BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:	GPA Docket 14-04
The Application of the Guam Power) Authority to Draw from the Self Insurance) Fund for the Cabras 3 Rotor Repair Costs.)	PUC COUNSEL REPORT



INTRODUCTION

- 1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon GPA's Petition for PUC to review and approve GPA's request to draw from the Self Insurance Fund for the Cabras 3 Rotor Repair costs.¹
- 2. The Consolidated Commission on Utilities, in GPA Resolution 2014-01, authorized GPA to petition the PUC to draw \$4,627,592 from the Self Insurance Fund to pay for the Cabras 3 rotor repairs.²

BACKGROUND

- 3. In January of 2013, GPA fully advised the PUC that cracks had been discovered at the drive end of the rotor shaft on Cabras Unit 3 Rotor.³
- 4. Due to the outage of the Cabras 3 unit, it was determined by PUC that there would be substantial additional fuel costs to ratepayers, somewhere between \$13 and \$23M depending on the length of the Cabras 3 unavailability.⁴
- 5. Due to the need to bring Cabras 3 back online as soon as possible, PUC authorized GPA to expend up to the amount of \$4.5M for the repairs. However, at that time, no specific source of funds was identified.⁵
- 6. In the meantime, the repairs have been completed and Cabras 3 has returned to operation on September of 2013. GPA incurred costs in the amount of \$4,627,592

¹ GPA Application to Draw from the Self Insurance Fund for the Cabras 3 Rotor Repair Costs, GPA Docket 14-04, filed January 17, 2014.

² Guam Consolidated Commission on Utilities Resolution No. 2014-01, approved January 14, 2014.

³ GPA Petition for Approval of Cabras #3 Rotor Repair, GPA Docket 13-01, filed January 11, 2013.

⁴ PUC Order, GPA Docket 13-01, dated January 29, 2013.

⁵ Id., Ordering Provisions at pgs. 3-4.

for the Cabras 3 rotor repairs. Said costs were paid in part from the Working Capital Fund.⁶

- 7. GPA now requests authorization from the PUC to withdraw the amount of \$4,627,592 from the Self-Insurance Fund to pay for the Cabras 3 rotor repairs.
- 8. GPA's insurance underwriters recently notified GPA that its claim for damage to the Cabras 3 rotor was not insurable based upon the root cause analysis report. FAP ["Failure Analysis & Prevention, Inc."] issued its report on the Investigation on Cracking in the Generator Rotor Shaft of the Cabras No. 3 40MW Diesel Engine Generator on October 11, 2013.⁷ In essence, FAP determined that the cracking in the rotor shaft resulted from high cycle fatigue and was present for a long time prior to the November 8, 2012 trip. The damage did not appear to result from a sudden cause.⁸
- 9. In May of 2013, GPA Docket 11-09, the PUC considered certain issues regarding the Self Insurance Surcharge and Self Insurance Program Protocols (PHASE II of GPA's 2011 Multi Year Base Rate Relief Filing). Therein the PUC approved the Self Insurance Program Protocol; said Protocols are attached hereto as Exhibit "A" for easy reference.

ANALYSIS

- 10. The issue presented is whether the costs for the Cabras 3 rotor repairs should be paid from funds under the Self Insurance Program.
- 11. In the facts presented by GPA, it appears that the Self Insurance Fund is the most appropriate source from which the Cabras 3 rotor repairs can be paid.

⁶ CCU Resolution No. 2014-01, Relative to the Petition to Draw from the Self-Insurance Fund to cover the Repair Costs for the Cabras No. 3 Rotor Repairs, adopted January 14, 2014, at p. 2; on January 28, 2014, GPA Counsel Graham Botha represented to PUC Counsel Frederick J. Horecky that GPA had withdrawn funds from the Working Capital Fund to pay for the Cabras 3 rotor repairs.

⁷ FAP, Investigation on Cracking in the Generator Rotor Shaft of the Cabras No. 3 40MW Diesel Engine Generator, issued October 11, 2013.

⁸ Id. at p. 19.

