NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS:
(See "Ratings" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2010 Senior Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the 2010 Senior Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the 2010 Bonds is exempt from taxation by any state, territory or possession of the United States or any political subdivision of any of them. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Bonds. See "TAX MATTERS" herein.

Guam Power Authority
$150,440,000
Revenue Bonds
2010 Series A

Guam Power Authority
$56,115,000
Subordinate Revenue Bonds
2010 Series A

Dated: Date of Delivery **Due: October 1, as shown on the inside front cover**

The Guam Power Authority Revenue Bonds, 2010 Series A (the "2010 Senior Bonds") and the Subordinate Revenue Bonds, 2010 Series A (the "2010 Subordinate Bonds" and, together with the 2010 Senior Bonds, the "2010 Bonds") will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2010 Bonds. Individual purchases of the 2010 Bonds will be made in book-entry form only. Interest on the 2010 Bonds will be payable semiannually on April 1 and October 1 of each year, commencing October 1, 2010. The 2010 Bonds will be issued only in book-entry form in denominations of $5,000 or any integral multiple thereof. Payments of principal, redemption price of, if applicable, and interest on the 2010 Bonds are to be made to purchasers by DTC through the DTC participants. See Appendix G - "BOOK-ENTRY ONLY SYSTEM" herein. Purchasers will not receive physical delivery of 2010 Bonds purchased by them.

The 2010 Bonds are subject to redemption prior to maturity, as described herein.

The 2010 Senior Bonds are issued pursuant to an Indenture, dated as of December 1, 1992 as supplemented by Supplemental Indentures, dated as of October 1, 1993, October 1, 1994, May 1, 1999, and June 1, 2010, each by and among the Guam Power Authority (the "Authority"), Bank of Guam, as Trustee, and U.S. Bank National Association, as Co-Trustee (the "Senior Indenture"). The 2010 Subordinate Bonds are issued pursuant to a Subordinate Indenture, dated as of June 1, 2010, by and among the Authority, Bank of Guam, as Trustee, and U.S. Bank National Association, as Co-Trustee (the "Subordinate Indenture"). The Senior Indenture and the Subordinate Indenture are collectively referred to herein as the "Indentures."

The 2010 Senior Bonds are being issued for the purposes of (i) financing the 2010 Projects, generally consisting of a new administration building and various generation, transmission and distribution facilities (see "THE 2010 PROJECTS" herein); (ii) making a deposit to the Senior Bond Reserve Fund; (iii) funding capitalized interest with respect to all or a portion of the 2010 Senior Bonds through October 1, 2013; and (iv) paying expenses incurred in connection with the issuance of the 2010 Bonds. The 2010 Subordinate Bonds are being issued for the purposes of (i) making a deposit in the Working Capital Fund established pursuant to the Senior Indenture; (ii) refinancing the Authority's existing subordinate lien obligations; (iii) making a deposit to the Subordinate Bond Reserve Fund; (iv) funding capitalized interest with respect to a portion of the 2010 Subordinate Bonds through April 1, 2011; and (v) paying expenses incurred in connection with the issuance of the 2010 Bonds. See "PLAN OF FINANCE."

The 2010 Senior Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues (defined herein), subject to the prior application of such Revenues for the payment of Maintenance and Operation Expenses, all of the proceeds of the 2010 Senior Bonds and any other amounts held in any Fund or Account established pursuant to the Senior Indenture (except amounts held in the Rebate Fund), on a parity with the outstanding Revenue Bonds, 1993 Series A and 1999 Series A (the "Prior Senior Bonds" and, together with the 2010 Senior Bonds and any future obligations of the Authority issued on a parity therewith, the "Senior Bonds"). "Revenues" generally consist of any and all rates and charges received in connection the operation of the electric power system of the Authority (the "System").

The 2010 Subordinate Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of (i) Revenues after payment of Maintenance and Operation Expenses, debt service with respect to the Senior Bonds and all other payments and deposits required pursuant to the Senior Indenture and (ii) all of the proceeds of the 2010 Subordinate Bonds and any other amounts held in any Fund or Account established pursuant to the Subordinate Indenture (except amounts held in the Subordinate Rebate Fund).

Neither the Government of Guam nor any political subdivision thereof is obligated to pay the principal, redemption price of, if applicable, or interest on the 2010 Bonds, except from such Revenues, and neither the Authority, the Government of Guam nor any political subdivision thereof has pledged its faith or credit to the payment of the principal and redemption price, if applicable, of or interest on the 2010 Bonds.

AN INVESTMENT IN THE BONDS INVOLVES CERTAIN RISKS, INCLUDING THOSE DESCRIBED HEREIN UNDER THE HEADINGS "INTRODUCTION," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "THE GUAM POWER AUTHORITY," "THE GUAM ELECTRIC POWER SYSTEM," "FINANCIAL MATTERS," "CONSULTING ENGINEER'S REPORT," "OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC UTILITY INDUSTRY," AND "BONDHOLDER RISKS," AND ELSEWHERE IN THIS OFFICIAL STATEMENT. THIS COVER PAGE CONTAINS INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The scheduled payment of principal of and interest on the 2010 Senior Bonds maturing on October 1, 2037 (the "Insured 2010 Senior Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.).

MATURITY SCHEDULE – See Inside Cover

The 2010 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by its General Counsel, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California. It is expected that the 2010 Bonds in book-entry form will be available for delivery through the DTC book-entry system, on or about July 1, 2010.

Morgan Stanley **Piper Jaffray & Co.**

Dated: June 23, 2010

$150,440,000
GUAM POWER AUTHORITY
REVENUE BONDS
2010 SERIES A

$38,980,000 5.500% Term Bonds Due October 1, 2030 - Yield 5.600% CUSIP† No. 400653FV8

$55,000,000 5.000% Term Bonds Due October 1, 2037 - Yield 5.220% CUSIP† No.400653FX4**

$56,460,000 5.500% Term Bonds Due October 1, 2040 - Yield 5.730% CUSIP† No. 400653FW6

**** Insured Bonds**

$56,115,000
SUBORDINATE REVENUE BONDS
2010 SERIES A

$16,615,000 Serial Subordinate Bonds

Maturity Date (October 1)	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP† No.*
2011	$ 4,435,000	6.00%	6.50%	400653FT3
2012	12,180,000	6.50	7.00	400653FU0

$39,500,000 7.500% Term Subordinate Bonds Due October 1, 2015 - Yield 7.500% CUSIP† No. 400653FS5

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† CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2010 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the Authority nor the Underwriters take any responsibility for the accuracy of such numbers.

GUAM POWER AUTHORITY

JOAQUIN C. FLORES
General Manager

ANDRIANO BALAJADIA
Assistant General Manager

RANDALL V. WIEGAND
Chief Financial Officer

CONSOLIDATED COMMISSION ON UTILITIES

SIMON A. SANCHEZ II
Chairman

BENIGNO M. PALOMO
Vice-Chair, GPA

JOSEPH T. DUENAS
Treasurer

ELOY P. HARA
Vice-Chair, GWA

GLORIA B. NELSON
Secretary

JOHN M. BENAVENTE
General Manager, Consolidated Utility Services

GOVERNMENT OF GUAM

FELIX P. CAMACHO
Governor

MICHAEL W. CRUZ, M.D.
Lieutenant Governor

John Weisenberger
Acting Attorney General

JUDITH T. WON PAT
Speaker, Guam Legislature

THOMAS C. ADA
Chairman, Committee on Utilities, Transportation, Public Works and Veterans Affairs

FRANK B. AGUON, JR.
Chairman, Committee on Economic Development, Health & Human Services, and Judiciary

GUAM ECONOMIC DEVELOPMENT AUTHORITY

ANTHONY C. BLAZ
Administrator

SPECIAL SERVICES

Auditors	*Trustee and Depositary*	*Co-Trustee & Paying Agent*	*Consulting Engineer*	*Bond Counsel*	*Financial Advisor*
Deloitte & Touche LLP Tamuning, Guam	Bank of Guam Hagatna, Guam	U.S. Bank, N.A. Los Angeles, CA	R.W. Beck, Inc. Seattle, Washington	Orrick Herrington & Sutcliffe LLP San Francisco, CA	Pacific Public Finance Group LLC Walnut Creek, CA

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2010 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the Guam Power Authority or the Underwriters.

Certain of the information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. This Official Statement is submitted with respect to the sale of the 2010 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

IN CONNECTION WITH THE OFFERING OF THE 2010 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2010 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE 2010 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and APPENDIX H – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Authority does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

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Guam Power Authority

$150,440,000 Revenue Bonds 2010 Series A

$56,115,000 Taxable Subordinate Revenue Bonds 2010 Series A

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices hereto (collectively, the "Official Statement"), is to provide information in connection with the offering by the Guam Power Authority (the "Authority") of its Revenue Bonds, 2010 Series A (the "2010 Senior Bonds") and the Subordinate Revenue Bonds, 2010 Series A (the "2010 Subordinate Bonds" and, together with the 2010 Senior Bonds, the "2010 Bonds"). All capitalized terms used in this Official Statement and not otherwise defined in this Official Statement shall have the meanings set forth in the Indentures.

This Introduction is not a summary of this Official Statement. It is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2010 Bonds to potential investors is made only by means of the entire Official Statement. All references to the 2010 Bonds and the Indentures are qualified in their entirety by reference to the forms thereof, which are available for inspection at the office of the Guam Power Authority, 1911 Route 16, Harmon, Guam 96921.

Authorization

The 2010 Bonds are authorized to be issued pursuant to Chapter 8 of Title 12 of the Guam Code Annotated, and by Public Law No. 30-147, approved by the 30th Guam Legislature on May 3, 2010 and signed by the Acting Governor of Guam on May 17, 2010 (the "Act") and by the Consolidated Commission on Utilities by Resolution 2010-32 adopted on May 25, 2010 (the "2010 Bond Resolution"). The issuance and sale of the 2010 Bonds have also been approved by the Guam Economic Development Authority pursuant to Resolution No. 10-21 adopted on May 26, 2010. The 2010 Senior Bonds are issued pursuant to an Indenture, dated as of December 1, 1992 as supplemented by Supplemental Indentures, dated as of October 1, 1993, October 1, 1994, May 1, 1999, and June 1, 2010, each by and among the Authority, Bank of Guam, as Trustee, and U.S. Bank National Association, as Co-Trustee (the "Senior Indenture"). The 2010 Subordinate Bonds are issued pursuant to a Subordinate Indenture, dated as of June 1, 2010, by and among the Authority, Bank of Guam, as Trustee, and U.S. Bank National Association, as Co-Trustee (the "Subordinate Indenture"). The Senior Indenture and the Subordinate Indenture are collectively referred to herein as the "Indentures." There are currently two series of Bonds outstanding under the Senior Indenture: the Guam Power Authority Revenue Bonds, 1993 Series A (the "1993 Senior Bonds") (currently outstanding in the amount of $66,985,000) and the Guam Power Authority Revenue Bonds, 1999 Series A (currently outstanding in the amount of $313,700,000) (the "1999 Senior Bonds" and, collectively with the 1993 Senior Bonds, the "Prior Senior Bonds" and, together with the 2010 Senior Bonds and any additional bonds which may be issued under the Senior Indenture, the "Senior Bonds"). The 2010 Senior Bonds, when issued, will be secured on a parity with all other Senior Bonds that have been and may be issued under the Indenture.

The 2010 Subordinate Bonds and any additional bonds that may be issued under the Subordinate Indenture are collectively referred to herein as the "Subordinate Bonds."

Purpose of the 2010 Bonds

The 2010 Senior Bonds are being issued for the purposes of (i) financing the 2010 Projects, generally consisting of a new administration building and various generation, transmission and distribution facilities (see "THE 2010 PROJECTS" herein); (ii) making a deposit to the Senior Bond Reserve Fund to increase the amount therein to the Bond Reserve Fund Requirement (taking into account the issuance of the 2010 Senior Bonds); (iii) funding capitalized interest with respect to a portion of the 2010 Senior Bonds through October 1, 2013; and (iv) paying expenses incurred in connection with the issuance of the 2010 Bonds.

The 2010 Subordinate Bonds are being issued for the purposes of (i) funding working capital for the Authority; (ii) refinancing the Authority's currently outstanding commercial paper loan; (iii) making a deposit to the Subordinate Bond Reserve Fund in an amount equal to the Subordinate Bond Reserve Requirement; (iv) funding capitalized interest with respect to a portion of the 2010 Subordinate Bonds through April 1, 2011; and (v) paying expenses incurred in connection with the issuance of the 2010 Bonds. See "THE 2010 PROJECTS" and "PLAN OF FINANCE."

Security for the 2010 Bonds

The 2010 Senior Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of (i) Revenues (defined herein) subject to the prior application of such Revenues for the payment of Maintenance and Operation Expenses, (ii) all of the proceeds of the Senior Bonds and (iii) any other amounts held in any Fund or Account established pursuant to the Senior Indenture (except amounts held in the Rebate Fund), on a parity with outstanding and future Senior Bonds. "Revenues" generally consist of any and all rates and charges received in connection with the operation of the electric power system of the Authority (the "System").

The 2010 Subordinate Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of (i) Revenues, subject both to the prior pledge of such Revenues under the Senior Indenture to secure the payment of the Senior Bonds and to the prior application of such Revenues for the payment of Maintenance and Operation Expenses, debt service with respect to the Senior Bonds and all other payments and deposits required pursuant to the Senior Indenture, and (ii) all of the proceeds of the Subordinate Bonds and (iii) any other amounts held in any Fund or Account established pursuant to the Subordinate Indenture (except amounts held in the Subordinate Rebate Fund).

Revenues are defined in the Indentures to include (i) any and all rates and charges received or receivable in connection with, and any and all other income and receipts of whatever kind and character derived by the Authority from the operation of or arising from the System (defined below), but not including refundable deposits made by customers of the System to establish the creditworthiness of such customers, customer advances for construction or contribution in aid of construction; (ii) any moneys received or receivable by the Authority pursuant to any contract between the Authority and any person, which moneys are designated as Revenues in such contract; and (iii) all earnings on any investment of any Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Bond Reserve Fund for 2010 Senior Bonds

The Senior Bonds, including the 2010 Senior Bonds, are secured by the Senior Bond Reserve Fund, required to be funded and maintained in an amount equal to the maximum annual debt service on the outstanding Senior Bonds. The Bond Reserve Fund does not secure payment of principal of or interest on the 2010 Subordinate Bonds or any other Subordinate Bonds which may be issued pursuant to the Subordinate Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Subordinate Bond Reserve Fund

The 2010 Subordinate Bonds are secured by the Subordinate Bond Reserve Fund, required to be funded and maintained in an amount equal to the Subordinate Bond Reserve Fund Requirement. The Subordinate Bond Reserve Fund does not secure payment of principal of or interest on the Senior Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Bond Insurance with Respect to the Insured 2010 Senior Bonds

The scheduled payment of principal of and interest on the 2010 Senior Bonds maturing on October 1, 2037 (the "Insured 2010 Senior Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2010 Bonds by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.). See "BOND INSURANCE" and "APPENDIX H – SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

Additional Senior Bonds

The Senior Indenture provides that the Authority may issue additional bonds payable from the Revenues on a parity basis with the Senior Bonds, subject to the terms and conditions of the Senior Indenture, as more fully described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Senior 2010 Bonds – Additional Senior Bonds."

Additional Subordinate Bonds

The Subordinate Indenture provides that the Authority may issue additional bonds payable from the Revenues on a parity basis with the 2010 Subordinate Bonds, subject to the terms and conditions of the Subordinate Indenture, as more fully described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinate 2010 Bonds – Additional Subordinate Bonds."

Senior Indenture Rate Covenant

The Senior Indenture includes a contractual undertaking for the benefit of Bondholders to the effect that rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System will be established, fixed, prescribed and collected so as to yield Net Revenues, with respect to the then immediately ensuing twelve months, which are equal to at least 1.30 times the Annual Debt Service on Senior Bonds that are required to be paid from Net Revenues during such 12-month period. "Net Revenues" means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation expenses incurred during such period. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – 2010 Senior Bonds – Rate Covenant."

Subordinate Indenture Rate Covenant

The Subordinate Indenture includes a contractual undertaking for the benefit of Bondholders to the effect that rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System will be established, fixed, prescribed and collected so as to yield Net Revenues, with respect to the then immediately ensuing twelve months, which are equal to at least (a) 1.20 times Annual Debt Service on the Outstanding Senior Bonds and Subordinate Bonds to be paid from Net Revenues during such period and (b) the amount necessary to pay all obligations to be paid from Net Revenues during such period under then existing contracts or under law (including amounts payable from Net Revenues on a basis subordinate to the Subordinate Bonds). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – 2010 Subordinate Bonds – Rate Covenant."

Investment Considerations

The purchase of the 2010 Bonds involves certain investment risks that are described throughout this Official Statement.

In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement, and should specifically consider the risks associated with the 2010 Bonds. For a summary of certain risk factors associated with an investment in the 2010 Bonds, see "BONDHOLDER RISKS."

Continuing Disclosure

The Authority has covenanted for the benefit of the holders and beneficial owners of the 2010 Bonds to provide certain financial information and operating data relating to the System by not later than 240 days following the end of the Authority's Fiscal Year (which fiscal year currently ends September 30) (the "Annual Report"), commencing with the report for Fiscal Year 2009-10, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report, and any notices of material events, will be filed by the Authority with the Municipal Securities Rulemaking Board, through its EMMA system. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX F – "FORMS OF CONTINUING DISCLOSURE AGREEMENTS." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

The Authority has not failed to comply with such requirements in any material respect in the last five years. See "CONTINUING DISCLOSURE."

Consulting Engineer's Report

In preparing this Official Statement, the Authority has relied, in part, upon studies, considerations, assumptions, and opinions set forth in the Consulting Engineer's Report furnished by R.W. Beck, Inc. (the "Consulting Engineer"), a copy of which is attached hereto as Appendix A. See "CONSULTING ENGINEER'S REPORT" and APPENDIX A – "CONSULTING ENGINEER'S REPORT." The Consulting Engineer has provided services to the Authority since the 1970's in the areas of load forecasting, power supply planning, environmental, regulatory and financing support activities. Recent activities have included strategic planning, financial planning and power supply consulting.

No assurances can be given that the projections and expectations discussed in the Consulting Engineer's Report will be achieved. The Consulting Engineer's Report is an integral part of this Official Statement and should be read in its entirety.

THE 2010 BONDS

Authority for the 2010 Bonds

The 2010 Bonds are authorized to be issued pursuant to the Act and the 2010 Bond Resolution. Section 50103(k) of Title 12 of the Guam Code Annotated provides that agencies and instrumentalities of the Government shall issue bonds only through the Agency of the Guam Economic Development Authority ("GEDA"), and the Act requires the terms of the Indentures and the amount and certain terms of the 2010 Bonds to be approved by the Guam Public Utilities Commission (the "PUC"). The issuance and sale of the 2010 Bonds have been approved by the Board of Directors of GEDA pursuant to Resolution No. 10-21, adopted on May 26, 2010. The terms of the Supplemental Indenture with respect to the 2010 Senior Bonds (the "2010 Supplemental Senior Indenture") and the Subordinate Indenture and the amount and certain terms of the 2010 Bonds were approved by the PUC pursuant to two Orders dated June 3, 2010 in GPA Docket 10-01. One of the PUC Orders approved the forms of the Indentures and the maximum principal amount and certain other terms of the 2010 Bonds.

For a description of certain provisions of the Indentures, see Appendix D hereto. For a description of the pledged Revenues and the existing liens on the Revenues, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

Description of the 2010 Bonds

The 2010 Senior Bonds, designated as the "Guam Power Authority Revenue Bonds, 2010 Series A" are being issued in the aggregate principal amount of $150,440,000. The 2010 Subordinate Bonds, designated as the "Guam Power Authority Subordinate Revenue Bonds, 2010 Series A," are being issued in the aggregate principal amount of $56,115,000. The 2010 Bonds bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover page hereof.

The 2010 Bonds when issued will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC, or its nominee, is the registered owner of all 2010 Bonds, all payments of principal of, Redemption Price, if applicable, and interest on the 2010 Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants (as defined below) will be the responsibility of DTC. Disbursement of such payments to the Beneficial Owners (as defined below) of the 2010 Bonds will be the responsibility of the DTC Participants as more fully described herein. If the book-entry system is discontinued, interest on and principal (including Redemption Price) of the 2010 Bonds will be payable by check mailed by first class mail to the persons in whose names the 2010 Bonds are registered on the 15th day of the calendar month immediately preceding each such Interest Payment Date (each, a "Record Date"), or, upon the written request of a registered owner of $1,000,000 or more in aggregate principal amount of 2010 Bonds of a Series received prior to the applicable Record Date, by wire transfer. See "Appendix G- Book-Entry Only System" herein.

The 2010 Bonds will be dated their date of issuance, and bear interest from that date, payable semiannually on April 1 and October 1 of each year (each "an Interest Payment Date"), commencing October 1, 2010. Interest will accrue on the basis of a 360-day year comprised of twelve 30-day months.

Redemption of the 2010 Bonds

Optional Redemption. The 2010 Senior Bonds are subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available funds, on any date on or after October 1, 2020, as a whole, or in part by such maturity or maturities as may be specified by Request of the Authority (and by lot within a maturity), at a Redemption Price equal to 100% of the aggregate principal amount thereof, plus interest accrued thereon to the date fixed for redemption.

The 2010 Subordinate Bonds are not subject to optional redemption prior to maturity.

Mandatory Sinking Account Redemption. The 2010 Senior Bonds maturing on October 1, 2030 are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Subject to the terms and conditions set forth in the Senior Indenture, such Senior Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Senior Bonds, in the amounts and on October 1 in the years hereinafter set forth:

Mandatory Sinking Account
Payments for 2010 Senior Bonds Due October 1

Year	Amount
2022	$ 255,000
2023	3,985,000
2024	4,200,000
2025	4,435,000
2026	4,675,000
2027	4,935,000
2028	5,205,000
2029	5,495,000
2030*	5,795,000

*Maturity

The 2010 Senior Bonds maturing on October 1, 2037 are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Subject to the terms and conditions set forth in the Senior Indenture, such Senior Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Senior Bonds, in the amounts and on October 1 in the years hereinafter set forth:

Mandatory Sinking Account
Payments for 2010 Senior Bonds Due October 1

Year	Amount
2031	$,115,000
2032	6,420,000
2033	6,740,000
2034	7,075,000
2035	7,430,000
2036	13,990,000
2037*	7,230,000

*Maturity

The 2010 Senior Bonds maturing on October 1, 2040 are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Subject to the terms and conditions set forth in the Senior Indenture, such Senior Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Senior Bonds, in the amounts and on October 1 in the years hereinafter set forth:

Mandatory Sinking Account
Payments for 2010 Senior Bonds Due October 1

Year	Amount
2037	$ 7,465,000
2038	15,465,000
2039	16,315,000
2040*	17,215,000

*Maturity

Upon any optional redemption of 2010 Senior Bonds, the principal amount of such Senior Bonds shall be credited against such remaining Mandatory Sinking Account Payments as are designated by the Authority, in such manner as if such Mandatory Sinking Account Payments were maturities (i.e., to produce as nearly proportional reductions as practicable, provided that Mandatory Sinking Account Payments shall remain as integral multiples of the applicable minimum authorized Senior Bond denomination).

The 2010 Subordinate Bonds maturing on October 1, 2015 are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Subject to the terms and conditions set forth in the Subordinate Indenture, such Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such Subordinate Bonds, in the amounts and on October 1 in the years hereinafter set forth:

Mandatory Sinking Account Payments
Payments for 2010 Subordinate Bonds Due October 1

Year	Amount
2013	$12,200,000
2014	13,145,000
2015*	14,155,000

*Maturity

Upon any optional redemption of 2010 Subordinate Bonds, the principal amount of such Subordinate Bonds shall be credited against such remaining Mandatory Sinking Account Payments as are designated by the Authority, in such manner as if such Mandatory Sinking Account Payments were maturities (i.e., to produce as nearly proportional reductions as practicable, provided that Mandatory Sinking Account Payments shall remain as integral multiples of the applicable minimum authorized Subordinate Bond denomination).

Extraordinary Optional Redemption. The 2010 Bonds are subject to redemption on any date prior to their respective stated maturities, as a whole, or in part by lot within each maturity so that the reduction in Annual Debt Service for the 2010 Bonds for each Bond Year after such redemption date shall be as nearly proportional as practicable, from and to the extent of proceeds received by the Authority due to a governmental taking of the System or portions thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the System, as provided in the Indentures, at the principal amount thereof plus interest accrued thereon, without premium.

Selection of 2010 Bonds to be Redeemed

If less than all of the 2010 Senior Bonds or 2010 Subordinate Bonds of any maturity are called for redemption at any one time, the Co-Trustee will select the bonds or portions thereof to be redeemed within such maturity by lot in such manner as the Co-Trustee may determine. Each such bonds will be deemed to be composed of $5,000 portions, and any such portion may be separately redeemed.

Notice of Redemption

The Co-Trustee will give notice of redemption of any 2010 Bonds not less than 30 nor more than 60 days prior to the date fixed for redemption, by first class mail to each of the registered owners of 2010 Bonds designated for redemption at their respective addresses as shown on the

registration books of the Co-Trustee on the date the 2010 Bonds to be redeemed are selected. Each notice of redemption is required to state, among other things, the date fixed for redemption, the place or places of redemption, the maturities to be redeemed and, if less than all of any such maturity, the numbers of the 2010 Bonds of such maturity to be redeemed and, in the case of 2010 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. The notice is also required to state that on said date there will become due and payable on each of said 2010 Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2010 Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such date fixed for redemption, interest thereon shall cease to accrue. The notice must also require that such 2010 Bonds be then surrendered. Each notice is required to state the CUSIP number, date of issue and interest rate on each 2010 Bond, or portion thereof, to be redeemed, and shall include the redemption agent name and address. Any failure to provide such redemption notice or any defect in such notice will not affect the validity of the proceedings for redemption. See also "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – THE SENIOR INDENTURE – Redemption of Senior Bonds" and "—THE SUBORDINATE INDENTURE – Redemption of Subordinate Bonds" in Appendix D hereto.

The Authority may, at its option, prior to the date fixed for redemption, rescind and cancel such notice of redemption.

DEBT SERVICE REQUIREMENTS

The following table sets forth the amounts required to be paid by the Authority during each year ending October 1 of the years shown for the payment of debt service on all long-term indebtedness of the Authority, consisting of the 2010 Senior Bonds and the 1993 Senior Bonds and 1999 Senior Bonds to remain outstanding after the issuance of the 2010 Senior Bonds, as well as the 2010 Subordinate Bonds.

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DEBT SERVICE SCHEDULE

	Senior Bonds					Subordinate Bonds			
Year ending October 1	2010 Senior Bond Principal	2010 Senior Bond Interest	Prior Senior Bond Principal	Prior Senior Bond Interest	Total Senior Bond Debt Service	2010 Subordinate Bond Principal	2010 Subordinate Bond Interest	2010 Subordinate Bond Total Debt Service	Total Senior Bond and Subordinate Bond Debt Service
2010		$1,999,800*	$7,795,000	$19,687,813	$29,482,613		$1,005,075**	$1,005,075	$30,487,688
2011		7,999,200*	8,205,000	19,278,575	35,482,775	$4,435,000	4,020,300**	8,455,300	43,938,075
2012		7,999,200*	8,635,000	18,847,813	35,482,013	12,180,000	3,754,200	15,934,200	51,416,213
2013		7,999,200*	9,090,000	18,394,475	35,483,675	12,200,000	2,962,500	15,162,500	50,646,175
2014		7,999,200	9,565,000	17,917,250	35,481,450	13,145,000	2,047,500	15,192,500	50,673,950
2015		7,999,200	10,070,000	17,415,088	35,484,288	14,155,000	1,061,625	15,216,625	50,700,913
2016		7,999,200	10,595,000	16,886,413	35,480,613				35,480,613
2017		7,999,200	11,135,000	16,345,250	35,479,450				35,479,450
2018		7,999,200	11,705,000	15,776,488	35,480,688				35,480,688
2019		7,999,200	12,305,000	15,178,588	35,482,788				35,482,788
2020		7,999,200	12,930,000	14,550,025	35,479,225				35,479,225
2021		7,999,200	13,595,000	13,889,513	35,483,713				35,483,713
2022	$255,000	7,999,200	14,285,000	13,195,025	35,734,225				35,734,225
2023	3,985,000	7,985,175	15,015,000	12,465,263	39,450,438				39,450,438
2024	4,200,000	7,766,000	15,785,000	11,698,175	39,449,175				39,449,175
2025	4,435,000	7,535,000	16,575,000	10,908,925	39,453,925				39,453,925
2026	4,675,000	7,291,075	17,425,000	10,059,456	39,450,531				39,450,531
2027	4,935,000	7,033,950	18,315,000	9,166,425	39,450,375				39,450,375
2028	5,205,000	6,762,525	19,255,000	8,227,781	39,450,306				39,450,306
2029	5,495,000	6,476,250	20,240,000	7,240,963	39,452,213				39,452,213
2030	5,795,000	6,174,025	21,280,000	6,203,663	39,452,688				39,452,688
2031	6,115,000	5,855,300	22,395,000	5,086,463	39,451,763				39,451,763
2032	6,420,000	5,549,550	23,570,000	3,910,725	39,450,275				39,450,275
2033	6,740,000	5,228,550	24,810,000	2,673,300	39,451,850				39,451,850
2034	7,075,000	4,891,550	26,110,000	1,370,775	39,447,325				39,447,325
2035	7,430,000	4,537,800			11,967,800				11,967,800
2036	13,990,000	4,166,300			18,156,300				18,156,300
2037	14,695,000	3,466,800			18,161,800				18,161,800
2038	15,465,000	2,694,725			18,159,725				18,159,725
2039	16,315,000	1,844,150			18,159,150				18,159,150
2040	17,215,000	946,825			18,161,825				18,161,825
Total	150,440,000	194,195,750	380,685,000	306,374,225	$1,031,694,975	56,115,000	14,851,200	70,966,200	1,102,661,175

* All debt service with respect to the 2010 Senior Bonds will be paid from capitalized interest through October 1, 2012. For the year ending October 1, 2013, $6,789,000 of debt service with respect to the 2010 Senior Bonds will be paid from capitalized interest.

** For the year ending October 1, 2010, $606,806 of debt service with respect to the 2010 Subordinate Bonds will be paid from capitalized interest. For the year ending October 1, 2011, $1,213,613 of debt service with respect to the 2010 Subordinate Bonds will be paid from capitalized interest.

PLAN OF FINANCE

Portions of the proceeds of the 2010 Senior Bonds are being used to pay the costs of the 2010 Projects.

Portions of the proceeds of the 2010 Subordinate Bonds are being used to (i) fund working capital for the Authority and (ii) refinance the Authority's currently outstanding subordinate lien obligations.

The 2010 Projects. The 2010 Projects generally consist of a new administration building and various improvements to the Authority's generation, transmission and distribution facilities. See "THE 2010 PROJECTS" herein.

Working Capital Funding. Approximately $27.5 million of the proceeds of the 2010 Subordinate Bonds will be used to make a deposit into the Working Capital Fund established pursuant to the Senior Indenture. See APPENDIX A – "CONSULTING ENGINEER'S REPORT" and "FINANCIAL MATTERS – Working Capital and Liquidity" for a discussion of working capital considerations.

Subordinate Obligation Refinancing. Approximately $20 million of the proceeds of the 2010 Subordinate Bonds will be used to repay subordinate obligations which the Authority entered into in connection with a now-inactive commercial paper program, or to reimburse the Authority for previous payments. See "FINANCIAL MATTERS - Outstanding Indebtedness - Outstanding Loan." The obligations of the Authority to the credit enhancer of the program were guaranteed by Ambac Assurance Corporation ("Ambac"). When the credit ratings of Ambac were downgraded, the repayment obligations of the Authority to the credit enhancer were converted to a term loan, and, when Ambac's credit ratings were further downgraded, the credit enhancer declared an event of default under its term loan agreement with the Authority (which event of default is currently in forebearance, at the credit enhancer's discretion). Upon issuance of the 2010 Subordinate Bonds and payment to the credit enhancer of a portion of the proceeds as described herein, the obligations of the Authority will be discharged in full.

THE 2010 PROJECTS

The 2010 Projects consist of a variety of generation, transmission, and distribution improvements, including reliability and performance improvements to generating facilities of the Authority, significant equipment replacements and spare part purchases; and upgrades to fire protection systems at various generation facilities.

The 2010 Projects also include the construction of a new building and the installation of equipment and facilities to incorporate the controls of the Authority's generation units at a central location and allow the economic dispatch of generation units and increase system efficiency. The Authority believes automatic generation control will mitigate system disturbances and improve generation availability. The existing control center of the Authority is in a location where flooding has occurred in the past and the new facility is in a location the Authority believes will enhance reliability.

As of the date hereof, the Authority has not entered into a contract for construction of the central building, so neither the construction costs nor construction schedule are guaranteed. The Authority intends to solicit proposals for construction of the new central building in January 2011. Construction is expected to commence in December 2011, and be completed in December 2013.

A portion of the proceeds of the 2010 Senior Bonds will be used by the Authority to fund its share of the costs of a "Smart Grid" project. Approximately half of the costs of the project (approximately $16.6 million) will be funded through a matching grant from the U.S. Department of Energy from the Smart Grid Investment Grants funded as part of the Recovery Act. The Smart Grid project funds are anticipated to be spent over an approximately three-year period and include the following amounts (which include both proceeds of the 2010 Senior Bonds as well as U.S. Department of Energy matching funds): $13.4 million for electric smart meters and installation, $6.4 million for project management, $3.7 million for distribution automation and management systems, $3.3 million for communication infrastructure and $1.6 million for substation automation.

The following table sets forth the amount of proceeds currently expected to be used for the various components of the 2010 Projects. Pursuant to the Senior Indenture, the Authority may reallocate the proceeds of the Senior Bonds to other projects, although, pursuant to the PUC Orders, such reallocation would require the approval of the PUC.

Expected Allocation of Proceeds for 2010 Projects

2010 Project	Estimated Proceeds
Smart Grid Projects	$17.0 million
Generation Improvements	$16.9 million
Power Distribution System Improvements	$16.2 million
Power Substation and Transmission Upgrades and Improvements	$11.6 million
Fire Protection Upgrades,	$3.8 million
Underground Fuel Pipeline Conversion,	$2.1 million
Environmental Compliance Projects	$1.9 million
System Protection Relaying Improvements	$1.9 million
Consolidated Main Office and Operations Facility Improvements	$35.0 million

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are shown below:

Estimated Sources of Funds	2010 Senior Bonds	2010 Subordinate Bonds
Principal Amount of 2010 Bonds	$150,440,000.00	$56,115,000.00
Less: Net Original Issue Discount	4,087,323.80	153,337.60
Total Sources	$146,352,676.20	$55,961,662.40
Estimated Uses of Funds		
Deposit to Construction Fund	$106,277,000.00	
Deposit to Capitalized Interest Reserve[(1)]	22,989,661.86	$1,767,079.65
Deposit to Senior Bond Reserve Fund	12,028,872.24	
Deposit to Subordinate Bond Reserve Fund		5,611,500.00
Deposit to Working Capital Fund		27,476,501.00
Repayment of Commercial Paper Loan		20,000,000.00
Costs of Issuance[(2)]	5,057,142.10	1,106,581.75
Total Uses	$146,352,676.20	$55,961,662.40

(1) Equal to a portion of interest with respect to the 2010 Senior Bonds through October 1, 2013 and the 2010 Subordinate Bonds through April 1, 2011.

(2) Includes underwriters' discount and financing expenses.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The ability of the Authority to pay principal of and interest on the 2010 Bonds will depend upon the receipt by the Authority of sufficient Revenues from the sale of power and energy generated

by the resources available to the Authority. For information regarding the Authority's financial condition, see "FINANCIAL MATTERS" herein. If Revenues from the sale of power and energy and amounts available in the funds and accounts under the Subordinate Indenture are insufficient to pay the principal of and interest on the Subordinate Bonds, no other source of repayment from the Authority exists. Rates for electric service are established by the Consolidated Commission on Utilities and regulated by the PUC. The PUC has determined that the issuance of the 2010 Bonds is in the best interest of the Authority's rate payers. The Act provides that the debt service coverage ratio used in the rate covenant for the Subordinate Bonds shall not exceed an amount approved by the Governor, and shall be the debt service coverage ratio used by the PUC, together with other appropriate factors, in setting rates. All future rate increases of the Authority are subject to the approval of the PUC. For additional information regarding the Authority's electric rates and charges, see "THE GUAM ELECTRIC POWER SYSTEM – Electric Rates and Charges – Public Utilities Commission" herein. The Authority has no taxing power.

2010 Senior Bonds

Security

The Senior Bonds are limited obligations of the Authority payable solely from Revenues as defined in the Senior Indenture. The Senior Bonds are secured by a lien on and pledge of the Revenues. Revenues consist of any and all rates and charges received or receivable in connection with, and any and all other income and receipts of whatever kind and character derived by the Authority from the operation of or arising from the entire electric power system of the Authority (the "System") (but not including refundable deposits made by customers of the System to establish the creditworthiness of such customers, customer advances for construction or contributions in aid of construction), and moneys received or receivable by the Authority pursuant to contract and designated as Revenues in such contract and all earnings on any investment of any Revenues. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – Senior Indenture - Certain Definitions - Revenues", and "CONSULTING ENGINEER'S REPORT - Historical and Projected Operating Results" herein. No obligations may be issued which have a lien on the Revenues prior to the Senior Bonds. The 1993 Senior Bonds and the 1999 Senior Bonds have a parity lien on the Revenues.

The Senior Indenture requires the Authority to transfer all Revenues upon receipt to the Depositary for deposit in the Revenue Fund (except that all interest and other profit from the investment of moneys in the Construction Fund shall be retained therein). Amounts in the Revenue Fund will be used to pay budgeted Maintenance and Operation Expenses as such expenses become due and payable. Amounts in the Revenue Fund will also be transferred to the Rebate Fund as required by the Senior Indenture and to the Bond Fund to satisfy any deficiency in such Fund in accordance with the Senior Indenture.

On or before the fifth day of each calendar month, the Depositary shall transfer moneys in the Revenue Fund remaining after payment of Maintenance and Operation Expenses for deposit in the following funds, in the amounts and in the following priority: (1) into the Bond Fund held by the Co-Trustee an amount equal to (a) the amount of interest payable on each Senior Bond on a current uncompounded basis on any interest payment date in equal monthly amounts over the Interest Accrual Period for such Senior Bond ending on such interest payment date (or in the case of a variable rate Senior Bond, the amount of interest that would have accrued during the next preceding calendar month if such Senior Bond had borne interest at the maximum rate, less any excess deposited for the next preceding calendar month), and the amount of interest payable on each Senior Bond on a deferred compounded basis on any interest payment date in equal monthly installments

over the Principal Payment Period for such Senior Bond ending on the maturity date for such Senior Bond, plus (b) during the Principal Payment Period for each Senior Bond, an amount which, if paid in equal monthly installments in each month during such Principal Payment Period, would yield moneys sufficient to pay the principal or Mandatory Sinking Account Payment due and payable on the next succeeding principal payment or mandatory sinking account payment date for such Senior Bond; (2) into the Senior Bond Reserve Fund held by the Co-Trustee, the amount, if any, necessary to increase the balance in such Fund to the Bond Reserve Fund Requirement; (3) into the Working Capital Fund the lesser of (i) the amount necessary to increase the amount in such Fund to the Working Capital Requirement (as defined in the Senior Indenture), or (ii) an amount equal to one-sixth of the Working Capital Requirement; and (4) into the Surplus Fund the balance remaining in the Revenue Fund after the foregoing deposits for application as provided in the Senior Indenture. All amounts in the Surplus Fund on the fifth day of each month after the deposits required under the Senior Indenture have been made shall be paid by the Depositary to the Authority, free and clear of the pledge and lien of the Senior Indenture.

If, on the fifth day before any interest payment date, the amount in the Bond Fund is insufficient to pay the principal of, mandatory sinking account payments for and interest on the Senior Bonds due on the next interest payment date, such deficiency is required to be funded by transfers to the Bond Fund from the following funds in the following order of priority: 1) the Revenue Fund, 2) the Surplus Fund, 3) the Working Capital Fund, 4) the Senior Bond Reserve Fund, and 5) any other fund or account established pursuant to the Senior Indenture (except the Rebate Fund).

Funds

The following funds are established under the Senior Indenture:

Construction Fund - Moneys on deposit in the Construction Fund will be disbursed by the Depositary for the payment or reimbursement of the costs of each Project for which a series of Senior Bonds is issued and the costs associated with the issuance of Senior Bonds of such series and capitalized interest, and, to the extent necessary, to fund any deficiency in the Bond Fund to pay principal Redemption Price of or interest on the Senior Bonds.

Revenue Fund - The Authority shall pay all Revenues, upon receipt, to the Depositary for deposit in the Revenue Fund. Moneys on deposit in the Revenue Fund shall be applied in the manner described under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -¬Security” above.

Bond Fund - The Co-Trustee shall apply moneys on deposit in the Bond Fund solely for the purposes of (1) paying interest on the Senior Bonds, (2) paying principal of any Serial Senior Bonds issued under and pursuant to the Senior Indenture, when due and payable and (3) purchasing or redeeming or paying at maturity any Term Senior Bonds issued under and pursuant to the Senior Indenture as provided in the Senior Indenture.

Working Capital Fund - Amounts in the Working Capital Fund may be (1) transferred to the Revenue Fund, if and to the extent that amounts in the Revenue Fund are insufficient to (a) pay Maintenance and Operation Expenses as and when they become due and payable or (b) make monthly transfers to the Bond Fund or the Senior Bond Reserve Fund as required by the Senior Indenture or (2) used and withdrawn to pay costs of repair or replacement of loss or damage caused by or resulting from fire or from action of the elements (including loss from typhoons, earthquakes, floods and tidal waves), whether or not such costs are Maintenance and Operation Expenses.

Senior Bond Reserve Fund - The Authority is required to make monthly deposits to the Senior Bond Reserve Fund from Revenues of amounts necessary to increase the amount in such Fund to the Maximum Annual Debt Service on all outstanding Senior Bonds issued under the Senior Indenture or such higher amount as may be specified by Supplemental Indenture. Moneys in the Senior Bond Reserve Fund shall be applied solely to make up any deficiency in the Bond Fund. Any moneys in the Senior Bond Reserve Fund on any October 5th in excess of the Bond Reserve Fund Requirements may be transferred to the Revenue Fund.

If and to the extent provided by a Supplemental Indenture authorizing the issuance of a Series of Senior Bonds, the portion of the Bond Reserve Fund Requirement allocable to such Series may be wholly or partially satisfied by a Credit Facility. Such Supplemental Indenture may also provide that if a drawing on such Credit Facility is honored, amounts available from the Revenue Fund for deposit in the Senior Bond Reserve Fund shall be applied by the Co-Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing, and the Co-Trustee shall give any notice of such reimbursement required by the applicable Credit Agreement.

Surplus Fund - The Depositary shall disburse moneys from the Surplus Fund first, to the Bond Fund in the event there are insufficient moneys on deposit in the Bond Fund to pay the principal or redemption price of or interest on the Senior Bonds when due, for the purpose of paying principal of and interest on the Senior Bonds or the reimbursement of amounts drawn under any Credit Facility as provided in the Senior Indenture; second, to the Senior Bond Reserve Fund to satisfy any deficiency therein; and third, for the purpose of paying costs and expenses of the Authority budgeted to be paid from Revenues in the Surplus Fund. All amounts in the Surplus Fund on the fifth day of each month (following the deposits to each Fund required by the Senior Indenture) shall be paid by the Depositary to the Authority, free and clear of the pledge and lien of the Senior Indenture.

Rebate Fund - The Trustee shall hold in trust all moneys deposited in the Rebate Fund, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America, and the Trustee shall disburse such moneys in accordance with the Senior Indenture and the Tax Certificate. In the event such moneys exceed the Rebate Requirement, the Authority may direct the Trustee to transfer such excess moneys to the Revenue Fund.

Rate Covenant

The Senior Indenture includes a contractual undertaking for the benefit of Bondholders to the effect that rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System will be established, fixed, prescribed and collected so as to yield Net Revenues, with respect to the then immediately ensuing twelve months, which are equal to at least 1.30 times the sum of (1) the interest falling due on then outstanding Senior Bonds (assuming that all then outstanding Serial Senior Bonds are retired on their respective maturity dates and that all then outstanding Term Senior Bonds are retired at the times of and in amounts provided for by the Mandatory Sinking Account Payments applicable to such Term Senior Bonds), but not including Capitalized Interest, (2) the principal amount of then outstanding Serial Senior Bonds falling due by their terms, and (3) the aggregate amount of all Mandatory Sinking Account Payments required (all as calculated for said Bond Year) to be paid from Net Revenues during such 12-month period. For the purpose of determining the interest payable on Variable Rate Senior Bonds, the interest rate used in the foregoing calculation shall be the actual interest rate for periods prior to the date of calculation and the maximum rate then permitted on such Variable Rate Senior Bonds for periods subsequent to the date of calculation. Net Revenues means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation expenses incurred during such period.

Additional Senior Bonds

The Authority may issue additional Series of Senior Bonds upon the terms and conditions set forth in the Senior Indenture. If issued, such additional Series of Senior Bonds are to be payable from and secured by the Revenues pledged under the Senior Indenture on a parity with the 1993 Senior Bonds, 1999 Senior Bonds and the 2010 Senior Bonds.

