



CONSOLIDATED COMMISSION ON UTILITIES

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

CONSOLIDATED COMMISSION ON UTILITIES REGULAR MEETING OF Guam Power Authority *GPA Board Conference Room* 5:00 p.m., Tuesday, January 16, 2007

MINUTES

I. CALL TO ORDER

The Chairman called the regular meeting of the Guam Power Authority to order at 5:25 p.m. and announced that (4) Commissioners were present.

Comm. Ada motioned and Comm. Palomo seconded that Comm. Nelson be excused from this meeting; she was off-island. There was no objection and the motion passed.

The attendance roster follows:

Commissioners:

Simon Sanchez	Chairman
Benigno Palomo	Vice-Chairman - GPA
Tom Ada	Vice-Chairman - GWA
Gloria Nelson	CCU Secretary (Excused – Off-island)
Eloy Hara	CCU Treasurer

Executive:

John Benavente	General Manager, Consolidated Utility Services (GMCUS)
Kin Flores	General Manager, Guam Power Authority (GMGPA)
Danny Santos	Asst. GM, Consolidated Administration (AGMCA)
John J. Cruz	Asst. GM, Operations, Acting (AGMO-A)
Randy Wiegand	CFO / Finance

Legal Counsel:

Graham Botha	GPA Staff Attorney
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Management & Staff:

Arlene Sahagon	Internal Auditor (A) / Internal Audit
Frank Blas	Manager of Generation / Generation
John Crisostomo	Safety Administrator / Safety
Art Perez	Communications Manager (A) / Communications
Melinda Camacho	Engineering Mgr / Engineering
Lenora Sanz	Controller / Finance
Tami Muna	Contracts Administrator / Finance
Barbara Cruz	Engineer / GPA-GWA
Jaimie Pangelinan	Supply Mgmt. Administrator / Procurement
Ron Okada	T&D Mgr / Transmission & Distribution

CCU/GPA 1/16/07 Meeting

Francis Iriarte	Special Projects Engineer / SPORD
Julie Quinata	Personnel Administrator / Human Resources
Herbert Pinault	Transportation Mgr. / Transportation
Cora Montellano	Asst. CFO, GPWA / Finance
Rudy Manibusan	Systems Manager, (A) / Computer Services
B. Lou Sablan	Special Asst. to Ex. Mgmt. / Executive

Media:

Gaynor Daleno	Pacific Daily News
David Macaluso	Pacific News Center

Guests:

Mike Perez	Representative, Senator Jesse Lujan
Dee Spidell	DeSean

II. APPROVAL OF MINUTES

1. December 5, 2006 (DRAFT)

The Minutes of December 5th was presented for approval (copy in Master File). Comm.Ada motioned to approve the Minutes subject to verification and written correction; Comm. Palomo seconded. There was no further discussion or objection and the motion carried.

2. January 2, 2007 (DRAFT)

The Minutes of January 2nd, was presented for approval (copy in Master File). Comm.Ada motioned to approve the Minutes subject to verification and written correction; Comm. Palomo seconded. There was no further discussion or objection and the motion carried.

At this time, the Chairman asked the Commission to amend the Agenda by moving Section VIII.1, New Business, Resolution 2007-02: RFO Fuel Supply Contract to the top of the Agenda. There was no objection and the Agenda was amended accordingly. The related transcription is found in that section of the Minutes.

III. GM (CUS) REPORT

IV. GM (GPA) REPORT

1. System Update

The usual System Update Report was included in the packet but not discussed.

2. FEMA Update

The usual FEMA Update Report was included in the packet but not discussed.

3. Government Receivables

The usual Government Receivables Report was included in the packet but not discussed.

4. Administration Dept. Reports

The following Reports were included in the packet but not discussed: procurement, human resources, customer service,

5. System Losses

This was not discussed.

6. Fuel Inventory Update

This matter was not discussed.

V. COMMUNICATIONS

1. Public Comment - None

VI. LEGAL COUNSEL - None

VII. OLD BUSINESS - None

VIII. NEW BUSINESS

1. Resolution 2007-02: RFO Fuel Supply Contract

In his presentation, the GM talked about several aspects of the bid process: timelines, comparison of bids, annual impact, and the fuel specification change rationale.

The existing Contract is a 3-year contract that began in 2003 with expiration of July 31, 2006. He said management opted to exercise the 2-year annual extension option that was subject to mutual agreement. The first 3 years was at the constant, fixed transportation and refinery rate per barrel of \$3.946 for low sulfur fuel and \$2.432 for high sulfur fuel. The 3-year constant price ended on July 31, 2006 when the contract was extended for another 6 months from August 1, 2006 to January 31, 2007. He said this was a very difficult negotiation because there was a significant increase from the previous pricing structure due to higher market value for oil, insurance, freight and handling. The new price for the 6-month extension is \$8.000 per barrel for low sulfur fuel and \$4.16 per barrel for high sulfur fuel.

