

GUAM PUBLIC UTILITIES COMMISSION  
REGULAR MEETING  
February 23, 2017  
SUITE 202, GCIC BUILDING, HAGATNA



MINUTES

The Guam Public Utilities Commission [PUC] conducted a regular meeting commencing at 6:40 p.m. on February 23, 2017, pursuant to due and lawful notice. Commissioners Johnson, Perez, McDonald, Pangelinan, Montinola, Cantoria, and Niven were in attendance. The following matters were considered at the meeting under the agenda made *Attachment "A"* hereto.

**1. Approval of Minutes**

The Chairman announced that the first item of business on the agenda was approval of the minutes of January 26, 2017. Upon motion duly made, seconded and unanimously carried, the Commission approved the minutes subject to correction.

**2. Guam Waterworks Authority**

The Chairman welcomed Mr. Tom O'Connor McNeal to the meeting. Mr. McNeal indicated that he was on Guam from the USEPA working with GWA. The Chairman announced that the next item of business on the agenda was GWA Docket 17-04, Petition for Approval of the \$29.6M in Bond Reallocation, ALJ Report, and Proposed Order. ALJ Alcantara indicated that GWA filed a petition for approval to reprogram funds for projects funded by GWA's 2010, 2013, and 2016 bond proceeds. GWA sought to reallocate about \$29.6M of these bond funds to advance the timing of certain capital improvement projects. GWA sought to fund the following projects: Baza Gardens sewage treatment plant replacement project; Umatac-Merizo sewage treatment plant replacement project; and the Northern District Wastewater Treatment Plant secondary treatment upgrades. GWA submits that these projects are required by the November 10, 2011 Amended Stipulated Order. The Baza Gardens Wastewater treatment plant project must be substantially completed by April 30, 2018; the contract funding must be available on the date the contract is executed for the Umatac-Merizo Wastewater Treatment Plant project.

The GWA petition was supported by CCU Resolution No. 14-FY2017, which approved the reallocation of funds. GWA also filed with the PUC its new capital improvement plan for 2016-2020, which reflects these changes. These projects will be refunded from bonds from completed projects that contain unspent balances, or by deferring certain projects to a later date. Some deferred projects may be included in the projected 2018 bond issuance. The Baza Gardens Sewage Treatment Plant replacement project involves construction of a new wastewater treatment facility. An additional \$15.8M is



needed to complete this project. The cost of construction includes a new pumping facility located at the existing Baza Gardens plant. The Umatac-Merizo Sewage Treatment Plant Replacement Project also involves the construction of new treatment facilities and requires an additional \$12.8M. The project components include upgrades to the fuel system and recirculation pond, etc.

The Northern District Wastewater Treatment Plant needs an additional \$1M for acquiring the property adjacent to the existing plant location. GWA intends to obtain 17 acres of land for this expansion, which totals a cost of about \$1.4M. A total \$1.56M should be sufficient to acquire the 17 acres of property. GWA is required to complete improvement to the Baza Gardens Wastewater Treatment Plant as well as the Umatac-Merizo Wastewater Treatment Plant in short order. The reallocation requested is reasonable and necessary given GWA's need to comply with the Stipulated Order. The ALJ recommends approval of the Petition. The ALJ also request that GWA submit to the PUC a report detailing upgrades on its CIP projects that are funded by the bond proceeds. GWA should also indicate where projects are completed.

GM Bordallo of GWA indicated that the Court Order requires GWA to complete these projects within the time frames mentioned by the ALJ. This funding needs to be advanced to complete the last portion of the Baza Gardens project. For the Umatac-Merizo project, GWA is moving toward a design-build strategy, which requires advancing the timing of the project. Bond funds would be reallocated from water reservoir projects, which can be funded with proceeds from the later borrowing. Money is being shifted to advance projects that have earlier deadlines. For the Northern District Project, the original Navy estimates contemplated construction of the upgrades adjacent to the existing plant footprint. GWA needs to purchase property belonging to the Ancestral Land Commission. More land is needed than originally estimated. A grant to pay for the property was received from the Department of Defense, Office of Economic Adjustment.

The Chairman asked GM Bordallo how GWA's need for 17 acres linked up with GPA's needs in putting the new power plants in that area too, and if there was a conflict. Mr. Bordallo indicated that there was no conflict. GWA improvements may include a provision of some of the effluent for cooling water for GPA's power plant. The Chairman asked GPA General Manager John Benavente how GPA's land acquisitioned for the new combined cycle plants was going in this area. Mr. Benavente indicated GPA would know by March 8. GM Bordallo indicated GWA needed the entire 17 acres. GPA GM Benavente indicated GPA was pursuing 40 acres.

Commissioner Perez asked Mr. Bordallo how much GWA had received in grant money. Mr. Bordallo indicated that about \$55 million was the amount of the initial grant which included design, funds for projects/construction managers, and cost of construction, as well as installation of the "Diffuser" for the Northern District Wastewater Treatment Plant outfall. Mr. Bordallo indicated that of additional proposed funding of \$172M in



grant funds from the OEA, only \$106M was appropriated by Congress. These additional funds would cover the construction of the plant. The Chairman asked whether the \$172M also took care of the main pipeline that runs up north. Mr. Bordallo concurred. Upon motion duly made, seconded and unanimously carried, the Commissioners approved GWA's request to reallocate \$29.6M in bond funds to advance the timing of certain capital improvement projects. The Commissioners adopted the Order made *Attachment "B"* hereto.

### **3. Guam Power Authority**

The Chairman announced that the next item of business was GPA Docket 15-16, Award of Energy Storage Contract, PUC Counsel Report, and Proposed Order. Counsel indicated that the Commissioners had previously approved \$35M in bond funds for an energy storage system. GPA was authorized to issue a procurement for a bid on the energy storage system. Since GPA had experienced considerable under-frequency outages, large scale energy storage batteries would create stability and prevent some of the under-frequency outages from occurring. After approval by the PUC, GPA issued a bid for energy storage systems. Four bids were received, but two were disqualified. The selected bidder by the GPA Evaluation Committee was LG CNS, the lowest responsible bidder. Its bid for the project was close to \$35M, a little under. The project ultimately decided upon was for one 24MW battery at the Agana Substation, and a second battery at the Talafofo Substation of 16MW (a total of 40MW).

