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For the Guam Power Authority

BEFORE THE PUBLIC UTILITIES COMMISSION

IN THE MATTER OF) DOCKET NO. 02-04
)
GUAM POWER AUTHORITY)
REQUEST FOR AUTHORIZATION TO)
PROCEED WITH THE PROCUREMENT)
PROCESS FOR A NEW PERFORMANCE)
MANAGEMENT CONTRACT FOR)
CABRAS 1&2)
_____)

COMES NOW, GUAM POWER AUTHORITY and hereby submits its filing for authorization to proceed with the procurement process for a new Performance Management Contract (PMC) for Cabras 1&2. The existing PMC relationship will expire at the end of December 31, 2007.

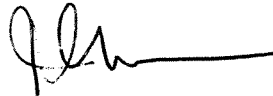
Exhibit A is a position paper providing introductory information on the value of GPA's PMCs for the Authority's customers. Additionally, the document provides a simple benefit cost analysis. The benefit-cost ratio of the incremental cost of having a PMC as opposed to not having a PMC is 7.14 times.

Exhibit B includes a copy of the procurement documents that GPA intends to use in the procurement process. Exhibit C is the Project Schedule. Exhibit D is a copy of the resolution by the CCU allowing the Authority to engage in the process for procuring a new PMC.

COPY

The Authority respectfully requests an expedited review of its submittals. The Authority would like to start the procurement process for a new PMC by June 24, 2007.

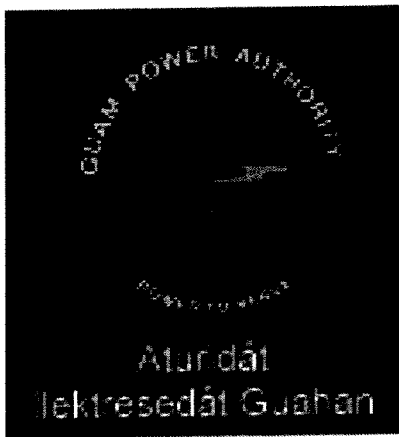
RESPECTFULLY SUBMITTED this **30th** day of **May**, 2007, by:



JOAQUIN C. FLORES, P.E.
Guam Power Authority General Manager

1 **EXHIBIT A: Position Paper**
2

Position Paper on Procuring a PMC for Cabras 1&2 to Replace the Expiring PMC Contract



**Guam Power Authority
April 26, 2007**

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Introduction

This position paper argues that the PUC should allow the Authority to proceed with procuring another PMC for Cabras 1&2.

At the heart of this argument are the results that the Authority has achieved with the PMC and the poor chance for sustainability of those results without a PMC. The PUC's Consultants, GCG, have, in the recent past, commended the Authority on its Prudent Fuel Use program. By their estimates, the Authority, under the CCU governance, has saved rate payers tens of millions of dollars in fuel expenses in contrast to operations under prior management five years prior to the CCU.

The Results of Using PMCs

Figure 1 indicates that as a result of the improvements in the Authority's operating and planning processes, ratepayers have garnered approximately \$65.7 million in savings. During the five years prior to the CCU, only 83% of gross energy production came from baseload units. Figure 2 illustrates ratepayer savings with respect to a 90% energy production from baseloads.

