

## BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF: ) GPA Docket 17-16  
)  
The Application of the Guam Power )  
Authority Requesting Approval of the ) **PUC COUNSEL REPORT**  
Performance Management Contract )  
(PMC) for the Management, Operation )  
and Maintenance of the GPA Cabras 3&4 )  
Power Plants )

---

### INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the PUC Order herein dated December 29, 2016, and GPA's Filing of KEWP Extension Plan pursuant to PUC Order dated February 10, 2017.<sup>1</sup>
2. GPA now requests that the PUC approve a 12-month contract extension with Korea East-West Power (KEWP) of the Performance Management Contract (PMC) for the Management, Operation and Maintenance of the GPA Cabras No. 3 & 4 Power Plants.<sup>2</sup>

### BACKGROUND

3. At its monthly meeting in December, 2016, the PUC addressed GPA's request for a 3-month extension of the Performance Management Contract between GPA and Korea East-West Power ("KEWP"). The PUC approved a 2-month extension of the contract from January 1, 2017, through February 28, 2017.<sup>3</sup>
4. The PUC authorized GPA to expend a total amount of no more than \$100,000 per month for the 2-month extension; however, within 45 days from the date of its Order, GPA was required to provide a plan to the PUC which indicated the total cost and duration of the PMC with KEWP: "The plan should indicate the time period for which the PMC is extended, all monthly costs for the PMC with specific details, and the proposed scope of work."<sup>4</sup>

---

<sup>1</sup> GPA Filing of KEWP Extension Plan pursuant to PUC Order, GPA Docket 17-16, dated February 10, 2017.

<sup>2</sup> Id.

<sup>3</sup> PUC Order, GPA Docket 17-16, dated December 29, 2016.

<sup>4</sup> Id. at p. 4.

5. In compliance with the PUC Order, GPA filed its “KEWP Extension Plan pursuant to PUC Order”, dated February 10, 2017. Therein, GPA seeks to issue a 12-month contract extension to KEWP, from March 2017 to February 2018.<sup>5</sup>
6. Under the Plan, KEWP will continue to provide the following services:
  - a. Historical Plant Expertise/Insurance Claim Technical Support;
  - b. Damage Assessment;
  - c. Plant Preservation;
  - d. Expedited Procurement.<sup>6</sup>
7. The projected total cost for the 12-month extension is \$1,026,727.32. Of that cost, \$726,727.32 is for the Fixed Management Fees, and \$300,000.00 for Preservation Management Services (Reimbursable). The monthly Fixed Management Fee is \$60,560.61, and the “Preservation Management Services” is a monthly amount not to exceed \$25,000.00.<sup>7</sup>
8. On February 21, 2017, the Guam Consolidated Commission on Utilities determined that extending the current PMC Contract for Cabras No. 3 & 4 was “reasonable, prudent, and necessary for the preservation of Cabras Unit No. 3.” The General Manager of GPA was authorized to extend the PMC with KEWP from March 01, 2017 to February 28, 2018, at the total cost of \$1,026,720.<sup>8</sup>

### ANALYSIS

9. In its Filing, GPA has addressed some of the concerns raised by the PUC in its December 29, 2016, Order. GPA has provided a longer 12-month plan, rather than a plan involving a series of short term contracts.
10. GPA’s Contract with KEWP should have a provision allowing for termination thereof upon 30 days’ notice. GPA recognizes that the contract could be terminated

---

<sup>5</sup> Id. at p. 2.

<sup>6</sup> Id. at pgs. 2-3.

<sup>7</sup> Id. at p. 4.

<sup>8</sup> Guam Consolidated Commissions on Utilities Resolution No. 2017-07, Authorizing the Management of the Guam Power Authority to Extend the Performance Management Contract for the Cabras No. 3 Power Plant, adopted February 21, 2017, at p. 2.

upon final settlement of the insurance claim or a final agreement with the Insurers as to the valuation of the loss due to the August 31, 2015 incident.<sup>9</sup>