The GM explained that there were a total of (2) bids that were released for RFO Fuel. The first one was released in August 2006 and it required straight run RFO product, the same product that GPA has been buying to date. Two bidders responded, BP Singapore and Vitol Petroleum but they bid for cracked RFO. GPA decided to declare both bidders as non-compliant and cancelled all bids. The second bid was advertised on October 2006, management deleted the requirement for straight run fuel. Again, (2) bidders responded BP Singapore and Vitol Petroleum. In this bid, BP Singapore was the lowest bidder.

The GM said the impetus for changing GPA's fuel specification was that it was difficult to get the kind of fuel that GPA was accustomed to buying – straight run fuel. This fuel is being phased out as an available product in favor of cracked fuel because it is a more valuable grade of fuel. The further processing of straight run fuel can produce diesel and kerosene which is a higher value commodity than residual fuel oil. Cracked fuel is what is found at the bottom of the barrel after the refining process of straight run fuel. He said that refineries are no longer willing to forgo these additional profits and will eventually eliminate straight run fuel availability for burning in power plants.

The GM said management's main concern was to supply the island and GPA with a reliable and secure source of fuel; and second that it is of quality grade so that it does not negatively affect the units, storage tanks etc. Management also wanted to make sure that ratepayers were getting the best competitive price that the market can offer and the only way to find out was to source the market in open competition. GPA also hired a fuel expert consultant to ensure that GPA's specs are consistent with industry standard and other utilities. The parameters in the specs are identical

the only thing different is GPA's inclusion of additional testing procedures to ensure that the fuel GPA gets is compatible and doesn't cause sludging.

The Chairman reiterated management's actions - the bid was done twice and the 2nd bid was a result of significant discussions with the industry as to the need to change from straight run to crack. The industry was changing and was making straight run more and more difficult if not impossible to obtain.

There was discussion regarding the processes of the bid relative to questions and answers. The GM said the standard practice is when making a response to a question from a bidder, both the question and answer is made available to all bidders. The Chairman likened this practice to a pre-bid conference. The GM said that at GPA a pre-bid conference is normally conducted when there is a bid for construction - where something tangible is being built. The fuel bid was for delivery of a product and it was not necessary for all bidders to be physically present. There was enough time to receive and respond to questions and all questions and answers were provided to all bidders throughout the bid process.

In this Bid, Vitol did not post their bid bond by the required deadline so they were deemed non-compliant. Because of this British Petroleum was deemed the only responsible bidder. The GM reviewed the timelines between the RFO award and the P.O. processing. He mentioned that the new bid term will end in 2010; the new bid price is \$5.303 for high sulfur fuel and \$8.788 for low sulfur fuel; previous contract price was \$4.160 and \$8.000 respectively. The estimated annual impact would be \$3M annually; the impact on LEAC would be a slower recovery of unreimbursed fuel expense or an increase in LEAC rate. British Petroleum is the 2nd largest fuel supplier in the world and the GM said he is confident that the supply to GPA would be consistent.

The GM recommends the Commission approve the award to British Petroleum because they are a reliable supplier, the 2nd largest in the world. Management took precautionary measures to avoid stability and compatibility issues in the fuel ordered from shipment to shipment; the bid process was consistent with procurement rules and regulations.

Comm. Palomo asked if the cracked fuel would affect the quality of energy that is produced; the GM said the energy in the fuel is the same, 600 BTU's per barrel. The Commissioner said it is important to let the public know why a pre-bid conference was not held – this is a standard that is seen in government procurement. The GM said he would address this.

Comm. Palomo motioned to approve Resolution 2007-02 relative to RFO supply contract to meet fuel requirements for all base load plants; Comm. Hara seconded. On the motion there was no further discussion or objection and the motion carried with 3 ayes, 0 nays, 1 abstention and 1 absence. For the record, Comm. Ada abstained.

At this point, the Chairman called for a recess; it was 6:30 p.m. The meeting was called back to order at 7:00 p.m.

2. September 2006 Financials

The CFO apologized for the late submittal of the September 2006 financials (copy in Master File) and said he provides it for Commission perusal. He gave a year-end assessment via power point (copy in Master File).

He said cash is tight. Fuel cost is almost doubled and is the main reason for the GPA's cash drain. Comm. Ada asked if it was possible to mortgage the fuel. The GPAGM talked about one approach that he has discussed with PUC which entails some kind of true-up mechanism. He said this is a revolving mechanism that somehow is amortized. He said he has not developed the mechanism yet but would like to craft it in the near future. The CFO said at one time, Morgan Stanley presented a similar program but it seemed complicated. He said he would revisit this issue and get back to the Commission.

In continuing his report, the CFO said inventory is showing a downward trend due to close monitoring of stock levels. Receivables are flat which he attributed to aggressive collection effort by customer service.

