



GUAM POWER AUTHORITY

PRESENTATION TO THE

CONSOLIDATED COMMISSION ON UTILITIES

ON THE

NAVY UTILITY SERVICES CONTRACT

July 10, 2012

Confidential



THE NAVY CUSTOMER

Energy Sales

Monthly
30 GWh

Annually
360 GWh

Revenue

Monthly
\$5.8 million

Annually
\$70 million

Metering Points

18
Locations at
34.5 kV

14
Locations at
13.8 kV

10-Year Contract Term

Potential
Contract
Value

\$700
million



Assets Identified for Transfer to GPA

- 11 Substation Assets \$ 2.58M
 - 7 Transmission Assets (70 miles) \$ 30.6 M
 - 15 Distribution Assets (29 miles) \$ 8.4 M
 - 4 Power Plants with Substations \$ 20.2 M
 - Petroleum Oil Lubricants Fuel Line (16.5 miles) \$ 67.5 M
 - Easements 113.5 Miles
- \$129.28M



GPA TEAM

JR Gumataotao
Rights of Way
Supervisor

Melinda Camacho
Assistant General
Manager,
Operations

Joven Acosta
Manager,
Engineering

Marc Adler
Black & Veatch

Bill Kemp
Black & Veatch

Joe Trainor
Black & Veatch

Graham Botha
General Counsel

Joaquin Flores
General Manager

Randy Wiegand
Chief Financial
Officer

Frances Reyes
Administrative
Support



NAVY TEAM

Utilities and Energy Management (UEM)

- **Jack Brown, Utilities & Energy Manager**
- Armando Abad, Utilities Technical Branch Supervisor
- Victoria Zialcita, Utilities Technical Engineer

Acquisitions

- **Matthew Blaz, Contracting Specialist**
- Doris Castro, Contracting Officer
- Christine Davis, Contracting Officer

Legal

- **John Masterson, Counsel**
- Steven Dougherty, Counsel
- John Aguon, Assistant Counsel
- Richard Huber, Counsel

Asset Management

- **Erlinda Steiner, Realty Specialist**
- Patrice Williams, Real Estate Officer

NAVFAC Utility Rates and Studies Office

- Dr. Kay Davoodi, P.E.
- Maurice Brubaker, Brubaker and Associates, Inc.
- Brian Collins, Brubaker and Associates, Inc.



CUSTOMER SERVICES AGREEMENT (CSA)

- August 1, 1992 – CSA
 - ✓ *U.S. Public Law 100-202*
 - ✓ *Replaced the Power Pool Agreement,*
 - ✓ *Created Island Wide Power System (IWPS)*
 - ✓ *Interim period – GPA required to meet certain performance standards prior to transfer of Navy facilities*
- Amendment I – clarified provisions of CSA as required by PUC – defines the words “interim period” and restricts it to 5 years; ensured environmental remediation necessary for transfer is in the deed covenants
- Amendment II – gave GPA rights and responsibility of joint use assets at end of interim period, concluded Navy’s responsibility to provide services to IWPS at end of interim period, gave GPA responsibility for IWPS, provided for transfer of additional assets considered excess by the Navy
- Amendment III – Included more Navy assets to be transferred
- September 15, 1996 - GPA/Navy 50-year Lease Agreement
 - ✓ *GPA operates & maintains CSA assets prior to conveyance*
- Contract term
 - ✓ *10 years plus optional 10 years*
 - ✓ *Navy executed 2nd 10-year option*
- Terminates on July 31, 2012



UTILITY SERVICES CONTRACT (USC)

- USC negotiations kick-off – June 2010
- USC replaces CSA - New format prescribed by Federal Acquisition Regulations (FAR)
- USC negotiation team establishes roles, responsibilities, reporting structures, and process
- July 1, 2010 – Navy submits first draft of USC
- August 10, 2010 – GPA and Navy's first USC negotiation meeting
- Lengthy contract negotiations
 - ✓ *Military build up*
 - ✓ *Rate setting methodology*
 - ✓ *Navy revisions*
 - ✓ *Real Estate inclusion in USC*
- Last formal meeting – January 2012
- Email exchanges and smaller focused meetings have been effective in resolving differences between the two parties

