

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:) GPA Docket 21-09
)
The Application of the Guam Power)
Authority to Exercise Extension Option) **ALJ REPORT**
under the Diesel Fuel Supply Contract)
with Mobil Oil Guam, Inc. and Isla)
Petroleum and Energy, LLC (IP&E Guam))
_____)

INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority ["GPA"] Petition to Exercise Extension Option under the Diesel Fuel Supply Contract with Mobil Oil Guam, Inc. ["Mobil Oil Guam"] and Isla Petroleum and Energy, LLC ["IP&E Guam"].¹

BACKGROUND

2. On August 29, 2019, the PUC approved the present Contracts for Supply of Diesel Fuel Oil for the Baseload Plants, Fast-Track Diesel Plants, and Combustion Turbine Plants, with the Mobil Oil Guam, Inc. for 3 sites and with Isla Petroleum and Energy Holdings, LLC (IP&E) for 1 site.²
3. Mobil Oil Guam is presently GPA's diesel fuel supplier for Site 1 (Yigo CT and Aggreko), Site 3 (Piti 7), and Site 4 (Cabras 1 & 2, MEC 8 & 9, Manenggon, and Talofofo).

¹ GPA Petition to Exercise Extension Option under the Diesel Fuel Supply Contract with Mobil Oil Guam, Inc. and Isla Petroleum and Energy, LLC (IP&E Guam), GPA Docket 21-09, filed April 5, 2021.

² PUC Order, GPA Docket 19-12, dated August 29, 2019, at p. 5.

4. IP&E Guam is presently GPA's diesel fuel supplier for Site 2 (Dededo and Macheche CT).
5. The current Diesel Fuel Supply Contracts with Mobil Oil Guam and IP&E Guam expire on December 31, 2021, with an option to extend for three (3) additional one (1) year terms.³
6. GPA has negotiated with Mobil and IP&E for a contract extension of three (3) consecutive years without change to the contract extension Fixed Service Fee schedules.⁴
7. The estimated Fixed Service Fee and Contract Costs are provided in Exhibit A attached hereto (Exhibit A to Resolution No. 2021-04).⁵
8. The estimated combined annual Contract Costs for Mobil and IP&E are \$73,484,200 for the first-year extension, \$73,629,400 for the second-year extension, and \$73,781,400 for the third-year extension with an aggregate cost of \$220,895,000 for the 3-year extension period.⁶
9. The estimated combined annual Fixed Service Fee costs for Mobil and IP&E is \$8,047,400 for the first-year extension, \$8,192,600 for the second-year extension, and

³ GPA Petition to Exercise Extension Option under the Diesel Fuel Supply Contract with Mobil Oil Guam, Inc. and Isla Petroleum and Energy, LLC (IP&E Guam), GPA Docket 21-09, filed April 5, 2021, at p. 1.

⁴ Guam Consolidated Commission on Utilities Resolution No. 2021-04, Authorizing the Management of the Guam Power Authority to Petition the Public Utilities Commission for the Extension Diesel Fuel Oil No. 2 Supply Contracts with Mobil Oil Guam Inc. (MOGI) and Isla Petroleum and Energy, LLC (IP&E), adopted and approved March 23, 2021, at p. 1.

⁵ Id. at Exhibit A.

⁶ Id. at p. 2.

\$3,344,600 for the third-year extension with an aggregate cost of \$24,584,600 for the 3-year extension period.⁷

10. The contract value for all the site locations for the 3-year extension period is based upon the estimated fuel price, which is subject to change depending on prevailing market price for diesel.⁸

11. The Fixed Service Fee is the price per gallon, in addition to fuel cost, which the companies will charge for their services.⁹

12. The total estimated quantity of gallons of diesel fuel for the 3-year extension period is 105,600 gallons.¹⁰

13. On March 23, 2021, the Guam Consolidated Commission on Utilities authorized GPA to enter three (3)-year contract extensions with Mobil Oil Guam and IP&E Guam for the supply and delivery of Diesel Fuel Oil No. 2, to commence on January 1, 2022 and to expire on December 31, 2024.¹¹

14. GPA now requests that the PUC authorize it to exercise extension options for three (3) years on the diesel fuel supply contracts. If the options were not exercised, GPA would have to issue a new solicitation.

⁷ Id., at p. 1.

⁸ ALJ Report, GPA Docket 19-12, dated August 25, 2019, at p. 3.