Comm. Ada asked about the possibility of selling off GPA's receivables (similar to the banks). The CFO said that this would be perceived as uncollectible and would have bond covenant implications. The GPAGM said there is a significant amount of money, about \$11M that could possibly be a candidate for this type of disposal.

He noted that GPA's working capital is at \$15M at the end of the year. GPA Engineering has been very aggressive to get the projects started and completed. Prior to the CCU, the main focus was toward pole hardening and some villages were slated to undergo the change out from wooden to concrete poles. With the arrival of the CCU, this direction has been changed to underground and many of the construction fund projects were reprogrammed away from pole hardening to underground projects. Georgetown is concerned about the latter because of the cost of undergrounding; they believe it is not economical.

Regarding LEAC, he said at the onset of the CCU it was at \$13M, management was able to reduce it to \$3M in 4th Qtr, 2005 but is current up again to \$10M due to the continued rising cost of fuel. Fuel prices far outpace management's ability to offset under-recoveries.

The CFO also reported on line losses, he said the acceptable ratio set by Georgetown is 7.5% and GPA is currently at 9.34%.

Sales are flat because people are cutting back due to increased rates. Debt service coverage is near the 1.3 minimum required by bond covenants. PUC wanted to ensure a cushion of 1.75 target to make a statement to rating agencies that they support a strong debt service coverage ratio.

Comm. Ada spoke about re-allocating resources and efficiency studies. The GPAGM said he looked at Renoir study because they found lots of opportunity to save money. The committee is still trying to cost out some of the benefits. He said he would like to do more of this type of assessment. The cost to retain Renoir is \$1M but they said they would ultimately save more than that. The GPAGM said that he uses customer satisfaction as a base for improvement.

IX. ANNOUNCEMENTS

A. Future Meeting Dates

The Chairman announced that the next CCU meeting is scheduled for GWA on 1/30/07 but asked the Commission if it could be held either the Monday before or the Wednesday after due to a conflict in his schedule. It was decided to hold the meeting on Monday, 1/29/07, at 5 p.m.

CCU/GPA 1/16/07 Meeting

It was also discussed that there may be a possible work session at 3 p.m., in advance of the meeting and that this would be reconfirmed at a later time.

The Chair announced that there is a scheduled tour of the Hagatna WW Treatment Plant for all Commissioners tomorrow at 4 p.m.; There was also a scheduled WRMP meeting at Yona at 6:30 p.m.

X. EXECUTIVE SESSION - None

XI. ADJOURNMENT

With no other business to bring before the Commission, the meeting was adjourned at 8:15 p.m.

Attested: 
SIMON A. SANCHEZ II, Chairman


GLORIA B. NELSON, Secretary

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**CONSOLIDATED COMMISSION ON UTILITIES
REGULAR MEETING OF
Guam Power Authority
Tuesday, 1/16/07, 5:00 p.m.**

SUMMARY OF MOTIONS, RESOLUTIONS & PENDING ACTIONS

I. MOTIONS & RESOLUTIONS

ITEM #	AGENDA ITEM	MOTION OR RESOLUTION	VOTES
1	Roll Call	Comm. Ada motioned and Comm. Palomo seconded that Comm. Nelson be excused from this meeting; she was off-island. There was no objection and the motion passed.	Ayes – 4 Nays – 0 Absent – 1 Abstentions - 0
2	Approval of Minutes: December 5, 2006	The Minutes of December 5 th was presented for approval (copy in Master File). Comm.Ada motioned to approve the Minutes subject to verification and written correction; Comm. Palomo seconded. There was no further discussion or objection and the motion carried.	Ayes – 4 Nays – 0 Absent – 1 Abstentions - 0
3	Approval of Minutes January 2, 2007	The Minutes of January 2 nd , was presented for approval (copy in Master File). Comm.Ada motioned to approve the Minutes subject to verification and written correction; Comm. Palomo seconded. There was no further discussion or objection and the motion carried.	Ayes – 4 Nays – 0 Absent – 1 Abstentions - 0
4	Resolution 2007-02: RFO Fuel Supply Contract	Comm. Palomo motioned to approve Resolution 2007-02 relative to RFO supply contract to meet fuel requirements for all base load plants; Comm. Hara seconded. On the motion there was no further discussion or objection and the motion carried with 3 ayes, 0 nays, 1 abstention and 1 absence. For the record, Comm. Ada abstained.	Ayes – 4 Nays – 0 Absent – 1 Abstentions - 0

II. PENDING ACTION

ITEM#	AGENDA ITEM	PENDING ACTION	RESPONSIBLE PARTY
1	September 2006 Financials	The GPAGM talked about one approach that he has discussed with PUC which entails some kind of true-up mechanism. He said this is a revolving mechanism that somehow is amortized. He said he has not developed the mechanism yet but would like to craft it in the near future. The CFO said at one time, Morgan Stanley presented a similar program but it seemed complicated. He said he would revisit this issue and get back to the Commission.	GM CFO