

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:)
) GPA DOCKET 12-01
)
THE APPLICATION OF THE GUAM)
POWER AUTHORITY REQUESTING) **PUC COUNSEL REPORT**
APPROVAL OF THE REGULATORY)
SERVICES CONTRACT WITH R.W. BECK)
(dba SAIC).)
_____)

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission [“PUC”] upon the Petition of Guam Power Authority [“GPA”] for contract review and approval of the Regulatory Services Contract with R.W. Beck (dba SAIC).¹

BACKGROUND

2. The Guam Power Authority issued RFP 09-004 for “regulatory services” and entered into a contract for such services with R.W. Beck in May 2009.²
3. Over the past two and a half years, GPA issued task orders to R.W. Beck for provision of certain regulatory services, including: working capital and cash reserve study, the 10 year financial plan, the self-insurance program, fuel hedging, small modular nuclear options, rate case strategy, self-insurance protocols, financial services, risk management and project management.³
4. Attached hereto as Exhibit “A” is a breakdown, by fiscal year, of the fees and expenses incurred by GPA for the services of R.W. Beck.⁴ Attached hereto as Exhibit “B” is a breakdown of the cost of the services provided by R.W. Beck by Task Order (presently, 12 task orders have been issued by GPA to R.W. Beck).⁵

¹ GPA Petition for Contract Review, Requesting Approval of the Regulatory Services Contract with R.W. Beck, GPA Docket 12-01, filed February 23, 2012.

² Id. at p. 1.

³ Id. at p. 2.

⁴ Exhibit “A” appears in the record in this Docket as Attachment A to CCU Resolution No. 2011-47, issued October 17, 2011, which is included with the “Supplemental Materials” filed herein by GPA on March 13, 2012.

⁵ See Attachment A to CCU Resolution No. 2012-08, issued February 14, 2012, which Resolution is an attachment to the Petition for Contract Review.

5. When GPA entered into the contract with R.W. Beck in May 2009, it did not anticipate at that time that the value of the contract would approach \$1.5M. For that reason, GPA did not seek PUC approval of the contract under the Contract Review Protocol.⁶
6. The contract review threshold of \$1.5M has now been met as a result of the task orders issued to R.W. Beck for regulatory services. However, GPA wishes to issue an additional task order to R.W. Beck for “engineering consulting services” to review a proposed bond issuance/refinancing.⁷ The Engineering Consultant would review the ability of GPA to refinance its outstanding debt and seeking to reduce its present interest costs. A consultant may consider GPA’s opportunity to restructure its debt. It wishes to take advantage of current low interest rates and to initiate the Engineering Consulting work “as quickly as possible.”⁸
7. Since GPA already has a contract with R.W. Beck, it wishes to utilize its existing regulatory services contract for this work. It is anticipated that this additional work will cost in the range of \$245,000.⁹ In addition, GPA seeks to pay R.W. Beck for services performed in the pending rate case of approximately \$50,000.00, for a total of \$300,000.00.
8. The Consolidated Commission on Utilities, in Resolution No. 2012-08, authorized GPA to increase the amount of its task orders to R.W. Beck in the amount of \$300,000 for a consultant’s report “as a part of GPA’s official statement needed for the upcoming bond issuance...” the CCU has authorized the GPA General Manager to petition the PUC for contract review approval of its proposed task order with Beck.¹⁰
9. GPA now requests that the PUC approve an increase in the contract amount for R.W. Beck from \$1.5M to \$1.8M.

⁶ Id. at p. 1.

⁷ Letter from Joaquin C. Flores, General Manager to ALJ, Public Utilities Commission, GPA Docket 12-01, dated February 17, 2012 at p. 1.

⁸ Id. at pgs. 1-2.

⁹ Id.

¹⁰ CCU Resolution No. 2012-08, issued February 14, 2012, at p. 3.

ANALYSIS

10. The Contract Review Protocol for GPA requires it to have prior PUC approval under 12 GCA §12004 for “all professional service procurements in excess of \$1,500,000.”¹¹
11. With regard to “multi-year contracts”, the test to determine whether a procurement exceeds the \$1,500,000 threshold for PUC review and approval considers expenditures for the entire term of the contract. If, for a multi-year procurement, the total costs over the entire procurement exceed the review threshold, GPA must obtain PUC approval.¹²
12. GPA did not realize when the contract was initially entered into that the total multi-year cost of the contract would exceed \$1.5M. GPA appears to have a reasonable excuse for not seeking prior approval of this procurement under the contract review protocol, as it seemed that the total cost would not exceed \$1.5M.
13. GPA has now determined that additional work under the regulatory services contract should be procured from R.W. Beck since there is already a contract in effect with Beck. In its Petition, GPA seeks an additional \$50,000 to insure the participation of R.W. Beck through the end of the current rate case including witness preparation and negotiation support.¹³ In addition, GPA seeks to utilize the services of R.W. Beck to provide an engineering consultant’s report as part of GPA’s Official Statement needed for the upcoming bond issuance in the amount of \$245,000.¹⁴
14. Counsel believes that it is reasonable to authorize GPA to utilize the services of R.W. Beck to look into the possibility of bond issuance and refinancing, and to provide an engineering consultant’s report. Whether GPA can refinance existing bonds in order to reduce interest costs, and to restructure debt, are appropriate subjects for further examination.
15. However, Counsel is somewhat surprised that GPA is seeking to obtain a consulting engineer’s report for a bond issuance at this time. In the rate case GPA

