

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:

GPA DOCKET 18-01

THE APPLICATION OF THE GUAM
POWER AUTHORITY TO APPROVE
THE PROCUREMENT OF RESIDUAL
FUEL OIL NO. 6 FOR THE BASELOAD
POWER GENERATING PLANTS

PUC COUNSEL REPORT

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.¹

BACKGROUND

- 2. GPA's current contract for Residual Fuel Oil (RFO) with Hyundai Corporation will expire on August 31, 2018.²
- 3. On July 30, 2013, the PUC approved the Residual Fuel Oil No. 6 Supply Contract between GPA and Hyundai Corporation for a period of two years, commencing September 1, 2013 and expiring on August 31, 2015.³
- 4. The GPA-Hyundai Corporation Supply Contract provided for up to three (3) one (1)-year extension options renewable annually.⁴
- 5. On March 26, 2015, the PUC authorized GPA to exercise a three (3) year contract extension with Hyundai Corporation.⁵ Thus, GPA was authorized to exercise the three (3) annual 1-year contract extensions at the same time as one three (3) year extension.

¹ GPA Petition to Approve the Procurement of Residual Fuel Oil No. 6 for the Baseload Power Generating Plants, GPA Docket 18-01, filed October 12, 2017.

² Id. at p. 1.

³ PUC Order, GPA Docket 13-10, dated July 30, 2013.

⁴ Id. at p. 2.

⁵ PUC Order, GPA Docket 15-10, dated March 26, 2015 at p. 3.

6. Since the three (3) year extension with Hyundai Corporation will expire on August 31, 2018, GPA prudently seeks to issue an Invitation for Bid for a new Residual Fuel Oil No. 6 Supply Contract.⁶
7. On September 26, 2017, the Guam Consolidated Commission on Utilities authorized GPA to solicit competitive bids for a new Residual Fuel Oil No. 6 Supply Contract through a Multi-Step Bid process, finding that such request was “reasonable, prudent and beneficial to ratepayers.”⁷ GPA was authorized to petition the PUC for approval.⁸

ANALYSIS

8. Attached to CCU Resolution No. 2017-40 is Exhibit A, which indicates GPA RFO Purchases from Hyundai Corporation over the last four years in terms of total barrels purchased, cost per barrel, and total cost for such purchases. A copy thereof is attached hereto as Exhibit “A”.⁹
9. Exhibit A indicates that the total barrels purchased annually by GPA from Hyundai Corporation have decreased from 2,616,975 in FY2014 to 2,129,513 barrels in FY2017. The cost per barrel has also decreased to \$56.853 in FY2017, although such cost is higher than the \$41.185 per barrel in FY2016.¹⁰
10. The total cost for RFO purchased by GPA from Hyundai Corporation in FY2017 was \$121,068,369.00.¹¹
11. From information provided in other dockets, the Commission is aware that, while GPA’s purchases of RFO are decreasing, its purchases of diesel fuel/ultra-low sulfur diesel are increasing substantially.¹²

⁶ Guam Consolidated Commission on Utilities Resolution No. 2017-40, Authorizing the Management of the Guam Power Authority to Proceed with the Procurement of a Residual Fuel Oil No. 6 Supplier for the Baseload Power Generating Plants, adopted on September 26, 2017, at p. 1.

⁷ Id. at pgs 1-2.

⁸ Id.

⁹ Exhibit A.

¹⁰ Id.

¹¹ Id.

¹² PUC Order, GPA Docket 17-18, In the Matter of: The Application of the Guam Power Authority for Approving the Procurement for Supply of Diesel Fuel Oil to GPA, dated September 28, 2017 (“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.”), at p. 2.

12. GPA has also attached a copy of its proposed Contract for the procurement as Exhibit "B" to its Petition. The contract term would be for three (3) years, from September 1, 2018 through August 31, 2021, with options to extend for two (2) additional one (1) year terms, upon mutual agreement of the parties.¹³
13. GPA estimates that the total RFO requirement is approximately Two Million Barrels per year. (2,000,000 bbls/yr).¹⁴
14. 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 based upon Platt's Singapore Products Assessment for Fuel Oil Cargo's ("HSFO 180 CST").¹⁵
15. The proposed Contract also contains the standard protections which GPA includes in fuel oil contracts, such as substantial performance and payment bond requirements, indemnity provisions, and protections against non-performance by Contractor (i.e. the ability to secure fuel oil from other sources).
16. The PUC has repeatedly determined that there is a clear need for RFO No. 6 for the Baseload Power Plants; such fuel is essential to the operation of the Baseload Power Plants.¹⁶

RECOMMENDATION

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

¹³ Exhibit B, Invitation for Multi-Step Bid, Supply of Residual Fuel Oil No. 6: Vol. II, CONTRACT, at Section 3.

¹⁴ Id. at Section 2.

¹⁵ Id. at Section 4.

¹⁶ PUC Order, GPA Docket 12-09, dated July 30, 2012, at p. 3; PUC Order, GPA Docket 15-10, dated March 26, 2015, at p. 3.

PUC Counsel Report
Approval of Procurement
for Residual Fuel Oil No. 6
GPA Docket 18-01
October 18, 2017

Dated this 18th day of October, 2017.

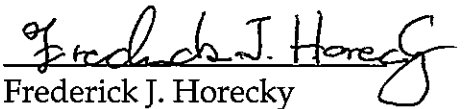

Frederick J. Horecky
PUC Legal Counsel

EXHIBIT A

GPA-068-12 RFO Supply Contract
Contractor: Hyundai Corporation

RFO Purchases	BBLs	\$/bbl	Amount
FY 2014	2,616,975	\$104.304	\$ 272,959,945
FY 2015	2,410,746	\$64.385	\$ 155,215,337
FY 2016	1,865,693	\$41.185	\$ 76,839,443
FY 2017	2,129,513	\$56.853	\$ 121,068,369
SUMMARY	9,022,927	\$69.388	\$ 626,083,093