

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:

)
) **GPA Docket 11-04**

**GUAM POWER AUTHORITY'S FILING
REGARDING SELF INSURANCE POLICY**

)
) **PUC COUNSEL REPORT**
)
)

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission [PUC] upon the Guam Power Authority [GPA] Filing to increase the self insurance surcharge and to increase the cap, or limit, of the GPA surcharge fund from \$10M to \$20M.¹
2. The purpose of the self insurance fund is to enable to GPA to cover losses from natural disasters such as typhoons and other losses not covered by insurance.²
3. Along with its Self Insurance Filing, GPA attached a comprehensive report by R.W. Beck which detailed various options available with regard to the self insurance fund. Beck has recommended that the self insurance surcharge be increased by 16% and that the limit of the fund be increased from \$10M to \$20M.³
4. As set forth herein, the issue now before the PUC is whether GPA should be allowed to continue to collect the self insurance surcharge from civilian rate payers and the Navy, even though the limit or cap of \$10M has been or will soon be reached.

BACKGROUND

5. In the Phase I Rate Decision in Docket 07-10, filed February 15, 2008, the Commission increased the ceiling of GPA's self insurance surcharge program from \$2.5M to \$10M effective March 1, 2008; the surcharge for civilian ratepayers was set

¹ GPA Filing Re: Self Insurance Policy, Docket 07-10 [In the Matter of: Guam Power Authority's Filing Regarding Self Insurance Policy], filed February 1, 2011.

² Id. at p. 1.

³ Id., R.W. Beck, Insurance Options Assessment, dated January 2011.

at \$0.00290 per kWh for civilian ratepayers and \$0.00070 per kWh for the Department of Defense.⁴

6. On February 25, 2010, in the FY10 (Phase II) Rate Decision in Docket 07-10, the PUC ordered that GPA file program protocols and parameters for the self-insurance surcharge program for PUC review and approval not later than January 1, 2011.⁵
7. After securing a one month filing extension, GPA has made its Filing Re: Self Insurance Policy on February 1, 2011.⁶ Therein R.W. Beck made numerous recommendations, including increasing the surcharge by approximately 16% to secure adequate revenues to cover the anticipated "high probability of typhoon damage." Beck also recommended increasing the self insurance fund maximum limit to \$20M.⁷
8. However, on April 6, 2011, GPA filed its Supplemental Filing Re: Self Insurance Policy.⁸ GPA withdrew its request for an increase in the amount of the surcharge, but continued to request an increase in the self insurance fund cap of \$20M, and requests that the PUC "approve the principles set forth in the R.W. Beck report included in the February 2011 self insurance filing].⁹
9. Furthermore, the General Manager requested:

"The current self insurance fund is nearing the \$10 million cap and is expected to cross that threshold during the month of May. Under the existing procedures the self insurance surcharge will be shut off when GPA reaches the cap. GPA desires to avoid a situation where the cap is turned off temporarily and then resumed at a later date. Thus, GPA is seeking expeditious action on the part of the PUC to ensure the surcharge is allowed to continue."¹⁰

⁴ PUC FY08 Rate Decision, Docket 07-10, filed February 15, 2008, p. 5.

⁵ PUC FY10 (Phase II) Rate Decision, Docket 07-10, issued February 25, 2010, at p. 7.

⁶ Letter from GPA General Manager to PUC ALJ, dated March 29, 2011, at p. 1, f.n. 2.

⁷ R.W. Beck Insurance Options Assessment at Section 7, p. 7-2.

⁸ GPA Supplemental Filing Re: Self Insurance Policy, Docket 07-10, filed April 6, 2011.

⁹ Letter from GPA General Manager to PUC ALJ, dated March 29, 2011.

¹⁰ Id. at p. 2.

