

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:) GPA Docket 14-05
)
THE APPLICATION OF THE GUAM)
POWER AUTHORITY TO APPROVE) PUC COUNSEL REPORT
THE CONTRACT FOR SUPPLY OF)
DIESEL FUEL OIL TO GPA.)
_____)

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority's ["GPA"] Petition to Approve the Contract for Supply of Diesel Fuel Oil to GPA.¹
2. The current GPA Diesel Fuel Oil contract with IP&E Guam expires on November 30, 2014. GPA seeks PUC approval for a new contract for the Supply of Diesel Fuel Oil for the Baseload Plants, Fast-track Diesel Plants and Combustion Turbine Plants.

BACKGROUND

3. On February 25, 2014, the PUC issued an Order approving GPA's request to proceed with the procurement for supply of Diesel Fuel to GPA for the Baseload Plants, Fast-track Diesel Plants, and the Combustion Turbine Plants.²
4. The PUC determined that "Diesel fuel assists GPA in providing a stable and uninterrupted supply of electricity to meet the island-wide utility power demand."³
5. PUC further determined that GPA was required to issue an Invitation for Bids for Diesel Fuel Oil so that it could secure a new contract which would provide GPA with a continuous supply of fuel necessary to maintain the Authority's electric power generation capacity.⁴
6. After the PUC approved GPA's request to procure a new fuel oil contract, the GPA Procurement Office issued a public bid for the provision of diesel fuel oil, Bid No.

¹ GPA Petition to Approve the Contract for Supply of Diesel Fuel Oil to GPA, GPA Docket 14-05, filed November 7, 2014.

² PUC Order, GPA Docket 14-05, dated February 25, 2014, at p. 3.

³ Id. at p. 2.

⁴ Id.

GPA-029-14, describing the type of services required and specifying the type of information and data required of each offeror.⁵

7. IP&E and Mobil Oil Guam both submitted bids for GPA's consideration; Mobil Oil Guam was determined to be the lowest, most responsive bidder to provide diesel fuel oil to the Baseload Plants, Combustion Turbine Plants, Manenggon Diesel Plant, and Talofofo Diesel Plant.⁶
8. IP&E Guam was determined to be the lowest, most responsive bidder to provide diesel fuel oil to the Tenjo Diesel Plant.⁷
9. The CCU authorized the General Manager of GPA to enter into a three year contract with Mobil Oil Guam for the supply of diesel fuel Oil No. 2 to the Baseload Plants (Cabras 1&2, MEC 8&9, and Tanguissan 1&2), Combustion Turbine Plants (TEMES CT, Dededo CT, Macheche CT, and Yigo CT), and Medium Speed Diesel Plants (Manenggon and Talofofo).⁸
10. The General Manager of GPA was further authorized to enter into a three-year contract with IP&E Guam for supply of diesel fuel oil to the Tenjo Diesel Plant.⁹ Both contracts were subject to PUC approval.

ANALYSIS

11. The PUC already previously determined that a continuous supply of diesel fuel oil is necessary for GPA to maintain its electric power generation capacity. If the PUC did not approve the current request, GPA would be left without a diesel fuel oil supply after November 30, 2014.
12. GPA procures approximately 5,300,000 gallons of diesel fuel oil per year.¹⁰ The proposed contracts with IP&E Guam and Mobil Oil Guam will enable GPA to meet its diesel fuel oil requirements.

⁵ Guam Consolidated Commission on Utilities Resolution No. 2014-37, issued August 12, 2014, at p. 1.

⁶ Id.

⁷ Id. at p. 2.

⁸ Id. at p. 3.

⁹ Id.

¹⁰ GPA Petition to Approve the Contract for Supply of Diesel Fuel Oil to GPA, GPA Docket 14-05, Exhibit A.

13. The PUC also determined previously that the draft contract forms which will be used with the selected bidders, IP&E and Mobil Oil Guam, adequately protect the interests of GPA and the ratepayers of Guam.¹¹
14. The award of the Contract to Mobil Oil Guam, based on the estimated supply quantities, has an estimated total contract value of approximately \$10,477,000.00 per year or a total of \$31,430,000.00 for the three-year contract period.¹²
15. The award of the Contract to IP&E Guam, based on the estimated supply quantities, has an estimated total contract value of approximately \$6,396,000.00 per year or a total of \$19,118,000.00 for the three-year contract period.¹³
16. It appears that the new diesel fuel oil supply contracts will derive savings for the ratepayers over the prices in the prior contract. The IP&E Contract will bring estimated total Premium Fee savings of approximately \$880,000.00 per year or a total of \$2,640,000.00 for the three-year contract period.¹⁴
17. The Mobil Oil Guam Contract will bring estimated total Premium Fee savings of approximately \$755,200.00 per year or a total of \$2,265,600.00 for the three-year contract period.¹⁵

RECOMMENDATION

18. Counsel recommends that the PUC approve GPA's proposed Fuel Oil Supply Contracts with IP&E Guam and Mobil Oil Guam.
19. GPA should be authorized to expend amounts for the Fuel Oil Supply Contracts with IP&E Guam and Mobil Oil Guam in accordance with the bid awards and the terms, conditions, and prices set forth in Exhibit A to the Petition.
20. A Proposed Order is submitted herewith for the consideration of the Commissioners.

¹¹ PUC Order, GPA Docket 14-05, dated February 25, 2014, at pgs. 2-3.

¹² CCU Resolution No. 2014-37, issued August 12, 2014, at p. 2.

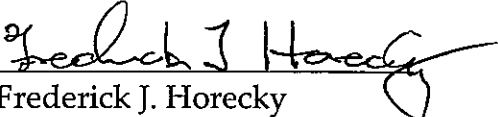
¹³ Id.