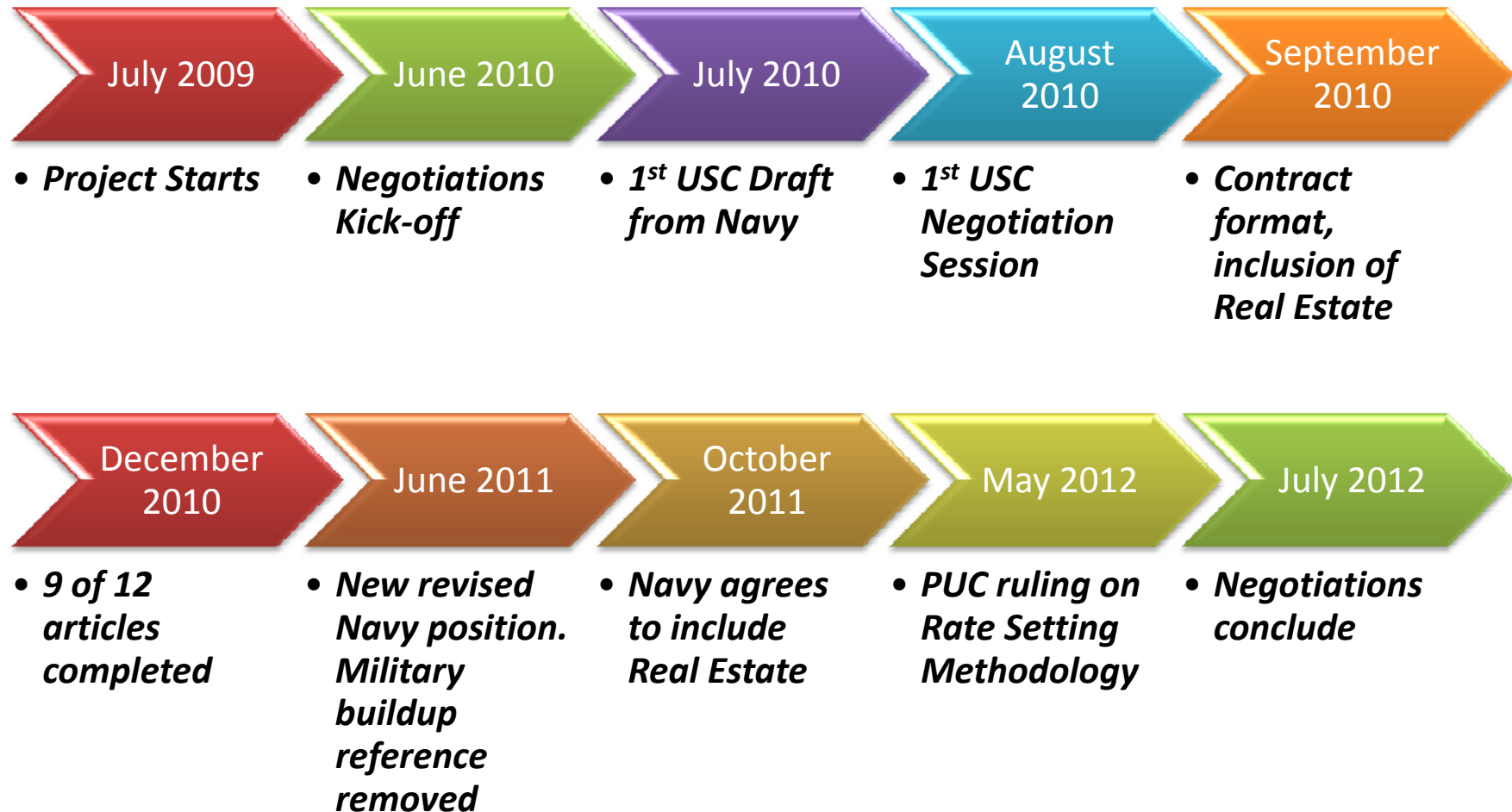


UTILITY SERVICES CONTRACT (USC) GPA WORK PLAN

- Maintain GPA as a unique service provider for Guam unlike any other jurisdiction in the nation
 - *Only service provider*
 - *Inheriting assets owned by Navy*
 - *Significant impact on revenue*
- Review existing CSA for articles no longer relevant or not adequately reflecting GPA's current operating environment
- Review of CSA Assets – determine adequacy of provisions to meet GPA requirements, update asset tables
 - *Table 1 – Points of Delivery*
 - *Table 2 – Assets to be retained*
 - *Table 3 – Joint use Assets*
 - *Table 4 – CSA Assets to be transferred*
 - *Table 5 – New DOD Assets to be transferred*
- GPA Consultant – Black & Veatch (BV)
 - *Manage negotiations and provide specialized research and support*
 - *Research other Navy utility contracts, Department of Defense (DOD) Financial Management Regulations, & Secretary of the Air Force Instructions on utility provisioning*
 - *Research FARs' applicability; Review historical CSA working papers*
 - *Perform internal analyses on impacts of various positions*
 - *Conduct internal workshop meetings to develop positions*
 - *Research industry practices on USC - financial, rate setting, operational practices*

