

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

RE: PETITION FOR APPROVAL OF) **GPA DOCKET NO. 17-08**
CONTRACT EXTENSION WITH)
AGGREKO INTERNATIONAL) **ALJ REPORT**
PROJECTS LIMITED.)
_____)

INTRODUCTION

This matter comes before the Guam Public Utilities Commission (the “PUC” or the “Commission”) pursuant to the Petition for review and approval of the forty (40) Mega-Watt (“MW”) Temporary Power Plant Lease Contract Extension with Aggreko International Projects Limited (“Aggreko”), filed by the Guam Power Authority (“GPA”) on November 7, 2016.

BACKGROUND

On September 24, 2015, the PUC authorized GPA to issue procurement for temporary power generation services in order to account for the loss of 78MW of baseload capacity, owing to the August 31, 2015 explosion of Cabras No. 3 and 4.¹ The PUC authorized such procurement because it found that GPA did not have sufficient generation reserves to adequately service the island’s power needs.²

Thereafter, GPA received four (4) proposals, and consequently selected Aggreko as the lowest and responsible offeror.³ Based on the contract, Aggreko is required to provide GPA with 40 1MW units, which run on Ultra Low Sulphur Diesel, at the Yigo Substation, and

¹ PUC Order, GPA Docket 15-18, p. 1 (Oct. 29, 2015).

² PUC Order, GPA Docket 15-18, p. 1.

³ PUC Order, GPA Docket 15-18, p. 1.

would be manned by six (6) Aggreko personnel.⁴ The cost for the leased power is estimated at around \$12 million per year, with total monthly payments a little over \$1 million per month.⁵ Moreover, the original contract term is for one year, with two one-year extension options.⁶

On October 29, 2015, the PUC authorized GPA to award a Temporary Power Services Contract to Aggreko, in an amount not to exceed roughly \$12 million a year.⁷ To pay for the temporary power service provided by Aggreko, the PUC authorized GPA to utilize funds from its Self-Insurance Fund to make the monthly payments on the contract, but which shall be reimbursed once GPA receives insurance from coverage related to the Cabras explosion.⁸

DISCUSSION

In its Petition, GPA submits that it is “interested in pursuing an extension of the Aggreko 40MW power plant lease contract for an additional 4 years with the option to purchase the units to ensure GPA has sufficient reliable reserves until the commissioning of new combined cycle base load generation units.”⁹ In addition, it would like to utilize \$3 million from the Cabras 3 and 4 insurance cash advance for emissions compliance costs, associated with obtaining an air permit for operations at the Aggreko plant.

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⁴ PUC Order, GPA Docket 15-18, p. 2.

⁵ PUC Order, GPA Docket 15-18, p. 2.

⁶ PUC Order, GPA Docket 15-18, p. 2.

⁷ PUC Order, GPA Docket 15-18, p. 3.

⁸ PUC Order, GPA Docket 15-18, p. 3.

⁹ Petition, p. 1.

1. Temporary Power Rental Agreement with Aggreko

Section 2.3 of the Aggreko contract provides that GPA has the right to extend the “operational service period” for a period mutually agreed upon by the parties.¹⁰ The current term of the contract expires fifty-two (52) weeks from the date of commercial operation.¹¹ The Aggreko 40MW temporary power plant came on line on or around January 7, 2016.¹² Accordingly, the contract will soon expire. GPA, however, intends to extend this term for an additional four (4) years.

2. CCU Resolution No. 2016-61

In support of its Petition, GPA submitted CCU Resolution No. 2016-61, which indicated that GPA’s “power system remains short of 78.6MW of base load capacity placing GPA in the position of having difficulty meeting system demand upon an additional base load maintenance outage or large emergency unit outage”¹³ The CCU further indicated, however, that an extension of the Aggreko contract for an additional four (4) years, with the option to purchase the units, would “ensure” that “GPA has sufficient and reliable reserves until the commissioning of new baseload units”¹⁴

¹⁰ Temporary Power Rental Agreement between Guam Power Authority and Aggreko International Projects Limited (“Aggreko Agreement”), p. 7 (Dec. 7, 2015).

¹¹ Aggreko Agreement, p. 7.

¹² Petition, p. 1.

¹³ CCU Resolution No. 2016-61, p. 1 (Oct. 25, 2016).

¹⁴ CCU Resolution No. 2016-61, p. 1.

Accordingly, the CCU authorized GPA to extend the Aggreko contract for an additional four (4) years with an option to own the units at the end of the four-year term.¹⁵ In addition, the CCU further authorized GPA to utilize \$3 million from the Cabras 3 and 4 insurance cash advance for the emission compliance costs related to the Aggreko units.¹⁶

3. Contract Cost and Funding

Currently for the year, the total contract cost is \$11,781,392, exclusive of energy charges.¹⁷ This cost consists of the operation and maintenance of the plant, along with providing Aggreko personnel.¹⁸

According to “Exhibit A” to Resolution No. 2016-6, issued by the Consolidated Commission on Utilities (the “CCU”), the yearly costs for a four-year extension are as follows:

2017	2018	2019	2020	Total
\$12,991,952.00	\$9,991,952.00	\$11,291,952.00	\$11,491,952.00	\$45,767,808

These include fixed costs for capacity, operations and maintenance, emission control, and \$3 million for emission control mobilization.¹⁹ These yearly costs also include a “rent to own” fee, totaling \$4.8 million.²⁰

The yearly fixed costs, however, are increased by about \$1 million to account for the yearly energy charges and urea costs.²¹

¹⁵ CCU Resolution No. 2016-61, p. 1.