Additional Series of Senior Bonds may be issued only if, among other things, the following conditions are satisfied:

(1) No Event of Default shall have occurred and be continuing under the Senior Indenture;

(2) The Supplemental Indenture under which the additional Series of Senior Bonds may be issued must specify the purposes for which such additional Series of Senior Bonds is being issued, which shall be one or both of the following: to provide funds (i) for deposit into the Construction Fund and withdrawal therefrom in accordance with law for purposes other than the refunding of Senior Bonds outstanding under the Senior Indenture; or (ii) to refund all or part of the Senior Bonds of any one or more Series outstanding under the Senior Indenture by depositing with the Co-Trustee, in trust, noncallable Federal Securities in the necessary amount to discharge all liability of the Authority with respect to such Senior Bonds to be refunded as provided in the Senior Indenture.

(3) The Supplemental Indenture under which the additional Series of Senior Bonds are issued provides for a deposit to be made to the Senior Bond Reserve Fund on the date such additional Series of Senior Bonds are issued in an amount necessary to bring the balance in that Fund to an amount at least equal to the Bond Reserve Fund Requirement with respect to all Senior Bonds outstanding under the Senior Indenture, including the additional Series of Senior Bonds;

(4) The aggregate principal amount of Senior Bonds issued under the Senior Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture;

(5) Unless the requirement of paragraph (6) is satisfied, Net Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of the Supplemental Indenture providing for the issuance of such additional Series of Senior Bonds, as shown by a certificate of an independent consultant, plus

(i) An allowance for Net Revenues from any Projects to be financed with the proceeds of such additional Series of Senior Bonds or with the proceeds of Senior Bonds previously issued under the Senior Indenture, and for Net Revenues from any improvements to the System which have been made from moneys from any source, but which, during all or any part of such Fiscal Year or such last recorded twelve-month period, were not in service, all in an amount equal to 75% of the estimated additional average annual Net Revenues to be derived from such Projects or such other improvements for the first thirty-six months in which each Project or improvement is respectively to be in operation, all as shown by such certificate, and

(ii) An allowance for additional Revenues arising from any increase in rates for services provided by the System which has become effective prior to the issuance of such additional Series of Senior Bonds but which, during all or any part of such Fiscal Year or such last recorded twelve-month period, was not in effect, in an amount equal to 75% of the amount by which the Net Revenues would have been increased if such increase in rates had

been in effect during the whole of such Fiscal Year or such last recorded twelve-month period, as shown by such certificate, shall have produced a sum equal to at least 1.30 times the Maximum Annual Debt Service on the Senior Bonds then Outstanding under the Senior Indenture and on such additional Series of Senior Bonds;

(6) Unless the requirement of paragraph (5) is satisfied, (i) the Authority shall have complied with the rate covenant requirements of the Senior Indenture for the most recent Fiscal Year for which audited financial statements are available; and (ii) for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of such additional Series of Senior Bonds (or, if later, the first full Fiscal Year in which less than 10% of the interest coming due on such Series is Capitalized Interest), Net Revenues are projected to equal at least 1.30 times the Maximum Annual Debt Service on the aggregate of the Senior Bonds then Outstanding under the Senior Indenture and on such additional Series of Senior Bonds, all as shown by a certificate of an independent consultant. The independent consultant's projection shall be made subject to the following assumptions and limitations:

(a) Net Revenues from new Projects and from any other projected improvements to the System may be taken into account only if such Projects and improvements are expected to be completed with moneys then set aside for such purpose or with the proceeds of Senior Bonds previously issued or the proceeds of such additional Series of Senior Bonds (i.e., without additional borrowing after the issuance of such additional Series of Senior Bonds); and

(b) Load growth may only be projected to occur if and to the extent that it represents the expected electric power requirements of:

(i) major developments (whether commercial, residential, industrial or military) already physically in process (e.g., facilities that are under construction, as opposed to facilities that are planned but not yet under construction);

(ii) major developments (whether commercial, residential, industrial or military) that have been fully approved by the Territorial Land Use Commission (or its successor) or, in the case of military developments, by the appropriate military authority, but only to the extent that such major developments (whether commercial, residential, industrial or military) are expected to be constructed;

(iii) residential and small commercial development expected to occur as a result of the developments referred to in (i) and (ii) above; and

(iv) residential and small commercial development expected to occur other than as a result of the developments referred to in (i) and (ii) above.

(7) If any of the Senior Bonds of such additional Series of Senior Bonds are Variable Rate Senior Bonds, Maximum Annual Debt Service on such Variable Rate Senior Bonds shall, for purposes of these provisions, be calculated using the greater of the maximum rate permitted on such Variable Rate Senior Bonds or the maximum rate payable to any Credit Provider for such additional Series of Senior Bonds (whether or not the obligation to such Credit Provider is subordinate to the Senior Bonds).

Senior Bond Reserve Fund

The 2010 Senior Bonds are secured by the Senior Bond Reserve Fund, established pursuant to the Senior Indenture and required to be funded and maintained in an amount equal to the Bond Reserve Fund Requirement.

All amounts in the Senior Bond Reserve Fund shall be used and withdrawn by the Co-Trustee solely for the purpose of making up any deficiency in the Bond Fund in the manner and to the extent set forth in the Senior Indenture. Upon the Request of the Authority, any amount in the Senior Bond Reserve Fund on any October 5 in excess of the Bond Reserve Fund Requirement may be transferred to the Trustee for deposit into the Revenue Fund on such date. The Bond Reserve Fund Requirement may be wholly or partially satisfied by a Credit Facility. "Credit Facility" means any instrument substituting for a deposit in the Senior Bond Reserve Fund. Any Credit Facility must be rated in the highest rating category by Moody's Investors Service and Standard & Poor's Corporation at the time of deposit into the Senior Bond Reserve Fund.

"Senior Bond Reserve Fund Requirement" means, on any date of calculation, an amount equal to Maximum Annual Debt Service on all then Outstanding Senior Bonds, or such higher amount as may be specified by Supplemental Indenture. For purposes of this definition, the interest rate on each Variable Rate Senior Bond shall be assumed to be the maximum rate then permitted on such Senior Bond. As of the date of issuance of the Series 2010 Bonds, the Senior Bond Reserve Fund Requirement is $39,453,925.00. Proceeds of the 2010 Senior Bonds in the amount of $12,028,872.24 will be deposited in the Senior Bond Reserve Fund which, together with the amounts on deposit therein, will equal the Senior Bond Reserve Requirement.

Approximately $13.7 million of the Senior Bond Reserve Fund is invested pursuant to a Forward Delivery Agreement, dated as of September 28, 2000, among the Authority, the Co-Trustee and Lehman Brothers Special Financing Inc. ("LBSFI"). The remainder of the Senior Bond Reserve Fund (approximately $13.7 million is being invested pursuant to a Forward Delivery Agreement, dated as of September 28, 2000, among the Authority, the Co-Trustee and Bank of America, N.A. ("BofA"). In connection with the execution and delivery of the Forward Delivery Agreements, the Authority received up front payments of approximately $17.530 million, representing the then present value of the interest the Authority would otherwise have received over the term of the Forward Delivery Agreements. LBSFI and BofA may at their option, but are not obligated to, cause a qualified dealer to deliver investment securities of one of the types listed in the agreements, with a maturity value equal to the scheduled invested amount. LBSFI sought relief under bankruptcy laws in September 2008. Since then, LBSFI has continued to perform under the Forward Delivery Agreement and has from time to time caused a dealer to deliver eligible securities to the Authority in accordance with the pre-determined schedule.

The Senior Bond Reserve Fund does not secure payment of principal of or interest on the 2010 Subordinate Bonds or any other Subordinate Bonds which may be issued pursuant to the Subordinate Indenture.

Bond Insurance with Respect to Insured 2010 Senior Bonds

The scheduled payment of principal of and interest on the 2010 Senior Bonds maturing on October 1, 2037 (the "Insured 2010 Senior Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.). See "BOND INSURANCE" and "APPENDIX H – SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

2010 Subordinate Bonds

Security

The Subordinate Bonds are limited obligations of the Authority payable solely from Revenues and all amounts (including proceeds of Subordinate Bonds) held by the Subordinate Trustee under the Subordinate Indenture. The Subordinate Bonds are secured by a lien on and pledge of the Revenues that is subject to the prior pledge of Revenues securing the Senior Bonds under the Senior Bond Indenture and to the provisions of the Senior Indenture requiring or permitting the application of the Revenues for the purposes and on the terms and conditions set forth in the Senior Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – CERTAIN DEFINITIONS – Revenues" in Appendix D hereto and "THE CONSULTING ENGINEER'S REPORT - Historical and Projected Operating Results" herein.

The Authority has heretofore caused the establishment of the Surplus Fund within the Revenue Fund pursuant to the Senior Indenture. The Subordinate Indenture creates within the Surplus Fund a separate "Subordinate Revenue Fund," which the Depositary is to maintain and hold in trust. All Revenues deposited in the Surplus Fund and available for transfer to the Authority free and clear of the lien of the Senior Indenture shall be promptly paid over to the Subordinate Trustee and deposited by the Subordinate Trustee to the credit of the Subordinate Revenue Fund. All moneys at any time held in the Subordinate Revenue Fund will be held in trust for the benefit of the Owners of the Bonds and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Subordinate Indenture.

On or before the fifth day of each calendar month, the Subordinate Revenue Fund Depositary is to transfer moneys in the Subordinate Revenue Fund for deposit in the following funds, in the amounts and in the following priority: (1) into the Subordinate Bond Fund held by the Subordinate Co-Trustee an amount equal to (a) the amount of interest payable on each Subordinate Bond on a current uncompounded basis on any interest payment date in equal monthly amounts over the Interest Accrual Period for such Subordinate Bond ending on such interest payment date (or in the case of a variable rate Subordinate Bond, the amount of interest that would have accrued during the next preceding calendar month if such Subordinate Bond had borne interest at the maximum rate, less any excess deposited for the next preceding calendar month), and the amount of interest payable on each Subordinate Bond on a deferred compounded basis on any interest payment date in equal monthly installments over the Principal Payment Period for such Subordinate Bond ending on the maturity date for such Subordinate Bond, plus (b) during the Principal Payment Period for each Subordinate Bond, an amount which, if paid in equal monthly installments in each month during such Principal Payment Period, would yield moneys sufficient to pay the principal or Mandatory Sinking Account Payment due and payable on the next succeeding principal payment or mandatory sinking account payment date for such Subordinate Bond; (2) into the Subordinate Bond Reserve Fund held by the Subordinate Trustee, the amount, if any, necessary to increase the balance in such Fund to the Subordinate Bond Reserve Fund Requirement.

If, on the fifth day before any interest payment date, the amount in the Bond Fund is insufficient to pay the principal of, mandatory sinking account payments for and interest on the Subordinate Bonds due on the next interest payment date, such deficiency is required to be funded by transfers to the Subordinate Bond Fund from the following funds in the following order of priority: (1) the Subordinate Revenue Fund, (2) the Subordinate Bond Reserve Fund; and (3) any other Fund or Account established pursuant to the Subordinate Indenture (except the Rebate Fund).

Funds

The following funds are established under the Subordinate Indenture:

Proceeds Fund – Moneys on deposit in the Proceeds Fund will be disbursed by the Depositary for the payment or reimbursement of the costs of each Project for which a series of Subordinate Bonds is issued and the costs associated with the issuance of Subordinate Bonds of such series and capitalized interest, and, to the extent necessary, to fund any deficiency in the Subordinate Bond Fund to pay principal Redemption Price of or interest on the Subordinate Bonds.

Subordinate Revenue Fund – All Revenues deposited in the Surplus Fund and available for transfer to the Authority free and clear of the lien of the Senior Indenture shall be promptly paid over to the Subordinate Trustee and deposited by the Subordinate Trustee to the credit of the Subordinate Revenue Fund. Moneys on deposit in the Subordinate Revenue Fund shall be applied in the manner described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -¬2010 SUBORDINATE BONDS – Security" above.

Subordinate Bond Fund – The Subordinate Co-Trustee shall apply moneys on deposit in the Subordinate Bond Fund solely for the purposes of (1) paying interest on the Subordinate Bonds, (2) paying principal of any Serial Subordinate Bonds issued under and pursuant to the Subordinate Indenture, when due and payable and (3) purchasing or redeeming or paying at maturity any Term Subordinate Bonds issued under and pursuant to the Subordinate Indenture as provided in the Subordinate Indenture.

Subordinate Bond Reserve Fund – The Authority is required to make monthly deposits to the Subordinate Bond Reserve Fund from Revenues of amounts necessary to increase the amount in such Fund to the Subordinate Bond Reserve Fund Requirement. See "Subordinate Bond Reserve Fund" below. Moneys in the Subordinate Bond Reserve Fund shall be applied solely to make up any deficiency in the Subordinate Bond Fund. Any moneys in the Subordinate Bond Reserve Fund on any October 5 in excess of the Subordinate Bond Reserve Fund Requirement may be transferred to the Subordinate Revenue Fund.

Rebate Fund – The Subordinate Trustee shall hold in trust all moneys deposited in the Rebate Fund, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America, and the Subordinate Trustee shall disburse such moneys in accordance with the Subordinate Indenture and the Tax Certificate. In the event such moneys exceed the Rebate Requirement, the Authority may direct the Subordinate Trustee to transfer such excess moneys to the Subordinate Revenue Fund.

Rate Covenant

The Subordinate Indenture includes a contractual undertaking for the benefit of Bondholders to the effect that rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System will be established, fixed, prescribed and collected so as to yield Net Revenues, with respect to the then immediately ensuing twelve months, which are equal to at least (a) 1.20 times the sum of (1) the interest falling due on then outstanding Senior Bonds and Subordinate Bonds (assuming that all then outstanding Serial Senior Bonds and Serial Subordinate Bonds are retired on their respective maturity dates and that all then outstanding Term Senior Bonds and Term Subordinate Bonds are retired at the times of and in amounts provided for by the Mandatory Sinking Account Payments applicable to such Term Bonds), but not including Capitalized Interest, (2) the principal amount of then outstanding Serial Senior Bonds and Serial Subordinate

Bonds falling due by their terms, and (3) the aggregate amount of all Mandatory Sinking Account Payments required (all as calculated for said Bond Year) to be paid from Net Revenues during such 12-month period; and (b) the amount necessary to pay all obligations to be paid from Net Revenues during such period under then existing contracts or under law (including amounts payable from Net Revenues on a basis subordinate to the Subordinate Bonds). For the purpose of determining the interest payable on Senior Bonds or Subordinate Bonds that are variable rate bonds, the interest rate used in the foregoing calculation shall be the actual interest rate for periods prior to the date of calculation and the maximum rate then permitted on such bonds for periods subsequent to the date of calculation. Net Revenues means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation expenses incurred during such period.

Additional Subordinate Bonds

The Authority may issue additional Series of Subordinate Bonds upon the terms and conditions set forth in the Subordinate Indenture. If issued, such additional Series of Subordinate Bonds are to be payable from and secured by the Revenues and other amounts pledged under the Subordinate Indenture on a parity with Subordinate Bonds previously issued.

Additional Series of Subordinate Bonds may be issued only if, among other things, the following conditions are satisfied:

(1) No Event of Default shall have occurred and be continuing under the Subordinate Indenture;

(2) The Supplemental Indenture under which the additional Series of Subordinate Bonds may be issued must specify the purposes for which such additional Series of Subordinate Bonds is being issued, which shall be one or both of the following: to provide funds (i) for deposit into the Proceeds Fund and withdrawal therefrom for purposes other than the refunding of Subordinate Bonds outstanding under the Subordinate Indenture; or (ii) to refund all or part of the Subordinate Bonds of any one or more Series outstanding under the Subordinate Indenture by depositing with the Co-Trustee, in trust, noncallable Federal Securities in the necessary amount to discharge all liability of the Authority with respect to such Subordinate Bonds to be refunded as provided in the Subordinate Indenture.

(3) The Supplemental Indenture under which the additional Series of Subordinate Bonds are issued provides for a deposit to be made to the Subordinate Bond Reserve Fund on the date such additional Series of Subordinate Bonds are issued in an amount necessary to bring the balance in that Fund to an amount at least equal to the Subordinate Bond Reserve Fund Requirement with respect to all Subordinate Bonds outstanding under the Subordinate Indenture, including the additional Series of Subordinate Bonds;

(4) The aggregate principal amount of Subordinate Bonds issued under the Subordinate Indenture shall not exceed any limitation imposed by law by the PUC or by any Supplemental Indenture;

(5) Unless the requirement of paragraph (6) is satisfied, Net Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of the Supplemental Indenture providing for the issuance of such additional Series of Subordinate Bonds, as shown by a certificate of an independent consultant, plus

(i) An allowance for Net Revenues from any Projects to be financed with the proceeds of such additional Series of Subordinate Bonds or with the proceeds of Subordinate Bonds previously issued under the Subordinate Indenture, and for Net Revenues from any improvements to the System which have been made from moneys from any source, but which, during all or any part of such Fiscal Year or such last recorded twelve-month period, were not in service, all in an amount equal to 75% of the estimated additional average annual Net Revenues to be derived from such Projects or such other improvements for the first thirty-six months in which each Project or improvement is respectively to be in operation, all as shown by such certificate, and

(ii) An allowance for additional Revenues arising from any increase in rates for services provided by the System which has become effective prior to the issuance of such additional Series of Subordinate Bonds but which, during all or any part of such Fiscal Year or such last recorded twelve-month period, was not in effect, in an amount equal to 75% of the amount by which the Net Revenues would have been increased if such increase in rates had been in effect during the whole of such Fiscal Year or such last recorded twelve-month period, as shown by such certificate, shall have produced a sum equal to at least 1.20 times the Maximum Annual Debt Service on the Senior Bonds and Subordinate Bonds then Outstanding and on such additional Series of Subordinate Bonds, and at least 1.00 times the amount necessary to pay all obligations payable from Net Revenues in such year under then existing contracts or under law (including amounts payable from Net Revenues on a basis subordinate to the Bonds);

(6) Unless the requirement of paragraph (5) is satisfied, (i) the Authority shall have complied with the rate covenant requirements of the Subordinate Indenture for the most recent Fiscal Year for which audited financial statements are available; and (ii) for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of such additional Series of Subordinate Bonds (or, if later, the first full Fiscal Year in which less than 10% of the interest coming due on such Series is Capitalized Interest), Net Revenues are projected to equal at least 1.20 times the Maximum Annual Debt Service on the aggregate of the Senior Bonds and Subordinate Bonds then Outstanding, and on such additional Series of Subordinate Bonds, and Net Revenues are projected to equal at least the amount necessary to pay all obligations projected to be payable from Net Revenues in such year under then existing contracts or under law (including amounts payable from Net Revenues on a basis subordinate to the Bonds), all as shown by a certificate of an independent consultant. The independent consultant's projection shall be made subject to the following assumptions and limitations:

(a) Net Revenues from new Projects and from any other projected improvements to the System may be taken into account only if such Projects and improvements are expected to be completed with moneys then set aside for such purpose or with the proceeds of Subordinate Bonds previously issued or the proceeds of such additional Series of Subordinate Bonds (i.e., without additional borrowing after the issuance of such additional Series of Subordinate Bonds); and

(b) Load growth may only be projected to occur if and to the extent that it represents the expected electric power requirements of:

(i) major developments (whether commercial, residential, industrial or military) already physically in process (e.g., facilities that are under construction, as opposed to facilities that are planned but not yet under construction);

(ii) major developments (whether commercial, residential, industrial or military) that have been fully approved by the Territorial Land Use Commission (or its successor) or, in the case of military developments, by the appropriate military authority, but only to the extent that such major developments (whether commercial, residential, industrial or military) are expected to be constructed;

(iii) residential and small commercial development expected to occur as a result of the developments referred to in (i) and (ii) above; and

(iv) residential and small commercial development expected to occur other than as a result of the developments referred to in (i) and (ii) above.

(7) If any of the Subordinate Bonds of such additional Series of Subordinate Bonds or any outstanding Senior Bonds are variable rate Bonds, Maximum Annual Debt Service on such Bonds shall, for purposes of these provisions, be calculated using the greater of the maximum rate permitted on such Bonds or the maximum rate payable to any Credit Provider for such Bonds (whether or not the obligation to such Credit Provider is subordinate to the Bonds).

Subordinate Bond Reserve Fund

The 2010 Subordinate Bonds are secured by the Subordinate Bond Reserve Fund, established pursuant to the Subordinate Indenture and required to be funded and maintained in an amount equal to the Subordinate Bond Reserve Fund Requirement.

"Subordinate Bond Reserve Fund Requirement" means, on any date of calculation, an amount equal to the lesser of: (i) Maximum Annual Debt Service on all Subordinate Bonds then Outstanding; and (ii) 125% of average Annual Debt Service on all Subordinate Bonds then Outstanding, provided that for purposes of this definition, the interest rate on each Variable Rate Bond shall be assumed to be the maximum rate then permitted on such Bond; and provided further that with respect to a Series of Subordinate Bonds, if the Subordinate Bond Reserve Fund would have to be increased by an amount greater than ten percent (10%) of the stated principal amount of such Series (or, if such Series has more than a de minimis amount of original issue discount or premium, of the issue price of such Subordinate Bonds) then the Subordinate Bond Reserve Fund Requirement shall be such lesser amount as is determined by a deposit of such ten percent (10%).

As of the date of issuance of the 2010 Subordinate Bonds, the Subordinate Bond Reserve Fund Requirement is $5,611,500.00, which will be funded with a portion of the proceeds of the 2010 Subordinate Bonds.

All amounts in the Subordinate Bond Reserve Fund shall be used and withdrawn by the Subordinate Trustee solely for the purpose of making up any deficiency in the Subordinate Bond Fund in the manner and to the extent set forth in the Subordinate Indenture. Upon the Request of the Authority, any amount in the Subordinate Bond Reserve Fund on any October 5 in excess of the Subordinate Bond Reserve Fund Requirement may be deposited into the Subordinate Revenue Fund on such date. The Subordinate Bond Reserve Fund Requirement may be wholly or partially satisfied by a Credit Facility, provided that such Credit Facility is provided by a Credit Provider rated, at the time of deposit of such Credit Facility, in the highest rating category of Moody's Investors Service and Standard & Poor's Corporation.

The Subordinate Bond Reserve Fund does not secure payment of principal of or interest on the 2010 Senior Bonds or any other Senior Bonds which may be issued pursuant to the Senior Indenture.

Limitation on Remedies

The Subordinate Indenture provides that, while any Senior Bonds remain outstanding under the Senior Indenture, the Co-Trustee shall not exercise any remedy under the Subordinate Indenture, or take any action to protect or enforce its rights or the rights of the Bondholders under the Subordinate Indenture, in a manner that is inconsistent with, or that could reasonably be expected to impair, the rights of the holders of the Senior Bonds or their fiduciaries under the Senior Indenture.

In addition, the 2010 Subordinate Bonds are not subject to acceleration unless and until an event of default shall have occurred under the Senior Indenture and a declaration of acceleration shall have been made with respect to the Senior Bonds.

For a description of the various remedies and limitations thereon set forth in the Subordinate Indenture, see APPENDIX D– "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2010 Senior Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Insured 2010 Senior Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Insured 2010 Senior Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp. (Formerly Known As Financial Security Assurance Inc.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

On July 1, 2009, AGL acquired the financial guaranty operations of Holdings from Dexia SA ("Dexia"). In connection with such acquisition, Holdings' financial products operations were separated from its financial guaranty operations and retained by Dexia. For more information regarding the acquisition by AGL of the financial guaranty operations of Holdings, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the "SEC") on July 8, 2009.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AAA" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Recent Developments

Ratings

On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the SEC on March 1, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010. Effective July 31, 2009, Holdings is no longer subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

Capitalization of AGM

At March 31, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately $2,220,015,145 and its total net unearned premium reserve was approximately $2,228,912,193 in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010); and

(ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Insured 2010 Senior Bonds or the advisability of investing in the Insured 2010 Senior Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

THE GUAM POWER AUTHORITY

General

Current electric utility operations on Guam date back to the post-World War II period when electric power production facilities consisted of individual diesel plants located at the then existing principal military load centers. Government electric operations were originally undertaken by the Government of Guam, and subsequently by Public Utility Agency of Guam ("PUAG"). In 1968, the Authority was established by an act of the Legislature of Guam and subsequent laws have confirmed its status as an autonomous instrumentality of the Government of Guam.

Over the years, the United States Navy (the "Navy"), which has significant facilities on Guam, has transferred a number of electric facilities to the Government of Guam, PUAG and the Authority. As described herein, the Navy is a significant customer of the Authority and distributes electricity purchased from the Authority throughout the military bases on Guam.

Governance

In 2001, by virtue of the passage of Public Law 26-76, oversight of the Authority was delegated to the newly created and elected five-member Consolidated Commission on Utilities ("CCU"). The CCU is charged with oversight of both the Authority and Guam Waterworks

Authority. The enabling legislation empowers the CCU to make decisions regarding service policies, management, budgeting, and financing of the Authority's operations. Certain actions, such as issuing bonds for financing utility capital projects also require legislative approval. The CCU also has responsibility for the setting of rates of the Authority subject to the regulatory review and approval of the PUC. The original CCU members took office on January 3, 2003.

In addition, pursuant to statutory requirements, the Guam legislature, the Governor of Guam, GEDA, and the PUC are required to approve the issuance of bonds by the Authority, and each has approved the issuance of the 2010 Bonds.

The current members of the CCU are:

Simon A. Sanchez II, Chairman. Mr. Sanchez was elected to the CCU and has been its chairman since January 2003. He is a former Senator, as well as the former Vice Chairman of the PUC; and the Vice President/General Manager Guam Dry Cleaners since 1988. Mr. Sanchez has served on numerous government and civic organization boards including the Guam Chamber of Commerce, the Guam Visitors Bureau, the Guam Hotel and Restaurant Association and the Guam Memorial Hospital. He graduated from Harvard University (1980 - MA, City and Regional Planning), and Stanford University (1978 - BA, History).

Benigno M. Palomo. Mr. Palomo was elected to the CCU and has been a member since January 2003. Mr. Palomo has served the Government of Guam for over thirty (30) years, in various capacities. He was an Organization and Methods Examiner, of the Management Section of the Department of Finance. He was also Deputy Executive Director and then Executive Director for the Guam Housing and Urban Renewal Authority, General Manager of the Port Authority of Guam. Mr. Palomo was previously a Senator of the 13th, 14th and 15th Guam Legislature. He was the Founding president of the Guam Jaycees, and served as Vice-President for the Jaycee International, and also was a founding member of the Chamorro Cultural Association. Mr. Palomo graduated from Belmont Abbey College with a BA, attended DePaul College of Law, Chicago, Illinois, and numerous workshops and seminars on effective management.

Gloria B. Nelson. Ms. Nelson was elected to the CCU and has been a member since January 2005. She has served as a teacher at all educational levels, including at the University level. Mrs. Nelson has served as the Chairperson of the Guam Board of Education and the Guam Election Commission. She is a member of the Statehood for Guam Taskforce, National Federation of Democratic Women, Guam Radiation Nuclear Survivors, Ayuda Man Malango (an organization dedicated to assisting to helping the sick and elderly), the Guam State Agency for Adult Education and numerous other community and civic organizations. Mrs. Nelson graduated from the Territorial College of Guam with an Associate of Arts Degree (1957); obtained a Bachelor of Arts from Ohio State University (1960); and a Masters Degree from the University of New Mexico in Education and Administration (1965). Mrs. Nelson has also taken post-graduate courses from the University of Oregon, the University of Southern California and the University of California Los Angeles.

Eloy P. Hara. Mr. Hara was elected to the CCU and has been Vice Chairman since January 2007. He is the President and CEO of International Technology, Inc. Mr. Hara was previously the Administrator of the Guam Memorial Hospital Authority, a Director of the Civil Service Commission, and Assistant General Manager for Administration, Guam Power Authority. He attended San Diego City College, College of the Sequoias, Chaminade College, University of Hawaii, Northern Oklahoma College, and East Texas State University, where he received a Bachelor of Arts degree in Business Administration.

Joseph T. Duenas. Mr. Duenas was elected to the CCU and has been Treasurer since January 2009. He is a local businessman. He is the Finance Officer for the Archdiocese of Agana, and previously was the Director of the Department of Revenue and Taxation, and the Director of the Department of Administration. Mr. Duenas was formerly the President of Duenas, Inc. as well as the President of the Guam Housing Corporation. His community service efforts include serving as the Vice-Chairman of the Guam Election Commission, Chairman of the Guam Public Utilities Commission, Board of Directors of the American Red Cross, Vice-Chair, Board of Trustees, Guam Community College, and past president of the Rotary Club of Guam. He holds a Bachelor of Arts degree in business management from Chaminade University.

Key Management Personnel

Following are resumes of key management personnel of the Authority.

General Manager of Consolidated Utility Services - John M. Benavente, P.E. Mr. Benavente has thirty years of technical, engineering and management experience in power related fields both in the government and private sectors, including seven (7) years as the General Manager of the Authority. He is experienced in various operations, including customer supplier agreements, Energy Conversion Agreements, strategic planning, succession planning, rate proceedings before the PUC, Legislative hearings, bond ratings and issuance, environmental permitting, power plant construction, transmission and distribution construction, energy management system, budgeting, collections, typhoon and earthquake recoveries. Mr. Benavente has a Masters of Science in Engineering Management from the University of Missouri (Rolla), a Bachelor of Science (Mechanical Engineering) from the University of Dayton, and is a Registered Professional Mechanical Engineer, Guam.

General Manager - Joaquin C. Flores, P.E. Mr. Flores has worked in the power industry for over 26 years. He started his career with the Authority as an Engineer and eventually became the Manager of Engineering in 1994. For close to ten years as the Manager of Engineering he was primarily responsible for many large scale bond funded projects. In 2003, he was appointed as the Assistant General Manager of Operations overseeing the entire operations functions of Engineering, Generation, Transmission and Distribution, Power Systems Control, Facilities, and Transportation divisions. Since 2005, he has served in the capacity as General Manager for the Authority. Mr. Flores' educational background includes a B.S. in Electrical Engineering from the University of Portland and an M.S. in Electrical Engineering from the University of Missouri-Rolla.

Chief Financial Officer - Randall V. Wiegand. Mr. Wiegand was hired by the CCU as the Chief Financial Officer for both the Authority and Guam Waterworks Authority in 2003. In 2007, he became the Chief Financial Officer for the Authority only. Prior to 2003, Mr. Wiegand spent nearly three years as Audit Manager for the Guam Office of the Public Auditor. Before that he spent a year as the Underwriting Manager for PacifiCare Asia Pacific, nearly five years as Comptroller for the Guam Power Authority and five years at Deloitte & Touche ending in the role of Audit Supervisor. Each year at Deloitte and Touche, Mr. Wiegand was involved in audits of utilities. Mr. Wiegand holds certifications as a Certified Public Accountant (Washington State and Guam), a Certified Government Financial Manager, and a Certified Fraud Examiner. Mr. Wiegand is active in the Guam Chapter of the Association of Government Accountants. Mr. Wiegand is a graduate of the University of Washington (MBA-1990) and Seattle Pacific University (1983 — BA-Business Finance).

THE GUAM ELECTRIC POWER SYSTEM

General

The Authority presently provides electric service throughout Guam and has approximately 530 employees.

Principal Existing Resources

Following is a brief description of the authority's principal existing resources. Collectively, these resources have a total net capacity of 537.8 MW. See Appendix A – "CONSULTING ENGINEER'S REPORT" for more detailed information concerning the resources currently available to the Authority.

Units Owned by the Authority. The Authority owns three oil-fired steam generating units, four combustion turbine units, two slow-speed diesel units and twelve high-speed diesel units. In addition to the generation units it owns, the Authority is leasing at no cost for a period of up to fifty years, one oil-fired steam generating unit owned by the Navy, ownership of which is expected to be transferred to the Authority prior to the end of the lease term. The Authority has retained private operators of certain of the units which it owns. Collectively these units represent approximately 385 MW of capacity.

Privately Owned Units Operated by the Authority. The Authority operates a 9.8 MW (net) two-unit, diesel plant owned by the developer of one of the resorts on Guam. The Authority also operates a 15.2 MW generating facility owned by the Navy. These units represent approximately 25 MW of capacity.

Contract Units Privately Owned and Operated. The Authority has contracted with the owner/operators of three units located on Guam. Pursuant to these arrangements, the Authority pays fees to the owner/operators (which fees include certain components which the Authority treats as subordinate to the Bonds for purposes of debt service coverage calculations; see Table 5 – Historical and Projected Operating Results and Debt Service Coverage), and also provides fuel. At the end of the terms of these agreements, the units will revert to the Authority at no cost.

Transmission and Distribution. In addition to the generating units discussed above, the Authority's properties include 25 substations, 174 miles of 115 kV and 34.5-kV transmission lines, 555 miles of overhead and 55 miles of underground primary distribution lines, and other buildings, equipment, stores and related facilities.

Capital Improvement Program. As described in the Consulting Engineer's Report, and herein in "Capital Improvement Program," except for renewable facilities which it may develop, the Authority does not contemplate the development and construction of significant new generating facilities through the end of Fiscal Year 2014, and expects to meet load requirements from existing facilities. The capital improvement program contains a number of renewal and maintenance projects with respect to the Authority's existing facilities. Certain of those projects will be funded from the proceeds of the 2010 Senior Bonds.

Historical and Projected Demand and Load Growth

As described in the Consulting Engineer's Report, from 1995 to 2009 the Authority's peak loads remained relatively flat, having grown 11.2 MW or 4.3 percent during such period (an annual

compound growth rate of 0.3 percent). Energy sales have been similarly flat having increased 124,000 MWh or 7.6 percent (an annual compound growth rate of 0.5 percent).

The growth in number of customers however from 1995 to 2009 has been greater with an increase of 13.2 percent (an annual growth rate of about 1 percent per year). This has resulted in the usage per customer declining during this same period. Specifically the usage per residential customer in 1995 was approximately 13,500 kWh/yr as compared to the usage per residential customer in 2009 of approximately 11,900 kWh/yr. The Authority believes that the usage per customer decline has resulted from both increasing rates as well as economic conditions that have affected Guam in a similar manner to that of the mainland United States.

For the period 2010 through 2014, a load forecast for GPA was prepared by P.L. Mangilao Energy, which includes certain increases in loads resulting from construction activities relating to the potential move of a portion of the United States military base in Okinawa, Japan to Guam described in the Consulting Engineer's Report. The annualized growth rate for peak and energy sales for the period 2009-2014 as set forth in the load forecast are 2.5 percent and 2.1 percent, respectively.

During the period covered by the Projected Operating Results (from fiscal years 2010 through 2014) (the "Projected Operating Results") set forth in the Consulting Engineer's Report and in "THE CONSULTING ENGINEER'S REPORT - Historical and Projected Operating Results", the Authority expects to meet its projected peak load requirements primarily from existing resources and to a much smaller degree from a demand-side management program and use of Smart Grid that is in various states of development.

See Appendix A – "CONSULTING ENGINEER'S REPORT" for a description of the Authority's load projections, as well as historical and projected information relating to peak demand.

Renewable Resources

As described in Appendix A – "CONSULTING ENGINEER'S REPORT," the Authority developed its most recent Integrated Resource Plan which was filed with the PUC in September 2008. The plan includes analyses leading to the determination of the timing, sizing, location and technologies to be utilized for future Authority generation additions. In part, the Authority's planning is being influenced by legislation adopted by the Guam Legislature in 2008 establishing goals for renewable portfolio standards. The legislation provides that the Authority shall establish preliminary goals of 5 percent of its net electricity sales to be furnished from renewable generation by December 31, 2015 and 25 percent by December 31, 2035, subject to engineering and economic analysis by the Authority. The legislation also requires that 10 percent of any traditional power supply that is constructed be furnished from a renewable resource. The Authority is currently considering adding approximately 80 MW from renewable wind and potentially solar through Fiscal Year 2014. The Authority is also considering the use of geothermal resources. However, the timing of the implementation of the renewable resources is uncertain. In accordance with the Authority's policies, the Projected Operating Results assume that any renewable resources which are developed will not materially increase the Authority's costs. See "THE CONSULTING ENGINEER'S REPORT - Historical and Projected Operating Results."

Fuel Supply

The Authority is responsible for providing fuel for all of its generating resources, including those owned and operated by private contractors. The facilities generally require No. 2 and No. 6

diesel fuel. Fuel cost is the most significant element of the Authority's costs, representing approximately 79% of the Authority's total power costs in Fiscal Year 2009.

Fuel Oil Supply Contracts. The Authority has entered into contracts for the purchase of fuel for its facilities.

The first is for residual fuel oil No. 6 for the baseload plants and consists of one contract. The current contract started March 1, 2010 with Petrobras Singapore PTE, Ltd., a Brazilian-based company ("Petrobras"). The second set is two contracts for distillate fuel oil No. 2 for the Authority's combustion turbines, diesel units and emergency standby generators. These two contracts started December 1, 2009 and are with Shell Guam, Inc.

Commencing March 2010, the Authority has purchased substantially all of its fuel requirements for is baseload plants (residual fuel oil No. 6) pursuant to a three year Fuel Oil Supply Contract with Petrobras. Pursuant to the Fuel Supply Contract, Petrobras agrees to provide all of the Authority's fuel requirements (estimated to be three million barrels per year). The price to be paid by the Authority is variable, based on a published index reflecting the then prevailing price of oil, plus a fixed premium. The Authority's cost of fuel is therefore subject to volatility, as world oil prices fluctuate.

For the twelve months ended September 30, 2009, the Authority took delivery of approximately 3.2 million barrels of oil from the prior contractor, BP Singapore PTE Ltd. In general, the Authority receives approximately one tanker per month of fuel oil for generation. The Authority has approximately 90 days' storage capacity. As a result, the Authority's generally has from 30 to 60 days' fuel supply on hand at any given time.

Fuel Price Risk Management Program. The Authority has established, with PUC approval, a fuel hedging program utilizing financial derivative transactions to mitigate a portion of its exposure to fuel price fluctuations. The general approach historically utilized by the Authority was a "Zero Cost Collar Option" which consists of buying a call option (i.e., the right to purchase fuel at a set price) and selling a put option (i.e., the obligation to sell fuel to the counterparty at a different, lower fixed price) to exactly offset the costs of purchasing the call option. The two products were intended to create a fuel pricing band within which there would not be a gain or loss from the combined transactions. If the price of fuel rose above the price of the call option, the Authority would receive from the counterparty a payment for the difference between the actual average market price for the month and the call price (with the result that the Authority's cost of fuel which is subject to the hedging agreement would be the call price, even if the prevailing price was higher). If the price of fuel dropped below the put price, the Authority would be required to pay to the counterparty the difference between the put price and the actual average market price for the month (with the result that the Authority's cost of fuel which is subject to the hedging agreement would be the put price, even if the prevailing price was lower).

The Authority currently utilizes the fuel hedging program with respect to approximately 50% of its projected fuel requirements. As described herein in "FINANCIAL MATTERS – Fuel Supply Hedges," use of the fuel hedging program entails risk to the Authority. The Authority's cost of fuel which is not the subject of the hedging agreements fluctuates with the prevailing price of oil.

LEAC. The Authority is generally entitled to recover 100% of the cost of fuel in its rates through the "Levelized Energy Adjustment Clause component" ("LEAC"). See "Electric Rates and Charges – Public Utilities Commission." LEAC Adjustments are generally considered twice annually. However, the Authority can petition for an increase at any time when the Authority's

projected under-recovery of fuel costs exceeds $2 million. Each time the Authority has petitioned for such an emergency adjustment, the PUC has generally heard it within 30 days.

Despite the ability to petition for LEAC adjustments, recent periods of significant volatility have resulted in reductions in the Authority's working capital and liquidity. See "FINANCIAL MATTERS – Working Capital" and "BONDHOLDER RISKS – Risks Relating to Fuel."

Power Sales to the Military; Island Wide Power System

Electric Service to the Military. A significant portion of the work force of Guam is employed by the Federal government, including the armed forces of the United States stationed on Guam. Federal government personnel and their families comprise a significant percentage of the population of Guam. In addition, the military has a substantial impact on the economy of Guam through the employment of civilian personnel, through construction contracts and purchasing of material and services, and through Federal income taxes paid by military personnel which are remitted to the Government of Guam. The Authority projects that energy sales to the Navy alone should generate approximately 20.5% of the total revenues of the Authority during each of the Fiscal Years 2010 through 2014.

Military Energy Sales. Military energy sales for Fiscal Year 2005 through Fiscal Year 2009 accounted for 20.7% (5-year average) of the Authority's total annual energy sales. Revenues generated from the military for the same period accounted for 18.2% (5-year average) of the Authority's total annual revenues. Military energy sales increased from 327,100 MWh in Fiscal Year 2005 to 359,094 MWh in Fiscal Year 2009, an average annual increase of 2.37%. During the same period, total revenues from the military increased from $39.1 million in Fiscal Year 2005 to $81.4 million in Fiscal Year 2009, an average annual increase of 20.2%. Military energy sales are projected to increase between 2010 and 2014 at an average annual rate of 3.2%.

Potential Increase in Navy Power Requirements. The Authority is currently negotiating the terms of a memorandum of understanding with the Department of Defense, the Navy and other interested parties in connection with the expected increase in Navy power requirements resulting from the relocation to Guam of a portion of the United States military base on Okinawa, Japan. The Authority expects that the Customer Agreement will ultimately be revised to reflect the operational and financial ramifications of the increase, implementing the principles being reflected in the memorandum of understanding.

As described herein in the Consulting Engineer's Report, the specific timing of the relocation of a portion of the Okinawa facilities of the U.S. military to Guam, and corresponding increase in military electricity requirements, is uncertain. The Projected Operating Results assume that the total electricity sales through 2014 will increase by approximately 11%, which the Authority expects will be primarily attributable to increasing usage by private contractors engaged by the Navy to construct new facilities in connection with the relocation. However, there can be no assurances that this increasing usage will occur within the time period addressed by the Projected Operating Results. The Consulting Engineer's Report also contains a sensitivity analysis which assumes that Authority electricity sales will remain flat through 2014. See "THE CONSULTING ENGINEER'S REPORT - Historical and Projected Operating Results." Also see the Consulting Engineer's Report for a discussion of the assumptions and qualifications relating to the Projected Operating Results.

Island Wide Power System. Historically, the Authority's power supply requirements have been supplied from generating facilities owned and operated by the Authority, generating facilities owned and operated by the Navy and generating facilities owned by the Navy and operated by the

Authority. The major generating assets of the Navy and the Authority constitute the Island Wide Power System ("IWPS"). Beginning in 1972 there has been a gradual transition, consolidating all of the IWPS ownership and operating responsibilities with the Authority. This transition has been accomplished through two major agreements between the Navy and the Authority: the Power Pooling Agreement, entered into in 1972 (the "Power Supply Agreement"), and the Utility Service Contract (the "Customer Agreement") described below.

Power Supply Agreement. Pursuant to the Power Supply Agreement, Authority and Navy generation and transmission assets were combined into the IWPS. Under the terms of the Power Supply Agreement, both the Authority and the Navy supplied power to each other and shared the cost of operating and maintaining the IWPS on a proportionate basis. The Power Supply Agreement delegated to the Authority responsibility for dispatching all generating resources available to the IWPS and performing the majority of IWPS system maintenance.

Customer Agreement. In July 1989, the Authority and the Navy entered into a ten year Guam Power Authority Utility Service Contract (the "Customer Agreement") which provided for the termination of the Power Supply Agreement and became effective in August 1992. The Customer Agreement was renewed for an additional ten year term, through January 1, 2012. Under the Customer Agreement, the Authority has become increasingly more responsible for operational control of the IWPS, while the Navy has become a transmission-level (wholesale) customer of the Authority. (The Authority transmits electricity to Navy facilities, and the Navy distributes the electricity so delivered through its individual facilities.) The Customer Agreement also provides for the transfer of additional Navy generation, transmission and distribution assets to the Authority. This arrangement assigns certain responsibilities to the Authority for providing electric capacity and energy to the Navy and other Department of Defense facilities on Guam.

The Customer Agreement also sets forth financial provisions, including the manner in which the Navy payments to the Authority will be calculated.

The Authority believes that, because of the long historical relationship between the Navy and the Authority, the continuing need for Authority power by the Navy, and other factors, the Customer Agreement will be renewed prior to its expiration on January 1, 2012. In the event that Customer agreement is not renewed, the Authority would utilize Navy-specific rates which have been adopted by the Authority in billing the Navy. However, there can be no assurances that failure of the Authority and the Navy to renew the Customer Agreement would not materially adversely affect the operations and/or financial condition of the Authority.

Lease Agreement. On September 15, 1996, the Navy and the Authority entered into a lease agreement providing for the transfer to the Authority of responsibility for the operation, maintenance and custody of certain Navy-owned, joint-use, electric power generation facilities. The Lease Agreement was developed to transfer certain assets, prior to completion of environmental remediation at all of the locations involved. See Appendix A – "CONSULTING ENGINEER'S REPORT" for a detailed discussion of the current status of the transfer of Navy assets to the Authority.

Civilian Energy Sales

Between Fiscal Year 2005 and Fiscal Year 2009, civilian energy sales, including the residential, small commercial and large commercial customer classes, constituted approximately 79.3% and 81.8% (5-year averages) of the Authority's total energy sales and revenues, respectively. Concurrently, civilian energy sales decreased at a compounded rate of 1.0% and revenues grew at a

compounded rate of 10.6%, respectively. Civilian load demands are expected to grow at an average annual rate of 1.9% per year from Fiscal Year 2010 through Fiscal Year 2014.

A significant portion of civilian energy sales are to government entities. Historically, certain of these governmental agencies failed to pay Authority bills for energy in a timely manner. The balance owed by such governmental customers, including the Department of Education, the Department of Public Works, Guam Memorial Hospital, and the Guam Water Works Authority was approximately $43 million at the end of Fiscal Year 2003. The Authority entered into payment arrangements with such entities to provide for the repayment of delinquent amounts. As of the end of Fiscal Year 2009, the outstanding balance owed was approximately $13 million, which the Authority expects to be repaid by July 2013.

Top Ten Customers

The following table sets forth the Authority's ten largest customers for Fiscal Year 2009.

