

**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 ) **ORDER**  
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.

### **DETERMINATIONS**

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. The cost of 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 to the ALJ Report 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 will assist GPA further in reducing the cost of casualty and property insurance by creating a new docket to explore possibilities for self-insurance by GPA. 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.

### **ORDERING PROVISIONS**

After review of the record herein, including GPA's Petition for Approval and Authorization for GPA to Award the Property Insurance Contract to AM Insurance, the ALJ Report, and for good cause shown, on motion duly made, seconded and carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS** that:

1. GPA is authorized to award a Property Insurance Policy Contract to AM Insurance for a one (1) year policy period beginning November 1, 2023, to October 31, 2024, with four one-year options to renew.
2. A total annual property insurance premium in the amount of \$7.1M is approved for FY2024.
3. Exercise by GPA of any of the additional four renewal options for property insurance shall be brought to the PUC for prior approval.
4. The creation of a new docket on Self-Insurance is approved to explore the possible expansion of the current \$20M limit on the existing GPA Self-



Insurance program, the expansion of covered matters, and the possible use of self-insurance for matters presently covered by casualty or property insurance.

5. GPA is ordered to pay the Commission's regulatory fees and expenses, including, without limitation, consulting and counsel fees and the fees and expenses of conducting the hearing proceedings. Assessment of PUC's regulatory fees and expenses is authorized pursuant to 12 GCA §§12103(b) and 12125(b), and Rule 40 of the Rules of Practice and Procedure before the Public Utilities Commission.

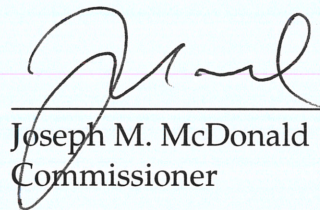
**[SIGNATURES TO FOLLOW ON NEXT PAGE]**



Dated this 31st day of October 2023.

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Jeffrey C. Johnson  
Chairman



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Joseph M. McDonald  
Commissioner

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Peter Montinola  
Commissioner

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Pedro S.N. Guerrero  
Commissioner



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Rowena E. Perez-Camacho  
Commissioner



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Michael A. Pangelinan  
Commissioner



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Doris Flores Brooks  
Commissioner