

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 17-18
)
THE APPLICATION OF THE GUAM)
POWER AUTHORITY FOR APPROVING) **PUC COUNSEL REPORT**
THE PROCUREMENT 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 for PUC review and approval of GPA’s Procurement for Supply of Diesel Fuel Oil.¹

BACKGROUND

2. GPA’s present contracts with IP&E Guam and Mobil Oil Guam to supply diesel fuel oil No. 2 for its base load and peaking units were originally approved by the PUC in GPA Docket 14-05 on December 1, 2014.²
3. The present contracts, for a three year base period, expire on December 31, 2017.³ Although the contracts would allow GPA to extend for two additional one-year terms, GPA has determined that a new solicitation is needed to reflect necessary changes and to update GPA’s supply requirement.⁴
4. The Guam Consolidated Commission on Utilities [“CCU”] authorized GPA to petition PUC for approval to issue bids to procure a contractor for the supply of Diesel Fuel Oil No. 2 for the Baseload Plants, Fast Track Diesel Plants, and Combustion Turbine Plants.⁵ PUC approval is required as the total cost for the new contract will exceed \$1.5M under the Contract Review Protocol.⁶
5. GPA proposes that the solicitation of competitive bids for a new diesel fuel supply contract be through a Multi-Step Bid Process.⁷ GPA submits that diesel fuel oil is

¹ GPA Petition for Contract Review, GPA Docket 17-18, filed February 9, 2017.

² PUC Order, GPA Docket 14-05, dated December 1, 2014.

³ Guam Consolidated Commission on Utilities Resolution No. 2017-05, adopted January 24, 2017, p. 1.

⁴ Id.

⁵ Id. at p. 2.

⁶ Id. at p. 1.

⁷ Id.

essential to the operation of the diesel power plants, and that a contract for such supply is reasonable, prudent, and necessary.⁸

ANALYSIS

6. Diesel fuel oil No. 2 is utilized at various GPA Baseload, Diesel Fast Track and Combustion Turbine Plants. These include Baseloads (Cabras 1&2 and MEC 8&9), the Peaking Units (Tenjo Vista, Fast Tracks: Manenggon and Talofoto), and Combustion Turbines (TEMES Ct and the Northern Diesel Plants: Dededo Ct, Macheche CT, and Yigo CT).⁹
7. Diesel fuel assists GPA in providing a stable and uninterrupted supply of electricity to meet the island wide utility power demand.¹⁰
8. GPA needs to issue an IFB for diesel fuel so that it can secure a new contract which will provide GPA with a continuous supply of diesel fuel necessary to maintain the Authority's electric power generation capacity.
9. As a result of the Cabras 3&4 explosion in August 2015, GPA's consumption of diesel fuel has greatly exceeded (by 380%) the amounts that were anticipated under the existing contract. The estimated annual fuel oil requirements under the new contract which GPA seeks to procure will be substantially higher. See Exhibits A and B to CCU Resolution No. 2017-05, true and correct copies of which are attached hereto.¹¹
10. GPA's Petition includes a Draft Bid Package for the Multi-Step Bid for the supply of Diesel Fuel Oil No. 2.¹² In accordance with the draft bid, GPA will seek to procure between 20,060,000 and 28,100,000 gallons of diesel fuel oil per year.¹³ GPA will first determine which bidders are qualified under the technical bid, and then will select

⁸ GPA Petition for Contract Review, GPA Docket 17-18, filed February 9, 2017, at p. 2.

⁹ Guam Consolidated Commission on Utilities Resolution No. 2017-05, adopted January 24, 2017, at p. 1.

¹⁰ Guam Consolidated Commission on Utilities Resolution No. 2012-10, Schedule 1, at p. 4 of 8.

¹¹ Guam Consolidated Commission on Utilities Resolution No. 2017-05, adopted January 24, 2017, Exhibit A and Exhibit B (copies of which are attached hereto).

¹² GPA submitted a Compact Disc, with the Draft Bid Package, to the Office of PUC Counsel on February 14, 2017.

¹³ Guam Consolidated Commission on Utilities Resolution No. 2017-05, adopted January 24, 2017, Exhibit B

the bidder whose proposal yields the lowest overall Contract Price for the contract base year period.¹⁴

11. GPA has also proposed a draft contract for the selected bidder.¹⁵ The contract term will be for a term of two years, to commence on January 1, 2018, and continue until midnight of December 31, 2019. GPA will have an option to extend the contract for three (3) additional one (1) year terms, renewable annually, with the mutual agreement of both parties.¹⁶
12. The Contract has various provisions designed to protect GPA and its ratepayers, including warranty and quality assurance provisions, indemnity and insurance requirements, provisions for termination for the convenience of GPA, etc.¹⁷
13. The Contract also has provisions indicating that GPA's estimates for volume of diesel fuel to be utilized are estimates only, and shall in no manner work to the detriment of GPA.
14. The proposed Contract appears to adequately protect the interests of GPA and its ratepayers.

