

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:	)	GPA DOCKET 13-04
	)	
THE PETITION OF THE GUAM	)	
POWER AUTHORITY FOR APPROVAL	)	PUC COUNSEL REPORT
OF INSURANCE INVITATION FOR	)	
BID	)	

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority ["GPA"] Petition for Approval of Insurance Invitation for Bids.<sup>1</sup>
2. GPA seeks to obtain Property Insurance for the policy period beginning November 1, 2013. The current GPA Property Insurance Policy will expire on November 1, 2013.<sup>2</sup>

BACKGROUND

3. GPA's Bond Indenture Agreement requires GPA to "secure and maintain property insurance on all facilities constituting the system against risks of loss or damage to the extent that such insurance is obtainable at reasonable cost...". The Indenture further requires GPA to carry insurance "of a scope and nature as that usually carried in the industry...".<sup>3</sup>
4. The insurance coverages for which GPA seeks to issue an IFB are: Property and Boiler & Machinery, Earthquake, Flood, Typhoon and Tsunami, Terrorism, All Risk, Business Income, and Extra Expense.<sup>4</sup>
5. In 2008, the PUC approved GPA's last property insurance procurement.<sup>5</sup> The insurance coverage approved by the PUC in 2008 was for a three-year term plus two (2) One (1) year options to extend upon the mutual agreement of the parties.<sup>6</sup>

<sup>1</sup> GPA Petition for Approval for Insurance Invitation for Bids, GPA Docket 13-04, filed May 14, 2013.

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

<sup>3</sup> Guam Consolidated Commission on Utilities Resolution No. 2013-23, issued March 12, 2013.

<sup>4</sup> Appendix "A" to the Petition of the Guam Power Authority for Approval of Insurance Invitation for Bids, GPA Docket 13-04, filed May 14, 2013.

<sup>5</sup> AIJ Order, Docket 02-04, in the Matter of GPA Property Insurance Procurement, dated October 30, 2008.

<sup>6</sup> Consolidated Commission on Utilities Resolution No. 27-2008, adopted October 21, 2008, at p. 1.

6. When the three year insurance policy period was to expire in November of 2011, GPA requested that the PUC authorize it to exercise the two (2) one (1) year options on GPA's property insurance policy for the period of November 1, 2011 to November 1, 2013.<sup>7</sup>
7. The PUC approved GPA's request and authorized it to extend its Property Insurance and Casualty Policy through November 1, 2013.<sup>8</sup>
8. Since its current Property Insurance Policy will expire on November 1, 2013, GPA now seeks to obtain property insurance for the policy period from November 1, 2013 through November 1, 2016.
9. On March 12, 2013, the Consolidated Commission on Utilities adopted Resolution No. 2013-23, which approves the GPA draft Invitation for Bids for Property Insurance to include Boiler and Machinery and Terrorism coverage, and further determines that such property insurance costs are a prudent expense. The General Manager was authorized to submit the bid documents to the PUC.<sup>9</sup> Along with its petition, GPA has also submitted the format for its proposed Invitation for Bids for Property Insurance.

#### ANALYSIS

10. GPA is required by its Bond Indenture Agreement to maintain insurance coverage. Thus, it has little choice as to whether to issue the proposed Invitation for Bids. Its present policy is expiring on November 1, 2013.
11. The Invitation for Bid documents submitted by GPA are in a standard form and contain the provisions which GPA has ordinarily included in its insurance procurement bids. The process is a "Multi-Step Bid": first, GPA will evaluate technical proposals and determine who the qualified bidders are; second, in step two, GPA will evaluate price proposals and select the most qualified bidder.<sup>10</sup> This bid has been reviewed by GPA's independent Insurance Consultant.<sup>11</sup>

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<sup>7</sup> GPA Petition for Authorization to Exercise the Remaining 2 (two) One (1) Year Options on GPA's Property Insurance Policy, GPA Docket 11-05, filed May 19, 2011.

<sup>8</sup> PUC Order, GPA Docket 11-05, dated June 20, 2011. It is the policy which PUC originally approved in 2008 which will soon be expiring on November 1, 2013.

<sup>9</sup> Consolidated Commission on Utilities Resolution No. 2013-23, at pg. 2.

<sup>10</sup> Broker Service and Insurance Bid, Commercial Terms and Conditions, May 2013, at p. 5.

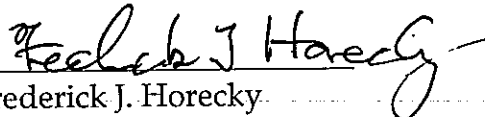
<sup>11</sup> On May 21, 2013. GPA Legal Counsel confirmed to PUC Counsel that GPA's Insurance Consultant Mark Grennan has reviewed the IFB.

12. GPA is required to seek PUC review under the Contract Review Threshold of \$1.5M for its Property Insurance Policy, which includes Boiler and Machinery Coverage and Terrorism Coverage. GPA's current property insurance costs exceed \$5.8M.<sup>12</sup> However, GPA estimates the projected cost of the policy for which it now seeks to issue bids will be "between \$6-\$7M per year."<sup>13</sup>
13. The Property and Boiler & Machinery Insurance Limit is \$300,000,000 Blanket, with a deductible of \$2,500,000/\$1,000,000.<sup>14</sup>
14. GPA has demonstrated that it is required by its Bond Indenture to have property insurance. Therefore, its request to issue an Invitation for Bids for its property insurance program is reasonable, prudent, and necessary.

#### RECOMMENDATION

15. Counsel recommends the PUC approve GPA's proposed Invitation for Bids (IFB) for GPA's property insurance programs for the policy period beginning November 1, 2013 through November 1, 2016.
16. However, at the present time, GPA is uncertain as to the exact price of the policy. Its previous policies were in the range of \$5.8M; GPA believes that the proposed policy may cost between \$6-\$7M. Because of the price uncertainty, GPA should seek approval from the PUC before entering into a final contract for its property insurance.
17. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 21st day of May, 2013.

  
Frederick J. Horecky  
PUC Legal Counsel

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<sup>12</sup> Guam Consolidated Commission on Utilities Resolution No. 2013-23, issued March 12, 2013, at p. 1.

<sup>13</sup> GPA Petition for Approval of Insurance Invitation for Bids, GPA Docket 13-04, filed May 14, 2013.

<sup>14</sup> Appendix A to GPA Petition in GPA Docket 13-04, filed May 14, 2013.