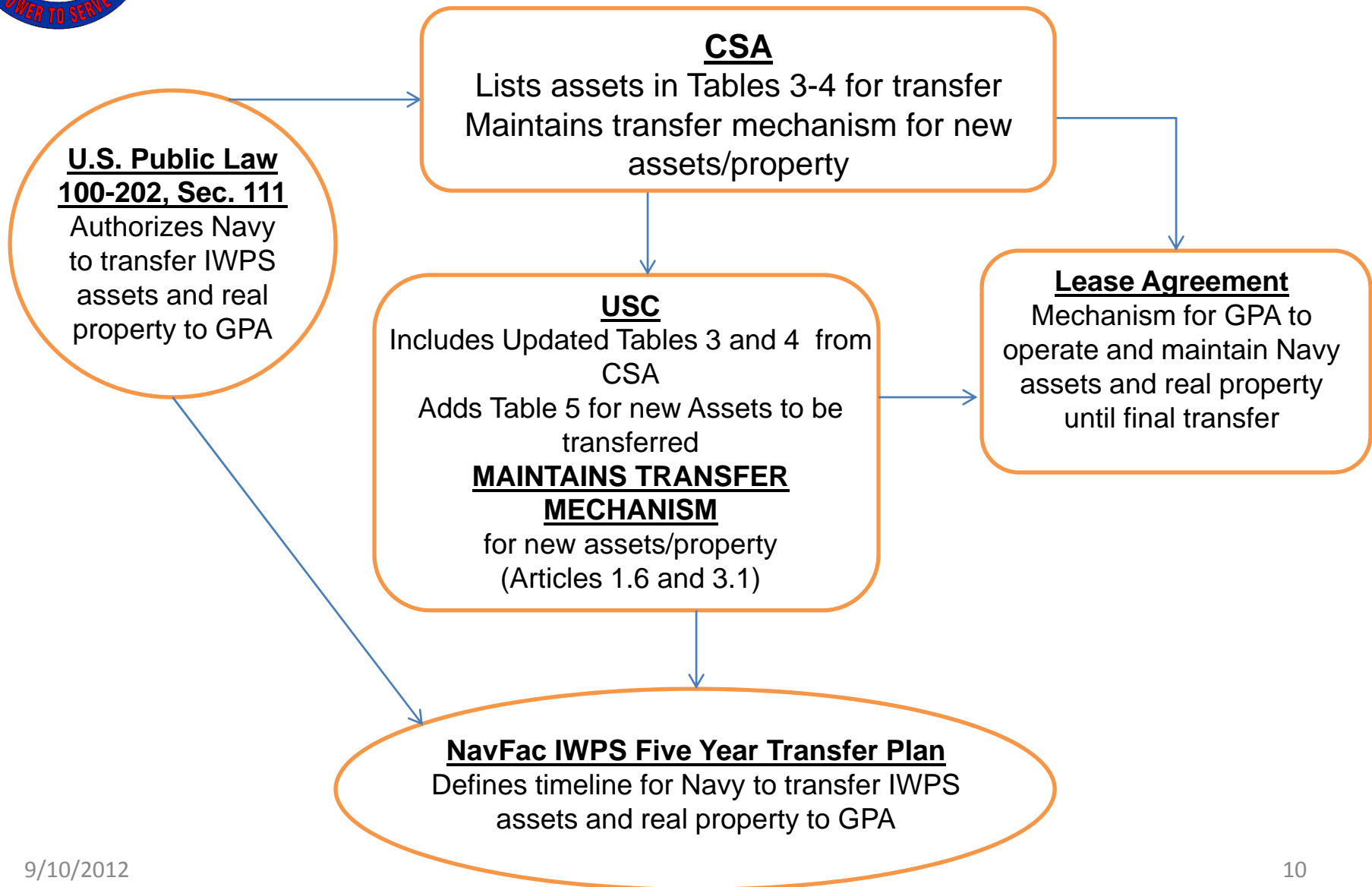


TIMELINE





GPA-NAVY IWPS ASSETS/REAL PROPERTY





HIGHLIGHTS OF ARTICLES AND IMPACT ON GPA

General Terms

- Contract is effective for a ten (10) year period with no option for renewal.

Operational Terms

- Retains GPA's use of Navy Assets and Real Property.
- Allows for existing and future excess asset transfers to GPA, subject to strict Federal guidelines
- Mechanism in place to utilize Navy easements and facilities to serve GPA customers when necessary
- Separate Utilities Pole Agreement between Navy and GPA in place
- Navy required to install and pay for special power facilities it needs

Deleted Terms

- Articles and provisions related to Customer Service Agreement interim period
- Articles and provisions no longer relevant, e.g., system separation and oil and transportation storage removed
- Insurance coverage provisions no longer required



HIGHLIGHTS OF ARTICLES AND IMPACT ON GPA

Financial Terms

- Navy will continue to make weekly fuel payments
- Maintains a minimum contract demand and removes maximum contract demand
- Removes Navy as-available power request and maintains demand billing ratchet
- Navy require to pay within fifteen (15) days of invoice presentation and subject to late payment charges
- Termination liability includes outstanding debt incurred during Customer Service Agreement period and adds the ability to seek additional compensation subject to PUC review and approval



Highlights of Articles and Impact on GPA

Advantage	Disadvantage	Comments
Article 1.6. Requires conveyance to follow CERCLA.		Environmental remediation remains with Navy even after date of conveyance.
Article 3.1. Identifies that Navy intends to transfer assets in USC Tables pursuant to PL 100-202 at no compensation and upon proper remedial action. Also identifies that additional assets may be transferred.		Recognizes the existence of PL 100-202 and Navy's intent to transfer excess assets from time to time.
	Article 3.2. Navy will continue to supply fresh water to the Guam Waterworks Authority for the power generation facilities installed on Guam on a best efforts basis at NAVFACMAR rates.	GPA no longer being billed directly by Navy at Navy rates but rather by GWA at GWA rates (dialogue with GWA in progress).
CSA Article 3.7. Deleted. CSA language indicated that GPA responsible for relocation costs of facilities associated with taking a previously granted easement back.		GPA's position was that Navy should bear the cost of GPA having to relocate its easement facilities elsewhere on Navy property. GPA does not have any control over Navy's decision affecting GPA.