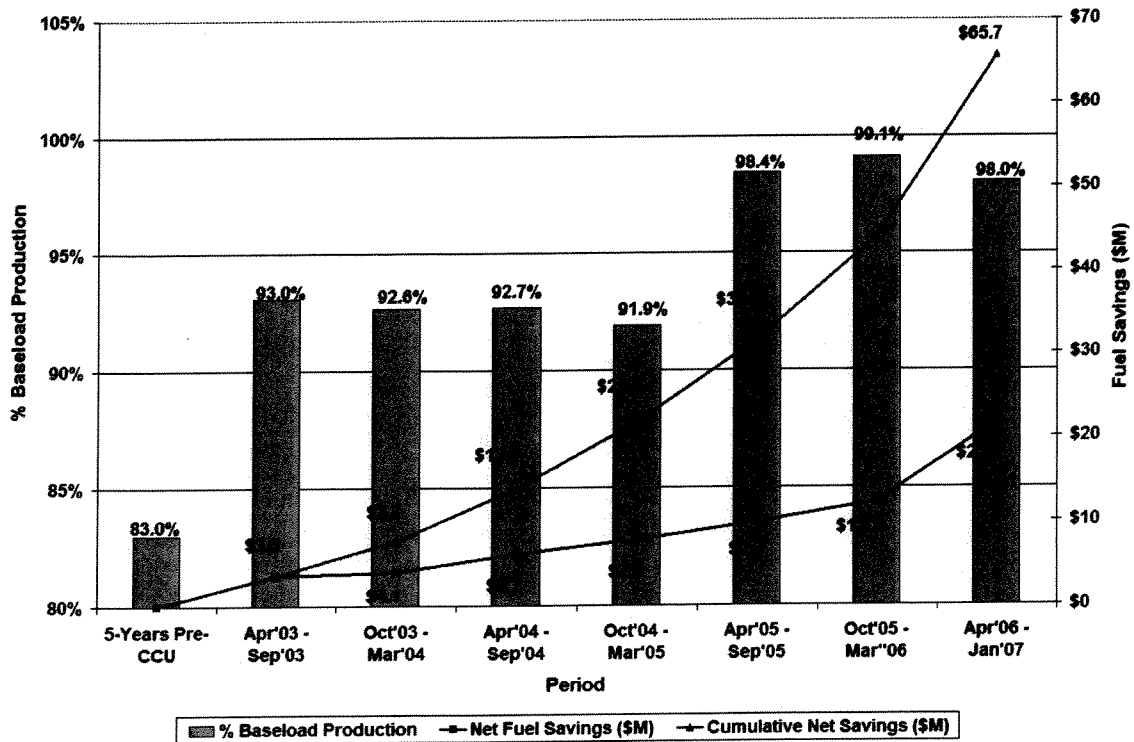


Figure 1, Savings under CCU Operations versus Prior Management

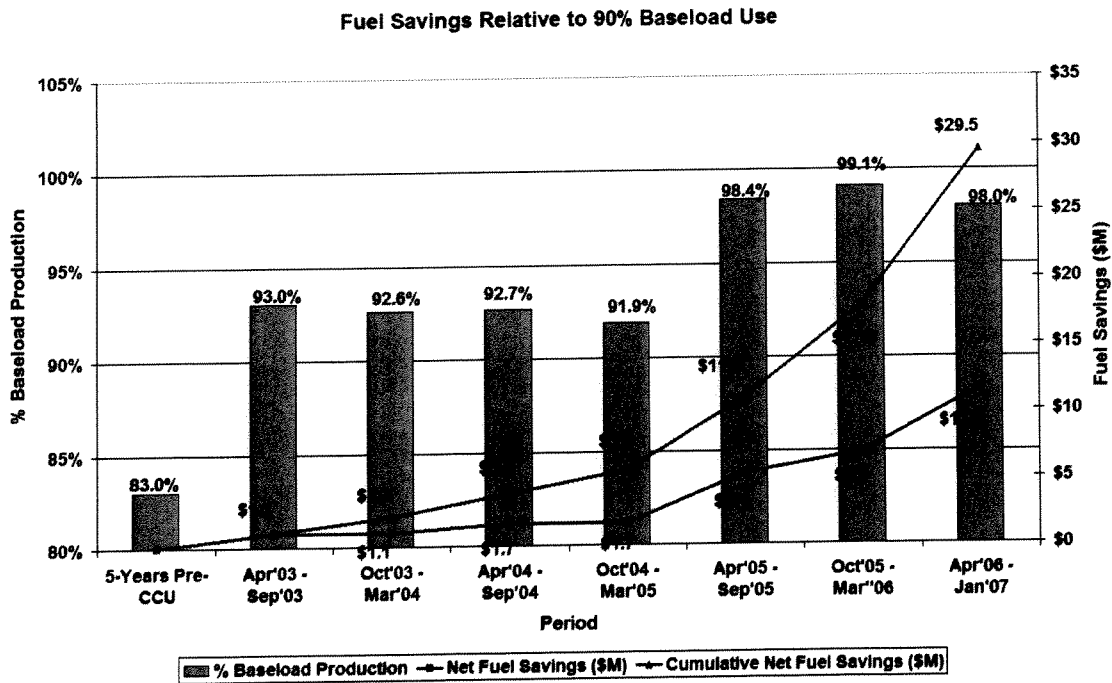


Figure 2, Savings with respect to 90% Energy Production from Baseload Units

The cornerstone for the maintaining these savings is the set of processes and commitments that the Authority has committed to in its *Quality Management Plan for Prudent Fuel Use*. The Authority drafted this document and finalized it in a collaborative effort with GCG.

