

GUAM PUBLIC UTILITIES COMMISSION
REGULAR MEETING
October 26, 2023
GCIC CONFERENCE ROOM, GCIC BUILDING, HAGATNA



MINUTES

The Guam Public Utilities Commission [PUC] conducted a regular meeting set for 6:30 p.m. on October 26, 2023, pursuant to due and lawful notice. The meeting was called to order at 6:37 p.m. **Commissioners McDonald, Pangelinan, Perez-Camacho, Flores-Brooks, and Guerrero** were in attendance, with Commissioner Joseph McDonald as Acting Chairperson. The following matters were considered at the meeting under the agenda included as *Attachment "A"* hereto.

1. Approval of Minutes of September 26, 2023 and September 28, 2023.

The Acting Chairperson announced that the first item of business on the agenda was the approval of the minutes of September 28, 2023. Commissioner Perez-Camacho moved to approve the minutes of the September 28, 2023 meeting subject to corrections noted by Commissioners Pangelinan, which motion was seconded by Commissioner Guerrero. The motion passed unanimously.

2. Guam Power Authority

The Acting Chairperson announced that the next item of business on the agenda was Guam Power Authority ("GPA") Docket 24-02, Petition for Approval and Authorization for GPA to Award Casualty Insurance; ALJ Report; and Proposed Order.

Chief ALJ Frederick Horecky ("ALJ Horecky") reported that the matter pertains to a petition for a contract involving casualty insurance for the Guam Power Authority (GPA). This insurance covers a range of liabilities, including commercial general liability, commercial auto liability, crime excess liability, and more. The proposed contract is for one year with two potential 1-year renewal options, spanning from November 1, 2023, through October 31, 2024. ALJ Horecky noted, the urgency of the situation was because the current insurance policy at the time of the meeting was set to expire on October 31.

ALJ Horecky reported the initial bidding process yielded only one bid, which substantially exceeded GPA's price estimates. In response, GPA engaged in a sole source negotiation with AM Insurance, resulting in a revised premium of \$688,323. This revised contract was approved by the Consolidated Commission on Utilities but is subject to review by the Public Utilities Commission (PUC) due to its potential three-year value exceeding \$2 million.

ALJ Horecky brought attention to the notable increase in the cost of casualty insurance, rising from \$603,000 in the fiscal year 2023 to the proposed \$688,323, representing a 13% increase. He raised valid concerns about the lack of information justifying this significant rise, especially given that casualty insurance is typically standard and not subject to unique factors.

ORIGINAL

ALJ Horecky emphasized the Commission's obligation to evaluate contracts based on the reasonable, prudent, and necessary standard. He emphasizes that while such insurance policies are standard year after year, the sudden and substantial increase in cost prompts questions about the reasonability of the proposed premium.

In his recommendations, ALJ Horecky suggests that GPA and AM Insurance provide detailed justifications for the increased cost. He expressed his reservations about deeming the cost reasonable without sufficient information and left the ultimate decision to the Commissioners. ALJ Horecky's report acknowledged the potential grounds for approval based on prudence and necessity, recognizing that not approving the policy before October 31 would leave GPA without casualty insurance, a situation deemed undesirable. The final order will be modified based on the Commissioners' decision, with options provided for approval or denial based on the reasonableness of the cost.

GPA General Manager John Benavente ("GPA Benavente") expressed his gratitude to the Chairman and provided an overview of the annual process of soliciting requests for proposals (RFP) or bids for insurance contracts. He noted a change in the contract structure from three years plus one plus one to one plus one plus one plus one, allowing for more negotiation opportunities in the subsequent years.

Referring to ALJ Horecky's presentation on the percentage increases in insurance costs over the years, GPA Benavente acknowledged that the market dynamics influenced these fluctuations, citing global and national events impacting the industry. He mentioned ongoing negotiations with AM Insurance, which involved interactions with underwriters in London.

