



BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 17-18
)
THE APPLICATION OF THE GUAM)
POWER AUTHORITY FOR APPROVING) **PUC COUNSEL REPORT**
THE PROCUREMENT FOR SUPPLY OF)
DIESEL FUEL OIL TO GPA)
_____)

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority's ["GPA"] Petition for approval of GPA's Procurement for Supply of Diesel Fuel Oil.¹

BACKGROUND

2. The current GPA contract for the supply of diesel fuel oil No. 2 for the Baseload and peaking units expires on December 31, 2017.²
3. Diesel fuel oil No. 2 is utilized at various GPA Baseload, Diesel Fast Track and Combustion Turbine Plants. These include Baseloads (Cabras 1 & 2 and MEC 8 & 9), the Peaking Units (Tenjo Vista, Fast Tracks: Manenggon and Talofofo), and Combustion Turbines (TEMES CT and the Northern Diesel Plants: Dededo CT, Macheche CT, and Yigo CT).³
4. GPA previously requested approval of this procurement for diesel fuel oil No. 2 on February 9, 2017.⁴ On February 23, 2017, the PUC approved GPA's request to proceed with the procurement for supply of diesel fuel to GPA for the baseload plants, Fast-track Diesel Plants, and combustion Turbine Plants.⁵
5. Subsequent to issuance of the PUC Order, GPA issued an Invitation for Bids ["IFB"] for the procurement of diesel fuel for a base period of two (2) years, with a term

¹ GPA Petition for Contract Review, GPA Docket 17-18, filed September 12, 2017.

² Id. at p. 1.

³ Guam Consolidated Commission on Utilities Resolution No. 2017-05, adopted January 24, 2017, at p. 1.

⁴ GPA Petition for Contract Review, GPA Docket 17-18, filed February 9, 2017.

⁵ PUC Order, GPA Docket 17-18, dated February 23, 2017 at p. 3.

commencing on January 1, 2018 and ending December 31, 2019, with three (3) additional 1-year extension options.⁶

6. However, after the IFB was issued, and during the bid process, it became apparent that operational requirements for diesel fuel during the next 3-5 years, as well as inquiries raised by perspective bidders, would necessitate major changes in the structure of the current bid.⁷
7. GPA now requests that PUC allow it to alter its prior bid and to re-solicit for diesel fuel, with a revised IFB structure and requirements. GPA has attached its draft bid solicitation documents for the procurement of a new diesel fuel oil supply contract to its petition.⁸
8. In Resolution No. 2017-33, the Guam Consolidated Commission on Utilities approved re-solicitation of the bid for diesel fuel.⁹

ANALYSIS

9. GPA has demonstrated a need to revise and reissue its IFB for the supply of diesel fuel oil No. 2 for the Baseload and Peaking Units.
10. As a result of the Cabras 3 & 4 explosion in August 2015, GPA's consumption of diesel fuel has greatly exceeded (by 380%) the amounts that were anticipated under the existing contract.¹⁰
11. During each of the three years in the term of the current contract, total annual consumption in gallons of diesel fuel has increased over the contract estimates from 266% to 566%. See Exhibit A attached hereto.¹¹ Diesel fuel expenses have also increased by 380% over the three year contract period.¹²

⁶ Guam Consolidated Commission on Utilities Resolution No. 2017-33, Authorizing Management to Change Bid and Re-solicit for the Supply and Delivery of Diesel Fuel Oil No. 2 for the Baseloads and Peaking Units, issued August 29, 2017, at p. 1.

⁷ Id.

⁸ Id.

⁹ Id.

¹⁰ See PUC Counsel Report, GPA Docket 17-18, dated February 13, 2017, at ¶9.

¹¹ Exhibit A to Guam Consolidated Commission on Utilities Resolution No. 2017-33.

¹² Id. at Exhibit A.

12. It is estimated that annual fuel oil requirements will increase under the new contract, as indicated by Exhibit B attached hereto.¹³
13. Under the proposed new bid, GPA estimates that it will consume 42,000,000 gallons of diesel fuel oil No. 2 (or 1,000,000 barrels) per year.¹⁴
14. It is necessary for GPA to reissue its diesel fuel bid in order to secure a sufficient supply of such fuel.
15. During the prior procurement process, GPA also became aware that its potential fuel vendors had insufficient tank storage capacity to supply the increased amount of diesel fuel needed to meet GPA's demands.¹⁵ GPA's need for additional diesel fuel tank storage is the subject of its Petition in GPA Docket 17-23.
16. Also, additional changes in the IFB were needed to address fuel delivery issues. For certain of the combustion turbines, there are no fuel pipes which supply them. Truck delivery is necessary for such plants.¹⁶
17. It is estimated that 1,000,000 barrels of ULSD annually will cost \$80,000,000.
18. The PUC has previously determined that GPA needs a continuous supply of diesel fuel necessary to maintain the authority's electric power generation capacity. The re-solicitation of the bid for the procurement of diesel fuel oil No. 2 is reasonable, prudent and necessary.