The commitment to increased generation availabilities, especially of the baseload units, has the greatest impact on these savings. These higher availabilities are due primarily to operation of these units under PMC contracts. The PMC contracts provide a more effective procurement process, as well as a deep pool of technical talent from which to draw upon when needed. Day-to-day O&M is performed by GPA's workforce under the supervision of the PMC. In the Cabras 3&4 PMC bid, the PMC structure was found to provide the greatest contract net present value between the three alternatives: GPA-management, PMC-management, and total plant privatization. Figure 3 indicates that the Authority is meeting its availability targets for baseloads.

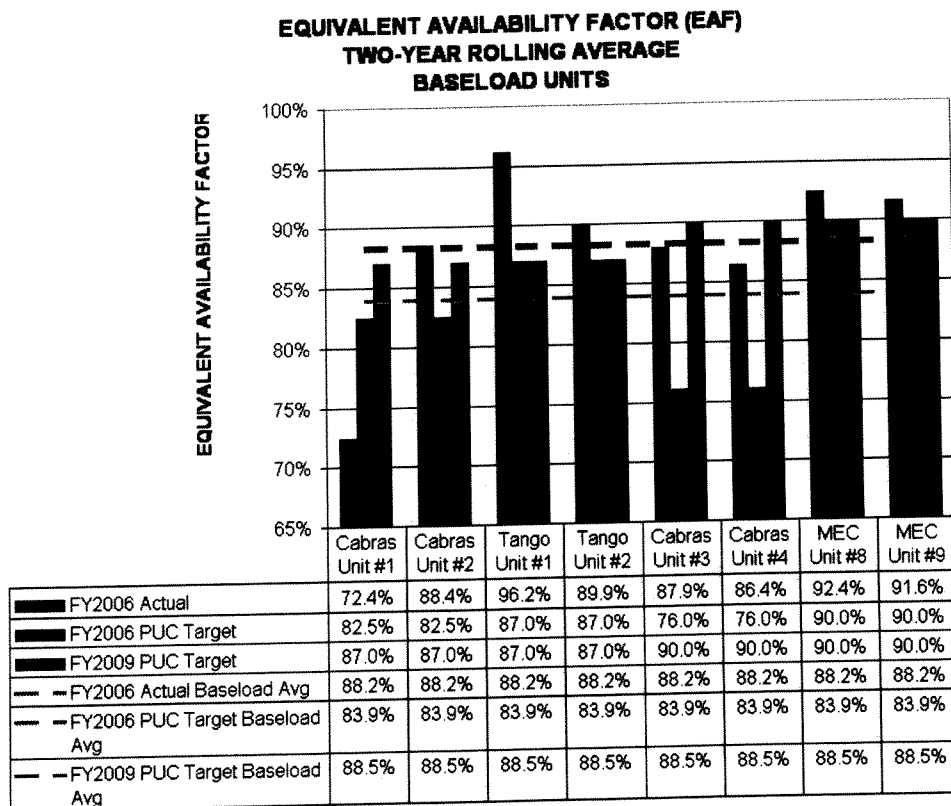


Figure 3, Two-Year Rolling Averages for Baseload EAF

Table 1 shows the annual historical and budgeted costs for the Authority's two PMCs broken down into fixed management fees and other monthly fees (bonuses/penalties). The Authority considers the PMC management fee and net performance bonuses the premium over what operations would cost under GPA management. Using historical costs and prorating the first four months of FY2007, these costs amount to about \$9,198,578.95. The total contract amount for the five years of the Cabras 1&2 PMC is expected to be between \$35 million to \$45 million.

Dividing the fuel savings of \$65.7 million by the above cumulative costs through January 2007 shows that the undiscounted benefit cost ratio for using a PMC is 7.14.