Table 1
Largest Customers Fiscal Year 2009

Customer	Energy Sales (KWh)	Energy Sales Revenues
U.S. Navy	359,093,886	$81,373,460
Guam Waterworks Authority	57,111,178	$14,944,491
Department of Education	41,668,939	$11,488,150
Guam Airport Authority	26,159,446	$6,304,812
Tanota Partners	18,633,000	$4,475,259
Goodwin Development Corporation	17,246,000	$4,205,068
MDI Corp/Leo Palace	14,121,620	$3,573,885
University of Guam	13,528,305	$3,600,451
Guam Hilton Hotel	12,355,200	$2,991,478
Hyatt Regency Guam	12,325,600	$2,944,224
Total	572,243,174	$135,901,278
Average Monthly Total	47,686,931	$11,325,107
% of Authority Total (Annual Basis)	35%	35%

Source: The Authority

Electric Rates and Charges - Public Utilities Commission

Rates for electric service are established by CCU, which acts as the Authority's Board of Directors, and regulated by the seven member Public Utilities Commission ("PUC"). The PUC must also approve all contracts to be entered by the Authority that could increase rates and charges.

The PUC is required by its governing statute to set rates which are reasonable rates and charges for services that are sufficient to enable the Authority to meet its financial obligations, operating expenses, debt service and capital improvement needs. The statute also provides that rates established by the PUC must be at least adequate to cover the full cost of its service to customers, subject to any contractual agreements of the Authority with the holders of any bonds and that the PUC shall increase rates from time to time as may be necessary pursuant to any such contractual obligations. The PUC may require the Authority's rates to be adjusted upwards or downwards at any time in order to meet these conditions.

The Authority's rates also include the LEAC. See "Fuel Supply – LEAC.

The following table illustrates the various components of the charges for a residential customer using 1,000 kilowatt hours (kWh) of energy in a month.

Table 2
Representative Monthly Charges for Residential Customer

	Unit Cost	Monthly Cost
kWh used	1,000	
Fixed Monthly Charge	$6.01	$6.01
Non Fuel Variable Charge		
First 500 kwh (per kWh)	$0.03644	18.22
Over 500 kWh (per kWh)	$0.09168	45.84
Emergency Water Well Charges (per kWh)[(1)]	$0.00279	1.40
Self-insurance surcharge (per kWh)[(2)]	$0.00290	$2.90
Subtotal (not including LEAC)		$74.37
LEAC (per kWh)	$0.15046	150.46
Total		$224.83

(1) A charge approved by PUC to recover the cost associated with the financing, operation and maintenance of standby electric generators dedicated to GWA's water wells and wastewater facilities.
(2) Implemented until self-insurance funding is restored to minimum level.
Source: The Authority

In addition, commencing April 2011, the Authority intends to implement the Working Capital Fund Surcharge of $0.00492 per kWh (or $4.92 per month for a 1000 kWh customer) for the civilian customers and a monthly flat fee of $115,699.00 for the Navy. The Authority has approved the surcharge in June 2010 to commence in August 2010 but, upon issuance of the 2010 Subordinate Bonds, the Authority plans to return to the PUC to request a delay in the implementation of the Working Capital Fund Surcharge until April 2011. In keeping with this plan, the 2010 Subordinate Bonds are being structured with capitalized interest through April 2011 on the portion of the 2010 Subordinate Bonds allocable to the Working Capital Fund deposit.

The Projected Operating Results identifies additional revenues (in addition to the revenues to be generated from projected energy sales at current rates) will be required commencing in Fiscal Year 2011-12 in order for the Authority to meet the requirements of the Indentures, as well as undertake the planned level of capital improvements. Taking into account these additional required revenues, the average unit cost per kWh of energy sold is projected to increase from 18.4 cents per kWh in fiscal year 2010 to 20.2 cents per kWh in fiscal year 2014, a compounded annual increase of 2.4%.

While the Consulting Engineer's Report does not specify a particular level of rate increases that will be necessary to generate the additional revenues contained in the Projected Operating Results, for planning purposes the Authority currently expects that it will request a 2.42% increase in rates to be effective for Fiscal Year 2011-12, a 2.32% increase to be effective for Fiscal Year 2012-13, and a 5.62% increase to be effective for Fiscal Year 2013-14. The Consulting Engineer's Report also contains sensitivity analyses showing the impact of lower growth in energy sales than is projected in the Projected Operating Results, as well as higher than projected fuel costs. Additional rate increases may be required for lower growth than projected. Significant rate increases (through the LEAC adjustment) would be required in the event fuel costs significantly exceed projected amounts.

While the CCU and PUC approved the Working Capital Fund Surcharge in June 2010, any further adjustments to rates would be subject to CCU and PUC approval. See "THE CONSULTING ENGINEER'S REPORT - Historical and Projected Operating Results"

The Consulting Engineer's Report contains a comparison of average monthly electric bills for selected residential, commercial and large customer loads to bills charged by certain other public and private island-based electric utilities.

Capital Improvement Program

As part of its planning process, the Authority has prepared a projection of the capital requirements and related costs for its electric system, which is summarized in the Consulting Engineer's Report. The Authority's capital improvement program consists largely of ongoing improvements and upgrades to existing generating and transmission and distribution facilities, extension of transmission lines and the construction of associated substations, and the addition of Smart Grid technologies. See "THE 2010 PROJECTS." The Authority believes that these additions will help it to meet recent and projected increases in system demand while maintaining overall system reliability. The Authority currently projects the expenditure of approximately $218 million on its capital improvement program through the end of fiscal year 2014. Funds for the capital improvement program are expected to come from a combination of existing funds (including remaining proceeds of Prior Bonds), operating revenues, grants and the proceeds of the 2010 Senior Bonds. In addition, the capital improvement program contemplates that the Authority will issue additional bonds to fund approximately $12 million of capital improvement costs in Fiscal Year 2014. However, the Projected Operating Results assume that interest on such bonds will be funded from capitalized interest until after Fiscal Year 2014.

The Authority's capital improvement plan as described above and in the Consulting Engineer's Report does not include the cost of capital improvements directly related to increasing U.S. military presence resulting from the relocation of certain naval facilities to Guam. Such costs could be significant and could occur during the period through the end of Fiscal Year 2014. However, the Authority currently intends that any such capital improvement costs would be paid by the U.S. military (whether through direct capital contributions or through energy price increases sufficient to pay debt service on any bonds issued by or on behalf of the Authority to fund such costs), and such costs are therefore not reflected in the capital improvement program or in the Projected Operating Results.

Employment and Labor Relations

The Authority has approximately 530 employees. The Authority's employees are not represented by labor unions. Management of the Authority believes relations with its employees remain positive. The Authority provides employees with a range of benefits, including health insurance, life insurance and a retirement plan.

The cost associated with the funding of retirement benefits for Authority employees has increased over the last several years, from approximately $4.0 million in Fiscal Year 2007, to approximately $5.1 million in Fiscal Year 2008, to approximately $5.8 million in Fiscal Year 2009. See Note 8 in APPENDIX C - "AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009" for a discussion of the defined benefit retirement system in which Authority employees participate. There can be no assurances that required contributions, payable from Revenues, will not continue to increase significantly.

In addition to the retirement benefit program described above, the Authority is required to contribute to a post-employment benefit program undertaken by the Government of Guam for retired employees. The Authority's share of these costs was approximately $1.0 million in Fiscal Year 2007, approximately $2.0 million in Fiscal Year 2008, and approximately $1.9 million in Fiscal Year 2009.

Insurance

The Authority maintains all risk insurance, directors and officers liability insurance, general liability insurance, pollution liability insurance, vehicle and marine cargo insurance and a blanket crime policy for covering employee dishonesty. All policies provide coverage, with applicable deductibles, that the Authority believes to be standard, provided through qualified insurance companies. Most policies will expire on November 1, 2010, at which time it is expected the Authority will renew them. The aggregate of the premiums for the current year is in excess of $150,000.

The Authority generally maintains a $10 million self-insurance fund which has been authorized by the Public Utilities Commission. The Authority is authorized to draw from the self-insurance fund for any losses in excess of $50,000. The fund is replenished by a surcharge imposed customers. The surcharge is automatically discontinued once the level in the self-insurance fund reaches $10 million and will be reinstated if there are significant draws on the fund. As of March 31, 2010 the balance in the self insurance fund was $5 million, and the self-insurance fund surcharge is currently being imposed.

Environmental Matters

As described in the Consulting Engineer's Report, all of the Authority's generating plants and associated facilities must comply with federal environmental laws and regulations. In addition, local Guam environmental regulations are also applicable. Certain legal and financial liabilities may be associated with regulatory requirements. The Federal Clean Water Act and Clean Air Act are the two most significant environmental statutes affecting the Authority's operations. Some aspects of these programs are administered by the United States Environmental Protection Agency ("USEPA") and some are administered by the Guam Environmental Protection Agency ("Guam EPA"). The acid rain provision of the Federal Clean Air Act (Title IV), which established an allowance program for sulfur dioxide and nitrous oxide emissions, affects only electric utilities in the continental United States and, consequently, does not apply to Guam. Guam EPA is responsible for administration of the island's operating permit program for air pollution sources including all of the Authority's power plants. The Authority must also comply with the provisions of the Oil Pollution Act of 1990 and the Toxic Substances Control Act ("TSCA") as well as other laws and regulations. The Authority's compliance with the various federal and territorial requirements is discussed below.

As described in the Consulting Engineer's report, during the past ten years, the Authority has been involved in a number of oil spill incidents and has received two Notices of Violation ("NOV") with regard to environmental compliance issues. These spills and NOVs have been satisfactorily resolved with the regulatory agencies and are discussed in detail in the Consulting Engineer's Report. In addition, the Consulting Engineer's Report describes an alternate control strategy fuel switching program, which the Authority uses in connection with an exemption from the New Source Performance Standards regulating sulfur dioxide emissions from steam electric generating facilities and the prohibition on intermittent control of air pollutants.

While the Authority does not expect the development and construction of significant new generation resources though the period of review in the Projected Operating Results (through Fiscal Year 2014) (other than potential renewable resources), the Consulting Engineer's Report contain a discussion of potential issues and regulatory hurdles relating to the future development or repowering of Authority resources, particularly in light of the fact that significant existing facilities (which would also be the likely site for future resources) are located in areas designated under Clean Air Act regulations of Guam as "non-attainment" areas.

Potential Impact of Natural Disasters

Guam experiences natural disasters from time to time. In August 1993, Guam experienced an 8.1 magnitude earthquake. There were major power outages across the island; however, the electrical system on the island was fully energized within four days of the earthquake. Only relatively minimal damage was sustained by the Authority's physical plant and transmission and distribution system. Repair and related costs were less than $1 million dollars.

In December 1997, Typhoon Paka struck Guam, damaging the Authority's facilities. Within two months, service had been restored to virtually all of the Authority's customers. The Authority's facilities sustained damages in excess of $50 million (excluding lost revenues), a significant portion of which was funded from federal and local disaster relief and emergency funds. In 2002, two other major typhoons struck Guam, causing approximately $38.5 million in damages (excluding lost revenues).

The Authority has taken certain measures over the past decade to make its system more resistant to typhoons and earthquakes. These include its ongoing program to replace wooden electric utility poles with concrete poles that are more resistant to high winds; the use of concrete buildings to house its permanently installed generating units; and the installation of standby diesel generators to provide backup power for Guam Waterworks Authority's municipal water pumps, sewer lift pumps and two large sewer treatment plants.

In addition, in 2002 the Authority received funding from the Federal Emergency Management Agency to undertake projects designed to reduce the Authority's vulnerability to natural disasters. The Authority utilized FEMA funding to pay 90% of the cost of underground major power lines which connected certain significant generating facilities and substations and others which served certain significant customers of the Authority, including major hotels, Guam Memorial Hospital, Guam International Airport and certain major malls and shops. In addition to these projects, the U.S. military constructed an underground line between Andersen Air Force Base and the Dededo Combustion Turbine Plant. The Authority believes these undergrounding projects will provide for improved service to those customers served and will mitigate revenue losses due to typhoons.

There can be no assurances that natural disasters will not materially adversely affect the operations and/or financial condition of the Authority.

Competition

The Authority is currently the only retail provider of electricity in Guam. The Authority believes that the potential for retail competition is reduced due to a number of factors specific to Guam. Currently, bulk storage is available solely for fuel oil, with only limited facilities for other fuel. Consequently, there is less risk that a competitor could use an alternative, less expensive fuel to provide service to the Authority's customers at a lower cost. In terms of facilities siting, the physical

site for any competitor would most likely need to be on the western (leeward) side of the island because of environmental permit requirements relating to emissions. Few, if any such sites, are currently available with access to fuel and proximity to large loads. A competitor not in proximity to sufficient load to sell its output would need to rely upon the Authority for transmission service. Environmental permitting requirements and existing transmission further limit the siting options available. Aside from the U.S. Navy, which is a party to a long-term customer agreement with the Authority, there is no one load greater than 2MW. It would therefore be difficult for a potential competitor to aggregate sufficient load to justify an economically sized facility. However, customers may develop self-generation options, such as solar panels.

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FINANCIAL MATTERS

The information in this section contains certain information relating to the financial condition of the Authority.

Historical and Projected Customers, Energy Sales, Peak Demand and Revenues

The following table shows historical and projected customers, energy sales, peak demand and revenues.

Table 3
Historical and Projected Customers,
Energy Sales, Peak Demand and Revenues

	Historical					Projected				
Fiscal Year Ending September 30:	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Number of Customers (Average):										
Residential	37,887	37,709	38,464	39,308	39,864	39,377	39,584	39,843	40,113	40,389
Small Commercial [1]	5,778	5,709	5,623	5,654	5,643	5,689	5,751	5,807	5,862	5,915
Large Commercial [2]	197	223	226	225	225	238	244	250	256	261
Navy	1	1	1	1	1	1	1	1	1	1
Other [3], [4]	2,000	1,087	747	847	756	762	796	821	838	844
Total Customers	45,863	44,729	45,061	46,035	46,489	46,067	46,376	46,722	47,070	47,410
Energy Requirements (MWh):										
Energy Sales [5]										
Residential	505,219	495,229	485,931	472,730	471,385	469,233	474,066	478,827	483,143	486,447
Small Commercial [1]	368,758	379,535	380,650	381,961	378,690	392,267	412,846	429,639	443,084	449,896
Large Commercial [2]	432,649	439,747	427,306	427,986	405,075	421,459	432,259	440,771	447,341	450,092
Other [3]	10,814	10,622	10,458	10,230	9,982	9,256	9,308	9,339	9,362	9,370
Total Authority Energy Sales	1,317,440	1,325,133	1,304,345	1,292,907	1,265,132	1,292,216	1,328,479	1,358,576	1,382,929	1,395,805
Total Navy Energy Sales	327,100	343,868	330,277	341,766	359,094	357,608	376,430	391,896	402,837	406,132
Total Energy Sales Before DSM	1,644,540	1,669,001	1,634,622	1,634,673	1,624,226	1,649,824	1,704,909	1,750,472	1,785,766	1,801,937
System Losses [5]	146,396	136,475	132,752	129,628	127,249	135,155	139,668	143,400	146,292	147,616
Energy Requirements Before DSM	1,790,936	1,805,476	1,767,374	1,764,301	1,751,475	1,784,979	1,844,577	1,893,872	1,932,058	1,949,553
Less DSM Savings	0	0	0	0	0	0	0	0	0	0
Total IWPS Energy Requirements [6]	1,790,936	1,805,476	1,767,374	1,764,301	1,751,475	1,784,979	1,844,577	1,893,872	1,932,058	1,949,553
Peak Demand (kW) [7]	273,000	275,000	269,000	268,000	268,000	278,000	288,000	296,000	302,000	303,000
Less DSM Savings	0	0	0	0	0	0	0	0	0	0
Total Peak Demand	273,000	275,000	269,000	268,000	268,000	278,000	288,000	296,000	302,000	303,000
Revenues From Energy Sales ($000) [8]										
Residential	$69,538	$79,563	$85,135	$101,514	$103,972	$102,930	$105,285	$108,462	$111,642	$114,691
Small Commercial [1]	63,902	74,489	80,852	95,174	98,501	97,514	109,647	115,983	121,604	125,569
Large Commercial [2]	67,969	79,365	83,650	99,545	98,914	97,923	106,622	110,688	114,388	117,207
Navy	39,061	50,422	51,402	67,546	81,374	80,559	82,216	87,329	91,604	94,261
Other [3]	4,521	4,686	4,830	5,179	5,243	5,190	5,157	5,215	5,269	5,317
Revenues from Energy Sales Before DSM	$244,991	$288,525	$305,869	$368,958	$388,004	$384,116	$408,927	$427,676	$444,508	$457,045
Less DSM Reductions	0	0	0	0	0	0	0	0	0	0
Total Revenues from Energy Sales	$244,991	$288,525	$305,869	$368,958	$388,004	$384,116	$408,927	$427,676	$444,508	$457,045

(1) Includes the Authority's small general non-demand, small general demand, small government non-demand and small government demand categories.
(2) Includes the Authority's large general and large government categories. Most hotels are included in this category.
(3) Includes the Authority's private and government public street/outdoor lighting categories.
(4) The decrease in "Other" is due to the consolidation of the public street light accounts in the new billing program that was implemented in fiscal year 2006 and further consolidations in fiscal year 2007.
(5) Includes IWPS transmission losses and Authority distribution losses.
(6) Reflects total net generation of the IWPS excluding station use.
(7) Reflects total gross peak demand of the IWPS.
(8) Based on projected energy sales at current rate schedules. Not included is a 8.4% surcharge on base rates approved by the GPUC to become effective August 1, 2010 for twenty-four months. It is the Authority's intention to have the GPUC approve prior to August 1, 2010 a plan where the surcharge would be reduced to 2% based on the total bill, start on April 1, 2011 and be amortized over a period to coincide with the remaining debt service term of the 2010 Subordinate Bonds.

Source: Consulting Engineer's Report

Historical and Projected Costs of the Authority's Power Supply

The following table, excerpted from the Consulting Engineer's Report, shows historical and projected costs of the Authority's power supply. As shown below, the cost of fuel is the largest component of the Authority's costs. See "THE GUAM ELECTRIC POWER SYSTEM - Fuel Supply Program" for a discussion of the Authority's fuel supply program.

Table 4
Historical and Projected Costs of the Authority's Power Supply
($000)

	Historical					Projected [1]				
Fiscal Year Ending September 30:	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Authority Operated Resources [2]										
Fuel Oil Costs [3]	$65,489	$97,602	$104,948	$135,278	$175,121	$162,730	$173,208	$183,174	$192,472	$200,041
Other Production Expenses	19,387	18,644	16,561	20,083	24,631	24,350	25,373	26,438	27,549	28,706
Subtotal	$84,876	$116,246	$121,509	$155,361	$199,752	$187,080	$198,581	$209,612	$220,021	$228,747
IPP Operated Resources										
Fuel Oil Costs [3]	$47,220	$59,520	$69,800	$101,785	$79,251	$73,644	$78,386	$82,896	$87,104	$90,529
Lease Payments-Energy Conversion Costs	16,936	17,981	18,276	18,883	19,181	19,658	20,051	20,452	20,861	21,278
Lease Payments-Debt Service	23,084	23,084	23,084	23,084	23,084	23,084	23,084	23,084	23,084	23,084
Subtotal	$87,240	$100,585	$111,160	$143,752	$121,516	$116,386	$121,521	$126,432	$131,049	$134,891
Total Cost of Power	$172,116	$216,831	$232,669	$299,113	$321,268	$303,466	$320,102	$336,044	$351,070	$363,638
Authority Energy Sales (GWh)	1,645	1,669	1,635	1,635	1,624	1,650	1,705	1,750	1,786	1,802
Average Unit Cost Per kWh of Energy Sold (cents/kWh)	10.47	12.99	14.23	18.30	19.78	18.39	18.78	19.20	19.66	20.18
Total Cost of Power Less IPP Debt Service	$149,032	$193,747	$209,585	$276,029	$298,184	$280,382	$297,018	$312,960	$327,986	$340,554

(1) Assumes economic dispatch of the generating units.
(2) Includes all costs of generation, excluding Authority debt service.
(3) Projected fuel costs based on an estimate by the Authority for FY 2010 and the assumption that on a per barrel basis fuel costs would escalate at 3% annually through FY 2014.
Source: Consulting Engineer's Report

Outstanding Indebtedness

Outstanding Bonds. $66,985,000 of the 1993 Senior Bonds and $313,700,000 of the 1999 Senior Bonds are currently outstanding. Debt service requirements with respect to such bonds is set forth in "DEBT SERVICE REQUIREMENTS" herein.

In connection with the original issuance of the Series 1999 Bonds, the Authority obtained an insurance policy for certain of the maturities from Ambac Assurance Inc. The insurance policy is applicable with respect to $103,725,000 of the currently outstanding Series 1999 Bonds. The final maturity of the Series 1999 Bonds which are insured by Ambac is October 1, 2024. The insurer has certain rights under the Indenture with respect to the Series 1999 Bonds, including approval rights over any amendments to the Indenture. See APPENDIX D– "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – SENIOR INDENTURE - Provisions Relating to the 1999 Series A Credit Provider."

Outstanding Loan. The Authority currently has an outstanding loan with Cathay Bank in the amount of approximately $13.9 million that was entered into in connection with the deactivation of its commercial paper program. As described here in "PLAN OF FINANCE," a portion of the

proceeds of the 2010 Subordinate Bonds will be used to pay this loan. In addition, subject to PUC approval, approximately $6.1 million of the proceeds of the 2010 Subordinate Bonds will be used reimburse the Authority for amounts previously paid to Cathay in connection with the commercial paper program.

Short-Term Debt. The Authority maintains a fuel letter of credit facility in the amount of $25 million for the purpose of assuring its fuel supplier that payment for delivery of fuel will be made at the time and manner specified in the fuel purchase contract. The Authority draws on the facility each month in the approximate amount of $18 to $20 million to make payment for fuel deliveries in such month, and then reimburses the provider in the same month. The fuel letter of credit is an unsecured obligation of the Authority, payable as a Maintenance and Operation Expense.

Certain Payments Pursuant to Power Contracts. As described herein in "THE GUAM ELECTRIC POWER SYSTEM - Principal Existing Resources," the Authority has entered into long term contracts with the owner/operators of two units located on Guam. Ownership of these units will revert to the Authority at no cost of the end of the respective terms of the agreements. For purposes of calculating debt service coverage in accordance with the Indentures (as reflected in the Projected Operating Results herein), the Authority treats a portion of the amounts owed to the private contractors as subordinate to debt service on the 2010 Bonds and other bonds outstanding pursuant to the Indentures.

Working Capital and Liquidity

Since Fiscal Year 2008, the working capital and cash available to the Authority have been significantly depleted. Although the Authority maintains a Working Capital Fund pursuant to the Senior Indenture, as of March 31, 2010, the balance in the Working Capital Fund was zero. The Authority generally attributes the depletion of its working capital and available cash resources to (i) increasing fuel prices, and the significant lag between the incurring increased fuel costs and the recovery of such costs through the LEAC; (ii) unanticipated increases in required payments under its then current working capital arrangements (due to downgrades in the credit rating of the Authority's financial guarantor which resulted in the term-out of a loan related to the working capital arrangements). See "PLAN OF FINANCE – Subordinate Obligation Refinancing."

In June 2009, the Public Utilities Commission ordered that a Working Capital Fund Surcharge be created to provide a funding source for the Authority to ensure the replenishment of the Working Capital Fund over an 24 month period. However, in order to provide substantial working capital funds immediately upon the issuance of the 2010 Bonds, and to mitigate the impact on its ratepayers, the Authority will finance a deposit to the Working Capital Fund through the use of a portion of the proceeds of the 2010 Subordinate Bonds. The Authority intends to impose the Working Capital Surcharge in April 2011 at a level approximately equal to pay, over the then remaining term of the 2010 Subordinate Bonds, debt service on the portion of the 2010 Subordinate Bonds used to fund the Working Capital Fund deposit.

In 2009, the Authority retained the Consulting Engineer to complete a study of the Authority's liquidity. The liquidity study contained several recommendations to improve liquidity, including the following: (i) the establishment of a target debt service coverage ratio of 2.0x, including lease payments required to be made pursuant to the Authority's arrangements with the IPPs (which is in excess of the amount required by the Senior Indenture); (ii) the establishment of a minimum cash reserve amount equal to 60 days operating expenses; and (iii) providing for quarterly LEAC adjustments, rather than the semi-annual adjustments currently utilized. The Authority intends to utilize the report in connection with an anticipated petition to the PUC to modify the

Authority's rate setting process. Currently, rates are set primarily to satisfy the PUC's target debt service coverage level of 1.75x, as calculated in accordance with the Senior Indenture. There can be no assurances that the Authority will ultimately submit the rate petition described in this paragraph, or that if it is submitted, it will be acted upon favorably by the PUC.

Fuel Supply Hedges

As described herein in "THE GUAM ELECTRIC POWER SYSTEM - Fuel Supply," the Authority has entered into financial arrangements intended to mitigate volatility in the price of fuel.

The Authority's fuel hedging transactions entail risk to the Authority. Actual fuel prices may vary from assumptions made at the time the transactions were executed, and the Authority may not realize the expected financial benefits from the fuel hedging transactions. In addition, the potential future exposure to the Authority in terms of payments it may be required to make pursuant to the fuel hedging transactions, including collateral requirements or termination payments, cannot be predicted.

During periods of fuel volatility, the Authority may be required to post collateral in the event the market value of the hedging transactions declines. During a period in 2009, as a result of significant declines in the prevailing price of oil, the market value of the Authority's fuel hedging transactions was at one point negative by more than $66 million (i.e., since the prevailing price of oil was below the price established in the hedging arrangements). Some of the Authority's counterparties elected at their discretion not to require the Authority to post the full amount of collateral contractually required, and the Authority posted collateral of approximately $21 million. (At the time the Authority had entered into fuel hedges for 50% of its requirements for nearly one full year. The Authority currently has entered into transactions for 50% of its requirements through September 2010.) The rates established by the Authority for fiscal year 2009 assumed fuel oil prices within the band established by the hedging transactions, and the actual cost of fuel (taking into account amounts paid to the counterparties pursuant to the hedging transactions) for fiscal year 2009 fell within the band assumed. There can be no assurances that requirements to post collateral in the future will not materially adversely affect the financial condition of the Authority.

The Authority believes that, while the hedging program may result in higher costs than would otherwise be applicable during periods of declining oil prices as compared to the costs that would be applicable if the hedging program was not utilized, it nonetheless provides price stability, which is beneficial to the Authority's customers.

The Authority currently has fuel hedge agreements in place with two counterparties: Morgan Stanley Capital Group Inc. and the Australia and New Zealand Banking Group Limited ("ANZ Bank"). Each of the current counterparties currently has credit ratings at least equal to A2 from Moody's Investor Services Inc. and A1 from Standard & Poor's. (There can be no assurance that such any of such ratings will remain in effect.)

The Authority has currently entered into fuel hedging transactions for approximately 50% of its fuel requirements through September 30. As of May 9, 2010, the fuel hedging arrangements had a positive market value of approximately $2 million. The market value of the fuel hedging transactions will fluctuate with prevailing oil prices.

The Authority's counterparties have the right to require collateral postings in the event that the market value of the fuel hedging transactions is negative to the Authority. The Authority has been required to post significant amounts of collateral in the past and there can be no assurances that

collateral requirements will not materially adversely effect the Authority's liquidity in the future. See "FINANCIAL MATTERS - Fuel Supply Hedges."

The respective counterparties to fuel hedging transactions may terminate any of the transactions upon the occurrence of certain termination events or events of default, which may include the failure of the Authority to post required collateral, or the failure of either the Authority or the counterparty to maintain credit ratings at specified levels. If either the counterparty or the Authority terminates any swap, the Authority may be required to make a termination payment to the counterparty (even if such termination is due to an event affecting the counterparty, including the counterparty's failure to maintain credit ratings at specified levels), and there is no assurance that such payment by the Authority would not have a material adverse impact on its financial position. The Authority may enter into additional fuel hedging transactions in the future.

INDEPENDENT AUDITORS

The Authority's "Financial Statements, Additional Information and Independent Auditors' Report for Years Ended September 30, 2009 and 2008 (Restated)," are included in Appendix B to this Official Statement. The financial statements contained in the Comprehensive Annual Financial Report, have been audited by Deloitte & Touche LLP, Tamuning, Guam (the "Independent Auditors") as stated in their report, dated February 27, 2010, appearing in Appendix C.

PROSPECTIVE FINANCIAL INFORMATION

The Authority does not as a matter of course make public projections as to future sales, earnings, or other results. However, the Consulting Engineer has prepared the prospective financial information set forth in Tables 3, 4 and 5 to provide projected energy sales and revenues, costs of power supply and operating results and debt service coverage. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Authority's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the Authority. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information. Neither the Authority's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information. The assumptions and estimates underlying the prospective financial information are inherently uncertain and, though considered reasonable by the management of the Authority as of the date of its preparation, are subject to a wide variety of significant business, economic, and risks and uncertainties that could cause actual results to differ materially from those contained in the prospective financial information, including, among others, risks and uncertainties as set forth in the Consulting Engineer's Report. Accordingly, there can be no assurance that the prospective results are indicative of the future performance of the Authority or that actual results will not differ materially from those presented in the prospective financial information. Inclusion of the prospective financial information in this Offering Statement should not be regarded as a representation by any person that the results contained in the prospective financial information will be achieved.

CONSULTING ENGINEER'S REPORT

The Consulting Engineer has been retained on a non-contingent basis to prepare the Consulting Engineer's Report for inclusion in this Official Statement as Appendix A. As described in the Consulting Engineer's Report, the Consulting Engineer has provided services to the Authority since the 1970's in the areas of load forecasting, power supply planning, environmental, regulatory and financing support activities. Recent activities have included strategic planning, financial planning and power supply consulting. The Consulting Engineer's Report provides certain information with respect to the System and presents forecasts of Revenues, Operating Expenses and debt service coverage for the 2010 Bonds (Fiscal 2009-10 through Fiscal Year 2013-14), and sets forth the information and assumptions upon which the forecasts and the findings of the Consulting Engineer's Report are based. Certain information concerning the System in this Official Statement has been excerpted from the Consulting Engineer's Report.

Historical and Projected Operating Results

The Consulting Engineer's Report presents a variety of historical and projected operational and financial information relating to the Authority. As described in the Consulting Engineer's Report, the projections are based on a variety of assumptions as set forth in the Consulting Engineer's Report, which were provided by, or reviewed and approved by, the Authority. As noted in the Consulting Engineer's Report, any forecast is subject to uncertainties. Some of the assumptions used to develop the projections will not be realized, and unanticipated events and circumstances could occur. Therefore there are likely to be differences between the projections and the actual results, and those differences may be material. See APPENDIX A –"CONSULTING ENGINEER'S REPORT."

The Consulting Engineer has prepared the Consulting Engineer's Report such Report based on the assumption that all contracts, agreements, statutes, rules and regulations which were relied upon by the Consulting Engineer in preparing its Report will be fully enforced and enforceable in accordance with their terms and conditions and will not be changed in any material way.

The following table has been excerpted from the Consulting Engineer's Report. The Consulting Engineer's Report must be read in its entirety for a description of the information set forth in the table, the underlying assumptions, as well as the various factors taken into account for purposes of preparing the projections. See "PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS" in the Consulting Engineer's Report.

The Consulting Engineer also prepared two sensitivity analyses to demonstrate the projected impact of lower growth in energy sales than set forth in the Projected Operating Results. The second demonstrates an increase in fuel costs. See "Sensitivity Analyses" in the Consulting Engineer's Report.

Table 5
Historical and Projected Operating Results and Debt Service Coverage (Cash Basis)
($000)

	Historical [1] [2]					Projected[2]				
Fiscal Year Ending September 30:	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Operating Revenues:										
Energy Sales Revenues										
Based on Current Rate Schedules [3]	$244,991	$288,525	$305,869	$368,958	$388,004	$384,116	$408,927	$427,676	$444,508	$457,045
Additional Future Requirements	0	0	0	0	0	0	0	8,767	17,012	30,471
Other Electric Revenues	2,076	1,674	2,177	2,587	1,521	2,000	2,000	2,000	2,000	2,000
Total Operating Revenues	$247,067	$290,199	$308,046	$371,545	$389,525	$386,116	$410,927	$438,443	$463,520	$489,516
Operating Expenses:										
Power Supply Costs [4]	$149,032	$193,747	$209,585	$276,029	$298,184	$280,382	$297,018	$312,960	$327,986	$340,554
Transmission and Distribution Expenses [5]	9,740	10,559	8,542	10,284	11,141	12,574	13,102	13,652	14,226	14,823
Customer Accounting [6]	1,995	3,444	4,263	3,899	3,819	4,936	5,143	5,360	5,585	5,819
Administrative and General [5]	22,006	23,486	23,118	25,154	26,682	29,626	30,870	32,167	33,518	34,926
Total Operating Expenses	$182,773	$231,236	$245,508	$315,366	$339,826	$327,518	$346,133	$364,139	$381,315	$396,122
Amounts Available for Debt Service										
Net Operating Revenues	$64,294	$58,963	$62,538	$56,179	$49,699	$58,598	$64,794	$74,304	$82,205	$93,394
Interest/Other Income (Expense) [7]	2,941	3,472	7,299	14,446	6	1,500	1,500	1,500	1,500	1,500
Balance Available for Debt Service	$67,235	$62,435	$69,837	$70,625	$49,705	$60,098	$66,294	$75,804	$83,705	$94,894
Senior Lien Debt Service [8]										
Existing Senior Lien Debt Service [9]	$27,482	$27,485	$27,481	$27,481	$27,482	$27,483	$27,484	$27,483	$27,484	$27,482
2010 Senior Bonds [10]	-	-	-	-	-	0	0	0	1,210	7,999
Future Bonds [11]	-	-	-	-	-	0	0	0	0	0
Total Senior Lien Debt Service	$27,482	$27,485	$27,481	$27,481	$27,482	$27,483	$27,484	$27,483	$28,694	$35,481
Senior Lien Coverage Pursuant to the Senior Indenture [12]	2.45	2.27	2.54	2.57	1.81	2.19	2.41	2.76	2.92	2.67
IPP Operated Resources - Lease Payments Capital	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084
Balance Available for Debt Service	$44,151	$39,351	$46,753	$47,541	$26,621	$37,014	$43,210	$52,720	$60,621	$71,810
Coverage of Senior Lien Debt by Balance Available for Debt Service after paying IPP Capital [12]	1.61	1.43	1.70	1.73	0.97	1.35	1.57	1.92	2.11	2.02
Amount Available After Senior Lien Debt and IPP Capital	$16,669	$11,866	$19,272	$20,060	($861)	$9,531	$15,726	$25,237	$31,927	$36,329
Subordinate Lien Debt Service [8]										
2010 Subordinate Bonds	-	-	-	-	-	$398	$7,242	$15,934	$15,163	$15,193
Subordinate Lien Coverage Pursuant to the Subordinate Indenture [13]	-	-	-	-	-	2.16	1.91	1.75	1.91	1.87
Subordinate Lien Coverage after paying IPP Capital [12]	-	-	-	-	-	1.33	1.24	1.21	1.38	1.42
Total Debt Service Coverage after paying IPP Capital [12]	1.61	1.43	1.70	1.73	0.97	1.33	1.24	1.21	1.38	1.42
Interest Income [14]	$635	$674	$679	$769	$600	$750	$1,750	$1,250	$550	$250
Amount Available for Capital Improvements	$17,304	$12,540	$19,951	$20,829	($261)	$9,883	$10,234	$10,553	$17,314	$21,386
Capital Improvement Program:										
Amount Funded from Current Revenues	$14,351	$14,465	$6,604	$11,300	$12,762	$6,544	$9,701	$10,553	$17,314	$21,386
Amount Funded from Bond or Loan Proceeds	1,894	4,223	1,271	581	2,684	15,770	31,883	39,708	36,592	11,915
Amount Funded from Grants [15]	1,427	2,080	2,950	4,926	3,621	6,511	6,121	3,868	0	0
Total Capital Improvements	$17,672	$20,768	$10,825	$16,808	$19,067	$28,825	$47,705	$54,129	$53,906	$33,301
Remaining Balance Available [16]	$2,953	($4,005)	$10,397	$9,529	($13,023)	$3,339	$533	$0	$0	$0
Energy Sales (MWh)	1,644,540	1,669,001	1,634,622	1,634,673	1,624,226	1,649,824	1,704,909	1,750,472	1,785,766	1,801,937
Cost of Power per kWh of Energy Sold (cents/kWh)	10.5	13.0	14.2	18.3	19.8	18.4	18.8	19.2	19.7	20.2
Unit Revenue from Energy Sales per kWh (cents/kWh)	14.9	17.3	18.7	22.6	23.9	23.3	24.0	24.9	25.8	27.1
Increase in Unit Revenue from Energy Sales Over Previous Year (percent)	n/a	16.1%	8.1%	20.9%	5.8%	-2.5%	3.0%	3.7%	3.6%	5.0%

(1) Audited information provided by the Authority.

(2) Reflects the Navy as a customer of the Authority.

(3) Not included is a 8.4% surcharge on base rates approved by the GPUC to become effective August 1, 2010 for a twenty-four month period. It is the Authority's intention to have the GPUC approve prior to August 1, 2010 a plan where the surcharge would be reduced to 2% of the total bill, start April 1, 2011 and be amortized over a period to coincide with the remaining debt service term of the 2010 Subordinate Bonds. See " - Working Capital and Liquidity."

(4) See Table 4. Excludes lease payments debt service for the IPP operated resources.

Footnotes continue on the following page.

(5) Escalated in projected years at an assumed annual rate of 4.2% to account for inflation and load growth.

(6) Includes bad debt recovery or expense.

(7) Fiscal year 2008 includes collection of a $13.5 million GovGuam receivable for streetlight arrearages.

(8) Amounts shown reflect capitalized interest paid from 2010 Series Bonds through FY 2013 for the Senior Bonds and April 1, 2011 for the Subordinate Bonds. See "DEBT SERVICE SCHEDULE."

(9) Excludes debt service on Commercial Paper Notes which were converted to a term loan in April 2009.

(10) Debt service from 2010 Senior Bonds for new projects, including Smart Grid Projects.

(11) Assumes future senior lien bonds are issued in FY 2014 and interest is capitalized through study period shown above.

(12) Calculated based on a net revenue basis.

(13) Calculated based on a net revenue basis. Does not include effects of paying IPP capital costs. See "THE GUAM ELECTRIC POWER SYSTEM - Principal Existing Resources - Contract Units Privately Owned and Operated."

(14) Includes interest income on the Revenue Bond Construction Fund established by the Senior Indenture, amortization of deferred interest on the Bond Reserve Fund Forward Purchase Agreement and Bond Reserve Fund interest.

(15) The historical grant funding is from the FEMA Hazard Mitigation Grant Program under Typhoon Chataan and Typhoon Pongsona mitigation projects. Projected amounts include Smart Grid matching grant funds.

(16) The negative balances in FY 2006 and FY 2009 were covered by collections from FEMA typhoon claim receivables and GovGuam notes receivables. The sources of funding for the negative balance in FY 2009 include collection of a $13.5 million GovGuam receivable in July 2008 for streetlight arrearages.

Source: Consulting Engineer's Report.

OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC UTILITY INDUSTRY

Energy Policy Act of 1992

The Energy Policy Act of 1992 ("EPAct 1992") made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access under Sections 211, 212 and 213 of the Federal Power Act, 16 U.S.C. § 791a et seq. ("Federal Power Act"). The purpose of these changes, in part, was to bring about increased competition in the electric utility industry. As amended by the Federal Power Act, Sections 211, 212 and 213 of the Federal Power Act provide the Federal Energy Regulatory Commission ("FERC") authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under EPAct 1992, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities which are used for the sale of electric energy at wholesale, such as the Authority, are "transmitting utilities" subject to the requirements of Sections 211, 212 and 213. EPAct 1992 specifically denies FERC the authority to mandate "retail wheeling" under which a retail customer located in one utility's service area could obtain power from another utility or from a non-utility power generator. FERC's regulatory authority over transmission and interconnectivity resources could conceivably in the future adversely affect the Power System by, among other things, causing an increase in costs to the Authority and/or by reducing the availability of transmission resources to the Authority.

As described herein in "BONDHOLDER RISK FACTORS - -Competition," the Authority believes that the potential for retail competition is reduced due to a number of factors specific to Guam, and therefore the requirements of EPAct 1992 will not materially adversely effect its operations.

Energy Policy Act of 2005

The Energy Policy Act of 2005 ("EPAct 2005") addresses a wide array of energy matters that could affect the entire electric utility industry, including the Authority.

It expands FERC's jurisdiction to require open access transmission of municipal utilities that sell more than four million megawatt hours of energy and to order refunds under certain circumstances for municipal utilities that sell more than eight million megawatt hours of energy. The Authority is not able to predict when, if ever, its sales of electricity would reach eight million megawatt hours. See "THE POWER SYSTEM – General." Additionally, EPAct 2005 authorizes FERC to require nondiscriminatory access to transmission facilities owned by large municipal, cooperative and other transmission companies not currently regulated by FERC (which includes the Authority), unless exercising this authority would violate a private activity bond rule for purposes of Section 141 of the Code (as defined below). FERC is prohibited from requiring municipal cooperatives or other transmission companies not currently regulated by FERC (which includes the Authority) to join regional transmission organizations ("RTOs").

EPAct 2005 provides for criminal penalties for manipulative energy trading practices and repeal of the Public Utility Holding Company Act of 1935, which prohibited certain mergers and consolidations involving electric utilities. EPAct 2005 also requires the creation of an electric reliability organization to establish and enforce, under FERC supervision, mandatory reliability standards to increase system reliability and to minimize blackouts. FERC has designated the North American Electric Reliability Corporation as such electric reliability organization. Failure to comply with such mandatory reliability standards exposes a utility such as the Authority to significant fines and penalties by the North American Electric Reliability Corporation.

Under EPAct 2005, by February 2007 IOUs were required to offer each of its customer classes a time based rate schedule to enable customers to manage energy use through advanced metering and communications technology. It authorizes FERC to exercise eminent domain powers to construct and operate transmission lines if FERC determines a state has unreasonably withheld approval. EPAct 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies, including a new two-year program for tax credit bonds for local governments, such as the City, to finance certain renewable energy facilities. EPAct 2005 also extends for 20 years the Price-Anderson Act, which concerns nuclear power liability protection and provides incentives for the construction of new nuclear plants.

Numerous bills have been under consideration in Congress concerning United States energy policies and various environmental matters, including those related to energy supplies, global warming and water quality. Many of these bills, if enacted into law, could have a material impact on the Authority.

Because of its unique circumstances, the does not believe that EPAct 2005 will have an adverse impact on its operations.

BONDHOLDER RISKS

In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement, and should specifically consider certain risks associated with the 2010 Bonds. There follows a discussion of some, but not necessarily all, of the possible considerations and risks which should be carefully evaluated by prospective purchasers of the 2010 Bonds prior to purchasing any 2010 Bonds. The following discussion of investment considerations does not necessarily reflect the relative importance of the various topics discussed. The 2010 Bonds may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the 2010 Bonds and should confer with their own legal and financial advisors before considering a purchase of the 2010 Bonds. Prospective purchasers of the Bonds are advised to consider the following factors,

among others, and to review the other information in this Official Statement, including the Appendices hereto, in evaluating the Bonds. Any one or more of the considerations discussed and others could lead to a decrease in the market value and/or the liquidity of the 2010 Bonds.

General

The principal of and interest on the 2010 Bonds is payable pursuant to the Indentures solely from the Revenues. The ability to pay debt service on the 2010 Bonds will depend on the receipt of sufficient Revenues, pledged as payment for the 2010 Bonds, subject to the provisions of the applicable Indenture.

The Authority's ability to generate Revenues depends in large measure on the local economy, which is heavily dependent on tourism as well as the U.S. military presence. A decrease in tourism results in reduced revenues from hotels and other related tourist facilities. In addition, lower levels of employment tend to reduce the revenue available to the Authority. A weak economy, epidemics or pandemics, and war or the threat of terrorist activity, among other influences which are beyond the Authority's control, can adversely affect the tourism industry. To the extent the Authority is unable to make up for revenue shortfalls, the ability to pay debt service on the 2010 Bonds may be adversely affected. See APPENDIX B – "General Information Regarding the Territory of Guam," for more information about the tourism industry and the U.S. military presence.

Limitations on Remedies

Under certain circumstances, Holders of the 2010 Bonds may not be able to pursue certain remedies or enforce covenants contained in the applicable Indenture. The remedies available to the Holders of the 2010 Bonds upon an Event of Default under the applicable Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing law, the remedies specified by the Indentures and the 2010 Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2010 Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors enacted before or after delivery.

Furthermore, the Subordinate Indenture provides that, while any Senior Bonds remain outstanding under the Senior Indenture, the Co-Trustee shall not exercise any remedy under the Subordinate Indenture, or take any action to protect or enforce its rights or the rights of the Bondholders under the Subordinate Indenture, in a manner that is inconsistent with, or that could reasonably be expected to impair, the rights of the holders of the Senior Bonds or their fiduciaries under the Senior Indenture. In addition, the 2010 Subordinate Bonds are not subject to acceleration unless and until an event of default shall have occurred under the Senior Indenture and a declaration of acceleration shall have been made with respect to the Senior Bonds.

For a description of the various remedies and limitations thereon set forth in the Indenture, see APPENDIX D– "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES."

Consulting Engineer's Report

The Consulting Engineer's Report included as APPENDIX A to this Official Statement contains certain assumptions and forecasts. Actual results are likely to differ, perhaps materially, from those projected. Accordingly, the projections contained in the Consulting Engineer's Report are not necessarily indicative of future performance, and neither the Consulting Engineer nor the

Authority assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the Authority are subject to change. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Revenues may be materially less than expected and consequently, the ability to make timely payments of principal and interest on the 2010 Bonds from Revenues may be materially adversely affected. See APPENDIX A – "CONSULTING ENGINEER'S REPORT."

