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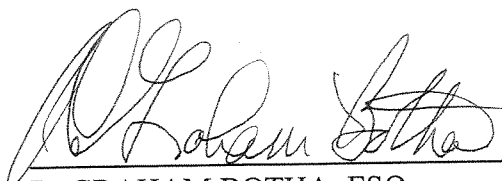
10 *Attorney for the Guam Power Authority*

11 **BEFORE THE PUBLIC UTILITIES COMMISSION**

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13 IN THE MATTER OF) DOCKET NO.94-04
14)
15)
16 The Application of the Guam Power)
17 Authority to Exercise the Second Option to) Supplemental Filing
18 Renew its Property, Boiler, and Machinery)
19 Insurance Policies for one (1)Year)
20)
21 _____)
22)

23 COMES NOW, GUAM POWER AUTHORITY and hereby submits supplements its
24 previous filing of June 18, 2007, with the inclusion of a insurance report by Grennan &
25 Associates, Inc., GPA's Insurance consultant, attached hereto as Exhibit "A." The report
26 recommends that GPA extend its current insurance policy for an additional year, which will
27 allow GPA to continue to strengthen relationships with underwriters therefore laying a
28 foundation for better rates and coverage.

29 **RESPECTFULLY SUBMITTED** this 26thth day of June, 2007, by:

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32 _____
33 D. GRAHAM BOTHA, ESQ.
34 Legal Counsel for the Guam Power Authority

COPY

GRENNAN
& ASSOCIATES, INC
RISK MANAGEMENT CONSULTING

Rich Grennan
Mark Grennan

Date: April 16, 2007

To: Randy Wiegand

Re: GPA Insurance Renewals

Randy:

Before I give you my recommendation on renewals I would like to give you a brief insurance market update. I have gathered this information from our own personal experience, various contacts throughout the world, and various insurance publications.

The insurance market continues to be very unstable even though the industry had one of its best years in 2006. Certain markets are starting to soften while other markets are continuing to harden. Underwriters look at past losses and then tend to rely heavily on catastrophic loss predictions for the upcoming year. You may have heard that Hurricane predictions for the upcoming year are calling for an increased number of Hurricanes hitting the U.S. These types of predictions only add to the uncertainty of the market.

The market uncertainty is further illustrated with comments from a London publication that the market may be classified as hard, soft, and flat all at the same time. It seems that we will have a better handle on the market sometime in late August which is well into the hurricane season.

Since the insurance market continues to be very unstable it is in GPA's best interest to maintain some stability within its own program. One way to maintain this stability is to extend all purchase orders for the final year of a 5 year contract. I feel that extending all purchase orders will provide stability and give GPA more negotiating power when it comes to your November 1 renewals. Following is a summary of our thoughts as to why GPA should extend all purchase orders for insurance:

- The insurance market is very unstable because of the wind related losses (over \$90.0 billion) sustained in 2004 and 2005. Markets are still particularly sensitive to hurricane, typhoon, tsunami, and earthquake perils. GPA needs to insure for these perils and must realize underwriter sensitivity will play a major role in being able to continue to purchase insurance. One of goals is to keep underwriters comfortable with the GPA account.
- New or additional property insurance capacity is minimal, if it exists at all. We must strive to keep all participating underwriters comfortable with the account as

Exhibit "A"

there may not be any other willing participants at renewal. If we loose any participant the premium will undoubtedly go up.

- Global climates, from a Natural Catastrophe frequency/severity perspective, appear to be worsening. While it is impossible to predict the frequency/severity of storms around the world, insurers are recognizing the predictions of worsening hurricanes and typhoons and therefore pulling back the amount of capital they will knowingly expose in wind prone areas, which makes keeping every participant of GPA's current policies essential for best renewal terms.
- GPA currently has a good reputation in London from a risk management point of view, particularly since the visits of top management over the past two years which have installed a level of familiarity and comfort with GPA's business and how they operate. It is imperative that we do everything possible to enhance GPA's good reputation and keep underwriters comfort level high. Extending one more year will help us achieve this goal.
- Expanding on the above thought, Kin Flores' presentation as to the major changes in the technical engineering standards together with last year's presentation regarding the change from being directly political to acting more like a commercial organization from an operational and financial point of view have assisted in raising the profile of GPA as an account with up to date management processes, good ability to allocate funds for necessary risk management improvements, and the vision to be proactive versus reactive. Again, we need to be able to continue to emphasize these efforts and the benefits realized by GPA. By extending one more year we will be able to have meetings with underwriters in London again this year to reemphasize to underwriters GPA's commitment to all of the above.
- Current underwriters have seen the many improvements GPA has made (and continue to make) to their plants, they have witnessed, first-hand, how well these facilities have stood up, in the face of some of the fiercest storms on the planet, and they are, therefore more likely to reward GPA for a job well done than other underwriters who have no history with GPA.
- Underwrites and Insurance companies realize most of their profit after the first year of underwriting an account. If underwriters start to feel that GPA will issue an RFP on a regular basis they will start to pull back their capacity and raise their premium. By extending for a fifth year GPA is showing its loyalty to the market, raising its reputations as an excellent risk, and therefore increasing the number of underwriters that may be willing to participate in the account.
- Issuing an RFP this year could have dire consequences for GPA. Multiple brokers trying to place coverage for a \$300,000,000 limit could either spread the available capacity too thin therefore increasing premium or cause underwriters to issue no quote.

Extending all purchase orders one more year allows GPA to continue to strengthen relationships with underwriters therefore laying a foundation for better rates and coverage. Current underwriters will give GPA the best renewal terms and should be able to provide the capacity that GPA needs. Our ultimate goal is to properly protect GPA

assets at the most economical price. Again, extending for the final year will give us our best chance at achieving our goal.

Randy, please let me know if you have any questions or comments.

Mark Grennan

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