

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 17-09
)
The Application of the Guam Power Authority to Approve the PMC Contract Extension with TEMES, Inc. for Cabras 1 & 2.) **PUC COUNSEL REPORT**
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INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission [“PUC”] upon the Application of the Guam Power Authority [“GPA”] to Approve the Performance Management Contract (PMC) Extension with Taiwan Electrical and Mechanical [TEMES] for Cabras 1 & 2.¹
2. The Application requests a 5-year extension of the Performance Management Contract between GPA and TEMES, from January 1, 2017, through December 31, 2021.²

BACKGROUND

3. GPA entered into a 5-year Performance Management Contract with TEMES which commenced on October 1, 2010 and expired on September 30, 2015.³
4. On September 15, 2010, the PUC approved the PMC between GPA and TEMES, finding that the retention of a PMC would improve the operational efficiency and reliability of the Cabras plants.⁴
5. While the Contract provided for expiration on September 30, 2015, it was renewable, at GPA’s election, for an additional 5-year term.⁵

¹ GPA Application to Approve the PMC Contract Extension with TEMES, Inc. for Cabras 1 & 2, GPA Docket 17-09, filed November 7, 2016.

² Id. at p. 1.

³ PUC Counsel Report, GPA Docket 15-24 [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 1 & 2 Power Plants, dated September 5, 2015, at p. 1; see also Guam Consolidated Commission on Utilities Resolution No. 2016-62, Authorizing the Management of the Guam Power Authority to Extend the Performance Management Contract for the Cabras 1 & 2 Power Plant, adopted October 25, 2016, at p. 1.

⁴ PUC Order, GPA Docket 10-04, dated September 15, 2010, at p. 1.

6. In Resolution No. 2015-35, the Guam Consolidate Commission on Utilities approved a 3-month extension for the TEMES PMC for the period of October 1, 2015 through December 31, 2015.⁶
7. In Resolution No. 2015-62A, the CCU approved a 1-year contract extension for the PMC with TEMES for the Cabras 1 & 2 for the period of January 1, 2016 through December 31, 2016.⁷
8. On December 10, 2015, the PUC approved the 1-year extension of the PMC between GPA and TEMES. The authorized the extension for the PMC was from January 1, 2016 through December 31, 2016.⁸
9. In its current Petition, GPA seeks to extend the PMC contract with TEMES for an additional 5-year period. In Resolution 2016-62, by Consolidated Commission on Utilities approved GPA's request to extend the PMC contract with TEMES for Cabras 1 & 2, for a 4-year base contract, from January 1, 2017 through December 31, 2020, and for an additional 1-year period from January 1, 2021 through December 31, 2021.⁹
10. The CCU projects that the cost of the contract for the 4-year base period would be \$13,562,200, and an additional \$3,622,700 for the optional 1-year extension.¹⁰ The PMC costs would be funded through revenue funds.¹¹

⁵ PUC Counsel Report, GPA Docket 10-04, dated September 13, 2010, at p. 2 [citing Draft PMC Contract for Cabras Unit 1 & 2 at p. 11].

⁶ GPA Application Requesting Approval of the Performance Management Contract (PMC) for the Management, Operation, and Maintenance of the GPA Cabras 1 & 2 Power Plants, GPA Docket 15-24, filed November 27, 2015, at p. 1.

⁷ Guam Consolidated Commission on Utilities Resolution No. 2015-62A, Authorizing the Management of the Guam Power Authority to Extend the Performance Management Contracts for the Cabras 1 & 2 Power Plants, adopted on November 25, 2015.

⁸ PUC Order, GPA Docket 15-24, dated December 10, 2015, at p. 4.

⁹ Guam Consolidated Commission on Utilities Resolution No. 2016-62, Authorizing the Management of the Guam Power Authority to Extend the Performance Management Contracts for the Cabras 1 & 2 Power Plant, adopted October 25, 2016, at p. 2.

¹⁰ Id. at p. 2.

¹¹ GPA Application to Approve the PMC Contract Extension with TEMES, Inc. for Cabras 1 & 2, GPA Docket 17-09, filed November 7, 2016, at p. 1.