Highlights of Articles and Impact on GPA

Advantage	Disadvantage	Comments
<p>Article 3.6. Should GPA discover a portion of conveyed properties is without benefit of corresponding real estate, parties agree to resolve such discrepancies in good faith.</p>	<p>Article 3.6. Navy shall not be obligated to acquire additional real estate interests from private parties for the benefit of GPA.</p>	<p>New article.</p>
	<p>Article 4.3. Both parties may be in a position to provide assistance to each other and will be fully compensated for direct costs. These services may be out of scope of this contract and will be covered under separate contractual agreements.</p>	<p>The CSA recognized that there might be exchange of services and compensation thereof. The Navy has maintained there is no contracting authority without the identification of a specific funding source, and this arrangement will require a separate contract between GPA and Navy.</p>
<p>Article 5.1. Navy will continue to make weekly fuel payments.</p>		<p>Navy previously advised that they could no longer make weekly fuel payments. GPA countered with payment of a fuel working capital requirement in lieu of weekly payments. Navy reversed their initial position.</p>



Highlights of Articles and Impact on GPA

Advantage	Disadvantage	Comments
<p>Article 6.2. Navy to provide one year notice in the event of termination rather than existing 180 days per CSA.</p>	<p>Article 6.2. Contract terms is limited to one ten (10) year term with no option for extension.</p>	<p>FAR 52.249-2 limits utility service contracts to ten years. GPA initially requested 10+10+10 years but despite repeated attempts unable to obtain Navy's concurrence beyond FAR limitations.</p>
<p>Article 8.4. Allows for electrical service taps to GPA designated points on Navy Dedicated Use Facilities on a best efforts basis.</p>		<p>Parties agree that Navy may be in a position to supply electrical service to GPA customers from Navy dedicated use distribution lines.</p>
<p>CSA Article 11. Insurance coverage not part of the new USC.</p>		<p>Navy does not require insurance provision in USC due to limited work on Navy property.</p>
<p>Article 12.1. Navy acknowledges the PUC to be an eligible regulatory body and the USC does not include the CSA wording "as a matter of comity rather than law" with respect to Navy complying with regulations, policies, etc. of the PUC</p>		<p>Strengthens the position and jurisdiction of the PUC with respect to rate setting, cost allocations, regulations, policies, etc.</p>



Highlights of Articles and Impact on GPA

Advantage	Disadvantage	Comments
<p>Article 13.1. Establishes an initial minimum reserve capacity (minimum demand) set at 85% of the average Navy monthly peak conjunctive demands over the twelve months preceding the effective date of this Agreement</p>		<p>Initially Navy did not want a minimum contract demand. This guarantees GPA a minimum demand revenue and enhances its ability to borrow funds from creditors.</p>
<p>Article 13.1.1. Navy may give notice to GPA of a requested decrease or increase in the Minimum Reserved Capacity. Such annual decrease or increase shall not exceed three and a half (3.5) percent of the Reserved Capacity in effect at the time of the notice.</p>		<p>Navy initially wanted a ten (10) percent annual decrease/increase and the CSA had a five (5) percent annual decrease/increase factor.</p>
<p>Article 15.3. Power factor adjustments only apply to demand charges and not energy charges.</p>		<p>CSA allowed power factor adjustments to apply to both demand and energy charges. Not consistent with industry practices and should benefit GPA by minimizing adjustments.</p>