⁹ PUC Order, GPA Docket 11-09, dated May 28, 2013.

- 12. While GPA indicates that it did withdraw funds from the Working Capital Fund as an "interim solution pending resolution of the insurance loss determination", it further points out that the WCF is not an appropriate source of funding: "The Working Capital Fund is now underfunded and needs to be reimbursed or GPA's capital budget will be negatively impacted." ¹⁰
- 13. Even though the rotor damage to Cabras No. 3 may not technically be an "insurable loss", GPA correctly indicates that the Cabras 3 rotor damage is certainly close to an insurable loss and it has taken the insurers more than a year to make a determination that the event was not covered.¹¹
- 14. The Cabras 3 rotor repair is an unexpected and unanticipated event; GPA had little ability to plan for such an eventuality through budgeting or otherwise. GPA was not financially prepared to deal with this situation, nor could it have expected to have been so prepared.
- 15. A review of the Self Insurance Program Protocols leads to a conclusion that use of the Self Insurance Fund is clearly within the spirit of the Protocols. Protocol I Scope provides that the SIP shall be used to reimburse GPA for: losses that would normally be covered by insurance to the extent that such losses are not covered by insurance; and deductible amounts contained in insurance policies held by GPA. Losses not covered by insurance can be within SIP and the GPA insurance deductible of \$2.5M is clearly reimbursable under the SIP.¹²
- 16. Protocol II Insurable Event indicates that there are certain "insurable events" under the SIP, including equipment failures and similar hazards that would normally be covered by insurance. However, the listing of "insurable events" is not exclusive. Protocol II states that "nothing in the SIPP shall be deemed to prohibit GPA from petitioning the GPUC for approval to use the SIP Reserve for additional purposes…"¹³
- 17. Under Protocol XII Allowable Expenditures Draw Declaration, it allows withdrawal-for "(xviii)-Deductible amounts contained in insurance policies held by

¹⁰ Letter from GPA GM Joaquin Flores to ALJ Horecky, dated January 17, 2014, at p. 3 [Attached to GPA's Petition].

¹¹ Id.

¹² The Self Insurance Program Protocols, GPA Docket 11-09, filed May 22, 2013.

¹³ Protocol II, Insurable Event, GPA Docket 11-09, adopted May 28, 2013.

GPA." Furthermore, Protocol XII (a) Allowable Expenditures – Petition Required, allows GPA to file a petition for GPUC review and approval "of all other purposes not specifically set forth in Protocol XII." ¹⁴

18. Even were expenditures for which GPA seeks to use self-insurance funds herein not specifically referenced in the Self Insurance Protocols, the costs of the Cabras 3 repairs are completely unexpected and unplanned occurrences for which GPA should be able to draw funds from the Self Insurance Funds.

RECOMMENDATION

- 19. PUC Counsel recommends that the PUC approve GPA's request to draw the amount of \$4,627,592 from the Self Insurance Fund to pay for the Cabras 3 rotor repairs.
- 20. There does not appear to be any other appropriate source of funding for such repairs. It would be an undue burden upon ratepayers to require rate increases or surcharges to pay for such repairs.
- 21. However, approval herein should be conditioned upon compliance by GPA with the reporting requirements of the Self Insurance Program Protocols. GPA shall provide the Drawdown Report required by Protocol X.
- GPA shall also comply with the Audit Provisions and report required by Protocol XV Audit.
- 23. GPA has assured the PUC that it will, in the event that GPA recovers any of the funds from the insurers at a later date, reimburse the proceeds to the Self Insurance Fund.
- 24. Furthermore, GPA will reimburse the Working Capital Fund with funds drawn from the Self Insurance Fund for Cabras 3 repair costs which have been paid from the Working Capital Fund.

¹⁴ Refer to Protocol XII Allowable Expenditures – Draw Declaration and Protocol XII (a) Allowable Expenditures – Petition Required, GPA Docket 11-09, filed May 22, 2013.

25. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 29th day of January, 2014.

Frederick J. Horecky
PUC Legal Counsel