¹¹ Contract Review Protocol for Guam Power Authority, Administrative Docket, filed February 15, 2008 at ¶1(c).

¹² Id. at ¶4(b),(c), and (d).

¹³ CCU Resolution No. 2012-08, issued February 14, 2012, at p. 2.

¹⁴ Id. at p. 2.

indicated in a general manner that it might seek a bond issuance in 2014. No concrete plan has been presented at this point justifying a bond issuance. Generally, the consulting engineer's report is prepared and submitted to the rating agencies toward the end of the process, close to a time when GPA anticipates the issuance of bonds.

16. On March 19, GPA officials informed PUC Counsel that GPA intends to file an application for approval of a bond refinancing plan.¹⁵ At present no prior indication of such an application has been presented to the PUC, nor any information justifying such a request.
17. The PUC should clearly indicate to GPA that approval of the Beck regulatory services contract and authorization to have Beck prepare an engineering report in no manner signifies that PUC approves of any plan by GPA to refinance its debt or to issue new bonds. GPA has a heavy burden to justify any refinancing of bonds or issuance of new debt, as such actions obviously impact ratepayers and could increase the rates which ratepayers must pay.
18. In the pending rate case, it appears that a large portion of the increase in base rate sought by GPA relates to debt service of the bonds issued in 2010. A new bond issuance will result in the incurring of substantial issuance costs and other fees and charges which must ultimately be borne by ratepayers.
19. The PUC should advise GPA to be cautious in the issuance of new bonds or the undertaking of new debt. Counsel finds it somewhat disturbing that the CCU resolution 2012-08 refers to the provision by R.W. Beck of the engineering consultant's report "as a part of GPA's Official Statement needed for the upcoming bond issuance..." This statement seems to presume that bond issuance is already a *fait accompli*. At this point, GPA has not been authorized to undertake any bond issuance by either the Guam Legislature or the PUC.
20. GPA itself, in its letter from General Manager Flores dated February 17, 2012 to the PUC ALJ, indicates the possible pitfalls of bond issuance by GPA, including the lack of certainty of GPA's ability to issue bonds in the market, and the uncertain nature of the amount of savings, if any, from a refinancing or bond issuance.

¹⁵ Telephone discussion between PUC Counsel Frederick J. Horecky and Joaquin Flores, Randy Wiegand, and Graham Botha on March 19, 2012.

21. The PUC should order GPA to report hereafter to the PUC on a monthly basis concerning the present nature of its plans to issue further bonds or to refinance existing bonds. Such report should include a detailed description of any and all activities undertaken by GPA with regard to consideration of the issuance of bonds or refinancing during such period and the expenditure of any funds in such regard. GPA must keep the Commission fully advised regarding its plans for bond issuance and refinancing.

RECOMMENDATION

22. Counsel recommends that the PUC approve GPA's Contract for Regulatory Services with R.W. Beck, and authorize GPA to expend up to an additional \$300,000 for requested purposes (which include \$50,000 for additional work by R.W. Beck on GPA's pending rate case and \$245,000 for R.W. Beck to review the Authority's capabilities and forecasts regarding the issuance of bonds and refinancing).
23. However, PUC's approval of such contracts should, in no manner, be deemed to be an approval of any plan by GPA to issue additional bonds or to refinance existing bonds. GPA should provide PUC with a report clarifying its reference to the R.W. Beck report as the "engineering consultant's report as part of GPA's Official Statement needed for the upcoming bond issuance...", and explain in detail to the PUC exactly where GPA believes it is in the bond issuance process.
24. GPA should be required to provide monthly reports to the PUC hereafter concerning what actions or steps it has undertaken towards a bond issuance, including any amounts expended in that regard. GPA should keep the PUC fully advised of any actions it undertakes towards a "future" bond issuance, as such action will impact ratepayers.
25. With regard to any future bond issuance or refinancing plans, the PUC should be fully advised, at the earliest possible time, and well in advance, of all efforts by GPA to issue or refinance bonds.
26. An Order is submitted herewith for the consideration of the Commissioners.

Dated this 19th day of March, 2012.

Frederick J. Horecky
PUC Legal Counsel