LG is a worldwide corporation that appears capable of performing the project. It submitted a well written bid proposal which addressed all issues concerning how it would approach the project from the initial stages through commissioning. LG CNS is connected with LG Energy and other LG companies, which are based in Korea. They have extensive experience as contractors with maintaining ESS systems and will work with other LG companies for the development of the batteries. Lithium Ion batteries will be used on the project. LG CNS has done a number of projects over the last four years, some similar in size to the Guam project. LG has provided protection to Guam and its ratepayers through a 20-year warranty on service and parts. If there are any problems with the batteries over the 20-year period, it will be the contractor's obligation to replace them. LG CNS will also be the operations and maintenance contractor. It is an EPC. The same company will be installing and maintaining the batteries for the term of the contract. Since LG will be setting up the system, it should be in a better position to operate the system for the full 25-year period.

Counsel believes that the warranty provisions in the contract are adequate to protect GPA and the ratepayers. The contract is sufficient to accomplish the implementation of the system. The total cost will be about \$35M for the design and construction of the battery projects. The operation and maintenance contract has a separate cost. Exhibit 2 to the Counsel Report indicates the annual fees for operation and maintenance. For both projects, the annual O&M fee starts out as slightly over \$108,000 and goes up to



over \$200,000 in the 25<sup>th</sup> year. The total cost of the O&M over the 25-year period is over \$7M. GPA indicated that the O&M cost of the other bidder was twice the amount proposed by LG. GPA concluded that the amount of annual O&M for a project costing \$35M was not exorbitant, but reasonable.

In developing this bid, GPA hired Mr. Andy Balajadia, with the assistance of a subcontractor energy group, to develop the procurement. The cost was \$367,000. That amount was taken out of the \$35M; GPA now needs to replace that amount and proposes that it come from the FY2018 CIP budget. The Proposed Order submitted by Counsel would: (1) approve GPA's award of the energy storage contract of LG CNS; (2) approve the GPA-LG contract; (3) approve the annual fixed fees for the 25-year O&M contract; and (4) authorize GPA to pay the amount of \$367,219 from the FY2018 CIP budget.

GPA GM Benavente indicated that this project had been in the works for some time. This 40MW battery will help stabilize the system. When the batteries come online, GPA can dispatch its more efficient units and reduce fuel costs. The Chairman asked the GM who would be responsible for using the energy that the battery has stored and dispatching it into the system. GM Benavente indicated GPA would be responsible. The energy would be "synced" into the system. When there is a drop in the system, the battery will provide energy immediately. The battery will instantaneously react to drops in the system. 40MW of battery will provide 15 minutes of capacity.

The Chairman asked whether, once the batteries are hooked up, there would shortly be improved reliability in the system. GM Benavente indicated that there would be improved reliability. The plan here is to avoid the 77% of the under-frequency outages. That plan is still on track. Commissioner Montinola asked when the project would be completed. GM Benavente indicated that the completion would be in 12 months. Commissioner Niven asked Mr. Benavente if he was familiar with any other particular projects that LG CNS had done similar to this project. John Cruz of GPA indicated that LG had done JEJU Island in Korea. Legal Counsel indicated that LG was an O&M contractor for a 52-megawatt project in Korea and has been involved in projects in Illinois. They have done four projects within the last two years. GM Benavente indicated that LG is a core battery manufacturer. In response to the Chairman, GM Benavente indicated that the industry feels comfortable with proceeding with lithium ion batteries. There is a 20 year warranty and the provision of O&M as an assurance.

Commissioner Perez indicated that GPA decided not to take the last 5-year warranty of the 25-year period because it was too expensive. If GPA later decided to pick up the last 5-year warranty, would it be at the current rate, or would it be a negotiated 5-year warranty rate? GM Benavente indicated there will likely be a negotiated rate. John Cruz of GPA confirmed that there would be a negotiated rate. The Chairman asked GM Benavente whether GPA had acquired the land in Talafofo for the battery project. GM Benavente indicated there is an authorization to use the land from the Ancestral Lands



Commission. GPA is going through the process. LG will be building on the land and creating the space for the batteries. The batteries there will be 16MW and 24MW at Agana.

Commissioner Perez asked whether LG could provide training for the GPA personnel. GM Benavente indicated GPA would look at this area. GPA is fortunate to have a strong battery team. GPA will need to grow in renewables and other opportunities. Commissioner Perez asked whether, during the life of the battery, if anything goes wrong, the warranty with LG will cover the replacement of that battery. GM Benavente confirmed that was correct. Commissioner Pangelinan asked whether there were a limited number of companies that could provide this service, that being the reason for only two qualified bidders. GM Benavente indicated there were four bidders initially. Commissioner Pangelinan asked what the reason was for the disqualification of the two. GM Benavente indicated they were just wholesalers who didn't have the experience. They did not get a passing grade on the qualifications.

Commissioner Perez asked whether LG manufactures the batteries that GPA would receive. GM Benavente indicated that was correct. The 40MW of battery will help absorb any loss from the generators. The batteries will also provide a benefit when the Cabras No. 1 and 2 plants are retired. Now there is no help for the 5 minute or 10 minute outages; frequency cannot be maintained. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the award of an ESS Contract to LG CNS and approved the Order made *Attachment "C"* hereto.

The Chairman indicated that the next item of business was GPA Docket 17-16, Filing of Korea East West Power Extension Plan, PUC Counsel Report, and Proposed Order. Counsel indicated that, in December 2016, the Commissioners granted a 2-month extension on the KEWP Contract for the management, operation and maintenance of the Cabras No. 3 and 4 power plants. In the meantime, GPA was ordered to present a plan to the PUC as to how it would proceed with the KEWP Contract in the future. GPA filed its plan: it recommended a 12-month contract with KEWP.

Counsel believes this is an improvement, as the PUC will not be in a situation where it must approve a series of 3-month contracts and continually assess and reassess such contracts. There is a justification for the 1-year contract. For a number of reasons, KEWP is needed by GPA over the next year to perform different functions. KEWP can assist GPA in terms of the claims process with the insurers of the Cabras No. 3 and 4 plants. KEWP has historical knowledge and experience with the plants and has been helpful in providing information to the insurers. Second, the insurance company has required various preservation efforts for the plants and has ordered GPA to undertake them, such as rotating the shaft and hiring of contractors to relocate the engine and repair the roof. KEWP is involved with these issues.

It would be difficult for GPA to release KEWP and not have it involved at this stage of the project. KEWP's knowledge of the situation is important. KEWP has also procured



two contracts each totaling approximately \$5M for the preservation of the plants. If KEWP was not continued, what would happen to those two preservation contracts? It does make sense to have a private party, rather than GPA do these procurements. It is known that the government procurement process is slow and difficult. GPA has made a case for retaining KEWP as the PMC. The one year PMC contract would start March 1, 2017 and end in February 2018. If the insurance claims are settled earlier, a contract provision would allow GPA to terminate KEWP early. There should be a 30-day termination in the contract, which is what GPA previously had in the PMC contract with KEWP.