10. On February 28, 2011, PUC Counsel requested that the Georgetown Consulting Group, Inc. prepare a report concerning GPA's filing to modify the self-insurance protocol. On April 29, 2011, GCG filed its Report Re: GPA Request for Changes in Self-Insurance Protocol, GPA Docket 11-04.¹¹
11. GPA filed a response to the GCG Report on May 9, 2011. It again clarified that no increase in the self-insurance fund surcharge rate is being sought, but it continues to request the increase of the self-insurance fund cap from \$10M to \$20M.¹²

ANALYSIS

12. The GCG Report has raised numerous concerns about the GPA self-insurance filing, including: (1) there is no CCU Resolution which accompanies the Beck Report or approves its recommendations;(2) there is no indication that GPA management has adopted the recommendations in the Beck Report; (3) there are issues concerning the potential losses estimated by Beck; (4) there is not sufficient evidence at the present time to justify the setting of the cap at \$20M. GCG recommends that \$20M cap for the self-insurance fund not be established now, but that the appropriate cap be explored in more detail by the PUC in further proceedings.¹³
13. GCG also believes that more consideration should be given to the recommendations in the Beck Report concerning GPA's procedures regarding receipt of assistance from FEMA [Federal Emergency Management Administration] and recovery of typhoon losses from FEMA.¹⁴
14. However, GCG does concur with GPA's request that the PUC approve the continuance of the current insurance surcharges for civilian ratepayers (\$0.00290 per kWh) and Navy (\$0.00070 per kWh) until the completion of the next base rate case. At the conclusion of the next base rate case, a maximum self- insurance reserve could be established after proper investigation.¹⁵

¹¹ GCG Report Re: GPA Request for Changes in Self-Insurance Protocol, GPA Docket 11-04, filed April 29, 2011.

¹² GPA Response to GCG Report Re: Self-Insurance Policy, filed May 9, 2011.

¹³ Id. at pgs. 2-6.

¹⁴ Id. at pg. 7.

¹⁵ Id. at p. 8.

15. Under the existing insurance surcharges, the PUC does have the option to allow the monthly surcharge payments to continue even after the \$10M cap has been met. If PUC does not now act to allow the self insurance surcharges to continue, it will be suspended once the current \$10M cap is met. It is anticipated that the cap will be reached by either late May or early June.¹⁶
16. At the present time, PUC Counsel believes that the PUC should continue to allow GPA to collect the self-insurance surcharges. To ensure that GPA has a sufficient reservoir of funds to cover catastrophic losses, it would be prudent and advisable for the PUC to order that the self-insurance surcharges for both civilian ratepayers and the Navy continue in effect until PUC approval of self-insurance fund protocols or completion of the next base rate case, whichever is sooner.
17. At the present time, the PUC is not in a position to determine the appropriate self-insurance cap, or to approve self insurance fund protocols. Counsel has requested that GPA further develop, with the assistance of R.W. Beck, specific protocols which can be reviewed by the PUC.
18. The ALJ should be authorized to undertake such further proceedings as are necessary to develop the appropriate protocols and self-insurance fund cap.

RECOMMENDATION

19. Counsel recommends that the PUC approve the recommendation of GCG that the civilian and Navy self-insurance surcharges remain in effect at present, notwithstanding the fact that the \$10M self-insurance cap may be exceeded.
20. The self insurance surcharge should remain in effect until the PUC approval of the self insurance protocols, or issuance of a final decision by the PUC in the next base rate case, whichever is sooner.
21. The Navy was notified of GPA's request that the PUC approve the continuation of the self-insurance fund surcharges beyond the \$10M cap. However, it only had a brief time to review this proposal.¹⁷ On May 7, 2011, the Navy did indicate that it

¹⁶ Id. at p. 3-4; GPA's Chief Financial Officer informed PUC Counsel in a telephone conversation on or about May 5, 2011, that the \$10M cap would be reached in late May or early June, 2011.

¹⁷ Email from ALJ to Richard Huber, Navy Counsel, dated May 4, 2011.

PUC Counsel Report
In the Matter of: GPA's Filing
Regarding Self Insurance Fund
GPA Docket 11-04
May 10, 2011

concurred with the proposal.¹⁸ Should Navy, upon further review, have any concerns, it may bring those to the attention of the PUC.

22. An Order is submitted herewith for the consideration of the Commissioners.

Dated this 11th day of May, 2011.

Frederick J. Horecky
PUC Legal Counsel

¹⁸ Email from Richard Huber, Counsel, NAVFAC Marianas, to ALJ dated May 10, 2011.