⁹ Id.

¹⁰ See Exhibit "A".

¹¹ CCU Resolution No. 2021-04, *supra*, at p. 2.

15. GPA anticipates that a new solicitation would yield an increase in Fixed Service Fee due to the rising costs for delivery of services.¹²

ANALYSIS

16. GPA's decision to exercise its 3-year contract extension period is justified. Otherwise, procurement of a new diesel fuel contract would likely result in higher Fixed Service Fees.

17. The Fixed Service Fee Cost is slightly higher for the 3-year contract extension period than for the prior 2-year contract base period. However, there are savings in the Fixed Service Fee Cost for the 3-year contract extension period compared to such Cost in GPA's previous contract (roughly \$1,090,600.00).¹³

18. The PUC previously determined that a continuous supply of diesel fuel oil is necessary for GPA to maintain its electric power generation capacity.¹⁴

19. If the PUC do not approve the current contract extension request, GPA would have to issue a new procurement and could be left with a more expensive supply contract.

20. Diesel fuel assists GPA in providing a stable and uninterrupted supply of electricity to meet the island wide utility power demand.¹⁵

¹² Id. at p. 1.

¹³ See Exhibit "A".

¹⁴ PUC Order, GPA Docket 19-12 (Approving the Contract for Supply of Diesel Fuel Oil to GPA), dated August 29, 2019 at p. 4.

¹⁵ Id.

21. Diesel fuel is essential to the operation of the diesel power plants, and the contracts are reasonable, prudent, and necessary.

RECOMMENDATION

22. The Administrative Law Judge recommends that the PUC approve the three (3) additional one-year contract extensions for Supply of Diesel Fuel Oil with Mobil Oil Guam, Inc. and Isla Petroleum and Energy Holdings, LLC (IT&E Guam).

23. GPA should be authorized to expend up to the total amount of \$245,479,600.00 for the three (3) additional one-year contract extensions, which includes fuel cost and Fixed Service Fee Costs. Such expenditures should be in accordance with Exhibit A. Fuel price may be adjusted upward or downward dependent upon market price.

24. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 24th day of April 2021.

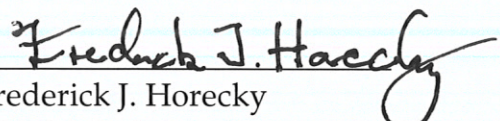

Frederick J. Horecky
Chief Administrative Law Judge

EXHIBIT A

1. Mobil Contract

SITE LOCATION 1

YIGO & AGGREKO	2-YEAR CONTRACT BASE PERIOD		3-YEAR CONTRACT EXTENSION PERIOD			
	1st Year	2nd Year	Total	1st Year Extn	2nd Year Extn	3rd Year Extn
Estimated Quantity (gal/yr) ¹	17,000,000	17,000,000	34,000,000	17,000,000	17,000,000	17,000,000
Projected Commodity Price (ULSD)	\$1,859	\$1,859	\$1,859	\$1,859	\$1,859	\$1,859
Fixed Service Fee Cost (\$/gal)	\$0.226	\$0.226	\$0.226	\$0.231	\$0.235	\$0.235
Estimated Contract Price (\$/gal)	\$2,085	\$2,085	\$2,085	\$2,090	\$2,094	\$2,099
Estimated Contract Cost (\$/yr)	\$35,445,000.00	\$35,445,000.00	\$70,890,000.00	\$35,530,000.00	\$35,598,000.00	\$35,683,000.00
Fixed Service Fee Cost (\$/yr)	\$3,842,000.00	\$3,842,000.00	\$7,684,000.00	\$3,927,000.00	\$3,995,000.00	\$4,080,000.00
Variance w/ Previous Contract	(\$272,000.00)	(\$272,000.00)	(\$544,000.00)	(\$187,000.00)	(\$119,000.00)	(\$34,000.00)
	-7%	-7%	(Savings)	-5%	-3%	-1%
						(\$340,000.00)
						(Savings)