As to the cost of the extension, GPA did make a considerable effort to negotiate with KEWP and satisfy some of the concerns that the Commission had as to cost. GPA has reduced the monthly fixed management fees for KEWP from \$80,000 per month to \$60,000 per month. The preservation management fee has been reduced to \$25,000 per month, which is a maximum amount. GPA will not necessarily spend \$25,000 a month. That is a cost reimbursable fee. KEWP will submit a bill of cost to GPA based upon its cost for each month. GPA has reduced the monthly bill substantially. Counsel recommends that the PUC approve the 12-month contract extension; the fixed management fees for the 12 months should not exceed the total of \$726,727.32. The preservation management fee for the 12-month contract should not exceed \$300,000. The total cost for the 12-month extension should not exceed \$1,026,727.32. The Proposed Order incorporates these items.

GM Benavente indicates that the contract is conditioned on the insurance policy, which requires that GPA undertake preservation efforts. If preservation efforts are not undertaken, GPA could lose settlement proceeds. KEWP can procure the contracts for preservation more quickly than GPA. Upon motion duly made, seconded and unanimously carried, the Commissioners approved the GPA 1-year extension plan for the KEWP PMC Contract, and the Order made *Attachment "D"* hereto.

The Chairman indicated that the next item of business on the agenda was GPA Docket 17-18, Diesel Fuel Procurement for Baseload and Peaking Plants, PUC Counsel Report, and Proposed Order. Counsel indicated that GPA presently has diesel fuel contracts, with IP&E Guam and Mobil Oil Guam. These contracts were approved in December 2014. They expire in December of this year. GPA could extend them, as the contracts allow for an additional one year extension; however GPA decided that, because its diesel fuel requirements have changed, it would rather go out for a bid specifying the new requirements and seeing what price the market would bear.

GPA now proposes to issue a procurement with a multi-step bid process. It would like to accomplish the procurement early before the contracts expire in December. The diesel fuel is used at baseload plants, the diesel fast tracks, and the combustion turbine units. For GPA to continue to operate these plants it is necessary for it to have a sufficient supply of diesel fuel. The use of diesel fuel has greatly increased since the



Cabras explosion, by more than 380%. Exhibits attached to the Counsel Report indicate the substantial increase in the use of diesel fuel and the new diesel fuel oil requirements. In 2015, it was estimated that GPA used 4.8M gallons of diesel a year. There were 15M gallons plus used in 2016. This fuel usage obviously has an impact on LEAC. Because of the increase in the diesel fuel requirements of GPA, it makes sense for GPA to go out and issue a new procurement.

There is a draft contract included with the proposed bid. The contract would be for a term of 2 years from January 1, 2018 through December 31, 2019; there would be an extension option for three additional 1-year terms. The contract provides standard provisions as to warranty, quality assurance, indemnity, and insurance requirements, as well as termination for the convenience of GPA. Counsel recommends that the PUC approve the request by GPA to solicit competitive bids for a new diesel fuel supply contract. GPA will be required to present the final contract to the PUC for review.

GM Benavente indicated that after the Cabras explosion, the use of diesel fuel went up by as much as 30M gallons. Before the explosion GPA's target was about 1% to 2% use of diesel oil and 98% heavy oil. Now GPA hopes that diesel fuel will be in the neighborhood of about 5% under normal running conditions and perhaps up to 10% to 15% when there is a major overhaul of a generator; and then back down to 5%. It is best to go out for bid to see if the price will be brought down. Also, the sequencing of the contract (2 year term with three 1 year extensions) provides GPA with flexibility. As the combined cycle units start to come in, GPA will have to phase out RFO with bigger volumes of diesel fuel for the power plant system. GPA will use ultra-low sulfur diesel in an amount of two and one half million barrels. It will have to bid out the ULSD.

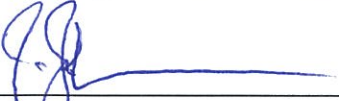
Commissioner Niven asked Mr. Benavente what the current price differential was between diesel and heavy oil. GM Benavente indicated diesel was presently close to \$70.00 a barrel. The heavy oil was close to \$50 a barrel. For RFO, the heat rate is 6.3M BTUs per barrel. For diesel it is 5.7M BTUs per barrel. It is very important to have efficient machines for the fuel savings. Upon motion duly made, seconded and unanimously carried, the Commissioners authorized GPA to issue a procurement for Diesel Fuel for the Baseload and Peaking Plants, and adopted the Order made *Attachment "E"* hereto.

#### **4. Administrative Matters**

The Chairman indicated that GPA Docket 13-13, Annual Reliability Report for Period ending January-December 2016, had been presented to the Commissioners. Counsel indicated that the report provides graphs and charts concerning measures of power reliability, such as SAIDI and CAIDI. These are likely better explained by GPA. The Commissioners then proceeded to a discussion of issues concerning the Reliability Report. There was further discussion concerning which month the Commissioner would take off from the meeting schedule. The Commissioners again decided to defer decision on this matter.



There being no further business, the Commissioners move to adjourn the meeting.



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Jeffrey C. Johnson  
Chairman



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION  
REGULAR MEETING  
THIRD FLOOR CONFERENCE ROOM, GCIC BUILDING  
414 W. SOLEDAD AVE., HAGATNA, GUAM  
6:30 p.m., February 23, 2017**

**Agenda**

1. Approval of Minutes of January 26, 2017
2. Guam Waterworks Authority
  - GWA Docket 17-04, Petition for Approval of \$29.6 Million in Bond Reallocation, ALJ Report, and Proposed Order
3. Guam Power Authority
  - GPA Docket 15-16, Award of Energy Storage Contract, PUC Counsel Report, and Proposed Order
  - GPA Docket 17-16, Filing of Korea East West Power Extension Plan, PUC Counsel Report, and Proposed Order
  - GPA Docket 17-18, Diesel Fuel Procurement for Baseload and Peaking Plants, PUC Counsel Report, and Proposed Order
4. Administrative Matters
  - GPA Docket 13-13, Annual Reliability Report for Period ending Jan-Dec. 2016
  - Commission Meeting Schedule
5. Other Business





**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

**IN RE: REQUEST BY THE GUAM** )  
**WATERWORKS AUTHORITY** )  
**TO REALLOCATE \$29.6** )  
**MILLION OF 2010, 2013 &** )  
**2016 BOND PROCEEDS** )  
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**GWA DOCKET 17-04**

**ORDER**

**INTRODUCTION**

This matter comes before the Guam Public Utilities Commission (the “PUC”) at the request of Petitioner Guam Waterworks Authority (“GWA”) for approval to reprogram projects funded by GWA’s 2010, 2013 and 2016 Bond proceeds, filed with the PUC on February 13, 2017.

