

## BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF: ) GPA Docket 24-01  
)  
Guam Power Authority Property )  
Insurance Contract for FY 2024 with Four ) **ALJ REPORT**  
One-Year Renewal Options )  
)  
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### INTRODUCTION

1. This matter comes before the Guam Public Utilities Commission ["PUC"] upon the Guam Power Authority ["GPA"] Petition for approval of its Property Insurance Contract for FY 2024 with Four One-Year Renewal Options.<sup>1</sup>
2. GPA's proposed contract with AM Insurance and its affiliates for Property Insurance is for a one (1) year policy period beginning November 1, 2023, to October 31, 2024, with four one-year options to renew.<sup>2</sup>

### BACKGROUND

3. GPA's present Property Insurance Policy was awarded in 2018 and will expire on October 31, 2023.<sup>3</sup>

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<sup>1</sup> GPA Petition for PUC Approval of Property Insurance Contract for FY 2024 with Four One-Year Renewal Options, GPA Docket 24-01, filed October 26, 2023.

<sup>2</sup> Id. at p. 1.

<sup>3</sup> Id.



4. This Petition requests approval of GPA's Property Insurance Policy for FY2024. The PUC previously addressed GPA's Casualty Insurance Policy at its meeting on October 26, 2023.
5. In June 2023, GPA issued its solicitation for property insurance under multi step bid MS GPA-039-23, for a term of three years with two (2) options to renew for additional one (1) year periods.<sup>4</sup>
6. GPA's solicitation for Property Insurance sought insurance on all facilities constituting the system against risks of loss or damage caused by or resulting from fire and from action of the elements (including loss from typhoons, earthquakes, floods and tidal waves).<sup>5</sup> Only one bid was received from AM Insurance, through its underwriters, for an annual premium of \$7,973,858, which exceeded GPA's prior year premiums by 20%. GPA cancelled the property insurance procurement and conducted sole source negotiations with AM Insurance for the Property Insurance.<sup>6</sup>
7. Following sole source negotiations, GPA successfully negotiated a slightly lower total annual premium of \$7,873,858 (\$100,000 off bid price). The contract term was revised from a three-year term with 2 additional one-year options to extend to a one-year term with four additional one-year options to extend.<sup>7</sup>

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<sup>4</sup> Guam Consolidated Commission on Utilities GPA Resolution No. FY2024-01, To Authorize the Management of Guam Power Authority to Award the Property Insurance, adopted and approved on October 26, 2023, GPA Petition at Exhibit A-001.

<sup>5</sup> Id.

<sup>6</sup> GPA Petition at p. 2.

<sup>7</sup> Id. at p. 3.



8. On October 26, 2023, the Guam Consolidated Commission on Utilities [“CCU”] approved a property insurance policy offered by AM Insurance for a “not to exceed” annual premium of \$7,873,858.<sup>8</sup> The CCU also considered other possible options for reducing the premium that were being discussed with the Broker and Underwriters: increase of the deductible for Earthquake, Flood, Typhoon and Tsunami from \$10M to \$20M; and reduction of the Sub-limit for Earthquake, Flood, Typhoon and Tsunami from \$100M to \$50M.<sup>9</sup>
9. For the increase of the deductible, the monetary impact on the premium would be a reduction of \$550,000; for the reduction of the Sub-limit, the monetary impact on the premium would be a reduction of \$158,000. The combined impact of implementing these two options would be to reduce the annual premium by approximately \$708,000.<sup>10</sup>
10. If the two options were implemented, the total annual property insurance premium for FY2024 would be \$7.1M.

### ANALYSIS

11. The PUC-GPA Contract Review Protocol mandates that any contract which exceeds \$1,500,000 requires PUC approval.<sup>11</sup> For this proposed multi-year Property

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<sup>8</sup> Guam Consolidated Commission on Utilities GPA Resolution No. FY2024-01, To Authorize the Management of Guam Power Authority to Award the Property Insurance, adopted and approved on October 26, 2023, GPA Petition at Exhibits A-001-004.

<sup>9</sup> Id. at Exhibit A-002.

