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8 *ATTORNEY FOR THE GUAM POWER AUTHORITY*

9 **BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

10
11 IN THE MATTER OF:)

12 The Application of the Guam Power Authority)
13 to Exercise the Second Option to Renew its)
14 Property, Boiler, and Machinery Insurance)
15 Policies for one (1) Year)

DOCKET NO. 94-04

PETITION FOR CONTRACT REVIEW

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18 **COMES NOW**, the GUAM POWER AUTHORITY (GPA), by and through its counsel
19 of record, ANTHONY R. CAMACHO, ESQ., and hereby files GPA's Petition for the Public
20 Utilities Commission of Guam to review and approve GPA's Exercise the Second Option to
21 Renew its Property, Boiler, and Machinery Insurance Policies for one (1) Year, which is as
22 follows:

23 **BACKGROUND**

24 GPA's Bond Indentures mandate that GPA secure and maintain property insurance for all
25 GPA facilities against risk of loss or damage by fire, severe weather, and earthquakes. Further,
26 GPA's operation of the Island Wide Power System is an ultra-hazardous activity and GPA's
27 insurance needs are complex.
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1 GPA's management has determined that it is in the best interests of GPA's ratepayers that
2 GPA procure Property, Boiler, and Machinery Insurance Policies for multiple years and that such
3 multi-year contracts result in the efficient use of GPA's procurement resources because
4 insurance solicitations require a great deal of time and effort to complete because of GPA's
5 complex insurance requirements. Such multi-year contracts are authorized by Guam's
6 Procurement Laws and Regulations pursuant to 5 G.C.A. §5237. On July 2, 2003, GPA issued
7 GPA-RFP-028-03 for Casualty, Property, Boiler, and Machinery Insurance soliciting for a
8 contract with an insurance provider with a three (3) year term with conditions for extensions.
9 AM Insurance, a duly licensed Guam surplus lines broker or agent and a brokerage team that
10 includes a London based brokerage firm, was the only entity that submitted an offer in response
11 to the Property, Boiler, and Machinery portion of the RFP. AM Insurance was awarded the
12 contract pursuant to the RFP, and said contract was for a three (3) year term with two (2) options
13 to extend the contract for one (1) year upon the mutual agreement of both parties. The initial
14 three (3) year term of said contract expired on or about November 1, 2006, and GPA's
15 Management exercised the first option to renew the contract for one (1) year and said renewal
16 period will expire on November 1, 2007. GPA's Management decided to exercise the second
17 option to renew the contract for one (1) year which will begin on or about November 1, 2007 and
18 end on or about November 1, 2008.

19 20 **DISCUSSION**


21 GPA hereby petitions the PUC, pursuant to the Contract Review Protocol for the Guam
22 Power Authority, approved by the PUC on February 2, 2006, to review and approve the exercise
23 of the second option to renew the aforementioned contract for one (1) year. GPA hereby
24 requests an expedited review of this petition. Pursuant to 12 G.C.A. §12004, GPA hereby
25 waives a final determination on this motion made by all members of the PUC and GPA shall
26 accept and treat a decision made on this matter by the PUC authorized designee as the PUC's
27 final determination on this motion.
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1 In support of this Petition, GPA hereby provides the PUC with Consolidated Commission
2 on Utilities (CCU) Resolution No. 2007-13 which find that the exercise of the second option to
3 renew the contract for one (1) year, is reasonable, prudent, and necessary. The resolution
4 contains the following exhibits: (i) A description of the procurement; (ii) An analysis from a
5 technical and cost benefit perspective of all reasonable alternatives; (iii) A detailed review of the
6 procurement; (iv) Cost Estimates; (v) The projected source of funding; (vi) A supported
7 finding that exercising the second option to renew the contract for one (1) is reasonable, prudent,
8 and necessary. Said resolution and it's exhibits are attached herein as Exhibit A, and is hereby
9 incorporated by reference herein as if fully set forth.