ANALYSIS

11. GPA's current resource plan is to maintain and operate the Cabras 1 & 2 units until 2021, when such units would be retired.¹²
12. TEMES, as PMC, provides GPA with assistance in the continued operation and maintenance of the Cabras plants, including completion of life-extension projects, and meeting availability, reliability, and efficiency standards.¹³
13. The Cabras 1 & 2 units currently provide up to 132MW capacity, about 50% of the current estimated peak load. It is important for GPA to ensure the continued availability and reliability of the Cabras 1 & 2 units, and to ensure adequate MW capacity to support the island's energy requirements with minimal power supply interruption.¹⁴
14. GPA indicates that extending the contract period for the current PMC Contract with TEMES is a practical approach, given TEMES's experience in the management, operation, and maintenance of Cabras 1 & 2 units, as well as experience working with GPA. GPA and TEMES have improved key contract requirements and objectives.¹⁵
15. The PUC previously determined that: "TEMES" has many years of experience in managing and operating the Cabras 1 & 2 Plants. It should be able to assist GPA in ensuring that the plants continue to operate efficiently. During this period of instability in the island wide power system, it is prudent for GPA to retain the services of TEMES as the PMC for Cabras 1 & 2.¹⁶
16. GPA has provided a cost breakdown for the Cabras 1 & 2 PMC Extension: See Exhibit "A" attached hereto.
17. The proposed Fixed Management Fees and Routine O & M Budget expenses proposed for 2017-2021 appear to be in line and consistent with expenses previously incurred under the Cabras 1 & 2 PMC contract with TEMES.

¹² Guam Consolidated Commission on Utilities Resolution No. 2016-62, at p. 1.

¹³ Id.

¹⁴ Id.

¹⁵ Id.

¹⁶ PUC Order, GPA Docket 15-24, dated December 10, 2015, at pgs. 3-4.

18. The proposed Fixed Management Fees are consistent with those previously charged under the PMC Contract. For years 2017-2021, the Fixed Management Fees range from \$1.674M to \$1.870M for the first five years of the PMC contract with TEMES (2010-2015), the Fixed Management Fees ranged from \$1.52M to \$1.6M.¹⁷
19. The Fixed Management Fee for the 12-month extension from January 1, 2016 to December 31, 2016 was \$1.606M. There is a small increase in such Fee for 2017 and then additional increases over the next 4-year period.
20. It is likely that the increased Fixed Management Fees for 2017 through 2021 could be justified and based upon extensive Life Extension projects which must be completed in that period to keep the Cabras plants operational. The life extension costs for the Cabras were delineated in detail in the Leidos Report submitted in GPA Docket 15-05.¹⁸
21. The proposed Routine O & M Budget for years 2017-2021 are also consistent with those incurred during the prior 5-years of the PMC contract. In 2010 through 2015, the Routine O & M Budgets ranged from \$1M to \$1.116M.¹⁹ The Routine O & M Budgets for 2017 through 2021 range from \$1.286M to \$1.436M. Although O & M Budgets are higher for the next 5-year period, such budgets can also be justified based upon the considerable additional expenditures which must be made to maintain and repair the plants and for life extension projects.
22. The proposed spending levels for the Routine O & M Budgets from 2017 to 2021 appear to be reasonable.
23. However, there is a problem with GPA's proposal for an "Optional Extension Year" for 2021.
24. The current PMC Contract is still the same contract that became effective on October 1, 2010. GPA and TEMES continue to operate under the same contract. The Contract was originally for a 5-year term with an option to extend for an additional 5-year term. This means that the Contract commenced on October 1, 2010 and must terminate no later than September 30, 2020.

¹⁷ PUC Counsel Report, GPA Docket 10-04, dated September 13, 2010, at p. 2.

¹⁸ Leidos Final Report on Life Extension Feasibility Study, dated June 30, 2016

¹⁹ PUC Counsel Report, GPA Docket 10-04, dated September 13, 2010, at p. 2.

25. The total 10-years authorized under the Contract expire on September 30, 2020. There is no provision which allows a further extension or an “optional extension year” for 2021. The PMC contract with TEMES must terminate on September 30, 2020.

RECOMMENDATIONS

26. Counsel recommends that PUC authorize GPA to extend its PMC with TEMES for a 4-year period, commencing on January 1, 2017 and terminating on September 30, 2020.
27. GPA should be authorized to expend up to the amount of \$13,562,200 for the 4-year contract period.
28. However, Counsel recommends that the PUC disapprove the proposed Optional Extension Year for 2021, as the PMC contract with TEMES expires on September 30, 2020.
28. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 21st day of November, 2016.

Frederick J. Horecky
PUC Legal Counsel