This Official Statement, including particularly the Consulting Engineer's Report, contains statements relating to future results that are "forward-looking statements." When used in this Official Statement, the words "estimate," "anticipate," "intend," "expect," "project" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements.

General Factors Affecting the Authority

The future operations and financial condition of the Authority may be materially adversely affected by a number of factors or circumstances. Such factors or circumstances include, among others:

(a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, including the potential for significantly increased costs relating to such compliance;

(b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, including potential reductions in energy consumption, or increased Authority costs related thereto;

(c) changes that might result from a national energy policy made applicable to Guam;

(d) "self-generation" by certain industrial and commercial customers, which could reduce the electricity purchased from the Authority;

(e) effects of inflation on the operating and maintenance costs of the Authority, as well as the unanticipated costs of construction of installation of any new facilities or improvements;

(f) deviations from projected future load requirements; and

(g) failure of the Navy and the Authority to agree on renewal terms for the Customer Agreement prior to its expiration in 2012.

The Authority cannot predict what effects, if any, such factors will have on its business operations and financial condition. There can be no assurances that the financial condition of the Authority will not be materially adversely affected by the occurrence of one or more of the circumstances described above, or other factors.

Risks Relating to Fuel

As described herein in "THE GUAM ELECTRIC POWER SYSTEM – Fuel Supply," in Fiscal Year 2009-10 the Authority estimates that the costs of fuel will comprise approximately 67.4% of the total operating costs of the Authority. The cost of fuel is volatile. Although the LEAC component of the Authority's rates have been adjusted a number of times the last several years, such

rate adjustments have lagged behind fuel costs increases by as long as six months, which has resulted in depletion of the Working Capital Fund and overall liquidity. Continued volatility in the cost of fuel could materially adversely affect the financial condition, including the liquidity, of the Authority. In addition, because of its geographic location, all of the fuel used by the Authority is imported by tanker ship. Disruptions in the delivery of fuel, whether due to shortages generally, or shipping or other delivery problems, could materially adversely effect the operations and financial condition of the Authority.

Impact of Tourism

Tourism, particularly from Japan, where approximately 75% of visitors to Guam originate, represents a significant share of the economic activity on Guam. In the event of a significant downturn in tourism, including a downturn related to Japanese economic, political or societal conditions, the Authority could likely suffer a reduction in revenues.

Adverse Conditions Affecting International Economic and Political Conditions

Historically, the tourism industry, both worldwide and on Guam, has correlated closely with the state of the world's economies and levels of real disposable income. Also, currency exchange rates, trade balances, political relationships, and conflicts within and between countries are increasingly important influences on tourism.

Economic growth in Japan and throughout the Pacific Rim, and the resulting effect on overseas travel from these countries, is a major determinant of tourism on Guam. The Japanese government has encouraged international travel as a means of reducing its trade surplus and Guam has benefited directly from this policy. Any change in the policy could affect Authority revenues.

Like that of many destinations, Guam’s tourism industry is susceptible to the negative impacts of terrorism and other conflicts on the travel industry in general.

Natural Disasters

Because of its location on the southern end of the Mariana Island chain, Guam is exposed to periodic typhoons, floods and earthquakes. In the past typhoons have caused flooding and significant damage to the Authority’s facilities. Although the United States Federal Emergency Management Agency (“FEMA”) has historically provided disaster relief assistance after typhoon damage, there can be no assurance that future typhoons, tsunamis and/or earthquakes and/or resultant storms or floods will not cause significant damage to the System, or that FEMA will provide disaster relief assistance if significant damage is experienced.

Self-Insurance and Legal Proceedings

The Authority has adopted a policy of self-insuring certain potential risks relative to its property, plant and equipment. The Authority is also self-insured as to general liabilities claims. A substantial casualty or claim could have a material adverse effect upon the financial affairs of the Authority.

Government Regulation

The federal and local governments significantly regulate the operations of the Authority. Regulations and conditions affecting the acquisition, development, ownership and operation of the

System could increase the operating expenses of the System or could otherwise have a material adverse effect on the financial condition of the Authority.

Utility Regulation

The Authority is subject to regulation at the federal and local level, either of which can have an impact on the Authority's financial condition or its operations. For a discussion of local regulation, see "THE GUAM POWER AUTHORITY - Electric Rates and Charges - Public Utilities Commission."

The Energy Policy Act made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access. These changes are expected to increase competition in the electric utility industry, but because of the island location of the Authority service market, competition is not a significant factor affecting the business and affairs of the System in the way other United States electric utilities are affected by competition.

Liquidity Concerns

Since Fiscal Year 2008, the working capital and cash available to the Authority has been significantly depleted. Although the Authority maintains a Working Capital Fund pursuant to the Senior Indenture, as of March 31, 2010, the balance in the Working Capital Fund was zero. The Authority generally attributes the depletion of its working capital and available cash resources to (i) increasing fuel prices, and the significant lag between incurring increased fuel costs and the recovery of such costs through the LEAC; (ii) unanticipated increases in required payments under its then current working capital arrangements (due to downgrades in the credit rating of the Authority's financial guarantor which resulted in the term-out of a loan related to the working capital arrangements). Although the Authority is utilizing approximately $27.5 million of the proceeds of the 2010 Subordinate Bonds for working capital, such amount does not provide the working capital level which the Consulting Engineer has recommended that the Authority maintain, and there can be no assurances that the Authority will be able to maintain sufficient working capital to address fuel price volatility, unexpected increases in costs or declines in Revenues, or other demands on the Authority's cash resources. Insufficient liquidity and cash resources could materially adversely affect the financial condition of the Authority.

Environmental Issues

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that any Authority facility will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual electric generating units not in compliance.

There is concern by the public, the scientific community and Congress regarding environmental damage resulting from the use of fossil fuels, including the release of greenhouse gases and other pollutants. Congressional support for the increased regulation of air, water and soil contaminants is building, and there are a number of pending or recently enacted legislative proposals which may affect the electric utility industry. The above-mentioned concerns and Congressional

support have led to an increased level of environmental enforcement by the EPA and state and local authorities. Increased environmental regulation under the provisions of the federal Clean Air Act have created certain barriers to new facility development and modification of existing facilities.

The Authority cannot predict at this time whether any additional legislation or rules will be enacted which will affect the System's operations, and if such laws or rules are enacted, what the costs to the Authority might be in the future because of such action.

There can be no assurances that future regulation, including but not limited to regulation concerning greenhouse gases, will not materially adversely impact the operations and/or financial condition of the Authority.

LITIGATION

At the time of delivery of the 2010 Bonds, an appropriate officer of the Authority will certify and the counsel to the Authority will deliver an opinion to the effect that there is no litigation or proceeding pending with service of process accomplished or, to the knowledge of the Authority, threatened (either in Guam, state or Federal courts) seeking to restrain or enjoin the execution, issuance, sale or delivery of the 2010 Bonds or the collection, pledge or payment of Revenues by the Authority under the Indentures, or in any way contesting or affecting the legal existence of the Authority or the titles of certain relevant officials of the Authority to their offices or the validity or enforceability of the 2010 Bonds or the Indentures. The Attorney General will deliver an opinion to the effect that the legislation approving the issuance of the Bonds has been duly enacted by the Guam Legislature and signed by the Acting Governor, and that the Governor has duly executed and delivered the required approval with respect to the Indentures.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2010 Senior Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the 2010 Senior Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the 2010 Bonds is exempt from taxation by any state, territory or possession of the United States or any political subdivision thereof. Complete copies of the proposed opinions of Bond Counsel is set forth in Appendix E hereto.

2010 Senior Bonds

To the extent the issue price of any maturity of the 2010 Senior Bonds is less than the amount to be paid at maturity of such 2010 Senior Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2010 Senior Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the 2010 Senior Bonds which is excluded from gross income for federal income tax purposes and is exempt from income taxation by any state, territory or possession of the United States or any political subdivision of any of them. For this purpose, the issue price of a particular maturity of the 2010 Senior Bonds is the first price at which a substantial amount of such maturity of the 2010 Senior Bonds is sold to the public (excluding bond houses, brokers, or similar

persons or organizations acting the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2010 Senior Bonds accrues daily over the term to maturity of such 2010 Senior Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Senior 2010 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity of such 2010 Senior Bonds. Beneficial Owners of the 2010 Senior Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2010 Senior Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2010 Senior Bonds in the original offering to the public at the first price at which a substantial amount of such 2010 Senior Bonds is sold to the public.

2010 Senior Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2010 Senior Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2010 Senior Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2010 Senior Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2010 Senior Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2010 Senior Bonds may adversely affect the value of, or the tax status of interest on, the 2010 Senior Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2010 Senior Bonds is excluded from gross income for federal income tax purposes and is exempt from income taxation by any state, territory or possession of the United States or any political subdivision of any of them, the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Senior Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2010 Senior Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may

also affect the market price for, or marketability of, the 2010 Senior Bonds. Prospective purchasers of the 2010 Senior Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2010 Senior Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2010 Senior Bonds ends with the issuance of the 2010 Senior Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the 2010 Senior Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2010 Senior Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2010 Senior Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

2010 Subordinate Bonds

In the opinion of Bond Counsel, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2010 Subordinate Bonds (the "Taxable Bonds") is exempt from income taxation by any state, territory or possession of the United States or any political subdivision of any of them. Complete copies of the proposed opinions of Bond Counsel are set forth in Appendix E hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Taxable Bonds that acquire their Taxable Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that

acquire their Taxable Bonds pursuant to this offering for the issue price that is applicable to such Taxable Bonds (i.e., the price at which a substantial amount of the Taxable Bonds are sold to the public) and who will hold their Taxable Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Taxable Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Taxable Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds (including their status as U.S. Holders or Non-U.S. Holders).

For U.S. Holders

The Taxable Bonds are not expected to be treated as issued with original issue discount ("OID") for U.S. federal income tax purposes because the stated redemption price at maturity of the Taxable Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a de minimis amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Taxable Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Taxable Bonds.

Disposition of the Taxable Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement (including pursuant to an offer by the Authority) or other disposition of a Taxable Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest evidenced on the Taxable Bond which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted tax basis in the Taxable Bond (generally, the purchase price paid by the U.S. Holder for the Taxable Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Taxable Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Taxable Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

For Non-U.S. Holders

Interest. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," payments of principal and interest evidenced by any Taxable Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the Authority through stock ownership and (2) a bank which acquires such Taxable Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Taxable Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of Taxable Bonds. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a Taxable Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Taxable Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Taxable Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. U.S. information reporting and "backup withholding" requirements apply to certain payments of principal and interest evidenced by the Taxable Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a Taxable Bond, to certain noncorporate holders of Taxable Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest evidenced by any Taxable Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable Bond or a financial institution holding the Taxable Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Taxable Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28 percent (subject to future adjustment).

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Taxable Bond to the seller of the Taxable Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50 percent of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50 percent of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Taxable Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Taxable Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the Authority and its tax advisors are (or may be) required to inform prospective investors that:

(i) any advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

(ii) any such advice is written to support the promotion or marketing of the 2010 Bonds and the transactions described herein; and

(iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

FINANCIAL ADVISOR

Pacific Public Finance Group LLC is employed as Financial Advisor to the Guam Economic Development Authority to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has reviewed certain data relating to the 2010 Bonds that is contained in this Official Statement. The Financial Advisor has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 2010 Bonds, or the possible impact of any present, pending or future actions

taken by any legislative or judicial bodies. The Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the 2010 Bonds is contingent upon the issuance and sale of the 2010 Bonds.

UNDERWRITING

Morgan Stanley & Co., Incorporated, as representative of itself and the underwriters listed on the cover page of this Official Statement (the "Underwriters") has agreed, subject to certain conditions, to purchase the 2010 Bonds at an aggregate purchase price of $200,019,848.68, which is equal to (i) the purchase price of the 2010 Senior Bonds of $144,681,532.61 (consisting of the aggregate principal amount of the 2010 Senior Bonds less an Underwriters' discount of $1,671,143.59 and less net original issue discount of $4,087,323.80) and (ii) the purchase price of the 2010 Subordinate Bonds of $55,338,316.07 (consisting of the aggregate principal amount of the 2010 Subordinate Bonds less an Underwriters' discount of $623,346.33 and less net original issue discount of $153,337.60). The Bond Purchase Agreement relating to the 2010 Bonds (the "Purchase Agreement") provides that the Underwriters will purchase all of the 2010 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the 2010 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2010 Bonds.

Piper Jaffray & Co., ("Piper") has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings allocated to Piper at the original offering prices. Under the Distribution Agreement, if applicable to the Bonds, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper.

CERTAIN LEGAL MATTERS

The validity of the 2010 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Complete copies of the proposed forms of Bond Counsel opinions are contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by its general counsel, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California.

CONTINUING DISCLOSURE

The Authority has agreed, pursuant to a Master Continuing Disclosure Agreement, as supplemented by a Second Supplemental Continuing Disclosure Agreement with the Trustee and Co-

Trustee for the Senior Bonds, and pursuant to a Continuing Disclosure Agreement with the Trustee and the Co-Trustee for the Subordinate Bonds, and (ii) a Continuing Disclosure Agreement (with respect to the 2010 Subordinate Bonds) among the Authority, the Trustee and Co-Trustee the Authority has agreed to provide to the Municipal Securities Rulemaking Board ("MSRB"), through its EMMA system, a copy of its annual audited financial statements, as well as certain operating data relating to the Authority and the System. Such audited financial statements are required to be prepared in accordance with generally accepted accounting principles applicable to government utilities. The Authority shall provide to the MSRB such information and its audited financial statements within 240 days after the end of its fiscal year, which currently ends on September 30. In addition, the Authority has agreed to give timely notice to the MSRB of the occurrence of certain enumerated events, if material. See "APPENDIX F - Form of Continuing Disclosure Agreements" herein. These agreements has been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The Authority has not failed in the last five years to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events. The Authority has engaged DAC (Digital Assurance Corporation) to act as dissemination agent.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies ("S&P") are expected to assign ratings of "Aa3" ("negative outlook"), and "AAA" ("negative outlook"), respectively, to the Insured 2010 Senior Bonds, with the understanding that, upon delivery of the Insured 2010 Senior Bonds, the Policy will be issued by the Insurer. The Insured 2010 Senior Bonds have been assigned underlying ratings of "Ba1" and "BBB," respectively, by Moody's and S&P.

Fitch Ratings ("Fitch") has assigned the 2010 Senior Bonds a rating of "BBB-" and the 2010 Subordinate Bonds a rating of "BB+," Moody's has assigned the 2010 Senior Bonds which are not insured a rating of "Ba1" and the 2010 Subordinate Bonds a rating of "Ba2," and S&P has assigned the 2010 Senior Bonds which are not insured a rating of "BBB" and the 2010 Subordinate Bonds a rating of "BBB-." Such ratings reflect only the views of Fitch, Moody's and S&P, and do not constitute a recommendation to buy, sell or hold the 2010 Bonds. Explanation of the significance of such ratings may be obtained only from the respective organizations at Moody's Investors Service, 7 World Trade Center, New York, New York 10007, Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, and Fitch Ratings, One State Street Plaza, New York, New York 10004. There is no assurance that either such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of either such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2010 Bonds.

MISCELLANEOUS

The attached Appendices are integral parts of this Official Statement and should be read in their entirety. The capitalized terms used in this Official Statement shall have the meanings ascribed to them in the text or in the applicable Indenture (see Appendix D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES"). The Authority has reviewed the information contained herein and has approved all such information for use in this Official Statement. Any statements in this Official Statement involving matters of opinion or estimates are intended hereby as expressions of opinion or as good faith estimates and no assurance can be given that facts will materialize in accordance with such opinions or estimates.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

GUAM POWER AUTHORITY

By:_____/s/ Simon A. Sanchez, II_____
Chairperson of the Consolidated Commission
on Utilities

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APPENDIX A

CONSULTING ENGINEER'S REPORT

GUAM POWER AUTHORITY

R·W·BECK

An SAIC Company

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APPENDIX A

CONSULTING ENGINEER'S REPORT
GUAM POWER AUTHORITY

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APPENDIX A

June 23, 2010

Guam Power Authority
Post Office Box 2977
Hagatna, Guam 96932

CONSULTING ENGINEER'S REPORT
GUAM POWER AUTHORITY

Presented herein is a summary of our analyses and investigations with respect to the proposal by the Guam Power Authority (the "Authority") to issue $150,440,000 of its senior lien Revenue Bonds, 2010 Series A (the "2010 Senior Bonds") pursuant to the Indenture by and among the Authority and certain trustees dated December 1, 1992 as supplemented and amended by series indentures (the "Senior Indenture") and $56,115,000 of its Subordinate Revenue Bonds, 2010 Series A (the "2010 Subordinate Bonds"), pursuant to the Indenture by and among the Authority and certain trustees dated June 1, 2010 (the "Subordinate Indenture" and, collectively, with the Senior Indenture, the "Indentures").

2010 Senior Bonds. The proceeds of the 2010 Senior Bonds are to be used for providing funds for (i) purchasing, constructing and installing certain capital improvement projects, including Smart Grid projects, initial construction on an office building, together with generation, transmission and distribution projects as further described herein; (ii) funding a deposit to the Bond Reserve Fund; (iii) providing for capitalized interest on a portion of the 2010 Senior Bonds through October 1, 2013; and (iv) providing for certain costs of issuance as shown in the following table.

2010 Subordinate Bonds. The proceeds of the 2010 Subordinate Bonds are to be used to provide funds for (i) retiring approximately $20 million of the Authority's short-term loan held by the Cathay Bank (the "Cathay Loan"); (ii) funding a deposit to the Working Capital Fund; (iii) providing for capitalized interest on a portion of the 2010 Subordinate Bonds through April 1, 2011; (iv) funding a deposit to the Bond Reserve Fund; and (v) providing for certain costs of issuance as shown in the following table.

Table 1
Estimated Application of Bond Proceeds (1)

2010 Senior Bonds	
Deposit to Construction Funds for Project Costs	$106,277,000
Deposit to Bond Reserve Fund	12,028,872
Original Issue Discount, Bond Insurance and Costs of Issuance (2)	9,144,466
Capitalized Interest	22,989,662
Total	$150,440,000
2010 Subordinate Bonds	
Retirement of Cathay Loan	$20,000,000
Deposit to Working Capital Fund	27,476,501
Deposit to Bond Reserve Fund	5,611,500
Original Issue Discount and Costs of Issuance (2)	1,259,919
Capitalized Interest	1,767,080
Total	$56,115,000

(1) Excludes accrued interest.
(2) Includes original issue discount, bond insurance in the case of the 2010 Senior Bonds, underwriters' discount and financing expenses as estimated by the underwriters.

1001 FOURTH AVENUE, SUITE 2500 SEATTLE, WA 98154-1004 (P) 206.695.4700 (F) 206.695.4701

SCOPE OF WORK

R. W. Beck, Inc., has been retained by Morgan Stanley to prepare this Consulting Engineer's Report, which includes (i) a report summarizing our studies and findings in conjunction with the current financing and issuance of the subordinate lien debt; (ii) projected operating results for the Authority based on the capital improvement program provided by the Authority and on the load forecast prepared in October 2009 by P.L. Mangilao Energy, LLC (Guam), a partnership of Kemm C. Farney, Ph.D. of P&L Economics, Inc. and Peter C. Mayer, Ph.D. of Mangilao Consulting, Inc. (referred to herein as "P.L. Mangilao Energy"); (iii) a description of the status of the Authority's compliance with federal and Guam environmental laws and regulations; and (iv) a comparison of the Authority's monthly electric bills for selected customer loads to bills charged by certain other isolated electric utilities dependent on oil-fired generation. This Consulting Engineer's Report has been included as Appendix A to the Authority's Official Statement related to the sale of the 2010 Senior Bonds and 2010 Subordinate Bonds (the "Official Statement"). For a discussion of the assumptions and information we have relied upon in preparing our report please see "PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS" at the end of this report.

Words appearing capitalized in this report that are not typically capitalized are defined in this report or within the document or agreement being described.

Discussions of agreements and documents are intended to represent our understanding of certain general principles contained within such documents. References to such agreements or documents do not purport to be complete. For a full understanding of the description included herein, the reader is referred to the full text of the referenced agreement or document and to the summary of certain provisions of the Indentures included as Appendix D to the Official Statement.

This report summarizes our work to the date of the report. Changed conditions occurring or becoming known after such date could affect the material presented to the extent of such changes.

Other R. W. Beck Work: The firm has provided services to the Authority since the 1970s in the areas of load forecasting, power supply planning, environmental, regulatory and financing support activities. Recent activities have included strategic planning, financial planning and power supply consulting.

INTRODUCTION – THE AUTHORITY

The island of Guam is located in the western Pacific Ocean approximately 3,800 miles west-southwest of Honolulu, Hawai'i, 1,550 miles south-southeast of Tokyo, Japan and 1,600 miles east of Manila, the Philippines. The island, which is the western-most territory of the United States, is approximately 30 miles long and ranges from 5 to 8.5 miles wide with a total land area of approximately 212 square miles.

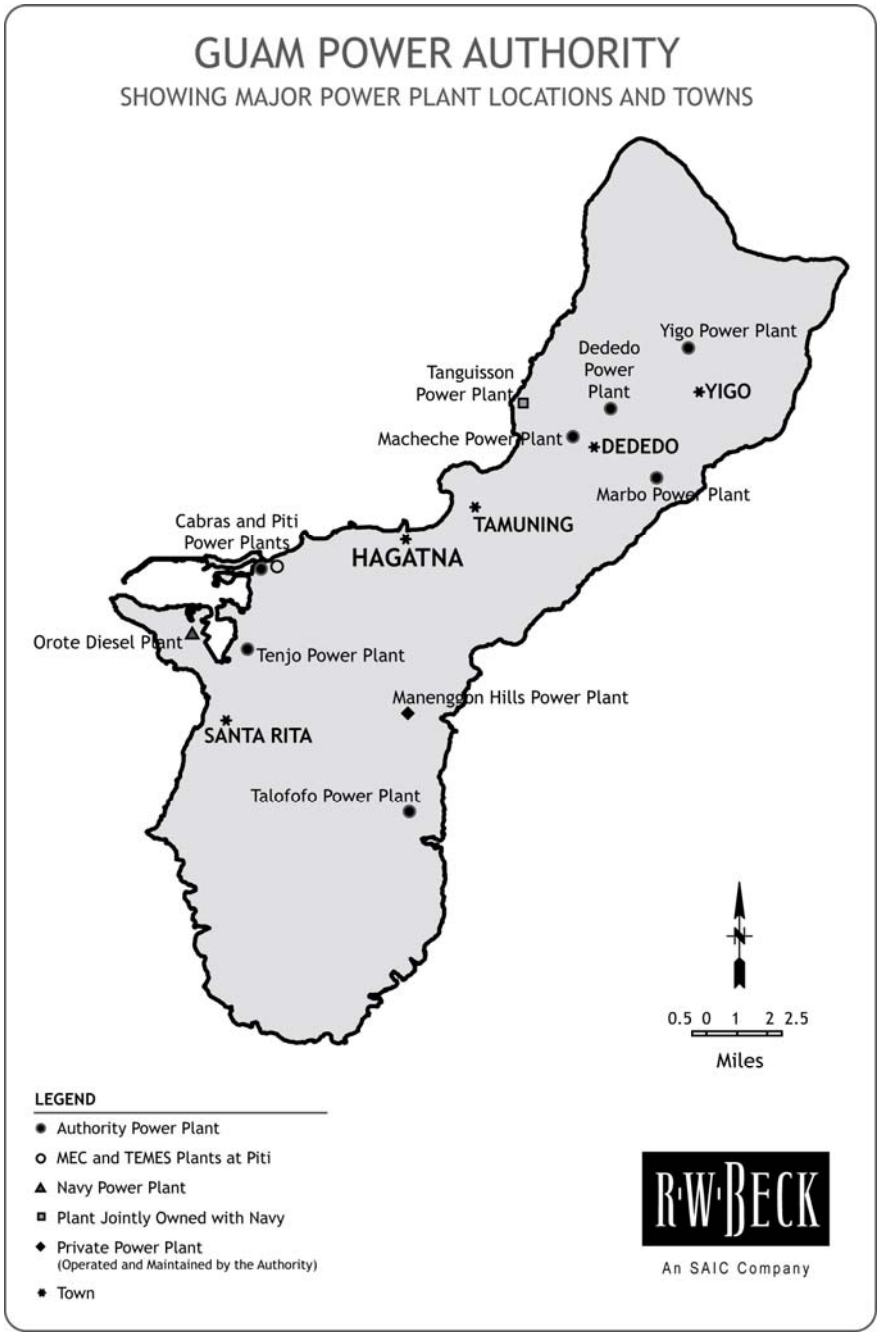


Figure 1: Map

History: Current electric utility operations on Guam date back to the post-World War II period when electric power production facilities consisted of individual diesel plants located at the then existing principal military load centers. In 1950, ownership of portions of the U.S. Navy's (the "Navy") power system, which historically and presently serves the other Department of Defense facilities on the island, including Andersen Air Force Base, was transferred to the Government of Guam. In general, the transferred facilities consisted of those portions of the system which were devoted to civilian use and were considered surplus to the needs of the military. Subsequently, the Government of Guam created the Public Utility Agency of Guam ("PUAG") as the agency responsible for operation and maintenance of electric power and other utility services provided by the Government of Guam. In 1968, the Authority was established by an act of the Legislature of Guam as a public corporation and an autonomous instrumentality of the Government of Guam. The Legislature provided for the transfer of the electric

utility assets of PUAG to the Authority, which officially commenced operations on April 1, 1969. Additional Navy generation, transmission and distribution facilities were transferred to the Authority by the Guam Public Utilities Commission ("GPUC") in August 1996.

PUAG, which changed its name to the Guam Waterworks Authority ("GWA") in the mid-1990s, remains the agency responsible for water and sewer utility services owned by the Government of Guam.

Today the Authority is governed by the Consolidated Commission on Utilities (the "CCU") and regulated by the GPUC. The CCU was created in 2001 by Public Law 26-76, which sets forth the management and oversight structure of the Authority and GWA. For more information, see "Regulatory Environment" below.

Summary Statistics: The Authority presently provides electric service throughout the island, with the exception of distribution of power on the military bases, and has approximately 530 employees. Selected statistics for 2009 are as follows:

Table 2
2009 Statistics [1]

Average Number of Customers	46,489
Peak Load (kW) [2]	268,000
Megawatt-hour Sales [2]	1,624,226
Operating Revenues [2]	$388,947,629
Gross Investment in Utility Plant	$866,855,230
Net Utility Plant Investment	$511,106,970
Total Net Assets	$148,374,393
Net Current Assets	$86,073,983

(1) Audited values for the fiscal year ended September 30, 2009.
(2) Includes Navy as a customer of the Authority.

Electric System Properties

Owned Units. The Authority owns three oil-fired steam generating units, four combustion turbine units, two slow-speed diesel units and twelve high-speed diesel units. In addition to the generation units it owns, the Authority is leasing at no cost for a period of up to fifty years, one oil-fired steam generating unit owned by the Navy, ownership of which is expected to be transferred to the Authority before the end of the lease term. Collectively these units represent approximately 385 MW of currently owned capacity.

Operated Units. Miyama Development International Co., Ltd. ("MDI"), the developer of the Leo Palace Resort, has constructed and owns a 9.8-MW (net) two-unit, diesel plant which is being operated and maintained by the Authority for the Authority's use. The 15.2 MW Marbo Power Plant has been constructed by the Navy and is being operated and maintained by the Authority. These units represent approximately 25 MW of capacity.

Contract Units. The Authority has also entered into energy conversion agreements for three units constructed, owned and operated by Independent Power Producers ("IPP"s), as discussed further in the Power Supply Section herein. These units represent approximately 128 MW of capacity. Each will transfer to the Authority at the end of each respective contract.

Collectively, all of the units discussed above have a total net capacity of 537.8 MW. Numerous other Navy, privately owned and publicly owned small diesel generation units are dispersed throughout the island to provide backup power to the Navy, municipal water pumping stations and certain hotel loads. Such units are not available for dispatch and are only utilized in the event of system outages. The major generating resources of the Authority, combined with those of the Navy, normally serve the entire island and are jointly operated as the Island Wide Power System ("IWPS"). For more information, see the map and "POWER SUPPLY" herein.

Fuel Supply. Essentially all of the Authority's generating resources operate with fuel oil products (fuel oils Nos. 2 and 6). Because of the volatility in prices, this has created a tremendous impact on the Authority's financial resources. As an example, in Fiscal Year 2009 the Authority used approximately 65 percent of the revenues collected that year to pay for fuel costs, as compared to approximately 46 percent in Fiscal Year 2005. The Authority has implemented a program to adjust rates periodically to address changes in fuel costs known as the Levelized Energy Adjustment Clause (the "LEAC"), which is discussed further herein.

Other Electric Properties. In addition to the generating units discussed above, the Authority's properties include 25 substations (including substations transferred by the Navy to the Authority), 174 miles of 115-kV and 34.5-kV transmission lines (including transmission lines transferred by the Navy), 555 miles of overhead and 55 miles of underground primary distribution lines, and other buildings, equipment, stores and related facilities.

Regulatory Environment

As mentioned earlier, the Authority is governed by the CCU and regulated by the GPUC. The CCU acts much like a Board of Directors and has fiduciary, strategic and oversight responsibility for all aspects of the Authority, including the setting of rates subject to the regulatory review and approval of the GPUC. The CCU is comprised of five commissioners elected in the Guam general election. The term for each position is four years. Three commissioners are up for election at the end of calendar year 2010. The current CCU commissioners are as follows:

- Simon A. Sanchez II – Elected to the CCU and Chairman since 2003, current term expires end of 2010
- Benigno M. Palomo – Elected to the CCU since 2003, current term expires end of 2010
- Eloy P. Hara – Elected to the CCU since 2007, current term expires end of 2010
- Gloria B. Nelson – Elected to the CCU since 2005, current term expires end of 2012
- Joseph T. Duenas – Elected to the CCU since 2009, current term expires end of 2012

The GPUC functions similar to a state regulatory commission under applicable Guam laws. The GPUC is governed by seven commissioners who serve six-year terms under appointment of the Governor with confirmation by the Legislature. The GPUC regulates utility rates and significant expenditures that impact such rates. The GPUC has retained Georgetown Consulting Group Inc. of Ridgefield, Connecticut, as its consultant. Georgetown has served in this role for approximately 21 years.

Recent regulatory activity at the GPUC with respect to the Authority is as follows:

- *Docket 07-10 Fuel Hedging Program* – In March 2010, the Authority petitioned the GPUC to adopt a fuel hedging and risk management program to help to shield Authority customers from price volatility associated with fuel oil. The outcome of this petition is pending.
- *Docket 07-10 Supplemental Filing for Base Rate Petition Regarding Implementation of Phase II Rate Increase* – In November 2009, the Authority petitioned the GPUC for a $10.6 million or 7.44 percent increase in base rates, which was granted on February 25, 2010, together with an approach to replenish working capital. On May 27, 2010, further action was taken to approve a Working Capital Fund base rate surcharge to fund the deficiency of approximately $27.5 million over a 24-month period beginning on August 1, 2010. It was further decided that if the deficiency was funded from bond proceeds, that the recovery period would coincide with the bond amortization period. Docket 07-10 also addressed a Cost of Living Adjustment Surcharge on Authority rates for Government of Guam employees, which was deferred.
- *Docket 02-04 GPA Levelized Energy Adjustment Clause (LEAC) effective February 1, 2010* – In December 2009, the Authority petitioned the GPUC to increase the LEAC or fuel adjustment recovery factor from $0.12967 to $0.14213/kWh effective February 1, 2010. The increase

reflects an under recovery of fuel costs in the prior twelve-month period. This petition was granted in January 2010 with a LEAC rate of $0.15046/kWh, effective February 1, 2010.

- *Docket 10-01 Petition for Contract Review to Authorize GPA to Issue Guam Power Authority Revenue Bonds and Subordinate Revenue Bond Financing.* The CCU on April 20, 2010 approved the sale of up to $155 million of Authority Revenue Bonds and up to $65 million of Authority Subordinate Revenue Bonds and the GPUC provided their approval on June 3, 2010.

As a matter of practice, the Authority petitions the GPUC with respect to rates, financings, planning and procurement activities. The Guam Legislature, the GPUC, the CCU and the Guam Economic Development Authority ("GEDA") have all approved issuance of the Bonds. Gubernatorial approval was indicated by the Acting Governor of Guam, who signed into law the approval for the Authority to proceed with the financing discussed herein on May 17, 2010.

Natural Disasters and Impacts on the Authority's Properties

The island of Guam occasionally experiences both typhoons and earthquakes. Its last such events were in 2002 with Typhoons Pongsona and Chataan, which were reported to have caused approximately $38.5 million of damage to the Authority's facilities. The Authority has taken certain measures over the past decade to make its system more resistant to typhoons and earthquakes. These include its ongoing program to replace wooden electric utility poles with concrete poles that are more resistant to high winds; the undergrounding of certain transmission and distribution lines; the use of concrete buildings to house its permanently installed generating units; and the installation of 131 standby diesel generators to provide backup power for GWA's municipal water pumps, sewer lift pumps and two large sewer treatment plants. Due to three water wells being taken out of service, the Authority reports that 128 of the 131 standby generators are currently in use. Additionally, the Authority has 7 trailer mounted diesel generators for the same purpose.

Authority's Energy and Capacity Loads

From 1995 to 2009, the Authority's peak loads have remained relatively flat, having grown 11.2 MW or 4.3 percent (an annual compound growth rate of 0.3 percent) although there have been years of higher peak loads than 2009 (see Table 4 below). Energy sales have been similarly flat over the same time frame, having increased 124,000 MWh or 7.6 percent (an annual compound growth rate of 0.5 percent). Factors that have suppressed growth on Guam have included the aversion to travel following September 11, 2001, the two typhoons in 2002, followed by the bird flu and swine flu and then, most recently, the worldwide economic recession. Each of these conditions has had an impact on travel to Guam, as well as the economy on Guam.

For the period 2010 through 2014, a load forecast for the Authority was prepared by P.L. Mangilao Energy, which includes the expected increase in loads resulting from the move of a portion of the Okinawa, Japan U.S. military base to Guam. Although there is an expectation that the peak build-up activity will likely occur post 2014, for planning purposes the load forecast assumed peak construction activity in 2014. Because of the levels of growth assumed in the load forecast, it provides a reasonable level even if the peak activity is deferred past 2014. The annualized growth rate for peak and energy sales for the period 2009-2014 are 2.5 percent and 2.1 percent, respectively. Growth is shown to be larger in the early years of this forecast and more modest towards the end.

Electric Bill Comparisons

One measure of a utility's financial condition is how its electric bills compare to other similar utilities. The following table, Table 3, is provided to show a comparison of the Authority's monthly electric bills for selected residential, commercial and large customer loads to bills charged by certain other public and private isolated electric utilities. These utilities have been chosen because they are not interconnected with other electric utilities and depend primarily on oil-fired generation. In this regard they are comparable to the IWPS on Guam. The comparative monthly electric bills shown are based on specific

rate schedules for each utility. Accordingly, the use of other schedules applicable to particular customers will yield different results than those indicated. The average electric bill for the Authority's residential customers is approximately $2,700 on an annual basis and represents approximately 7.2 percent of the median 2008 household income.

As shown in the table below, the Authority's rates compare favorably to other island-based utilities that depend primarily on oil-fired generation.

Table 3
Monthly Electric Bills
As of June 1, 2010

	Residential (1,000 kWh)	Commercial (25 kW, 16,000 kWh)	Large Customer/ Industrial (300 kW, 200,000 kWh)
The Authority	$224.83	$4,043.25	$47,814.52
American Samoa Power Authority	$305.96	$5,100.36	$61,437.00
The Barbados Light & Power Co., Ltd. (1)	300.81	4,676.80	55,449.83
Commonwealth Utility Corp. (Saipan)	291.06	5,295.03	66,099.67
Fiji Electric Authority (1), (2)	191.34	3,335.52	28,522.59
Hawaii Electric Light Co., Inc.	342.85	4,714.95	57,108.14
Kauai Island Utility Cooperative	363.93	5,516.71	65,163.08
Maui Electric Company, Ltd.	296.68	4,305.50	51,252.37
Virgin Islands Water and Power Authority	280.25	4,962.67	51,720.56

(1) Converted to U.S. dollars using foreign exchange rates as of May 28, 2010. Rates include value added taxes ("VAT").
(2) Based on rates effective June 10th.

POWER REQUIREMENTS

As mentioned above, the Authority experienced substantial growth in capacity and energy requirements during the late 1980s and the early 1990s; however, since the mid-1990s load growth has been very modest. The slow growth rate would be expected to continue if it were not for the expected move of a portion of the U.S. military base from Okinawa to Guam.

Historical Load Growth 1995-2009. Energy loads of the Authority have grown 7.6 percent from 1995 to 2009 (an annual compound rate of 0.5 percent). Capacity, or peak, loads have also remained relatively flat, having grown 11.2 MW or 4.3 percent (an annual compound growth rate of 0.3 percent). The growth in number of customers however from 1995 to 2009 has been greater, with an increase of 13.2 percent (an annual growth rate of about 1 percent per year). This has resulted in the usage per customer declining during this same period. Specifically the usage per residential customer in 1995 was approximately 13,500 kWh/yr as compared to the usage per residential customer in 2009 of approximately 11,900 kWh/yr. It is believed that the usage per customer decline has resulted from both increasing rates, as well as economic conditions that have affected Guam in a similar manner to that of the mainland United States. Although the slower energy growth since 1995 has allowed the Authority an opportunity to improve its system reliability, it has made it more difficult for the Authority to increase its revenues. The factors that have collectively contributed to this result include: (i) a decline in energy sales to the Navy, which decreased its presence on the island during this period; (ii) continued customer growth, although at a slower rate than in past years; (iii) substantial growth in the Authority's large commercial class, which includes service to large hotels; and (iv) slower growth in the number of tourist visitors to the island.

Projected Load Growth 2010-2014. For the period 2010 through 2014, a load forecast for the Authority was prepared by P.L. Mangilao Energy in October 2009, which includes the expected increase in loads resulting from the move of a portion of the Okinawa U.S. military base to Guam. This includes both increases in military loads as well as contractors and off-base activities related to the move. Although there is speculation as to what the final dates for this move will be, for planning purposes it is assumed that the earliest it would result in peak construction activity is in 2014, which is reflected in the load forecast. The annualized growth rate for peak and energy sales for the period 2009-2014 are 2.5 percent and 2.1 percent, respectively. Growth is expected to be larger in the early years of this forecast and more modest towards the end.

R. W. Beck has not independently prepared a load forecast as part of our work, but instead has reviewed the projections provided by P.L. Mangilao Energy for reasonableness for the Authority's planning purposes. In general, the forecast is not unreasonable for the purpose of projecting Authority revenues because it tends to be somewhat conservative and shows a lower growth rate in energy usage than might occur under other assumptions regarding construction and support activities associated with the military base move. The more conservative view financially is where loads continue to remain flat, thus making it more difficult for the Authority to improve its operating results. If load growth is greater and capital for Authority related projects to support the base move is provided from sources other than the Authority as expected, then revenues should rise faster than expenses, creating a better financial operating result for the Authority.

As can be seen in the following table, even with conservative assumptions, the total number of customers served by the Authority is projected to increase at a faster rate during the 2010 to 2014 period than the growth experienced during the 2005 to 2009 period. Usage per residential customer is assumed to stabilize, although this will be impacted somewhat by implementation of Smart Grid programs during this period that have not been fully reflected in the forecast provided.

Energy sales to the Navy from 2010 to 2014 are projected to grow approximately 13.6 percent, or at an annual rate of 3.2 percent, as compared to an annual growth rate of 2.4 percent between 2005 and 2009.

The Authority's historical and projected energy and capacity loads are shown in the following Table 4.

Table 4
Historical and Projected Customers, Energy Sales, Peak Demand and Revenues

	Historical					Projected				
Fiscal Year Ending September 30:	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Number of Customers (Average):										
Residential	37,887	37,709	38,464	39,308	39,864	39,377	39,584	39,843	40,113	40,389
Small Commercial [1]	5,778	5,709	5,623	5,654	5,643	5,689	5,751	5,807	5,862	5,915
Large Commercial [2]	197	223	226	225	225	238	244	250	256	261
Navy	1	1	1	1	1	1	1	1	1	1
Other [3], [4]	2,000	1,087	747	847	756	762	796	821	838	844
Total Customers	45,863	44,729	45,061	46,035	46,489	46,067	46,376	46,722	47,070	47,410
Energy Requirements (MWh):										
Energy Sales [5]										
Residential	505,219	495,229	485,931	472,730	471,385	469,233	474,066	478,827	483,143	486,447
Small Commercial [1]	368,758	379,535	380,650	381,961	378,690	392,267	412,846	429,639	443,084	449,896
Large Commercial [2]	432,649	439,747	427,306	427,986	405,075	421,459	432,259	440,771	447,341	450,092
Other [3]	10,814	10,622	10,458	10,230	9,982	9,256	9,308	9,339	9,362	9,370
Total Authority Energy Sales	1,317,440	1,325,133	1,304,345	1,292,907	1,265,132	1,292,216	1,328,479	1,358,576	1,382,929	1,395,805
Total Navy Energy Sales	327,100	343,868	330,277	341,766	359,094	357,608	376,430	391,896	402,837	406,132
Total Energy Sales Before DSM	1,644,540	1,669,001	1,634,622	1,634,673	1,624,226	1,649,824	1,704,909	1,750,472	1,785,766	1,801,937
System Losses [5]	146,396	136,475	132,752	129,628	127,249	135,155	139,668	143,400	146,292	147,616
Energy Requirements Before DSM	1,790,936	1,805,476	1,767,374	1,764,301	1,751,475	1,784,979	1,844,577	1,893,872	1,932,058	1,949,553
Less DSM Savings	0	0	0	0	0	0	0	0	0	0
Total IWPS Energy Requirements [6]	1,790,936	1,805,476	1,767,374	1,764,301	1,751,475	1,784,979	1,844,577	1,893,872	1,932,058	1,949,553
Peak Demand (kW) [7]	273,000	275,000	269,000	268,000	268,000	278,000	288,000	296,000	302,000	303,000
Less DSM Savings	0	0	0	0	0	0	0	0	0	0
Total Peak Demand	273,000	275,000	269,000	268,000	268,000	278,000	288,000	296,000	302,000	303,000
Revenues From Energy Sales ($000) [8]										
Residential	$69,538	$79,563	$85,135	$101,514	$103,972	$102,930	$105,285	$108,462	$111,642	$114,691
Small Commercial [1]	63,902	74,489	80,852	95,174	98,501	97,514	109,647	115,983	121,604	125,569
Large Commercial [2]	67,969	79,365	83,650	99,545	98,914	97,923	106,622	110,688	114,388	117,207
Navy	39,061	50,422	51,402	67,546	81,374	80,559	82,216	87,329	91,604	94,261
Other [3]	4,521	4,686	4,830	5,179	5,243	5,190	5,157	5,215	5,269	5,317
Revenues from Energy Sales Before DSM	$244,991	$288,525	$305,869	$368,958	$388,004	$384,116	$408,927	$427,676	$444,508	$457,045
Less DSM Reductions	0	0	0	0	0	0	0	0	0	0
Total Revenues from Energy Sales	$244,991	$288,525	$305,869	$368,958	$388,004	$384,116	$408,927	$427,676	$444,508	$457,045

(1) Includes the Authority's small general non-demand, small general demand, small government non-demand and small government demand categories.
(2) Includes the Authority's large general and large government categories. Most hotels are included in this category.
(3) Includes the Authority's private and government public street/outdoor lighting categories.
(4) The decrease in "Other" is due to the consolidation of the public street light accounts in the new billing program that was implemented in fiscal year 2006 and further consolidations in fiscal year 2007.
(5) Includes IWPS transmission losses and Authority distribution losses.
(6) Reflects total net generation of the IWPS excluding station use.
(7) Reflects total gross peak demand of the IWPS.
(8) Based on projected energy sales at current rate schedules. Not included is an 8.4% surcharge on base rates approved by the GPUC to become effective August 1, 2010 for twenty-four months. It is the Authority's intention to have the GPUC approve prior to August 1, 2010 a plan where the surcharge would be reduced to 2% based on the total bill, start on April 1, 2011 and be amortized over a period to coincide with the remaining debt service term of the 2010 Subordinate Bonds.

POWER SUPPLY

Introduction

Historically, the Authority's power supply requirements have been supplied from generating facilities owned and operated by the Authority, generating facilities owned and operated by the Navy and generating facilities owned by the Navy and operated by the Authority. Beginning in 1972 there has been a gradual transition, consolidating all of the IWPS ownership and operating responsibilities with the Authority. Summary discussions of certain agreements with the Navy that have formed this transition follow below.

Power Supply Agreement. In 1972, the Authority and the Navy entered into the Power Pooling Agreement (the "Power Supply Agreement") that combined Authority and Navy generation and transmission assets into the IWPS. Under the terms of the Power Supply Agreement, both the Authority and the Navy supplied power to each other and shared the cost of operating and maintaining the IWPS on a proportionate basis. The Power Supply Agreement delegated to the Authority responsibility for dispatching all generating resources available to the IWPS and performing the majority of IWPS maintenance.

Customer Agreement. In 1989, the Authority and the Navy negotiated termination of the Power Supply Agreement and created a new agreement titled the "Guam Power Authority Utility Service Contract" (the "Customer Agreement") which became effective in 1992. The Customer Agreement expired in 2002, and was renewed for an additional 10 years to January 1, 2012. Under the Customer Agreement, the Authority has become increasingly more responsible for operational control of the IWPS, while the Navy has become a transmission-level (wholesale) customer of the Authority. The Customer Agreement also provides for the transfer of certain Navy generation, transmission and distribution assets to the Authority. This arrangement assigns certain responsibilities to the Authority for providing electric capacity and energy to the Navy and other Department of Defense facilities on Guam.

