

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:) GPA Docket 15-25
)
The Application of the Guam Power)
Authority Requesting Approval of the) **PUC COUNSEL REPORT**
Performance Management Contract)
(PMC) for the Management, Operation)
and Maintenance of the GPA Cabras 3&4)
Power Plants)

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Application of the Guam Power Authority Requesting Approval of the Performance Management Contract (PMC) for the Management, Operation and Maintenance of the GPA Cabras 3&4 Power Plants.¹
2. The Application requests a 15-month extension of the Performance Management Contract between GPA and Korea East-West Power (KEWP).²

BACKGROUND

3. GPA's Application indicates that the prior base period for the KEWP PMC commenced on July 1, 2010 and expired on June 30, 2015. The Guam Consolidated Commission on Utilities ["CCU"], in Resolution No.2015-35, previously approved a 3-month extension for the KEWP PMC.³ The PMC with KEWP provides for renewal by GPA, at its election, for up to an additional five year term.⁴
4. In Resolution No.2015-62B, the CCU approved a 15-month contract extension for the Performance Management Contract (PMC) for the Management, Operation and Maintenance of the GPA Cabras 3&4 Power Plants, for the period of October 1, 2015 to December 31, 2016.⁵

¹ GPA Application Requesting Approval of the Performance Management Contract (PMC) for the Management, Operation and Maintenance of the GPA Cabras 3&4 Power Plants, GPA Docket 15-25, filed November 27, 2015.

² Id. at p. 1.

³ Id.

⁴ PUC Counsel Report, GPA Docket 94-04 [the Application of Guam Power Authority to Approve the Performance Management Contract (PMC) for Cabras 3&4] dated April 26, 2010 at p. 2.

⁵ Guam Consolidated Commission on Utilities Resolution No.2015-62B, AUTHORIZING THE MANAGEMENT OF THE GUAM POWER AUTHORITY TO EXTEND THE PERFORMANCE

5. The Guam Consolidated Commission on Utilities believes that GPA has ensured the availability and efficiency of the Cabras 3&4 Power Plants through the Performance Management Contract awarded to KEWP.⁶
6. On April 30, 2015, the PUC authorized GPA to issue a procurement for a single Performance Management Contractor for the Cabras 1&2 and 3&4 Plants; GPA had anticipated that, by reducing the number of PMCs for the Cabras Plants from 2 to 1, GPA would reduce the current fixed management fees.⁷
7. Subsequently, GPA, through CCU Resolution No.2015-15, issued a Multi-Step Bid for a Single Performance Management Contract for the Cabras 1&2 and 3&4 Power Plants.⁸
8. However, on August 31, 2015, there was a major explosion at the Cabras Units 3&4; these units are currently offline and not available for dispatch. The Root Cause of the explosion is still under investigation.⁹
9. Because of the explosion, GPA has now determined that it will no longer, at least for the present time, proceed with the procurement for a single performance management contract for all of the Cabras Plants.¹⁰
10. There is an urgent need to complete the damage assessment and Root Cause Analysis for the Cabras 3&4 incident, and to commence rehabilitation of the Cabras 3 unit if possible.¹¹
11. KEWP, the PMC for Cabras 3&4 can support GPA through this critical period by providing valuable expertise and support in areas such as Engineering Assessment, technical Services, Program Management and related tasks.¹²

MANAGEMENT CONTRACTS FOR THE CABRAS 3&4 POWER PLANTS, adopted on November 25, 2015.

⁶ Id. at p. 1.

⁷ PUC Order, GPA Docket 15-11, dated April 30, 2015.

⁸ Guam Consolidated Commission on Utilities Resolution No.2015-62B, dated November 25, 2015.

⁹ Id at p. 1.

¹⁰Id.

¹¹Id.

¹²Id.

ANALYSIS

12. At the CCU Meeting on November 25, 2015, GPA GM John Benavente indicated that KEWP could be useful in a number of respects in the possible rehabilitation and restoration of Cabras 3 (the prevailing thought at GPA is that Cabras 4 is irreparable).
13. According to the GM, KEWP could help to coordinate the various investigations of the Cabras 3&4 explosion, and could assist with procurement of necessary equipment needed to repair Cabras 3. Having KEWP assist GPA with procurement would be of great benefit to GPA. Without such assistance GPA would have to utilize its own more cumbersome and time consuming procurement process to obtain materials for the repair of Cabras 3.
14. KEWP has many years of experience in managing and operating the Cabras 3&4 Plants. It should be able to assist GPA in returning Cabras 3 to operability. KEWP is assisting Pernix with the Roof Demolition and reconstruction services for the Cabras 3&4 Plants.¹³
15. However, it does not appear appropriate to have KEWP in any manner involved in the investigation of the Root Causes of the Cabras 3&4 explosion. It is theoretically possible that KEWP, as PMC for Cabras 3&4, could bear some responsibility for the explosion (although there are presently no known facts which would support such a conclusion).
16. GPA should preclude any active involvement by KEWP in the coordination of the investigation or the undertaking thereof. It is appropriate for KEWP to provide any information in its possession to the investigating parties concerning possible causes of the investigation, but not to be a participant in conducting the investigation.
17. It is also questionable whether KEWP should be hired as the PMC until there is a determination of whether Cabras 3 or 4 can be repaired. However, GPA has some protection in that the contract extension will include a provision for termination upon 30 days' notice.¹⁴
18. The Fixed Management fee for the 15-month period of the extension is \$87,769 per

¹³ Phone Conference between GPA Counsel and PUC Counsel on December 7, 2015.

¹⁴ Guam Consolidated Commission on Utilities Resolution No.2015-62B, dated November 25, 2015, at p. 2.

month, and \$1,316,535 for the entire period.¹⁵ The estimated routine Operations & Maintenance (O&M) is \$699,655, for a total contract extension cost of \$2,015,190.¹⁶

19. Given that Cabras 4 is likely inoperable, and Cabras 3 will not be operable until the roof demolition and the investigation are completed (possibly not until August of 2016), the question arises as to precisely what GPA is paying KEWP for.
20. During this period of instability in the island wide power system, it may be prudent for GPA to retain the services of KEWP as the PMC for Cabras 3&4. KEWP has experience with those plants, as opposed to another contractor. However, the extent of involvement by KEWP or the appropriate cost, is not as clear.
21. Approval by the PUC should be conditioned upon no involvement by KEWP in the undertaking of the investigation, and an appropriate determination by the PUC as to the authorized price for the contract extension.

RECOMMENDATION

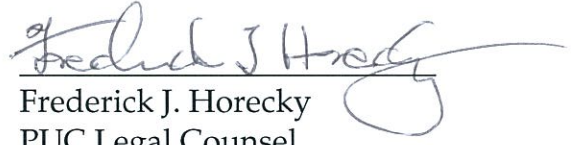
22. Counsel recommends that the PUC authorize GPA to extend its PMC with KEWP for the management, operation and maintenance of the Cabras 1&2 Plants for a 15-month period, conditioned upon certain terms.
23. GPA should preclude any active involvement by KEWP in the coordination of the investigation or the undertaking thereof. It is appropriate for KEWP to provide any information in its possession to the investigating parties concerning possible causes of the investigation, but not to be a participant in the investigation.
24. The Commissioners should determine whether the price offered by GPA is appropriate for the extension, or whether it should be reduced.
25. A Proposed Order is submitted herewith for the consideration of the Commissioners.

¹⁵ Id. at p. 1.

¹⁶ Id.

PUC Counsel Report
GPA's Extension of the PMC
For Cabras 3&4
GPA Docket 15-25
December 7, 2015

Dated this 7th day of December, 2015.


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