RECOMMENDATION

19. Counsel recommends that the PUC approve GPA's request to re-solicit competitive bids for a new Diesel Fuel Supply Contract through a Multi-Step Bid Process.
20. GPA should be required to present the final Diesel Fuel Oil Supply Contract to the PUC for review, so that the PUC can determine if the final price is reasonable.
21. A Proposed Order is submitted herewith for the consideration of the Commissioners.

¹³ Exhibit B to Guam Consolidated Commission on Utilities Resolution No. 2017-33.

¹⁴ See Exhibit A attached hereto. One barrel equals 42 gallons.

¹⁵ Discussion between PUC Legal Counsel Fred Horecky and GPA Counsel Graham Botha on September 15, 2017.

¹⁶ Id.

Dated this 18th day of September, 2017.

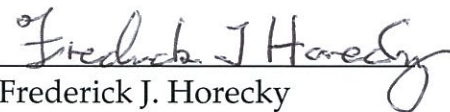

Frederick J. Horecky
PUC Legal Counsel

EXHIBIT A:
DIESEL CONSUMPTION (Gallons & Barrels)

GPA-029-14	CURRENT CONTRACT		
	1st Year	2nd Year	3rd Year
	1/1/15 to 12/31/15	1/1/16 to 12/31/16	1/1/17 to 12/31/17
TOTAL ANNUAL CONSUMPTION (Gallons)	17,589,390	33,661,194	31,952,004
CONTRACT ESTIMATE (Gallons)	4,800,000	4,800,000	4,800,000
TOTAL ANNUAL CONSUMPTION (Barrels)	418,795	801,457	760,762
CONTRACT ESTIMATE (Barrels)	114,286	114,286	114,286
% INCREASE FROM CONTRACT ESTIMATE	266%	601%	566%

*3rd year are based on 12-month totals ending July 2017

NEW BID	NEW BID	
	5-year Contract	
	MIN	MAX
CONTRACT ANNUAL ESTIMATE (Gallons)	21,000,000	42,000,000
CONTRACT ESTIMATE (Barrels)	500,000	1,000,000
% INCREASE FROM GPA-029-14 ESTIMATE	337%	775%

Exhibit A:**Diesel Expenses for Current Contract**

GPA-029-14 EXPENDITURES	1st year	2nd Year	3rd year	3-Year Contract Period
	(01/01/15 to 12/31/15)	(01/01/16 to 12/31/16)	(01/01/17 to 12/31/17)	(01/01/15 to 12/31/17)
Jan-Sep (Gallons)	6,253,698	28,041,799	15,376,040	
Oct-Dec (Gallons)	<u>9,133,263</u>	<u>5,125,347</u>	<u>5,125,347</u>	
Total Qty (Gallons)	15,386,962	33,167,145	20,501,386	69,055,494
Contract Estimate (Gallons)	<u>4,800,000</u>	<u>4,800,000</u>	<u>4,800,000</u>	<u>14,400,000</u>
Variance	10,586,962	28,367,145	15,701,386	54,655,494
Remarks	221% increase	591% Increase	327% Increase	380% Increase
REMARKS	Actual	Actual	Estimated	
	(Cabras 3&4 Explosion on 08/31/15)	(Cabras 3&4 Offline & forced outages in remaining plants)	(Cabras 3&4 Offline & anticipated overhauls/outages in remaining plants)	Estimated Diesel Expenses

EXHIBIT B: CHANGES TO THE CONTRACT REQUIREMENTS**SCHEDULE B: ESTIMATED ANNUAL FUEL OIL REQUIREMENTS (Gallons/yr)**

Plant Location	Name of Plant	Existing Contract (GPA-029-14)	New Contract
1. Baseloads	Cabras 1&2, MEC 8&9	200,000	100,000 – 200,000
2. Tenjo Vista	Tenjo Vista	1,500,000	5,000,000 - 7,000,000
3. Fast Tracks	Talofoto	1,000,000	3,000,000 - 4,000,000
	Manengon		
4. TEMES CT	TEMES CT	600,000	3,000,000 - 5,000,000
5. Northern Plants	Dededo CT	1,500,000	9,000,000 - 12,000,000
	Macheche CT		
	Yigo CT		
	Aggreko		
TOTAL		4,800,000	20,060,000 - 28,100,000

SCHEDULE C: 30-DAYS MINIMUM INVENTORY REQUIREMENTS (Gallons)

Plant Location	Name of Plant	Existing Contract (GPA-029-14)	New Contract
1. Baseloads	Cabras 1&2, MEC 8&9	20,000	20,000
2. Tenjo Vista	Tenjo Vista	125,000	500,000
3. Fast Tracks	Talofoto	80,000	250,000
	Manengon		
4. TEMES CT	TEMES CT	50,000	250,000
5. Northern Plants	Dededo CT	125,000	750,000
	Macheche CT		
	Yigo CT		
	Aggreko		
TOTAL		400,000	1,770,000