The Customer Agreement contains numerous operational, management and financial criteria that were to be met by the Authority to effect transfer of Navy assets. The Customer Agreement includes formal provisions for cost recovery by both parties and a rate setting mechanism for Authority-provided service.

The initial maximum contract demand imposed upon the Authority by Navy facilities under the Customer Agreement was 73,000 kW. The initial minimum billing demand to be paid for by the Navy under the Customer Agreement was 58,000 kW. These amounts may be modified with six months' prior notice by the Navy, but, in any event, may not be increased or decreased by the Navy more than 5 percent per year. For fiscal years 2009 and 2010, the minimum contract demands were 40,504 kW and 42,529 kW, respectively. The maximum contract demands were 50,979 and 53,528 kW, respectively.

The Authority is currently negotiating with the Department of Defense, the Navy and other interested parties to develop a Memorandum of Understanding ("MOU") that will provide the principles to be further addressed in a Utility Services Contract that will replace the existing Customer Agreement with the military on a number of subjects. One principle that has been conceptually agreed to and is important to the Authority's planning efforts is that any capital additions to the Authority's system that are necessary to support the expected military build-up on island will not be paid for by the Authority. If necessary, the Authority may finance such improvements, so long as any associated debt service is paid for by parties other than non-military ratepayers. A similar MOU is also being addressed for the water and wastewater systems on Guam. The parties fully expect to use the Utility Services Contract to become effective in 2012 to address the details of the MOU that is now being developed.

Lease Agreement. On September 15, 1996, a lease agreement was entered into between the Authority and the Navy to transfer to the Authority the operation, maintenance and custody of certain Navy-owned, joint-use, electric power generation facilities. The Lease Agreement was developed to transfer certain assets, prior to completion of environmental cleanup at all of the locations involved. The Lease Agreement provided for a fee simple transfer of Piti, Tanguisson No. 1, Marbo, electrical transmission and distribution lines, substations and related structures and equipment, together with associated land

interests upon meeting a number of conditions, including environmental clean-up. Properties being retained by the Navy include the Orote Diesel Power Plant, emergency generators at critical Navy locations and the Navy distribution system. The facilities referenced above are leased to the Authority at no cost for a period of 50 years, or until the transfers are completed. Table 5, below, is a summary of the electric generating resources currently available to the IWPS. The table does not show other small diesel generators dispersed throughout the island for use as emergency capacity for specific public, military and commercial loads, which are owned and operated by those customers.

Table 5
IWPS Power Supply Resources [1]

Resource	Year Installed	Owner/Operator	Net Capacity (MW)
Cabras Power Plant [2]			
Unit No. 1	1974	Authority	62.0
Unit No. 2	1975	Authority	62.0
Unit No. 3	1995	Authority	38.4
Unit No. 4	1996	Authority	38.4
Tanguisson Power Plant [3]			
Unit No. 1	1971	Navy/Pruvient	25.0
Unit No. 2	1973	Authority/Pruvient	25.0
Dededo Power Plant			
Diesel Units 1 through 4	1971	Authority	8.0
Combustion Turbine Unit No. 1	1992	Authority	22.0
Combustion Turbine Unit No. 2	1994	Authority	22.0
Macheche Power Plant			
Combustion Turbine Unit No. 1	1993	Authority	22.0
Yigo Power Plant [4]			
Combustion Turbine Unit No. 1	1993	Authority	22.0
Talofofo Power Plant			
Diesel Units Nos. 1 & 2	1993	Authority	9.4
Tenjo Power Plant [5]			
Diesel Units Nos. 1 through 6	1997	Authority	28.2
Piti Power Plant [6]			
Unit No. 4	1964	Navy/Authority	0.0
Unit No. 5	1964	Navy/Authority	0.0
Marbo Power Plant [6]			
Combustion Turbine Unit No. 1	1995	Navy/Authority	15.2
Manenggon Power Plant [7]			
Diesel Units Nos. 1 & 2	1994	MDI/Authority	9.8
Independent Power Producers			
TEMES-Piti Unit No. 7 [8]	1997	TEMES	41.4
MEC-Piti Units Nos. 8 & 9 [9]	1999	MEC	87.0
Total			537.8

(1) All units are oil-fired.
(2) In January 2003, the Authority entered into a Performance Management Contract (PMC) with TEMES to operate and maintain Cabras 1 & 2. After two years, the Authority entered into another PMC contract with Doosan Engine for Cabras 3 & 4 operation and maintenance. On July 1, 2010 this contract goes to Korea East–West Co. Ltd. for a five year period.
(3) In September 1996, the Authority entered into an Energy Conversion Agreement with HEI to refurbish the Tanguisson Power Plant. Refurbishment completed in 1997, increasing capacity to a nominal 50 MW. Pruvient is currently operating and maintaining the plant with Authority staff.
(4) The Authority purchased the Unit for approximately $11.2 million upon expiration of its lease in March 1999.

Footnotes continue on the following page.

(5) Units temporarily located in 1993 at the Guam Airport Industrial Park, the Old Guam Memorial Hospital and Tumon have been relocated to this permanent site.
(6) These units were turned over to the Authority via the Customer Service Agreement through a license agreement that runs 50 years. A fee simple transfer to the Authority prior to the end of the lease is expected. Piti Units 4 & 5 are not operable and are considered retired.
(7) Donated by MDI for use by the Authority for 25 years.
(8) This unit was completed as of December 1997.
(9) Enron completed two slow speed diesel units in January 1999. MEC is currently operating and maintaining the plant.

IWPS Generating Resources

Cabras Power Plant

The Cabras Power Plant is located toward the east end of Cabras Island adjacent to the Navy's Piti Power Plant at Apra Harbor as shown in Figure 1. The plant consists of four units. The plant is owned by the Authority, operated and maintained as indicated below, and is interconnected to the IWPS' 115,000-volt transmission system.

Unit Nos. 1 and 2 are two identical oil-fired, 62.0-MW (net) reheat regenerative steam thermal generating units. Cabras Unit Nos. 1 and 2 are the largest generating resources available to the IWPS and as such provide base load power. Unit No. 1 achieved commercial operation in 1974, and Unit No. 2 achieved commercial operation in 1975. The units use No. 6 residual fuel oil, which is delivered to the plant via pipeline from a nearby bulk oil storage facility. Unit Nos. 1 and 2 are presently operated and maintained by Taiwan Electrical and Mechanical Engineering Services, Inc. ("TEMES") under a performance management contract ("PMC") that ended December 31, 2009. The PMC is presently under procurement protest and Authority management was unable to award a new PMC contract prior to the expiration date above.

Unit Nos. 3 and 4 are two identical, oil-fired, slow-speed, 38.4-MW (net) diesels currently being operated as base load generation. The units also use No. 6 residual fuel oil. Unit No. 3 achieved commercial operation in November 1995 and Unit No. 4 achieved commercial operation in May 1996. Units Nos. 3 and 4 are presently operated and maintained by Doosan Engine of South Korea under a performance management contract that ends June 30, 2010. On July 1, 2010 the contract goes to Korea East–West Co. Ltd. for a five-year period.

Piti Power Plant

The Piti Power Plant began operation with Unit No. 1 in 1951 and is the oldest generation site on the island. The location is adjacent to the Authority's Cabras Power Plant in the east-central part of the island. A total of nine units have been built at this site, including three units presently owned and operated by two Independent Power Producers. Through the Piti substation all operating Piti units have connections at both 34,000 volts and 115,000 volts to the IWPS.

Unit Nos. 1, 2 and 3 were built in 1951, 1955 and 1964, respectively, as the first major island units and were owned and operated by the Navy. Units 1, 2 and 3 are no longer available for service and are being scheduled for demolition, which may involve disposal of hazardous waste, the liability for which is unknown.

Unit Nos. 4 and 5 began commercial operation in 1964 and are part of the facilities leased to the Authority in 1996. Along with the lease of assets by the Navy, 56 of the U.S. Navy Public Works Center employees were also transferred to the Authority and have been integrated into the Authority's organization. Unit Nos. 4 and 5 have been off line since FY 1999 and are not presently operable, although both have been considered for demolition as well as re-building by the Authority. Supporting Unit Nos. 4 and 5 is Piti Unit No. 6, which is an auxiliary boiler that can be used as part of the operations of Unit Nos. 4 and 5.

Unit No. 7 began commercial operation in December 1997. This 41.4 MW (net) combustion turbine unit was built, and is owned and operated by TEMES under a 20-year build-own-transfer arrangement, which

will transfer ownership to the Authority at the end of this term in December 2017. The TEMES contractual arrangement is one of three entered into with the Authority to capitalize on technical, management and operational experiences of off-island corporations. Under the three energy conversion agreements, the Authority is supplying the fuel oil and the three independent companies are returning electricity to the Authority. All three agreements have twenty-year terms, at which time the plants are to be turned over to the Authority at no cost.

Unit Nos. 8 and 9 are two, oil-fired, slow-speed diesels that are substantially similar to Cabras Unit Nos. 3 and 4 and also use residual fuel No. 6. The units combined are rated at approximately 87 MW (net) and began commercial operation in January 1999. Under the energy conversion agreement with Marianas Energy Company ("MEC"), the combined net rating of these units can vary on a year-to-year basis between 79.60 MW and 87.56 MW. Osaka Gas Energy America Corporation ("Osaka"), a wholly owned subsidiary of Osaka Gas Co., Ltd. of Japan, acquired 50 percent ownership of MEC in December 2005 and the remaining 50 percent in March 2007 from successors to the original owners. The Osaka contract expires in January 2019.

These units are subject to a similar build-own-transfer arrangement as Unit No. 7, but with Osaka.

Tanguisson Power Plant

The Tanguisson Power Plant is located at sea level on the northwest shoreline of Guam a short distance south of Tanguisson Point. The plant consists of two identical oil-fired steam regenerative thermal generating units.

Unit Nos. 1 and 2 were constructed in 1971 and 1973, respectively. Unit No. 1 is part of the Navy generating assets being transferred to the Authority. Unit No. 2 is owned by the Authority. In 1996, the Authority entered into an Energy Conversion Agreement with HEI Power Corporation Guam ("HEI"), a subsidiary of Hawaiian Electric Industries, Inc. to refurbish the Tanguisson Power Plant. HEI completed refurbishment of both units in 1997 at a cost of approximately $15 million. This work included increasing the capacity of Unit No. 1 from 22.0 MW (net) to 25.0 MW (net), the same as Unit 2. In 2001 HEI sold its interest in the Energy Conversion Agreement to Mirant Guam (Tanguisson) Corporation ("Mirant"), which sold the interest to Pruvient Energy Guam, Inc. ("Pruvient") in 2004. Pruvient now operates and maintains the plant. The contract terminates in August 2017.

The plant is interconnected to the IWPS 34,500-volt transmission system. Both units use No. 6 residual fuel oil, which is delivered to the site via an underground pipeline operated and maintained by the Authority.

Dededo Power Plant

The Dededo Power Plant is located adjacent to Marine Drive in the north central part of Guam. The plant includes six generating units. The plant is owned, operated and maintained by the Authority. All units run on distillate fuel oil No. 2.

Unit Nos. 1 – 4 are identical high-speed diesel-generating units, each rated at approximately 2.0 MW (net). The diesel units began operation in 1971 and are now being considered for retirement.

Unit Nos. 5 and 6 are both General Electric, Frame-5 type combustion turbines, each rated at 22.0 MW (net). Unit Nos. 5 and 6 began operation in 1992 and 1994, respectively. Unit No. 6 has experienced operational problems and has not been dispatchable by the Authority to supply power in recent years.

Macheche and Yigo Power Plants

Each of these power plants consists of a 22.0-MW (net) combustion turbine unit. The Yigo unit was obtained under a three-year capital lease. The Authority extended the lease of this unit for an additional three years and purchased the unit upon expiration of the lease in 1999. Both the Macheche and Yigo units began operation in 1993 and are operated and maintained by the Authority.

Authority Diesels

Talofofo Unit Nos. 1 and 2. In 1993, the Authority purchased and installed eight 4.7-MW (net) diesel units. Two of the units were permanently installed at the Talofofo site.

Tenjo Vista Power Plant Unit Nos. 1 – 6. The remaining six units purchased in 1993 were temporarily installed in pairs in various locations until the Tenjo site was completed. All six units are now located at this permanent site.

Authority Standby Diesels. The Authority has installed standby generation to provide backup power for municipal water pumping and sewer lift pumps owned and operated by GWA. Additionally, standby generation has been provided for GWA's two large sewer treatment plants. This generation is used during system power outages resulting from major storms or other causes and during peak load conditions to assure water availability on the island and to a lesser degree to help reduce the amount of generation that would otherwise be necessary. Each generator unit has been designed for automatic starting and stopping. Due to the dispersed locations of the pumps, 131 standby generators were installed. Due to three water wells being taken out of service, the Authority reports that 128 of 131 standby generators are currently in use. In locations where sufficient land is not available for permanent units, approximately 10 mobile units are available for use. The Authority owns, maintains and operates all the standby units.

Marbo Power Plant

The Marbo Power Plant is located in the northern part of Guam. The plant consists of a 15.2 MW (net) combustion turbine unit, which is reported to have achieved commercial operation in July 1995. This facility was included in the lease of generation assets from the Navy that started in 1996 and is pending transfer to the Authority after environmental concerns and cleanup issues are addressed. The unit has been of limited service due to design and related mechanical problems and has not been dispatchable by the Authority to supply power in recent years.

Manenggon Hills Diesels

MDI, a private developer, installed two Wartsila diesel units, each rated at approximately 4.9 MW (net), in 1994 as part of a development in the Manenggon Hills area. The units were officially transferred to the Authority in December 1994. The Authority is operating and maintaining these units as part of the IWPS. In the event of an emergency, the development's loads are to be served first and the next 7 MW (net) of the combined output of both units are dedicated for the Authority's use. Should the development's loads grow, MDI plans to add additional units to guarantee the 7 MW (net) to the Authority.

Other – Navy Support

The Navy has been in discussions with the Authority to address the need for dependable power. To support this effort, the Navy is conducting a survey with the Authority to assess which of the Authority's combustion turbines might be candidates for renewal or repowering and to be available to meet the growth in power needs resulting from the Base move. It is contemplated that three units may be identified for this purpose at the end of the study in the third quarter of 2010. The renewal program would be funded from sources other than the Authority.

Non-IWPS Generating Resources

Orote Diesel Plant

The Navy owns and maintains a diesel generating facility that is not part of the IWPS, the Orote Diesel Plant. This plant consists of three 6.0 MW (net) diesel units that became operational in 1996. Although not part of the IWPS, when power is made available by the Navy, the Authority is able to purchase power from the units at the Navy's incremental cost.

FUEL OIL SUPPLY

As mentioned previously, the Authority relies completely on fossil fuel for its generating resources, which takes the form of No. 2 and No. 6 diesel fuel. Because of the high cost of oil, fuel oil has represented upwards of 65 percent of the Authority's annual budget and has been a major focus of the Authority during each year's budget process.

Contract Suppliers

The Authority's fuel supply for residual fuel oil No. 6 for the Cabras, Piti, MEC and Tanguisson power plants is purchased through a contract with Petrobras Singapore PTE, Ltd., a Brazilian-based company. The contract is for three years and began on March 1, 2010. The contract is renewable annually thereafter with mutual agreement of both parties. The minimum purchase under the contract is 3.0 million barrels per year. For the twelve months ended September 30, 2009, the Authority took delivery of approximately 3.2 million barrels of oil from the prior contractor, BP Singapore PTE Ltd.

The Authority has two contracts for distillate fuel oil No. 2, which are put up for bid on a periodic basis to supply the Authority's combustion turbines, diesel units and emergency standby generators. Both of these contracts are currently with Shell Guam, Inc. and began on December 1, 2009 for a period of three years. Both contracts have a two-year extension option that is renewable based on the mutual agreement of both parties. In general, the island receives approximately one tanker per month of fuel oil for generation.

Fuel Price Risk Management Program

The Authority petitioned the GPUC in 1999 and established a fuel hedging program to mitigate exposure to fuel price fluctuations. The approach adopted at that time was a Zero Cost Collar Option consisting of buying a call option and selling a put option to exactly offset the costs of the put option. The two products were intended to create a band that so long as the market price of fuel remained within the band, there would not be a gain or loss from the combined transactions. If the price of fuel rose above the price of the call option, the Authority would receive a payment for the difference between the actual average market price for the month and the call price. If the price of fuel dropped below the put price, the Authority would be required to pay to the hedge provider the difference between the put price and the actual average market price for the month. Because of the more recent volatility of pricing, the Authority began using a new approach in April 2007 that continues to use a collared approach with a target of hedging 50 percent of its fuel supply.

The Authority is using Goldman Sachs & Co., Morgan Stanley (Singapore) and the Australia and New Zealand Banking Group Limited ("ANZ Bank") for its hedging program. The Authority recently went through a procurement process with its hedge providers. Of the three firms selected, two stated that with the Authority's improving financial condition, no margin calls would be required for Authority hedge contracts. The third provider indicated that the Authority's credit limit would be increased to $10 million now and would be increased to $15 million when the Authority receives a second investment grade credit rating. The Authority is continuing to seek a letter of credit provider for its fuel hedging program to address the potential risk of a margin call with the one provider. The Authority believes the GPUC order authorizing the procurement of a letter of credit facility and allowing the costs of the program to be recovered through the LEAC should remain in effect. For more information on the Authority's fuel hedging program please see the Official Statement, to which this report is attached, in the Section titled "THE GUAM ELECTRIC POWER SYSTEM – Fuel Supply – Fuel Price Risk Management Program."

LEAC

The current LEAC allows for recovery of fuel costs including pipeline costs, storage tanks and other related fuel costs over a six-month period, in an adjustment that goes into effect in August and February.

This adjustment assists in reducing the variability in the fuel costs to the Authority's customers. The LEAC calculation consists of the following factors:

The Authority is required to file before the GPUC any proposed adjustments 45 days before the effective LEAC implementation date. A comparison of the actual fuel oil mix, fuel oil cost, transmission and distribution losses, and station use of energy as compared to a projection made for the previous six-month period are also required to be filed. Also included in the filing is information on the over or under recovery of fuel costs for the previous six-month period. If at any time the over/under recovery amount exceeds $2.0 million, the Authority can file for an expedited LEAC adjustment prior to the next scheduled bi-annual adjustment.

The following graph shows the adjustments that have been made to LEAC rates since 2001 because of changes in fuel costs. As an example, in FY 2005 fuel costs were approximately $113 million as compared to $254 million in FY 2009 when they represented approximately 65 percent of the Authority's total revenues.

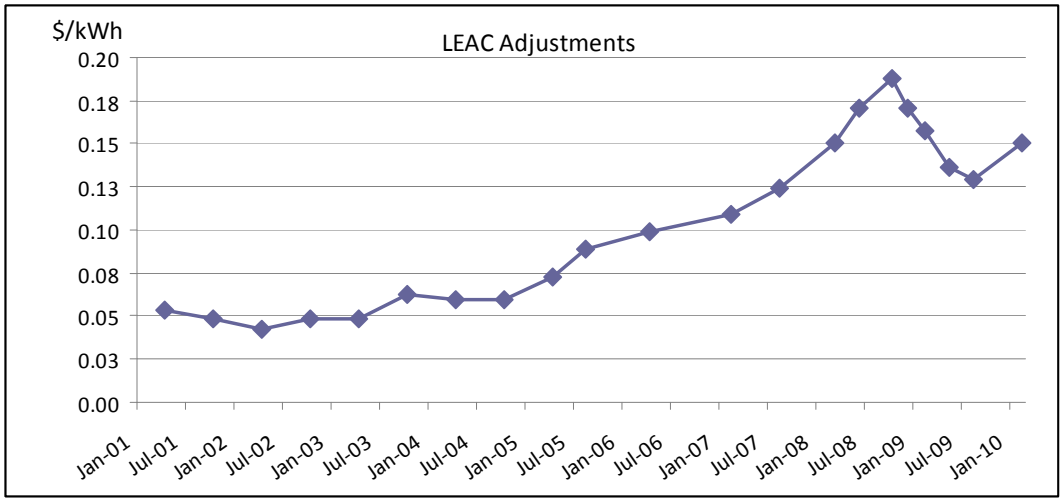


Figure 2: LEAC Adjustments

The principal cause of the LEAC adjustments has been increasing fuel oil costs. This has also played a major part in the Authority's need for working capital, because there can be a lag of up to six months between adjustments to the LEAC and collecting the additional revenue once a change in LEAC is made. The impact on the Authority's working capital is discussed in the Section "FINANCIAL" later in this Report.

FUTURE RESOURCES

Resources and Peak Loads

During the five fiscal year period from 2010 through 2014, the Authority expects to meet its projected peak load requirements primarily from existing resources and to a much smaller degree from a demand-side management program and use of Smart Grid that is in various states of development. For planning purposes the Authority has established a reserve requirement of having available generating resources equivalent to the greater of: (i) its two largest generating units, or (ii) meeting a loss of load equal to one day in 4.5 years or 5.3 hours per year. For purposes of the following table we have used the two largest generating units, which are currently Cabras Units 1 and 2, at 62.0 MW (net) each. Based on this criteria and the unit retirements currently contemplated, the Authority will have a surplus in all years of the projections as shown in the following table. Resources in the Authority's Integrated Resource Plan expected to generate less than 1 percent per year have not been included as available for meeting system

peak. Exceptions to this include units that can be started very quickly, such as the high-speed diesels at Manenggon Hills, Tenjo, and Talofofo and the TEMES combustion turbine. Actual retirement dates are being studied for a number of Authority units, including Marbo and the Dededo Diesels, based on economic considerations.

In meeting peak loads on a daily and annual basis, the Authority is assisted by having a daily and annual load shape that is flatter than that experienced by many other utilities. This is due to the relatively constant temperature throughout a typical day and typical year and the significant proportion of electricity used for air conditioning.

Table 6
Peak Loads and Resources [1]
(MW)

	Historical			Projected				
Fiscal Year Ending September 30:	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Peak Loads in MW								
Peak Loads	269.0	268.0	268.0	278.3	288.4	296.5	302.1	302.9
Demand Side Management Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Peak Loads	269.0	268.0	268.0	278.3	288.4	296.5	302.1	302.9
Resources in MW								
Authority Resources								
Cabras Steam 1 and 2	124.0	124.0	124.0	124.0	124.0	124.0	124.0	124.0
Cabras Slow Speed Diesels 3 and 4	76.8	76.8	76.8	76.8	76.8	76.8	76.8	76.8
Dededo Combustion Turbine 1 and 2 [2]	22.0	22.0	22.0	22.0	44.0	44.0	44.0	44.0
Macheche Combustion Turbine 1	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Yigo Combustion Turbine 1 [3]	0.0	0.0	22.0	22.0	22.0	22.0	22.0	22.0
Marbo Combustion Turbine 1 [3]	0.0	0.0	0.0	0.0	15.2	15.2	15.2	15.2
Dededo Diesels 1, 2, 3 and 4	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Manenggon Hills Diesels 1 and 2	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Talofofo Diesel 1 and 2	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4
Tenjo Vista Diesels 1, 2, 3, 4, 5, and 6	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2
Total Authority Resources	300.2	300.2	322.2	322.2	359.4	359.4	359.4	359.4
Independent Power Producers								
Pruvient - Tanguisson 1 and 2 [4]	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Marianas Energy Co. (MEC) Slow Speed Diesels 8 and 9 [5]	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0
TEMES - Piti Combustion Turbine 7 [6]	41.4	41.4	41.4	41.4	41.4	41.4	41.4	41.4
Total IPP Resources	178.4	178.4	178.4	178.4	178.4	178.4	178.4	178.4
Combustion Turbine Adjustment Under Study [7]					(37.2)	(37.2)	(37.2)	(37.2)
Total Resources (MW)	478.6	478.6	500.6	500.6	500.6	500.6	500.6	500.6
Total Available for Reserves	209.6	210.6	232.6	222.3	212.2	204.1	198.5	197.7
GPA Target Reserve [8]	46.1%	46.3%	46.3%	44.6%	43.0%	41.8%	41.0%	40.9%
Calculated Reserve	77.9%	78.6%	86.8%	79.9%	73.6%	68.9%	65.7%	65.3%
Resources Surplus (Deficit) (MW)	85.6	86.6	108.6	98.3	88.2	80.1	74.5	73.7

(1) Reflects amounts available for system peak load. Any resources with an anticipated capacity factor of less than 1% have not been included.
(2) The Dededo CT 2 unit was not available for dispatch by the Authority in FY 2007 through FY 2010.
(3) These units are not available for dispatch by the Authority in the years for which zero's are shown.

Footnotes continue on the following page.

(4) Operated and maintained by HEI beginning in Fiscal Year 1998. Mirant Corp. took over operation in FY 02, then Pruvient took over in May 2003.
(5) Operations began January 1999.
(6) Operations began in December 1997.
(7) The Navy is currently studying the Authority's five combustion turbines and has indicated it plans to select three or four for refurbishment, for which it plans to provide approximately $30 million to the Authority for this purpose. For purposes of this table we have assumed two combustion turbines, including the Marbo unit and one other not presently identified, would not be refurbished and would no longer be available starting in FY 2011.
(8) Target reserve is based on having reserves equal to two largest units as a percentage of peak load.

Generation Expansion Study

The Authority's System Planning Section has developed its most recent Integrated Resource Plan which was filed with the GPUC in September 2008. The plan includes analyses leading to the determination of the timing, sizing, location and technologies to be utilized for future Authority generation additions. In part, the Authority's planning is being influenced by legislation adopted in 2008 establishing goals for renewable energy portfolio standards. The legislation provides that the Authority shall establish preliminary goals of 5 percent of its net electricity sales to be furnished from renewable generation by December 31, 2015 and 25 percent by December 31, 2035, subject to engineering and economic analysis by the Authority. The bill also requires that 10 percent of any traditional power supply that is constructed be furnished from a renewable resource. The Authority is currently considering adding approximately 80 MW from wind and, potentially, solar during the 5-year study period shown herein. A recent invitation for bids of renewable resources was delayed because of contractual issues, and has now been reconfigured and posted with a due date of approximately July 8, 2010 for proposal submission. The expectation is that this first round will address projects that would be built and financed by the developer and the Authority would enter into contracts over approximately a 20-year period for power. A second request for bids is also contemplated in which the format will be more open, as well as the ownership and contracting arrangements. For purposes of our assumptions we have assumed that the Authority will only proceed with projects that would be at or below the Authority's cost of power and will not negatively impact the projections provided herein. For additional information on the Authority's load forecast and resources see "POWER REQUIREMENTS" and "POWER SUPPLY" herein.

Authority's Demand Side Management ("DSM") Program

The Authority began its DSM programs in 1993 with the filing of its 20-year DSM Plan (the "1993 Plan") with the GPUC. Following this submittal, four programs were initiated in August 1994 aimed at reducing load growth on the IWPS. However, with revenue constraints at that time the DSM programs were dropped in about 2000. For the 2008 Integrated Resource Plan, a number of DSM programs were again evaluated. None, however, were shown to meet certain economic criteria, although planning effort is continuing in this area.

Smart Grid

As part of the use of the proceeds from the 2010 Bonds, the Authority is including $16.6 million for Smart Grid projects to help reduce its peak loads, gain additional load information from its customers and allow customers more control over their electric bills. As part of its planning work, the Authority is also considering such programs as time-of-use rates and others to take advantage of smart grid technologies.

The Authority has received notice from the Department of Energy that it has received a matching grant of $16.6 million from the Smart Grid Investment Grants funded from the $3.4 billion in the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"). The Authority has represented that it will need to identify its share of the investment in Smart Grid activities by July 9, 2010 to receive the matching funds.

The Smart Grid project funds are anticipated to be spent over an approximately three-year period and include the following amounts: $13.4 million for electric smart meters and installation, $6.4 million for

project management, $3.7 million for distribution automation and management systems, $3.3 million for communication infrastructure and $1.6 million for substation automation.

The overall objectives of the Smart Grid projects are to (i) provide better control of the IWPS assets, (ii) provide additional functionality and benefits from existing assets, (iii) better integrate new disbursed assets such as renewable energy resources and (iv) engage the new assets to provide entirely new benefits.

ENVIRONMENTAL CONSIDERATIONS

All of the Authority's generating plants and associated facilities must comply with federal environmental laws and regulations. In addition, local Guam environmental regulations are also applicable. Certain legal and financial liabilities may be associated with regulatory requirements. The Federal Clean Water Act and Clean Air Act are the two most significant environmental statutes affecting the Authority's operations. Some aspects of these programs are administered by the United States Environmental Protection Agency ("USEPA") and some are administered by the Guam Environmental Protection Agency ("Guam EPA"). The acid rain provision of the Federal Clean Air Act (Title IV), which established an allowance program for sulfur dioxide and nitrous oxide emissions, affects only electric utilities in the continental United States and, consequently, does not apply to Guam. Guam EPA is responsible for administration of the island's operating permit program for air pollution sources including all of the Authority's power plants**.** The Authority must also comply with the provisions of the Oil Pollution Act of 1990 and the Toxic Substances Control Act ("TSCA"), as well as other laws and regulations. The Authority's compliance with the various federal and territorial requirements is discussed below.

We have reviewed with the Authority the status of its compliance with the environmental laws and regulations discussed above. Our review included not only discussions with personnel of the Authority, but also with representatives of Guam EPA and USEPA regarding the Authority's environmental compliance. Our analyses and discussion have focused on the last ten years of historical data and includes our perspective on issues that may face the Authority during the next five years. Projections further into the future were not considered reliable since regulations and technologies can be expected to change.

Compliance Issues

The Authority has been involved in relatively few interactions with environmental regulators during the past ten years for an organization with such diverse facilities. The Authority has been involved in a few oil spill incidents and has received only two Notices of Violation ("NOV") with regard to environmental compliance issues. These spills and NOVs have been satisfactorily resolved with the regulatory agencies and are discussed below.

Clean Water Act

A minor fine was imposed by USEPA during March 2006 for procedural non-compliance with spill prevention, control, and countermeasure requirements.

In July 2001 and November 2004, oil spills were reported at the Cabras Power Plant. The November 2004 spill resulted in a release to the Piti Channel and a subsequent NOV from Guam EPA. Two additional minor spills and subsequent releases were reported at the Cabras Power Plant during June and November 2004. No NOVs were reported for these minor releases.

In August 2001, an above-ground pipeline burst in Chalan Pago near the Chaot River releasing a substantial amount of fuel oil into the wetlands surrounding the river. An NOV was issued by Guam EPA. Cleanup efforts were completed during October 2007 and were approved and verified by Guam EPA.

Clean Air Act

No NOVs associated with provisions of the Clean Air Act were reported by Guam EPA or USEPA relative to Authority facilities during the past ten years. Operating permits for Cabras, Dededo, Macheche, Manenggon, Marbo, Tenjo, Talofofo, and Yigo power plants have all been recently renewed. All of the listed operating permits have been issued during March 2009 and remain in effect until March 2014. No unusual conditions were noted in any of the referenced operating permits.

New requirements applicable to large diesel engine generators were promulgated during March 2010 under the National Emissions Standards for Hazardous Air Pollutants ("NESHAPS"). There are different requirements for diesel engine generators located at sites that are major and area (i.e., minor) sources of hazardous air pollutants ("HAPS"). In general, an engine at an area source would have less demanding requirements than an engine at a major source. It is likely that the diesel units at Cabras would be treated as major sources under this new rule based on the total HAPS emissions at the site, while diesel engine generators at the Dededo, Manenggon, Tenjo, and Talofofo power plants would be considered area sources. The new regulations include emissions standards, mechanical modifications, operating limitations, compliance testing, scheduled maintenance requirements, and record keeping requirements that may apply to the Authority's many diesel engine generators. The criteria for applying the new requirements are rather complicated, and the costs of compliance are difficult to predict because there is little experience regarding application of the new regulations and many of the factors affecting cost are site specific.

Toxic Substances Control Act and Resource Conservation and Recovery Act

No recent or outstanding NOVs associated with provisions of Toxic Substances Control Act were reported by Guam EPA or USEPA relative to Authority facilities during the past ten years. USEPA reported that a minor compliance issue regarding the Resource Conservation and Recovery Act was resolved by a letter agreement.

Alternative Control Strategy Fuel Switching Program

The Authority's existing and future electric generating units at the Cabras Power Plant site and the units at the Piti Power Plant, which is located adjacent to Cabras, are currently exempt from the New Source Performance Standards regulating sulfur dioxide emissions from steam electric generating facilities and the prohibition on intermittent control of air pollutants. The Cabras and Piti power plants are permitted to use a fuel switching strategy for control of air pollution. The fuel switching strategy is based upon meteorological conditions on Guam under which the trade winds blow from the east (carrying emissions from the Cabras and Piti power plants offshore) more than 90 percent of the time. Congress, in Section 325(b) of the Clean Air Act, recognized that the use of high sulfur fuel in these specific power plant units during easterly trade winds and low sulfur fuel at other times is a practical strategy for air pollution control.

The Authority is required by USEPA to follow a fuel switching protocol as set forth in the document titled "Cabras-Piti Area Intermittent Control Strategy July 2, 1993" ("CPAICS"). The fuel switching protocol sets forth, among other things, the affected generating units, the meteorological conditions requiring fuel switching, the fuel oil sulfur content, the fuel switching procedures, the record keeping, and quarterly reporting requirements.

The Authority has reported that it has automated (i) the fuel switching procedures for Cabras Units 1 – 4 and Piti Units 4 and 5 (not currently being used for generation); and (ii) the record keeping and quarterly reporting requirements as mandated by USEPA. Recent compliance with the protocol has been good. No excursions (periods when fuel was supposed to be switched to low sulfur but was not) were reported during 2009, and only two excursions totaling only 32 minutes were reported during 2008.

Administrative Order for Fuel Tank Repairs

USEPA issued an administrative order to the Authority during February 2002 relative to two fuel tanks with a capacity of just over 22,500,000 gallons located at the Piti Tank Farm near the Cabras and Piti power plants. The order required the Authority to assess the condition of the two tanks, collect and dispose of the sludge in the bottoms of the tanks, repair or replace the cathodic protection, and install leak detection systems. The Authority reported completion of the required activities in its final report on the matter issued during November 2007. USEPA accepted the report and confirmed its agreement that all tasks were completed during October 2008.

Permitting of New Power Plant Facilities

It is reasonable to expect that the Authority will need to either build a new large power plant or repower one or more of its existing units in the future. Power needs, which will increase with growth, will be accelerated by the upcoming influx of military personnel and associated population increases. The larger old generating facilities, some of which are approaching their life expectancy, are clustered in the Cabras – Piti area and at Tanguisson, both of which are non-attainment areas under the Clean Air Act regulations. Furthermore, the most logical place to build a new large power plant is near Cabras or Piti where industry is concentrated, major fuel sources are most accessible, and emissions can be carried off island.

The major federal and local permitting activities associated with repowering an existing power plant or building a new generating facility are very complicated and costly in non-attainment areas. However, it is possible that the Cabras – Piti area could be redesignated as an attainment area simplifying such permitting. The redesignation process was initiated during the 1990s but was never completed. It may be strategically important for the Authority to examine the current process for redesignation of the Cabras – Piti area in the near future as input to the decision making process that will accompany subsequent planning for new generation. It is possible that the redesignation process could be initiated during the next five years, take up to three years to complete, and cost $500,000 to $1,000,000 for legal and technical fees and air quality monitoring equipment.

Waste Management

Substantial federal and territorial legislation regarding various types of waste management has been enacted. Federal laws set forth in acts such as the Resource Conservation and Recovery Act and the Comprehensive Environmental Response Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act, impose strict liability on generators, transporters, storers and disposers of hazardous waste for cleanup costs or damages resulting from releases or contamination regardless of time or location. Many normal activities in connection with the generation and transmission of electricity generate both non-hazardous and hazardous wastes. The Authority has initiated several programs for managing and controlling special wastes, including minimizing and eliminating, where possible, hazardous wastes; upgrading waste oil spill prevention programs and its PCB inventory program. Equipment known to contain PCB's has been replaced and management of the Authority believes that its system is presently PCB free.

The Authority began its lease of certain Navy electric utility properties in 1997. To date, potential contamination at some of these sites has been documented by the Navy, which is responsible for environmental clean-up. However, if the Authority alters the sites before the Navy's clean-up has taken place, the Authority would become the responsible party for the clean-up, unless otherwise agreed to by the Navy. The Authority reports that it has not become responsible for any such clean up.

Section 313 of EPCRA requires generators of certain chemical emissions, including power plants, to report the amounts of certain listed chemicals that are generated each year. The Authority is required to make these reports for each of its power plants and reports that it has begun a program to do so.

Electric and Magnetic Fields

A number of studies have been conducted regarding the potential long-term health effects resulting from exposure to electric and magnetic fields ("EMF") created by high voltage transmission and distribution equipment, as well as by electric appliances, computers and other electrical devices. At this time, there is no consensus within the scientific and medical communities regarding health effects associated with EMF and additional studies are being conducted to determine the relationship, if any, between EMF and certain adverse health effects. Because of claims for damages against electric utilities for injuries alleged to have been caused by EMF, this issue is receiving increased attention by electric utilities. At this time, it is not possible to predict the extent of the costs and other impacts, if any, which the EMF concern may have on electric utilities, including the Authority.

FINANCIAL

Working Capital

In recent months the Authority recognized that the amount of funds available to it for working capital purposes may be insufficient. This resulted in large part from the Authority's LEAC, as discussed above, which can cause up to an approximate 6-month lag in revenues between when costs start increasing because of increasing prices and the amount of time when revenue starts to be collected from changes in the LEAC. To assess its working capital needs, in 2009 the Authority retained R. W. Beck to review several of the parameters that address working capital.

Among other study components to improve the Authority's financial condition, the R. W. Beck scope was to assess whether (i) normal industry practices were being followed with regard to working capital and; (ii) if current working capital levels were sufficient. Based on benchmarking against nine comparable utilities, R. W. Beck opined that the Authority should (a) increase its cash on hand from the average in 2008 of 24 days to 60 days, requiring approximately $31.2 million; (b) add an additional $12.5 million to address increasing unrestricted net working capital from approximately 1.3 months as measured in 2008 to approximately 3 months and (c) move to a quarterly LEAC adjustment period to reduce the fuel-related working capital requirement. As part of the purpose for the issuance of the 2010 Subordinate Bonds, the Authority has included $27.5 million to help address its immediate working capital needs.

Prior to receiving the R. W. Beck report, a filing was made with the GPUC addressing this need in 2009 with a request for approval to begin a surcharge on revenues. The request was deemed to adversely affect customers at a time when they were still adapting to increased base rates as well as an increase in the LEAC charges. Different alternatives in the form of changes to base rates and/or a surcharge have been suggested by both the GPUC and the Authority to address funding the working capital shortage. It is now expected by the Authority that the GPUC will approve prior to August 1, 2010 the Authority's plan to use the previously approved working capital surcharge to pay debt service on an amount to be funded with the 2010 Subordinate Bonds to address the working capital need, which surcharge would be implemented on April 1, 2011. Prior to the surcharge going into effect the associated 2010 Subordinate Bonds interest will be capitalized.

Short-Term Loan

Another matter requiring the use of bond proceeds is to defease a short-term note with the Cathay Bank. The short-term note arrangement is being used to resolve a series of events that resulted when the Authority's insurer used in conjunction with its commercial paper program was downgraded. The Authority currently has $8 million deposited with the bank and has been paying scheduled principal and interest on this short-term note, the balance of which is expected to be defeased with Bond proceeds in the amount of $13.9 million, upon which payment of the $8 million deposited with the bank would be available for other purposes of the Authority.

Electric Rates

Rates for electric service are established by the CCU, which acts as the Authority's Board of Directors and electric rates are regulated by the GPUC. The GPUC is required by the laws of the Territory of Guam to set rates which are fair, non-discriminatory and adequate to provide revenues sufficient to pay for all prudent costs of owning, properly maintaining and operating the Authority's electric utility system. The GPUC may require the Authority's rates to be adjusted upwards or downwards at any time in order to meet these conditions; however, rates must always be set at a level to meet Indenture requirements.

During the historical period from fiscal year 2005 through 2009 examined herein, the Authority has maintained rates for electric service which have been sufficient to provide for all operation and maintenance expenses, repairs and debt service, and have generally provided a margin from which a portion of the capital additions to the electric system have been made.

Since the beginning of fiscal year 2005, the Authority has adjusted its retail power rates twice as shown in Table 7 below. The rates exclude LEAC charges which have accounted for approximately 65 percent of the Authority's annual revenues. There have been approximately 21 LEAC adjustments in the last 10 years as shown in Figure 2. The base rates also exclude short-term surcharges in effect such as for building up an insurance fund for self-insured losses (now at 0.29 cents/kWh). There is currently a surcharge in place for paying for standby generator housings, and another for retirement health care that is being contemplated.

Table 7
Summary of Effects on Authority's Revenues
Due to Retail Rate Adjustments

Effective Date	Increase (1)	Principal Reason
March 1, 2008 (2)	8.53%	Phase 1 of updated revenue requirements and cost of service study done in 2008.
March 1, 2010 (3)	7.44%	Phase 2 of updated revenue requirements and cost of service study done in 2008.

(1) Percentage shown is based on increases in the Authority's revenues from base rates. In addition to the percentage shown, electric bills are subject to a fuel adjustment factor to reflect changes in the Authority's fuel oil costs. Percentage shown is for changes in that portion of the Authority's revenues attributable to energy sales and do not take into consideration other electric revenues.
(2) The March 1, 2008 rate increase was first applied to the Navy customer class. The rate increases for other classes became effective March 1, 2009.
(3) Represents Phase 2, which was approved by the GPUC in February 2010.

Capital Requirements

As part of its planning process, the Authority has prepared a projection of the capital requirements and related costs for its electric system as summarized in Table 9. The Authority's capital improvement program consists largely of ongoing improvements and upgrades to existing generating and transmission and distribution facilities, extension of transmission lines and the construction of associated substations, and addition of Smart Grid technologies. These additions will help the Authority to meet recent and projected increases in system demand while maintaining overall system reliability. The Authority currently projects the expenditure of approximately $218 million on its capital improvement program over the five-year period 2010 through 2014, as indicated in Table 9. Funds for the capital improvement program are expected to come from a combination of existing funds, operating revenues, proceeds of the 2010 Senior Bonds and future bond issues.

The Authority is currently expecting to use the proceeds of the 2010 B Bonds to pay for the following capital improvements and financing activities.

Table 8
Use of 2010 Senior Bond Proceeds
($000)

Capital Items - 2010 Senior Bonds	
Smart Grid Match[1]	$17,000
Office Building[2]	35,000
Transmission and Distribution	27,709
Generation	16,859
Other	9,709
Subtotal	$ 106,277

(1) Amount shown reflects 50% of the amount expected to be spent on Smart Grid projects.
(2) It is anticipated that the office building will be built in stages over a period of years.

Table 9
Projected Capital Improvement Program
($000)

	Projected [1]					Five-Year
Fiscal Year Ending September 30:	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Capital Improvements: [2]						
Transmission System Additions and Improvements	$2,538	$3,071	$0	$0	$1,860	$7,469
Distribution System Additions and Improvements	15,093	20,872	19,567	7,895	14,870	78,297
Substation System Additions and Improvements	2,343	4,370	4,984	5,779	1,055	18,530
Generation Plant Additions and Improvements	4,970	11,726	12,520	12,867	10,000	52,084
General Plant Improvements and Replacements	3,881	7,666	17,057	27,365	5,516	61,485
Total Capital Improvement Program	$28,825	$47,705	$54,129	$53,906	$33,301	$217,865
Amounts Funded from:						
Prior Bond Proceeds [3]	$2,538	$6,061	$6,466	$2,610	$0	$17,675
Current Revenues [4]	6,544	9,701	10,553	17,314	21,386	65,498
Proceeds from 2010 Bonds	13,232	25,822	33,242	33,982	0	106,277
Proceeds of Future Bonds [5]	0	0	0	0	11,915	11,915
Grants	6,511	6,121	3,868	0	0	16,500
Total	$28,825	$47,705	$54,129	$53,906	$33,301	$217,865

(1) Inflated dollars based on an assumed annual rate of escalation specific to capital improvements program items on Guam of 3%.
(2) Includes allowance for change orders and miscellaneous expenses.
(3) Reflects remaining bond proceeds from the Authority's prior bond issues.
(4) Revenues available for capital improvements after payment of operating expenses and debt service.
(5) Assumed to be provided from senior lien bonds issued in fiscal year 2014.

Historical and Projected Operating Results

Table 10 shows the historical and projected resources of the IWPS to meet loads through 2014 as provided by the Authority.

Table 11, which follows, shows the historical and projected cost of power to the Authority for the period 2005 through 2014 as developed by the Authority. The projections show that based on the assumptions and energy sales forecast used herein, the average unit cost per kWh of energy sold will increase from 18.4 ¢/kWh in 2010 to 20.2 ¢/kWh in 2014, a compounded annual increase of 2.4 percent.