- Industry Experience
- Financing
- Performance History.

Table 1, Annual Historical and Budgeted PMC Contract Costs

Cabras 1&2 PMC
Cabras 1&2 PMC - Fixed Management Fees

	Contract Year 01	Contract Year 02	Contract Year 03	Contract Year 04	Contract Year 05	Totals	Paid To Date (as of 5/7/07)	P.O.
Annual Contract Fee	1,570,000.00	1,596,690.00	1,623,834.00	1,651,439.04	1,679,513.00	8,121,476.04		
Monthly Fees	130,833.33	133,057.50	135,319.50	137,619.92	139,959.42			
FY03	1,177,500.00					1,177,500.00	1,177,500.00	Contract
FY04	392,500.00	1,197,517.50				1,590,017.50	1,257,674.56	Contract
FY05		399,172.50	1,217,875.50			1,617,048.00	1,617,048.00	8846-OP
FY06			405,958.50	1,238,579.28		1,644,537.78	1,644,537.78	10278-OP
FY07				412,859.76	1,259,634.75	1,672,494.51	832,738.02	11508-OP
FY08					419,878.25	419,878.25		
TOTALS	1,570,000.00	1,596,690.00	1,623,834.00	1,651,439.04	1,679,513.00	8,121,476.04	6,529,498.36	

Note: Paid to Date for Cabras 1&2 PMC does not include April 2007 FMF.

Cabras 3&4 PMC - Fixed Management Fees

	Contract Year 01	Contract Year 02	Contract Year 03	Contract Year 04	Contract Year 05	Totals	Paid To Date (as of 5/7/07)	P.O.
Annual Contract Fee	1,230,000.00	1,266,900.00	1,304,910.00	1,344,050.00	1,384,380.00	6,530,240.00		
Monthly Fees	102,500.00	105,575.00	108,742.50	112,004.17	115,365.00			
FY05	922,500.00					922,500.00	922,500.00	9465-OP
FY06	307,500.00	950,175.00				1,257,675.00	1,257,674.56	10277-OP
FY07		316,725.00	978,682.50			1,295,407.50	751,695.00	11504-OP
FY08			326,227.50	1,008,037.50		1,334,265.00		
FY09				336,012.50	1,038,285.00	1,374,297.50		
FY10					346,095.00	346,095.00		
TOTALS	1,230,000.00	1,266,900.00	1,304,910.00	1,344,050.00	1,384,380.00	6,530,240.00	2,931,868.56	

Reasons Why GPA Contracted its First Generation PMCs

GPA had several needs and deficiencies. It would spend millions rehabilitating plants only to have the same situation reoccur a few years later. PMC originated as a staff idea and was refined in a collaborative process. GPA entered into PMCs for its baseload facilities for the following reasons:

- Management, Technical and Craft Skills
- Organizational & Plant Corporate Culture
- GovGuam Procurement Process

GPA had a problem with its pool of plant management, technical and craft skills. Its formal training programs were not institutionalized. Additionally, there was a dearth of highly skilled and experienced plant management, technicians, and engineers at the plants for a variety of reasons including compensation.

GPA's plant organizational and corporate culture did not lend itself to best practices. The problems included:

- Poor Business Processes
- Dearth of Written Procedures and Processes
- Operations Manual still in Draft
- Missing Key Fundamentals Not Institutionalized.

Business Processes are crucial to effectively and efficiently run a power plant. As technology develops they become tools to assist in the analysis of information to make sound decisions. GPA has progressed with technology in some areas and remained archaic in others. Some examples of poor business processes include:

- ◆ Non-optimal use of Mark V Historian and metering for analysis of performance data
- ◆ Manual Recording Processes
- ◆ Most capital and O&M expenditures not based on technical and economic analyses.

There was a dearth of written procedures and processes. Written procedures increase the likelihood of consistent operations.

GPA was missing key fundamental elements in its corporate culture and practice including:

- Root-Cause Analysis
- Performance Analysis
- Predictive Maintenance
- Information-Based, Math-Based Decisions
- Learning Culture.