Highlights of Articles and Impact on GPA

Advantage	Disadvantage	Comments
<p>Article 15.3.1. The Navy's Power Factor Adjustment Range (85%-90%) shall be adjusted up or down by the same percentage points as adjustments to GPA customer classes Large Power Service (Schedule "P") and Large Government Service (Schedule "L") may be made from time to time.</p>		<p>This provision was added to the USC to adjust Navy's power factor adjustment range. While GPA sought a higher range, the parties compromised on the ability to adjust based on adjustments to P and L classes.</p>
<p>Article 18.1. The USC includes "The sum of the annual principal payments for the period of time between the termination date and the end of the term of the then current Agreement, associated with all GPA debt incurred since the effective date of the initial Customer Service Agreement between GPA and Navy."</p>		<p>The CSA only included annual principal payments associated with new generation and transmission facilities installed during the term of this agreement. The USC Article includes any outstanding debt incurred during the CSA contract term.</p>
<p>Article 18.3. In addition to the termination charges in Articles 18.1 and 18.2, Navy will be subject upon early termination to settlement charges that shall be negotiated between the Parties. The PUC shall have review and approval authority, subject to the terms of Article 19.1, over termination or settlement charges</p>		<p>The CSA termination charges remain in place, but the addition of this Article offers the opportunity to seek additional relief in the event of early termination. GPA initially sought to include Navy's allocated principal and long term debt obligations beyond the contract term.</p>



Highlights of Articles and Impact on GPA

Advantage	Disadvantage	Comments
<p>CSA Article 19. Deleted. Dealt with rate setting methodology.</p>		<p>Details for rate setting methodology now included in Attachment I, which facilitates changes subject to administrative changes by Navy Contracting Officer</p>
	<p>19.2 For Other Disputes, this Contract is subject to the Contract Disputes Act of 1978, as amended (41 U.S.C. 601-613) and as contained in the provisions of FAR 52.233-1, as amended.</p>	<p>Article 26.1 of the CSA states the PUC shall have jurisdiction involving accounting practices, pricing and rates, etc. and all other matters are subject to arbitration. The USC maintains Article 19.1 (CSA 26.1) but defers to Contract Disputes Act, which does allow for arbitration as well as other remedial actions.</p>
<p>CSA Article 20.2. The CSA contained a provision for a maximum contract demand. This has been removed from the USC.</p>		<p>There is no limit on how much power Navy may purchase from GPA; only a minimum contract demand (minimum reserve capacity).</p>
<p>Article 21.4.2. For Added Voltage Control. Where the Navy requires special facilities to provide increased service reliability or voltage control with unusual close limits, the Navy will provide those facilities at their own expense.</p>		<p>This new Article is for special needs of the Navy. This is similar to GPA's Services Agreement with any civilian customer. Anything above and beyond the industry standard is considered special needs and the customer is to provide the extra equipment to meet particular equipment needs.</p>



Highlights of Articles and Impact on GPA

Advantage	Disadvantage	Comments
<p>Article 21.6.2.1. All bills shall be paid promptly. All bills are due and payable upon presentation, and are past due if unpaid fifteen (15) days after presentation.</p>		<p>GPA previously allowed Navy payment terms of 30 days. This Article is consistent with Civilian rate classes' policies and procedures. Should improve cash flow in addition to weekly fuel payments.</p>
<p>Article 21.6.2.2. Whenever payment of a regular bill for electric service is received after 5:00 P.M. of the date specified in the original bill as the date such payment is due, GPA shall assess a late payment charge.</p>		<p>GPA currently does not assess a late payment charge to Navy as Navy has been making weekly fuel payments.</p>
<p>Article 21.6.2.3. Navy shall pay the same late payment charges required of other customers of GPA.</p>		<p>This new Article is consistent with Civilian rate classes' policies and procedures.</p>
<p>Article 21.17.3.1. Underground line extensions necessary due to customer load requirements or GPA policy, requires Navy to install supporting infrastructure (ducts, manholes, etc.) and make monetary contribution.</p>		<p>CSA previously limited Navy providing supporting infrastructure to underground line extensions installed on Navy property.</p>
<p>Article 21.22. Navy will continue to allow GPA pole attachments to Navy poles.</p>	<p>Article 28.22. Navy will continue to allow GPA pole attachments to Navy poles.</p>	<p>Pole attachments governed by separate Utilities pole Agreement established by Navy.</p>