On February 22, 2017, the Administrative Law Judge of the PUC Joepheth R. Alcantara (the “ALJ”) filed a report regarding the instant Petition, which included his findings and recommendations based on the administrative record before the PUC. The ALJ found the following.

**DETERMINATIONS**

**A. Reallocation**

In its Petition, GWA sought approval to reallocate \$29.6 million of 2010, 2013, and 2016 bond funds to advance the timing of certain capital improvement projects.<sup>1</sup> GWA submitted that these projects are required under the November 10, 2011 Order for Preliminary Relief Re: Deadlines for Outstanding Projects under the Amended Stipulated

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<sup>1</sup> Petition to Reallocate \$29.6 Million in 2010, 2013 and 2016 Bond Proceeds to Meet the Requirements of the Order of the United States District Court Relative to Incomplete Stipulated Order Projects (“Petition”), p. 1 (Feb. 13, 2017).



Order issued by the District Court of Guam in U.S. v. Guam Waterworks Authority, Civil Case No. 02-00035 (hereinafter referred to as the “Amended Stipulated Order”).<sup>2</sup> In particular, GWA intends to execute contracts for the following two major projects: the Baza Gardens Wastewater Conveyance and Pump Phase III by April, 2017; and the Umatac/Merizo Wastewater Treatment Plant (“WWTP”) Improvements Design Build project by June, 2017.<sup>3</sup>

GWA maintained that the Baza Gardens WWTP project must be substantially completed by April 30, 2018, and that the entire amount of the contract funding must be “in place and available on the date the contract is executed” for the Umatac/Merizo WWTP project.<sup>4</sup> GWA further maintained that it is required to complete improvements to the Baza Gardens WWTP and Umatac-Merizo WWTP in order to achieve compliance with the WWTP’s [National Pollutant Discharge Elimination System or “NPDES”] permit.<sup>5</sup> According to GWA, the previous funding outlay for these projects did not account for the “project execution strategies” “being employed,” such as whether the projects were to be completed through phased construction, design-build contracts, or design-bid-build contracts.<sup>6</sup>

The Petition was supported by Resolution No. 14-FY2017, issued by the Consolidated Commission on Utilities on January 24, 2017, which approved the reallocation of funds from the 2010, 2013, and 2016 Bonds, and authorized GWA to seek

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

<sup>3</sup> Petition, p. 2.

<sup>4</sup> Petition, p. 4.

<sup>5</sup> Petition, p. 1.

<sup>6</sup> Petition, pp. 1-2.



PUC approval for such reallocation. GWA also filed with the PUC its new Capital Improvement Plan for 2016-2020.

GWA intends to fund the subject projects through reallocating proceeds from the 2010, 2013, and 2016 bonds from “completed” projects that contained an “unspent” balance, or by deferring projects to a later date.<sup>7</sup> Pursuant to 12 G.C.A. § 12105, the PUC is tasked with reviewing and approving all uses of bond proceeds.

**1. Baza Gardens Wastewater Treatment Plant Improvements**

The Baza Gardens Sewage Treatment Plant (“STP”) Replacement project involves the construction of new wastewater treatment facilities. GWA needs an additional \$15.8 million to complete the project. According to GWA, this figure is for construction only, and would include a new pumping facility located at the existing Baza Gardens plant, two new equalization basins also at the plant, which are used to buffer flow and loading, and about 1,200 linear feet of pipelines.

**2. Umatac-Merizo Wastewater Treatment Plant Improvements**

The Umatac-Merizo STP Replacement project also involves the construction of new wastewater treatment facilities. GWA submitted that \$8 million is already budgeted for the project, but that it needs an additional \$12.8 million, for a total of \$20.8 million for the entire project. GWA indicated that \$723,000 is budgeted for project management; \$17.5 million for the design-build contract; \$1.7 million for construction management; and an \$827,000 contingency. The components of this project include the following, among others: upgrade influent pump station, upgrade aerated lagoon, new

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<sup>7</sup> Petition, p. 3.



lagoon effluent pump station, new lagoon effluent pipelines, upgrade overland flow system and recirculation pond, upgrade overland flow system and recirculation pump station, new UV disinfection system, upgrade plant water system electrical power supply and standby generator, plus other facilities.

### **3. Northern District Wastewater Treatment Plant Secondary Treatment Upgrades**

GWA submitted that it needs an additional \$1 million for this project in order to acquire the property adjacent to the existing plant location.<sup>8</sup> GWA maintained that it requires the addition of this property in order to “upgrade and expand” the facility.<sup>9</sup> According to a Guam Water and Wastewater Assessment Report prepared by the U.S. Department of the Navy last year, for purposes of land acquisition at the Northern District WWTP, the unit cost per acre is assumed to be at \$85,060, which is the purchase price indicated by available land records.<sup>10</sup> The amount of \$560,000 was the original estimate for the purchase of additional land. GWA, however, intends on obtaining an additional seventeen (17) acres of land for this expansion, at a cost of about \$1.4 million. Accordingly, GWA maintained that \$1.56 million in total should be sufficient to acquire the additional seventeen (17) acres of property.

The PUC is tasked with reviewing and approving all uses of bond proceeds pursuant to 12 G.C.A. §12105. Based on the record, GWA is required to complete improvements to the Baza Gardens WWTP and Umatac-Merizo WWTP. In particular, the

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<sup>8</sup> Petition, p. 2.

<sup>9</sup> Petition, p. 2.

<sup>10</sup> Final Guam Water and Wastewater Assessment Report in Support of the Economic Adjustment Committee Implementation Plan, Department of the Navy, p. 3-24 (Feb. 2015).

Amended Stipulated Order requires that GWA complete the Baza Gardens Wastewater Systems Upgrade by April 30, 2018. Amended Stipulated Order, pp. 24-25 (Nov. 10, 2011). In addition, the Amended Stipulated Order also requires that GWA complete the Umatac-Merizo Systems Upgrade by December 31, 2018, but that by June 30, 2017, GWA must “execute a construction contract and issue a notice to proceed with construction.” Amended Stipulated Order, pp. 25-26.

Accordingly, the ALJ found that the reallocation in this instance is reasonable and necessary given GWA’s need to comply with its obligations under the federal Amended Stipulated Order. The ALJ, therefore, recommended the PUC’s approval of the Petition. However, the ALJ recommended that GWA submit to the PUC a report detailing updates on its CIP projects that are funded by bond proceeds, specifically projects funded by the 2010, 2013 and 2016 bond proceeds. Where projects have been completed, GWA should indicate that such projects have been completed.