RECOMMENDATION

15. Counsel recommends that the PUC approve GPA's request to solicit competitive bids for a new Diesel Fuel Supply Contract through a Multi-Step Bid Process.
16. The diesel fuel oil is essential to the operation of GPA power plants, and the negotiation and implementation of a new contract is reasonable, prudent and necessary.
17. GPA should be required to present the final Diesel Fuel Oil Supply Contract to the PUC for review, so that the PUC can determine if the final price is reasonable.
18. A Proposed Order is submitted herewith for the consideration of the Commissioners.

¹⁴ Draft IFB Bid Package, Vol. 1 Commercial Terms and Conditions, §§4.2 and 4.3, pgs. 23-25.

¹⁵ GPA Petition for Contract Review, GPA Docket 17-18, filed February 9, 2017, IFB, Volume II CONTRACT.

¹⁶ Id., Volume II CONTRACT, Section 3, at p. 9 of 38.

¹⁷ Id., CONTRACT, at pgs.12 of 38 through 23 of 38.

PUC Counsel Report
Approval of GPA Procurement
for Supply of Diesel Fuel Oil
GPA Docket 17-18
February 13, 2017

Dated this 13th day of February, 2017.

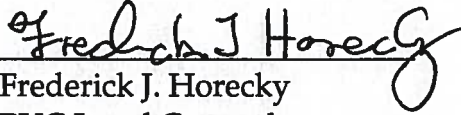

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Exhibit A:

Diesel Expenses for Current Contract

GPA-029-14 EXPENDITURES	1st year	2nd Year	3rd year	3-Year Contract Period
	(01/01/15 to 12/31/15)	(01/01/16 to 12/31/16)	(01/01/17 to 12/31/17)	(01/01/15 to 12/31/17)
Jan-Sep (Gallons)	6,253,698	28,041,799	15,376,040	
Oct-Dec (Gallons)	<u>9,133,263</u>	<u>5,125,347</u>	<u>5,125,347</u>	
Total Qty (Gallons)	15,386,962	33,167,145	20,501,386	69,055,494
Contract Estimate (Gallons)	<u>4,800,000</u>	<u>4,800,000</u>	<u>4,800,000</u>	<u>14,400,000</u>
Variance	10,586,962	28,367,145	15,701,386	54,655,494
Remarks	221% increase	591% Increase	327% Increase	380% Increase
REMARKS	Actual	Actual	Estimated	Estimated Diesel Expenses
	(Cabras 3&4 Explosion on 08/31/15)	(Cabras 3&4 Offline & forced outages in remaining plants)	(Cabras 3&4 Offline & anticipated overhauls/outages in remaining plants)	

EXHIBIT B: CHANGES TO THE CONTRACT REQUIREMENTS

SCHEDULE B: ESTIMATED ANNUAL FUEL OIL REQUIREMENTS (Gallons/yr)

Plant Location	Name of Plant	Existing Contract (GPA-029-14)	New Contract
1. Baseloads	Cabras 1&2, MEC 8&9	200,000	100,000 – 200,000
2. Tenjo Vista	Tenjo Vista	1,500,000	5,000,000 - 7,000,000
3. Fast Tracks	Talofofa	1,000,000	3,000,000 - 4,000,000
	Manengon		
4. TEMES CT	TEMES CT	600,000	3,000,000 - 5,000,000
5. Northern Plants	Dededo CT	1,500,000	9,000,000 - 12,000,000
	Macheche CT		
	Yigo CT		
	Aggreko		
TOTAL		4,800,000	20,060,000 - 28,100,000

SCHEDULE C: 30-DAYS MINIMUM INVENTORY REQUIREMENTS (Gallons)

Plant Location	Name of Plant	Existing Contract (GPA-029-14)	New Contract
1. Baseloads	Cabras 1&2, MEC 8&9	20,000	20,000
2. Tenjo Vista	Tenjo Vista	125,000	500,000
3. Fast Tracks	Talofofa	80,000	250,000
	Manengon		
4. TEMES CT	TEMES CT	50,000	250,000
5. Northern Plants	Dededo CT	125,000	750,000
	Macheche CT		
	Yigo CT		
	Aggreko		
TOTAL		400,000	1,770,000