

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF: ) GPA Docket 20-15  
)  
The Application of the Guam Power )  
Authority to Approve the Contract for a ) **ALJ REPORT**  
PMC for Cabras 1 and 2 Generating )  
Plants. )  
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**INTRODUCTION**

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Petition of the Guam Power Authority ["GPA"] to approve the Performance Management Contract ["PMC"] for the Cabras 1 and 2 Generating Plants.<sup>1</sup>
2. GPA's current PMC Contract for Cabras 1 and 2 will expire on September 30, 2020.
3. GPA seeks the PUC's authorization to award a three-year Performance Management Contract with Taiwan Electrical and Mechanical Engineering Services, Inc. ("TEMES").
4. The PMC would commence on October 1, 2020 and end on September 30, 2023 (with options to renew for two 1-year terms).

**BACKGROUND**

5. On January 30, 2020, the PUC approved GPA's procurement of a PMC for Cabras 1 and 2.<sup>2</sup>
6. In accordance with GPA's Consent Decree with the USEPA (approved by the PUC in GPA Docket 20-01), the PUC determined that GPA is required to continue to operate Cabras 1 and 2 in order to maintain sufficient generating capacity for the island-wide power system until the new 198MW power plant project is completed in the last quarter of 2022.<sup>3</sup>

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<sup>1</sup> GPA Petition to Approve the Performance Management Contract for the Cabras 1 and 2 Generating Plants, GPA Docket 20-15, dated July 9, 2020.

<sup>2</sup> PUC Order, GPA Docket 20-04, GPA Application to Approve the Procurement of a PMC for Cabras 1 and 2 Generating Plants, dated January 30, 2020 at p. 4.

<sup>3</sup> Id., at pgs. 1-2.

7. GPA issued a multi-step bid (IFB GPA-035-20) for a new Performance Management Contract for the continued Management, Operation and Maintenance of the Cabras 1 and 2 Steam Turbine Power Plant, and also to plan for and conduct activities related to the power plant's de-activation and/or de-commissioning.<sup>4</sup>
8. TEMES was the sole qualified and responsive bidder.<sup>5</sup>
9. The CCU approved GPA's request to award a Performance Management Contract for GPA's Cabras Units 1 & 2 Steam Turbine Power Plant to TEMES, Inc.<sup>6</sup> The award includes a total amount of \$9,969,188.00 for the three-year base period. \$5,919,188.00 is for three years of Management Fees, and the amount of \$4,050,000.00 for O&M Budgets for the three-year period.
10. The breakdown of Annual Management Fees and O&M Budget are set forth in Exhibit "1" attached hereto.<sup>7</sup> The funding source is revenue funds.<sup>8</sup>
11. A copy of the proposed Performance Management Contract between GPA and TEMES, commencing October 1, 2020, is attached to GPA's Petition.

### ANALYSIS

12. GPA's Contract Review Protocol establishes that, for multi-year procurements with fixed terms and variable annual costs, GPA must seek PUC approval if the aggregate cost estimate for the entire term of the procurement exceeds the \$1,500,000 review threshold.<sup>9</sup> This PMC Award exceeds the threshold and requires PUC approval.

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<sup>4</sup> Guam Consolidated Commission on Utilities Resolution No. 2020-13, Relative to Authorizing the Award of a Performance Management Contract for GPA's Cabras Units 1 & 2 Steam Turbine Power Plant to Taiwan Electrical and Mechanical Engineering Services (TEMES Inc.), approved on June 23, 2020, at p. 1.

<sup>5</sup> Id., at p. 2.

<sup>6</sup> Id.

<sup>7</sup> Exhibit "1" is an Issue for Decision, GPA Resolution No. 2020-13, presented to the Consolidated Commission on Utilities at its meeting on June 23, 2020; the proposed fees exclude costs for inventory, critical repairs, CIPs, and de-activation/de-commissioning activities.

<sup>8</sup> Id.

<sup>9</sup> PUC Order, Administrative Docket, Contract Review Protocol for GPA, at p. 2.



13. The selected bidder, TEMES, has been the PMC for Cabras 1 and 2 since 2010, a period of ten years.<sup>10</sup>
  14. Over such 10-year period, TEMES, as PMC, has provided GPA with assistance in the continued operation and maintenance of the Cabras plants, including completion of life-extension projects, and the meeting of availability, reliability and efficiency standards.<sup>11</sup> TEMES has demonstrated its competence and ability to render PMC services to GPA.
  15. In order to ensure adequate capacity to meet the megawatt demands of the island, the Cabras 1 and 2 Steam Turbine Power Plant must continue to be operated and maintained until the new power plant is commissioned (estimated to be at the end of 2022).<sup>12</sup>
  16. GPA's new Ukudu power plant and new renewable energy contracts may possibly not be online until calendar year 2023. GPA will need to continue operating and maintaining the Cabras Power Plant until the new power plant is commissioned.<sup>13</sup>
  17. The PUC has previously found that the PMC for Cabras 1 and 2 has improved the operational efficiency, reliability and cost savings of the plant.<sup>14</sup>
  18. With regard to the cost of the Award, the Fixed Management Fees and Routine O&M Budget Expenses proposed for FY2021 through 2023 appear to be in line and consistent with expenses previously incurred under the Cabras 1 and 2 PMCs with TEMES.
  19. For the first 5-years of the PMC contract with TEMES (2010-2015), the Fixed Management Fees ranged from \$1.52M to \$1.6M annually. For 2016, the Fixed
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<sup>10</sup> PUC Order, GPA Docket 10-04, Petition of the Guam Power Authority for Early Review and Approval of the Performance Management Contract (PMC) for Cabras 1 & 2, dated September 15, 2010.

