

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:

THE PETITION OF THE GUAM  
POWER AUTHORITY FOR APPROVAL  
OF PROPERTY INSURANCE  
CONTRACT EXTENSION WITH DB  
INSURANCE CO., LTD.

GPA DOCKET 22-01

PUC COUNSEL REPORT



INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority ["GPA"] Petition for Approval of Property Insurance Contract Extension with DB Insurance Co., Ltd.<sup>1</sup>
2. The initial term of GPA's Property Insurance Contract with DB Insurance Co., Ltd., will expire on November 1, 2021 and GPA requests that the PUC approve GPA's exercise of a one (1) year extension of the contract beginning November 2, 2021 and ending on November 1, 2022 that will cost \$5,777,567 for that coverage period.<sup>2</sup>

BACKGROUND

3. 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...". The Indenture further requires GPA to carry insurance "of a scope and nature as that usually carried in the industry...".<sup>3</sup>
4. GPA's previous Property Insurance Contract expired on November 1, 2018 and prior to that date, GPA prepared a new Property Insurance solicitation for the policy period beginning on November 1, 2018 and ending on November 1, 2021.
5. On March 27, 2018, the Consolidated Commission on Utilities ["CCU"] adopted Resolution No. 2018-06, which approved GPA's draft IFB for Property Insurance to

<sup>1</sup> GPA Petition for Approval of Property Insurance Contract Extension with DB Insurance Co., Ltd., GPA Docket 22-01, filed October 11, 2021 (Petition).

<sup>2</sup> Id., at 1 and 4.

<sup>3</sup> Id., at 3 [NOTE: This report cites the PDF numbers because the numbers used in the Petition and its exhibits are not continuous].



include Boiler and Machinery and Terrorism coverage, and the resolution authorized GPA's General Manager was authorized to submit the IFB to the PUC.<sup>4</sup>

6. On April 26, 2018, the PUC authorized GPA to issue the Property Insurance IFB and required GPA to obtain the PUC's approval prior to making a final award of the contract.<sup>5</sup>
7. GPA subsequently issued the Property Insurance IFB as GPA-IFB-077-18 (Property Insurance)(Multi-Sealed Bid) and received one bid from DB Insurance Co., Ltd.<sup>6</sup>
8. On September 25, 2018, the CCU adopted Resolution No. 2018-22 which authorized GPA's General Manager to accept the terms of the annual premiums offered by DB Insurance Co., Ltd., and related parties at a cost of \$4,355,000 for each of the next three policy periods covered between November 1, 2018 and November 1, 2021 with two one-year options and to exercise the option to increase the coverage from \$200 million to \$300 million for an additional \$100 million annual premium.<sup>7</sup>
9. On October 28, 2018, the PUC approved GPA's Contract with DB Insurance Co., Ltd.<sup>8</sup>
10. On October 26, 2021 the CCU adopted Resolution No. FY2022-01 that authorized GPA's General Manager to accept the terms of the annual renewal premium offered by DB Insurance Co., Ltd., at a cost of \$5,777,567 for the policy period covered between November 2, 2021 and November 1, 2022 subject to the PUC's approval.

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### ANALYSIS

11. The PUC's Contract Review Protocol mandates that GPA shall not incur expenses for PUC approved contracts and obligations in excess of 20% over the amount

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<sup>4</sup> Guam Consolidated Commission on Utilities Resolution No. 2018-06, Relative to Petitioning the Public Utilities Commission for Authorization to Begin Procurement for Property Insurance, issued March 27, 2018, at 2.

<sup>5</sup> PUC Order, GPA Docket 18-12, GPA Petition for Approval of Insurance IFB, dated April 26, 2018, at pg. 3.

<sup>6</sup> Guam Consolidated Commission on Utilities Resolution No. 2018-22, Relative to the Authorization of the GPA to Award Property Insurance for a Three-Year Policy with Two One-Year Options, issued September 25, 2018 at p. 1.

<sup>7</sup> Id., at p. 2.

<sup>8</sup> PUC Order dated October 28, 2018, GPA Docket No. 19-03 at 4.



authorized by the PUC without prior PUC approval.<sup>9</sup> Here, the initial three-year term of GPA's Property Insurance Contract with DB Insurance Co., Ltd., cost at least \$4,355,000 for each of the years for a total amount of, approximately, \$13,065,000. Further, 20% of that total amount is \$2,613,000 and the \$5,777,567 cost of the one (1) year extension of the contract exceeds that amount. Therefore, the PUC Contract Review Protocol requires GPA to obtain the PUC's prior approval for the one-year extension of its Property Insurance Contract with DB Insurance Co., Ltd., because the cost of the extension exceeds 20% of the contract costs.

12. The \$5,777,567 cost of the one (1) year extension is reasonable. As stated above, the initial three-year term of contract cost \$4,355,000 for each of the years. Here, the \$5,777,567 cost of the one (1) year extension is \$1,422,567 higher than the annual cost during the contract's initial term. GPA states that the higher price is caused by challenging conditions in the insurance market. This is likely true due to the fact that the initial term of the contract began in 2018 and since then there are now a multitude of new threats, such as the current global pandemic emergency, that have caused prices, to include insurance premiums, to increase.
13. The contract extension is prudent. GPA only has seven (7) days before the initial term of its contract will expire and this is an insufficient amount of time to prepare a new property insurance solicitation, issue it, receive responses, and award a new property insurance contract. Hence, it is more prudent for GPA to exercise the first one (1) year extension of the contract instead of issuing a solicitation for a new contract.
14. The contract extension is necessary. As stated above, GPA is required by its Bond Indenture Agreements to maintain property insurance coverage.
15. Based on the foregoing, the one (1) year extension of GPA's Property Insurance Contract with DB Insurance Co., Ltd., is reasonable, prudent, and necessary.

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<sup>9</sup> PUC Order, Administrative Docket, filed on February 15, 2008 at 4.

**RECOMMENDATION**

16. Counsel recommends that the PUC approve the one (1) year extension of GPA's Property Insurance Contract with DB Insurance Co., Ltd., for the policy period beginning November 2, 2021 and ending on November 1, 2022.
17. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 25<sup>th</sup> day of October, 2021.

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