CSA Articles Deleted in Their Entirety

CSA	USC	Comments
Article 11 – Insurance	Not Applicable	Not required per FAR 28.3109(a)(1). FAR 28.310 – Contract Clause for Work on Government Installation required unless – (1) Only a small amount of work is required on the Government installation (e.g., a few brief visits per month)
Article 12 – Liability	Not Applicable	Similar language contained in Article 28.12.1. Also, DoD cannot hold GPA harmless from a third party suit – 3 rd Party Indemnification.
Article 13 – Oil and Transportation Storage	Not Applicable	Language not required as covered under EPA environmental regulations which both parties abide by.
Article 15 – Miscellaneous Provisions	Not Applicable	CSA language would not allow amendment to tables without a formal amendment. This would not allow for an administrative modification as prescribed in Article 28.1.4.
Article 17 – System Separation	Not Applicable	Pertained to Navy having the right for system separation during the interim period.
Article 19 – Rate Setting Methodology	Applicable	Details for procedures for developing the cost to serve the Navy and determining Navy rates is fully contained in <u>Attachment I</u>



General Terms

CSA	USC	Comments
Article 1 – Recitals	Article 1 - Recitals	Updated to remove reference to the services Navy will provide during the interim period and reference to the Power Pool agreement
Article 2 – Definitions	Article 2 – Definitions	Definitions updated and new definition for conjunctive demand added.
Article 7 – Effective Date and Term	Article 6 – Effective Date and Term	Effective on August 1, 2012 and USC in effect for ten (10) years with no option for renewal. Removes reference to performance standards and interim period.
Article 8– Forecasts of Reimbursable Costs	Article 7– Forecasts of Reimbursable Costs	Removes GPA’s and Navy’s obligation to provide other party with budgets for a two year period as well as load forecasts. Maintains Navy requirement to provide GPA with five year energy and demand forecasts as well as NavFac water rates.
Article 14 – Force Majeure	Article 10 – Force Majeure	Language remains the same as CSA, with minor changes.
Article 16 – Notices	Article 11 – Notices	Updated to reflect new Navy delivery address



Operational Terms

CSA	USC	Comments
Article 3 – Services Navy Will Provide and Navy Will Make Available	Article 3 – Services Navy Will Provide and Navy Will Make Available	Updated to remove reference to interim period and services Navy will provide. Contains language pertinent to property intended to be transferred and Navy to continue providing fresh water on a best efforts basis.
Article 9 – Dispatch and Control of Navy Dedicated Use Facilities	Article 8 – Dispatch and Control of Navy Dedicated Use Facilities	Removes reference to interim period and GPA’s obligation to install distribution facilities to separate Navy and GPA loads. Includes Navy may be in position to supply electrical service to GPA customers from Navy dedicated use distribution lines and allow electrical service taps to designated points on Navy dedicated use facilities.
Article 10 – Dispatch and Control of Navy Joint Use Facilities	Article 9 – Dispatch and Control of Navy Joint Use Facilities	Removes reference to the interim period and revised to reflect that GPA (not Navy) is required to follow GPA operational and maintenance procedures and standards for all non dedicated use assets. Any additional maintenance requested by Navy will be fully reimbursable to GPA.



Operational Terms

CSA	USC	Comments
Article 23 – Load Shedding Schedule	Article 16 – Load Shedding Schedule	Removes automatic and manual load shedding schedule as a USC attachment and states Navy shall maintain a high priority.
Article 24 – Load Restoration Schedule	Article 17 – Load Restoration Schedule	Removes load restoration schedule as a USC attachment and states Navy shall maintain a high priority for Navy identified critical loads.
Article 28 – Service Rules and Regulations	Article 21 – Service Rules and Regulations	Updated to reflect latest National Standards, and for Added Voltage Control; where Navy requires special facilities Navy will provide those facilities at their own expense. Underground extensions updated to reflect Navy’s obligation to install supporting structures. Includes reference to Utilities Pole Agreement between GPA and Navy.



