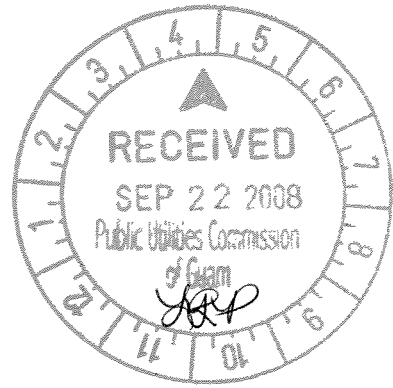


1 **D GRAHAM BOTHA, ESQ.**  
2 **Legal Counsel**  
3 **Guam Power Authority**  
4 **1911 Route 16, Suite 227**  
5 **Harmon, Guam 96913**  
6 **Ph: (671) 648-3203/3002**  
7 **Fax: (671) 648-3290**



8 **BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

9 IN THE MATTER OF:

10 The Application of the Guam Power Authority )  
11 to Exercise Extension Option under the Diesel )  
12 Engine Cylinder Lubrication Oil Contract with )  
13 Shell Guam, Inc. )

**DOCKET NO. 94-04**

**PETITION FOR CONTRACT REVIEW**

14  
15 **COMES NOW**, the GUAM POWER AUTHORITY (GPA), by and through its counsel  
16 of record, D. GRAHAM BOTHA, ESQ., and hereby files GPA's Petition for the Public Utilities  
17 Commission of Guam to review and approve GPA's request to exercise an extension option  
18 under the Diesel Engine Cylinder Oil Contract with Shell Guam, Inc. for the period October 1,  
19 2008 to September 30, 2009, as follows:

20 **BACKGROUND**

21 The Guam Power Authority awarded pursuant to IFB GPA-089-05 a contract to supply  
22 diesel engine cylinder oil to Shell Guam, Inc. for the period October 1, 2005, to September 30,  
23 2006, with an option to extend for three (3) additional one (1) year terms. GPA requests  
24 approval to exercise the third and final extension of the contract from October 1, 2008 to  
25 September 30, 2009. The projected contract cost for this extension is \$1,644,000 for FY2009.

26 **DISCUSSION**

27 GPA hereby petitions the PUC, pursuant to the Contract Review Protocol for the Guam  
28 Power Authority, approved by the PUC on February 2, 2006, to review and approve the  
extension of the Guam Power Authority's cylinder oil fuel contract with Shell Oil, Inc. from

COPY

1 October 1, 2008 to September 30, 2009. In support of this Petition, GPA hereby provides the  
2 PUC with Consolidated Commission on Utilities (CCU) Resolution No. 2008-21, which  
3 authorizes the General Manager to proceed with the extension of the cylinder oil contract. Said  
4 resolution and its exhibits are attached herein as Exhibit A, and incorporated by reference herein  
5 as if fully set forth.

6  
7 **CONCLUSION**

8 The PUC should approve GPA's request to exercise an extension option under the Diesel  
9 Engine Cylinder Oil Contract with Shell Guam, Inc. for the period October 1, 2008 to September  
10 30, 2009, as it is reasonable, prudent, and necessary.

11 **RESPECTFULLY SUBMITTED** this 22nd day of September, 2008.

12  
13 

14 D. GRAHAM BOTHA, ESQ.  
15 GPA Legal Counsel  
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**CONSOLIDATED  
COMMISSION ON UTILITIES**

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

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**RESOLUTION NO. 2008-21**

**AUTHORIZING THE MANAGEMENT OF THE GUAM POWER  
AUTHORITY (GPA) TO PROCEED WITH AMENDING THE CONTRACT  
PRICE FOR THE THIRD (3<sup>rd</sup>) YEAR EXTENSION OF THE EXISTING  
DIESEL ENGINE CYLINDER LUBRICATING OIL SUPPLY CONTRACT**

**WHEREAS**, the Guam Power Authority (GPA) issued GPA-089-05 to procure a supplier of Diesel Engine Cylinder Lubricating Oil and received one bid in response to the said solicitation from Shell Guam, Inc.; and

