

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 17-07
)
The Petition of the Guam Power Authority)
for Approval of Insurance Contract) **PUC COUNSEL REPORT**
Renewal.)
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_____)

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission [“PUC”] upon the Petition of Guam Power Authority [“GPA”] for Review and Approval of Property Insurance Policy Renewal.¹
2. The term of GPA’s current Property Insurance Policy is for a 3-year period, from November 1, 2013 to November 1, 2016, with two one year options to extend.
3. GPA now seeks to renew its contract with AM Insurance for GPA’s Property Insurance for a two (2) year renewal period from November 1, 2016 to November 1, 2018.

BACKGROUND

4. In GPA Docket 16-14, the PUC considered GPA’s request to issue an Invitation for Bid for the new Property Insurance Policy to be effective November 1, 2016.²
5. The PUC denied GPA’s request to issue a procurement. The PUC found that GPA had initiated the procurement in violation of the Contract Review Protocol, since there was no prior PUC approval for the procurement. GPA also failed to provide PUC with sufficient time or opportunity to review the final insurance award.³
6. However, in its Order, the PUC noted that GPA had the remedy or option of renewing the existing policy for one or two years.⁴
7. GPA has now negotiated a renewal with its Insurance Underwriters for the period of November 1, 2016 to November 1, 2018.⁵

¹ GPA Petition for Approval of Insurance Contract Renewal, GPA Docket 17-07, filed October 12, 2016.

² PUC Order, GPA Docket 16-14, dated September 29, 2016.

³ Id.

⁴ Id. at p. 4.

8. The original offer of the Insurance Underwriters was to renew the Property Insurance Policy for the 2-year period with an annual installment premium of \$6,662,309.⁶
9. GPA, through its Chief Financial Officer, was able to negotiate a reduction in the annual premium for the 2-year period from \$6,662,309 to \$6,450,000.
10. Certain policy endorsements have been revised for the proposed renewal. GPA is required to implement certain provisions requiring monitoring of plant operations by its PMC; if the new stipulations are not implemented, GPA's deductible could increase beyond the present amount of \$2,500,000.⁷
11. GPA negotiated the addition to the policy of Cyber Coverage, with a \$5MM sub-limit, with no additional premiums.⁸
12. With its Petition, GPA submitted a proposed Guam Consolidated Commission on Utilities Resolution No. 2016-60, which would authorize GPA to renew the current property insurance for two one-year policy periods.⁹
13. It is anticipated that the CCU will adopt Resolution No. 2016-60 at its monthly meeting on October 25, 2016. There is urgency for immediate action regarding the property insurance policy renewal. The present policy would otherwise expire on November 1, 2016.

ANALYSIS

14. The PUC has previously recognized that GPA's Bond Indenture Agreement requires GPA to secure and maintain property insurance on all facilities constituting the system against risks of loss or damage, to the extent that such insurance is obtainable at reasonable cost.¹⁰

⁵ Letter dated October 12, 2016, from Moylan's Insurance Underwriters Inc. to AM Insurance, Re: GPA 2016 Renewal.

⁶ GPA Petition for Approval of Insurance Contract Renewal, GPA Docket 17-07, filed October 12, 2016, at p. 1.

⁷ Letter dated October 12, 2016, from Moylan's Insurance Underwriters Inc. to AM Insurance, Re: GPA 2016 Renewal, at p. 1.

⁸ Id. at p. 2.

⁹ Proposed Guam Consolidated Commission on Utilities Resolution No. 2016-60, Relative to the Authorization of the Guam Power Authority to Renew the Current Property Insurance for Two One-Year Policy Periods.

¹⁰ PUC Order, GPA Docket 16-14, dated September 29, 2016, at p. 1.

15. GPA, in reality, has little choice but to obtain such insurance. It is required to do so as one of the measures that protects both itself and holders of GPA bonds.
16. Between 2008 and 2014, the annual premiums on GPA's property insurance policy ranged from \$5.237M to \$5.406M.¹¹
17. The proposed policy premium is now over \$1M higher than previous premium levels. However, GPA has consistently predicted that the insurance premium for the upcoming policy period could well be between \$6M and \$7M.¹²
18. While the renewal cost for the property insurance premiums appears to be high, such increase may be the result of the explosion and fire at the Cabras 3 & 4 plants in 2015. There is a pending insurance claim regarding this event, and such could be a factor in the increase in the premium.
19. GPA does require such property insurance, so it does not have an option other than to pay the negotiated property insurance annual premiums.
20. The contract renewal for GPA's Property Insurance for the policy period beginning November 1, 2016 for a two (2) year renewal period is reasonable, prudent and necessary, and required by GPA's bond indenture.

RECOMMENDATION

21. Counsel recommends that the PUC approve the contract renewal for GPA's Property Insurance for the policy period beginning November 1, 2016 for a two (2) year renewal.
22. Approval is conditioned upon adoption by the CCU of Resolution No. 2016-60 at its monthly meeting on October 25, 2016.
23. GPA is authorized to expend up to the amount of \$6,450,000 as the annual policy premium.
23. A Proposed Order is submitted herewith for the consideration of the Commissioners.

¹¹ PUC Order, GPA Docket 13-04, dated October 29, 2013, at p. 2.

¹² GPA Petition for Approval for Insurance Invitation for Bids, GPA Docket 16-14, filed September 8, 2016, at p.1.

PUC Counsel Report
Approval for Property
Insurance Renewal
GPA Docket 17-07
October 24, 2016

Dated this 24th day of October, 2016.

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PUC Legal Counsel