While acknowledging that the proposed cost may not seem reasonable internally, GPA Benavente highlighted the challenges of negotiating with a single bidder in a volatile industry affected by global events. He emphasized the importance of prudence and the contractual obligation to secure insurance coverage.

GPA Benavente also discussed the team's consideration of self-insurance for certain aspects, given the existence of a \$20 million self-insurance fund. Exploring the potential for self-insurance could provide financial flexibility in managing claims. He urged the Commission to approve the insurance contract before the approaching deadline, stressing the necessity of ensuring the protection of significant assets and liabilities.

In closing, GPA Benavente apologized for the last-minute nature of insurance matters but emphasized the critical nature of the process, given the need to safeguard substantial financial interests. He invited questions, mentioning that GPA CFO John Kim ("GPA Kim") was present to address any inquiries related to the negotiation details.

Commissioner Flores-Brooks inquired about the claims made against the insurance policy in the fiscal year 2023. GPA Kim responded that there were no claims during that period. Commissioner Flores-Brooks expressed surprise, pointing out that despite the

absence of claims, the policy cost increased from \$603,614 to \$688,323. She further questioned GPA Kim about the absence of claims in prior years, and he clarified that there had been no claims for quite some time, at least since he had been on board. Commissioner Flores-Brooks sought clarification on the duration of "quite some time," and GPA Kim confirmed that there had been no claims during his tenure.

Commissioner Flores-Brooks again raised concerns about the continuous increase in the policy cost despite the absence of claims. GPA Kim explained that certain factors, such as the addition of new vehicles, contributed to the increase in specific areas like automobile coverage. He mentioned a \$22.7 thousand increase due to the addition of new trucks.

The discussion also touched upon the significant increase in professional coverage (E&O, Error and Omission), which GPA Kim explained as standard for any company, covering engineers who sign off on engineering documents. Commissioner Flores-Brooks expressed surprise at the 45% increase in this coverage, considering the lack of claims. GPA Kim agreed and mentioned the challenges in understanding the reasons behind such increases, suggesting that self-insurance might be a viable option for certain aspects.

The conversation delved into potential areas for self-insurance, with GPA Kim highlighting excess coverage and Workman's Comp, where they had successfully negotiated a lower cost. He also discussed an unexplained increase in blanket coverage and mentioned a claim related to the Guam Waterworks issue affecting D&O coverage, which led to a premium increase.

Commissioner Flores-Brooks again expressed disbelief at the significant premium increase for a small claim. GPA Kim clarified the coverage for D&O was \$25 million and noted that the increase, though notable, was not significant in percentage terms.

Commissioner Perez-Camacho questioned GPA Kim about the reasons for the significant cost increases in certain insurance areas, despite the absence of claims. GPA Kim confirmed that they did ask the insurance company (Calvo's and Moylan's) about the reasons for the high costs but received no response.

Commissioner Pangelinan inquired about the monetary increases in auto and professional insurance. GPA Kim explained that the auto insurance increased by about \$18,000 due to the addition of three new heavy equipment units. The professional insurance increased by around \$45,000, attributed to a standard increase in error and omission (E&O) coverage for engineers.

Commissioner Pangelinan expressed concern about the unexplained increases, particularly in professional insurance, despite no claims being made in the last five years. Commissioner Flores-Brooks and Commissioner Perez-Camacho also raised questions about the lack of claims and the rationale behind the significant cost hikes.

GPA Kim highlighted that some areas, like professional insurance and blanket crime, had experienced substantial increases without any claims. The discussion then shifted to the possibility of self-insurance, with a focus on the E&O (professional) coverage. GPA Kim mentioned that the self-insurance fund was initially designed for disasters, but they were considering using it for professional coverage.

There was a brief debate among the commissioners about approving the insurance proposal, given the unexplained increases, and concerns were raised about the continuous rise in insurance costs despite the absence of claims. The discussion touched on the possibility of approving all coverage except professional insurance or exploring self-insurance options.

