



## BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF: ) GPA Docket 15-22  
)  
The Application of the Guam Power )  
Authority to Approve the Procurement of ) **ORDER**  
a Performance Management Contract )  
(PMC) for Combustion Turbine Power )  
Plants. )

### INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Petition of Guam Power Authority ["GPA"] for Contract Review and Approval of GPA's Procurement of a Performance Management Contract (PMC) for Combustion Turbine Power Plants.<sup>1</sup>
2. GPA intends to hire a PMC for the Dededo Combustion Turbine Units 1 & 2, the Yigo Combustion Turbine, and the Macheche Combustion Turbine.<sup>2</sup>
3. GPA requests that the PUC approve the issuance of an Invitation for Multi-Step Bid ["IFB"], No.GPA-001-16 relative to the procurement of a PMC for the Combustion Turbine Power Plants.<sup>3</sup>

### BACKGROUND

4. The PUC incorporates herein the Background statement contained in the PUC Counsel Report filed herein on December 8, 2015.<sup>4</sup>
5. GPA presently has Performance Management Contract (PMC) agreements with TEMES and KEWP for operation of the baseload plants. GPA intends to use the same model of agreement to retain a PMC for operations and maintenance of its

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<sup>1</sup> GPA Petition for Approval for Procurement of a Performance Management Contract (PMC) for Combustion Turbine Power Plants, GPA Docket 15-22, filed November 17, 2015.

<sup>2</sup> Guam Consolidated Commission on Utilities Resolution No. 2015-46, "Authorizing Management of the Guam Power Authority to Procure Services for a Performance Management Contract for the Combustion Turbine Power Plants", adopted September 16, 2015.

<sup>3</sup> Invitation for Multi-Step Bid, No.GPA-001-16, Performance Management Contract for GPA's Combustion Turbine Power Plants: Dededo CT, Macheche CT and Yigo CT, October 2015.

<sup>4</sup> PUC Counsel Report, GPA Docket 15-22, filed on December 8, 2015.

Combustion Turbine Power Plants (in particular, the Dededo CT Plants 1 & 2, the Yigo CT, and the Macheche CT).<sup>5</sup>

6. In CCU Resolution No.2015-46, the Guam Consolidated Commission on Utilities approved GPA's request to procure a Performance Management Contract for the Combustion Turbine Power Plants.<sup>6</sup>
7. The Dededo Combustion Turbine Unit 1 (CT 1) and Unit 2 (CT 2) have been out of service since 2010 and 2004 respectively; the Dededo Combustion Turbine Power Plants have mechanical and environmental compliance issues that must be resolved, prior to proceeding with re-commissioning of the units, to support the reserve capacity requirements.<sup>7</sup>
8. The CCU indicates that repairs are pending on the CT 2 Generator and the switch gear for CT 1, as well as on auxiliary systems, fuel tank and control systems for both units, in an amount not to exceed \$10M.<sup>8</sup>
9. GPA believes that re-commissioning of these units will provide opportunities "to better support the Department of Defense with their critical mission at Anderson Air Force Base and NCTAMS including serving those facilities through adverse weather using an existing underground 34.5KB line between the power plant and Anderson Air Force Base".<sup>9</sup>
10. GPA further indicates that the Department of Defense "had previously expressed interest in investing in the rehabilitation of the Dededo Plant dedicating such capacity to their critical reliability needs".<sup>10</sup>
11. The CCU believes that the PMC could potentially be used to run the Piti 7 facility (the TEMES Combustion Turbine Plant); GPA's Energy Conversion Agreement with TEMES expires in 2017 resulting in the turnover of the Piti 7 facilities to GPA.<sup>11</sup>

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<sup>5</sup> GPA Petition to Approve the Procurement of a Performance Management Contract (PMC) for Combustion Turbine Power Plants, GPA Docket 15-22, filed November 17, 2015, at pgs 1-2.

<sup>6</sup> The Guam Consolidated Commission on Utilities Resolution No.2015-46, adopted September 16, 2015, at p.2.