The Commission hereby adopts the findings contained in the February 22, 2017 ALJ Report and, therefore, issues the following:

### **ORDERING PROVISIONS**

After careful review and consideration of the above determinations, the February 22, 2017 ALJ Report, and the record herein, for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission hereby ORDERS the following:

1. That GWA’s request for the reallocation of \$29.6 million of 2010, 2013, and 2016 bond funds to advance the timing of certain capital improvement projects is APPROVED and GWA’s February 13, 2017 Petition is GRANTED.



2. GWA shall submit to the PUC a report detailing updates on its Capital Improvement Projects funded by bond proceeds, specifically projects funded by 2010, 2013 and 2016 bond proceeds, including a timeline of events and deadlines for any outstanding projects, by April 1, 2017. Where projects have been completed, GWA should indicate that such projects have been completed.

3. GWA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses associated with the instant proceeding. Assessment of the PUC's regulatory fees and expenses is authorized pursuant to 12 G.C.A. §§ 12002(b), 12024(b) (renumbered as 12 G.C.A. §§ 12103(b) and 12125(b)), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

[SIGNATURES TO FOLLOW ON NEXT PAGE]

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SO ORDERED this 23<sup>rd</sup> day of February, 2017.



**JEFFREY C. JOHNSON**  
Chairman



**ROWENA E. PEREZ**  
Commissioner



**JOSEPH M. MCDONALD**  
Commissioner



**FILOMENA M. CANTORIA**  
Commissioner



**MICHAEL A. PANGELINAN**  
Commissioner



**PETER MONTINOLA**  
Commissioner



**ANDREW L. NIVEN**

Commissioner

P173005.JRA



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**



IN THE MATTER OF: ) GPA Docket 15-16  
)  
The Petition of the Guam Power Authority) )  
for Approval of the Award of the Energy ) **ORDER**  
Storage Contract to LG CNS. )  
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)  
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**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 Award of the Energy Storage Contract to LG CNS.<sup>1</sup>

**BACKGROUND**

2. The proposed 40MW Energy Storage System has been before the PUC on a number of previous occasions.
3. In 2014, the PUC approved bond funding for the Energy Storage System ["ESS"] in the amount of \$35M.<sup>2</sup>
4. In 2015, after a thorough review of the Invitation for Bids, the PUC authorized GPA to undertake the procurement of the proposed Energy Storage System.<sup>3</sup>
5. Thereafter, GPA hired Andriano E. Balajadia, P.E., and his subcontractor Electric Power Systems, to assist with the development of the bid documents and provide technical support during the ESS procurement process. The total contract cost was \$367,219.<sup>4</sup>
6. Originally, the project was expected to take one year to complete and be finished by December 2016; however, GPA amended the project bid from one 40MW facility to a project involving the installation and interconnection of a 24MW ESS at the GPA

<sup>1</sup> GPA Petition for Approval of the Award of the Energy Storage System to LG CNS, GPA Docket 15-16, filed February 8, 2017.

<sup>2</sup> PUC Order Approving Long-Term Debt, GPA Docket 14-09, In Re: Guam Power Authority's Request to Issue GPA Revenue Bonds, dated July 31, 2014.

<sup>3</sup> PUC Order, GPA Docket 15-16, the Petition of the Guam Power Authority for Approval of Procurement of the Energy Storage System, GPA Docket 15-16, dated July 16, 2015, at p. 5.

<sup>4</sup> Guam Consolidated Commission on Utilities Resolution No. 2017-06, Authorizing Management of Guam Power Authority (GPA) to Award the Energy Storage Phase I Contract to LG CNS, adopted January 24, 2017, at p. 1.

Agana Substation and a 16MW ESS at the Talofoto Substation. The Talofoto ESS project was conceived to provide power and system reliability and renewable energy integration.<sup>5</sup>

7. Through Invitation for Multi-Step Bid No. GPA-182-15, GPA solicited the services of an Engineer/Procure/Construct (EPC) contractor to provide a “turn-key” project based on the following:
  - The ESS projects will be commissioned within 12 months after the award of the contract
  - The technology proposed for the ESS will have at least 1 year of commercial operations history in a utility environment
  - The ESS will deliver energy directly to the existing GPA transmission system
  - The ESS will have a minimum 20-year warranty
  - A 25-year performance-based Operations and Maintenance (O & M) contract will be provided with the ESS.<sup>6</sup>
8. Four bids were submitted in response to the IFB; however, two bids were disqualified.<sup>7</sup>
9. Based upon the evaluation of the Evaluation Committee, it recommended that LG CNS be awarded the contract for the Energy Storage System. The approved bid of LG CNS for design and construction of the 24MW Agana project was \$16,799,554; for the 16MW Talofoto project, \$18,199,516. The total design and construction cost is \$34,999,070.<sup>8</sup> A breakdown of the bid cost is attached to the PUC Counsel Report as Exhibit “1”.<sup>9</sup>

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<sup>5</sup> Amendments to IFB No.: GPA-082-15

<sup>6</sup> Guam Consolidated Commission on Utilities Resolution No. 2017-06 *supra*, at pgs. 1-2.

<sup>7</sup> Phone conversation between GPA Counsel Graham Botha and PUC Counsel Frederick Horecky on February 20, 2017; Response of Special Project Engineer Lorraine O. Shinohara to PUC questions, dated February 15, 2017.

<sup>8</sup> Memorandum from the Evaluation Committee to the Supply Management Administrator, Re: Multi-Step Bid No. GPA-082-15, dated January 23, 2017.

<sup>9</sup> LG CNS Priced Proposal dated January 13, 2017.



10. The Fixed Operations and Maintenance Fee for the entire 25 year period is set forth in Exhibit "2", a copy of which is attached to the PUC Counsel Report.<sup>10</sup> The yearly amounts for both ESS projects range from over \$200,000 in the first year to over \$400,000 in the 25<sup>th</sup> year.<sup>11</sup>
11. The Guam Consolidated Commission on Utilities approved LG CNS as the lowest and most qualified bidder and awarded the contract to LG CNS.<sup>12</sup>
12. PUC Counsel submitted his Report dated February 20, 2017.<sup>13</sup>

### **DETERMINATIONS**

13. In response to the GPA IFB, LG CNS submitted an extensive Technical Proposal, which included product descriptions, drawings, proposed warranty, O & M agreement, and legal, financial and other information required by GPA.<sup>14</sup>
14. LG CNS is a corporation which operates worldwide, with headquarters in locations including Korea, Japan, and the United States.<sup>15</sup>
15. In the past two years, LG CNS has deployed at least 4 ESS projects; it has 29 years of experience and almost 10,000 employees. It is connected with other worldwide companies such as LG Energy and LG Chem, which provide extensive services in the energy field, including manufacturer of lithium ion batteries for ESS projects.
16. LG CNS currently serves as the contractor for a 52MW ESS project with Korea Electric Power Corporation.
17. LG CNS has a detailed and extensive work plan for its ESS proposal, which outlines its approach for the entire process, from mobilization to commissioning and environmental cleanup.<sup>16</sup>

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<sup>10</sup> Memorandum from the Evaluation Committee to the Supply Management Administrator, Re: Multi-Step Bid No. GPA-082-15, dated January 23, 2017.