SITE LOCATION 3

PTI 7	2-YEAR CONTRACT BASE PERIOD		3-YEAR CONTRACT EXTENSION PERIOD			
	1st Year	2nd Year	Total	1st Year Extn	2nd Year Extn	3rd Year Extn
Estimated Quantity (gal/yr) ¹	8,000,000	8,000,000	16,000,000	8,000,000	8,000,000	8,000,000
Projected Commodity Price (ULSD)	\$1,859	\$1,859	\$1,859	\$1,859	\$1,859	\$1,859
Fixed Service Fee Cost (\$/gal)	\$0.215	\$0.215	\$0.215	\$0.219	\$0.224	\$0.228
Estimated Contract Price (\$/gal)	\$2,074	\$2,074	\$2,074	\$2,078	\$2,083	\$2,087
Estimated Contract Cost (\$/yr)	\$16,592,000.00	\$16,592,000.00	\$33,184,000.00	\$16,624,000.00	\$16,664,000.00	\$16,696,000.00
Fixed Service Fee Cost (\$/yr)	\$1,720,000.00	\$1,720,000.00	\$3,440,000.00	\$1,752,000.00	\$1,792,000.00	\$1,824,000.00
Variance w/ Previous Contract	(\$376,000.00)	(\$376,000.00)	(\$752,000.00)	(\$344,000.00)	(\$304,000.00)	(\$272,000.00)
	-18%	-18%	(Savings)	-16%	-15%	-13%
						(\$920,000.00)
						(Savings)

SITE LOCATION 4

CABRAS 1&2, MEC B&B, MAINENGGON, TALOFOFO	2-YEAR CONTRACT BASE PERIOD		3-YEAR CONTRACT EXTENSION PERIOD			
	1st Year	2nd Year	Total	1st Year Extn	2nd Year Extn	3rd Year Extn
Estimated Quantity (gal/yr) ¹	2,200,000	2,200,000	4,400,000	2,200,000	2,200,000	2,200,000
Projected Commodity Price (ULSD)	\$1,859	\$1,859	\$1,859	\$1,859	\$1,859	\$1,859
Fixed Service Fee Cost (\$/gal)	\$0.257	\$0.257	\$0.257	\$0.262	\$0.268	\$0.273
Estimated Contract Price (\$/gal)	\$2,116	\$2,116	\$2,116	\$2,121	\$2,127	\$2,132
Estimated Contract Cost (\$/yr)	\$4,655,200.00	\$4,655,200.00	\$9,310,400.00	\$4,666,200.00	\$4,679,400.00	\$4,690,400.00
Fixed Service Fee Cost (\$/yr)	\$565,400.00	\$565,400.00	\$1,130,800.00	\$576,400.00	\$589,600.00	\$600,600.00
Variance w/ Previous Contract	\$33,000.00	\$33,000.00	\$66,000.00	\$44,000.00	\$57,200.00	\$68,200.00
	6%	6%	(Additional Expense)	8%	11%	13%
						(\$169,400.00)
						(Additional Expense)
Over-all Contract Cost:	\$57,307,200.00	\$56,692,200.00	\$113,999,400.00	\$56,820,200.00	\$56,941,400.00	\$57,069,400.00
Over-all Fixed Service Fee Cost:	\$5,742,400.00	\$5,612,400.00	\$11,354,800.00	\$5,625,400.00	\$5,637,600.00	\$5,650,600.00
Variance w/ Current Contract	(\$615,000.00)	(\$615,000.00)	(\$1,230,000.00)	(\$487,000.00)	(\$365,800.00)	(\$237,800.00)
			(Savings)			(Savings)

SITE LOCATION 2:

3. Summary (Mobil and IP&E Contract)

SUMMARY (Site Locations 1 thru 4)	Previous Contract	2-YEAR CONTRACT BASE PERIOD			3-YEAR CONTRACT EXTENSION PERIOD			
		1st Year	2nd Year	Total	1st Year Extn	2nd Year Extn	3rd Year Extn	Total
Over-all Estimated Cost:								
Contract Cost	\$ 74,115,200.00	\$ 73,332,200.00	\$ 73,332,200.00	\$ 146,664,400.00	\$ 73,484,200.00	\$ 73,629,400.00	\$ 73,781,400.00	\$ 220,895,000.00
Fixed Service Fee Cost Variance w/ Previous Contract	\$ 8,678,400.00	\$ 7,895,400.00 (\$783,000.00)	\$ 7,895,400.00 (\$783,000.00)	\$ 15,790,800.00 (\$1,566,000.00) (Savings)	\$ 8,047,400.00 (\$631,000.00)	\$ 8,192,600.00 (\$485,800.00)	\$ 8,344,600.00 (\$333,800.00)	\$ 24,584,600.00 (\$1,450,600.00) (Savings)