

# MEMORANDUM OF UNDERSTANDING



## INTEGRATED RESOURCE PLANNING IMPLEMENTATION PROTOCOLS FOR THE GUAM POWER AUTHORITY

)  
)  
)  
)  
)  
)

PUC Docket No. 08-06

---

The Guam Power Authority ("GPA") and Georgetown Consulting Group, Inc. ("GCG") recommend the Public Utilities Commission (PUC) in its oversight role implementing the Integrated Resource Plan (IRP or Plan) filed by GPA on June 14, 2008 adopt and be guided by the principles and regulatory procedures summarized below:

1. **Review.** GCG performed a review and filed a report on September 5, 2008 with the PUC regarding the Plan. The PUC's August 13, 2008 Regulatory Order specified that GCG's report should recommend a process, which would guide regulatory involvement in implementing the Plan and which the PUC should consider in its review of future supply and demand-side resource petitions associated with new power resources.

2. **Background.** The Plan evaluated a full range of energy resource alternatives available to GPA over the course of the next 20-years, including new generating capacity, energy conservation and efficiency, cogeneration, power production efficiency enhancements, and renewable energy resources, for the purpose of determining how customers in the future could be assured of adequate and reliable electric service at the lowest cost.

The Plan presents an optimal resource plan for each of three alternative futures considered—normal, baseline, and high. Near-term decision-making will be based upon the baseline future which assumes significant Department of Defense (DOD) impacts; but, recognizes DOD impacts could be more significant than those contained in the baseline scenario.

3. **Strategic Objectives.** The objectives of the Plan were to: identify a fuel diversification program consistent with reliability, dispatchability, and economic risk to consumers that could be implemented at the earliest date possible; mitigate both the high costs and volatility resulting from GPA's dependence on fuel oil; lessen GPA's dependence on fuel oil by increasing the level of fuel diversification; and, finally provide consumers a detailed and transparent plan (a road map) demonstrating how GPA will move from its current total dependence on fuel oil to a more fuel diversified and efficient power generation resource base.

4. **Renewable Energy Policy Goals.** GPA's near-term baseline resource plan includes the addition of 80 mW of wind capacity by 2012. Public Law 29-62 requires GPA

COPY

to establish preliminary renewable energy portfolio standard goals of five (5) percent of its net electricity sales by December 31, 2015 and increasing by various increments over a 20-year period to twenty-five (25) percent of its net electricity sales by December 31, 2035.

5. **Near-term Renewable Resources.** The baseline future in the Plan calls for the addition of significant fuel diversified energy from wind technologies. Wind power is the fuel diversification resource of choice in the near-term with potential contributions from other renewable sources of power, such as solar, if they prove to be competitive to wind. GPA has initiated studies to pursue implementation of a wind strategy and is seeking approval for the development of a renewable energy only procurement process to accelerate its renewable energy strategy. GPA intends to award a renewable energy resource development contract no later than 2009. With the installation of 80 mW of renewable capacity GPA will be on track to meet the renewable energy portfolio standard goals set in Public Law 29-62.

6. **Natural Gas.** The baseline future in the Plan includes the conversion of the TEMES combustion turbine from No. 2 fuel oil to natural gas. GPA proposes it purchase LNG (liquefied natural gas) from regional suppliers, transport, unload, store, re-gasify the LNG to natural gas, and burn at the TEMES combustion turbine. Before proceeding with implementation of an LNG strategy, GPA will undertake a study to determine the optimal use of natural gas for the TEMES combustion turbine as well as its base load generators. This study will be submitted to the PUC for review and approval before any investments are made for LNG infrastructure.

7. **Guam Sea Water Air Conditioning (GSWAC).** The baseline future in the Plan includes a large scale demand-side management project proposed to cost \$100 million and slated for installation in 2013. The project involves providing air conditioning for large-scale buildings such as hotels and similar facilities requiring extensive air conditioning. The degree of involvement by GPA in this project is unknown at this time. GPA will not proceed with this project until it presents a petition to the PUC that identifies its proposed investment in the project and obtains final approval from the PUC of a GSWAC development plan. The development plan must identify GPA's financial commitment to the project and must fully protect other ratepayers from any financial or other risk incurred as a result of GPA's investment.

8. **Resource Procurement Principles.** The foundation upon which GPA shall procure the renewable, demand-side, and conventional resources identified in the Plan embodies the requirement that all procurements are fully transparent and all resources are subject to competitive bidding to minimize risk to consumers. GPA will utilize the private sector to the greatest extent possible in the implementation of the Plan. The procurement principles to be followed, as a minimum, include:

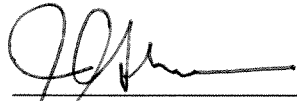
- a. GPA's use of fully transparent processes including competitive request for proposals (RFP) for the turn-key acquisition and development of future renewable, demand-side, and conventional energy projects. This method of acquisition will enable GPA to acquire fuel diversified resources competitively at the earliest date possible.

- b. GPA's consideration of public/private development models such as the "White Creek" wind project to determine if even greater economic savings can be achieved when compared to traditional development approaches.
- c. Undertaking procurement outreach activities to maximize interest from prospective project proponents in future GPA renewable, demand-side, and conventional power projects and to insure the acquisition of a sufficient number of competitively priced development proposals.
- d. The PUC shall review and approve prior to their release all RFP's used for the purpose of procuring renewable, demand-side management, and conventional power resources or services.
- e. GPA shall provide to the PUC, concurrent with any petition for approval of a renewable, demand-side, or conventional resource, a detailed report describing the resource and its physical characteristics, the need for the resource, its financial implications, as well as the total revenue requirements associated with the resource and a incremental rate comparison showing average consumer rates (\$/kWh) with and without the proposed resource by year through 2020.
- f. In accordance with the PUC's long-established contract review protocol, GPA shall petition for approval all contracts for renewable, demand-side management, and conventional resource development including contracts for construction, fuel supply, operations, and management.

9. **Implementation Oversight.** To insure the timely implementation of the fuel diversification objectives included in the Plan, activities shall be monitored by GCG in accordance with timeframes contained either in the Plan or subsequently established by the PUC.

- a. GCG during the term of GPA's implementation of the Plan shall be provided by GPA quarterly an updated schedule similar to that found in Figure 13-1 of the Plan. This schedule should include all resources—renewable, demand-side, and conventional. GCG shall provide the PUC a quarterly analysis of Plan implementation.
- b. GPA shall notify GCG within one month of any event resulting in a delay to any previously approved PUC resource and the course of action being undertaken by GPA to bring the event back into compliance with its earlier schedule.
- c. Following PUC approval of any renewable, demand-side, or conventional resource and until three months following commercial operation, GPA shall provide GCG a quarterly compliance report, in a form acceptable to the PUC, on the status of project activities.

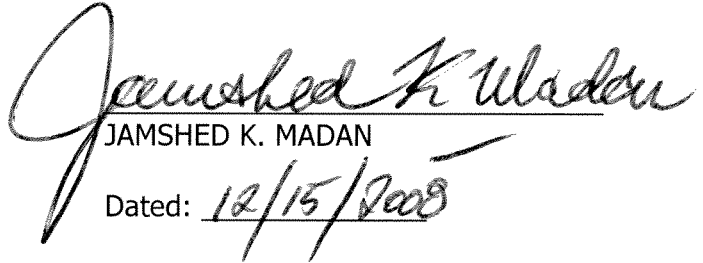
GUAM POWER AUTHORITY



JOAQUIN C. FLORES, P.E.

Dated: 12/15/08

GEORGETOWN CONSULTING GROUP



JAMSHED K. MADAN

Dated: 12/15/2008