<sup>11</sup> Id.

<sup>12</sup> Guam Consolidated Commission on Utilities Resolution No. 2017-06, *supra*, at p. 2.

<sup>13</sup> PUC Counsel Report, GPA Docket 15-16, dated February 20, 2017.

<sup>14</sup> LG CNS Technical Proposal through to IFB No.: GPA-082-15, Part 1, December 5, 2016.

<sup>15</sup> [www.lgcns.com](http://www.lgcns.com), Company Overview.

<sup>16</sup> LG CNS Technical Proposal, Part 1, pages 24-66.

18. LG CNS has analyzed the frequency load shedding issues and the need for renewable energy integration. LG CNS contends that “regulation by battery will help manage the frequency spikes for the whole system.”<sup>17</sup>
19. It further posits that “ESS Technology, when it is combined with renewables, is one of the best options to support renewable stabilization and ... a proven technology for frequency regulation...”<sup>18</sup>
20. LG CNS has agreed that it will comply with the specific requirement for the 24MW ESS in Agana to maintain the 24MW rated power output for 15 minutes while satisfying the 12-hour Frequency Regulation Duty Cycle. The 16MW ESS in Talofofo will control the ramp-rate of the 25MW solar farm to 1% of rated power output per minute (250kW/min.) at the guaranty success rate of 97%.<sup>19</sup>
21. In general, LG has manufacturing facilities around the world, and a staff of engineers and personnel that can assist with any issues that arise on Guam with regard to the ESS projects. LG CNS also has Operations and Maintenance experience with ESS projects comparable in size to that which will be constructed on Guam.
22. From a review of the LG CNS Technical Proposal and other documents, it appears that LG CNS should be able to undertake and implement the proposed projects on Guam. LG CNS appears to be a company with the requisite experience and skills to implement the ESS projects on Guam.
23. LG CNS has also agreed to undertake the Operations and Maintenance Contract for the ESS projects for a period of 25 years. On various occasions in its Bid documents, LG CNS states its opinion that it is advantageous to have the same contractor do the construction and implementation of the ESS project, as an EPC, and also undertake the Operation and Maintenance Contract for the 25 year period.
24. From the inception of this Bid, GPA has insisted that the selected Contractor provide a 20 year service and parts warranty in its proposal. LG CNS provided a proposed warranty agreement in its technical proposal which appeared to comply with the bid requirements. Under the warranty proposed, LG CNS would have extended the

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<sup>17</sup> Id. at p. 16.

<sup>18</sup> Id. at p. 17.

<sup>19</sup> Id. at pgs. 54-55.



warranty for an additional 5 year warranty period, or up to 25 years, for the life of the O & M contract.<sup>20</sup>

25. However, GPA has determined that it will not use the LG CNS proposed warranty, but will adhere to the warranty requirements in Volume II, Technical Qualification Requirements of Multi-Step GPA-082-15, Section 3.3.10. A copy of the Warranty provision is attached as Exhibit “2” to the PUC Counsel Report. At present, GPA believes that the cost of the additional 5 year warranty is too great; however, it retains the option to purchase the additional warranty at a later time, if prudent.<sup>21</sup> GPA has the option of extending the warranty another 5 years at any time after the contract is awarded for the additional price indicated under Additive Bid Item 4 in the Priced Proposal.<sup>22</sup>
26. On February 15, 2017, GPA submitted complete files of all IFB documents, including the proposed Contract between LG CNS America Inc. and the Guam Power Authority.<sup>23</sup>
27. The revised Contract includes such matters as the total design and construction fee owed of \$34,999,070, and the yearly Fixed O & M Annual Fees for the 24MW Agana and 16MW Talofofo projects. The Contract incorporates Volume II, Section 3.3.10 of the IFB, which is the Warranty provision.
28. The contract and projects thereunder are specified as a “turn-key” project, to insure that when LG CNS turns over the project to GPA, it will immediately be ready for use as an energy storage system.<sup>24</sup> The Contract, §5.2, provides for payment terms upon monthly billings and for a ten percent (10%) retention amount. The payments required under the Contract are consistent with §4.15, Contract Price, and §4.16 the payment Schedule, of Volume I: Commercial Terms & Conditions, Multi-Step GPA-082-15.
29. The Contract has standard provisions that should protect GPA’s interest.

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<sup>20</sup> LG CNS Technical Proposal, Part 1, p. 72.

<sup>21</sup> Phone Conversation between GPA Counsel Graham Botha and PUC Counsel Fred Horecky on February 21, 2017.

<sup>22</sup> Email1 from Special Projects Engineer Lorraine Shinohara to PUC Counsel Fred Horecky dated February 21, 2017.

<sup>23</sup> Contract-Energy Storage System Phase I, submitted February 15, 2017.

<sup>24</sup> Phone conversation between GPA Counsel Graham Botha and PUC Counsel Frederick Horecky on February 20, 2017; Response of Special Project Engineer Lorraine O. Shinohara to PUC questions, dated February 15, 2017.

30. With regard to the proposed funding, PUC has already approved the \$35M in bond funds for the two ESS projects (Agana and Talofoto). In addition, GPA seeks approval for the fixed annual O & M amounts, ranging from over \$200,000 to over \$400,000, over a 25-year O & M period.<sup>25</sup> GPA seeks to fund the annual O & M payments through its O & M Budget. The total amount for such fixed fees will be over \$7M for the twenty five year period.
31. In light of the nearly \$35M price tag for the ESS projects, the fixed fee amounts bid by LG CNS for the 25 year O & M Contract appear to be reasonable. LG CNS's Bid was one-half that of the other bidder LSIS.<sup>26</sup>
32. GPA also requests to fund the bid development support contract with Andriano Balajadia, P.E., in the amount of \$367,219, through the FY2018 CIP Budget. The amount of the Balajadia Contract was already paid from the \$35M Bond funds. Therefore, funds will be needed from the FY2018 CIP Budget to pay the ESS project costs.
33. Because the amount of \$367,219 for the Balajadia contract was used from the \$35M, there is only a balance of \$34,632,781 for the design and construction of the ESS. The bid from LG CNS for the design and construction is \$34,999,070. The amount is \$366,289 over the available balance. This overage will be funded through the FY2018 CIP Budget.<sup>27</sup>
34. GPA and LG CNS have addressed safety issues concerning the ESS projects. Section 4.8 of the LG CNS Technical Proposal addresses safety issues and mitigation techniques. If a fire occurs, the automatic fire suppression system will release a gas to suppress it. In addition, the battery cells are designed to prevent fires. Tests have been done on the batteries that show, even when the cell temperature rises to 150 degrees Celsius, any risks such as explosions are not expected.<sup>28</sup>

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<sup>25</sup> GPA Petition for Approval of the Award of the Energy Storage System to LG CNS, GPA Docket 15-16, filed February 8, 2017.

