

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:

The Application of the Guam Power
Authority to Approve the Amendment to
the Contract for Residual Fuel Oil No. 6
for the Baseload Power Generating Plants.

GPA Docket 22-13

ALJ REPORT



INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission [“PUC”] upon the Petition of the Guam Power Authority [“GPA”] for Approval of the Amendment to the Contract for Residual Fuel Oil No. 6 for the Baseload Power Generating Plants.¹
2. The present Contract for Residual Fuel Oil No. 6 between GPA and Hyundai Corporation provides for an initial 3-year term, commencing September 1, 2020, and ending on August 31, 2023. The contract allows two additional 1-year extension options, upon mutual agreement of the parties.²
3. In this Docket, GPA seeks authorization from PUC to exercise the first-year contract extension of the Contract for Residual Fuel Oil No. 6 with Hyundai Corporation for the period of September 1, 2023, to August 31, 2024.³
4. GPA and Hyundai have agreed that there will be no change to the current contract premium fee for the first-year extension of the contract.⁴

¹ GPA Petition to Approve the Amendment to the Contract for Residual Fuel Oil No. 6 for the Baseload Power Generating Plants, GPA Docket 22-13, filed May 2, 2022.

² PUC Order, GPA Docket 21-17, GPA Petition to Approve the Amendment to the Contract for Residual Fuel Oil No. 6 for the Baseload Power Generating Plants, GPA Docket 21-17, dated August 26, 2021, at p. 2.

³ GPA Petition, at p. 1.

⁴ Id.

BACKGROUND

5. On July 30, 2020, the PUC approved the GPA-Hyundai Contract for the supply of Residual Fuel Oil No. 6 to the Baseload Power Generating Plants.⁵
6. Under the Contract, in addition to the initial three-year term (which ends August 31, 2023), the parties may agree to two 1-year extension options.
7. The United States Environmental Protection Agency [“USEPA”] required a change to the Consent Decree, which requires GPA to substitute LSFO and HSFO and transition to Ultra-Low Sulfur Fuel Oil (“ULSFO”) with a sulfur limit of 0.2% by weight, no later than December 31, 2022.⁶
8. In GPA Docket 21-17, the PUC approved Amendment No. 1 to the Fuel Oil Supply Contract between the Guam Power Authority and Hyundai Corporation. The Amendment authorized Hyundai to begin shipping ULSFO to GPA effective on or about January 1, 2022.⁷
9. In GPA Resolution No. FY2022-19, the Guam Consolidated Commission on Utilities authorized GPA to extend the contract with Hyundai Corporation by exercising the option to extend for one year, from September 1, 2023, until August 31, 2024.⁸

⁵ PUC Order, GPA Docket 20-17, GPA Petition to Approve the GPA-Hyundai Corporation Contract for Residual Fuel Oil No. 6 for the Baseload Power Generating Plants, GPA Docket 20-17, at p. 4.

⁶ PUC Order, GPA Docket 21-17, at p. 5.

⁷ Id., at p. 9.

⁸ Guam Consolidated Commission on Utilities, GPA Resolution No. FY2022-19, Authorizing Management of the Guam Power Authority for the First (1st) Year Extension of the Contract for Supply of Residual Fuel Oil No. 6, adopted and approved on the 26th day of April, 2022.

ANALYSIS

10. The only issue before the PUC in this Docket is whether the PUC should approve GPA's request to enter a contract amendment with Hyundai Corporation for the first-year extension of the contract.
11. GPA has determined that there is a need to exercise the first-year option for the extension of the existing contract with Hyundai Corporation. GPA's rationale for exercising the first-year option is that "the ongoing regional conflict in Europe may lead to global fuel supply shortage and volatility of prices and may result in higher premium fees in the future due to increased cost in the price of the commodity, blending components to meet GPA's quality specification requirements, and delivery charges."⁹
12. GPA and Hyundai have already negotiated a contract extension and both parties agreed upon the 1st year extension of the contract with no change in the contract premium fee.¹⁰
13. The first-year extension of the contract would commence on September 1, 2023 and will expire on August 31, 2024.¹¹
14. GPA has determined that the contract extension is reasonable and prudent and will serve the best interest of the ratepayers.¹² Locking in the current contract premium fee for an additional year is certainly beneficial to the ratepayers of Guam.

⁹ Consolidated Commission on Utilities, GPA Resolution No. FY2022-19, Authorizing Management of the Guam Power Authority for the First (1st) Year Extension of the Contract for Supply of Residual Fuel Oil No. 6, adopted and approved on the 26th day of April, 2022, at p. 1.

¹⁰ Id., at p. 2.

¹¹ Id.

¹² Id.

15. GPA has no choice but to convert the Cabras 1 & 2 plants to use of the 0.2% ULSFO. ULSFO is more expensive than RFO and LSFO and will result in increased fuel prices to the ratepayers under the Levelized Energy Adjustment Clause ["LEAC"].
16. Less than one year ago, in August of 2021, GPA indicated that the 0.2% ULSFO was more expensive than the HSRFO and LSRFO then utilized: "For the year commencing on January 1, 2023, it is estimated that the annual value of the contract amendment with Hyundai will be \$160,445,436 per year. The cost estimated under the Hyundai Corporation contract for fuel from September 1, 2021 to August 31, 2022, was \$143,915,313.77.¹³
17. Based upon July 2021 prices, the price of the 0.20% sulfur ULSFO was \$601.290/MT (Metric Ton).¹⁴
18. Current fuel pricing in GPA's Petition indicates a drastic increase in fuel cost. The current cost for the contract extension year of the 0.2% ULSFO, based on the estimated commodity price of \$141.707 per barrel, or \$1,055.717 per metric ton plus the Fixed Premium Fee of \$79.00 per metric ton, is \$1,134.717 per metric ton. The estimated annual contract cost, based on the supply of 1,500,000 bbls. per year, for the contract extension year is now \$267,621,969.34.¹⁵
19. Therefore, it now appears that the estimated cost of the Hyundai Corporation Contract has increased from \$160,445,436 per year per year to \$267,621,969 for the proposed first extension year of the contract.
20. The substantial cost increase results from the conversion to a more expensive fuel, ULSFO, and increases in fuel cost over the last year.

¹³ PUC Order, GPA Docket 21-17, dated August 26, 2021, at p. 7.

¹⁴ Id.

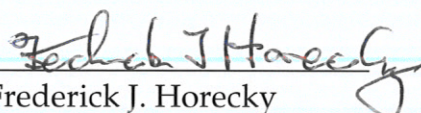
¹⁵ Id.; see also Exhibit A.

21. These fuel costs for ULSFO are unavoidable expenses for GPA. ULSFO is required by the Consent Decree and is essential to the operation of the Cabras power plants.
22. The one-year contract extension is reasonable, prudent and necessary.

RECOMMENDATION

23. The Administrative Law Judge recommends that the PUC approve the one-year contract extension between GPA and Hyundai Corporation, to commence on September 1, 2023 and expire on August 31, 2024.
24. The Guam Power Authority is authorized to expend up to the annual value of the contract estimated at \$267,621,969 and to execute such agreements and documents necessary for the contract amendment with Hyundai Corporation.
25. Due to variable fuel prices for shipments of ULSFO for this contract extension, GPA may also incur fuel expenses, not to exceed 20% over the amount authorized by the Commission, under the Contract Review Protocol.¹⁶
26. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 9th day of May, 2022.


Frederick J. Horecky
Chief Administrative Law Judge

¹⁶ Contract Review Protocol for the Guam Power Authority, Administrative Docket, par. 4(d), p. 3, dated February 15, 2008.