¹⁴ Id.

¹⁵ Id.

PUC Counsel Report
GPA Application to Approve
Contract for Supply of Diesel Fuel Oil
GPA Docket 14-05
November 15, 2014

Dated this 15th day of November, 2014.


Frederick J. Horecky
PUC Legal Counsel

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 15-04
)
The Petition of the Guam Power Authority))
for Approval of Financing for the) **PUC COUNSEL REPORT**
Insurance Contract with AM Insurance))
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INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon Petition of Guam Power Authority ["GPA"] for Approval of Financing for the Insurance Contract with AM Insurance.¹
2. GPA presently maintains its property insurance through a contract with AM Insurance. The renewal period for such insurance will commence November 1, 2014 for a one year period.²
3. GPA requests that the PUC approve the renewal contract with AM Insurance for the 2014-2015 policy year with a total payment not to exceed \$5,250,000, and with a financing agreement at an interest rate of 4.00% on premium payments to be made over the 12 month policy period.³

BACKGROUND

4. In its Order dated October 29, 2013, the PUC approved GPA's property insurance contract with AM Insurance for the policy period beginning November 1, 2013 through November 1, 2016.⁴
5. In its Order, the PUC authorized GPA to expend \$5.4M for the annual cost of the property insurance policy. Upon evidence presented to it, PUC found that the program for the proposed policy was in line with that of recent policies.⁵
6. PUC further determined that GPA was required by its Bond Indenture Agreement to maintain property insurance coverage to ensure that such policy is

¹ GPA Petition for Approval of Financing for the Insurance Contract with AM Insurance, GPA Docket 15-04, filed November 6, 2014.

² Id. at p. 1.

³ Id.; although GPA's Petition indicated a 4.25% interest rate, GPA's subsequent email, and Commercial Premium Finance Agreement with First Insurance Funding, provided to Counsel on November 13, 2014, establish that the interest rate will be 4%. Email from Graham Botha, GPA Counsel, to Fred Horecky, PUC Counsel, dated November 13, 2014.

⁴ PUC Order re: GPA Petition for Approval of Insurance Contract with AM Insurance, GPA Docket 13-04, dated October 29, 2013.

⁵ Id. at p. 2.

in place.⁶ GPA's proposed property insurance coverage with AM Insurance was found to be reasonable, prudent, and necessary.⁷

7. The Guam Consolidated Commission on Utilities, in Resolution No. 2014-53, authorized GPA to enter into a contract with AM Insurance for a total payment not to exceed \$5,250,000 for the property insurance, and to execute a financing agreement with an interest rate of 4.25% to allow for the premium payments to be made over the next 12 months.⁸

ANALYSIS

8. GPA was able to negotiate a 6.5% decrease to the property insurance premium with AM Insurance for the 2014-2015 policy year. The annual payment, which had previously been \$5,406,622.00, was reduced to the total payment of \$5,250,000.⁹
9. The PUC had previously approved an annual property insurance payment to AM Insurance in the amount of \$5.4M. Thus, GPA has successfully negotiated a property insurance contract for the upcoming year in an amount less than that previously approved by the PUC.
10. GPA has little choice but to maintain its property insurance coverage, in accordance with the requirements in its Bond Indenture Agreement.
11. Furthermore, in accordance with the prior determination of the PUC that "GPA's proposed property insurance program is reasonable, prudent and necessary,"¹⁰ GPA's property insurance contract with AM Insurance should be approved for the annual policy year commencing on November 1, 2014.

⁶Id.

⁷ Id.

⁸ Guam Consolidated Commission on Utilities Resolution No. 2014-53, Relative to the Authorization to Authorize the Guam Power Authority to Accept Premium Rates for the Upcoming Property Insurance Policy Period and to Execute a Financing Agreement for Same, adopted October 27, 2014.

⁹ GPA Petition for Approval of Financing for the Insurance Contract with AM Insurance, GPA Docket 15-04, filed November 6, 2014, at p. 2.

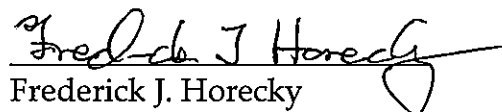
¹⁰ PUC Order, GPA Petition for Approval of Insurance Contract with AM Insurance, GPA Docket 13-04, dated October 29, 2013, at p. 3.

12. GPA further seeks authorization to finance a portion of its property insurance premiums over an eleven month period.¹¹
13. The amount financed by GPA under the Commercial Premium Finance Agreement is \$4,443,079.55.¹² GPA indicates that this is only a portion of the cost of its property insurance coverage.¹³ The interest rate is 4%. The finance charge (total cost of credit) is \$89,354.40. Thus, the total amount due from GPA under the Agreement will be \$4,532,433.95.¹⁴

RECOMMENDATION

14. Counsel recommends that the PUC authorize GPA to enter into its property insurance contract with AM Insurance for the policy period beginning November 1, 2014 through November 1, 2015, in a total amount not to exceed \$5,250,000.
15. GPA should be authorized to enter into the Commercial Premium Finance Agreement with First Insurance Funding, at an interest rate of 4.00%, and to finance its property insurance premiums. Payments thereunder, approximately \$412,039.45 per month, should be made over an eleven month period in accordance with the Agreement.
16. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 17th day of November, 2014.


Frederick J. Horecky
PUC Legal Counsel

¹¹ See Commercial Premium Finance Agreement between GPA and First Insurance Funding, dated October 31, 2014.

¹² Id.

¹³ Phone conference between GPA Counsel Graham Botha and PUC Counsel Fred Horecky on November 13, 2014

¹⁴ Commercial Premium Finance Agreement between GPA and First Insurance Funding, dated October 31, 2014.