



On September 25, 2018, the Guam Consolidated Commission on Utilities (the “CCU”), through CCU Resolution No. 2018-20, authorized GPA to issue bids to procure a contractor to inspect and provide repairs to the bulk storage fuel tanks.<sup>3</sup>

## **DISCUSSION**

### **A. Contract Review Protocol**

Pursuant to 12 G.C.A. § 12105, GPA may not enter into any contractual agreements or obligations which could increase rates and charges without the PUC’s express approval. Furthermore, GPA’s Contract Review Protocol requires that “[a]ll professional service procurements in excess of \$1,500,000” require “prior PUC approval . . . which shall be obtained before the procurement process is begun.”<sup>4</sup>

### **B. GPA’s Petition for Approval of Invitation to Bid**

In its Petition, GPA maintains that it is required by U.S. E.P.A. to ensure that the tanks comply with certain federal regulatory requirements. According to GPA, “40 C.F.R. § 112.8(c)(6) requires owners or operators to test or inspect each aboveground container for integrity on a regular schedule and whenever material repairs are made. . . . The appropriate industry standard for internal tank inspections of the Facility is API 653, which generally recommends internal inspections every 10 years.”<sup>5</sup> GPA submits that the last time these tanks underwent out-of-service inspection was in 2007.

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<sup>3</sup> Petition, p. 2 and “Exhibit A.”

<sup>4</sup> GPA’s Contract Review Protocol (“GPA CRP”), Administrative Docket 00-04, p. 1 (Feb. 15, 2008) (emphasis in original).

<sup>5</sup> Email from G. Botha, GPA Legal Counsel, to J. Alcantara, PUC Administrative Law Judge (Oct. 22, 2018).

Additionally, in its filings, GPA submitted a report regarding an in-service tank inspection and corresponding certificate of tank structural integrity, which was prepared by Island CERTS Corporation (“Island CERTS”) in December, 2016. This report detailed an in-service inspection of both tanks, which included ocular findings and observations, as well as recommendations. For both tanks, Island CERTS recommended that GPA perform an out-of-service inspection of the tank bottom and tank shell after five (5) years. For the tank roof, Island CERTS recommended an out-of-service inspection after three (3) years.

GPA maintains that once the out-of-service and internal inspection and refurbishing of the bulk storage fuel tanks are completed, such tanks will be utilized to store the ultra-low sulfur diesel fuel oil to supply Piti Power Plant No. 7; as well as Piti Power Plant Nos. 8 and 9, after the ultra-low sulfur diesel (“ULSD”) conversion, and the proposed 180MW power plant.<sup>6</sup>

**C. Invitation to Bid Related to Fuel Farm and Bulk Storage Facility**

In the instant procurement, GPA intends to solicit bids for “out of service inspection and refurbishment services” for its Bulk Storage Fuel Tanks 1934 and 1935. Based on the technical specifications submitted by GPA, the contractor will be required to perform “out of service, non-destructive tank integrity testing inspection” on Tanks 1934 and 1935, each in turn. The contractor will also be required to repair any tank defects, and repaint the internal and external surfaces of the tanks, including appurtenances.

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<sup>6</sup> Petition, “Exhibit A.”

Specifically, after IP&E removes residual fuel oil down to eighteen (18) inches from the bottom of the tank, the contractor will be required to drain, remove, and dispose of any oil, water and sludge remaining in the tanks. The contractor will also remove any toxic gases in the tanks. Thereafter, the contractor will clean the interior of the tanks, sandblast the entire tank (both interior and exterior); and then, a certified inspector will assess the condition of the tanks and provide technical recommendations.

The contractor will also be required to perform repairs based on the report of the inspector. After any repairs are performed, the contractor must repaint both the interior and exterior of the tanks; and then perform a full hydrostatic test.<sup>7</sup>

With respect to the tank farm, the contractor will perform a cathodic protection system assessment, which will assess surface corrosion; and a leak detection assessment. The contractor will also provide an upgrade to the liquid level sensors, repairs to the oil-water separators, and replacement of a 5,000 gallon ULSD tank.

