

**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF:	)	
	)	GPA DOCKET 12-09
	)	
THE APPLICATION OF THE GUAM	)	
POWER AUTHORITY TO APPROVE	)	PUC COUNSEL REPORT
THE PROCUREMENT OF RESIDUAL	)	
FUEL OIL NO. 6 FOR THE BASELOAD	)	
POWER GENERATING PLANTS	)	
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**INTRODUCTION**

1. This matter comes before the Guam Public Utilities Commission [“PUC”] upon the Petition of the Guam Power Authority [“GPA”] for Approval of the Procurement of Residual Fuel Oil No. 6 for the Baseload Power Generating Plants.<sup>1</sup>

**BACKGROUND**

2. GPA’s current contract for Residual Fuel Oil (RFO) with Petrobras Singapore [“Petrobras”] will expire on February 28, 2013.<sup>2</sup>
3. The present contract with Petrobras does provide an option for two (2) one year extensions with the mutual agreement of the parties.<sup>3</sup>
4. However, Petrobras has notified GPA of a substantial profit loss under the existing contract attributed to the increased cost of blending components used to meet GPA’s fuel specifications. The increased cost of such blending (i.e. Viscosity, Vanadium Content, and API Gravity) has substantially increased the contract premium fee that GPA pays.<sup>4</sup>
5. In light of its substantial profit loss, Petrobras has informed GPA of its decision not to exercise the option to extend the contract once the three year contract period expires in February 2013.<sup>5</sup>
6. GPA’s current fuel oil contract for HSFO and LSFO exceeds \$300M annually.<sup>6</sup>

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<sup>1</sup> GPA Petition for Contract Review, GPA Docket 12-09, filed July 16, 2012.

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

<sup>3</sup> Guam Consolidated Commission on Utilities Resolution No. 2012-42, adopted July 10, 2012, at p. 1.

<sup>4</sup> Id.

<sup>5</sup> Id.

<sup>6</sup> Id.

7. The CCU has authorized GPA to petition the PUC for approval to issue bids to procure Residual Fuel Oil No. 6.<sup>7</sup>

### ANALYSIS

8. In accordance with the Contract Review Protocol, "GPA is required to seek prior PUC approval for any contract which exceeds \$1.5M before the procurement process is begun..."<sup>8</sup>
9. Attached as Exhibit "A" to the CCU Resolution No. 2012-42 is a "Petrobras Presentation", dated May, 2012, concerning RFO Supply Issues and Contractual Terms Discussion.<sup>9</sup>
10. Petrobras submits that the earthquake/tsunami and the Nuclear Crisis in Japan caused a spike in the oil consumption by Japan Utilities; and oil/LNG fired thermo-plants have replaced the now idle nuclear power plants.<sup>10</sup> A number of other factors have resulted in the reduction of the availability of fuel oil.<sup>11</sup>
11. The premiums on fuel supply have been rising, which means that it is now more costly for Petrobras to blend the cargos to deliver to GPA.<sup>12</sup>
12. Since the quality required from GPA is a very specific one, for which the market in Singapore doesn't profusely provide components, it becomes more costly to blend the current required specs for GPA in comparison with other utilities in the region.<sup>13</sup>
13. Petrobras proposed that GPA could adopt new fuel quality specifications to assist it in reducing the blending cost for future supplies. Such options involve reducing the specifications for gravity, viscosity, and vanadium content of fuel oil.<sup>14</sup>

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<sup>7</sup> Id. at p. 2.

<sup>8</sup> Contract Review Protocol for Guam Power Authority, Administrative Docket, dated February 15, 2008.

<sup>9</sup> Petrobras Presentation, Exhibit "A" CCU Resolution No. 2012-42, dated May 2012.

<sup>10</sup> Id.

<sup>11</sup> Id.

<sup>12</sup> Id.

<sup>13</sup> Id.

<sup>14</sup> Id.

14. GPA solicited the services of its Program Management Office, RW Armstrong [“RWA”], to evaluate the feasibility of changing certain quality parameter limits to optimize the fuel specifications without compromising power plant and logistical operations.<sup>15</sup>
15. In its Report, RWA determined the new fuel quality specifications could be adopted for all of the baseload plants with minimal impact; however, GPA may be required to negotiate changes in the fuel specifications with the existing performance management contractors.<sup>16</sup>
16. RWA also noted that there could be potential Capital Improvement Projects needed for the Cabras 3 & 4 purifiers resulting from the change in fuel specifications. Certain other plant modifications, which may involve cost, must be further studied.<sup>17</sup>
17. Based upon the foregoing analysis, GPA believes that its most prudent course of action is to issue a procurement for RFO. GPA anticipates that the reduction of restrictions in the fuel quality specifications will increase bidder participation, yield more competitive price offers, and thereby reduce fuel costs for GPA customers.<sup>18</sup>
18. GPA has submitted Draft Bid Specifications for GPA-068-12, Supply of Residual Fuel Oil No. 6.<sup>19</sup>
19. The proposed term of the new fuel supply contract is three years, with an option to extend for an additional two (2) years, renewable annually, upon mutual agreement of both parties.<sup>20</sup> The estimated total fuel oil requirement is about 3,000,000 bbls/yr. The minimum purchase under the contract is estimated at 2,000,000 bbls/yr. Of the total fuel oil requirement, approximately 2,000,000 barrels are high sulfur fuel oil, and 1,000,000 barrels are low sulfur fuel oil.<sup>21</sup>
20. As is common with GPA’s fuel oil contracts, the contract price includes the bid reference price plus the contractor’s fixed premium fee. The bid reference price is

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<sup>15</sup> CCU Resolution No. 2012-42, adopted July 10, 2012, at p. 1.

<sup>16</sup> Exhibit “B” to CCU Resolution No. 2012-42, adopted July 10, 2012.

<sup>17</sup> Id.

<sup>18</sup> CCU Resolution No. 2012-42, adopted July 10, 2012, at p. 1.

<sup>19</sup> Exhibit “C” to CCU Resolution No. 2012-42, adopted July 10, 2012, IFB GPA-068-12.

<sup>20</sup> Id., Fuel Oil Supply Contract at p. 29.

<sup>21</sup> Id. at pgs. 30-31.

based upon Platt's Singapore Products Assessment for Fuel Oil Cargoes ["HSFO 180 CST"].<sup>22</sup>

21. Under the bid, bidders will be able to select different options for fuel specifications in their fuel bids as outlined in Tables 1, 2, and 3.<sup>23</sup>
22. All risk of loss, cost and liabilities prior to the time of passage of title of the fuel oil to GPA is upon the Contractor/Bidder.<sup>24</sup>
23. There is also a substantial performance and payment bond requirement. The successful bidder must deliver to GPA an executed performance and payment bond in an amount at least equal to fifteen percent (15%) of the annual cost of the accepted total bid amount as security for the performance of the contract.<sup>25</sup>
24. GPA has a clear need for Residual Fuel Oil No. 6 for the Baseload Power Plants. Such fuel is essential to the operation of the Cabras Power Plants; the contract proposed for such fuel is reasonable, prudent and necessary.

#### RECOMMENDATION

25. Counsel recommends that the PUC approve GPA's procurement of Residual Fuel Oil No. 6 for the Baseload Power Generating Plants.
26. A proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 25th day of July, 2012.

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Frederick J. Horecky  
PUC Legal Counsel

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<sup>22</sup> Id. at p. 32.

<sup>23</sup> Id. at 46-49.

<sup>24</sup> Id. at p. 55.

<sup>25</sup> Id. at p. 14.