Table 10
Historical and Projected Energy Resources (1)
(MWh)

	Historical					Projected				
Fiscal Year Ending September 30:	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Energy Resources (2)										
Authority Resources										
Cabras Steam 1 and 2	582,793	661,598	658,600	544,396	560,376	568,009	586,974	602,664	614,812	620,380
Cabras Slow Speed Diesels 3 and 4	476,748	460,707	413,920	492,872	496,208	502,967	519,761	533,654	544,411	549,341
Authority Combustion Turbines										
Dededo Combustion Turbine 1 and 2	8,670	1,512	3,204	2,537	1,283	1,301	1,344	1,380	1,408	1,421
Macheche Combustion Turbine 1	12,091	2,581	5,414	4,180	1,472	1,492	1,542	1,583	1,615	1,630
Marbo Combustion Turbine 1	0	0	0	0	0	0	0	0	0	0
Yigo Combustion Turbine 1	5,346	0	0	0	828	839	867	890	908	917
Total Authority Combustion Turbine	26,107	4,093	8,618	6,717	3,583	3,632	3,753	3,853	3,931	3,967
Authority Diesels										
Dededo Diesels 1-4	1,024	130	86	24	112	114	117	120	123	124
Tenjo Vista Diesels 1-6	23,376	18,406	13,031	28,298	16,750	16,978	17,545	18,014	18,377	18,543
Talofofo Diesel 1 and 2	69	27	175	835	1,156	1,172	1,211	1,243	1,268	1,280
Manenggon Hills Diesels	2,841	608	346	2,093	1,585	1,607	1,660	1,705	1,739	1,755
Total Authority Diesels	27,310	19,171	13,638	31,250	19,603	19,870	20,533	21,083	21,507	21,702
Independent Power Producers										
Pruvient - Tanguisson Steam 1 and 2 (3)	186,649	145,462	148,208	194,220	136,162	138,017	142,625	146,437	149,389	150,742
MEC - Piti Slow Speed Diesels 8 and 9	556,410	609,424	589,914	574,153	631,544	647,831	669,461	687,345	701,211	707,559
TEMES - Piti Combustion Turbine 7	37,369	6,766	39,748	21,909	6,585	6,675	6,898	7,082	7,225	7,290
Navy Resources										
Orote Diesel Units 1-3	0	0	0	0	0	0	0	0	0	0
Total Resources (gross)	1,893,386	1,907,221	1,872,646	1,865,517	1,854,061	1,887,001	1,950,005	2,002,118	2,042,486	2,060,981
Station Use - All Units	(102,450)	(101,745)	(105,272)	(101,216)	(102,586)	(102,022)	(105,428)	(108,246)	(110,428)	(111,428)
IWPS Energy Resources (4)	1,790,936	1,805,476	1,767,374	1,764,301	1,751,475	1,784,979	1,844,577	1,893,872	1,932,058	1,949,553
System Losses	(146,396)	(136,475)	(132,752)	(129,628)	(127,249)	(135,155)	(139,668)	(143,400)	(146,292)	(147,616)
Energy Requirements	1,644,540	1,669,001	1,634,622	1,634,673	1,624,226	1,649,824	1,704,909	1,750,472	1,785,766	1,801,937

(1) Reflects gross generation of the IWPS.
(2) Projected energy amounts assume that load is provided for by most efficient units. Other units are available for peak, reserves and emergencies.
(3) Operated by HEI beginning in fiscal year 1998, Mirant took over operation from fiscal year 2002 until May 2003, after which Pruvient took over operation.
(4) Net Amount available at generation plant and does not include system losses.

Table 11
Historical and Projected Costs of the Authority's Power Supply
($000)

	Historical					Projected [1]				
Fiscal Year Ending September 30:	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Authority Operated Resources [2]										
Fuel Oil Costs [3]	$65,489	$97,602	$104,948	$135,278	$175,121	$162,730	$173,208	$183,174	$192,472	$200,041
Other Production Expenses	19,387	18,644	16,561	20,083	24,631	24,350	25,373	26,438	27,549	28,706
Subtotal	$84,876	$116,246	$121,509	$155,361	$199,752	$187,080	$198,581	$209,612	$220,021	$228,747
IPP Operated Resources										
Fuel Oil Costs [3]	$47,220	$59,520	$69,800	$101,785	$79,251	$73,644	$78,386	$82,896	$87,104	$90,529
Lease Payments-Energy Conversion Costs	16,936	17,981	18,276	18,883	19,181	19,658	20,051	20,452	20,861	21,278
Lease Payments-Debt Service	23,084	23,084	23,084	23,084	23,084	23,084	23,084	23,084	23,084	23,084
Subtotal	$87,240	$100,585	$111,160	$143,752	$121,516	$116,386	$121,521	$126,432	$131,049	$134,891
Total Cost of Power	$172,116	$216,831	$232,669	$299,113	$321,268	$303,466	$320,102	$336,044	$351,070	$363,638
Authority Energy Sales (GWh)	1,645	1,669	1,635	1,635	1,624	1,650	1,705	1,750	1,786	1,802
Average Unit Cost Per kWh of Energy Sold (cents/kWh)	10.47	12.99	14.23	18.30	19.78	18.39	18.78	19.20	19.66	20.18
Total Cost of Power Less IPP Debt Service	$149,032	$193,747	$209,585	$276,029	$298,184	$280,382	$297,018	$312,960	$327,986	$340,554

(1) Assumes economic dispatch of the generating units.
(2) Includes all costs of generation, excluding Authority debt service.
(3) Projected fuel costs based on an estimate by the Authority for FY 2010 and the assumption that on a per barrel basis fuel costs would escalate at 3% annually through FY 2014.

Table 12 shows the Authority's historical and projected operating results for the period 2005 through 2014. The projections of operating results are based, in part, on the current cost levels for fuel, which have been escalated at an annual rate of 3 percent. This is consistent with the assumptions used herein for escalation of other costs, but likely will not address other factors that affect fuel costs. An independent fuel projection has not been prepared for the purpose of providing the Projected Operating Results table, however a sensitivity case has been provided to address the impact of fuel prices assuming they were to increase 30 percent by the end of 2014 from what is shown above. Operating revenues from energy sales for all projected years have been segregated to display revenues resulting from rates which became effective on March 1, 2010. Additional revenues required are shown separately and are not based on explicit rate increases but instead are based on revenue requirements necessary for the Authority to pay all operating expenses, debt service and the portion of capital improvements that it has estimated will be funded from revenues.

Table 12
Historical and Projected Operating Results and Debt Service Coverage (Cash Basis)
($000)

	Historical [1] [2]					Projected[2]				
Fiscal Year Ending September 30:	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Operating Revenues:										
Energy Sales Revenues										
Based on Current Rate Schedules [3]	$244,991	$288,525	$305,869	$368,958	$388,004	$384,116	$408,927	$427,676	$444,508	$457,045
Additional Future Requirements	0	0	0	0	0	0	0	8,767	17,012	30,471
Other Electric Revenues	2,076	1,674	2,177	2,587	1,521	2,000	2,000	2,000	2,000	2,000
Total Operating Revenues	$247,067	$290,199	$308,046	$371,545	$389,525	$386,116	$410,927	$438,443	$463,520	$489,516
Operating Expenses:										
Power Supply Costs [4]	$149,032	$193,747	$209,585	$276,029	$298,184	$280,382	$297,018	$312,960	$327,986	$340,554
Transmission and Distribution Expenses [5]	9,740	10,559	8,542	10,284	11,141	12,574	13,102	13,652	14,226	14,823
Customer Accounting [6]	1,995	3,444	4,263	3,899	3,819	4,936	5,143	5,360	5,585	5,819
Administrative and General [5]	22,006	23,486	23,118	25,154	26,682	29,626	30,870	32,167	33,518	34,926
Total Operating Expenses	$182,773	$231,236	$245,508	$315,366	$339,826	$327,518	$346,133	$364,139	$381,315	$396,122
Amounts Available for Debt Service										
Net Operating Revenues	$64,294	$58,963	$62,538	$56,179	$49,699	$58,598	$64,794	$74,304	$82,205	$93,394
Interest/Other Income (Expense) [7]	2,941	3,472	7,299	14,446	6	1,500	1,500	1,500	1,500	1,500
Balance Available for Debt Service	$67,235	$62,435	$69,837	$70,625	$49,705	$60,098	$66,294	$75,804	$83,705	$94,894
Senior Lien Debt Service [8]										
Existing Senior Lien Debt Service [9]	$27,482	$27,485	$27,481	$27,481	$27,482	$27,483	$27,484	$27,483	$27,484	$27,482
2010 Senior Bonds [10]	-	-	-	-	-	0	0	0	1,210	7,999
Future Bonds [11]	-	-	-	-	-	0	0	0	0	0
Total Senior Lien Debt Service	$27,482	$27,485	$27,481	$27,481	$27,482	$27,483	$27,484	$27,483	$28,694	$35,481
Senior Lien Coverage Pursuant to the Senior Indenture [12]	2.45	2.27	2.54	2.57	1.81	2.19	2.41	2.76	2.92	2.67
IPP Operated Resources - Lease Payments Capital	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084	$23,084
Balance Available for Debt Service	$44,151	$39,351	$46,753	$47,541	$26,621	$37,014	$43,210	$52,720	$60,621	$71,810
Coverage of Senior Lien Debt by Balance Available for Debt Service after paying IPP Capital [12]	1.61	1.43	1.70	1.73	0.97	1.35	1.57	1.92	2.11	2.02
Amount Available After Senior Lien Debt and IPP Capital	$16,669	$11,866	$19,272	$20,060	($861)	$9,531	$15,726	$25,237	$31,927	$36,329
Subordinate Lien Debt Service [8]										
2010 Subordinate Bonds	-	-	-	-	-	$398	$7,242	$15,934	$15,163	$15,193
Subordinate Lien Coverage Pursuant to the Subordinate Indenture [13]	-	-	-	-	-	2.16	1.91	1.75	1.91	1.87
Subordinate Lien Coverage after paying IPP Capital [12]	-	-	-	-	-	1.33	1.24	1.21	1.38	1.42
Total Debt Service Coverage after paying IPP Capital [12]	1.61	1.43	1.70	1.73	0.97	1.33	1.24	1.21	1.38	1.42
Interest Income [14]	$635	$674	$679	$769	$600	$750	$1,750	$1,250	$550	$250
Amount Available for Capital Improvements	$17,304	$12,540	$19,951	$20,829	($261)	$9,883	$10,234	$10,553	$17,314	$21,386
Capital Improvement Program:										
Amount Funded from Current Revenues	$14,351	$14,465	$6,604	$11,300	$12,762	$6,544	$9,701	$10,553	$17,314	$21,386
Amount Funded from Bond or Loan Proceeds	1,894	4,223	1,271	581	2,684	15,770	31,883	39,708	36,592	11,915
Amount Funded from Grants [15]	1,427	2,080	2,950	4,926	3,621	6,511	6,121	3,868	0	0
Total Capital Improvements	$17,672	$20,768	$10,825	$16,808	$19,067	$28,825	$47,705	$54,129	$53,906	$33,301
Remaining Balance Available [16]	$2,953	($4,005)	$10,397	$9,529	($13,023)	$3,339	$533	$0	$0	$0
Energy Sales (MWh)	1,644,540	1,669,001	1,634,622	1,634,673	1,624,226	1,649,824	1,704,909	1,750,472	1,785,766	1,801,937
Cost of Power per kWh of Energy Sold (cents/kWh)	10.5	13.0	14.2	18.3	19.8	18.4	18.8	19.2	19.7	20.2
Unit Revenue from Energy Sales per kWh (cents/kWh)	14.9	17.3	18.7	22.6	23.9	23.3	24.0	24.9	25.8	27.1
Increase in Unit Revenue from Energy Sales Over Previous Year (percent)	n/a	16.1%	8.1%	20.9%	5.8%	-2.5%	3.0%	3.7%	3.6%	5.0%

(1) Audited information provided by the Authority.
(2) Reflects the Navy as a customer of the Authority.
(3) Not included is an 8.4% surcharge on base rates approved by the GPUC to become effective August 1, 2010 for a twenty-four month period. It is the Authority's intention to have the GPUC approve prior to August 1, 2010 a plan where the surcharge would be reduced to 2% of the total bill, start April 1, 2011 and be amortized over a period to coincide with the remaining debt service term of the 2010 Subordinate Bonds.

Footnotes continue on the following page.

(4) See Table 11. Excludes lease payments debt service for the IPP operated resources.
(5) Escalated in projected years at an assumed annual rate of 4.2% to account for inflation and load growth.
(6) Includes bad debt recovery or expense.
(7) Fiscal year 2008 includes collection of a $13.5 million GovGuam receivable for streetlight arrearages.
(8) Amounts shown reflect capitalized interest paid from 2010 Series Bonds through FY 2013 for the Senior Bonds and April 1, 2011 for the Subordinate Bonds.
(9) Excludes debt service on Commercial Paper Notes which were converted to a term loan in April 2009.
(10) Debt service from 2010 Senior Bonds for new projects, including Smart Grid Projects.
(11) Assumes future senior lien bonds are issued in FY 2014 and interest is capitalized through study period shown above.
(12) Calculated based on a net revenue basis.
(13) Calculated based on a net revenue basis. Does not include effects of paying IPP capital costs.
(14) Includes interest income on the Revenue Bond Construction Fund established by the Senior Indenture, amortization of deferred interest on the Bond Reserve Fund Forward Purchase Agreement and Bond Reserve Fund interest.
(15) The historical grant funding is from the FEMA Hazard Mitigation Grant Program under Typhoon Chataan and Typhoon Pongsona mitigation projects. Projected amounts include Smart Grid matching grant funds.
(16) The negative balances in FY 2006 and FY 2009 were covered by collections from FEMA typhoon claim receivables and GovGuam notes receivables. The sources of funding for the negative balance in FY 2009 include collection of a $13.5 million GovGuam receivable in July 2008 for streetlight arrearages.

Sensitivity Analyses

Due to uncertainties necessarily inherent in relying on assumptions and projections, it should be anticipated that certain circumstances and events may differ from those assumed and described herein and that such differences will affect the results shown in Table 12. In order to demonstrate the impact of certain circumstances on these results, two sensitivity analyses were developed. The first assumes that the peak military related activity occurs beyond the end of our study period and not during the period from 2010 through 2014. In this eventuality, it is likely that loads would remain relatively flat during the period from 2010 through 2014, which is addressed in Scenario No. 1 below. Scenario No. 2 assumes fuel oil costs will be higher than forecasted herein. It should be noted that other assumptions could have been considered, and the results shown are not intended to reflect the full range of possible changes. In addition, no assurance can be given that all relevant issues have been addressed, or that only one (rather than a combination of more than one) of such variations or sensitivities could impact the Authority in the future.

Table 13
Sensitivity Scenarios
(Fiscal Year Ending September 30, 2014) (1)

	Base Case	Scenario 1	Scenario 2
	As shown on Table 12	No Load Growth from FY 2010 through FY 2014 (2)	Fuel Oil Costs 30% Higher in FY 2014 than assumed in Table 12 (2)
Total Number of Customers	47,410	46,067	47,410
Energy Sales (MWh)	1,801,937	1,649,824	1,747,879 (3)
Total Operating Revenues ($000)	$489,516	$460,641	$574,071
Total Operating Expenses ($000)	$396,122	$367,247	$480,677
Unit Revenue from Energy Sales per kWh (cents/kWh)	27.1	27.8	32.7
Senior Lien Coverage Pursuant to the Senior Indenture	2.67	2.67	2.67
Subordinate Lien Coverage Pursuant to the Subordinate Indenture	1.87	1.87	1.87

(1) Values shown are based on rate schedules currently in effect plus rate increases as needed. The rate schedules in effect include a fuel adjustment clause that enables the Authority to pass changes in fuel oil costs on to its customers.
(2) Assumes the same Capital Improvement Program as the Base Case and that the same portion is funded from current revenues.
(3) Fiscal Year 2014 energy sales decreased by approximately 3% to account for price elasticity of demand related to increased electricity cost.

Both of the scenarios would require the Authority to increase its operating revenues. The amount shown for Additional Future Requirements under Operating Revenues on Table 12 for FY 2014 would need to be $10.0 million higher for Scenario 1 and $98.3 million higher for Scenario 2.

PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

This report has been prepared on the assumption that all contracts, agreements, statutes, rules and regulations which have been relied upon by us in preparing this report will be fully enforced and enforceable in accordance with their terms and conditions and will not be changed in any material way. We make no representations or warranties, and provide no opinion concerning the enforceability or legal interpretation of contracts, statutes, rules and regulations.

In the preparation of this report and the opinions that follow, we have made certain assumptions with respect to the conditions which may exist or events which may occur in the future. While we believe these assumptions to be reasonable for the purpose of this report, they are dependent upon future events, and actual conditions may differ from those assumed. In addition, for our projections and studies, we have used and relied upon certain information provided to us by others, including: (i) information contained in Appendix B of the Official Statement to which this report is attached; (ii) additional information provided to us by the Authority, Navy, USEPA and GEPA; (iii) assumptions regarding interest rates provided by the underwriters; and (iv) assumptions and analysis provided by the Authority regarding the financing plan for the Authority's capital improvement program, Integrated Resource Plan and other matters. While we believe the use of such information and assumptions to be reasonable for the purposes of this report, we offer no other assurances with respect thereto, and some assumptions may vary significantly due to unanticipated events and circumstances. To the extent that actual future conditions differ from those assumed herein or provided to us by others, the actual results will vary from those projected herein. The principal assumptions and considerations made by us and the principal information and assumptions provided to us by others include the following:

1. All historical information regarding the Authority's system has been reviewed by the Authority, which has indicated such information is accurately reflected herein.
2. The capital improvement program provided by the Authority will be implemented as scheduled and within the projected costs.
3. The Authority will make arrangements with the military to pay for the capital improvements necessary for the electric system to support the military buildup either through direct payment of capital improvements or guarantees to pay debt service on any debt the Authority may elect to issue to fund such improvements.
4. The operation and maintenance expenses and power costs of the Authority's electric system will increase as projected by the Authority.
5. Energy sales, peak demand, and the number of customers will increase as projected by P.L. Mangilao Energy. Total energy generation and revenue from energy sales will increase as projected by the Authority. We have used an annual rate of increase of approximately 3 percent for projecting the cost of fuel oil for the period 2010 through 2014.
6. The Authority and the GPUC will increase rates as needed to cover all costs of operation, maintenance and debt service on existing and future bonds and to provide amounts necessary to meet debt service coverage and Indenture requirements.
7. Existing fuel contracts will be renewed when they expire or new contracts will be entered into based upon terms substantially similar to those of the existing contracts.
8. For purposes of this report we have assumed that the Navy remains a customer of the Authority throughout the 2010 through 2014 projected study period shown herein, and that formal transfer of Navy assets to the Authority will not result in additional costs to the Authority.
9. The Authority will issue additional senior lien bonds in fiscal year 2014 (these bonds have not yet been approved) to provide funds for the acquisition and installation of wind power generation. Interest on these bonds is assumed to be capitalized during the study period shown herein.

CONCLUSIONS

Based upon the foregoing principal considerations and assumptions and upon the studies and analyses as summarized or discussed in this report, which report should be read in its entirety in conjunction with the following, we are of the opinion that:

1. The substation, transmission and distribution projects being funded from the 2010 Senior Bonds Construction Fund deposit are necessary to replace aging infrastructure.
2. The projection of operating results shown in Table 12 forms a reasonable basis for the Authority's planning purposes and to implement its capital improvement plan. To achieve the projection shown will require the Authority and its governing and regulatory bodies to approve and implement future rate increases, additional debt or a combination of the two.
3. The Authority's partial funding of its working capital needs with the 2010 Bonds will improve its financial operations as measured by liquidity metrics for working capital. As described herein, the Authority will need to continue to address its liquidity and working capital needs.
4. We believe the Authority has all of the necessary major environmental permits for its existing generating facilities, that the permits are current and that the Authority is in material compliance with the requirements of such permits. We are not aware of any technical or engineering circumstances which would preclude the Authority from meeting its permit requirements.
5. The projected energy requirements for the fiscal year period 2010 through 2014, as prepared by P.L. Mangilao Energy address a modest increase in load growth associated with the Okinawa base move, which provides a reasonable level of energy loads for planning purposes during this period.
6. Based on the load forecast used herein and our review of the Authority's generating resources, the Authority will not need to add additional generating facilities during the period through fiscal year 2014 shown herein other than to meet its renewable energy resource goal as prescribed by the Guam Legislature.

We have reviewed the Official Statement and, in our opinion, the information presented therein which is taken from our report or which is otherwise attributable to us is accurately presented.

Respectfully submitted,

/s/ R. W. BECK, INC.

File: 010421/11-01360-10101-0101

APPENDIX B

CERTAIN DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE TERRITORY OF GUAM

Guam is the westernmost territory of the United States of America, as well as the largest and southernmost island of the Marianas archipelago, and the largest of the 2,000 islands in Micronesia. Located at 13 degrees north latitude, 144 degrees east longitude, the island is about 30 miles long and varies in points from four to nine miles wide. The island encompasses a total land area of approximately 212 square miles, and is located approximately 6,000 miles southwest of San Francisco, 3,700 miles west-southwest of Honolulu, 1,500 miles southeast of Tokyo, 2,100 miles southeast of Hong Kong, 1,500 miles east of Manila, and 3,100 miles northwest of Sydney. The Marianas Trench, the deepest known ocean depth (-39,198 ft.), is located northeast of Guam. Guam's population as of July 2009 was estimated by the U.S. Central Intelligence Agency to be 178,430.

Despite the island's relatively small size, its strategic location in the Western Pacific has historically made it a desirable property for the world's superpowers. The indigenous Chamorro people first came in contact with Europeans, when Ferdinand Magellan landed at Guam's Umatac Bay, in 1521. Miguel Lopez de Legazpi claimed the island for Spain in 1565. Spanish colonization of Guam began in 1668 and lasted until the end of the Spanish-American War in 1898. As outlined in the Treaty of Paris, the island was ceded to the United States along with Cuba, Puerto Rico, and the Philippines. Guam has since remained under U.S. administration, except for two and a half years of Japanese occupation during World War II. On July 21, 1944, American occupation forces recaptured Guam and reestablished the naval government. In 1950, the U.S. Congress passed the Organic Act of Guam, granting the Chamorro people American citizenship and establishing a civilian government.

The Government today consists of three branches: Executive, Legislative and Judicial. A governor elected at large every four years heads the Executive Branch. The Government maintains a staff of approximately 11,350 persons under the direction of the Governor and his department heads. The unicameral legislature is composed of 15 senators elected at large every two years. The Judiciary Branch consists of the Superior Court of Guam, the court of general trial jurisdiction, and the Supreme Court of Guam, the court of highest appeal, established in 1996. Guam also has one Federal District Court and an elected representative to the U.S. House of Representatives, who has voting power in the House committees and subcommittees of which he or she is a member and limited voting authority on the floor of the House.

Guam's current political status is a territory of the United States governed by the Organic Act. In January 1984, the 17th Guam Legislature created an eight-member Commission on Self-Determination to pursue an improved relationship with the federal government as a Commonwealth. The Guam Commonwealth Act, H.R. 100, would grant Guam greater authority over its internal affairs and ensure the right of self-determination for the Chamorro people of Guam. This draft act was developed on Guam and approved in two plebiscites by the people of Guam in 1987, and introduced in the 105th U.S. Congress in 1988. Most people on Guam view Commonwealth status as a forward step that would allow Guam to progress further politically, socially, and economically. The key components of the Guam Commonwealth Act are mutual

consent, Chamorro self-determination, and local control of immigration. Ultimate Constitutional authority for the territory rests with the U.S. Congress, and Guam continues to seek clear answers from Congress to its Commonwealth proposal.

Tourism revenues and, to a growing extent, U.S. federal and military spending contribute to the island's economy. The island's proximity to every major city in Asia and the South Pacific greatly contributes to the diversity of the island's population and the visitor industry. This geographic advantage also provides U.S. military operations with significant flexibility compared to other locations in the Pacific and Asia. Guam has one international airport, the Antonio B. Won Pat International Air Terminal, operated by the Guam International Airport Authority, an autonomous agency of the Government. The airport is centrally located in Guam's business district on an 1,800 acre parcel and has 768,000 square feet of terminal space along with numerous hangars, maintenance facilities, warehouse space, storage facilities, office space, and expansive ground areas. According to data published by Airports Council International (ACI), as of 2005 the airport was the 15th largest international gateway in the United States.

Most food and goods are imported, approximately 60% of which are from the U.S. mainland. Guam's commercial port is entry point for 95% of all goods entering Guam. Situated within Apra Harbor, a natural lagoon enclosed by a submerged coral bank and barrier reef, the port also serves as a transshipment center for Micronesia with more than 20 cargo ships outbound monthly. Operated by the Port Authority of Guam, an autonomous agency of the Government, the port receives over 160,000 twenty-foot-equivalent containers, 5,000,000 barrels of fuel, up to 100 fuel tanker port calls and 27,000 passengers annually.

In May 2010, the Bureau of Economic Analysis of the United States Department of Commerce released its first ever gross domestic product (GDP) estimates for Guam. The estimates indicate that Guam's GDP grew from $3.568 billion in 2002 to $4.280 billion in 2007, showing an average annual growth rate of 3.7%. The Bureau also estimates that Guam's real per capita GDP for 2007 was $22,991 (in 2005 dollars) and grew at an average annual rate of 0.3% from 2002 to 2007. The Bureau's report further indicates that it will be releasing additional detail on the major components of Guam's GDP by July 2010, that it plans to release GDP estimates for 2008 and 2009 in the spring of 2011, and that the GDP estimates were based on limited source data and are subject to revision.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Geography and Climate

The island of Guam was formed by an uplift of undersea volcanoes. It is surrounded by coral reefs near the shore and is comprised of two distinct areas of about equal size. The northern part of the island is a high coralline limestone plateau rising up 850 feet above sea level. It contains the northern water lens which is the main source of fresh water on the island. The southern region is mountainous with elevations of 700 to 1,200 feet above sea level. Apra Harbor, one of the largest protected deep-water harbors in the world, is located on the western side of the island.

Guam's climate is pleasantly warm year-round. The mean annual temperature is 85 degrees Fahrenheit. The general temperature ranges from the low 70s to mid 80s. Annual rainfall averages 85 inches in the western coastal area to 110 inches in the highest mountain locations in the south. Three quarters of the total annual rainfall occurs between the months of June and December.

Like other Pacific islands, Guam is periodically subject to typhoons and tropical storms. From 1962 to date, the eyes of twelve of these storms passed directly over or just south of the island. Seven of these typhoons caused damage great enough to result in federal disaster relief: Super Typhoon Karen in 1962, Typhoon Pamela in 1976, Typhoon Russ in 1990, Super Typhoon Omar in 1992, Super Typhoon Paka in 1997, and Typhoon Chata'an and Super Typhoon Pongsona in 2002. Building codes enacted in 1978 require all new construction to be designed to tolerate wind velocities of 155 mph. Due to its location near the Marianas Trench, the island also occasionally experiences seismic activity. Other than a major earthquake of 8.1 magnitude on August 8, 1993, no recent earthquakes have caused significant damage to the island.

Economic Indicators

Population

Guam's residents originate from all parts of the Asia-Pacific region in addition to the U.S. mainland. In addition to Guam's indigenous Chamorro people, who comprise approximately 47% of the population, large numbers of mainland Americans, Filipinos, Chinese, Japanese, and Koreans constitute the bulk of the island's population. There are also substantial numbers of Micronesian islanders, Vietnamese and East Indians. The island's diverse population makes it one of the most cosmopolitan communities in the Western Pacific.

According to the 2000 U.S. Census, Guam's 2000 population estimate was 154,805. This represents a 16.3% increase over the 1990 U.S. Census tabulation of 133,152, which was in turn a 26% increase over the 1980 population of 105,979. Guam's 2009 population is estimated to be 178,430.

Approximately 75% of the workforce is employed in the private sector, with the remainder in government, both local and federal. The island's individual and household income have fairly equal distributions, as compared to other nations, islands, or territories in a similar stage of economic development.

Guam currently has 40 public schools, 25 private schools, four Department of Defense schools, one community college and one university. Guam Public School System secured financing in late 2006 for the construction of four additional public schools and possible renovation of one existing public school. Three of the new schools opened for the 2008-2009 school year, and the remaining school, an elementary school, opened for the 2009-2010 school year. Both Guam Community College and the University of Guam are accredited by the Western Association of Schools and Colleges. The University of Guam is the only accredited four-year institution of higher learning in the western Pacific, and it offers graduate programs in

select areas of study. Approximately 31,000 students attend Guam's schools (excluding Guam Community College and the University of Guam).

Employment

From 2005 to 2006, total employment on Guam within the private and public sectors remained relatively stable. During 2007, private sector employment increased in anticipation of upcoming military expansions, while public sector employment declined slightly. Employment on Guam during 2008 increased in both the private sector (by 410 jobs) and the public sector (by 80 jobs) relative to 2007. The most significant changes were 840 new jobs in construction, 110 new jobs in finance, insurance and real estate, a 510-job contraction in retail trade, 160 new federal jobs, and a decline of 80 Government of Guam jobs.

In 2009, the private sector shed 190 jobs (although the construction, manufacturing and retail trade sectors continued to add jobs), and the public sector added 430 jobs, including 370 new Guam government jobs. Some of the employment declines in the private sector can be attributed to weak visitor arrivals in 2009.

The distribution of civilian employment in Guam, based on payrolls, from 2005 to 2009 is listed by industry in Table B-1. Excluded from the civilian employment estimates in Table B-1 are self-employed individuals, proprietors and unpaid family workers. The payroll survey in Table B-1 includes all civilian personnel on payroll, including multiple jobholders counted at each place of employment, and nonresident alien workers.

TABLE B-1
Civilian Employment[1]
2005-2009

	As of December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
Private sector:					
Agriculture	170	290	350	350	320
Construction	4,460	4,380	5,620	6,460	6,530
Manufacturing	1,660	1,640	1,660	1,700	1,790
Transportation & public utilities	4,970	5,000	4,810	4,820	4,660
Wholesale trade	1,880	2,070	2,110	2,060	1,930
Retail trade	12,360	12,010	12,050	11,540	11,660
Finance, insurance, and real estate	2,540	2,450	2,450	2,560	2,520
Services	15,190	15,820	16,270	16,240	16,130
Total private	43,230	43,660	45,320	45,730	45,540
Public sector:					
Federal government	3,230	3,460	3,600	3,760	3,820
Guam government[2]	11,540	11,740	11,430	11,350	11,720
Total public	14,770	15,200	15,030	15,110	15,540
Total Payroll Employment	58,000	58,860	60,350	60,840	61,080

[1] Data includes both full-time and part-time employees who worked during any part of the pay period, temporary alien workers and employees under 16 years of age. Data are based upon the number of paychecks issued by employers. Dual and multiple jobholders are counted once for each job held. Proprietors, unpaid family workers, domestic servants and military active duty personnel are excluded.

[2] Includes temporary contractual employees, autonomous agencies, Agency for Human Resources Development Disaster Recovery, and senior/youth employment programs.

Source: Current Employment Report, Department of Labor, Government of Guam.

Table B-2 shows the top 15 private employers on Guam and number of employees.

TABLE B-2
Top 15 Private Employers on Guam
2009

Employer (and Type of Enterprise)	Number of Employees
1. Continental Micronesia (airline)	1,400
2. Calvo Enterprises, Inc. (insurance, various)	1,000
3. DZSP 21 LLC (military base operations support)	881
4. Black Construction Corp. (construction)	800
5. Triple J Enterprises, Inc. (automotive, various)	693
6. Pacific Islands Club Guam (hotel)	511
7. Hilton Guam Resort & Spa (hotel)	486
8. Bank of Guam (financial services)	420
9. GFS Group (military base operations support)	400
10. GTA TeleGuam (communications)	320
11. dck pacific guam LLC (construction)	378
12. Watts Constructors LLC (construction)	250
13. Parsons Corp. (engineering and construction)	250
14. Jones & Guerrero Co. Inc. (construction, various)	245
15. Docomo Pacific Inc. (communications)	201
Total	8,235

Source: Guam Business Magazine 2009 Top Companies.

Unemployment

The Government reports employment and unemployment separately. Guam's unemployment was 9.3% as of September 2009, the date for which the most recent information is available.

Table B-3 lists unemployment statistics for March 2004 to September 2009. Differences in the employment figures in Table B-1 and Table B-3 arise as a result of differences in the surveys' coverage and exclusions. The household survey in Table B-3 excludes civilians living within military installations or in military housing, and employees under the age of 16 years.

TABLE B-3
Unemployment Statistics[1]
2004-2009

As of[2]	Total Labor Force	Number Unemployed	Unemployment Rate (%)
Mar. 2004	61,520	4,710	7.7
Dec. 2005	64,130	4,500	7.0
Mar. 2006	65,940	4,530	6.9
Sept. 2006	66,450	4,890	7.4
Sept. 2007	63,600	5,310	8.3
Sept. 2009[3]	70,310	6,510	9.3

(1) Data include civilian non-institutional population 16 years of age and older, but exclude non-immigrant aliens and civilians living within military installations or in military housing. Individuals with one or more jobs or dual jobs are counted once.
(2) Dates as of which data are provided reflect reported data available from the Bureau of Labor Statistics (BLS).
(3) Most recent available information.

Source: Guam Department of Labor, Bureau of Labor Statistics.

Construction

Guam's construction industry is generally measured by the number and value of building permits. Building permits constitute an important economic indicator of the type and level of construction activities planned as well as corresponding employment increases once the buildings are completed.

Table B-4 lists the dollar value of the construction permits issued during Fiscal Years 2005 to 2009. Values given include permits for new construction and additions.

TABLE B-4
Building and Construction Permits
2005-2009
(Dollars in Thousands)

	2005	2006	2007	2008	2009
Residential	$43,883	$63,755	$96,610	$69,689	$50,419
Commercial & Industrial	24,063	34,412	34,187	17,821	44,816
Government	58,764	61,116	38,943	55,298	116,268
Hotels	1,705	6,760	55,825	3,070	---
Condominiums	2,750	3,549	7,210	22,417	495
Apartments & Dormitories	527	4,093	5,784	13,360	6,053
Other	33,380	21,694	81,422	28,640	44,420
Total	$165,072	$195,379	$319,981	$210,295	$262,471

Source: Department of Public Works.

During the first quarter of 2010, approximately $138.9 million of building and construction permits were issued, including approximately $15.7 million of residential permits and $76.5 million of permits for condominiums, which are for a planned development in Tamuning.

The American military presence on Guam is likely to result in an increase in construction projects in upcoming years. The planned relocation of approximately 8,000 Marines and 9,000 military dependents from Okinawa, Japan, to Guam is expected to have a major impact, including over $10.6 billion of facilities upgrades, new construction and infrastructure expenditures and explains in large measure the rapid growth in permits issued in recent years. In addition, the Army, Air Force and Navy have other plans to build various facilities on Guam in the next few years. Facility construction needs are estimated to be $500 million through 2016 at Andersen Air Force Base. Various Navy projects have also been awarded. See "—Future Role of the Military on Guam."

Over $100 million in hotel renovation projects were completed in 2007 and 2008, including at the Hilton Guam Resort and Spa, Pacific Islands Club, Guam Marriott Resort, Hotel Nikko Guam, Royal Orchid Guam and Sheraton Laguna Guam Hotel. The Bayview 5, a planned 400-room, 30-story hotel tower, is under construction and expected to be completed in 2012. In addition, the Guam Aurora Resort Villa and Spa is performing various renovations including luxury villas, family suites, 148 deluxe rooms and a wedding chapel, with an expected re-opening in 2011. The expansion of the Hyatt Regency Hotel facilities is ongoing.

Tracts of private, affordable housing, upscale gated communities and million-dollar ocean-vista homes are under construction. Housing developments under construction include

Talo Verde Estates in Upper Tumon, Ironwood Estates in Dededo, Villa Pacita in Yigo, Quintas del Mar and Pago Bay Resort in Yona. In addition, ground has broken on the Emerald Oceanview Park Verace Guam, which is expected to include two 15-story and two 18-story condominium towers and 20 villas.

New shopping centers in Mangilao and Tumon were completed in 2010.

Ongoing Government construction projects include $150 million of airport capital improvements, including runway expansion and taxiway projects to accommodate expanded air service, long-haul flights to the U.S. mainland and projected passenger and cargo increases, demolition of former naval housing and noise insulation, an estimated $159.7 million to fund the closure of the Ordot Dump and the opening of a new landfill facility, and $195 million of capital improvement projects for the Port Authority of Guam master plan. Guam Waterworks Authority has also undertaken $30 million in capital improvement projects and plans to pursue approximately $300 million in capital improvement projects over a three year period. Finally, the Department of Public Works' 2030 Guam Transportation Plan provides for $70 million of projects to be funded in 2008 and over $160 million in projects to be given federal funds from 2008 through 2011.

Business Activity

Table B-5 reflects the Government's business privilege tax collections for Fiscal Years 2003 through 2009. Business privilege tax collections for a given fiscal year may not directly reflect gross business receipts in the prior fiscal year because businesses sometimes file late or multi-year business privilege tax returns. Generally, collections have increased from 2003 to 2009 due to expansion of existing military facilities and upgrades to a number of local hotels to accommodate increased demand for high-end rooms. The increase in collections for 2004 reflects a temporary increase in the business privilege tax from 4% to 6% from April 2003 through April 2004.

TABLE B-5
Government of Guam Business Privilege Tax Collections
Fiscal Years 2003 – 2009

Year	Business Privilege Tax Collections
2003	$156,095,935
2004	170,610,706
2005	149,081,382
2006	155,386,098
2007	172,745,349
2008	185,795,875
2009	187,808,901[(1)]

[(1)]Unaudited.

Sources: Government of Guam Audited Financial Statements for Fiscal Years 2003-2008; Government of Guam Department of Revenue for Fiscal Year 2009.

During the first six months of Fiscal Year 2010, business privilege tax collections were approximately $91.5 million, a 3% decrease relative to collections of approximately $94.5 million during the first six months of Fiscal Year 2009.

Tourism Industry

Tourism has represented the primary source of income for Guam's economy for over twenty-five years. Visitor arrivals rose to over 1,000,000 travelers for the first time in 1994 and have remained near or above that level ever since.

Table B-6 sets forth the annual number of visitors to Guam from 2005 through April 2010. 2006 saw a small decline in visitor arrivals, with a marginal increase in 2007. Arrivals for 2008 declined due to the global recession. Arrivals for 2009 declined relative to 2008 due to a spike in diagnoses of the H1N1 virus in Japan in early 2009. Year end arrivals for 2010 are currently projected by Guam Visitors Bureau to increase by 5% compared to 2009.

TABLE B-6
Annual Visitor Arrivals to Guam
2005 – 2009 and 2010 YTD

Year	Visitor Arrivals	Percentage Increase/(Decrease)
2005	1,227,587	---
2006	1,211,674	(1.3)%
2007	1,225,323	1.1
2008	1,140,499	(6.8)
2009	1,052,871	(7.8)
YTD 2010[1]	405,036	8.5

[1] Through April 2010. Arrivals represent an increase of 8.5% relative to the same time period in 2009. Figure is preliminary and subject to change.

Source: Guam Visitors Bureau.

The following Table B-7 is a comparison of cumulative visitor arrivals by month to Guam for 2005 through April 2010.

TABLE B-7
Cumulative Visitor Arrivals to Guam by Month
2005-2010

	2005	2006	2007	2008	2009	2010
January	114,446	119,562	109,502	108,100	97,958	103,162
February	224,074	226,486	216,501	212,450	191,029	212,483
March	327,859	340,561	324,705	319,011	291,444	322,280
April	416,461	427,577	415,090	405,898	373,399	405,036[1]
May	508,933	520,036	501,483	497,388	445,296	
June	606,884	608,955	600,760	592,270	505,396	
July	722,020	718,678	712,070	699,103	603,046	
August	831,485	833,660	840,993	799,391	706,623	
September	931,788	921,312	933,357	887,280	798,749	
October	1,025,468	1,012,011	1,024,669	973,090	877,060	
November	1,124,909	1,108,396	1,121,240	1,053,058	958,988	
December	1,227,587	1,211,674	1,225,323	1,140,499	1,052,871	

[1] Figure is preliminary and subject to change.

Source: Guam Visitors Bureau.

Key Visitor Markets

The origin of visitors to Guam diversified during the 1990's and has remained diverse in recent years. The great majority of visitors to Guam originate from Japan. Guam is one of only four markets worldwide that attracts nearly one million Japanese tourists per year. In 2009, Japan accounted for 78% of visitors by air to Guam. The next largest tourist markets were Korea (7.9%), the U.S./Hawaii (4.3%), Taiwan (2.1%), and the Commonwealth of the Northern Mariana Islands (1.7%). The Guam Visitors Bureau is aggressively marketing to grow the Korean, Taiwan, Hong Kong and China markets, as a more diversified visitor base should insulate Guam's economy from fluctuations in the Japanese economy.

Table B-8 is a comparison of annual visitor arrivals to Guam by country from 2005 to 2009.

TABLE B-8
Annual Visitor Arrivals by Country
2005-2009

	2005		2006		2007		2008		2009	
	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total
Japan	955,245	77.81%	952,687	78.63%	931,079	75.99%	850,034	69.37%	825,129	78.37%
Korea	109,335	8.91	117,026	9.66	122,747	10.02	110,590	9.03	82,978	7.88
US Mainland	36,830	3.00	35,276	2.91	39,569	3.23	42,793	3.49	44,954	4.27
Taiwan	23,386	1.91	16,729	1.38	21,819	1.78	22,605	1.84	22,088	2.10
CNMI	18,042	1.47	17,813	1.47	17,665	1.44	17,607	1.44	17,811	1.69
Philippines	7,051	0.57	8,144	0.67	8,743	0.71	10,902	0.89	11,581	1.10
Hawaii	9,029	0.74	8,950	0.74	10,021	0.82	10,282	0.84	10,571	1.00
FSM	8,394	0.68	8,027	0.66	8,116	0.66	8,602	0.70	9,683	0.92
Palau	3,296	0.27	3,034	0.25	3,224	0.26	3,529	0.29	3,411	0.32
China P.R.C.	840	0.07	1,124	0.09	1,504	0.12	1,951	0.16	3,286	0.31
Hong Kong	4,518	0.37	6,123	0.51	6,224	0.51	4,276	0.35	2,872	0.27
Australia	2,546	0.21	2,328	0.19	2,387	0.19	2,437	0.20	2,418	0.23
Europe	1,750	0.14	1,382	0.11	1,564	0.13	1,588	0.13	1,666	0.16
RMI	958	0.08	986	0.08	934	0.08	965	0.08	1,022	0.10
Canada	503	0.04	585	0.05	677	0.06	773	0.06	667	0.06
Russia	---	---	---	---	---	---	122	0.01	339	0.03
Thailand	170	0.01	200	0.02	238	0.02	226	0.02	293	0.03
Vietnam	21	0.00	34	0.00	22	0.00	61	0.00	53	0.01
Nauru	5	0.00	9	0.00	23	0.00	13	0.00	---	---
Other	3,009	0.25	3,486	0.29	3,860	0.32	3,701	0.30	3,669	0.35
Total Air	1,184,928	96.52%	1,183,943	97.71%	1,180,845	96.37%	1,091,907	95.74%	1,044,491	99.2%
Total Sea	42,659	3.48	27,731	2.29	44,478	3.63	48,592	4.26	8,380	0.8
Total Air & Sea	1,227,587	100.00%	1,211,674	100.00%	1,225,323	100.00%	1,140,499	100.00%	1,052,871	100.00%

Source: Guam Visitors Bureau.

Table B-9 highlights the percentage change in annual visitor arrivals to Guam by country from 2005 to 2009.

TABLE B-9
Percentage Change in Annual Visitor Arrivals by Country
2005-2009

	2005	2006	% Change from 2005	2007	% Change from 2006	2008	% Change from 2007	2009	% Change from 2008
Japan	955,245	952,687	(0.27)%	931,079	(2.27)%	850,034	(8.70)%	825,129	(2.93)%
Korea	109,335	117,026	7.03	122,747	4.89	110,590	(9.90)	82,978	(24.97)
Taiwan	36,830	35,276	(4.22)	39,569	12.17	42,793	8.15	44,954	5.05
China PRC	23,386	16,729	(28.47)	21,819	30.43	22,605	3.60	22,088	(2.29)
U.S. Mainland	18,042	17,813	(1.27)	17,665	(0.83)	17,607	(0.33)	17,811	1.16
Hawaii	7,051	8,144	15.50	8,743	7.36	10,902	24.69	11,581	6.23
CNMI	9,029	8,950	(0.87)	10,021	11.97	10,282	2.60	10,571	2.81
Palau	8,394	8,027	(4.37)	8,116	1.11	8,602	5.99	9,683	12.57
FSM	3,296	3,034	(7.95)	3,224	6.26	3,529	9.46	3,411	(3.34)
RMI	840	1,124	33.81	1,504	33.81	1,951	29.72	3,286	68.43
Philippines	4,518	6,123	35.52	6,224	1.65	4,276	(31.30)	2,872	(32.83)
Australia	2,546	2,328	(8.56)	2,387	2.53	2,437	2.09	2,418	(0.78)
Canada	1,750	1,382	(21.03)	1,564	13.17	1,588	1.53	1,666	4.91
Europe	958	986	2.92	934	(5.27)	965	3.32	1,022	5.91
Hong Kong	503	585	16.30	677	15.73	773	14.18	667	(13.71)
Nauru	---	---	---	---	---	122	---	339	177.87
Thailand	170	200	17.65	238	19.00	226	(5.04)	293	29.65
Vietnam	21	34	61.90	22	(35.29)	61	177.27	53	(13.11)
Russia	5	9	80.00	23	155.56	13	(43.48)	n.a	---
Others	3,009	3,486	15.85	3,860	10.73	3,701	(4.12)	3,669	(0.86)
Total Air	1,184,928	1,183,943	(0.08)%	1,180,845	(0.26)%	1,091,907	(7.53)%	1,044,491	(4.34)%
Total Sea	42,659	27,731	(34.99)%	44,478	60.39%	48,592	9.25%	8,380	(82.75)%
Total Air & Sea	1,227,587	1,211,674	(1.30)%	1,225,323	1.13%	1,140,499	(6.92)%	1,052,871	(7.68)%

Source: Guam Visitors Bureau.