<sup>26</sup> Phone conversation between PUC Counsel Fred Horecky, GPA Counsel Graham Botha, and Special Projects Engineer Lorraine Shinohara on February 21, 2017.

<sup>27</sup> Email 2 from Special Projects Engineer Lorraine Shinohara to PUC Counsel Fred Horecky dated February 21, 2017.

<sup>28</sup> Email1 from Special Projects Engineer Lorraine Shinohara to PUC Counsel Fred Horecky dated February 21, 2017.



### **ORDERING PROVISIONS**


Upon consideration of the record herein, the Petition of GPA, the PUC Counsel Report, and for good cause shown, on motion duly made, seconded, and carried by the affirmative vote of the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. GPA's Award of the Energy Storage Contract to LG CNS is approved.
2. The Contract between LG CNS America Inc. and GPA is approved.
3. The annual fixed fees for the 25 year O & M Contract are approved.
4. The payment of the amount of \$367,219 from the FY 2018 CIP Budget, to reimburse the design and construction cost overage for the ESS projects, is approved.
5. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and expenses is authorized pursuant to 12 GCA §§12103(b) and 12125(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

Order  
Award of the Energy Storage  
Contract to LG CNS  
GPA Docket 15-16  
February 23, 2017

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Dated this 23rd day of February, 2017.

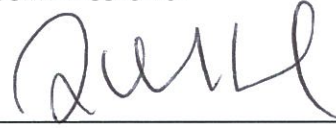
  
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Jeffrey C. Johnson  
Chairman

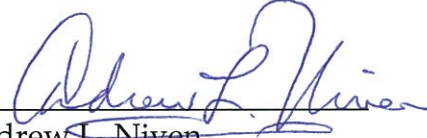
  
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Rowena E. Perez  
Commissioner

  
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Michael A. Pangelinan  
Commissioner

  
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Filomena M. Cantoria  
Commissioner

  
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Joseph M. McDonald  
Commissioner

  
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Peter Montinola  
Commissioner

  
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Andrew L. Niven  
Commissioner



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 ) **ORDER**  
Performance Management Contract )  
(PMC) for the Management, Operation )  
and Maintenance of the GPA Cabras 3&4 )  
Power Plants )

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**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>

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<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>
9. PUC Counsel submitted his Report dated February 17, 2017.<sup>9</sup>

### DETERMINATIONS

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

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<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.

<sup>9</sup> PUC Counsel Report, GPA Docket 17-16, dated February 17, 2017.



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>10</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>11</sup> KEWP is providing historical and technical support in order to advance GPA's insurance claim and interests.<sup>12</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>13</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>14</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>15</sup>
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>16</sup>

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

<sup>11</sup> Id.

<sup>12</sup> Id.

<sup>13</sup> Id.

<sup>14</sup> Id. at p. 3.

<sup>15</sup> Id.

<sup>16</sup> Id.

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>17</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>18</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>19</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>20</sup>

### **ORDERING PROVISIONS**

Upon consideration of the record herein, the Petition of GPA, the PUC Counsel Report, and for good cause shown, on motion duly made, seconded, and carried by the affirmative vote of the undersigned Commissioners, the Guam Public Utilities Commission HEREBY ORDERS that:

1. GPA has submitted an improved plan for extension of the PMC with KEWP that addresses 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.

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<sup>17</sup> Id. at p. 4.

<sup>18</sup> GPA Response to PUC Counsel Questions, by Joven G. Acosta, dated February 16, 2017.

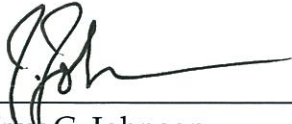
<sup>19</sup> GPA Filing of KEWP Extension Plan pursuant to PUC Order, GPA Docket 17-16, filed February 10, 2017, at p. 4.

<sup>20</sup> Phone Conversation between Engineering Manager Joven Acosta and PUC Counsel Horecky on February 17, 2017.



2. GPA's request for a 12-month contract extension of the PMC with KEWP, and the Proposed KEWP Extension Plan, are approved.
3. The PMC Extension contract must have a clause which allows for termination upon 30 days written notice by GPA to KEWP.
4. The total amount that GPA is authorized to expend for Fixed Management Fees under the 12-month contract extension is not-to-exceed \$726,727.32.
5. The total amount that GPA is 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.
6. The total cost for the 12-month extension shall not exceed \$1,026,727.32.
7. Any additional contract extension, or deviations from the term of the filed Plan, must be approved in advance by the PUC.
8. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and expenses is authorized pursuant to 12 GCA §§12103(b) and 12125(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

Dated this 23rd day of February, 2017.



Jeffrey C. Johnson  
Chairman



Rowena E. Perez  
Commissioner



Michael A. Pangelinan  
Commissioner



Filomena M. Cantoria  
Commissioner



Joseph M. McDonald  
Commissioner



Peter Montinola  
Commissioner



Andrew L. Niven  
Commissioner



BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF: ) GPA Docket 17-18  
)  
THE APPLICATION OF THE GUAM )  
POWER AUTHORITY FOR APPROVING ) **ORDER**  
THE PROCUREMENT FOR SUPPLY OF )  
DIESEL FUEL OIL TO GPA )  
\_\_\_\_\_ )

**INTRODUCTION**

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority's ["GPA"] Petition for PUC review and approval of GPA's Procurement for Supply of Diesel Fuel Oil.<sup>1</sup>

**BACKGROUND**

2. GPA's present contracts with IP&E Guam and Mobil Oil Guam to supply diesel fuel oil No. 2 for its base load and peaking units were originally approved by the PUC in GPA Docket 14-05 on December 1, 2014.<sup>2</sup>
3. The present contracts, for a three year base period, expire on December 31, 2017.<sup>3</sup> Although the contracts would allow GPA to extend for two additional one-year terms, GPA has determined that a new solicitation is needed to reflect necessary changes and to update GPA's supply requirement.<sup>4</sup>
4. The Guam Consolidated Commission on Utilities ["CCU"] authorized GPA to petition PUC for approval to issue bids to procure a contractor for the supply of Diesel Fuel Oil No. 2 for the Baseload Plants, Fast Track Diesel Plants, and Combustion Turbine Plants.<sup>5</sup> PUC approval is required as the total cost for the new contract will exceed \$1.5M under the Contract Review Protocol.<sup>6</sup>
5. GPA proposes that the solicitation of competitive bids for a new diesel fuel supply contract be through a Multi-Step Bid Process.<sup>7</sup> GPA submits that diesel fuel oil is

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<sup>1</sup> GPA Petition for Contract Review, GPA Docket 17-18, filed February 9, 2017.