11. GPA has presented a reasonable justification for retaining the services of KEWP. KEWP is needed to assist GPA in providing responses to GPA Insurers concerning the explosion claim, plant operations, and historical maintenance.<sup>10</sup> KEWP is providing historical and technical support in order to advance GPA's insurance claim and interests.<sup>11</sup>
12. With regard to damage assessment resulting from the Cabras No. 3 & 4 explosion, KEWP is assisting in the evaluation of the extent of the damages to the building, plant equipment, auxiliaries and spare parts. It is developing work scopes, identification of needed parts, solicitation of price quotes, provision of cost estimates, and evaluation of price quotes received with regard to the damage assessment.<sup>12</sup>
13. GPA's Insurers have required GPA to undertake "plant preservation" efforts. An Insured, such as GPA, does have the obligation to preserve assets. KEWP has undertaken such preservation efforts as rotation of the generator engine shaft, installation of permanent power to energize specific equipment and devices, and the production of monthly reports regarding Plant Preservation as required by GPA's Insurers.<sup>13</sup>
14. Perhaps one of the most significant tasks of KEWP has been to expedite the procurement of goods and services needed to facilitate plant preservation. It is administratively less burdensome for KEWP to undertake procurement for such services, rather than relying on the GPA governmental procurement process. Since contractors have already been retained by KEWP for large projects, some of which exceed \$5M, it would create practical difficulties and legal issues to remove KEWP as the Contractor from these necessary projects.<sup>14</sup>

---

<sup>9</sup> GPA Filing of KEWP Extension Plan pursuant to PUC Order, GPA Docket 17-16, filed February 10, 2017, at p. 2.

<sup>10</sup> Id.

<sup>11</sup> Id.

<sup>12</sup> Id.

<sup>13</sup> Id. at p. 3.

<sup>14</sup> Id.

15. It is quite likely that there may be additional major procurement projects for which KEWP assistance is expected, including roof and/or Unit No. 4 Foundation Forensics.<sup>15</sup>
16. GPA has made an effort to reduce the costs for the PMC Extension. Originally GPA had proposed a monthly “Fixed Management Fee” of \$80,747.48. As a result of the requests of the PUC, the monthly “Fixed Management Fees” have been reduced to a cost of \$60,560.61 per month. That is a 35% reduction in the Fixed Management Fee that GPA was paying KEWP before the Cabras No. 3 & 4 explosion.<sup>16</sup>
17. GPA has also reduced the monthly amount of the fee for “Preservation Management Services.” These are monthly ongoing expenses related to the preservation and maintenance of the plant, including Heavy Equipment Rental, Technical Services, EPA Compliance, Maintenance, Accessory Equipment, Office, and Safety Supplies, etc.<sup>17</sup>
18. GPA’s original request to the PUC was for up to \$46,643.00 per month for Preservation Management Services. However, that amount has now been reduced to up to \$25,000.00 per month.<sup>18</sup>
19. The \$25,000.00 monthly amount for Preservation Management Services is only a “not to exceed” amount. No “automatic” amount will be paid each month. Payments to KEWP will be on a “cost reimbursable” basis. After each month, KEWP will submit a bill of costs to GPA for only those costs actually incurred. GPA will only reimburse costs actually incurred by KEWP.<sup>19</sup>

### RECOMMENDATION

20. GPA has submitted an improved plan which attempts to address the concerns of the PUC. GPA had reduced both the Fixed Management Fees and the Preservation Management Services fees. The total monthly cost has been reduced from \$127,390.48 to \$85,560.61.

---

<sup>15</sup> Id.

<sup>16</sup> Id. at p. 4.

<sup>17</sup> GPA Response to PUC Counsel Questions, by Joven G. Acosta, dated February 16, 2017.

<sup>18</sup> GPA Filing of KEWP Extension Plan pursuant to PUC Order, GPA Docket 17-16, filed February 10, 2017, at p. 4.

<sup>19</sup> Phone Conversation between Engineering Manager Joven Acosta and PUC Counsel Horecky on February 17, 2017.

21. Counsel recommends that the PUC approve GPA's request for a 12-month contract extension of the PMC with KEWP.
22. The contract should have a clause which allows for termination upon 30 days written notice by GPA to KEWP.
23. The total amount GPA should be authorized to expend for Fixed Management Fees under the 12-month contract extension is not-to- exceed \$726,727.32.
24. The total amount GPA should be authorized to expend for Preservation Management Fees under the 12-month contract extension is not-to-exceed \$300,000.00, and not-to-exceed \$25,000.00 per month. Such Fees should only be paid on a cost-reimbursable basis, and upon submission of a bill of costs from KEWP.
25. The total cost for the 12-month extension shall not exceed \$1,026,727.32.
26. Any additional contract extension, or deviations from the term of the filed Plan, should be approved in advance by the PUC.
27. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 17<sup>th</sup> day of February, 2017.

---

Frederick J. Horecky  
PUC Legal Counsel