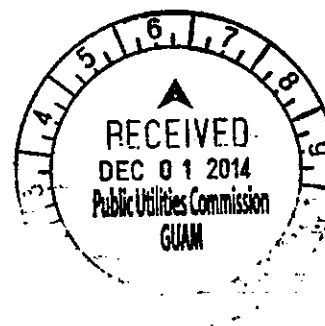


BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

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.<sup>1</sup>
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.<sup>2</sup>
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.<sup>3</sup>

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.<sup>4</sup>
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.<sup>5</sup>
6. PUC further determined that GPA was required by its Bond Indenture Agreement to maintain property insurance coverage to ensure that such policy is

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

<sup>2</sup> Id. at p. 1.

<sup>3</sup> 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.

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

<sup>5</sup> Id. at p. 2.

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

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.<sup>8</sup>

### 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.<sup>9</sup>
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,"<sup>10</sup> GPA's property insurance contract with AM Insurance should be approved for the annual policy year commencing on November 1, 2014.

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<sup>6</sup>Id.

<sup>7</sup> Id.

<sup>8</sup> 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.

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

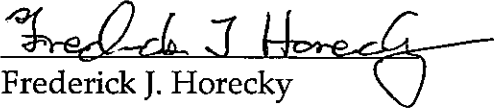
<sup>10</sup> PUC Order, GPA Petition for Approval of Insurance Contract with AM Insurance, GPA Docket 13-04, dated October 29, 2013, at p. 3.

12. GPA further seeks authorization to finance a portion of its property insurance premiums over an eleven month period.<sup>11</sup>
13. The amount financed by GPA under the Commercial Premium Finance Agreement is \$4,443,079.55.<sup>12</sup> GPA indicates that this is only a portion of the cost of its property insurance coverage.<sup>13</sup> 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.<sup>14</sup>

#### 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

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

<sup>12</sup> Id.

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

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