<sup>2</sup> PUC Order, GPA Docket 14-05, dated December 1, 2014.

<sup>3</sup> Guam Consolidated Commission on Utilities Resolution No. 2017-05, adopted January 24, 2017, p. 1.

<sup>4</sup> Id.

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

<sup>6</sup> Id. at p. 1.

<sup>7</sup> Id.

essential to the operation of the diesel power plants, and that a contract for such supply is reasonable, prudent, and necessary.<sup>8</sup>

### **DETERMINATIONS**

6. Diesel fuel oil No.2 is utilized at various GPA Baseload, Diesel Fast Track and Combustion Turbine Plants. These include Baseloads (Cabras 1&2 and MEC 8&9), the Peaking Units (Tenjo Vista, Fast Tracks: Manenggon and Talofofo), and Combustion Turbines (TEMES Ct and the Northern Diesel Plants: Dededo Ct, Macheche CT, and Yigo CT).<sup>9</sup>
7. Diesel fuel assists GPA in providing a stable and uninterrupted supply of electricity to meet the island wide utility power demand.<sup>10</sup>
8. GPA needs to issue an IFB for diesel fuel so that it can secure a new contract which will provide GPA with a continuous supply of diesel fuel necessary to maintain the Authority's electric power generation capacity.
9. 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. The estimated annual fuel oil requirements under the new contract which GPA seeks to procure will be substantially higher. See Exhibits A and B to CCU Resolution No. 2017-05, true and correct copies of which are attached to the PUC Counsel Report herein dated February 13, 2017.<sup>11</sup>
10. GPA's Petition includes a Draft Bid Package for the Multi-Step Bid for the supply of Diesel Fuel Oil No. 2.<sup>12</sup> In accordance with the draft bid, GPA will seek to procure between 20,060,000 and 28,100,000 gallons of diesel fuel oil per year.<sup>13</sup> GPA will first determine which bidders are qualified under the technical bid, and then will select

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<sup>8</sup> GPA Petition for Contract Review, GPA Docket 17-18, filed February 9, 2017, at p. 2.

<sup>9</sup> Guam Consolidated Commission on Utilities Resolution No. 2017-05, adopted January 24, 2017, at p. 1.

<sup>10</sup> Guam Consolidated Commission on Utilities Resolution No. 2012-10, Schedule 1, at p. 4 of 8.

<sup>11</sup> Guam Consolidated Commission on Utilities Resolution No. 2017-05, adopted January 24, 2017, Exhibit A and Exhibit B (copies of which are attached to the PUC Counsel Report dated February 13, 2017).

<sup>12</sup> GPA submitted a Compact Disc, with the Draft Bid Package, to the Office of PUC Counsel on February 14, 2017.

<sup>13</sup> Guam Consolidated Commission on Utilities Resolution No. 2017-05, adopted January 24, 2017, Exhibit B.



the bidder whose proposal yields the lowest overall Contract Price for the contract base year period.<sup>14</sup>

11. GPA has also proposed a draft contract for the selected bidder.<sup>15</sup> The contract term will be for a term of two years, to commence on January 1, 2018, and continue until midnight of December 31, 2019. GPA will have an option to extend the contract for three (3) additional one (1) year terms, renewable annually, with the mutual agreement of both parties.<sup>16</sup>
12. The Contract has various provisions designed to protect GPA and its ratepayers, including warranty and quality assurance provisions, indemnity and insurance requirements, provisions for termination for the convenience of GPA, etc.<sup>17</sup>
13. The Contract also has provisions indicating that GPA's estimates for volume of diesel fuel to be utilized are estimates only, and shall in no manner work to the detriment of GPA.
14. The proposed Contract appears to adequately protect the interests of GPA and its ratepayers.

### **ORDERING PROVISIONS**

Upon consideration of the record herein, the Petition of GPA, the PUC Counsel Report, and for good cause shown, on motion duly made, seconded, and carried by the affirmative vote of the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. GPA's request to proceed with the procurement for supply of Diesel Fuel to GPA for the Baseload plants, Fast-Track Diesel Plants, and Combustion Turbine Plants is hereby approved.
2. GPA has demonstrated a clear need for Diesel Fuel Oil No. 2 for its plants, and such fuel is essential to the operation of the plants. It is reasonable, prudent, and necessary for GPA to proceed with procurement for the supply of diesel fuel oil.

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<sup>14</sup> Draft IFB Bid Package, Vol. 1 Commercial Terms and Conditions, §§4.2 and 4.3, pgs. 23-25.

<sup>15</sup> GPA Petition for Contract Review, GPA Docket 17-18, filed February 9, 2017, IFB, Volume II CONTRACT.

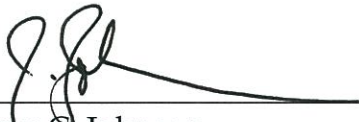


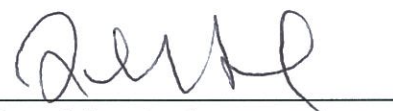
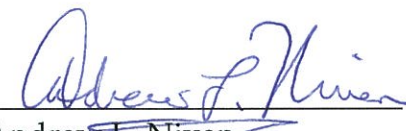
<sup>16</sup> Id., Volume II CONTRACT, Section 3, at p. 9 of 38.

<sup>17</sup> Id., CONTRACT, at pgs.12 of 38 through 23 of 38.

3. Once a final contract for supply of diesel fuel oil has been negotiated, GPA should submit such contract to the PUC for final review and approval.
4. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and expenses is authorized pursuant to 12 GCA §§12103(b) and 12125(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.



Dated this 23rd day of February, 2017.

  
Jeffrey C. Johnson  
Chairman  
Rowena E. Perez  
Commissioner  
Michael A. Pangelinan  
Commissioner  
Filomena M. Cantoria  
Commissioner  
Joseph M. McDonald  
Commissioner  
Peter Montinola  
Commissioner  
Andrew L. Niven  
Commissioner