Towards the end of the discussion, GPA Benavente urged the commissioners to approve the insurance proposal, emphasizing the importance of coverage for engineers. He also requested authorization to use the self-insurance fund for professional coverage if the insurance proposal was not fully approved.

After deliberation from the Commissioners on whether to approve the insurance proposal as presented or to explore alternatives such as self-insurance for certain coverage areas, Commissioner Flores-Brooks motioned to approve the casualty insurance, subject to reevaluation on the part of GPA whether or not professional should be self-insured, which motion was seconded by Commissioner Perez-Camacho. The motion passed with 4 votes in favor and 1 opposed, with Commissioner Guerrero casting the opposing vote.

- **GPA Docket No. 24-01**

The Acting Chairperson announced that the next item of business on the agenda was Guam Power Authority ("GPA") Docket 24-01, Petition for Approval and Authorization for GPA to Award Property Insurance; ALJ Report; and Proposed Order.

ALJ Horecky noted that the petition was filed only four (4) hours prior to the PUC meeting and explained that he had no time to prepare a report.

GPA Benavente expressed the critical nature of the docket, emphasizing the need for property insurance. He suggested the possibility of recessing the current meeting and reconvening after the commissioners had a chance to review the docket. He mentioned the urgency of the matter as the deadline for signing is approaching on October 31st.

A brief discussion between ALJ Horecky and the Commissioners ensued regarding the idea of a recess and review of the Open Government Law requirements.

RECESS WAS TAKEN FROM 7:36 P.M. TO 7:46 P.M

Acting Chairperson reconvened the meeting at 7:46p.m. ALJ Horecky clarified that the Open Government Law allows for adjournment and reconvening, and they can adjourn and reconvene on Tuesday at 2 p.m. He mentioned the 24-hour notice requirement for posting on the meeting place's door but suggested that they could readjourn. The

commissioners discussed the need for time to review information and agreed that ALJ Horecky would provide all necessary details by the end of the day on Monday. The Commissioners opted to move onto administrative matters.

3. Administrative Matters.

The Acting Chairperson then announced that the next item of business on the agenda was administrative matters regarding FY2024 Port Authority of Guam Budget for informational purposes only.

No discussion occurred during this matter.

- **FY2023 Financial Review**

The Acting Chairperson then announced that the next item of business on the agenda was administrative matters regarding FY2023 Financial Review.

Commissioner Flores-Brooks provided a summary, stating that the year closed with a loss of \$53,826. The primary areas overbudget were Commissioner training and administrative costs, and they had lowered their assessment by \$25,000. She recommended that the Commissioners reconsider the purchase of another TCD, clarifying the authorization for the director to purchase a TCD for \$50,000 for one year and obtain the best quote possible.

A motion was made to approve the purchase of another TCD of \$50,000 by Commissioner Flores-Brooks, which motion was seconded by Commissioner Guerrero. The motion passed unanimously.

Commissioner Flores-Brooks proposed a motion regarding the purchase of a TCD. She suggested authorizing the PUC administrator to seek the best rate for a \$50,000 TCD in the next few days and, going forward, authorizing the Chairman at his discretion for future purchases. Commissioner Perez-Camacho suggested combining the motion into a resolution that spans the term, providing flexibility for future purchases. After some discussion, a motion was made by Commissioner Flores-Brooks, and seconded by Commissioner Perez-Camacho, and passed unanimously, authorizing the administrator to seek the best rate for the TCD and giving future discretion to the Chairman for such purchases.

- **Other discussions**

Commissioner Flores-Brooks discussed scheduling for the November meeting. The initial date was set for November 27th, but there was a proposal to move it to November 28th. After some discussion, a motion was made by Commissioner Flores-Brooks and seconded by Commissioner Guerrero to reschedule the meeting to November 28th. The motion passed unanimously with all commissioners in favor.