Highlights of Articles and Impact on GPA

Financial Terms

- Navy will continue to make weekly fuel payments
- Maintains a minimum contract demand and removes maximum contract demand
- Removes Navy as-available power request and maintains demand billing ratchet
- Flexibility introduced in adjusting power factor and limited only to demand charges
- Termination liability includes outstanding debt incurred during Customer Service Agreement period and adds the ability to seek additional compensation subject to PUC review and approval
- Navy require to pay within fifteen (15) days of invoice presentation and subject to late payment charges



Financial Terms

CSA	USC	Comments
Article 4 – Navy Compensation for Services	Article 4 – Navy Compensation for Services	Removes reference to services and compensation to Navy during the interim period. Retains language related to Navy making joint use assets free of charge and no compensation to Navy for capital improvements undertaken by Navy on Leased Premises. Other services will be covered under separate contractual arrangements.
Article 6 – GPA Compensation	Article 5 – GPA Compensation	Removes reference to services provided by GPA during interim period as well as service billings. Maintains Navy to continue to make weekly fuel payments.
Article 18 – Rates and Regulations	Article 12 – Rates and Regulations	Combines CSA Articles 18 and 19 and recognizes the PUC as the eligible regulatory body in accordance with FAR 52.241-7.
Article 20 – Navy Maximum and Minimum Contract Demands	Article 13 – Changes in Navy Service Requirements	Removes max. contract demand and maintains initial Minimum Reserved Capacity at 85% of average monthly peak conjunctive demands of 12 months preceding effective date. Revises annual adjustment from 5% to 3.5% and limited to each contract year. As-available power delivery option removed.



Financial Terms

CSA	USC	Comments
Article 21 - Navy Billing Demands	Article 14 - Navy Billing Demands	Removes adjustment for as-available power taken by Navy to determination of billing demand, maintains 85% ratchet. Also removes adjustment factor in CSA due to inadequate metering not in place.
Article 22 – Power Factor Adjustment	Article 15 – Power Factor Adjustment	Power factor requirements remain the same with exception of adjusting energy charges (only demand charges) and introduces flexibility in adjusting power factor by same percentage as changes to L & P classes.
Article 25 – Termination Liability.	Article 18 – Termination Liability.	The CSA only included annual principal payments associated with new generation and transmission facilities installed during the term of this agreement. The USC Article includes any outstanding debt incurred during the CSA contract term. Maintains same CSA provisions for Navy dedicated facilities. Includes new Article that allows GPA to seek additional compensation with PUC having review and approval authority.



Financial Terms

CSA	USC	Comments
Article 26 – Disputes Resolution	Article 19 – Disputes Resolution	Maintains that all matters involving pricing and rates, settlement charges, and other charges and fees subject to PUC jurisdiction.
Article 27 – Wheeling and Service Exchange	Article 20 – Wheeling and Service Exchange	Removes provision related to NCS housing load included in contract demand. NCS housing no longer on GPA’s feeder.
Article 28 –Service Rules and Regulations	Article 21 –Service Rules and Regulations	GPA required to provide Navy with billing within twenty-one (21) working days. Navy required to pay within fifteen (15) days after presentation. Navy also subject to a late payment charge required of other customers of GPA. All other provisions remain the same as CSA.



Acronyms

ANSI – American National Standards Institute

CERCLA – Comprehensive Environmental Response, Compensation, and Liability Act

CSA – Customer Service Agreement (Utility Service Contract)

DOD – Department of Defense

FAR – Federal Acquisition Regulation

GPA – Guam Power Authority

GWA – Guam Waterworks Authority

IEEE – Institute of Electrical and Electronic Engineers

IWPS – Island Wide Power System

NavFac(Mar) – Naval Facilities Engineering Command Marianas

PUC – Public Utilities Commission

USC – Utility Service Contract



Thank You!