According to GPA, the proposed procurement was prepared by GPA, utilizing prior inspections as a baseline for the cost estimates. Further, the Bid Requirements and the proposed contract contain the standard protections that GPA includes in its procurements.

**D. Cost**

GPA estimates that the total cost of the entire project is \$8,000,000.<sup>8</sup> Specifically, the estimated cost of the work related to both Tank 1934 and Tank 1935 is

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<sup>7</sup> A hydrostatic test is a way in which pressure vessels such as pipelines, plumbing, gas cylinders, boilers and fuel tanks can be tested for strength and leaks.

\$3,728,700 each, for a total estimated cost of \$7,457,400.00.<sup>9</sup> Lastly, the estimated cost for the work related to the tank farm system is \$542,800.00.<sup>10</sup> GPA submits that the funding source for the entire project will be programmed under the Cabras 3 and 4 insurance proceeds.<sup>11</sup> GPA submits that the use of the insurance proceeds is appropriate since the contract relates to GPA's fuel system.

**E. CCU Resolution No. 2018-20**

The Petition is supported by CCU Resolution No. 2018-20 issued by the CCU at its September 25, 2018 meeting (the "Resolution"). In the Resolution, the CCU found that the tanks, appurtenances, and auxiliary equipment are required to be assessed and refurbished in order to comply with U.S. E.P.A. regulations.<sup>12</sup> In addition, it further found that the last time the tanks underwent inspection and were refurbished was back in 2007.<sup>13</sup> Accordingly, through the Resolution, the CCU authorized GPA to solicit competitive bids for the Fuel Farm and Bulk Storage Facility inspection and refurbishing project.<sup>14</sup>

**CONCLUSION**

Based on the documentation provided by GPA, the ALJ finds that GPA is required to ensure that the tanks comply with certain industry safety standards and federal

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<sup>8</sup> Petition, p. 1; CCU Resolution No. 2018-20, p. 1.

<sup>9</sup> CCU Resolution No. 2018-20, p. 1 ("Exhibit A").

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<sup>11</sup> CCU Resolution No. 2018-20, p. 1.

<sup>12</sup> CCU Resolution No. 2018-20, p. 1.

<sup>13</sup> CCU Resolution No. 2018-20, p. 1.

<sup>14</sup> CCU Resolution No. 2018-20, p. 2.

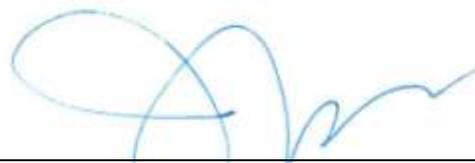
regulatory requirements set by the U.S. E.P.A., which recommend internal (out-of-service) inspections every ten (10) years. The last time the tanks were inspected and refurbished was in 2007, more than ten (10) years ago. An in-service inspection report performed by Island CERTS also recommended an out-of-service inspection of the tank parts ranging from three (3) to five (5) years.

The ALJ further finds that the Procurement Documents and proposed contract are adequate to protect the interests of GPA and its ratepayers. The ALJ, therefore, finds the instant procurement to be reasonable, prudent, and necessary.

#### **RECOMMENDATION**

Based on the documentation provided by GPA in this docket, and for the other reasons set forth herein, the ALJ recommends that the PUC approve GPA's Petition. Accordingly, GPA should be authorized to issue an Invitation to Bid related to the procurement of Bulk Storage Fuel Tanks Inspection and Refurbishment. A proposed Order for the PUC is attached hereto for the PUC's consideration.

Dated this 23<sup>rd</sup> day of October, 2018.



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**JOEPHET R. ALCANTARA**  
Administrative Law Judge

**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

<b>REQUEST FOR APPROVAL OF THE</b>	)	<b>GPA DOCKET 19-01</b>
<b>PROCUREMENT FOR BULK</b>	)	
<b>STORAGE FUEL TANKS INSPECTION</b>	)	<b>ORDER</b>
<b>AND REFURBISHMENT</b>	)	
_____	)	

**INTRODUCTION**

This matter comes before the Guam Public Utilities Commission (the “PUC” or the “Commission”) pursuant to the October 4, 2018 Petition for Approval of the Procurement for Bulk Storage Fuel Tanks Inspection and Refurbishment (the “Petition”), filed by the Guam Power Authority (“GPA”).

