navy, have determined that they would benefit from continuing with an agreement that provides for electric utility service to the military installations on Guam. They desire to enter into a contract for a ten (10) year term.³
4. The parties have attached their proposed USC to the Petition.⁴
5. GPA prepared a presentation concerning the new USC for the Guam Consolidated Commission on Utilities. The Presentation is a comprehensive rendering of the impact of the USC upon GPA and is attached hereto as Exhibit “1”.⁵

¹ GPA Petition for Contract Review, GPA Docket 12-08, filed July 13, 2012.
² Id. at p. 1.
³ Id. at p. 1.
⁴ Id.; See letter dated July 6, 2012, from Andrew J. Wall, Acquisition Director, NAVFAC Marianas, to Joaquin C. Flores, General Manager, Guam Power Authority, Utility Services Contract attached.
⁵ GPA Presentation to the Consolidated Commission on Utilities on the Navy Utility Services Contract, July 10, 2012.

6. On July 10, 2012, the Guam Consolidated Commission on Utilities adopted a resolution which authorized GPA to enter into the Utility Services Contract with the U.S. Navy for electrical service.⁶
7. GPA and Navy have engaged in a negotiation process for over two years and agree upon the proposed USC.⁷

ANALYSIS

8. The CCU recognized that the Navy/Department of Defense is GPA's largest customer, and that the USC will provide a consistent revenue stream to GPA that supplements the remainder of its customer base.⁸
9. The USC will also enable GPA, as the sole company charged with operating and maintaining the Island-Wide Power System (IWPS), to render adequate and efficient electric service to support the DoD's military mission.⁹
10. The USC has significant advantages for GPA: it recognizes GPA as the unique service provider for the military on Guam, the only service provider, unlike any other jurisdiction in the nation.¹⁰
11. Under the USC, GPA will derive annual revenues from the Navy in the approximate amount of \$70M.¹¹
12. The USC identifies assets for transfer from the Navy to GPA at an approximate value of \$129.28M, including transmission and distribution assets, and four power plants with substations. A Petroleum Oil Lubricants Fuel Line of 16.5 miles, valued at \$67.5M, and Easements of 113.5 miles, are also identified for transfer to GPA.¹²

⁶ CCU Resolution No. 2012-43, adopted July 10, 2012.

⁷ Guam Power Authority Presentation to the CCU on the Navy USC, July 10, 2012, pages 7 & 9.

⁸ Id. at p. 1.

⁹ Id.

¹⁰ Id. at p. 8.

¹¹ Id. at p. 2.

¹² Id. at p. 3.

13. In the USC, the parties have “cleaned up” the existing Customer Services Agreement, and have removed and revised articles thereof that are no longer relevant or which do not adequately reflect GPA’s current operating environment.¹³
14. The USC contains updated Tables (Table 3 and Table 4), which provide for “joint use” [Navy-GPA] generation and transmission facilities and for Navy Distribution assets to be transferred to GPA.¹⁴ Table 5 provides for new assets to be transferred to GPA and maintains the transfer mechanism.¹⁵
15. Navy will continue to make weekly fuel payments under the CSA. It will also be required to make payments to GPA within fifteen (15) days of invoice presentation and subject to late payment charges.¹⁶ GPA previously allowed Navy payment terms of 30 days.¹⁷
16. The USC contains a minimum contract demand and removes the maximum contract demand in the CSA. Article 13.1 of the USC establishes an initial minimum reserve capacity (minimum demand) set at 85% of the average Navy monthly peak conjunctive demands over the 12 months preceding the effective date of the Agreement.¹⁸By giving notice to GPA, Navy can implement an annual decrease or increase in the minimum reserved capacity not exceeding three and one half percent (3.5%) of the Minimum Reserved Capacity.¹⁹
17. There are some disadvantages too with the new USC. The contract term is limited to one ten (10) year term with no option for extension.²⁰ Navy will continue to supply water to Guam Waterworks Authority for power generation facilities, but GPA will be billed by GWA and will pay its rates rather than Navy rates.²¹
18. The power factor adjustments are provided for by the USC, but now only apply to demand charges and not energy charges.²²

¹³ Id. at p. 8.

¹⁴ Guam Power Authority Utility Services Contract, Table 3 and Table 4, pgs. 3 & 4 respectively.

¹⁵ Id., Table 5, p. 50; see also Articles 1.6 and 3.1.

¹⁶ Id. at p. 12; see also Article 21.6.2.1.

¹⁷ Id. at p. 19.

¹⁸ Guam Power Authority Utility Services Contract, Article 13.1 at p. 22.

¹⁹ Id.

²⁰ Id. at Article 6.2.

²¹ Id. at Article 3.2.

²² Id. at Article 15.3.

19. The role of the Guam Public Utilities Commission [PUC] is strengthened under the new USC. The PUC is acknowledged to be an eligible regulatory body in accordance with the FAR 52.241-7; the Navy accordingly agrees to comply with the current regulations, practices and decisions of the PUC concerning accounting practices, allowability of costs, cost allocation, pricing and rates, settlement charges, and other charges and fees (subject to appeal to the Guam Superior Court).²³
20. In addition, Disputes Resolution between GPA and Navy involving rate related disputes, accounting practices, allowability of costs, pricing and rates, settlement charges, and other charges and fees, shall be referred to the PUC for disposition in accordance with the PUC's rules of practice and procedure.²⁴

RECOMMENDATION

21. Counsel recommends that the PUC approve the Utility Services Contract between the Guam Power Authority and the U.S. Navy.
22. In the exercise of due diligence, the parties have carefully negotiated their utilities contract and reached a fair accommodation which protects the interests of both parties.
23. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 25th day of July, 2012.

Frederick J. Horecky
PUC Legal Counsel

²³ Id. at Article 12.1.

²⁴Id. at Article 19.1.