Airlines and Hotels

Nine international passenger airlines (Continental Airlines, JAL, Northwest Airlines, Korean Air, All Nippon, China Airlines, Philippine Airlines, Freedom Air and Asia Pacific Airlines) currently serve the Antonio B. Won Pat Guam International Airport, the sole commercial airport on Guam. These airlines serve 21 international destinations and over 3,000,000 passengers a year. Continental Micronesia, a wholly owned subsidiary of Continental Airlines, maintains a major hub on Guam servicing destinations in Micronesia, Hawaii, Japan, East Asia and Australia.

A number of recent announcements have been made regarding service changes at the airport. Continental Airlines added service to and from Nadi, Fiji, in December 2009, and flights from Guam to Hong Kong resumed in April 2010 after a two-year-long suspension. Continental Airlines also expects to add new service between Guam and Honolulu, with a stop in Majuro in the Marshall Islands, beginning June 2010. Jin Air added daily daytime direct flights to Seoul, South Korea in April 2010. Budget carrier Skymark Airlines plans to operate a series of passenger charter flights between Tokyo and Guam, commencing August 2010. Japan Airlines expects to suspend its Osaka-Guam daily service starting in October 2010.

Tumon Bay, located on Guam's northwest coast, is the heart of Guam's tourist industry. The hotels that line Tumon Bay provide lodging to the majority of visitors to Guam. During the 1990s and early 2000s, Guam's inventory of hotel rooms increased over 100%, with substantial growth in the number of hotel rooms occurring from 1991 to 1993 and from 1995 to 2001. There are 31 hotels in Guam, including many notable international hotel operators, with an inventory of over 8,000 rooms. Guam's annual weighted hotel occupancy rate improved from 60% in 2006 to 68% in 2007, but declined to 64% in 2008 and to 60% in 2009. In 2009, the weighted average room rate was $108, a 6.9% decrease over 2008.

Table B-10 lists the top fifteen hotel operators and the number of rooms as of December 2009.

TABLE B-10
Top Fifteen Hotel Operations in Guam
As of December 2009

Hotel/Resort	Year Opened	Location	Number of Rooms
Pacific Islands Club	1980	Tumon	809
Hilton Guam Resort and Spa	1972	Tumon	748
Outrigger Guam Resort	1999	Tumon	628
Leo Palace Hotel	1993	Yona	624
Hotel Nikko Guam	1992	Tumon	510
Guam Plaza Hotel	1983	Tumon	505
Hyatt Regency Guam	1994	Tumon	474
Guam Marriot Resort	1987	Tumon	467
Onward Beach Resort	1992	Tamuning	455
Guam Fiesta Resort	2005	Tumon	434
Westin Resort Guam	1996	Tumon	432
Sheraton Laguna Guam Hotel	2007	Tamuning	311
Holiday Resort Guam	1996	Tumon	251
Royal Orchid	2000	Tumon	200
Ohana Oceanview Guam	2002	Tumon	187
Total			7,035

Source: Guam Visitors Bureau.

In addition to visitor arrivals, the hotel occupancy tax is also a measure frequently referred to in assessing the strength of Guam's tourism industry. Table B-11 lists the hotel occupancy taxes collected for Fiscal Years 2003 through 2009. With the exception of 2009, collections of the hotel occupancy tax have increased in each year since 2003.

TABLE B-11
Hotel Occupancy Taxes Collected
Fiscal Years 2003-2009

Fiscal Year	Taxes Collected
2003	$13,116,354
2004	17,674,859
2005	18,946,882
2006	19,787,802
2007	21,233,396
2008	22,111,688
2009	19,398,833

Source: Tourist Attraction Fund Audited Financial Statements for Fiscal Years 2003 to 2009.

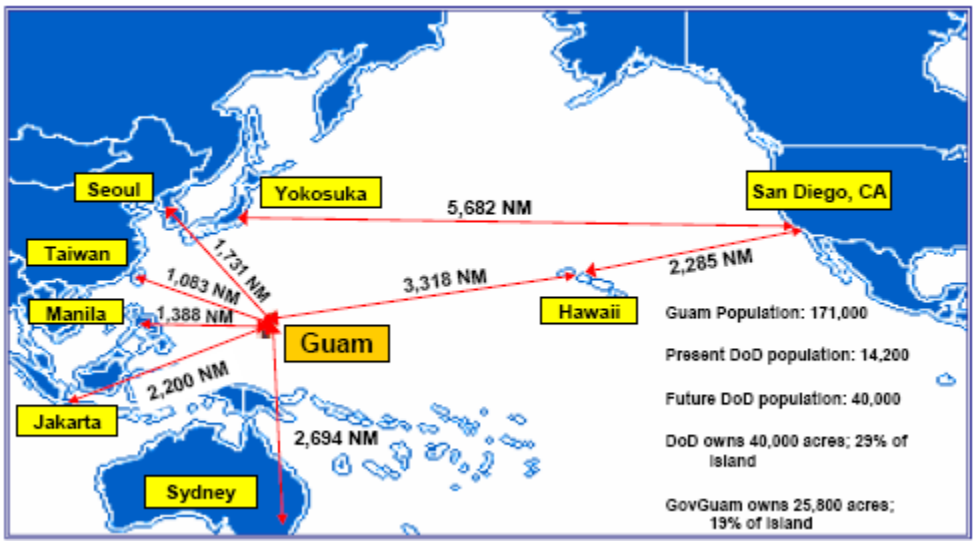
Military Activity

Military Personnel

Military personnel figures rise and fall as dictated by world events and the U.S. response to these events.

Recent world events have increased recognition of Guam's strategic military value that will result in increasing military presence in Guam and its contribution to the Guam economy. Following the events of September 11, 2001, the U.S. started to redistribute its forces in the Pacific and reassess the role that Guam can play in the region. Tensions between China and Taiwan and India and Pakistan, North Korean threats, and containment of the Abu Sayaf in the Philippines increase Guam's importance as a location from which the U.S. can deter or preempt aggression and maintain peace. The lack of transparency in China's defense expenditures also creates significant concerns. A strong U.S. presence in the Pacific also demonstrates active support for Japan, Australia and other Pacific Rim allies. Guam is uniquely positioned geographically to constitute an extended homeland defense perimeter, protecting the U.S. west coast and Hawaii from acts of aggression. Military bases on Guam can support forward deployed capabilities in Asia and allow rapid response to any threat to stability of the Asian region or to the U.S.

The map below shows Guam's location in the Pacific and relative distances between major cities in the Pacific Rim.



Although the number of active duty military personnel is expected to grow substantially over the next five to seven years, there is already a significant existing U.S. military presence on Guam. The U.S. Air Force has stationed 62 conventional air-launched cruise missiles and the 613th Contingency Response Squadron (110 personnel) at Andersen Air Force Base (Andersen AFB) and has recently completed construction of its newest aircraft maintenance hanger for B-2 stealth bombers at a cost of over $32 million. The Navy has home-ported three fast attack submarines in Guam: the USS Corpus Christi, the USS Houston and the USS Buffalo. In addition, recent reports indicate that the Navy is considering forward deploying several of its nuclear-powered ballistic submarines to Guam.

If current U.S. military plans come to fruition, Guam will experience an increase of over 30,000 active duty military and dependent personnel and almost 20,000 Department of Defense civil service and dependent personnel in the next five to seven years, which will reverse previous military downsizing trends.

The table below lists active duty military personnel on Guam from 2005 through 2009.

TABLE B-12
Active Duty Military Personnel on Guam
2005-2009

Year	Navy	Air Force	Army	Marines	Coast Guard	Total
2005	4,085	1,844	422	3	160	6,514
2006	3,867	1,596	606	4	180	6,253
2007	3,879	1,596	632	4	175	6,286
2008	3,584	1,930	625	4	188	6,331
2009	3,523	2,042	619	4	191	6,379

Source: Guam State Data Center, Bureau of Statistics and Plans.

Table B-13 below depicts military dependents on Guam from 2005 through 2009.

TABLE B-13
Military Dependents on Guam
2005-2009

Year	Navy	Air Force	Army	Marines	Coast Guard	Total
2005	2,829	2,104	1,080	2	172	6,187
2006	2,829	1,893	1,153	4	179	6,058
2007	2,774	1,941	1,178	4	154	6,051
2008	2,048	2,434	1,204	4	143	5,833
2009	1,975	3,410	1,201	7	228	6,821

Sources: Guam State Data Center, Bureau of Statistics and Plans.

As displayed by Table B-14, the number of civil service personnel on Guam was relatively steady from 2005 to 2009. From 2006 to 2008, the number of military civil service personnel on Guam increased by over 20%. For 2009, military civil service personnel (both local and stateside hire) decreased by 11.5% but still exceeded 2006 levels.

TABLE B-14
Military Civil Service Personnel on Guam
2005-2009

Year	Non-Appropriated Fund Personnel	Local Hire	Stateside Hire	Total
2005	860	1,415	811	3,086
2006	860	1,415	778	3,053
2007	989	1,566	803	3,358
2008	1,121	1,692	895	3,708
2009	1,176	1,292	810	3,278

Sources: Guam State Data Center, Bureau of Statistics and Plans.

In general, reductions of active-duty military personnel are accompanied by an increase in the number of Army and Air National Guardsmen and Reservists. These personnel perform vital services for the nation and for Guam but their numbers have yet to offset the loss of active duty personnel.

TABLE B-15
Guardsmen and Reservists in Guam
Fiscal Years 2002-2008

Fiscal Years	Army National Guard	Air National Guard	Coast Guard Reserve	Army Reserve	Air Force Reserve	Navy Reserve[2]	Total
2002	792	212	38	600	232	N/A	1,874
2003	810	213	32	580	290	N/A	1,925
2004	835	326	32	680	290	N/A	2,163
2005	884	335	43	450	290	N/A	2,002
2006[1]	964	350	N/A	N/A	N/A	N/A	N/A
2007[1]	1,044	418	30	N/A	N/A	75	N/A
2008[1]	1,142	428	30	N/A	N/A	110	N/A

[1] Complete data not available for 2006 through 2008.

[2] Navy Reserve Unit established in 2007.

Sources: Communications with Guard and Reserve Units.

Military Expenditures

Table B-16 provides a breakdown of military salaries expended on the island during Fiscal Years 2004 through 2008. Total salaries, except for inactive military, increased from 2004 through 2007 as a result of the increased military activity in Asia and the Middle East. A significant decline in active military salaries occurred from Fiscal Year 2007 to Fiscal Year 2008.

TABLE B-16
Department of Defense Expenditures on Guam
Active Duty and Civilian Military Salaries
Fiscal Years 2004-2008
(In Thousands)

Fiscal Year	Active Military	Inactive Military	Civil Service Employees[1]	Coast Guard Employees	Total Salaries
2004	$206,570	$20,533	$38,776	$167	$266,046
2005	211,239	23,544	55,291	159	290,233
2006	233,475	18,986	56,065	144	308,670
2007	233,521	11,290	58,381	149	303,341
2008	101,303	13,880	60,794	157	176,134

[1] Reflects impact of Navy and Air Force competitive sourcing and base closure activities.
Source: Consolidated Federal Funds Report, Bureau of the Census.

An increase in Department of Defense procurement contracts results from the loss of civil service personnel. As the private sector carries out functions previously performed predominantly by civil service personnel, federal spending under procurement contracts generally increases.

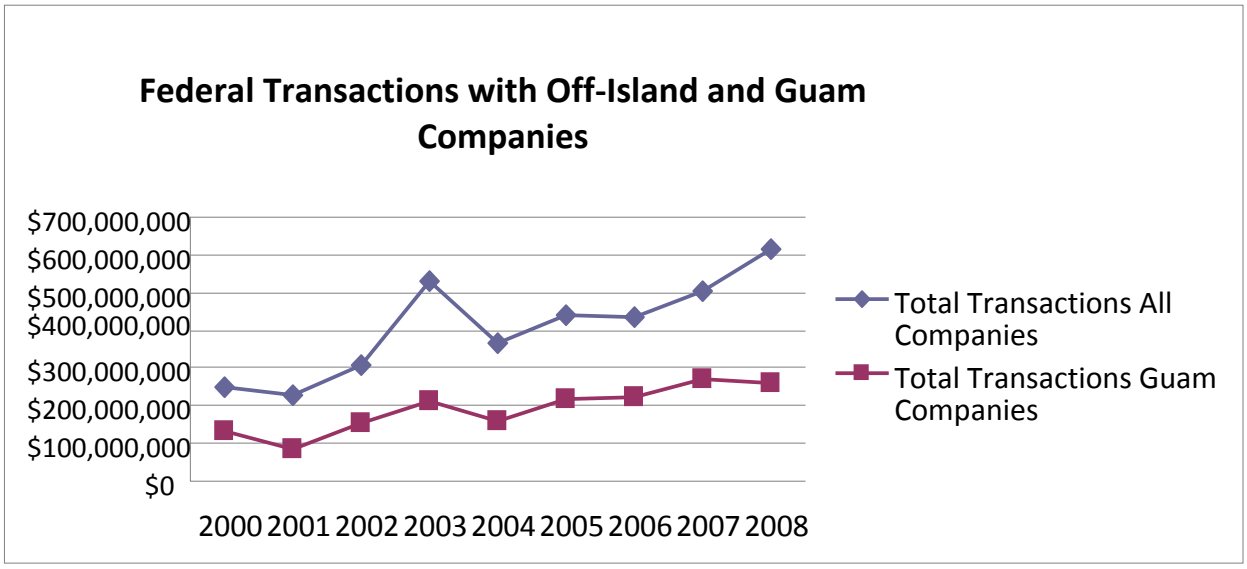
TABLE B-17
Department of Defense Procurement Contracts for Guam
Fiscal Years 2003-2008
(In Thousands)

Fiscal Year	Department of Defense Procurement
2004	$343,065
2005	392,332
2006	388,125
2007	497,849
2008	599,244

Source: Consolidated Federal Funds Report, Bureau of the Census.

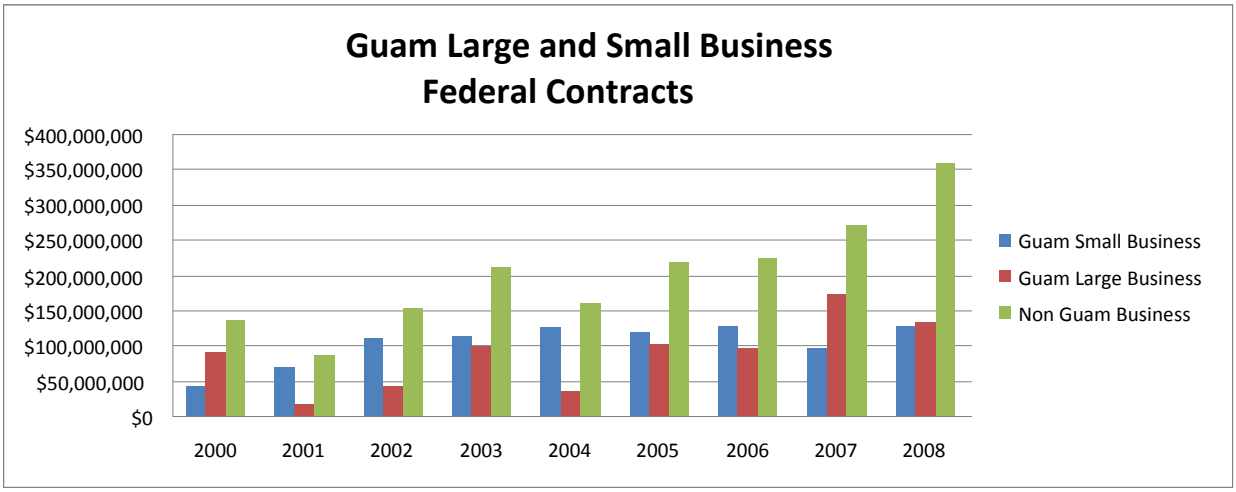
GEDA maintains a database of contracts awarded by the Department of Defense for Guam as reported on various military websites. This database indicates that almost $330 million of contracts were awarded in Fiscal Year 2005, over $334 million were awarded in Fiscal Year 2006; over $351 million were awarded in Fiscal Year 2007; approximately $476 million were awarded in Fiscal Year 2008; and approximately $430 million have been awarded to date for Fiscal Year 2009. Since not all Department of Defense contract awards are reported on the source websites, it is believed that the database maintained by GEDA understates total contract awards for these years.

The federal government publishes federal transactions for work performed in Guam in its website located at USAspending.gov. The chart below indicates that from Fiscal Year 2000 to Fiscal Year 2008, the federal government paid an average of $410 million per year to private companies for work performed in Guam. Almost half of this amount is paid to local companies (i.e., companies that list a Guam vendor address). The expectation is that payments will significantly increase thereafter as a result of the increased military presence on Guam.



Source: USAspending.gov compiled by the Guam Economic Development Authority.

The graph below shows participation in federal transactions for work performed in Guam by large and small businesses from Guam, as well as non-Guam off-island businesses. It is expected that Guam businesses will obtain greater shares of federal contractual work moving forward.



Source: USAspending.gov compiled by the Guam Economic Development Authority.

Future Role of the Military on Guam

Optimism over the future growth of the U.S. military presence on Guam is seen in Congressional authorizations for appropriations for military construction projects, as depicted in Table B-18 below. Steady growth in such authorizations is evident from Fiscal Year 2006 to Fiscal Year 2010. It is expected that significant construction funding will be made available in Fiscal Year 2010 and beyond. On May 7, 2009, the Office of Management and Budget released details with respect to President Barack Obama's proposed federal budget for Fiscal Year 2010. The proposed budget includes $787 million in military construction projects for Guam. See "—Proposed Fiscal Year 2010 Budget" below.

TABLE B-18
U.S. Military Construction Appropriations Authorized for Guam
Fiscal Years 2006-2010
(In Thousands)

Year	Total Appropriations
2006	$ 89,000
2007	208,746
2008	290,700
2009	179,100
2010	737,614

Source: Guam Economic Development Authority.

As a further sign of commitment to Guam, the American Recovery and Reinvestment Act of 2009 ("ARRA") appropriated over $43 million for military projects on Guam as follows:

TABLE B-19
ARRA Appropriations for Military Projects on Guam

Project Name	Location	Cost
Repair and Modernize Bachelor Quarters Building 581 & 584	Camp Covington, Naval Base Guam	$6,791,000
Repair and Modernize Bachelor Quarters Building 580	Camp Covington, Naval Base Guam	4,849,000
Repair and Modernize Bachelor Quarters Building 579	Camp Covington, Naval Base Guam	3,777,000
Repair Santa Rosa Water Tank	Andersen AFB	323,000
Construct By-Pass Line at Santa Rosa Tank	Andersen AFB	645,000
Repair Waterline from Santa Rosa Tank to Back Gate	Andersen AFB	3,227,000
Repair Waterline from Wells 5-9 to Santa Rosa Tank	Andersen AFB	4,303,000
Repair Crumm Ave From Kenny Ave to Bonins Blvd	Andersen AFB	188,000
Repair Taxiway B Hardstands (S72, S74, S76)	Andersen AFB	807,000
Repair Center Ramp Hardstands, Ph 2	Andersen AFB	1,936,000
Repair Center Ramp Hardstands, Ph 3	Andersen AFB	1,936,000
Repair Center Ramp Hardstands, Ph 4	Andersen AFB	1,936,000
Repair Center Ramp Hardstands, Ph 5	Andersen AFB	1,936,000
Repair Center Ramp Hardstands, Ph 6	Andersen AFB	1,936,000
Repair South Ramp 5 and Taxiway B Hardstands (S58 to S70)	Andersen AFB	2,151,000
Repair Taxiway C, Phase 4 (Between Taxiways J and K	Andersen AFB	6,239,000
Resurface Parking Lot	Naval Hospital	305,000
Modernize Urology/Orthopedics Suite	Naval Hospital	456,000
Modernize Wing B2 Space Endoscopy Suite	Naval Hospital	173,000
Total		$43,914,000

Source: ARRA 2009 Department of Defense, August 31, 2009.

For the next 10 years, Guam's economy is expected to benefit from a sizable commitment by the federal government to expand the American military presence on Guam, and construction payrolls are expected to grow rapidly as the military upgrades facilities and supporting infrastructure. Government Accountability Office Report 08-665, dated June 2008, discusses the impact of Department of Defense force structure and basing initiatives on 20 stateside installations expected to show net growth over Fiscal Years 2006 to 2012. Compared to those stateside installations also experiencing growth, Guam is ranked among the top five areas by percentage increases in active duty and dependent populations, and ranked third by growth in number of military personnel.

Income tax and business privilege tax revenue from military and private companies are anticipated to increase substantially as a result of these construction activities. Military expansions and other planned military activities on Guam include the following:

U.S. Marine Corps Relocation from Okinawa. In 2002, the U.S. and Japan commenced a Defense Policy Review Initiative ("DPRI") to transform their existing alliance. In October 2005, the two nations entered into an Alliance Transformation and Realignment Agreement, a wide-ranging plan for the realignment of U.S. military forces in Japan. This agreement and subsequent negotiations have resulted in a plan to move more than 8,000 U.S. Marines and 9,000 military dependents from Okinawa to Guam from 2010 to 2014. Of the $10.27 billion total cost of the relocation, Japan is to provide $6.09 billion for operational facilities, barracks, quality-of-life amenities, new family housing and utilities, and the U.S. is to provide $4.18 billion to construct operational facilities, barracks and quality-of-life improvements, and off-base infrastructure and highways. The DPRI was reaffirmed on February 17, 2009 through the execution of the "Agreement Between the Government of Japan and the Government of the United States of America Concerning the Implementation of the Relocation of the III Marine Expeditionary Force Personnel and Their Dependents from Okinawa to Guam," which was endorsed by the Japanese Diet on May 13, 2009. The Draft Environmental Impact Statement (DEIS) for the relocation of Marines to Guam was completed on November 20, 2009. Public comments for the DEIS were due on February 17, 2010. A Final Environmental Impact Statement (FEIS) is expected to be completed by the summer of 2010 followed shortly by the Record of Decision (ROD).

Decisions as to what other forces, if any, will accompany these Marines, when the forces will be moved, where they will be based and other implementing details are being worked out by the U.S. Pacific Command and the U.S. and Japanese governments, but it is possible that the Marines will be accompanied by significant numbers of additional forces including possible maneuver forces that would form the basis of a new Littoral Warfighting Center.

On May 28, 2010, the U.S. and Japanese governments released a joint statement indicating that the two nations affirmed their agreement to move the Marine Corps Air Station Futenma to Henoko, in the northern part of Okinawa. This decision reversed an earlier promise by Japanese Prime Minister Yukio Hatoyama to move the marine base off Okinawa altogether. The decision to keep the marine base on the island sparked protests from the Japanese public and resulted in the sudden resignation of Prime Minister Hatoyama on June 2, 2010. Two days later the Japanese Diet elected Naoto Kan to replace Hatoyama as prime minister. Since these developments, discussions between the United States and Japan are consistent with the May 28, 2010 joint statement but have included the possibility of postponing the planned transfer of U.S. Marines and their dependents to Guam by three to five years. The ultimate transfer completion date will be dependent on the final outcome of the relocation of U.S. Marine Corps' air station to another site in Okinawa. Any delay in the transfer will allow Guam more time to construct the infrastructure necessary to support the transfer.

Beddown of Training and Support Initiatives at Northwest Field, Andersen AFB. Headquarters Pacific Air Forces has completed an environmental impact assessment for the reactivation of Northwest Field of Andersen AFB as a training area for combat engineers, security forces and combat communication units. This initiative is estimated to bring in

approximately 4,500 active duty trainees to Guam on an annual basis. Expenditures of $200 - $300 million commenced in Fiscal Year 2006 and are projected through and beyond Fiscal Year 2011 for creating an expeditionary combat support and training campus composed of heavy construction engineers, combat communications, security forces and combat skills training. A federal appropriation of $12.5 million toward the costs of the Northwest Field infrastructure was authorized under the Fiscal Year 2007 National Defense Authorization Act. Construction of utilities, facilities, roads and other improvements is slated for completion over a six year period, which began in Fiscal Year 2007. An additional $15.8 million appropriation was authorized for Fiscal Year 2008, and a $10.6 million appropriation for various Air Force projects was approved for Fiscal Year 2009.

Establishment and Operation of an Intelligence, Surveillance, Reconnaissance, and Strike Capability, Andersen AFB. Headquarters Pacific Air Forces has developed a final environmental impact statement proposing to base a Global Strike Task Force on Andersen AFB, adding an intelligence, surveillance, reconnaissance, strike and aerial refueling capability to the base. The proposed action would base three Global Hawk unmanned aerial intelligence, surveillance and reconnaissance aircraft and 12 refueling aircraft at the base, as well as the rotation of 48 fighter and six bomber aircraft to Andersen AFB from bases in the 50 states. It is estimated that approximately 2,630 additional military, civilian and contractor personnel and 1,450 dependents would be permanently based at Andersen AFB as well. This action would result in facility construction, addition, and alteration projects to support basing and operation. The basing action began in 2007 with facility construction projects and is planned for completion in 2016, at an estimated cost of over $200 million. A federal appropriation of $52.8 million has already been authorized for construction of a Global Hawk Maintenance and Operations Facility under the Fiscal Year 2007 National Defense Authorization Act.

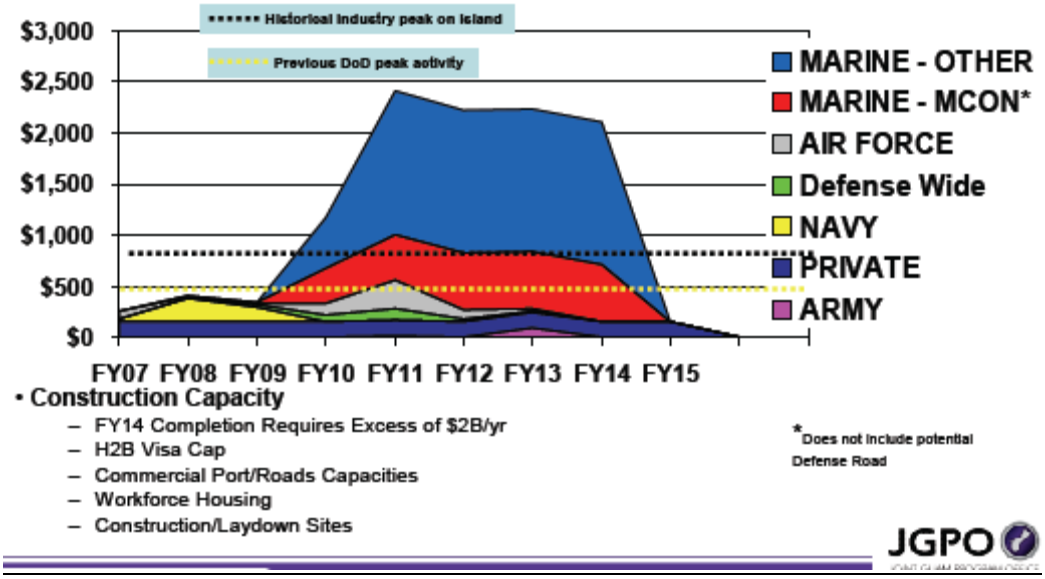
Forward Deployment of Navy Ships. The U.S. has projected expenditures of $187 - $241 million for various wharf improvements through Fiscal Year 2009, including improvements for accommodating transient nuclear aircraft carriers and their escorts, High-Speed Vessels, Littoral Combat Ships and new supply and ammunition vessels. A federal appropriation of approximately $30 million has already been authorized for wharf improvements under the Fiscal Year 2007 National Defense Authorization Act, as well as approximately $100 million for related construction of new housing. Appropriations of $275 million have been authorized for Fiscal Year 2008 for additional Navy projects including wharf, utilities, housing and other quality of life improvements, while $168.5 million of appropriations was approved for various Navy projects for Fiscal Year 2009. These projects are expected to increase the Navy population by 5,650 active duty military and dependents.

Army Ballistic Missile Defense System. A U.S. Army Air Defense Battalion is expected to be assigned to Guam and would require the construction of operational facilities and housing. The cost of establishing this capability on Guam has not yet been determined. Beginning in 2015, approximately 630 active duty personnel and 950 dependents are expected to be assigned to Guam to support this capability. The Army Ballistic Missile Defense System is incorporated in the DEIS.

Proposed Fiscal Year 2010 Budget. On May 7, 2009, the Office of Management and Budget released details with respect to President Barack Obama's proposed federal budget for

Fiscal Year 2010. The proposed budget includes $787 million in military construction projects for Guam. The funding targets infrastructure projects to support the expansion of the American military's presence in Guam. Such projects include $48 million in defense access roads funding which, if appropriated, would be used to improve the haul and access road network on Guam. Another notable project is a proposal from the Department of Defense to spend $259 million on the construction of a modern naval hospital.

This increased military activity is expected to sustain and grow the Guam economy in the years to come. The chart below depicts projected construction on Guam resulting from an assumed relocation of Marines to Guam for Fiscal Years 2007 to 2015.



Source: Presentation by General Bice, Joint Guam Program Office, at the Guam Industry Forum, March 6-8, 2008.

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APPENDIX C

AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

GUAM POWER AUTHORITY
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008 (RESTATED)

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of GPA as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, GPA restated its 2008 financial statements to reflect the effects of the redesignation of the Government of Guam Defined Benefit Pension Plan from a single-employer plan to a cost-sharing multiple-employer plan, in conformity with the accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of GPA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

February 27, 2010

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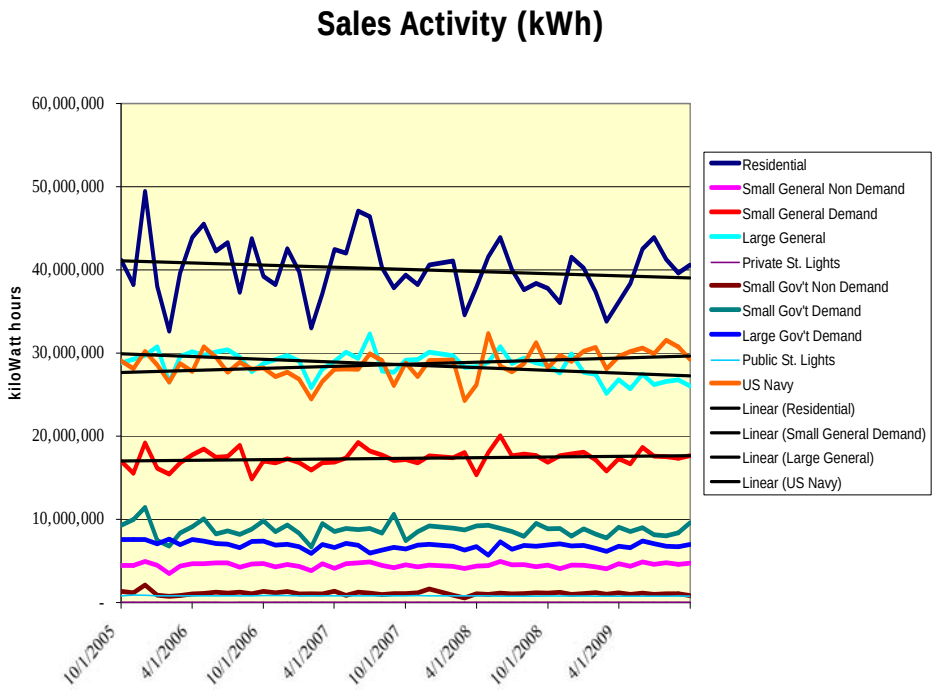
GUAM POWER AUTHORITY

Management Discussion and Analysis
Year Ended September 30, 2009

The following is a discussion and analysis of GPA's financial performance for the fiscal year ended September 30, 2009.

Sales

GPA's sales have been trending downward for the last few years as is shown by the graph below. While the number of customers is growing, the average usage is declining as a result of conservation efforts by many of GPA's customers. These conservation measures are the result of the steep increases in the fuel portion of the bill for the last few years. GPA expects to see positive growth for Fiscal Year 2011 as conservation measures become fully realized, the impacts of the military buildup begin to show up, and as the economy begins to recover from the impact of the world-wide economic crisis.



More detailed information regarding GPA's sales by class and year is shown below.

Annual Electric Sales

	Consumption (in kilowatt hours)			2009 to 2008 Comparison	
Rate Class	FY09	FY08	FY07	Increase/ (Decrease)	% Change
Residential	471,384,720	471,060,549	485,931,336	324,171	0.07%
Small General Non Demand	54,083,247	53,484,286	53,555,258	598,961	1.12%
Small General Demand	209,356,703	210,541,167	207,268,006	(1,184,914)	(0.56)%
Large General	323,331,267	350,006,359	346,874,493	(26,675,092)	(7.62)%
Private St. Lights'	630,549	604,433	591,728	26,116	4.32%
Small Gov't Non Demand	12,719,408	12,878,413	13,563,297	(159,005)	(1.23)%
Small Gov't Demand	102,530,794	105,168,995	106,263,972	(2,638,201)	(2.51)%

Large Gov't Demand	81,743,867	80,151,222	80,430,792	1,592,645	1.99%
Public St. Lights'	9,351,639	9,634,418	9,865,631	(282,779)	(2.94)%
US Navy	359,520,521	341,392,577	330,277,668	18,127,944	5.31%
Total	1,624,652,715	1,634,922,869	1,634,622,181	(10,270,154)	(0.63)%

GPA believes the decline in the Large General customer class is driven more by the decline in the tourism industry related to world-wide economic slowdown rather than by conservation measures.

Customer Count

	Number of Customers			2009 to 2008 Comparison	
Rate Class	FY09	FY08	FY07	Increase/ (Decrease)	% Change
Residential	40,254	39,418	38,828	836	2.12%
Small General Non Demand	3,078	3,073	3,050	5	0.16%
Small General Demand	1,573	1,550	1,526	23	1.48%
Large General	171	170	170	1	0.59%
Private St. Lights'	563	555	540	8	1.44%
Small Gov't Non Demand	566	573	599	(7)	(1.22)%
Small Gov't Demand	439	440	461	(1)	(0.23)%
Large Gov't Demand	56	56	56	-	0.00%
Public St. Lights'	146	147	149	(1)	(0.68)%
US Navy	1	1	1	1	0.00%
Total	46,847	45,983	45,384	864	1.88%

Even though individual customers have been taking measures to conserve energy, the total number of GPA's customers continues to increase.

Explanation of Net Decrease in Net Assets

The $14 million net decrease in net assets is made up of many factors. GPA was projecting a $3.5 million net loss for the year as a result of the Public Utilities Commission's decision to defer the FY08 rate increase to March 1, 2009 and have the Authority apply the cash proceeds from a collected receivable against the expenses. Additionally, GPA forecast non-fuel revenues of $144 million; however, the actual numbers came in at $134 million. Finally, GPA's interest expense increased by $1 million due mostly to increased interest costs associated with the commercial paper program and investment income was approximately $1 million lower than projected. GPA made cuts to its budget for the year when it became apparent the revenue forecast would not be realized; however, much of this effort was offset when the generator overhaul (discussed in the variance analysis below) exceeded budgeted levels.

Liquidity Study

The silver lining of these events is that it has highlighted some ongoing liquidity issues faced by GPA. GPA has hired a consultant to conduct a liquidity study with the purpose of recommending liquidity targets to be considered in the context of future rate actions. The Consolidated Commission on Utilities (GPA's governing board) and the Public Utilities Commission (PUC) have both been receptive to the need for improving GPA's liquidity. GPA is targeting the middle of Fiscal Year 2010 for a final decision from the PUC regarding the proposed liquidity targets. GPA is also putting together a 10 year financial management plan to file with the PUC to help ensure current rate actions are taken with a view to the long term impact on the utility.

Rate Activity

GPA filed a petition for a two phased rate implementation in October 2007. The Phase I rate relief went into effect on March 1, 2008. GPA filed an addendum to the Phase I petition in November 2009 and the Phase II rate relief of approximately 2.8% is expected to go into effect on March 1, 2010.

Public Utilities Commission

Since the Consolidated Commission on Utilities first assumed governance of the Authority in January 2003, the relationship between the Authority and the PUC has been on a steady track of continued improvement. There were some significant changes at the PUC during 2009 and GPA is pleased that the spirit of mutual respect and cooperation has continued through the changes that have taken place. One of the most important changes has been the willingness to entertain Authority petitions on a monthly basis as opposed to a quarterly basis. This has enabled the Commission to move more swiftly on the various petitions filed by the Authority.

GPA filed a petition with the PUC for its first base rate increase in nearly 10 years in October 2007. The petition included a two phase rate increase with a $17.9 million increase in Phase I and the remaining $9 million in Phase II. The Authority was awarded an increase equivalent to $16.3 million with an effective date of March 1, 2008. Part of the increase was deferred to March 1, 2009 when GPA received the $13.5 million payment for past due streetlight billings. The Phase II increase of $10.6 million is expected to go into effect on March 1, 2010.

The PUC has established a Phase III proceeding to address issues related to a Working Capital Fund Surcharge to provide a mechanism to ensure the utility is always in compliance with the Working Capital Requirement of its bond indenture agreement.

Bond Ratings

Despite the difficulties posed by the crisis in the U.S. capital markets, GPA has maintained an investment grade rating with Standard & Poor's and near investment grade ratings with Moody's and Fitch. GPA plans to meet with all three rating agencies in mid-Fiscal Year 2010 and believes investment grade ratings can be achieved from all three agencies.

Future Borrowing

GPA is planning for a bond offering in the summer of 2010. GPA is anticipating seeking financing for its planned Smart Grid program, some small transmission and distribution projects, and a new office complex to house most of its operations in a single location. GPA received terms and conditions for a Smart Grid grant award from the U.S. Department of Energy. The grant matches 50% of the project costs of GPA's $33.2 million Smart Grid program and allows GPA 120 days to show evidence of the ability to fund its share of the project cost.

Military Buildup

GPA is working with the U.S. Department of Defense (DOD) in planning to ensure there is adequate capacity to serve the load of military projects targeted for the island. The current best estimate of the additional load from the buildup is 30 megawatts with an additional 25 megawatts of transient load. GPA believes there is sufficient generation capacity currently in the system to meet the planned load requirements. DOD has also expressed that a preferred solution to complement GPA's existing generation system is to re-condition up to five peaking/emergency combustion turbine units. GPA is working with DOD to identify transmission and distribution projects that would be required to meet the military service requirements. DOD has been committed to the principle of ensuring the civilian community is not negatively impacted by the cost of the buildup.

Retirement Accounting

GPA had been preparing its Board for the addition of a significant retirement liability resulting from the Governmental Accounting Standards Board (GASB) Statement 45. However, the Government of Guam has made a determination that the Government of Guam retirement plans are multi-employer pension plans for purposes of GASB Statements 27 and 45 and therefore, accrual of unfunded obligations to the plan are no longer required. This change is reflected in the Fiscal Year 2008 financial statements.

Certified Technical Professional Legislation

Shortly after the Consolidated Commission on Utilities took office in January 2003, GPA management began a high level assessment of manpower. Two main observations were made: 1) Nearly half of the Authority's workforce would become eligible for retirement within the next 10 years, and 2) there was a pattern developing of highly skilled employees leaving the Authority for higher paying jobs both on-island and off-island. GPA identified both of these observations as threats to the utility. The issue of the aging workforce was a threat because there is a very limited pool of skilled workers on the island and the location of Guam poses a significant impediment to recruitment. GPA does not have the ability to attract labor from a neighboring utility without substantial lifestyle changes. The employee exodus was highlighting the problem that the Government of Guam pay structure to which the Authority was subject to had not been adjusted since the early 1990's.

To highlight the problem the pay scales were posing, GPA was allowed to offer $26,000 per annum to entry level engineers and $24,000 per year to entry level accountants. Engineering graduates on the mainland were commanding more than twice that amount and accounting graduates on the mainland were receiving nearly twice the amount for which GPA was allowed to offer. However, the pay disparity was not only evident in professional positions, but GPA also encountered a series of employees who were finding their skills as linemen were in high demand in other utilities. GPA was paying its linemen approximately $13/hr whereas utilities in the mainland were offering nearly $30/hr. Some utilities were offering bonuses as high as $25,000 for linemen willing to come work at their utilities.

In response to this threat, GPA engaged the Guam Legislature in a dialog to address the situation faced by the Authority. The discussions resulted in the passage of Public Law 28-113 signed into law in April 2006 which authorized the Consolidated Commission on Utilities (CCU) to have authority over the establishment of pay scales for certified, technical and professional employees of the Authority. Under the terms of the rules promulgated by the CCU and approved by the Guam Legislature, the Authority conducted a study comparing market wages for utility positions in the mainland with the wages paid by the Authority. When the study was completed, it revealed the pay disparity was much worse than believed. More than 99% of all positions within the Authority were in the bottom 5% on the bell curve of utility wages. GPA recognized that while there was an immediate problem of highly skilled operations personnel leaving the utility, there was a gathering threat on the horizon for other highly skilled positions within the Authority including accountants, human resource personnel, procurement personnel, and customer service personnel. Based on these findings, GPA expanded its definition of highly skilled personnel to include these professions.

In January 2008, GPA made the initial move to bring all Authority wages up to the fifth percentile. The cost of this action, including benefits, was $3.0 million. In January 2009, GPA made a second adjustment to bring all Authority wages to the high 10th percentile/low 15th percentile. The cost of this action, including benefits, was $2.1 million. GPA deferred any adjustment to wages for Fiscal Year 2010 due to budgetary shortfalls. At the pace GPA is currently on, it will reach its goal of having all employees at the 50th percentile by 2020. GPA's total labor costs for Fiscal Year 2009 were $33 million which represents approximately 8.5% of GPA's total revenues for the year.

Since raising the issue of personnel costs with the Guam Legislature, the Port Authority of Guam, the Guam International Airport Authority, and the Guam Community College have all sought and received similar wage scale authorizations. The Guam Legislature has also mandated a government-wide pay scale review of all positions within the general government.

The Authority has been highly criticized throughout the Government of Guam and in the local media for the actions it has taken with respect to the adoption of the new wage scale as authorized by the Guam Legislature. GPA maintains that its actions were prudent and reasonable. GPA does not believe the criticisms of its actions in this regard have any rational basis.

Commercial Paper Credit Agreement

Fiscal Year 2009 was one of the most challenging years ever faced by GPA. In the spring of 2007, GPA issued a Request For Proposal to identify a replacement provider for its letter-of-credit facility backing up its commercial paper program. GPA believed that with its improving record of performance, it would be able to attract a bank to its program that would enable the conversion of the program back to a tax-exempt basis. In August 2007, GPA became aware that its bond insurer was beginning to face some problems with collateralized mortgage obligations it had insured. These problems impeded GPA's effort to identify a replacement credit facility. As the problems with the insurer grew worse, GPA's ability to access capital markets became impaired. In July 2008, GPA became unable to market its commercial paper with the insurer as part of the program. GPA's financial advisor had indicated that GPA's paper would be marketable if the program was de-linked from the insurer. GPA's current credit provider was unwilling to release the insurer from the program and GPA was unable to attract an alternative credit provider with the credit markets tightening. In August 2008, GPA negotiated a one-year period, with interest only payments on the $20 million outstanding balance while GPA either found another credit provider or made provisions to begin repaying the credit facility over a three year period.

In November 2008, GPA's insurer was downgraded creating a default situation with GPA's credit agreement. Fortunately, GPA's credit provider was willing to work with GPA wherein the credit agreement between the parties was converted to a loan with a four year amortization period at a market interest rate, which resulted in the default situation being cured. Under the terms of the credit agreement, the credit provider had the right to very stringent terms, however, the credit provider's willingness to work with the Authority was a significant factor in allowing GPA to weather this financial storm.

Shortly after the loan conversion was completed, the bond insurer lost its investment grade rating which triggered a second default action on the part of GPA. GPA and its credit provider have entered into a temporary rate agreement wherein the bank is retaining the right to declare a default on the part of GPA continuing to allow the repayment of the loan with terms more favorable than the default interest rate, and is continuing to work with GPA while we continue to seek an alternative credit provider.

Hedging Program

GPA initiated a revision to its hedging program in 2007 wherein it would target 50% of its fuel supply for inclusion in hedging contracts. GPA's program allows for zero cost dollar transactions wherein GPA is protected against upward swings in the price of fuel above a call price but is required to pay a lower put price in the event the price of fuel drops below the level of the put. When the bottom fell out of the fuel market, GPA had 50% of its fuel costs hedged for nearly one year. Two of GPA's hedge providers were comfortable with GPA's credit and the repayment provisions in GPA's Levelized Energy Adjustment Clause (LEAC), which assures the full recovery of any hedging losses. However, the third provider required the Authority to put up margin call requirements. This placed the Authority under a severe cash flow strain.

Table 1. Financial Data (in millions)

Statements of Net Assets (in millions)

	2009	2008 (As Restated)	2007 (As Restated)
Assets:			
Current assets	$ 176.1	$ 170.6	$ 162.0
Non-current investments	27.5	27.5	27.5
Other non-current assets	24.6	23.6	32.2
Utility plant	511.1	522.4	534.4
Total Assets	$ 739.3	$ 744.1	$ 756.1
Liabilities:			
Current liabilities	$ 90.0	$ 65.5	$ 80.2
Non-current liabilities	500.9	516.2	523.9
Total Liabilities	590.9	581.7	604.1
Net Assets:			
Invested in capital assets net of related debt	16.3	14.8	15.0
Restricted	53.1	56.7	51.5
Unrestricted	79.0	90.9	85.5
Total Net Assets	148.4	162.4	152.0
	$ 739.3	$ 744.1	$ 756.1

Results of Operations (in millions)

	2009	2008 (As Restated)	2007 (As Restated)
Revenues	$ 388.9	$ 370.6	$ 306.7
Total operating and maintenance expense	366.8	341.6	270.3
Operating earnings	22.1	29.0	36.4
Interest income	2.0	3.5	4.2
Other non-operating revenues (expense), net	(41.7)	(27.0)	(50.8)
Income (loss) before capital contributions	(17.6)	5.5	(10.2)
Capital contributions	3.6	4.9	3.0
Change in net assets	$ (14.0)	$ 10.4	$ (7.2)

Explanations of Variances

The restatement pertains to the re-designation of the Defined Benefit (DB) Plan by GovGuam's Department of Administration, on behalf of the Government of Guam, from a single-employer plan to a cost-sharing multiple-employer plan. Please refer to note 16 of the accompanying financial statements for additional details concerning information on this restatement.

