

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 15-10
)
The Application of the Guam Power)
Authority to Approve the Contract) PUC COUNSEL REPORT
Extension for Supply of Residual Fuel Oil)
No. 6 to GPA.)
_____)



INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Petition of Guam Power Authority ["GPA"] to Approve the Contract Extension for Supply of Residual Fuel Oil No. 6 with Hyundai Corporation.¹

BACKGROUND

2. On July 30, 2013, the PUC approved GPA's Contract for Supply of Residual Fuel Oil No. 6 with Hyundai Corporation.²
3. The existing Supply Contract for Residual Fuel Oil No. 6 between GPA and Hyundai Corporation commenced September 1, 2013 and expires on August 31, 2015. The present Supply Contract provides for up to three one-year extension options renewable annually.³
4. When the present Fuel Oil Supply Contract with Hyundai Corporation expires on August 31, 2015 (after the two year base period), GPA requests that the PUC authorize it to enter into a three year contract extension for the supply of Fuel Oil with Hyundai Corporation (rather than to proceed with the three one-year extensions provided for in the existing Contract).⁴
5. GPA has attached to its Petition a proposed "Amendment No. 2" to the Fuel Oil Supply Contract between GPA and Hyundai Corporation.⁵
6. In accordance with the proposed Amendment, GPA and Hyundai Corporation would delete the provision of the existing contract providing for options to

¹ GPA Petition for Contract Review, GPA Docket 15-10, filed March 11, 2015.

² PUC Order, GPA Docket 13-10, dated July 30, 2013.

³ PUC Counsel Report, GPA Docket 13-10, dated July 19, 2013, at p. 2; See also Guam Consolidated Commission on Utilities Resolution No. 2013-37, issued June 25, 2013, at pgs. 2-3.

⁴ GPA Petition for Contract Review, GPA Docket 15-10, filed March 11, 2015, at pgs. 1-2.

⁵ See proposed AMENDMENT NO. 2, attached to Guam Consolidated Commission on Utilities Resolution No. 2015-11 (filed February 24, 2015).

extend the contract for three additional One (1) year terms. Instead, the parties would agree that the existing contract would be extended for a THREE (3) year term.

7. The CONTRACT PRICE for fuel oil during the three year contract extension would be as set forth in Exhibit "A", attached hereto. In exchange for a three year contract extension, Hyundai Corporation has agreed to fee premium price reductions.
8. On February 24, 2015, the Guam Consolidated Commission on Utilities authorized the Guam Power Authority to enter into a three (3) year contract extension with Hyundai Corporation for the Supply of Residual Fuel Oil No. 6 in accordance with the prices set for in Exhibit "A".⁶
9. The CCU found that the guaranteed three year contract extension would provide cost savings to GPA customers.
10. A further contract amendment would allow Hyundai to improve the oil quality specification for the Vanadium limit from 100ppm to 90ppm without additional expense to GPA; such reduction would help improve the efficiency of the affected equipment.⁷

ANALYSIS

11. Counsel is not aware of any restriction which prevents GPA and Hyundai Corporation from altering their existing contract to provide for one three year contract extension rather than the three additional one year extension terms provided for in the existing contract. Section 40 of the Contract provides for written amendments thereto upon the mutual agreement of the parties.
12. GPA was able to secure a three year extension term with Hyundai Corporation upon Hyundai's agreement to substantially reduce its premium fees for the three year term.

⁶ Guam Consolidated Commission on Utilities Resolution No. 2015-11, AUTHORIZING THE MANAGEMENT OF THE GUAM POWER AUTHORITY TO PETITION THE PUBLIC UTILITIES COMMISSION FOR THE THREE YEAR EXTENSION OF THE RESIDUAL FUEL OIL NO. 6 SUPPLY CONTRACT WITH HYUNDAI CORPORATION, adopted February 24, 2015.

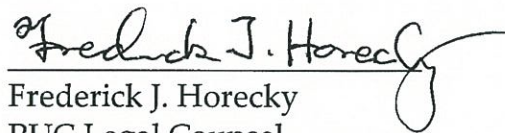
⁷ Id. at p. 1.

13. The Guam Consolidated Commission on Utilities has determined that the premium fee reduction for a guaranteed 3-year contract extension will provide the best benefit to GPA customers. There will be an estimated total savings of approximately \$46,226,415.00 over the three year term.
14. The parties will continue to use the same standard contract form that has previously been approved by the PUC on numerous occasions.⁸
15. The PUC has previously determined that the Contract for Supply of Fuel Oil with Hyundai Corporation is essential to the operation of the Cabras power plants.⁹
16. Hyundai's voluntary agreement to reduce the Vanadium content of the fuel oil supplied from 100ppm to 90ppm may improve the operational efficiency of GPA's generators.
17. The contract extension for the Fuel Oil Supply Contract with Hyundai Corporation, for Residual Fuel Oil No. 6, is also essential to the operation of the Cabras power plants.
18. The contract extension is reasonable, prudent and necessary.

RECOMMENDATION

19. Counsel recommends that the PUC approve the three year extension for the contract for Supply of Residual Fuel Oil No. 6 between GPA and Hyundai Corporation.
20. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 17th day of March, 2015.


Frederick J. Horecky
PUC Legal Counsel

⁸ PUC Order, GPA Docket 13-10, dated July 30, 2013, at p. 3.

⁹ Id.

LSFO 1.19% _w Sulfur Max	TWO (2)-Year Contract Base Period (US\$/MT in 3 decimals)		Contract Extension Option (US\$/MT in 3 decimals)		
	First (1 st) Year Base Period	Second (2 nd) Year Base Period	First (1 st) Year Extension	Second (2 nd) Year Extension	Third (3 rd) Year Extension
Bid Price	\$826.000	\$826.000	\$822.000	\$822.000	\$822.000
Bid Reference Price	<u>\$742.310</u>	<u>\$742.310</u>	<u>\$742.310</u>	<u>\$742.310</u>	<u>\$742.310</u>
Contract Fixed Premium Fee	\$ 83.690	\$ 83.690	\$ 79.690	\$ 79.690	\$ 79.690

HSFO 2.00% _w Sulfur Max	TWO (2)-Year Contract Base Period (US\$/MT in 3 decimals)		Contract Extension Option (US\$/MT in 3 decimals)		
	First (1 st) Year Base Period	Second (2 nd) Year Base Period	First (1 st) Year Extension	Second (2 nd) Year Extension	Third (3 rd) Year Extension
Bid Price	\$786.000	\$786.000	\$784.000	\$784.000	\$784.000
Bid Reference Price	<u>\$742.310</u>	<u>\$742.310</u>	<u>\$742.310</u>	<u>\$742.310</u>	<u>\$742.310</u>
Contract Fixed Premium Fee	\$ 43.690	\$ 43.690	\$ 41.690	\$ 41.690	\$ 41.690