Commissioner Guerrero made a motion to recess until October 31st at 2 p.m., and Commissioner Perez-Camacho seconded the motion. The motion passed unanimously.

PUC REGULAR MEETING SUSPENDED AT 7:50 P.M. ON OCTOBER 26, 2023 AND RECONVENED AT 2:11 P.M. ON OCTOBER 31, 2023

The meeting was called to order at 2:11 p.m. Commissioners McDonald, Pangelinan, Perez-Camacho, and Flores-Brooks were in attendance, with Commissioner Joseph McDonald as Acting Chairperson.

1. Guam Power Authority

The Acting Chairperson announced that the only item of business on the agenda was Guam Power Authority ("GPA") Docket 24-01, Petition for Approval and Authorization for GPA to Award Property Insurance; ALJ Report; and Proposed Order.

ALJ Horecky stated that GPA submitted a petition for PUC approval of the property insurance contract for FY 2024 with four 1-year renewal options. The proposed contract with AM Insurance and its affiliates is for a one-year policy period from November 1, 2023, to October 31, 2024, with four 1-year options to renew.

The present property insurance contract expires soon, and the petition seeks approval for the FY 2024 policy. GPA initially issued a solicitation for property insurance for a three-year term with two 1-year renewal options. However, only one bid was received from AM Insurance, and after sole-source negotiations, the annual premium was negotiated to \$7,873,858.

At the October 26th meeting, CCU (Consolidated Commission on Utilities) approved the property insurance policy with options to reduce the premium by increasing the deductible for certain events and reducing sublimits. These options would collectively reduce the premium by approximately \$708,000.

ALJ Horecky questioned the substantial increase in the premium, and GPA's CFO, John Kim, mentioned that requests for an explanation from insurance companies went unanswered. ALJ Horecky considered options to increase the deductible and reduce sublimits, resulting in the potential premium reduction mentioned earlier. ALJ Horecky recognized the necessity of insurance but questioned the reasonableness of the proposed premium.

The proposed annual premium is \$7.8 million, representing a significant increase from the previous year's \$6.67 million. ALJ Horecky acknowledged that while \$7.1 million is not necessarily reasonable, it may be prudent and necessary. ALJ Horecky recommended approving a total annual property insurance premium for FY 2024 of \$7.1 million, with further consideration if any additional renewal options are exercised.

Additionally, ALJ Horecky proposed opening a new docket on self-insurance to explore possibilities such as increasing the self-insurance fund's limit and expanding the coverage it provides. The PUC has historically demonstrated flexibility with the self-insurance fund, allowing its use for various purposes. The order drafted included these recommendations for approval by the Commissioners

GPA Benavente expressed full support for the recommendation to approve the insurance and explore the utilization of the self-insurance fund to reduce premium costs. GPA emphasized the potential decrease in insurance costs after two years when the coverage for Cabras 1 and 2 would no longer be needed. GPA acknowledged the rise in insurance costs, noting that other agencies faced similar challenges, with reports of up to 100% increases in premiums.

GPA confirmed that the proposed insurance coverage is the same as the previous year, with no additional coverage for transmission and distribution. The bond indenture requires property insurance, and while self-insurance is an option, a risk consultant would be needed to assess its sufficiency. GPA expressed the hope that exploring self-insurance options could lead to cost reduction.

Commissioners inquired about insurance claims, premiums, and the necessity of maintaining insurance coverage. They discussed the challenges in the industry, with increasing premiums due to natural disasters and shrinking capacity. The impact of Typhoon Mawar on premiums was also discussed, with GPA confirming that no claims were made for Mawar-related damages.

Commissioner Flores-Brooks raised the idea of accumulating funds through premiums for potential self-insurance, highlighting the substantial amount paid over the years without claims. The bond indenture's requirements and the need for a risk consultant in evaluating self-insurance were clarified. GPA expressed agreement with the recommendations and sought PUC approval for the proposed docket.