10
11 **CONCLUSION**

12 The PUC should approve the exercise of the second option to renew the contract for one
13 (1) year because it is reasonable, prudent, and necessary.

14 **RESPECTFULLY SUBMITTED** this 18th day of June, 2007 by:

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18 ANTHONY R. CAMACHO, ESQ.
19 Attorney for the Guam Power Authority



CONSOLIDATED COMMISSION ON UTILITIES

Guam Power Authority • Guam Waterworks Authority
P.O. BOX 2977 • Agana, Guam 96932

CONSOLIDATED COMMISSION ON UTILITIES

RESOLUTION NO. 2007-13

AUTHORIZING THE MANAGEMENT OF THE GUAM POWER AUTHORITY TO EXERCISE AN OPTION TO RENEW POLICIES FOR INSURANCE COVERAGE FOR ONE (1) ADDITIONAL YEAR

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WHEREAS, the Guam Power Authority (GPA) has broad statutory authority to enter into contracts and to insure the electrical system pursuant to 12 G.C.A. §8104(5), §8104(11), and §8233; and

WHEREAS, GPA's Bond Indentures mandate that GPA secure and maintain property insurance for all GPA facilities against risks of loss or damage by fire, severe weather, and earthquakes. Further, GPA's operation of the Island Wide Power System is an ultra-hazardous activity and GPA's insurance needs are complex; and

WHEREAS, GPA's Management determined that it is in the best interest of GPA's ratepayers that GPA procure Property, Boiler, and Machinery Insurance Policies for multiple years and that such multi-year contracts result in the efficient use of GPA's procurement resources because insurance solicitations require a great deal of time and effort to complete because of GPA's complex insurance requirements. Such multi-year contracts are authorized by Guam's Procurement Laws and Regulations pursuant to 5 G.C.A. §5237.

WHEREAS, on July 2, 2003, GPA issued GPA-RFP-028-03 for Casualty, Property, Boiler, and Machinery Insurance soliciting for a contract with an insurance provider with a three (3) year term with conditions for extensions. AM Insurance, a duly licensed Guam surplus lines broker or agent and a brokerage team that includes a London based brokerage firm, was the only entity that submitted an offer in response to the Property, Boiler, and Machinery portion of the RFP; and

WHEREAS, AM Insurance was awarded the contract pursuant to the RFP, and said contract was for a three (3) year term with two (2) options to extend the contract for one (1) year upon the mutual agreement of both parties; and

WHEREAS, the initial three (3) year term of said contract expired on or about November 1, 2006, and GPA's Management exercised the first option to renew the contract for one (1) year and said renewal period will expire on November 1, 2007. GPA's management is requesting to exercise the second option to renew the contract for one (1) year which will begin on or about November 1, 2007 and end on or about November 1, 2008; and

WHEREAS, GPA's Management has determined that the total monetary amount of exercising the second option to renew the contract for one (1) year is approximately \$6,000,000.

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WHEREAS, GPA's Management has provided the Consolidated Commission on Utilities (CCU) a report that includes: (1) A description of the contract and the second option to renew the contract for one (1) year; (2) An analysis from a technical and cost benefit perspective of all reasonable alternatives; (3) A detailed review of exercising the second option to renew the contract for one (1) year; (4) Cost estimates for exercising the second option to renew the contract for one (1) year; (5) The projected source of funding to exercise the second option to renew the contract for one (1) year; (6) A supported finding that exercising the second option to renew the contract for one (1) year is necessary and within the context of GPA's other priorities, and a copy of this report is attached herein as Exhibit A, and a copy of said supported finding is attached herein as Exhibit B; and


NOW THEREFORE BE IT RESOLVED, by the Consolidated Commission on Utilities, as follows:

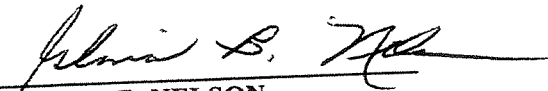
1. After careful review of the documents attached herein as Exhibits A and B, the Consolidated Commission on Utilities finds that exercising the second option to renew the contract for GPA's Property, Boiler and Machinery Insurance Policies for a one (1) year period is reasonable, prudent, and necessary.
2. The Management of the Guam Power Authority is hereby authorized to proceed with exercising the second option to renew the contract for GPA's Property, Boiler and Machinery Insurance Policies subject to regulatory review and approval.
3. The signature of the General Manager or his duly authorized designee shall be sufficient to bind the Guam Power Authority for the purposes set forth in paragraphs 2 herein.