<sup>10</sup> CCU Special Work Session for GPA on October 26, 2023, [https://www.youtube.com/watch?v=uu\\_bI4dLqO0&t=449s](https://www.youtube.com/watch?v=uu_bI4dLqO0&t=449s).

<sup>11</sup> Contract Review Protocol for Guam Power Authority, Administrative Docket, dated February 15, 2008, at par. 1(e).



Insurance Contract, the price for five years (at an annual premium rate of \$7,873,858) is estimated to be \$39,369,290. The contract must be reviewed by the PUC.<sup>12</sup>

12. GPA has established that its Bond Indenture Agreement requires GPA to carry property insurance “of a scope and nature as that usually carried in the industry...”<sup>13</sup> GPA cites Section 6.13 of its Bond Indenture, which requires: “The Board will also secure and maintain property insurance on all facilities constituting the System against risks of loss or damage caused by or resulting from fire and also from action of the elements (including loss from typhoons, earthquakes, floods and tidal waves), to the extent that such insurance is obtainable at reasonable cost.”<sup>14</sup>

13. GPA’s costs for property insurance premiums over the last six-year period (from FY2018-FY2023) are as follows<sup>15</sup>:

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Property \$	6,694,749 \$	4,422,692 \$	5,252,334 \$	5,252,334 \$	5,788,646 \$	6,670,980

14. The proposed premium increase for Property Insurance for FY2024 is from \$6,670,980 in FY2023 to \$7,873,858 in FY2024, **an increase of \$1,202,878**. The premium increase from FY2022 to FY2024 is from \$5,788,646 to \$7,873,858, **an increase of \$2,085,212**. The premium increase for FY2024 will also apply to each year for the four renewal years, if the contract extensions are exercised by GPA, at a total increased premium cost of **\$6,014,390**. The increase in property insurance premiums from FY2023 to FY2024 would be over 18%, and over 36% from FY2022 to FY2024.

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<sup>12</sup> GPA Petition at p. 3; Contract Review Protocol for Guam Power Authority, Administrative Docket, dated February 15, 2008, at par. 4(b).

<sup>13</sup> GPA Revenue Bonds Indenture dated December 1, 1992-Section 6.13 Insurance.

<sup>14</sup> Id.

<sup>15</sup> Email from GPA CFO John Kim to PUC ALJ Fred Horecky, GPA Docket 24-01, dated October 28, 2023.



15. There is no information in the record justifying the premium increase or why the premium increase is so great for this fiscal year. GPA CFO John Kim testified at the PUC Meeting on October 26, 2023, that when he wrote the insurance companies to request an explanation of the reason for the increase, he received no response to his questions.<sup>16</sup> Mr. Kim also indicated that GPA has not made any claims upon the property insurance policy over the past six years.<sup>17</sup>
16. GPA did not make any claim for property insurance based upon damage caused by Typhoon Marwar.<sup>18</sup>
17. It is the ALJ's opinion that the annual premium proposed for property insurance is not reasonable.
18. GPA and the Guam Consolidated Commission on Utilities recognized that the proposed annual premium for property insurance was too expensive; they took proactive steps to reduce the cost of the premium.
19. As previously mentioned, the CCU, at its October 26, 2023, Meeting, discussed and approved possible options to reduce the cost of the premium. Management was authorized to work with the insurance consultant, broker, and underwriters to exercise options: increase of the deductible for Earthquake, Flood, Typhoon and Tsunami from \$10M to \$20M; and reduction of the Sub-limit for Earthquake, Flood,

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<sup>16</sup> Testimony of GPA CFO John Kim, PUC Meeting on October 26, 2023.

<sup>17</sup> Id.

<sup>18</sup> Email from GPA CFO John Kim to PUC ALJ Fred Horecky, GPA Docket 24-01, dated October 28, 2023.