In response to a commissioner's question, GPA confirmed that the proposed insurance covers the same assets as the previous year, with no additional coverage for transmission and distribution. The risk manager deemed the proposed premium reasonable, considering it doesn't jeopardize compliance with the bond indenture.

GPA noted the substantial settlement received in 2015 for damages caused by Typhoon Dolphin. The discussion touched on the proposed contract, potential changes to reduce the premium, and the desire for PUC approval to proceed with awarding the contract while allowing flexibility for premium adjustments.

GPA expressed appreciation for the proactive steps taken by the PUC, GPA's legal counsel, and the CCU to address the insurance cost issue. The discussion also covered the impact of the proposed deductible and sublimit changes on premium reduction.

The Commissioners explored the history of claims, premium increases, and the potential for self-insurance. GPA reiterated its support for the recommendations and urged PUC approval for the proposed docket. The discussion concluded with clarifications about the pending approval of the proposed contract and the intention to negotiate the premium within the approved limit. There was also acknowledgment of the need to include language about opening a docket for self-insurance in the order.

There being no further discussion on the matter, a motion was made to approve the proposed order by Commissioner Pangelinan, which motion was seconded by Commissioner Perez-Camacho. The motion passed unanimously.

- **Other Discussion**


GPA Benavente took the initiative to introduce GPA's new legal counsel Marianne Woloschuk. The commissioners extended their greetings to Ms. Woloschuk.

Before the end of the meeting, Acting Chairperson inquired on current GPA's capacity. GPA Benavente provided updates on the current power capacity, reporting a capacity of 252 and an expected demand of 245-247. He expressed the intention to ensure stable power supply during Halloween without causing any outages.

Regarding the Aggreko unit, GPA Benavente stated that it was still undergoing the permit approval process. Meanwhile, Cabras 2 had been operational for two weeks, and Cabras 1 had been running for over two months. GPA Benavente planned to prioritize bringing Dededo 1 and then Dededo 2 online, followed by maintenance activities at Macheche to recover additional capacity.

In terms of the new power plant, GPA Benavente mentioned a target completion date of January 2026, with efforts to potentially advance it to late December 2025. He confirmed that the vendor would own the new plant, alleviating GPA from the need to handle property insurance. The cost savings from this arrangement were expected to contribute to a reduction in overall power costs.

There being no further business, the Commissioners moved to adjourn the meeting. The meeting was adjourned at 2:43 p.m. on October 31, 2023.



Jeffrey Johnson
Chairperson

ATTACHMENT A
THE GUAM PUBLIC UTILITIES COMMISSION
NOTICE OF PUBLIC MEETING

NOTICE IS HEREBY GIVEN that the Guam Public Utilities Commission [PUC] will conduct a regular business meeting, commencing at 6:30 p.m. on October 26, 2023, Suite 703, GCIC Building, 414 W. Soledad Ave., Hagatna.

The following business will be transacted:

Agenda

- 1. Call to Order**
- 2. Approval of Minutes of September 26, 2023 and September 28, 2023**
- 3. Guam Power Authority**
 - **GPA Docket 24-01: Petition for Approval and Authorization for GPA to Award Property Insurance; ALJ Report; and Proposed Order**
 - **GPA Docket 24-02: Petition for Approval and Authorization for GPA to Award Casualty Insurance; ALJ Report; and Proposed Order**
- 4. Administrative Matters**
 - **FY2024 Port Authority of Guam Budget (for informational purposes only)**
 - **FY2023 Financial Review**
- 6. Adjournment**

Further information about the meeting may be obtained from the PUC's Administrator Lourdes R. Palomo at 671-472-1907. Those persons who require special accommodations, auxiliary aids, or services to attend the meeting should also contact Mrs. Palomo.