On October 23, 2018, the Administrative Law Judge of the PUC (the “ALJ”) assigned to this matter filed an ALJ Report that included his findings and recommendations based on the administrative record before the PUC. The ALJ found the following.

**DETERMINATIONS**

GPA currently maintains and operates bulk storage fuel tanks, which are managed by Isla Petroleum and Energy Holdings, LLC (IP&E), and which are used to supply fuel to GPA’s base load units. According to GPA, it is required by the United States Environmental Protection Agency (“U.S. E.P.A.”) to ensure that the tanks comply

with certain federal regulatory requirements.<sup>1</sup> GWA submitted that the last time the tanks underwent internal inspection and were refurbished was back in 2007.<sup>2</sup>

On September 25, 2018, the Guam Consolidated Commission on Utilities (the “CCU”), through CCU Resolution No. 2018-20, authorized GPA to issue bids to procure a contractor to inspect and provide repairs to the bulk storage fuel tanks.<sup>3</sup>

**A. Contract Review Protocol**

Pursuant to 12 G.C.A. § 12105, GPA may not enter into any contractual agreements or obligations which could increase rates and charges without the PUC’s express approval. Furthermore, GPA’s Contract Review Protocol requires that “[a]ll professional service procurements in excess of \$1,500,000” require “prior PUC approval . . . which shall be obtained before the procurement process is begun.”<sup>4</sup>

**B. GPA’s Petition for Approval of Invitation to Bid**

In its Petition, GPA maintained that it is required by U.S. E.P.A. to ensure that the tanks comply with certain federal regulatory requirements. According to GPA, “40 C.F.R. § 112.8(c)(6) requires owners or operators to test or inspect each aboveground container for integrity on a regular schedule and whenever material repairs are made. . . . The appropriate industry standard for internal tank inspections of the Facility is API 653,

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<sup>2</sup> Petition, p. 1.

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which generally recommends internal inspections every 10 years.”<sup>5</sup> GPA submitted that the last time these tanks underwent out-of-service inspection was in 2007.

Additionally, in its filings, GPA submitted a report regarding an in-service tank inspection and corresponding certificate of tank structural integrity, which was prepared by Island CERTS Corporation (“Island CERTS”) in December, 2016. This report detailed an in-service inspection of both tanks, which included ocular findings and observations, as well as recommendations. For both tanks, Island CERTS recommended that GPA perform an out-of-service inspection of the tank bottom and tank shell after five (5) years. For the tank roof, Island CERTS recommended an out-of-service inspection after three (3) years.

GPA maintained that once the out-of-service and internal inspection and refurbishing of the bulk storage fuel tanks are completed, such tanks will be utilized to store the ultra-low sulfur diesel fuel oil to supply Piti Power Plant No. 7; as well as Piti Power Plant Nos. 8 and 9, after the ultra-low sulfur diesel (“ULSD”) conversion, and the proposed 180MW power plant.<sup>6</sup>

**C. Invitation to Bid Related to Fuel Farm and Bulk Storage Facility**

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perform “out of service, non-destructive tank integrity testing inspection” on Tanks 1934 and 1935, each in turn. The contractor will also be required to repair any tank defects, and repaint the internal and external surfaces of the tanks, including appurtenances.

Specifically, after IP&E removes residual fuel oil down to eighteen (18) inches from the bottom of the tank, the contractor will be required to drain, remove, and dispose of any oil, water and sludge remaining in the tanks. The contractor will also remove any toxic gases in the tanks. Thereafter, the contractor will clean the interior of the tanks, sandblast the entire tank (both interior and exterior); and then, a certified inspector will assess the condition of the tanks and provide technical recommendations.

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According to GPA, the proposed procurement was prepared by GPA, utilizing prior inspections as a baseline for the cost estimates. Further, the Bid Requirements and the proposed contract contain the standard protections that GPA includes in its procurements.