<sup>11</sup> See PUC Order, GPA Docket 17-09, GPA Application to approve the PMC Contract Extension with TEMES, Inc. for Cabras 1 & 2, dated November 28, 2016 at p. 2.

<sup>12</sup> Guam Consolidated Commission on Utilities, GPA Resolution No. 2020-13 at p. 1.

<sup>13</sup> See Exhibit "1", attached hereto.

<sup>14</sup> PUC Order, GPA Docket 10-04, dated September 15, 2010, at p.1; PUC Order, GPA Docket 20-04, dated January 30, 2020, at p. 3.

Management Fee was \$1.606M. For years 2017-2020, the Fixed Management Fees ranged from \$1.674M to \$1.870M.<sup>15</sup> The proposed annual management fees for FY2021-FY2023, range from \$1.915M to \$2.031M.

20. The increases in the Fixed Management fees under the proposed Award do not appear to be substantial; they are likely based upon the additional work and life extension projects which have been necessary in recent years to keep the Cabras plants operational, and inflation impacts.
  21. Similarly, the O&M budgets proposed in the Award to TEMES also appear to be in line with prior budgets. From 2017-2020, annual O&M budget ranged from \$1.286M to \$1.436M.<sup>16</sup> The proposed O&M Budgets for FY2020 through FY2023 is to remain constant at \$1.350M.<sup>17</sup>
  22. The proposed contract provisions in the PMC are those that have previously been used by GPA in its performance management contracts approved by the PUC. These provisions include the operation of Cabras 1 & 2, staff management and augmentation, budget management, procurement inventory management and control, plant engineering, environmental compliance, completion of critical repairs and major maintenance projects.<sup>18</sup>
  23. However, there are also new contract provisions such as compliance with the recent consent decree between the USEPA and GPA, and the de-activation, de-commissioning, and clean-up of the Cabras 1 & 2 plants.<sup>19</sup>
  24. The proposed contract appears to be sufficient to protect the interest of GPA and its ratepayers. GPA's request for PUC approval of the Award of the PMC to TEMES is reasonable, prudent and necessary.
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<sup>15</sup> PUC Order, PMC Contract Extension with TEMES for Cabras 1 & 2, GPA Docket 17-09, dated November 28, 2016, at p. 3.

<sup>16</sup> Id., at p. 4.

<sup>17</sup> Exhibit 1.

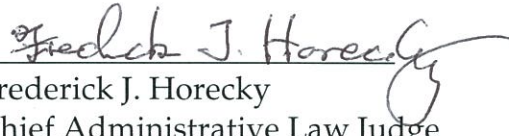
<sup>18</sup> PERFORMANCE MANAGEMENT CONTRACT, attached to the GPA Petition.

<sup>19</sup> Id. at p. 10.

**RECOMMENDATION**

22. The ALJ recommends that the PUC approve GPA's Award of a PMC to TEMES for the Cabras 1 and 2 Generating Plants.
23. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 17th day of July, 2020.

  
Frederick J. Horecky  
Chief Administrative Law Judge



# GPA Resolution No. 2020-13

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## Authorizing the Award of a Performance Management Contract to for GPA's Cabras Units #1 and #2 Steam Turbine Power Plant to TAIWAN ELECTRICAL AND MECHANICAL ENGINEERING SERVICES ("TEMES, INC.")

### What is the project's objective and is it necessary and urgent?

GPA's current PMC contract expires on September 30, 2020 and no options for extension are available. GPA's new Ukudu power plant and new renewable energy contracts are not expected to be online until about calendar year 2023. Therefore, GPA would need to continue operating and maintaining the Cabras Power Plant until the new power plant is commissioned. The term of the new contract is to start in October 2020, for a base period of three years, with options to extend for two (2) additional 1-year extensions. The last year of the contract will be designated as the commencement of de-activation and/or decommissioning planning and activities.

### How much will it Cost?

Contract Year	Annual Management Fee	O&M Budget
1	\$ 1,915,037.00	\$ 1,350,000.00
2	\$ 1,972,488.00	\$ 1,350,000.00
3	\$ 2,031,663.00	\$ 1,350,000.00
TOTAL	\$ 5,919,188.00	\$ 4,050,000.00
<b>Base Period Total Cost</b>		<b>\$ 9,969,188.00</b>

Extension Year Option	Annual Management Fee	O&M Budget
1	\$ 2,092,613.00	\$ 1,350,000.00
2	\$ 2,155,391.00	\$ 1,350,000.00
TOTAL	\$ 4,248,004.00	\$ 2,700,000.00
<b>Extension Period Cost</b>		<b>\$ 6,948,004.00</b>



<b>Base + Extension Periods</b>	<b>\$ 16,917,192.00</b>
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### What is its funding Source? Revenue Funds (O&M)

### When will it be completed?

The anticipated schedule is as follows:

Contract Commencement:  
October 1, 2020

Contract Base Period End:  
September 30, 2023

Optional Extension Year 1:  
Oct 2023 - Sept 2024

Optional Extension Year 2:  
Oct 2024 - Sept 2025