This Notice is paid for by the Guam Public Utilities Commission

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION

IN THE MATTER OF:) GPA Docket 24-02
)
Guam Power Authority Casualty)
Insurance Contract for FY 2024 with Two) **ORDER**
One-Year Renewal Options)
)
_____)



INTRODUCTION

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

BACKGROUND

3. GPA filed this request for approval of its Casualty Insurance Policy on October 24, 2023, two days before the PUC hearing on October 26. GPA's present line of casualty insurance policies was awarded in 2018 and will expire on October 31, 2023.³

¹ GPA Petition for PUC Approval of Casualty Insurance Contract for FY 2024 with Two One-Year Renewal Options, GPA Docket 24-02, filed October 24, 2023.

² Id. at p. 1.

³ Guam Consolidated Commission on Utilities GPA Resolution No. FY2024-02, To Authorize the Management of Guam Power Authority to Award the Casualty Insurance, adopted and approved on October 24, 2023, GPA Petition at Exhibits A-001-004.

ORIGINAL

4. This Petition only requests approval of GPA's Casualty Insurance Policy currently, but not its Property Insurance Policy. When it issued its Insurance Solicitations in July 2023, GPA decided to issue separate requests for proposals for casualty and property insurance. GPA did this to enable at least one of the bids to move forward with procurement if the other bid became "bogged down."⁴
5. GPA's solicitation for Casualty Insurance included commercial general liability, commercial auto physical damage and commercial auto liability, crime, excess liability, Directors' and Officers', professional liability and excess workers' compensation insurance under multi-step bid MS GPA-062-23.⁵ Only one bid was received for a premium total of \$712,192.00, which substantially exceeded GPA's price estimates for such policy. GPA cancelled the casualty insurance procurement and conducted sole source negotiations with AM Insurance for the Casualty Insurance.⁶
6. Following sole source negotiations, GPA negotiated a lower total premium of \$688,323. The contract term was revised from a three-year term with 2 one additional one-year options to extend to a one-year term with two additional one-year options to extend.⁷

⁴ GPA Responses to PUC Request for Information, dated October 22, 2023 (email from GPA Counsel Theresa Rojas to PUC ALJ Frederick Horecky).

⁵ GPA Petition at p. 2.

⁶ GPA Petition at p. 2.

⁷ Id.

7. On October 24, 2023, the Guam Consolidated Commission on Utilities approved the casualty line of insurance policies offered by AM Insurance for a combined annual premium of \$688,223.⁸
8. The ALJ filed his Report herein dated October 26, 2023.⁹

DETERMINATIONS

9. The PUC-GPA Contract Review Protocol mandates that any contract which exceeds \$1,500,000 requires PUC approval.¹⁰ For this proposed multi-year casualty insurance contract, the price for all terms thereof is estimated to be \$2,064,968. The contract must be reviewed by the PUC.¹¹
10. GPA has established that its Bond Indenture Agreement requires GPA to carry insurance “of a scope and nature as that usually carried in the industry...”¹² GPA cites Section 6.13 of its Bond Indenture, which requires it “to obtain adequate workmen’s compensation, general liability, automotive, and fidelity insurance on all officers and employees responsible for funds and other insurance consistent with that of similar utilities.”¹³ A true and correct copy of Section 6.13 of its Bond Indenture is attached to the ALJ Report as Exhibit “1”.

⁸ Guam Consolidated Commission on Utilities GPA Resolution No. FY2024-02, To Authorize the Management of Guam Power Authority to Award the Casualty Insurance, adopted and approved on October 24, 2023, GPA Petition at Exhibits A-001-004.

⁹ ALJ Report, GPA Docket 24-02, dated October 25, 2023.

¹⁰ Contract Review Protocol for Guam Power Authority, Administrative Docket, dated February 15, 2008, at par. 1(e).

¹¹ GPA Petition at p. 3; Contract Review Protocol for Guam Power Authority, Administrative Docket, dated February 15, 2008, at par. 4(b).

¹² GPA Revenue Bonds Indenture dated December 1, 1992-Section 6.13 Insurance.