<sup>7</sup> Id at p. 1.

<sup>8</sup> Id.

<sup>9</sup> Id at p. 1.

<sup>10</sup> Id.

<sup>11</sup> Id.



12. Along with its Petition in this matter, GPA has filed an Invitation for Multi-Step Bid No.GPA-001-16, Performance Management Contract for GPA's Combustion Turbine Power Plants: Dededo CT, Macheche CT and Yigo CT.<sup>12</sup>
13. The IFB sets forth a two-step bidding process, including the establishment of a Qualified Bidders List (QBL) and an evaluation of Price Offers.<sup>13</sup>
14. The IFB establishes that the rehabilitation of the Dededo CTs is a "priority". It is intended that the PMC complete rehabilitation and repair of the Dededo CT 1 by April 2016, and CT 2 by July 2016.<sup>14</sup>
15. On commencement of the contract, the PMC will address all operational issues that may impact reliable operation and dispatching with regard to the Yigo and Macheche CTs.<sup>15</sup>
16. The IFB also provides an "option" for the PMC to provide operation and management services for the Piti 7 CT (TEMES CT).<sup>16</sup>
17. For the rehabilitation of the Dededo CTs, this will be prioritized to occur within the first 6 months of 2016.<sup>17</sup>
18. Overall, the PMC would be responsible for management for all of the plants and staff (which would be comprised of GPA employees, at least in part). The PMC would fund expenses for O&M, inventory management and procurement, as well as capital improvement project funding, but to be reimbursed by GPA.<sup>18</sup>
19. The proposed Performance Management Contract will be a 5-year contract, with options to extend for one 3-year term and one additional 2-year term.<sup>19</sup>

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<sup>12</sup> Invitation for Multi-Step Bid No.GPA-001-16, Performance Management Contract for GPA's Combustion Turbine Power Plants: Dededo CT, Macheche CT and Yigo CT, filed September 17, 2015.

<sup>13</sup> Id. at p. 54.

<sup>14</sup> Id.

<sup>15</sup> Id.

<sup>16</sup> Id. at p. 55.

<sup>17</sup> Id.

<sup>18</sup> Id.

<sup>19</sup> Id at p. 80.

20. GPA has submitted, with its filing, the proposed PERFORMANCE MANAGEMENT CONTRACT.<sup>20</sup> GPA has utilized a similar contract form that is currently used for PMCs such as TEMES and KEWP. In general the contract appears to include the standard contractual protections for GPA, such as insurance requirements, indemnification clause, responsibility for management, operations and maintenance, and performance guarantees.
21. A detailed structure is established whereby the PMC would provide personnel as management supervisors and then utilize GPA employees assigned to each Combustion Turbine Power Plant for operations.<sup>21</sup>
22. GPA will continue to supply all fuel necessary for the Combustion Turbine Power Plants.<sup>22</sup>
23. GPA retains the right to terminate the PMC for convenience or cause.<sup>23</sup>
24. The PMC will also make certain capacity, availability, heat rate and efficiency, and emission guarantees for the CT Plants. The Contract provides for incentives and penalties for the capacity and availability guarantees.<sup>24</sup>

#### **DETERMINATIONS**

25. The principal issue raised includes the projected costs for rehabilitation of all of the CT Plants (Dededo, Yigo, and Macheche). There are costs associated with each Plant over the 5-year period, such as for Fixed Management Fees and O & M expenses.
26. In Resolution No.2015-46, the CCU estimated that rehabilitation of the Dededo CTs alone could cost \$10M.
27. The costs estimated by the Navy for the Dededo CT Rehabilitation and Life Extension exceed \$10M.

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<sup>20</sup> Id. at pgs. 79-141.

<sup>21</sup> Performance Management Contract, Id., at Section 7.

<sup>22</sup> Performance Management Contract, Id., at Section 8.1.

<sup>23</sup> Performance Management Contract, Id., at Section 11.

<sup>24</sup> Performance Management Contract, Id., at Performance Guarantees, 7.0.