Typhoon and Tsunami from \$100M to \$50M.<sup>19</sup> The combined monetary impact of these two options would reduce the annual premium by approximately \$708,000.<sup>20</sup>

20. After further discussions between GPA CFO Kim and the GPA Insurance Risk Manager, it was determined that the two options approved by the CCU could be implemented. The Risk Manager opined that the two above referenced options could be reasonably implemented without risking adequate insurance coverage. A copy of the email from GPA CFO John Kim to PUC ALJ Fred Horecky, dated October 28, 2023, is attached hereto as Exhibit "1".<sup>21</sup>

21. GPA and its staff, including its GM, CFO, Legal Counsel, and the Guam Consolidated Commission on Utilities, should all be commended for their hard work in seeking creative solutions to reduce the cost of the annual property insurance premium. Their efforts will result in substantial savings for the ratepayers of Guam.

22. The Contract for Property Insurance and the annual premium for property insurance in FY2024, should be approved up to the amount of \$7.1M. Approval of this premium amount is prudent and necessary.

23. Without property insurance in place, GPA would run the risk of loss for matters covered by the property insurance.

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<sup>19</sup> GPA Petition at Exhibit A-002-Exhibit A-003.

<sup>20</sup> CCU Special Work Session for GPA on October 26, 2023,  
[https://www.youtube.com/watch?v=uu\\_bi4dLqO0&t=449s](https://www.youtube.com/watch?v=uu_bi4dLqO0&t=449s).

<sup>21</sup> Email from GPA CFO John Kim to PUC ALJ Fred Horecky, GPA Docket 24-01, dated October 28, 2023.

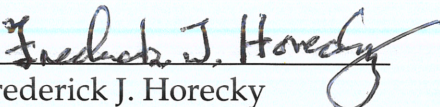


24. The Guam Public Utilities Commission should assist GPA further in reducing the cost of casualty and property insurance by exploring possibilities for self-insurance. The ALJ recommends that the PUC approve a new docket on self-insurance to explore the possible expansion of that program. Possible topics would include expansion of the current \$20M limit to the program, expansion of matters for which GPA could use the self-insurance fund, and provision of coverage under the self insurance program for matters presently covered by casualty or property insurance.

### RECOMMENDATION

25. The PUC should approve a total annual property insurance premium for FY2024 of \$7.1M and the award of the Property Insurance Contract to AM Insurance.
26. Exercise by GPA of any of the additional four renewal options for property insurance should be brought to the PUC for prior approval.
27. The PUC should authorize the opening of a new GPA Docket on self-insurance for consideration of the expansion of the Self-Insurance Program to cover risks that are presently covered by insurance.
28. A Proposed Order is submitted herewith for the consideration of the Commissioners.

Dated this 30th day of October, 2023.

  
Frederick J. Horecky  
Chief Administrative Law Judge



## Fred Horecky

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**From:** John J.E. Kim <jjekim@gpagwa.com>  
**Sent:** Saturday, October 28, 2023 8:03 PM  
**To:** Rojas, Theresa Victoria Gumataotao; horeckylaw@teleguam.net  
**Cc:** lpalomo@guampuc.com; 'Colleen Chlarson'; Rojas, Theresa Victoria Gumataotao  
**Subject:** RE: GPA Docket 24-01

Hi Fred,

Thank you for taking the call earlier today.

Below is a brief history of the negotiation we did with AM Insurance and Marsh (London).

The original premium we received was \$7.97 million, which was 20% over prior year. To properly negotiate the premium, we cancelled the original bid and did sole source since AM Insurance has always been the sole bidder.

As sole source, we were able to reduce the premium by \$100,000 with same coverage. AM Insurance quoted \$7.87 million.

Then we looked at options as follows:

1. Increase deductible for Earthquake, Flood, Typhoon and Tsunami from \$10 million to \$20 million.
2. Reduce the sub-limit for Earthquake, Flood, Typhoon and Tsunami from \$100 million to \$50 million.
3. No Typhoon coverage.
4. Reduce the fire coverage from \$200 million to \$100 million.