¹⁶ CCU Resolution No. 2016-61, p. 2.

¹⁷ Aggreko Agreement, “Schedule 1-Compensation,” p. 29.

¹⁸ Aggreko Agreement, “Schedule 1-Compensation, pp. 29-30; “Schedule 3-Scope of Work,” p. 34; “Schedule 8-Aggreko Personnel,” p. 42.

¹⁹ Petition, “Exhibit A,” CCU Resolution No. 2016-61, p. 1 (Oct. 25, 2016).

²⁰ Petition, “Exhibit A,” CCU Resolution No. 2016-61, p. 1.

	2017	2018	2019	2020	Total
Estimated Energy Charges	\$427,550.00	\$427,550.00	\$427,550.00	\$427,550.00	\$1,710,201.00
Estimated Urea Costs	\$563,589.00	\$563,589.00	\$563,589.00	\$563,589.00	\$2,254,356.00

GPA submits that the source of funding for the contract will be from revenue funds.²² GPA further submits that it will realize a total savings of \$37,508,000.00, based on what it would have spent on operating and maintaining Cabras 3 and 4.

4. Need for Temporary Generation

As indicated in the October 29, 2015 PUC Order in GPA Docket 15-18, the PUC found that GPA is in desperate need to procure temporary generation services to account for the loss of 78.6MW in baseload capacity as a result of the Cabras explosion.²³ Indeed, the record before this Commission reflects that:

The loss of Cabras Plant Nos. 3&4 has resulted in the reduction of base load by 78MW. ... Cabras No. 4 is inoperable; no final determination has been made on the future of Cabras No. 3. . . . There is a reasonable assumption that Cabras No. 3 will not be available to GPA as a base load unit in the foreseeable future.²⁴

Moreover, it appears that “GPA’s current plan is to retire the Cabras No. 1 & 2 Steam Plant (132MW) no later than July 1, 2021.”²⁵ Ultimately, this Commission has found that

²¹ Petition, “Exhibit A,” CCU Resolution No. 2016-61, p. 1.

²² CCU Resolution No. 2016-61, p. 1.

²³ PUC Order, GPA Docket 15-18, p. 2.

²⁴ PUC Order, GPA Docket 15-05, p. 3 (Oct. 27, 2016).

²⁵ PUC Order, GPA Docket 15-05, p. 3.

“[i]t is evident that GPA will need to replace base load generation” and that GPA has made its case for its “need to procure additional generation capacity.”²⁶

CONCLUSION AND RECOMMENDATION

The record is clear that GPA desperately needs generation services to account for the loss of 78.6MW in baseload capacity as a result of the Cabras explosion. The record indicates that Cabras No. 4 is inoperable, and that the PUC should reasonably presume that Cabras No. 3 will not be available in the near future.²⁷ The record further reflects that the Cabras Plant may very well be “at the end of its useful life.”²⁸ Consequently, Cabras 1 and 2 may not be available after 2021, creating a total baseload loss of 200MW of capacity.²⁹

Accordingly, as discussed above, the PUC has determined that “[i]t is evident that GPA will need to replace base load generation” and that GPA “has established the need to procure additional generation capacity.”³⁰ The Aggreko plant, with its 40 units, helps GPA accomplish this goal.

GPA will spend close to \$12 million for the Aggreko plant for 2016. It is clear, based on this record, that GPA still needs the Aggreko plant to add to its reliable reserves because of its baseload loss. If GPA intends to utilize the Aggreko plant for the next two (2) or three years (3), or even four (4) years, averaging around the current cost of \$12 million per year,

²⁶ PUC Order, GPA Docket 15-05, p. 4.

²⁷ PUC Order, GPA Docket 15-05, p. 3.

²⁸ PUC Order, GPA Docket 15-05, p. 3.

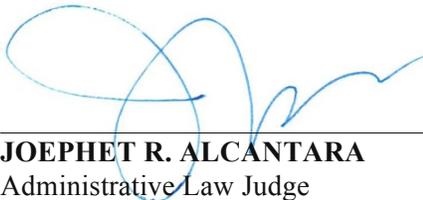
²⁹ PUC Order, GPA Docket 15-05, p. 3.

³⁰ PUC Order, GPA Docket 15-05, p. 4.

then it makes sense for GPA to lease the units for the four-term, and which will result in the added benefit of GPA owning the units after the expiration of the four-year term. Should GPA own this asset, it could choose to sell the units at a later time. In addition, GPA has indicated that utilizing the contract extension will result in a total savings of \$37,508,000.00, based on what it would have spent on operating and maintaining Cabras 3 and 4.

Accordingly, the proposed additional four-year term, with the option to purchase the Aggreko units, is reasonable in this instance. Therefore, the PUC should approve the contract extension for four (4) years, including the option to purchase the Aggreko units, for an amount not to exceed \$49,732,365.00.³¹ Further, with regard to GPA's utilization of \$3 million from the Cabras 3 and 4 insurance cash advance for emissions compliance costs, these costs appear to be required in order for GPA to obtain an air permit for operations at the Aggreko plant. Accordingly, the PUC should authorize GPA's use of \$3 million from the Cabras 3 and 4 insurance cash advance to fund the emissions compliance mobilization for the Aggreko plant. A proposed Order is attached herewith for the PUC's consideration.

Respectfully submitted this 25th day of November, 2016.



JOEPHET R. ALCANTARA
Administrative Law Judge

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³¹ This amount is based on GPA's estimates for yearly energy charges and urea costs. The usual contingency provided under GPA's Contract Review Protocol shall apply in the event these charges and costs increase.