

**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF:</b>	)	<b>GPA DOCKET 18-04</b>
	)	
<b>THE APPLICATION OF THE GUAM POWER AUTHORITY TO EXERCISE EXTENSION OPTION UNDER THE DIESEL FUEL SUPPLY CONTRACT WITH MOBIL OIL GUAM, INC. AND ISLA PETROLEUM AND ENERGY, LLC (IP&amp;E GUAM)</b>	)	<b>PUC COUNSEL REPORT</b>

**INTRODUCTION**

1. This matter comes before the Guam Public Utilities Commission [“PUC”] upon the Petition of the Guam Power Authority [“GPA”] to Exercise Extension Option under the Diesel Fuel Supply Contracts with Mobil Oil Guam, Inc. and Isla Petroleum and Energy, LLC (IP&E Guam).<sup>1</sup>
2. GPA’s current Diesel Fuel Supply Contracts with Mobil Oil Guam, Inc. and Isla Petroleum and Energy, LLC (IP&E Guam) expire on December 31, 2017, with an option to extend for two (2) additional one (1) year terms.
3. GPA requests approval to exercise the extension of the contracts from January 1, 2018 to December 31, 2018.<sup>2</sup>

**BACKGROUND**

4. On December 1, 2014, the PUC authorized GPA to enter into three year diesel fuel supply contracts (FSC) with Mobil Oil Guam and IP&E Guam.<sup>3</sup>
5. Under these contracts, Mobil Oil has provided diesel fuel oil to the Baseload Plants, Combustion Turbine Plants, Manenggon Diesel Plant, and Talofoyo Diesel Plant.<sup>4</sup>
6. IP&E Guam has supplied diesel fuel oil to the Tenjo Diesel Plant.<sup>5</sup>

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<sup>1</sup> GPA Petition to Exercise Extension Option under the Diesel Fuel Supply Contracts with Mobil Oil Guam, Inc. and Isla Petroleum and Energy, LLC (IP&E Guam), GPA Docket 18-04, filed December 11, 2017.

<sup>2</sup> Id. at p. 2.

<sup>3</sup> PUC Order, GPA Docket 14-05, dated December 1, 2014, at p. 3.

<sup>4</sup> Id. at p. 2.

<sup>5</sup> Id.

7. Since the Diesel Fuel Supply Contracts will shortly expire on December 31, 2017, GPA seeks to exercise the first option to extend the contracts for an additional one year term.<sup>6</sup>
8. The projected contract cost for this extension for premium fees for Mobil and IP&E is \$10,922,194.<sup>7</sup>
9. The estimated cost of diesel fuel, consistent with the LEAC average ULSD cost is approximately \$66,503,374, for a total cost of \$77,425,498 for the 1 year extensions.<sup>8</sup>
10. Since the Cabras 3 & 4 plant explosion in 2015, the annual consumption of diesel fuel has significantly increased from approximately 3 million gallons (80,000 barrels) to close to 34 million gallons (800,000 barrels) per year after FY2015.<sup>9</sup>
11. On December 7, 2017, the Guam Consolidated Commission on Utilities authorized GPA to enter into 1 year contract extensions with Mobil and IP&E for the supply and delivery of Diesel Fuel Oil No. 2.<sup>10</sup>

### ANALYSIS

12. Since the Cabras explosion, there has been nearly a tenfold increase in GPA's use of ultra-low sulfur diesel.
13. The drastically increased use of ULSD by GPA has also been a factor in the increased LEAC rates charged to ratepayers.
14. For the upcoming LEAC period from February 1, 2018 to July 31, 2018, GPA is requesting an increase in the LEAC rate which will represent an increase in the total

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<sup>6</sup> GPA Petition to Exercise Extension Option under the Diesel Fuel Supply Contracts with Mobil Oil Guam, Inc. and Isla Petroleum and Energy, LLC (IP&E Guam), GPA Docket 18-04, filed December 11, 2017, at p. 1.

<sup>7</sup> Id.

<sup>8</sup> Id.

<sup>9</sup> See Exhibit A to Guam Consolidated Commission on Utilities Resolution No. 2017-48, Authorizing the Management of the Guam Power Authority to Petition the Public Utilities Commission for the Extension of the Diesel Fuel Oil No. 2 Supply Contracts with Mobil Oil Guam, Inc. and IP&E, adopted December 7, 2017, at p. 1.

<sup>10</sup> Id. at p. 2.

bill of about 15.6%. The need for such increase is based in part upon GPA's significantly greater use of ULSD.

15. The PUC has previously determined that a continuous supply of diesel fuel oil is necessary for GPA to maintain its electric power generation capacity.<sup>11</sup>
16. If the PUC does not approve the current request, GPA would be left without a diesel fuel oil supply after December 31, 2017.
17. Although the drastic increase in the amount of diesel fuel used by GPA as a result of the Cabras explosion is disturbing, there appears to be no option available at present other than for the PUC to authorize GPA to extend the diesel fuel supply contracts with Mobil Oil Inc. and IP&E Guam for the 1 year period of January 1, 2018 to December 31, 2018.
18. GPA's request is reasonable, prudent and necessary.

### RECOMMENDATION

19. Counsel recommends that PUC approve 1 year extensions for GPA's fuel oil supply contracts with Mobil Oil Guam and IP&E Guam.
20. GPA should be authorized to expend up to a total amount of \$77,425,498 for the 1 year contract extensions, which includes the premium fees and the cost of diesel fuel.
21. AMMENDMENT TO FUEL OIL SUPPLY CONTRACT for Mobil Oil Guam Inc. and IP&E Guam should be approved in accordance with its pricing, supply terms and conditions.
22. A proposed Order is submitted herewith for the consideration of the Commissioners.

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<sup>11</sup> PUC Order, GPA Docket 14-05, the Application of the Guam Power Authority to Approve the Contract for Supply of Diesel Fuel Oil to GPA, dated December 1, 2014, at p. 2.

PUC Counsel Report  
Extension Option  
for Diesel Fuel Supply Contract  
with Mobil & IP&E  
GPA Docket 18-04  
December 14, 2017

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Dated this 14<sup>th</sup> day of December, 2017.

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