¹³ GPA Petition at p. 1.

11. GPA's costs for casualty insurance premiums have increased considerably over the last six-year period (from FY2018-FY2023):

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GL	88,277	76,536	76,536	76,536	76,536	\$ 76,536
Auto	105,005	62,565	69,879	89,879	67,559	\$ 70,106
Professional	-	102,000	102,000	102,000	102,000	\$ 102,000
Excess	204,804	204,804	204,804	204,804	204,804	\$ 204,804
Workmen's	15,236	15,236	15,236	15,236	15,236	\$ 15,236
Blanket Crime	38,700	32,895	32,895	32,895	32,895	\$ 32,895
D&O	68,229	68,229	68,229	68,229	96,667	\$ 102,037
	520,251	562,265	569,579	589,579	595,696	\$ 603,614

14

10. In GPA Resolution FY2024-02, the CCU indicates that the breakdown of the FY 2024 Annual premium of \$688,323 is as follows:

<u>Life of Insurance</u>	<u>Premium</u>
GL	\$ 81,275
Auto	88,124
Professional	145,350
Excess	204,804
Workmen's	15,236
Blanket Crime	49,034
D&O	104,500
	<u>\$ 688,323</u>

11. The proposed increase for Casualty Insurance for the one-year period from FY2023-FY2024 is from \$603,614 to \$688,323. The premium increase from FY2023-2024 (\$84,709) is greater than the increase for the prior six-year period from FY2018-2023 (\$83,363). The overall increase for FY2024 from FY2023 appears to be in the vicinity of 13%. The increase will apply to each year for three years if the contract extensions are exercised by GPA. Prior year increases were minimal.

¹⁴ GPA's Response to PUC Request for Information, dated October 22, 2023 (email from GPA Counsel Theresa Rojas to PUC ALJ Fred Horecky).

12. GPA was able to negotiate a savings of \$23,870 per annum for its proposed Casualty Insurance premiums (from \$712,192 to \$688,323). GPA indicates that the total premium amount of \$688,323.00 is required by GPA's bond indenture and is "reasonable, prudent and necessary."¹⁵
13. At the PUC hearing on the matter, GPA John Kim GPA indicated that GPA had not made any insurance casualty claims during the last six-year period. Over one-half of the cost increase was for Professional insurance (related to GPA engineers). Mr. Kim stated that GPA believes that it may be able to self-insure for the professional insurance.
14. The Commissioners are concerned about the cost of casualty insurance. GPA shall conduct an evaluation of whether GPA can self-insure for professional insurance and possibly other insurance coverages.
15. The Casualty Insurance Contract and the annual premiums should be approved on the grounds of prudence and necessity. The policy should not be allowed to lapse. Without casualty insurance in place, GPA runs the risk of loss or liability for all matters for which the Casualty Insurance Policy provides coverage.

ORDERING PROVISIONS

After review of the record herein, including GPA's Petition for Approval and Authorization for GPA to Award the Casualty Insurance Contract to AM Insurance, the ALJ Report, and for good cause shown, on motion duly made, seconded and carried by

¹⁵ GPA Petition at p. 3.

the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY**
ORDERS that:

1. PUC authorizes GPA to award a Casualty Insurance Policy contract to AM Insurance for a one (1) year policy period beginning November 1, 2023, to October 31, 2024, with two one-year options to renew.
2. GPA is authorized to expend up to \$2,064,968 for a one (1) year policy period and two one-year options to renew.
3. However, approval by PUC is subject to the requirement that GPA evaluate whether it can self-insure for professional insurance. GPA shall notify PUC in writing as to whether it can self-insure for professional insurance before it awards the Casualty Insurance Contract to AM Insurance or binds the policy with an Underwriter.
4. 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.

