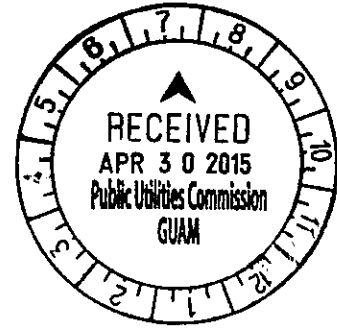


BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:) GPA Docket 15-11
)
The Application of the Guam Power)
Authority to Approve the Procurement of) ORDER
a Performance Management Contract)
(PMC) for Cabras Units 1&2 and 3&4.)

INTRODUCTION

- 1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Petition of the Guam Power Authority ["GPA"] for contract review and approval of GPA's Procurement of a Performance Management Contract (PMC) for Cabras Units 1&2 and 3&4.1
2. GPA now requests that the PUC: (1) authorize an extension of the existing PMC Agreement with Korea East-West Power Co. ("EWP") for Cabras 3&4 from July 1, 2015 through September 30, 2015; and (2) authorize GPA to issue a multi-step invitation for bids for a single performance management contract at the Cabras 1&2 and 3&4 Base Load Plants.2

BACKGROUND

- 3. During the 1990s, GPA, at the urging of the PUC, undertook the hiring of Performance Management Contractors to manage, operate, and maintain the Cabras 1,2,3 & 4 Plants.
4. GPA believes that the Performance Management Contracts at the Cabras Plants have contributed to their increased availability and efficiency.3
5. The five-year Performance Management Contract between GPA and Taiwan Electrical Mechanical Services Inc. ("TEMES") for Cabras 1&2 expires on September 30, 2015.4

1 GPA Petition to Approve the Procurement of Performance Management Contract (PMC) for Cabras Units 1&2 and 3&4, GPA Docket 15-11, filed April 8, 2015.
2 Id at p.2
3 Guam Consolidated Commission on Utilities, Resolution No.2015-15, Authorizing Management of the Guam Power Authority to Issue Bid for a Single Performance Management Contract Cabras 1&2 Steam and Cabras 3&4 Slow Speed Power Plant, adopted February 24, 2015 at p.1.
4 Id at p.1

6. The five-year Performance Management Contract between GPA and EWP for Cabras 3&4 expires on June 30, 2015.⁵
7. Instead of having two separate Performance Management Contractors for the Cabras 1&2 and 3&4 plants, GPA now seeks to procure "a consolidated new Performance Management Contract (PMC) for the operation of all of the Cabras Power Plants."⁶
8. The Guam Consolidated Commission on Utilities has approved GPA's request to issue a multi-step invitation for bids for a single Performance Management Contract at the Cabras 1&2 and 3&4 Base Load Plants.⁷
9. The PUC Counsel filed his Report herein on April 27, 2015. The PUC adopts the recommendations therein.⁸

DETERMINATIONS

10. GPA's justification for having a single Performance Management Contractor for the Cabras Plants is that the PMC management fees for the Plants will be reduced by as much as \$1.5M per year over the next five years.⁹
11. While it is logical that some savings would result, the actual amount of savings from the consolidation of the Cabras Plants under one PMC is speculative at the present time.
12. Since the cost of the fixed management fees can only be determined after bids are submitted and a PMC selected, the PUC should determine the actual savings that GPA will derive from such consolidation when it reviews the final Performance Management Contract.

⁵ Id.

⁶ GPA Petition to Approve the Procurement of Performance Management Contract (PMC) for Cabras Units 1&2 and 3&4, GPA Docket 15-11, filed April 8, 2015, at p.1.

⁷ Guam Consolidated Commission on Utilities Resolution No.2015-15, adopted February 24, 2015, at p.2.

⁸ PUC Counsel Report, GPA Docket 15-11, dated April 27, 2015.

⁹ Id. at p.1.

