

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 17-13
)
The Application of the Guam Power)
Authority to Approve the Cabras Engine) **PUC COUNSEL REPORT**
and Equipment Removal.)
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_____)

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission [“PUC”] upon the Application of the Guam Power Authority [“GPA”] to Approve the Cabras Engine and Equipment Removal.¹

BACKGROUND

2. The Cabras 3 & 4 explosion occurred on August 31, 2015. With the explosion, GPA has been negotiating settlement of its claims through its Insurers.
3. Recently, GPA received notice from its Insurers to proceed with the removal of Engine 4 to allow GPA and the Insurers to examine the engine foundation.²
4. GPA’s own insurance claims consultant, the Greenspan Co./ Adjusters International, wrote a letter to the Insurers’ representative, McLarens, indicating that, at the insurers’ request, GPA would undertake the removal of Engine 4 entirely from the premises so that McLarens/Insurers can further evaluate the condition of that engine.³
5. GPA believes that Engine 4 is a total loss and has been so advised by its experts. However, the Insurers desire to save the generator and related auxiliary

¹ GPA Application to Approve the Cabras Equipment and Engine Removal, GPA Docket 17-13, filed November 15, 2016.

² Id. at p. 1.

³ Letter from Greenspan Vice President Masood Khan, Esq. to Regional Managing Director, Russell Henderson, of McLarens, dated October 31, 2016, at p. 7.

- equipment.⁴ They have requested that GPA remove and dismantle Unit 4's generator for further examination of the extent of loss.⁵
6. GPA's Performance Management Contractor for the Cabras 3 & 4 Plant is Korea East West (KEWP). KEWP has obtained the necessary price quotes for services and equipment required to remove the Cabras 4 engine and equipment.⁶
 7. The PMC for the Cabras plant often undertakes procurements for capital improvement projects and other projects designed to improve the plants. In this case, PMC KEWP issued a procurement for the Cabras 4 Engine and equipment removal. Two bids were received. Royce Power Engineering Ltd. was the lowest bidder.⁷
 8. Royce Power Engineering Ltd.'s detailed proposal for dismantling and removal of the Engine 4/generator is included in Attachment A to GPA's Petition. Royce's cost proposal for the project is \$5,996,435.00.⁸
 9. The Guam Consolidated Commission on Utilities, in Resolution No. 2016-69, approved GPA's request to undertake the Cabras 4 Engine and equipment removal at a cost of \$5,996,435.00.⁹
 10. The scope of work includes engine disassembly, generator cover removal and reinstallation, and auxiliary equipment dismantling and disposal.¹⁰

⁴ Id.

⁵ Guam Consolidated Commission on Utilities, Resolution No. 2017-69, Relative to Authorizing Expenditure for Cabras 4 Engine and Auxiliary Equipment Removal Inclusive of Generator Dismantling, adopted November 22, 2016, at p. 1.

⁶ GPA Application to Approve the Cabras Equipment and Engine Removal, GPA Docket 17-13, filed November 15, 2016, at p 1.

⁷ Attachment A to GPA's Petition, "Quotation for Dismantling/Removal of 1 unit of damaged generating set MAN 12K80MC-S namely #4 located at Cabras Power Plant in Guam."

⁸ Id.

⁹ Guam Consolidated Commission on Utilities, Resolution No. 2017-69, Relative to Authorizing Expenditure for Cabras 4 Engine and Auxiliary Equipment Removal Inclusive of Generator Dismantling, adopted November 22, 2016, at p. 2.

¹⁰ Attachment A to GPA's Petition.

ANALYSIS

11. Dismantling and removal of Engine 4 will allow GPA to perform further analysis on the engine foundation.¹¹
12. GPA's representation that the Insurers will pay for the Cabras 4 Engine and equipment removal in the amount of \$5,996,435.00 is significant. The cost for the project will have no direct impact upon the rates paid by the ratepayers of Guam.
13. However, expenditure of such funds for the Cabras 4 Engine and equipment removal will reduce the total amount of settlement funds available to GPA. One could suggest that expenditure of such funds should be made for more desirable purposes, such as the cost of the 180MW combined cycle combustion plant which GPA seeks to procure.
14. In terms of the overall insurance settlement claims process, GPA must undertake reasonable steps to allow itself and the Insurers to fully investigate the claim and to determine whether Engine 4 is a total loss. Removal and dismantling of the Engine will allow GPA and the Insurers to determine whether Engine 4 is a total loss.
15. Therefore, GPA should be authorized to undertake the Engine 4 and equipment removal. Such removal is required as part of the insurance claim process.¹²

RECOMMENDATION

16. Counsel recommends that PUC authorize GPA's to proceed with the Cabras 4 Engine and equipment removal with KEWP.
17. The contract with Royce Power Engineering Ltd., procured and administered by KEWP, should be authorized in the amount of \$5,996,435.00. However, such amount must be paid by the Insurers and not GPA or KEWP.

¹¹ Guam Consolidated Commission on Utilities, Resolution No. 2017-69, Relative to Authorizing Expenditure for Cabras 4 Engine and Auxiliary Equipment Removal Inclusive of Generator Dismantling, adopted November 22, 2016, at p. 1.

¹² GPA Application to Approve the Cabras Equipment and Engine Removal, GPA Docket 17-13, filed November 15, 2016, at p. 2.

18. The proposed Contract with Royce Power Engineering Ltd. procured by KEWP is reasonable, prudent and necessary.
19. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 23rd day of November, 2016.

Frederick J. Horecky
PUC Legal Counsel