SO RESOLVED AND DULY AND REGULARLY ADOPTED this 5th day of June, 2007.

Certified by:

Attested by:


SIMON A. SANCHEZ II
Chairperson
Consolidated Commission on Utilities


GLORIA B. NELSON
Secretary
Consolidated Commission on Utilities

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SECRETARY'S CERTIFICATE

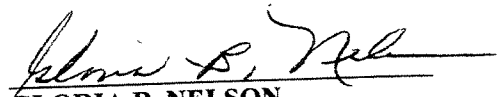
I, **Gloria B. Nelson**, Secretary for the Consolidated Commission on Utilities do hereby certify that the foregoing is a full, true, and correct copy of a resolution duly adopted at a regular meeting of the members of Guam's Consolidated Commission on Utilities, duly and legally held at the meeting place thereof on June 5, 2007, at which meeting all of said members had due notice and at which at least a majority thereof were present; and

At said meeting said resolution was adopted by the following vote:

Ayes: 4
Nays: 0
Absent: 0

As of the date of this certification, said original resolution has not been amended, modified, or rescinded since the date of its adoption, and the same is now in full force and effect.

SO CERTIFIED this 5th day of June, 2007.


GLORIA B. NELSON
Secretary
Consolidated Commission on Utilities



GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

June 5, 2007

MEMORANDUM

TO: GENERAL MANAGER

FROM: CHIEF FINANCIAL OFFICER

RE: REPORT CONCERNING FINAL YEAR OF PROPERTY, BOILER AND
MACHINERY INSURANCE COVERAGE

Description of the Contract and the Second Option to Renew the Contract for One (1) Year

In 2003, GPA issued an Invitation For Bids for GPA's insurance coverage including the property/boiler and machinery risk. The bid document specified that GPA was seeking a multi-year relationship with its brokers/underwriters by stating that the relationship should be for a three year term with two options to extend for one additional year. The three year term has expired and GPA has exercised the first of its options to extend its relationship.

Analysis from the Technical and Benefit Perspective of All Reasonable Alternatives

There are only two (2) Reasonable Alternatives that GPA's Management is considering which are: (1) Exercise the second option to renew the contract for one (1) year; (2) Issue an Request for Proposal (RFP) soliciting for another insurance contract.

GPA's risk consultant has recommended that due to the state of the insurance markets, GPA should exercise its fifth and final option year for insurance coverage. Please see his recommendation which is attached.

I can attest that during my London meetings last fall, every underwriter but one came to the meetings demanding a 10% premium increase to recover losses incurred from Hurricane Katrina. However, at the end of the day, our London broker was able to secure a small premium rate decrease. This is undoubtedly the result of his familiarity with the GPA risk and is a part of the reason I have

the result of his familiarity with the GPA risk and is a part of the reason I have become convinced that there is a significant benefit to GPA from broker relationships in excess of three years.

The current year premium for the property policy is approximately \$6,000,000. If there are no significant changes to the insurance markets this year, and GPA does not sustain a major loss, I believe that a premium rate decrease of 10-15% or more can be secured. I believe the primary driver for the decreased rate is the familiarity of the insurance brokers with the GPA risk which means they are in a better position to discuss our risk characteristics with underwriters. This type of decrease can only be possible in a situation wherein the broker/underwriter team has a multiple year period in which to develop a relationship and communicate some of the more intangible characteristics of GPA's risk profile. Because there have been no claims in the past few years, GPA's brokers are in a unique position to approach GPA's existing underwriters who have presumably made a profit on GPA's coverage for the last 3 1/2 years. The underwriters should be more likely than ever to accept aggressive pricing of GPA's risk as any losses would likely be offset by earlier profits. This type of position can only be attained in a multi-year relationship. If GPA were to bid its coverage annually, we would never be able to take advantage of this type of opportunity as underwriters would be bidding on the assumption that they may incur a loss during the year and not have an opportunity to recoup the loss.