A root-cause analysis culture determines the root cause of outages and attacks the problem at the root so that it does not reoccur. A non-root-cause culture tends to find ways to operate around problems that eventually fail when the fundamental issues are not resolved. A culture based on performance analysis measures and analyzes current and past performance in order to set near-term and long-term performance goals. If a business does not measure its key processes, it cannot manage them effectively. A predictive maintenance based culture is not passive. It does not wait for equipment failures to happen, it anticipates them. Knowing how long an asset can remain in service enables making more effective use of assets and the timing of repairs and replacements. An information-based, math-based culture makes effective use of information to lower total costs of ownership while increasing performance. A learning culture is one that educates its employees. However, most importantly, its employees demand and pursue better and more effective training and education in order to perform their job better.

The Government of Guam procurement process has once been proclaimed arcane by GCG. Procurements were easily derailed by proponents who gamed the system. External declarations for emergency procurement required for urgent procurements. Under the PMC, a contractor was onboard the next business day to resolve a catastrophic failure at Cabras Steam plant.

The Authority's generation staff institutional experience was not vast. It had limited network of industry contacts for key technical needs, and limited access to specialized skills, education, and experience. The Authority did not have an extensive back office of specialized plant engineers, either own-staff or on-call consultants.

GPA had very shallow pockets. GPA selected a PMC with the ability to finance large projects. This allowed the Authority to push out demands on its constrained cash flow.

Plant performance under GPA management was poor compared to that of its IPP managed plants.

Where is GPA Now?

The Authority has increased its management, technical and craft skills of its generation employees. The Authority has a Department of Labor certified apprenticeship program for skilled crafts and non-degreed plant positions. However, GPA still needs to institutionalize its plant trade theory training. Skill levels have been increasing but the Authority does not believe that skills are at the levels needed to independently and optimally operate and maintain the plant. The Authority is looking to hire experienced and highly trained plant engineers who can independently perform the following functions:

- Results Engineer
- Electrical Systems Engineer

- Instrumentation & Control Engineer
- Mechanical Systems Engineer
- Operations Engineer.

Many of the issues regarding plant organizational and corporate culture issues remain. The Authority recognizes the need to adopt fundamental management tools for prioritizing and identifying operations and maintenance issues. For example, the Authority would like to train operations personnel to routinely use pareto charts, and statistical process controls.

Although there is some use of plant performance information to improve plant operations, data from the Mark V Historian, Honeywell, and other instruments are not downloaded, analyzed and archived effectively. Many data recording processes are still manual such as plant hourly readings. Although the Cabras 1&2 operations procedures are in draft form, many new business processes have not been institutionalized and documented. Although there is some improvement on key fundamentals, the cultural transformation to a culture based on root-cause analysis, performance analysis, predictive maintenance, information-based, math-based decisions, and continuous learning is not complete.

With respect to problems with the Government of Guam Procurement Process, nothing has changed. GPA is still following GovGuam Procurement Regulations. Its procurement process is lengthy, at risk for derailment of procurement (example: Bucket Trucks), not suitable for a utility operations business process. GPA may be able to weather a wait a year for administrative supplies. However, GPA cannot afford to wait a year for a critical part on a \$60 million machine.

With respect to industry experience, TEMES network of industry contacts for key technical needs resides with TEMES and its sub-contractors. Any extensive back office of specialized plant engineers resides with TEMES.

With respect to financing, GPA has very shallow pockets and poor credit. PMC-supplied financing has enabled GPA to move cash outlays into the future.

With respect to performance history, The Authority is still very much dependent on PMCs for maintaining good availability. The Authority believes that improvement in plant efficiency still is an issue; albeit not the most pressing one.

Conclusion

The First Version of PMC enabled GPA to come out of fire-fighting mode and out of crisis management. Procurement is still a significant problem. If not outsourced, GPA will encounter the same problems prior to the PMC.

GPA needs to outline a mechanism whereby it can monitor and evaluate its ability to operate independent of a PMC as part of the next PMC contract. GPA expects to

remove layers of responsibility over time from the existing PMC responsibilities and transition these over to GPA.

The next generation of PMC contracts should concentrate on higher hanging fruit; e.g., greater plant automation and establishing a plant engineering section.