28. The estimated Costs for Macheche CT and Yigo CT Rehabilitation appear to exceed \$7.5M, although totals for the listing of costs are not entirely clear.
29. In addition, Annual O & M Budget and Fixed Management Fees for the CTs for FY2016-2020 will range from nearly \$2M to \$2.5M.
30. Although GPA has suggested that it would ask the Department of Defense to bear a portion or all of the costs for the Rehabilitation and Operation of the Dededo CTs, GPA has indicated that it has no written agreement with DOD/U.S. Military to pay any of the amounts for the Dededo CTs.
31. GPA generally indicates that the Fixed Management Fees and "Major O & M Projects will be funded through Revenue Funds under CIP". GPA further states that it would "work within the existing budget and reprioritize activities to fund the necessary CIP and Major O & M for improving reliability". However, as these projects are not presently budgeted (particularly the Fixed Management Fees) there is no new source of funding suggested.
32. At present GPA has not sufficiently identified funding sources for the CT PMC.
33. Although GPA has stated the possibility in the IFB that the TEMES CT could subsequently be included in the PMC, there is also no indication of what the cost would be for either the Fixed Management Fees or the O & M Annual Budget for the TEMES CT.
34. Before the PUC approves this undertaking, there should be an understanding of what costs will be borne by DOD/U.S. Military for the rehabilitation of the Dededo CTs.
35. According to GPA, at present, "as emergency units", the Dededo CT Units can run "up to 1500 hours". There may be an issue whether the costs involved are justified based upon the number of hours that the plants are able to run.
36. Another issue presented was the extent to which the Dededo CTs would serve military verses island wide power system needs. GPA indicated that "the Dededo Units will be included in GPA's Dispatch for use as peaking units and as additional capacity maintaining reliability. The units will be dedicated to the US Department of Defense **during emergency situations** when it is critical to provide power to the military".

37. GPA has not indicated the primary purpose for the Dededo CTs, or who will be the primary beneficiary of these units.
38. There is an issue as to whether the Dededo CT Plants and the Macheche/Yigo CTs should be included under one PMC, or whether Dededo CT should be under a separate PMC. The Dededo Plants have not been operational for many years. GPA has managed to run both the Yigo and Macheche CTs on its own without a PMC for many years.
39. There is an issue of whether GPA should outsource generation under the PMC or through the Independent Power Producer model. There should be continued policy discussion between the PUC and GPA concerning the relative merits of the PMC verses the IPP models.


#### **ORDERING PROVISIONS**

After review of the record herein, including GPA's Application for Approval of a Procurement of a PMC for the Combustion Turbine Power Plants, and the PUC Counsel Report, for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

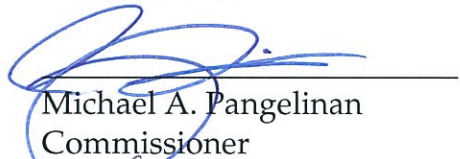
1. Action on GPA's Application for approval of its Procurement of a PMC for the Combustion Turbine Power Plants is hereby deferred.
2. GPA has not adequately explained the cost of the PMC, how it intends to fund the PMC, and the need for and efficacy of the proposed PMC.
3. GPA should prepare an amended request which adequately addresses the issues set forth herein.
4. GPA should consider preparing a workshop presentation to the PUC Commissioners.
5. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and


expenses is authorized pursuant to 12 GCA §§12002(b) and 12024(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

Dated this 10th day of December, 2015.


  
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Jeffrey C. Johnson  
Chairman

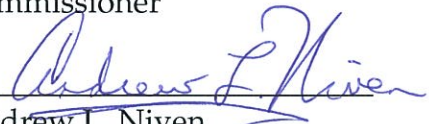
  
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Rowena E. Perez  
Commissioner

  
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Michael A. Pangelinan  
Commissioner

  
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Filomena M. Cantoria  
Commissioner

  
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Joseph M. McDonald  
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Peter Montinola  
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Andrew L. Niven  
Commissioner