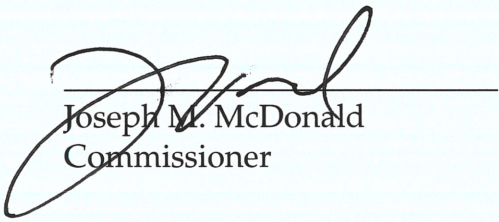
Order
Casualty Insurance Contract Renewal
GPA Docket 24-02
October 26, 2023

Dated this 26th day of October 2023.

Jeffrey C. Johnson
Chairman



Rowena E. Perez-Camacho
Commissioner

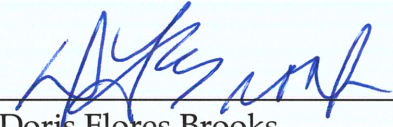


Joseph M. McDonald
Commissioner



Michael A. Pangelinan
Commissioner

Peter Montinola
Commissioner



Doris Flores Brooks
Commissioner

Pedro S.N. Guerrero
Commissioner

NOTICE OF ADJOURNMENT

Pursuant to 5 GCA §8109, on October 26, 2023, the Guam Public Utilities Commission, by a unanimous vote of 5 Commissioners, adjourned its meeting, and held that the meeting would be reconvened at Suite 703, GCIC Building, 414 W. Soledad Ave., Hagatna, on Tuesday, October 31, 2023, at 2:00p.m. The matter to be heard will be GPA Docket 24-01, Petition for Approval and Authorization for GPA to Award Property Insurance, ALJ Report, and Proposed Order.

Dated: October 27, 2023



Lourdes R. Palomo
Administrator
Guam Public Utilities
Commission

ORIGINAL

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)
)
_____)



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.¹
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.²

BACKGROUND

3. GPA's present Property Insurance Policy was awarded in 2018 and will expire on October 31, 2023.³

¹ 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.

² Id. at p. 1.

³ 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.⁴
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).⁵ 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.⁶
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.⁷

⁴ 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.

⁵ Id.

⁶ GPA Petition at p. 2.

⁷ 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 \$7,873,858.⁸ 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.⁹
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 \$708,000.¹⁰
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.¹¹ For this proposed multi-year Property

⁸ 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.

⁹ Id. at Exhibit A-002.

¹⁰ CCU Special Work Session for GPA on October 26, 2023, https://www.youtube.com/watch?v=uu_bI4dLqO0&t=449s.

¹¹ 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.¹²

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...”¹³ 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.”¹⁴

13. GPA’s costs for property insurance premiums over the last six-year period (from FY2018-FY2023) are as follows¹⁵:

	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.

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

¹³ GPA Revenue Bonds Indenture dated December 1, 1992-Section 6.13 Insurance.

¹⁴ Id.

¹⁵ 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.¹⁶ Mr. Kim also indicated that GPA has not made any claims upon the property insurance policy over the past six years.¹⁷
16. GPA did not make any claim for property insurance based upon damage caused by Typhoon Marwar.¹⁸
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,

¹⁶ Testimony of GPA CFO John Kim, PUC Meeting on October 26, 2023.

¹⁷ Id.

¹⁸ 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.¹⁹ The combined monetary impact of these two options would reduce the annual premium by approximately \$708,000.²⁰

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".²¹
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.

¹⁹ GPA Petition at Exhibit A-002-Exhibit A-003.

²⁰ CCU Special Work Session for GPA on October 26, 2023, https://www.youtube.com/watch?v=uu_bI4dLqO0&t=449s.

²¹ 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.

Jeffrey C. Johnson
Chairman



Joseph M. McDonald
Commissioner

Peter Montinola
Commissioner

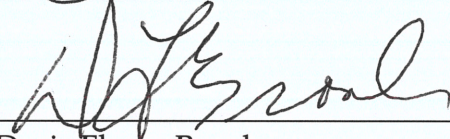
Pedro S.N. Guerrero
Commissioner



Rowena E. Perez-Camacho
Commissioner



Michael A. Pangelinan
Commissioner



Doris Flores Brooks
Commissioner