Five Years was not sufficient to complete the necessary organizational and corporate culture transformations. GPA and the PMC's efforts have largely concentrated on major rehabilitation of the plant. The Job of transforming GPA Generation Plant Operations into a modern, cost-performance based culture is not completed. Therefore, the Authority, the CCU and the PUC should allow a smooth and speedy process to bid out for a PMC contract to replace the expiring contract for Cabras 1&2.

1 **EXHIBIT B: Procurement Documents**

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4 Attachments:

- 5
6 ➤ Volume I - Commercial Terms and Conditions
7 ➤ Volume II - Technical and Functional Requirements
8 ➤ Volume III- Plant Technical Description
9 ➤ Volume IV- Proposal Scoring Mechanism
10 • Qualitative Proposal Scoring.xls
11 • Price Proposal Evaluation.xls
12 ➤ Volume V -Appendices
13 • APPENDIX A – Proposal Checklist
14 • APPENDIX B – Performance Bond
15 • APPENDIX C – List of Surety Companies Licensed To Do Business In
16 Guam
17 • APPENDIX D – Major Shareholders Disclosure Affidavit
18 • APPENDIX E – Non-Collusion Affidavit
19 • APPENDIX F – Performance Guarantees
20 • APPENDIX G – Incentive & Penalty Assessments
21 • APPENDIX H – Cabras 1 & 2 Employee Organization Chart
22 • APPENDIX I – Fuel Specifications
23 • APPENDIX J – Bid Bond Form and Instructions
24
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1 **EXHIBIT C: Proposed Project Schedule**
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EXHIBIT D: Resolution No. 2007-08



**CONSOLIDATED
COMMISSION ON UTILITIES**

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

RESOLUTION NO. 2007-08

**RESOLUTION RELATIVE TO DIRECTING THE DEVELOPMENT OF BID
DOCUMENTS FOR AND APPROVING OF THE PROCUREMENT OF A
PERFORMANCE MANAGEMENT CONTRACT (PMC) FOR CABRAS UNITS 1&2
POWER PLANT**

WHEREAS, GPA (Authority) has provided increased availability and efficiency at the Cabras 1&2 power plant through a Performance Management Contract for the management and operations and maintenance of that power plant resulting in millions of dollars in annual fuel savings for the ratepayer in contrast to pre-CCU plant operation; and

WHEREAS, the Authority has through its past experience with the PMC, found that the partnership has been very effective and has enabled GPA to function more effectively which ultimately benefits the consumers; and

WHEREAS, this PMC contract will expire on December 31, 2007; and

NOW, THEREFORE, **BE IT RESOLVED**, by the CONSOLIDATED COMMISSION ON UTILITIES, the GOVERNING BODY of the GUAM POWER AUTHORITY as FOLLOWS:

1. The Consolidated Commission on Utilities hereby directs the development of bid documents for the procurement of a Performance Management Contract (PMC) for Cabras 1&2 power plant;
2. GPA Management is hereby authorized to issue an IFB to procure a PMC for Cabras 1&2 power plant.

RESOLVED, THAT THE CHAIRMAN OF THE COMMISSION CERTIFIES AND THE SECRETARY OF THE COMMISSION ATTESTS THE ADOPTION OF THIS RESOLUTION.


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DULY AND REGULARLY ADOPTED THIS 27th DAY OF MARCH 2007.

Certified by:


SIMON A. SANCHEZ II
CHAIRMAN

Attested by:


GLORIA B. NELSON
SECRETARY

SECRETARY'S CERTIFICATION

I, GLORIA B. NELSON, Secretary, Consolidated Commission on Utilities, hereby certifies as follows;

The foregoing is a full, true, and correct copy of a resolution duly adopted at a regular meeting of the members of the Consolidated Commission on Utilities of the Guam Power Authority duly and legally held at the meeting place thereof on March 27, 2007, at which meeting all of the said members had due notice and at which at least a majority thereof were present.

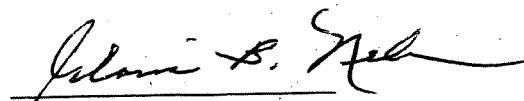
At said meeting, said resolution was adopted by the following vote:

Ayes	5
Nays	0
Absent	0
Abstentions	0

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 in effect.

SO CERTIFIED this 27th day of MARCH 2007.




GLORIA B. NELSON
Secretary, Consolidated Commission on Utilities