**WHEREAS**, GPA's management pursuant to GPA-IFB-089-05, awarded the Diesel Engine Cylinder Lubricating Oil Contract to Shell Guam, Inc. as approved by the Consolidated Commission on Utilities on October 11, 2005 through adoption of Resolution No. 2005-030; and

**WHEREAS**, GPA's management amended the contract with Shell Guam, Inc., for the first (1<sup>st</sup>) year extension commencing October 01, 2006 and to expire on September 30, 2007. The cost per gallon was amended from \$4.80 to \$5.20 as approved by the Consolidated Commission on Utilities on September 19, 2006 through adoption of Resolution No. 2006-033; and

**WHEREAS**, due to the increase in the cost of Diesel Engine Cylinder Lubricating Oil, GPA and Shell Guam, Inc. have negotiated an amendment to the contract whereby the contract fixed price per gallon of cylinder oil for the remainder of the first (1<sup>st</sup>) year extension and second (2<sup>nd</sup>) year extension (FY 2008) of the contract will be increased from \$5.20 to \$5.90 as approved by the Consolidated Commission on Utilities on March 27, 2007 through adoption of Resolution No. 2007-010 for the balance of FY 2007 and subsequently on August 14, 2007 by Resolution 2007-18 for FY 2008.

**WHEREAS**, GPA and Shell Guam, Inc. have expressly agreed to extend the contract for the third (3<sup>rd</sup>) and final contract extension year to commence on October 01, 2008 and to expire on September 30, 2009, through adoption of Resolution 2008-09 on April 8, 2008; and

**WHEREAS**, the existing market price for the cylinder lubricating oil has significantly increased by 32% compared to FY 2007 as reflected in the ICIS-LOR base oil index; and

**WHEREAS**, due to the increase in the cost of the cylinder lubricating oil, GPA and Shell Guam, Inc. have negotiated an amendment to the contract whereby the contract fixed price for the third (3<sup>rd</sup>) year contract extension term (FY 2009) will be increased from the original contract bid price of six dollars (\$6.00) to six dollars and eighty five cents (\$6.85) per gallon of cylinder lubricating oil; and

**WHEREAS**, GPA and Shell Guam, Inc. have negotiated the compensation program thru discount incentive earlier adopted in Resolution 2007-10 whereby the program will be extended thru FY 2009; and

**WHEREAS**, the price increase in the cylinder oil contract, is offset by the increased discount given to GPA in its diesel contract with Shell Guam, resulting in a net decrease to GPA for the purchase of cylinder oil and diesel, and it is therefore in the best interest of GPA to accept the cylinder oil increase; and

**WHEREAS**, the Amendment will raise the cost of the third (3<sup>rd</sup>) year extension of the contract from \$1,440,000.00 to \$1,644,000.00.

**NOW THEREFORE, BE IT RESOLVED**, by the Consolidated Commission on Utilities, subject to the review and approval of the Guam Public Utilities Commission, as follows:

1. The Consolidated Commission on Utilities finds the amendment to the Shell Guam, Inc., contract price for the Diesel Engine Cylinder Lubricating Oil reasonable and prudent.

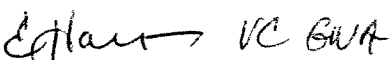
2. GPA Management is hereby authorized to increase the cost of the contract for the third (3<sup>rd</sup>) year extension (FY 2009) from \$1,440,000.00 to \$1,644,000.00 by increasing the fixed price from six dollars (\$6.00) to six dollars and eighty five cents (\$6.85) per gallon of Diesel Engine Cylinder Lubricating Oil.

3. GPA Management is hereby authorized to amend the Shell Guam, Inc. contract GPA-089-05 for Diesel Engine Cylinder Lubricating Oil.

4. The signature of GPA's General Manager, or his authorized designee, shall be sufficient to bind GPA for the purposes described in paragraphs 2 and 3 above.