Detailed Review of Exercising the Second Option to Renew the Contract for One (1) Year

As with all things we always view these situations in terms of what is best for GPA's customers. Although these issues are very difficult to forecast, it is my best professional judgment that GPA's customers would be best served by exercising the final term of GPA's property/boiler & machinery insurance coverage. Therefore, I support the consultant's recommendation.

Because of these reasons, we believe the best option for GPA would be to extend its insurance policies for the last option periods which expire 11/1/08 and 2/1/09. These premiums will be funded from GPA's Revenue Fund.

I would like to request at the CCU meeting on Tuesday that GPA be authorized to pursue the the extension of all of its insurance policies including the Property policy.

As soon as approval from the CCU is obtained, we will bring this matter to the Public Utilities Commission. Final approval from the CCU will be sought shortly before the policy expiration dates.

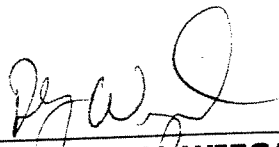
**Cost Estimate for Exercising the Second Option to
Renew the Contract for One (1) Year**

I estimate that the cost of exercising the second option to renew the contract for one (1) year is approximately \$6,000,000.

Projected Source of Income

GPA will use its revenue funds to pay for the costs of exercising the second option to renew the contract for one (1) year.

Please let me know if you have any questions or concerns regarding this matter.


RANDALL V. WIEGAND



GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN
P.O.BOX 2977 • AGANA, GUAM U.S.A. 96932-2977

June 4, 2007

MEMORANDUM

TO: Consolidated Commission on Utilities

FROM: General Manager, Guam Power Authority

SUBJECT: Finding that exercising the second option to renew GPA's Property, Boiler, and Machinery Insurance Policies Are Necessary and Within the Context of GPA's Priorities

GPA's Bond Indentures Mandate that GPA secure and maintain property insurance for all GPA facilities against risk of loss by or damage by fire, severe weather, and earthquakes. On July 2, 2003, GPA issued GPA-RFP-028-03 for Casualty, Property, Boiler, and Machinery Insurance. AM Insurance, a duly licensed Guam Surplus Lines Broker or Agent and a brokerage team that includes a London based brokerage firm, was the only offeror that submitted an offer in response to the Property, Boiler, and Machinery Insurance portion of the RFP. AM Insurance was awarded the Property, Boiler, and Machinery Insurance Contract, and pursuant to the terms of the RFP, said contract is for a term of three (3) years with two (2) options to renew the contract for one (1) additional year. The contract's initial three (3) year term expired on November 1, 2006, and GPA exercised the first option to renew the contract for one (1) year which will expire on November 1, 2007. GPA must exercise the second option to renew the contract for one (1) year or issue an RFP to procure another insurance carrier.

GPA expects to receive a premium deduction between \$500,000 and \$750,000 if its renews the contract for another year. The total cost of exercising the second option to renew the contract for a one (1) period is \$8,178,813.10. GPA has sufficient funds to pay for the \$8,178,813.10 premium costs for the second one (1) year option. Further, GPA will most likely pay higher premiums if it solicits and procures a new Property, Boiler, and Machinery Insurance Carrier this year due to the financial turmoil on world-wide insurance markets caused by Hurricane Katrina.

Based on the foregoing, I find that exercising the second option to renew the contract for one (1) year is necessary and it is within the context of GPA's priorities.

Sincerely,

JOAQUIN FLORES
General Manager
Guam Power Authority

EXHIBIT B