Review of Fuel Storage Contract

- 1. Lummus Consultants generally agrees that Guam Power Authority (GPA) has little choice but to engage in a contract with Tristar to utilize theirfuel storage tanks since there appear to be no other alternatives at this time. Lummus Consultants accepts GPA's estimate and agrees that the current cost of GPA fuel storage tanks is more expensive that using Tristar's fuel storage tanks.
- 2. Using the Tristar cost information provided, it is Lummus Consultants opinion that the initial increase by Tristar of 20% is accurately based on their expectations for investment in the tanks, and includes additional fees and maintenance costs.
- 3. However, no evidence was provided supporting the assumption of 4% inflation which is used to increase the contract costs in years 2 through 5 of the fuel storage contract; Lummus Consultants assumes that this value was a negotiated result. Recent information relative to inflation in Guam indicates that the 2012 average inflation rate is 3.2% and that observed in the first quarter of 2013 is 0.7%¹, implying an average annual rate of 2.8% for 2013. Relying on a rate of inflation of 3%, GPA would save approximately \$151,000 (\$6,240,367-\$6,088,910) or 2.4% over the entire contract term. If, as assumed above, the inflation rate was negotiated, Lummus Consultants believes that in the interest of bringing the negotiations to closure the GPUC accept these terms but require additional information relative to such assumptions or negotiated results be provided for future contract reviews.
- 4. It is important to recognize that while the Tristar exhibits demonstrate an increase of 36% over the contract period, which is calculated by adding each year's annual percentage increase together, the compounding impact results in a 40.4% increase from today's contract cost. The table below supports the 40.4% increase.

		Cu	rrent &				Actual
	bbls Safe	Pro	oposed	Estimated	%		Increase from
Period	Capacity	F	Rates	Payments	Increase	Cumulative %	Current Rates
2012-2013	422,150	\$	2.789	\$ 1,177,519.56			
2013-2014	422,150	\$	3.347	\$ 1,413,023.47	20.0%	20.0%	20.0%
2014-2015	422,150	\$	3.481	\$ 1,469,544.41	4.0%	24.0%	24.8%
2015-2016	422,150	\$	3.620	\$ 1,528,326.19	4.0%	28.0%	29.8%
2016-2017	422,150	\$	3.765	\$ 1,589,459.23	4.0%	32.0%	35.0%
2017-2018	422,150	\$	3.916	\$ 1,653,037.60	4.0%	36.0%	40.4%
4 Year Total				\$ 6,240,367.44			

5. Choice of inflation is difficult. The table below provides historical inflation rates for Guam, exhibiting volatility in the value.

¹First Hawaiian Bank - http://pidp.eastwestcenter.org/pireport/2013/July/07-16-06.htm



Guam CPI²

Calendar	Annual	Percent
Year	Average CPI	Change
2012	116.3	3.2
2011	112.8	3.3
2010	109.2	2.9
2009	106.1	1.7
2008	104.3	6.2
2007	98.2	6.8
2006	92.0	11.6
2005	82.5	7.7
2004	76.6	6.1
2003	72.2	2.7
2002	70.3	0.6
2001	69.8	-1.4
2000	70.8	2.0
1999	69.4	1.8
1998	68.2	-0.6
1997	68.6	0
1996	67.3	

- 6. In a brief review of the attachments provided with the Fuel Storage Contract, the 2009 Appraisal document resulted in the following opinion: that the estimated fuel storage rental rate of \$.90/bbl per month is reasonably supported by the Summary Appraisal and Consulting Report prepared for the Port Authority of Guam by Captain, Hutapea& Associates dated August 2009 (the "Captain Appraisal"). Furthermore, the contract between Agility Agat Tank Farm and the US government, cited at the bottom of page 106 of the Captain Appraisal, indicates that, if anything, the estimated fuel storage rental rate may be conservative.
- 7. Lummus Consultants recommends that as part of GPA's long term planning process, the costs of alternatives should regularly be considered and provided as evidence that the contracts offered for review to the GPUC are reasonable, as GPA did with its own cost of Fuel Storage in this case.
- 8. Finally, Lummus Consultants recommends that the GPUC be provided a schedule of contracts and their termination dates so that the GPUC can plan for and provide timely review of such contracts for GPA.
- 9. Lummus Consultants recommends that the Fuel Storage Contract be approved.

²Cost of Living Section, Business and Economic Statistics Program, Bureau of Statistics and Plans, Government of Guam