13. At this time the PUC cannot accept the assumptions in GPA's Petition and moving documents that the Cabras 1&2 and 3&4 Units should be deactivated by 2020.
14. To date, GPA has made no showing to the PUC that either Cabras 1&2 or Cabras 3&4 should be deactivated by 2020. With the Tanguissan Plants, GPA presented a petition and evidence that they should be deactivated. There has been no such showing with regard to any of the Cabras Plants.
15. No presumption can be made that any of the Cabras Plants should be deactivated until GPA makes a proper case and demonstrates that there is a rationale and justification for the deactivation of those Plants.
16. The fact that the Cabras 1&2 plants are 41 years old is not alone a justification for deactivating the plants. Under certain circumstances, plants, with proper maintenance and upkeep, have been kept in operation for 50 or 60 years.¹⁰
17. GPA's own documentation for this Invitation for Bids demonstrates that, in recent years, millions of dollars have been invested into the Cabras 1&2 Plants for upkeep and maintenance. This investment by ratepayers cannot be abandoned without sufficient evidence and proof.
18. The Cabras 3&4 Plants are currently only 21 years old.¹¹ In 2020, Cabras 3&4 will be roughly 26 years old. Given the substantial investment of the ratepayers of Guam, which include payments of principal and interest on bonds, it is by no means clear that the deactivation of those plants is justified. At present there is no evidence in the record to justify deactivation of Cabras 3&4.
19. The PUC has no objection to reduced investment levels for the Cabras Plants if they will continue to operate at present reliability levels.
20. However, the PUC will not approve any contract which assumes that reliability levels can be reduced on the assumption that Cabras 1&2 or 3&4 are being phased out by 2020. There should be no reduction of investment or reliability that would prevent any of the Cabras Plants from operating beyond 2020.

¹⁰ PUC Consultant Lummus has expressed this opinion in discussions with PUC Counsel.

¹¹ Id.

21. At the present time the PUC does not approve inclusion of an option for early termination or reduction in scope as a PMC provision.
22. GPA has not offered a justification for an early termination or reduction in scope clause in the contract. The present CONTRACT TERM for the PMCs is for a five year period, commencing on October 1, 2015, and terminating on September 30, 2020.
23. GPA may not include contract provisions in the PMC which reduce the ability of the Cabras 1&2 or 3&4 plants to properly function. Until such time as the PUC approves any deactivation of the Cabras plants, it does not authorize GPA to include contract provisions in its PMC which reduce the efficiency or reliability of the Cabras plants.

ORDERING PROVISIONS

After review of the record herein, GPA's Petition to Procure a Performance Management Contract (PMC) for the Cabras Units 1&2 and 3&4, and the PUC Counsel Report, for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. GPA's Petition to procure a single Performance Management Contractor through a multi-step bid for the Cabras Units 1&2 and 3&4 is granted.
2. Before entering into a final PMC, GPA is required to submit such contract to the PUC for review and approval. In its review, PUC will determine what actual savings in fixed management fees will result from the contract, and whether one contractor can adequately manage, maintain, and operate both steam and slow speed diesel plants.
3. GPA is authorized to extend the existing PMC Agreement with Korea East-West Power Co. ("EWP") for Cabras 3&4 from July 1, 2015 through September 30, 2015.
4. There may be no provision or statement in the contract negotiated between GPA and the Performance Management Contractor, or assumption by the parties, that either Cabras 1&2 or Cabras 3&4 will be deactivated by 2020, or that there is any presumed date therein for the deactivation of said plants. To date PUC has not

approved any deactivation of said plants. GPA has not presented any evidence justifying the deactivation of the plants.

5. Without further PUC approval, Cabras Plant operations shall not be terminated or reduced in scope.
6. GPA is not authorized to reduce the efficiency or reliability of any of the Cabras Plants such that they cannot continue to operate at present levels.
7. Should GPA seek to achieve "an acceptable reliability level at reduced investments" for the Cabras Plants, it must specify precisely what it means and obtain advance prior approval from the PUC.
8. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and expenses is authorized pursuant to 12 GCA §§12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.


Dated this 30th day of April, 2015.

Jeffrey C. Johnson
Chairman

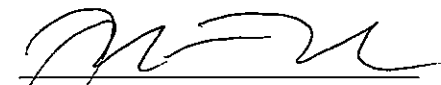


Rowena E. Perez
Commissioner

Michael A. Pangelinan
Commissioner



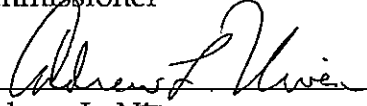
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Commissioner



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Commissioner



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Commissioner



Andrew L. Niven
Commissioner