#### BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:	) GPA DOCKET 12-05
THE APPLICATION OF THE GUAM POWER AUTHORITY TO EXERCISE EXTENSION OPTION UNDER THE DIESEL FUEL SUPPLY CONTRACT WITH ISLA PETROLEUM AND ENERGY, LLC (IP&E GUAM)	) ) PUC COUNSEL REPORT ) ) ) )

#### INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority's ["GPA"] Petition for authorization to exercise Extension Option under the Diesel Fuel Supply Contract with Isla Petroleum and Energy, LLC (IP&E Guam).<sup>1</sup>

## **BACKGROUND**

- 2. GPA currently has diesel fuel supply contracts with IP&E Guam. Under these two contracts, IP&E supplies diesel fuel oil to the Southern plants (Base loads, TEMES CT, Tenjo Vista, Mannengon & Talofofo Diesel fast tracks) and Northern Plants (Dededo Diesel fast track, Dededo CT, Macheche CT, Marbo CT, and Yigo CT).<sup>2</sup>
- 3. The current contracts each contain a three year base period which commenced on December 1, 2009, and will be completed on November 30, 2012.<sup>3</sup>
- 4. Both diesel fuel contracts with IP&E provide an option to GPA to extend for two (2) additional one (1) year terms. GPA requests approval to exercise the extension of the contracts from December 1, 2012 to November 30, 2014.<sup>4</sup>
- 5. GPA will expend approximately \$10M per year for diesel fuel under the supply contracts.<sup>5</sup>

<sup>&</sup>lt;sup>1</sup> GPA Petition for Contract Review, GPA Docket 12-05, filed June 29, 2012.

<sup>&</sup>lt;sup>2</sup> Id. at p. 1-2; Guam Consolidated Commission on Utilities Resolution No. 2012-10, adopted February 14, 2012, at p. 1.

<sup>&</sup>lt;sup>3</sup> CCU Resolution No. 2012-10, Schedule 1.

<sup>&</sup>lt;sup>4</sup> GPA Petition for Contract Review, Id. at p. 1.

<sup>&</sup>lt;sup>5</sup> CCU Resolution No. 2012-10, Schedule 1 at p. 5 of 8.

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## **ANALYSIS**

- 6. Diesel Fuel Oil is utilized at various GPA Diesel-fired power plants to provide the necessary generation capacity, during planned/unplanned shutdowns of GPA's Baseload Units, in order to provide a stable and uninterrupted supply of electricity to meet the island wide utility power demand.<sup>6</sup>
- 7. Authorization for the extension of these diesel supply contracts will provide GPA with a continuous supply of fuel to the power plants necessary to implement the Authority's electric power generation capacity.<sup>7</sup>
- 8. GPA considered the option of going out to bid on a new solicitation for diesel fuel, rather than extending the two contracts for additional two year terms.
- 9. However, GPA concluded that a new solicitation would yield increased premium fees due to rising costs in the delivery of the services, resulting in increased bid offers and contract costs.<sup>8</sup>
- 10. IP&E complied with its contractual obligations to the satisfaction of GPA during the first two years of the contracts; in addition, an Amendment of the Contract reduced the annual contract cost for the Tenjo Vista plant in the amount of \$324,800 per year. The two year savings for the extension period will be \$649,600.9
- 11. Part of the savings to GPA which resulted from this Amendment reduced the premium fee for the delivery of diesel fuel to Tenjo Vista Plant by \$0.109 per gallon (due to the conversion to Ultra Low Sulfur Diesel).<sup>10</sup>
- 12. Public Law 30-184, enacted August 28, 2010, requires that all diesel fuel imported to Guam for the purpose of sale and distribution in Guam shall meet US EPA Standards for *Ultra-low Sulfur Diesel Fuel*. Said fuel is that which contains 15 parts per million (15ppm) or less of sulfur content.<sup>11</sup>

<sup>&</sup>lt;sup>6</sup> Id. at p. 4 of 8.

<sup>&</sup>lt;sup>7</sup> Id.

<sup>&</sup>lt;sup>8</sup> Id. at p. 5 of 8.

<sup>&</sup>lt;sup>9</sup> Id. at p. 5 of 8.

<sup>&</sup>lt;sup>10</sup> Id. at p. 1 of 8.

<sup>&</sup>lt;sup>11</sup> Public Law 30-184, enacted August 28, 2010.

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# **RECOMMENDATION**

- 13. Counsel recommends that GPA's request for approval to exercise extension options under its two Diesel Fuel Supply Contracts with IP&E Guam, for the period of December 1, 2012 to November 30, 2014, be approved.
- 14. GPA has provided a sufficient justification to extend the existing diesel fuel supply contracts with IP&E on the grounds that the extensions are reasonable, prudent and necessary.
- 15. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 10 <sup>nd</sup>	day of	July,	2012.
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FREDERICK J. HORECKY PUC Legal Counsel