The reason behind the requested options are as follows:

1. Per discussion with Bolton, GPA Insurance Risk Manager, they noted that recent premium increase is due to Maui fire, hurricane in California, and other natural disaster in the US. In addition, recent typhoon in Guam with Mawar will have an impact.
2. From Typhoon Mawar, the estimated damage was \$25 million. Of which, \$5 million pertains to buildings and \$20 million on transmission and distribution. With current deductible of \$10 million, no claim was made for property insurance.
3. On Mawar, FEMA reimbursement was 90% and 10% GPA.
4. Based on above reasons, Bolton felt that adjusting the catastrophic coverage is reasonable. Thus, we asked for the options above.
5. No Typhoon coverage was asked to determine how much of GPA premium attributed to the typhoon.
6. As for fire coverage, Bolton noted that in the industry, it is normal for the companies to ask for coverage based on their biggest asset in one location. For GPA, the largest assets are Cabras 1 & 2, Piti 7, and Dededo CT 1 & 2.
  - a. Cabras 1 & 2 was slated to retire in 2024 before the typhoon. Due to typhoon Mawar, 198 MW plant was delayed due to damages. Anticipated completion of the new power plant is Jan. 2026. Thus, the value of Cabras 1 & 2 is minimal however still critical until the new power plant is online.
  - b. Dededo 1 & 2 and Piti 7 will be the biggest plant after Cabras 1 & 2. The replacement value of Piti 7 is estimated at \$76.6 million. Dededo CT 1 is \$57 million and Dededo CT 2 is \$57 million.
  - c. Based on above, \$100 million in fire coverage is reasonable, however Marsh noted that currently, the reduction of coverage will not yield savings greater than \$100,000.
7. Since the premium quoted was high, we asked John Wang what he thought about GPA indenture clause that noted insurance at reasonable clause. He noted that the insurance requirement doesn't state what the coverage should be, but be obtained at reasonable cost. If GPA wants to self-insure, the bond indenture allows it however GPA need to follow the noted requirement in the indenture.



If you have any questions, please feel free to contact me.

Best regards,

John J. Kim  
Chief Financial Officer  
Guam Power Authority  
Tel: 671-648-3120 | Cell: 671-483-1922  
[jjekim@gpagwa.com](mailto:jjekim@gpagwa.com)  
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**From:** [tgrojas@guamwaterworks.org](mailto:tgrojas@guamwaterworks.org) <[tgrojas@guamwaterworks.org](mailto:tgrojas@guamwaterworks.org)>  
**Sent:** Saturday, October 28, 2023 11:49 AM  
**To:** [horeckylaw@teleguam.net](mailto:horeckylaw@teleguam.net); John J.E. Kim <[jjekim@gpagwa.com](mailto:jjekim@gpagwa.com)>  
**Cc:** [lpalomo@guampuc.com](mailto:lpalomo@guampuc.com); 'Colleen Chlarson' <[cchlarson@guampuc.com](mailto:cchlarson@guampuc.com)>; Rojas, Theresa Victoria Gumataotao <[tgrojas@guamwaterworks.org](mailto:tgrojas@guamwaterworks.org)>  
**Subject:** RE: GPA Docket 24-01

Hi Fred,

I did speak with John K. yesterday and he confirmed that the premiums will be reduced by \$700K – due to the mentioned options. So, the price will decrease by \$700K from the “not to exceed \$7.8M” amount requested for in the petition to \$7.1M.

The total savings from the first premiums proposed will be a difference of \$800 from \$7.9M to \$7.1M. John is the best person to confirm all of the above so he may chime in here. Still, I’ll try n reach him to share your request for a 2PM call in case he misses this email and is not able to respond sooner.

And, yes, I can do a conference call at 2 if still needed. If you’ll be connecting us all – my best number will be 671-788-2331.

Thank you.

Theresa

**From:** Fred Horecky <[horeckylaw@teleguam.net](mailto:horeckylaw@teleguam.net)>  
**Sent:** Saturday, October 28, 2023 11:42 AM  
**To:** 'John J.E. Kim' <[jjekim@gpagwa.com](mailto:jjekim@gpagwa.com)>; 'Rojas, Theresa Victoria Gumataotao' <[tgrojas@guamwaterworks.org](mailto:tgrojas@guamwaterworks.org)>