**SO RESOLVED AND DULY AND REGULARLY ADOPTED** this 9<sup>th</sup> day of September, 2008.

**Certified by:**

  
**SIMON A. SANCHEZ II**  
Chairperson  
Consolidated Commission on Utilities

**Attested by:**

  
**GLORIA B. NELSON**  
Secretary  
Consolidated Commission on Utilities

**SECRETARY'S CERTIFICATE**

I, **Gloria B. Nelson**, Secretary for the Consolidated Commission on Utilities do hereby certify that the foregoing is full, true, and correct copy of the 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 September 09, 2008, at which meeting of all 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:                1      

Abstain:               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 9th day of September 2008.



  
**GLORIA B. NELSON**  
Secretary  
Consolidated Commission on Utilities



# GUAM POWER AUTHORITY

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

## MEMORANDUM

To: Simon A. Sanchez II  
Chairman, Consolidated Commission on Utilities

From: General Manager

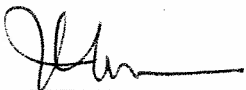
Date: September 08, 2008

Subject: Request for Contract Price Amendment  
Re: IFB GPA-089-05  
Diesel Engine Cylinder Lubricating Oil Supply Contract  
Third (3<sup>rd</sup>) Year Extension

The Diesel Engine Cylinder Lubricating Oil Supply Contract under IFB GPA-089-05 awarded to Shell Guam, Inc. in October 2005 is in its third (3<sup>rd</sup>) and final extension year commencing October 01, 2008 and expiring on September 30, 2009.

Shell Guam, Inc. is seeking GPA's concurrence to amend and increase the contract price from \$6.00 to \$6.85 per gallon of cylinder oil to recover increased product cost.

With the recommendation of the Management Fuel Committee, I am requesting the commission's favorable adoption of the attached Resolution No. 2008-20 relative to this request.

  
\_\_\_\_\_  
JOAQUIN C. FLORES, P.E.

### Attachments:

- (A) Resolution No. 2008-20
- (B) Management Fuel Committee Recommendation
- (C) Contract Review Form
- (D) Shell Request
- (E) Copy of Previous Resolutions
- (F) Copy of Supply Contract



# GUAM POWER AUTHORITY

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

## MEMORANDUM

To: General Manager

From: AGMO

Date: September 05, 2008

Subject: Request for Contract Price Amendment  
Re: IFB GPA-089-05  
Diesel Engine Cylinder Lubricating Oil Supply Contract  
Third (3<sup>rd</sup>) Year Extension

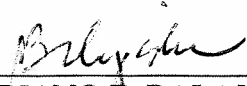
The Diesel Engine Cylinder Lubricating Oil Supply Contract under IFB GPA-089-05 awarded to Shell Guam, Inc. in October 2005 is in its third (3<sup>rd</sup>) and final extension year commencing October 01, 2008 and expiring on September 30, 2009.

In a meeting with Shell Guam, Inc. on August 18, 2008, a periodic review of the market price trend was presented indicating the rising cost of the product which has increased by about thirty two percent (32%) compared to the FY 2007 prices. Shell thereby requested for adjustment in the contract price to recover increased product cost.

The proposed contract fixed price shall be increased to \$6.85 per gallon of cylinder oil. This is \$0.85 or 14.7% higher than the contract bid price of \$6.00 for the 3<sup>rd</sup> extension year.

The compensation program thru discount incentive shall be extended thru September 30, 2009 thereby giving credit to GPA for cylinder oil purchases and discounted towards the Tenjo diesel account.

The Management Fuel Committee has reviewed and determined that the request of Shell Guam Inc. is reasonable and fair. The committee hereby recommend the approval of the requested increase in the contract price of the cylinder oil for the 3<sup>rd</sup> extension year to \$6.85 per gallon.

  
\_\_\_\_\_  
ANDRIANO E. BALAJADIA



# GUAM POWER AUTHORITY

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

## Contract Review Form

**Resolution No.2008-21  
For IFB-GPA-089-05**

### I. DESCRIPTION

#### **Contract Description:**

This Contract will supply the required Diesel Engine Cylinder Lubrication Oil for GPA Generation Plants in Cabras Unit Nos. 3 & 4.