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**D. Cost**

GPA estimates that the total cost of the entire project is \$8,000,000.<sup>8</sup> Specifically, the estimated cost of the work related to both Tank 1934 and Tank 1935 is \$3,728,700 each, for a total estimated cost of \$7,457,400.00.<sup>9</sup> Lastly, the estimated cost for the work related to the tank farm system is \$542,800.00.<sup>10</sup> GPA submitted that the funding source for the entire project will be programmed under the Cabras 3 and 4 insurance proceeds.<sup>11</sup> GPA submitted that the use of the insurance proceeds is appropriate since the contract relates to GPA's fuel system.

**E. CCU Resolution No. 2018-20**

The Petition is supported by CCU Resolution No. 2018-20 issued by the CCU at its September 25, 2018 meeting (the "Resolution"). In the Resolution, the CCU found that the tanks, appurtenances, and auxiliary equipment are required to be assessed and refurbished in order to comply with U.S. E.P.A. regulations.<sup>12</sup> In addition, it further found that the last time the tanks underwent inspection and were refurbished was back in 2007.<sup>13</sup> Accordingly, through the Resolution, the CCU authorized GPA to solicit

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<sup>11</sup> CCU Resolution No. 2018-20, p. 1.

<sup>12</sup> CCU Resolution No. 2018-20, p. 1.

<sup>13</sup> CCU Resolution No. 2018-20, p. 1.

competitive bids for the Fuel Farm and Bulk Storage Facility inspection and refurbishing project.<sup>14</sup>

### **CONCLUSION**

Based on the documentation provided by GPA, the ALJ found that GPA is required to ensure that the tanks comply with certain industry safety standards and federal regulatory requirements set by the U.S. E.P.A., which recommend internal (out-of-service) inspections every ten (10) years. The last time the tanks were inspected and refurbished was in 2007, more than ten (10) years ago. An in-service inspection report performed by Island CERTS also recommended an out-of-service inspection of the tank parts ranging from three (3) to five (5) years.

The ALJ further found that the Procurement Documents and proposed contract are adequate to protect the interests of GPA and its ratepayers. The ALJ, therefore, found the instant procurement to be reasonable, prudent, and necessary.

Based on the documentation provided by GPA in this docket, and for the other reasons set forth herein, the ALJ recommended that the PUC approve GPA's Petition. Accordingly, GPA should be authorized to issue an Invitation to Bid related to the procurement of Bulk Storage Fuel Tanks Inspection and Refurbishment.

The Commission hereby adopts the findings made in the October 23, 2018 ALJ Report, and therefore, issues the following:

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<sup>14</sup> CCU Resolution No. 2018-20, p. 2.

## **ORDERING PROVISIONS**

Upon careful consideration of the record herein, and for good cause shown, on motion duly made, seconded and carried by the affirmative vote of the undersigned Commissioners, the Commission hereby ORDERS the following:

1. That the instant Petition is hereby APPROVED and GPA is authorized to issue an Invitation to Bid related to the procurement of Bulk Storage Fuel Tanks Inspection and Refurbishment.

2. Once GPA selects a winning bid for the Bulk Storage Fuel Tanks Inspection and Refurbishment, GPA shall return to the PUC for review and approval.

3. GPA is ordered to pay the PUC's regulatory fees and expenses, including and without limitation, consulting and counsel fees, and the fees and expenses associated with this matter. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12103(b) and 12125(b), and Rule 40 of the Rules of Practice and Procedure before the PUC.

[SIGNATURES TO FOLLOW ON NEXT PAGE]

**SO ORDERED** this 25<sup>th</sup> day of October, 2018.

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**JEFFREY C. JOHNSON**  
Chairman

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**ROWENA E. PEREZ**  
Commissioner

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**JOSEPH M. MCDONALD**  
Commissioner

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**FILOMENA M. CANTORIA**  
Commissioner

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**MICHAEL A. PANGELINAN**  
Commissioner

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**PETER MONTINOLA**  
Commissioner

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