#### **Schedule**

- **Contract Term:**  
One (1) year to commence on October 01, 2005 and to expire on September 30, 2006 with GPA's option to extend for three (3) additional one (1) year extension renewable annually upon mutual agreement of GPA and Contractor.

#### **Justification:**

Diesel Engine Cylinder Lubrication Oil is used in Cabras Unit Nos. 3 & 4 for the lubrication of engine cylinders to protect against damage due to corrosive wear and for the efficient operation of the plant in order to provide the necessary baseload generation capacity. The Second (2nd) year contract extension will expire on September 30, 2008.

### II. ALTERNATIVES

ALTERNATIVE 1: Exercise extension option – Third (3<sup>rd</sup>) and final contract year extension to commence on October 01, 2008 and to expire on September 30, 2009.

ALTERNATIVE 2: Procure a new Contract through an Invitation For Bid process.

### III. REVIEW OF SELECTED ALTERNATIVE

**Alternative 1 is being selected by the GPA Management Fuel Committee. It was determined under the cost benefit analysis that the option to proceed with the 3<sup>rd</sup> contract year extension will be most beneficial for the Authority.**

#### **Cost-Benefit**

A compensation program thru discount incentive was offered by Shell Guam on its letter dated March 07, 2007 and implemented on April 2007. It gives a credit of ten percent (10%) more than the effect of the price increase applied for every gallon of cylinder oil purchases which will

be discounted towards the Tenjo diesel account. The program shall continue until September 30, 2009.

Under this program, the Authority will realize a potential savings of about \$224,400.00 for FY 2009 which will be credited towards the Tenjo diesel account.

**IV. COST ESTIMATES**

**A. Cylinder Oil Contract Expenses**

Projected total quantities for 1 year (Cabras 3 & 4) ~ 240,000 gallons

Contract Fixed Price ~ \$6.85 per gallon (delivered to site)

Total Cost for 3<sup>rd</sup> Year Extension of Contract ~ \$1,644,000.00

**B. Savings**

Compensation thru Discount Incentive Program:

Cylinder oil quantities for 1 year (Cabras 3 & 4) ~ 240,000 gallons

Effect of Price increase = \$6.85 - \$6.00 = \$0.85 per gallon

Credit factor (10% more than the effect of the price increase) = \$0.935 per gallon

Estimated savings = \$224,400.00  
(in the form of credit towards Tenjo Diesel Account)

**REMARKS:**

If savings is applied towards the cylinder oil expenses, the corresponding unit cost for cylinder oil will be reduced from \$6.85 to \$5.91 per gallon which is beneficial for the Authority.

**V. PROJECTED SOURCE OF FUNDING**

Budget revenue funds.

## Base Oil Pricing Database : Domestic Market Prices

Created : OMLS  
 Updated : Sep-08

Data : ICIS-LOR Average reported prices FOB usd/mt

	HVI-60	HVI-160B	HVI-650
Apr-06	833	848	890
May-06	860	870	980
Jun-06	890	908	993
Jul-06	920	935	1003
Aug-06	953	973	1013
Sep-06	953	973	1013
Oct-06	948	965	1013
Nov-06	948	965	1013
Dec-06	948	965	1013
Jan-07	913	930	1000
Feb-07	905	920	990
Mar-07	885	900	980
Apr-07	885	900	980
May-07	865	880	975
Jun-07	855	870	965
Jul-07	840	855	945
Aug-07	840	850	945
Sep-07	840	850	945
Oct-07	840	850	945
Nov-07	853	858	953
Dec-07	865	870	970
Jan-08	850	845	950
Feb-08	923	920	1025
Mar-08	970	980	1060
Apr-08	1050	1040	1175
May-08	1230	1230	1330
Jun-08			

897

970 8.2%

975 0.5%

936 -4.0%

908 -2.9%

879 -3.2%

889 1.2% Over Q3-07

947 6.5% Over Q4-07

1176 24.2% Over Q1-08

**A total of 32% increase since Q4 of 2007**