The increase in current assets is largely driven by the increased carrying value of fuel.

Other non-current assets are decreasing from the 2007 level of $32.2 million as a result of continued collections of long outstanding receivables from Government of Guam.

The Utility plant decreases are resulting from the cash strains GPA has been under in recent years. These should be addressed by the series of rate actions planned with the PUC.

Current liabilities are within the expected range of fluctuation caused by the timing of fuel deliveries. A component of the increase is also related to the increased cost of fuel recorded in the fuel payable.

The decreases in non-current payables are the result of principal payments on GPA's outstanding debt.

The increases in revenues and operating expenses are driven by the increase in fuel prices and the corresponding increases in GPA's LEAC where the high fuel costs are recovered. Energy sales were down slightly year over year for the three year period. This is the result of significant conservation efforts taking place among GPA ratepayers.

GPA's other production costs increased nearly $4.6 million from Fiscal Year (FY) 2008 to FY2009. During the year, GPA performed some catch-up maintenance on some of its generation units. The inability to keep pace with maintenance needs has been a major driver behind GPA's recent rate requests. GPA had an overhaul planned for the Cabras #2 generator for FY2008 which was pushed into FY2009. This caused the FY2008 costs to be lower than expected and the FY2009 costs to be higher than normal. In addition, when the Cabras #2 overhaul was performed, GPA learned that additional work was required on the boiler beyond what was included in the spending plan.

The other revenue and expense numbers are impacted by the write-off of a streetlight receivable from the Government of Guam in 2007 and the reversal of the write-off when the amount was collected from the Government in 2008.

The factors that led to the net decrease in net assets were the starting point of negative $3.5 million, the $10 million difference between actual sales and the forecast, the shortfall in investment income and the additional commercial paper interest. GPA attempted to cut its budget to adapt to the revenue shortfall; however, many of the budget reductions were offset by the increased costs in other production.

Capital Asset Activities

There were no major capital asset activities for FY09 other than described in note 18 in the accompanying financial statements. Most of the capital activities were related to line extension and repair projects and minor plant improvement projects.

Long Term Debt Activities

There were no long term debt activities during the year other than described in note 6 in the accompanying financial statements.

Commitments for Capital Expenditures

The 2010 capital improvement project budget is approximately $24.6 million.

Contacting GPA's Financial Management

The Management Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting GPA's operations. This financial report is designed to provide a general overview of GPA's finances and to demonstrate GPA's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the years ended September 30, 2008 and 2007 is set forth on pages 1 to 5 of the report on the audit of Guam Power Authority's financial statements for those years which is dated March 31, 2009. That Discussion and Analysis explains in more detail major factors impacting the 2008 and 2007 financial statements, but does not include the effects of the restatement discussed on page 6 of this Discussion and Analysis and in note 16 of the financial statements. A copy of that report can be obtained by contacting the Financial Controller or from GPA's website at the addresses noted below.

For additional information about this report, please contact Mr. Randall V. Wiegand, Chief Financial Officer, Guam Power Authority, P.O. Box 2977, Hagåtña, Guam 96932-2977 or visit the website at www.guampowerauthority.com.

GUAM POWER AUTHORITY

Statements of Net Assets
September 30, 2009 and 2008

ASSETS	2009	2008 (As Restated, see Note 16)
Current assets:		
Cash and cash equivalents:		
Held by trustee for restricted purposes:		
Interest and principal funds	$ 17,345,795	$ 17,592,267
Bond indenture funds	32,435,531	27,681,744
Held by Guam Power Authority:		
Bond indenture funds	11,186,192	11,293,886
Escrow account - restricted	1,953,743	5,500,000
Self-insurance fund - restricted	3,609,565	2,233,834
Total cash and cash equivalents	66,530,826	64,301,731
Short-term investments held by trustee	698,564	1,984,049
Accounts receivable, net	36,788,152	45,102,705
Current installments of long-term receivables	5,352,292	4,811,962
Total current receivables	42,140,444	49,914,667
Materials and supplies inventory, net	12,365,580	12,632,930
Fuel inventory	53,693,177	40,990,313
Prepaid expenses	698,049	729,962
Total current assets	176,126,640	170,553,652
Regulatory assets:		
Deferred fuel costs, net	4,764,848	-
Deferred typhoon losses	-	2,470,992
Cancelled unit, net of amortization	502,180	624,356
Total regulatory assets	5,267,028	3,095,348
Utility plant, at cost:		
Electric plant in service	856,904,413	837,756,513
Less accumulated depreciation	(355,748,260)	(329,522,068)
	501,156,153	508,234,445
Construction work in progress	9,950,817	14,187,283
Total utility plant	511,106,970	522,421,728
Other non-current assets:		
Investments - bond reserve funds held by trustee	27,488,268	27,488,268
Long-term receivables, less current installments	8,596,342	11,076,108
Unamortized debt issuance costs	4,121,672	4,288,877
Deferred asset, net	3,346,370	3,505,720
Other assets	1,067,335	1,713,347
Total other non-current assets	44,619,987	48,072,320
	$ 737,120,625	$ 744,143,048

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Net Assets, Continued
September 30, 2009 and 2008

LIABILITIES AND NET ASSETS	2009	2008 (As Restated, see Note 16)
Current liabilities:		
Short-term debt	$ -	$ 20,000,000
Current maturities of long-term debt	24,873,600	7,080,000
Current obligations under capital leases	8,028,667	7,113,678
Deferred payment agreement	3,485,380	-
Accounts payable:		
Operations	13,122,272	12,643,874
Fuel	21,302,544	858,436
Payable to federal government	872,021	177,025
Accrued payroll and employees' benefits	904,042	1,034,601
Current portion of employees' annual leave	1,385,384	1,116,800
Interest payable	10,866,041	10,902,571
Customer deposits	5,212,706	4,560,829
Total current liabilities	90,052,657	65,487,814
Regulatory liabilities:		
Deferred fuel revenue, net	-	4,580,169
Provision for self-insurance	3,609,565	2,233,834
Total regulatory liabilities	3,609,565	6,814,003
Long-term debt, net of current maturities	362,746,640	368,932,816
Employees' annual leave, net of current portion	1,384,415	1,224,717
Obligations under capital leases, net of current portion	117,129,040	125,157,381
DCRS sick leave liability	1,559,545	1,292,473
Deferred revenues	12,264,370	12,848,388
Total liabilities	588,746,232	581,757,592
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	16,331,203	14,762,209
Restricted	53,066,840	56,331,082
Unrestricted	78,976,350	91,292,165
Total net assets	148,374,393	162,385,456
	$ 737,120,625	$ 744,143,048

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008 (As Restated, see Note 16)
Revenues:		
Sales of electricity	$ 388,004,036	$ 368,957,936
Miscellaneous	1,520,926	2,586,523
	389,524,962	371,544,459
Bad debt expense	(577,333)	(920,484)
Total revenues	388,947,629	370,623,975
Operating and maintenance expenses:		
Production fuel	254,372,323	237,062,567
Other production	24,630,931	20,083,143
	279,003,254	257,145,710
Administrative and general	26,682,265	25,154,207
Depreciation and amortization	27,596,710	27,169,664
Energy conversion costs	19,180,679	18,882,846
Transmission and distribution	11,140,950	10,283,950
Customer accounting	3,241,855	2,979,209
Total operating and maintenance expenses	366,845,713	341,615,586
Operating earnings	22,101,916	29,008,389
Non-operating revenues (expense):		
Recovery of GovGuam receivable	-	13,488,544
Interest revenue	2,063,111	3,500,762
Allowance for funds used during construction	-	686,341
Other expense	(1,456,985)	(1,774,370)
Interest expense	(40,339,759)	(39,470,978)
Total non-operating revenues (expense), net	(39,733,633)	(23,569,701)
(Loss) income before capital contributions	(17,631,717)	5,438,688
Capital contributions:		
Grants from the United States Government	3,620,654	4,926,028
Change in net assets	(14,011,063)	10,364,716
Net assets at beginning of year	162,385,456	152,020,740
Net assets at end of year	$ 148,374,393	$ 162,385,456

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

Increase (decrease) in cash and cash equivalents	2009	2008 (As Restated, see Note 16)
Cash flows from operating activities:		
Cash received from customers	$ 394,514,331	$ 394,715,367
Cash payments to suppliers for goods and services	(301,444,542)	(304,470,114)
Cash payments to employees for services	(29,583,850)	(28,503,967)
Cash payments for retiree benefits	(1,927,116)	(2,006,013)
Net cash provided by operating activities	61,558,823	59,735,273
Cash flows from investing activities:		
Withdrawal from (deposit to) short-term investments	1,285,485	(1,984,049)
Interest and dividends on investments and bank accounts	1,462,991	2,870,787
Net cash provided by investing activities	2,748,476	886,738
Cash flows from noncapital financing activities:		
Self insurance fund receipts	3,846,723	2,395,984
Payment of short-term debt	(2,500,001)	-
Interest paid on short-term debt, deferred payment agreements and deposits	(2,269,202)	(990,982)
Net cash (used in) provided by noncapital financing activities	(922,480)	1,405,002
Cash flows from capital and related financing activities:		
Additions to utility plant	(17,616,761)	(16,872,325)
Principal paid on bonds	(7,080,000)	(6,770,000)
Interest paid on bonds	(20,622,156)	(19,869,766)
Principal paid on capital leases	(7,113,352)	(6,304,602)
Interest paid on capital leases	(15,970,951)	(16,779,702)
FEMA receipts	7,247,496	4,447,864
Net cash used in capital and related financing activities	(61,155,724)	(62,148,531)
Net change in cash and cash equivalents	2,229,095	(121,518)
Cash and cash equivalents at beginning of year	64,301,731	64,423,249
Cash and cash equivalents at end of year	$ 66,530,826	$ 64,301,731

See accompanying notes to financial statements.

GUAM POWER AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 2009 and 2008

	2009	2008 (As Restated, see Note 16)
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	$ 22,101,916	$ 29,008,389
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Recovery of bad debt	-	13,488,544
Depreciation and amortization	27,596,710	27,169,664
Bad debts	577,333	920,484
(Increase) decrease in assets:		
Accounts receivable	4,821,476	1,382,310
Long-term receivables	1,939,436	3,639,845
Materials and supplies inventory	267,350	(211,900)
Fuel inventory	(12,702,864)	(7,406,759)
Prepaid expenses	31,913	61,246
Deferred fuel costs	(4,764,848)	2,141,464
Other assets	646,012	110,011
Increase (decrease) in liabilities:		
Accounts payable - fuel	20,444,108	(16,453,762)
Accounts payable - operations	478,398	1,980,249
Deferred payment agreements	3,485,380	(1,101,681)
Customer deposits	651,877	80,040
Deferred fuel revenue	(4,580,169)	4,580,169
Accrued payroll and employees' benefits	(130,559)	(89,391)
Employees' annual and sick leave	695,354	436,351
Net cash provided by operating activities	$ 61,558,823	$ 59,735,273

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The Guam Power Authority (GPA) is a component unit of the Government of Guam (GovGuam). GPA provides electrical services on Guam to residential, commercial and Government of Guam customers and to the U.S. Navy under a customer supplier agreement. GPA is governed by the Consolidated Commission on Utilities (CCU), an elected five member board. GPA is subject to the regulations of the Public Utilities Commission of Guam (PUC) and has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). Because of the rate-making process, certain differences arise in the application of accounting principles generally accepted in the United States of America between regulated and non-regulated businesses. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

Basis of Accounting

The accounting policies of GPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. GPA utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting"* requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. GPA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Net Assets

Net assets represent the residual interest in GPA's assets after liabilities are deducted and consist of four sections: invested in capital assets, net of related debt; restricted expendable and nonexpendable, and unrestricted. Net assets invested in capital assets, net of related debt, include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. All of GPA's restricted net assets are expendable. All other net assets are unrestricted.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

As an instrumentality of GovGuam, GPA and all property acquired by or for GPA, and all revenues and income there from are exempt from taxation by GovGuam or by any political subdivision or public corporation thereof and from all taxes imposed under the authority of the Guam Legislature, or with respect to which the Guam Legislature is authorized to grant exemption.

(1) Organization and Summary of Significant Accounting Policies, Continued

Utility Plant

Utility plant is stated at cost. Cost includes an allowance on certain projects for funds used during construction of specific power generation plants based on the net cost of borrowed funds used for construction purposes. Contributions in aid of construction are deducted from the cost of the utility plant. Current policy is to capitalize items over $1,000.

Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets (5-60 years for plant assets).

Inventory Valuation

Materials and supplies inventories and fuel inventories are stated at the lower of cost (using the weighted average and the first-in, first-out method, respectively), or market.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, money market accounts and U.S. treasury bills with original maturities of three months or less in the interest and principal funds for debt repayment, the bond indenture funds, and the self-insurance fund.

Investments

GPA values its investments based on fair values in accordance with GASB Statement No. 31.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, up to 100 hours of excess annual leave existing at February 28, 2003 may be credited to sick leave and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

Deferred Asset and Deferred Revenues

The deferred asset and deferred revenues arose as a result of the Bond Reserve Fund Forward Delivery Agreement entered into in September 2000. The deferred asset represents termination fees and closing costs and the deferred revenues represent the gross proceeds that will be deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds.

(1) Organization and Summary of Significant Accounting Policies, Continued

Sales of Electricity

Sales of electricity are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled receivables at September 30, 2009 and 2008 are $7,986,423 and $9,268,449, respectively.

Allowance for Doubtful Receivables

The allowance for doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of GPA. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and costs.

Derivative Instruments

GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, adopts many of the definitions established in Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and clarifies guidance on derivative disclosures, pending the results of the GASB's project on reporting and measurement of derivatives and hedging activities.

Disclosures required by Technical Bulletin 2003-1 for GPA's fuel oil hedging activities are included in note 15.

Technical Bulletin 2003-1 also adopts the FASB 133 exception for certain derivative transactions that meet the criteria of "normal purchases and normal sales". Power purchase agreements generally meet the "normal purchases and normal sales" exception. Accordingly, the operations and maintenance portions of GPA's energy conversion agreements (see note 11) are excluded from the Technical Bulletin requirements under the "normal purchases and normal sales" exception.

Fuel Oil Costs

Fuel oil costs increase or decrease billings to customers based on price changes in fuel oil purchased by GPA. Under or over recoveries of fuel oil costs are recorded as deferred fuel cost assets or deferred fuel revenue liabilities, respectively, in the accompanying statements of net assets, and are recovered or deducted in future billings to customers based on the Levelized Energy Adjustment Clause (LEAC) approved by the PUC in January of 1996. The LEAC results in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel and related costs. Cumulative unrecovered fuel costs amount to $6,921,597 at September 30, 2009. Over recoveries of fuel cost amounted to $4,580,169 at September 30, 2008.

(1) Organization and Summary of Significant Accounting Policies, Continued

Fuel Oil Costs, Continued

During the year ended September 30, 2009, PUC approved new fuel surcharges to recover the cost difference between fuel inventory on hand against a base year. At September 30, 2009, cumulative unrecovered fuel inventory costs amount to $78,475 and surcharges that have been billed but not yet earned amounted to $2,235,224. The net amount of $2,156,749 is presented as a component of deferred fuel costs, net at September 30, 2009.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) is provided only for construction projects of more than $50,000, which require a minimum of 90 days to complete. AFUDC is computed using the interest expense on directly assignable borrowings to finance the projects less interest income on the related unused borrowings which have been invested. AFUDC is provided only during the period in which such projects are undergoing activities to prepare them for their intended use.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs include costs related to the issuance of the Series 1993 and Series 1999 bonds. These costs are being amortized on the straight line method over the life of the applicable debt, which approximates the effective interest method.

Canceled Unit

The canceled unit account consists of costs incurred in the refurbishment of the Weber Power Barge. The barge refurbishment project was abandoned during the year ended September 30, 1994. These costs are being amortized on a straight-line basis over the life of the bonds used to finance the refurbishment costs.

Reclassifications

Certain balances in the 2008 financial statements have been reclassified to correspond with the 2009 presentation.

New Accounting Standards

During fiscal year 2009, GPA implemented the following pronouncements:

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. The effect of the implementation of this statement on the financial statements of GPA has not been determined.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. The effect of the implementation of this statement on the financial statements of GPA has not been determined.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

(2) Concentrations of Credit Risk

Financial instruments which potentially subject GPA to concentrations of credit risk consist principally of cash and cash equivalents, investments and accounts receivable.

At September 30, 2009 and 2008, GPA has cash deposits in bank accounts that exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam. Concentrations largely result from accounts and notes receivable from Government of Guam agencies and the U.S. Navy. Management assesses the risk of loss and provides for an allowance for doubtful accounts to compensate for known credit risks.

(3) Cash and Investments

The bond indenture agreements for the 1993 and 1999 series revenue bonds (note 6) require the establishment of special funds to be held and administered by trustees and by GPA. In addition, proceeds from borrowings to finance generation and transmission facility construction are maintained by GPA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used for generation and transmission facility construction.

At September 30, 2009 and 2008, cash and cash equivalents held by trustees and by GPA in these funds and accounts are as follows:

	2009				
	Held By Trustee		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Other Restricted Funds	Bond Indenture Funds	Total
Construction funds	$ -	$ 16,314,828	$ -	$ -	$ 16,314,828
Interest and principal funds	17,345,795	-	-	-	17,345,795
Bond funds	-	2,232,491	-	-	2,232,491
Escrow account	-	-	1,953,743	-	1,953,743
Working capital funds	-	14,586,776	-	3,000,000	17,586,776
Self-insurance fund	-	-	3,609,565	-	3,609,565
Revenue funds	-	-	-	6,236,073	6,236,073
Operating funds	-	-	-	1,695,449	1,695,449
Surplus funds	-	-	-	254,670	254,670
	$ 17,345,795	$ 33,134,095	$ 5,563,308	$ 11,186,192	$ 67,229,390

	2008				
	Held By Trustee		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Other Restricted Funds	Bond Indenture Funds	Total
Construction funds	$ -	$ 16,324,057	$ -	$ -	$ 16,324,057
Interest and principal funds	17,592,267	-	-	-	17,592,267
Bond funds	-	4,818,992	-	-	4,818,992
Escrow account	-	-	5,500,000	-	5,500,000
Working capital funds	-	8,522,744	-	-	8,522,744
Self-insurance fund	-	-	2,233,834	-	2,233,834
Revenue funds	-	-	-	5,142,405	5,142,405
Operating funds	-	-	-	5,878,275	5,878,275
Surplus funds	-	-	-	273,206	273,206
	$ 17,592,267	$ 29,665,793	$ 7,733,834	$ 11,293,886	$ 66,285,780

The deposits and investment policies of GPA are governed by 5 GCA 21, *Investments and Deposits* in conjunction with applicable bond indentures. Authorized investments include obligations issued or guaranteed by the U.S. government or agencies of the U.S. government; bonds, notes or other indebtedness rated in the highest rating by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P); obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities of not more than three years; any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of such state which are rated in the highest rating category of either Moody's or S&P; demand and time deposits in or certificates of deposit or bankers acceptances with U.S. domestic banks which have a rating of their short term certificates of deposit of A-1 or better by S&P and P-1 by Moody's and mature no more than 360 days after purchase; commercial paper which is rating in the highest classification by S&P and Moody's; and money market funds rated AAAm or better by S&P.

(3) Cash and Investments, Continued

A. Cash and Cash Equivalents

GASB Statement No. 3 previously required government entities to categorize cash to give an indication of the level of risk assumed by the entity at year-end. The three categories are described below:

Category 1 Insured or registered, or collateralized with securities held by GPA or its agent in GPA's name;

Category 2 Uninsured and unregistered, but collateralized with securities held by the broker's or dealer's trust department or agent in GPA's name; or

Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in GPA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GPA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GPA does not have a deposit policy for custodial credit risk.

As of September 30, 2009 and 2008, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was $67,229,390 and $66,285,780, respectively, and the corresponding bank balances were $67,310,332 and $64,799,789, respectively. Of the bank balance amount as of September 30, 2009 and 2008, $4,135,581 and $10,089,550 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of $2,171,052 and $2,629,162, respectively, were FDIC insured. Bank balances as of September 30, 2009 and 2008, also include $54,529,056 and $50,291,168, respectively, representing cash and short-term investments held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2009 and 2008, $10,610,224 and $11,879,459, respectively, of cash and cash equivalents are subject to custodial credit risk.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by GPA or its agent in GPA's name;

Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in GPA's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GPA's name.

(3) Cash and Investments, Continued

B. Investments, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 retained and expanded the element of custodial risk in GASB Statement No. 3.

As of September 30, 2009, GPA's investment in debt securities, included in the bond reserve fund, were as follows:

	Amount	Maturity	Moody's Rating
Bond Reserve Fund:			
First America Treasury (cash equivalents)	$ 13,746,268	-	Aaa
HSBC Finance Commercial Paper	13,742,000	October 1, 2009	A3
	$ 27,488,268		

As of September 30, 2008, GPA's investments in debt securities, included in the bond reserve fund, were as follows:

	Amount	Maturity	S&P's Rating
Bond Reserve Fund:			
Crimson Corporation	$ 13,746,268	October 1, 2008	A-1+
UBS Finance Delaware	13,742,000	October 1, 2008	A-1
	$ 27,488,268		

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GPA's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding future debt service requirements. At September 30, 2009 and 2008, $27,488,268 is held in the name of a trustee for GPA, classified as category 3 and are subject to custodial credit risk.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 2009, GPA's investments, including those classified as cash equivalents, that exceeded 5% of total investments are as follows: First America Treasury (36.94%) and HSBC Finance Commercial Paper (16.32%). As of September 30, 2008, GPA's investments, including those classified as cash equivalents, that exceeded 5% of total investments are as follows: UBS Finance Delaware (22.31%), Crimson Commercial paper (22.31%), and First American Treasury (28.56%).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. Maturities of investments in certain funds are limited to five years to limit interest rate risk. Maturities of investments in all funds may not be later than the dates that such moneys are expected to be required by the Trustees.

(4) Receivables

Accounts receivable at September 30, 2009 and 2008, are summarized as follows:

	2009	2008
Customers:		
Private	$ 27,745,789	$ 33,662,426
Government	5,403,926	5,087,395
	33,149,715	38,749,821
U.S. Navy	4,308,442	3,482,473
Federal Emergency Management Agency	-	2,931,846
Interest	558,554	542,452
Others	2,347,747	4,057,569
	40,364,458	49,764,161
Less allowance for doubtful receivables	(3,576,306)	(4,661,456)
	$ 36,788,152	$ 45,102,705

Long-Term Receivables

Long-term receivables at September 30, 2009 and 2008 consisted of the following:

	2009	2008
Installment payment agreement receivable from GovGuam Public School System (GPSS) (now Guam Department of Education, GDOE), resulting from conversion of past due receivable, payable in three $500,000 payments in July, August, September 2004, thirteen monthly installments of $100,000 starting October 2004, with monthly installments increasing by $25,000 annually each November until payments reach $200,000 in November 2008, interest at 4.47% per annum, with the final installment due in July 2013, uncollateralized.	$ 8,325,628	$ 10,288,409
Note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of $75,000, beginning May 2002, including interest at 4.35%, per annum, with the final installments payment due in April 2007, uncollateralized.	390,377	390,375
Receivable due from Guam Waterworks Authority (GWA), payable monthly from a water rate surcharge, interest at 4.3% per annum, uncollateralized.	3,998,968	5,209,286
Receivable due from GWA under a memorandum of understanding (MOU), with monthly installments of $25,688, non-interest bearing, starting October 2009.	1,233,661	-
	13,948,634	15,888,070
Less current portion	(5,352,292)	(4,811,962)
	$ 8,596,342	$ 11,076,108

(4) Receivables, Continued

Long-Term Receivables, Continued

Scheduled maturities of long-term receivables are as follows:

Year ending September 30,	Amount
2010	$ 5,352,292
2011	3,856,021
2012	2,570,058
2013	2,170,263
	$ 13,948,634

On June 23, 2009, GPA and GWA entered into a Memorandum of Understanding where each agency agrees to provide administrative, operational, maintenance, repair and other specified services on behalf of the other agency and each will reimburse the other for their actual costs for providing said services by reducing the costs to each agency and passing on the lower costs to their respective ratepayers and the community as a whole. The MOU also covers the repayment period for prior services rendered by GPA amounting to $1,233,661.

(5) Short-Term Debt

Movements in GPA's short-term debt in 2009 and 2008 are as follows:

	Outstanding October 1, 2008	Increases	Decreases	Outstanding September 30, 2009
Note payable	$ 20,000,000	$ -	$ 20,000,000	$ -

	Outstanding October 1, 2007	Increases	Decreases	Outstanding September 30, 2008
Note payable	$ -	$ 20,000,000	$ -	$ 20,000,000
Taxable commercial paper	20,000,000	-	20,000,000	-
	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000

In March 2009, GPA converted its $20 million note payable to a three year loan, amortizing monthly, with principal payments of $5 million per year at an interest rate at the bank's prime rate plus 2%, with a floor of 6.5%. Unpaid principal is due upon maturity. The loan is secured by a pledge of revenues subordinate to the revenue pledge under the 1993 and 1999 Bond Series indentures, and by $5 million required to be deposited in a collateral account with the bank. Of the $5 million required, $3,608,375 was pledged through the self-insurance fund.

On April 24, 2009, GPA received a Notice of Event of Default related to the Amended and Restated $20 million Credit Agreement with the Bank. The default was triggered by the downgrade in the credit rating of GPA's bond insurer. This default situation entitled the Bank to charge the Authority a 15% default interest rate on the outstanding balance of the loan. On April 29, 2009, the Authority entered into a Temporary Rate Modification Agreement with the Bank wherein the Bank will earn interest at the Bank's Prime Rate plus 5% (but no lower than 6.5%), which was 8.25% at September 30, 2009. The bank reserves the right to revert back to the default interest rate without notice. The Authority has placed an additional $3 million unsecured deposit with the Bank in addition to the previous $5 million deposit that serves as security for the Credit Agreement.

(5) Short-Term Debt, Continued

As a result of the default, the balance of the three-year loan is presented as a current liability in the accompanying financial statements as the Bank reserves the right to call upon the unpaid balance (see note 6).

Deferred Payment Agreement:

At September 30, 2009, deferred payments of $3,485,380 are due to a vendor, payable in various monthly installments including interest at 4% to 5% per annum, due in September 2010.

(6) Long-Term Debt

Long-term debt at September 30, 2009 and 2008, is as follows:

	2009	2008
Bonds:		
1999 Series, initial face value of $349,178,601, interest at varying rates from 5.0% to 5.25% per annum payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of $2,950,000 in October 2000, increasing to $26,110,000 in October 2034.	$ 317,883,601	$ 321,933,601
1993 Series, initial face value of $100 million, interest at 5.25% per annum payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of $1,725,000 in October 1996, increasing to $6,535,000 in October 2023.	70,175,000	73,205,000
	388,058,601	395,138,601
Less current maturities	(7,373,601)	(7,080,000)
	380,685,000	388,058,601
Less discount on bonds	(4,597,790)	(4,905,617)
	376,087,210	383,152,984
Loss on defeasance, net of $8,649,379 and $7,769,781 of accumulated amortization in 2009 and 2008, respectively	(13,340,570)	(14,220,168)
Total bonds	$ 362,746,640	$ 368,932,816

(6) Long-Term Debt, Continued

Bonds, Continued:

As of September 30, 2009, future maturities of long-term debt are as follows:

Year ending September 30,	Principal	Interest	Total Debt Service
2010	$ 7,373,601	$ 19,687,813	$ 27,061,414
2011	7,795,000	19,278,575	27,073,575
2012	8,205,000	18,847,813	27,052,813
2013	8,635,000	18,394,475	27,029,475
2014	9,090,000	17,917,250	27,007,250
2015 through 2019	53,070,000	81,601,825	134,671,825
2020 through 2024	68,130,000	65,798,000	133,928,000
2025 through 2029	87,355,000	45,603,550	132,958,550
2030 through 2034	112,295,000	19,244,925	131,539,925
2035	26,110,000	-	26,110,000
	$ 388,058,601	$ 306,374,226	$ 694,432,827

Proceeds of the 1993 series bonds, face value of $100 million, were used to finance acquisitions of additional generating capacity, to construct additional transmission facilities, and to upgrade and refurbish existing equipment.

Proceeds of the 1999 series bonds, face value of $349,178,601, were used to finance new projects as specified in the bond indenture and to retire certain outstanding bonds and commercial paper issued for the purpose of financing certain commercial paper projects.

All gross revenues of GPA have been pledged to repay the 1993 and 1999 series bond principal and interest. The debt service for the 1993 and 1999 series bonds was $27,151,587 and $26,955,841 for the years ended September 30, 2009 and 2008, respectively, or approximately 7.0% and 7.3%, respectively, of pledged gross revenues for those years.

Discounts associated with 1993 and 1999 bond series are being amortized using the effective interest method over the lives of the bonds.

On September 28, 2000, GPA entered into a Bond Reserve Fund Forward Delivery Agreement (the agreement) with the US Bank Trust National Association and Bank of America. In connection with the agreement, GPA received cash, totaling $13.5 million, in October 2000 representing the present value of interest income on certain invested bond proceeds.

Based on the terms of the agreement, gross proceeds totaled $17,521,029 while GPA incurred termination fees and closing costs totaling $3,530,000 and $1,250,529, respectively. The $13.5 million in net proceeds included $759,500 of interest income earned as of the closing date of the agreement. The gross proceeds, termination fees and closing costs have been deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds. The gross proceeds, net of amortization, are reflected as deferred revenue in the accompanying statements of net assets. The termination fees and closing costs amortization are reflected as a deferred asset in the accompanying statements of net assets. The current year amortization of deferred revenue and deferred asset is reflected as components of interest income and interest expense, respectively, in the accompanying statements of revenues, expenses and changes in net assets.

(6) Long-Term Debt, Continued

The following summarizes deferred revenues and deferred asset at September 30, 2009 and 2008:

	2009	2008
Deferred revenues	$ 17,521,029	$ 17,521,029
Accumulated amortization	(5,256,659)	(4,672,641)
	$ 12,264,370	$ 12,848,388
Deferred asset	$ 4,780,529	$ 4,780,529
Accumulated amortization	(1,434,159)	(1,274,809)
	$ 3,346,370	$ 3,505,720

Note Payable to Bank:

At September 30, 2009, note payable to bank of $17,499,999 is due on the $20,000,000 three year loan, bearing interest at 8.25% per annum and presented as current due to default status resulting from a ratings downgrade of GPA's bond insurer (refer to note 5). The note is collateralized by a pledge of revenues subordinate to bondholders under GPA's bond issues and by $5 million deposited in a collateral account with the bank. As of September 30, 2009, future maturities of this note payable, assuming no accelerated payments are called upon, is as follows:

Year ending September 30,	Principal	Interest	Total Debt Service
2010	$ 5,000,000	$ 1,272,000	$ 6,272,000
2011	5,000,000	953,000	5,953,000
2012	7,499,999	270,000	7,769,999
	$ 17,499,999	$ 2,495,000	$ 19,994,999

Changes in long-term liabilities are presented as follows:

	Outstanding October 1, 2008	Increases	Decreases	Outstanding September 30, 2009	Current
1993 Series bonds	$ 73,205,000	$ -	$ (3,030,000)	$ 70,175,000	$ 3,190,000
1999 Series bonds	321,933,601	-	(4,050,000)	317,883,601	4,183,601
Unamortized discount on bonds	(4,905,617)	-	307,827	(4,597,790)	-
Loss on defeasance of bonds	(14,220,168)	-	879,598	(13,340,570)	-
Note payable to Bank	-	20,000,000	(2,500,001)	17,499,999	17,499,999
Obligations under capital leases	132,271,059	-	(7,113,352)	125,157,707	8,028,667
DCRS sick leave liability	1,292,473	267,072	-	1,559,545	-
Deferred payment agreements	-	3,485,380	-	3,485,380	3,485,380
Employees annual leave	2,341,517	1,877,938	(1,449,656)	2,769,799	1,385,384
Deferred revenues	12,848,388	-	(584,018)	12,264,370	-
	$ 524,766,253	$ 24,180,734	$ (16,089,946)	$ 532,857,041	$ 37,773,031

(6) Long-Term Debt, Continued

	Outstanding October 1, 2007	Increases	Decreases	Outstanding September 30, 2008	Current
1993 Series bonds	$ 76,085,000	$ -	$ (2,880,000)	$ 73,205,000	$ 3,030,000
1999 Series bonds	325,823,601	-	(3,890,000)	321,933,601	4,050,000
Unamortized discount on bonds	(5,213,445)	-	307,828	(4,905,617)	-
Loss on defeasance of bonds	(15,099,766)	-	879,598	(14,220,168)	-
Obligations under capital leases	138,575,661	-	(6,304,602)	132,271,059	7,113,678
DCRS sick leave liability	1,041,974	250,499	-	1,292,473	-
Deferred payment agreements	1,101,681	-	(1,101,681)	-	-
Employees annual leave	2,155,665	1,710,641	(1,524,789)	2,341,517	1,116,800
Deferred revenues	13,432,405	-	(584,017)	12,848,388	-
	$ 537,902,776	$ 436,351	$ (13,572,874)	$ 524,766,253	$ 15,310,478

(7) Defeased Debt

On May 1, 1999, GPA issued the 1999 Series bonds of $349,178,601 to finance 1999 projects; to retire $45 million in tax exempt commercial paper notes; to retire GPA's 1992 and 1994 series bonds with a total principal outstanding of $143,660,000 and $99,820,000, respectively; and to pay the amount currently due on the 1993 bonds totaling $1,950,000. The proceeds for the refunding of the aforementioned bonds were transferred to an escrow agent who used the proceeds to purchase U.S. Government securities which are to be held by the escrow agent in an irrevocable trust to provide debt service payments until maturity or earlier redemption of the 1992 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling $21,989,949 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss has been deferred and amortized over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the bond liability in the accompanying statements of net assets.

(8) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

GPA participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GPA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

The DB Plan was originally designated as a single-employer plan but was redesignated by GovGuam's Department of Administration as a cost-sharing multiple-employer plan, effective October 1, 2008. The redesignation was based on the determination as outlined under GASB Statement No.27, *Accounting for Pensions by State and Local Government Employers*, that all risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the separate employers. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8 Maite, Guam 96910.

As more fully discussed in Note 16, the redesignation from a single-employer plan to a cost-sharing multiple-employer plan resulted in a restatement relating to the accrued unfunded liability.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2007, 2006, and 2005, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2009, 2008 and 2007, respectively, have been determined as follows:

	2009	2008	2007
Normal costs (% of DB Plan payroll)	17.36%	17.94%	18.21%
Employee contributions (DB Plan employees)	9.50%	9.50%	9.50%
Employer portion of normal costs (% of DB Plan payroll)	7.86%	8.44%	8.71%
Employer portion of normal costs (% of total payroll)	3.70%	3.99%	4.26%
Unfunded liability cost (% of total payroll)	19.68%	20.75%	20.66%
Government contribution as a % of total payroll	23.38%	24.74%	24.92%
Statutory contribution rates as a % of DB Plan payroll			
Employer	25.20%	24.07%	22.94%
Employee	9.50%	9.50%	9.50%

GPA's contributions to the DB Plan for the years ending September 30, 2009, 2008 and 2007 were $2,705,933, $2,547,415 and $2,411,457, respectively, which were equal to the required contributions for the respective years then ended.

Defined Contribution Plan

Contributions into the Defined Contribution Retirement System (DCRS) plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual investment account within the DCRS. Employees are afforded the opportunity to select from different investment accounts available under the DCRS.

(8) Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

Statutory employer contributions into the DCRS plan for the years ended September 30, 2009 and 2008, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

GPA's contributions to the DCRS plan for the years ended September 30, 2009, 2008 and 2007 were $3,127,292, $2,557,142 and $2,189,262, respectively, which were equal to the required contributions for the respective years then ended.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. GPA has accrued an estimated liability of $1,559,545 and $1,292,473 at September 30, 2009 and 2008, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with $10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

For the years ended September 30, 2009 , 2008 and 2007, GPA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	2009	2008	2007
Supplemental benefits	$ 359,528	$ 484,590	$ 501,906
Medical and dental	1,567,588	1,521,423	529,000
	$ 1,927,116	$ 2,006,013	$ 1,030,906

(9) Commitments and Contingencies

Capital Commitments

The 2010 capital improvement project budget is approximately $24.6 million.

Fuel Purchase Contracts

In February 2007 and December 2006, GPA has entered into agreements to purchase residual fuel oil and low sulfur fuel oil, respectively. The agreements are for three years with an option to extend for two additional one year terms.

Operating Leases

On December 31, 2002, GPA entered into a lease agreement for its office building for a period of five years, including extensions, with a monthly rental of $25,000. On January 1, 2008, GPA renewed the lease agreement for an additional term of two years with a monthly rental of $45,000, expiring on December 31, 2009. The renewed lease has an option to extend for an additional three years.

GPA entered into a ten-year lease of fuel storage tanks beginning in September 1998, with monthly rentals increasing to $107,500 in March 2003. The lease has an option to renew for an additional 5-year period, expiring in September 2013, at an increased monthly rental of $115,650. On February 8, 2008, GPA renewed the agreement for an additional five year term from March 1, 2008 to February 28, 2013.

At September 30, 2009, future minimum lease payments for operating leases are as follows:

Year ending September 30,	Amount
2010	$ 1,716,756
2011	1,565,637
2012	1,447,261
2013	698,105
	$ 5,427,759

Rent expense under the aforementioned agreements totaled $2,061,756 and $1,812,999 during the years ended September 30, 2009 and 2008, respectively.

Performance Management Contracts

On January 1, 2003 and 2005, GPA entered into Performance Management Contracts (PMC) with two companies, for the operation and maintenance of the Cabras 1 and 2 and Cabras 3 and 4 generators, respectively. PMC contracts are for a period of 5 years. On December 31, 2008, GPA extended the PMC contract for the Cabras 1 and 2 power plants to complete the maintenance and repair overhauls and to continue management and operations for both plants for period not to exceed six months from January 1, 2009 to June 30, 2009. A contract extension was granted until December 31, 2009. The bidding process for PMC contract for Cabras 1 and 2 is under a procurement protest and GPA management was unable to award a PMC contract for Cabras 1 and 2 prior to the expiration of last extension.

(9) Commitments and Contingencies

Performance Management Contracts, Continued

Pending a resolution of procurement protest, GPA allowed the current company to continue with the plant management of Cabras 1 and 2 power plants on a month to month basis not to exceed a nine-month period ending September 30, 2010.

At September 30, 2009, the minimum future management fees for the PMC above are $346,095 for the year ending September 30, 2010.

The above fees are subject to certain incentives and penalties, as agreed by both parties.

Letters of Credit

As of September 30, 2009, GPA has a $20 million uncollateralized revolving documentary letter of credit for purchases of fuel. Commitments under standby letter of credit at September 30, 2009 totaled $10,000.

Environmental Protection Agency

On May 24, 1986, the administrator of the U.S. Environmental Protection Agency (EPA) granted a continuing exemption to GPA under the provisions of Section 325(b) of the Clean Air Act, as amended. The terms of the exemption require monitoring by EPA, certain commitments by GPA regarding fuel stocks and reporting and delineation of grounds for revocation of the exemption.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2009. It is not possible for the management of GPA to estimate the ultimate resolution of these matters and therefore, no provision for any liability that may result from these claims has been made in the financial statements.

Self-Insurance

GPA self-insures its transmission and distribution (T&D) plant, because no insurance is available at reasonable rates.

As the result of a PUC Decision and Order, GPA added an insurance charge of $.00145 per kilowatt hour to customer billings effective January 1, 1993 until a self- insurance fund balance of $2.5 million is established. On February 12, 2008, PUC has approved the amendment of self-insurance program to be effective March 1, 2008 to reflect the following: (1) increase in surcharge ceiling from $2.5 million to $10 million; (2) increase in the surcharge from $0.00145 per kWh to $0.00290 per kWh for civilian ratepayers and from $0.00035 per kWh to $0.00070 per kWh for the U.S. Navy. As required by the Decision and Order, GPA records the insurance charge as sales revenue and records self-insurance expense of the same amount. Insurance charge proceeds are transferred to the restricted self-insurance fund to be used to cover uninsured or self-insured damages to the T&D plant in the event of a natural catastrophe. The self-insurance fund, included in cash and cash equivalents held by GPA, is $3,609,565 and $2,233,834 at September 30, 2009 and 2008, respectively, of which $3,608,375 at September 30, 2009 collateralized the $20 million note payable to bank (see note 5).

(9) Commitments and Contingencies, Continued

Hazardous Waste Assessment

Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law and, accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law.

(10) Agreements with the United States Navy

On September 15, 1996, a lease agreement was entered into between GPA and the U.S. Navy (Navy) to transfer to GPA the operations, maintenance and custody of certain Navy-owned electrical transmission and distribution lines, electric power generation facilities, related structures and equipment, together with the associated land interest. The facilities are leased to GPA at no cost for a period of 50 years.

During the years ended September 30, 2009 and 2008, GPA billed the Navy $81,373,460 and $67,546,040, respectively, for sales of electricity under a customer-supplier agreement. Receivables from the Navy were $4,308,442 and $3,482,473 at September 30, 2009 and 2008, respectively.

(11) Energy Conversion Agreements

In September 1996, GPA entered into agreements to purchase electricity produced by generating plants constructed or refurbished and operated by three companies. The agreements have twenty year terms. At the end of the agreements, ownership of the plants and the plant improvements reverts to GPA. Under each of the agreements, GPA pays capacity and operation and maintenance costs.

GPA has determined that the agreements to purchase electricity were in fact capital leases to acquire the plants and that the capacity payments made under the agreements were lease payments. The operations and maintenance payments under the agreements are reflected as energy conversion costs under operation and maintenance expenses.

The leases have effective interest rates ranging from 8.6% to 14.2%. Future capacity payments under these agreements are as follows:

Year ending September 30,	Amount
2010	$ 23,084,304
2011	23,084,304
2012	23,084,304
2013	23,084,304
2014	23,084,304
2015-2019	94,221,073
	209,642,593
Less amounts representing interest	84,484,886
	125,157,707
Less current portion	8,028,667
	$ 117,129,040

(12) Self-Insurance Fund

During the years ended September 30, 2009 and 2008, GPA recovered the following costs against the self-insurance fund:

	2009	2008
Regulatory asset (note 13)	$ 2,470,992	$ 1,500,000
Typhoon-related preparations	71,949	-
Generator fire	-	771,591
	$ 2,542,941	$ 2,271,591

(13) Regulatory Asset

In May 2007, the PUC authorized GPA to establish a $4.5 million regulatory asset to recover prior years' uninsured typhoon losses. Recoveries will be made through the insurance charge included in customer billings. The establishment of this regulatory asset is in full discharge of any and all uninsured GPA claims through August 2004. At September 30, 2009, GPA has fully recovered the uninsured typhoon losses.

(14) Transactions with Government of Guam Agencies

During the years ended September 30, 2009 and 2008, GPA billed Government of Guam agencies $55,005,422 and $52,988,852, respectively, for sales of electricity. Receivables (excluding long-term receivables) from Government of Guam agencies were $5,403,926 and $5,087,395 at September 30, 2009 and 2008, respectively.

GPA provides electrical and administrative services to GWA, a component unit of the Government of Guam, which is also governed by the CCU. Electricity sales to GWA for the years ended September 30, 2009 and 2008 were $14,935,862 and $14,528,245, respectively. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements amounted to $567,991 and $280,851 in 2009 and 2008, respectively. Outstanding receivables for administrative expenses and cost reimbursements billed by GPA to GWA amounted to $1,549,355 and $1,322,476 as of September 30, 2009 and 2008, respectively. In addition, GPA has a long-term receivable of $3,998,968 and $5,209,286 due from GWA at September 30, 2009 and 2008, respectively (see note 4).

(15) Derivatives

GPA is exposed to market price fluctuations on its purchases of fuel oil. GPA uses derivatives such as commodity swaps to protect itself from increases in market prices.

At September 30, 2009, GPA has an outstanding commodity swap for the fiscal year 2010 fuel requirements based on a notional amount of 69,783 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date. At September 30, 2009, the commodity swaps had a negative fair value of approximately $337,000. At September 30, 2009, there are two counterparties, rated as AA and A-1 by S&P.

(15) Derivatives, Continued

At September 30, 2008, GPA has outstanding commodity swaps for the fiscal year 2009 fuel requirements based on notional amount of 69,783 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date. At September 30, 2008, the commodity swaps had a negative fair value of approximately $20,800,000. At September 30, 2008, two of the three counterparties were rated A- by S&P and one counterparty was rated AA- by S&P.

At September 30, 2009 and 2008, a counterparty required GPA to deposit into an escrow account a cash deposit amounting to $500,000 and $5,500,000, respectively, to cover future margin calls on outstanding hedge contracts.

At September 30, 2009 and 2008, GPA was not exposed to credit risk because the swaps had negative fair values. However, should implied forward prices increase and the fair value of the swaps become positive, GPA would be exposed to credit risk on the swaps on the amount of their fair value.

(16) Prior Year Restatement

Subsequent to the issuance of GPA's 2008 financial statements, GovGuam's Department of Administration issued a determination concerning the redesignation of the DB Plan as a cost-sharing multiple-employer plan. Prior to this determination, the DB Plan was designated as a single-employer plan, requiring GPA to measure and disclose an amount for annual pension cost. Annual pension cost amounted to GPA's annual required contributions (ARC) to the plan with the difference between the ARC and actual required contributions recognized as a net pension obligation.

The redesignation of the DB Plan as a cost-sharing multiple-employer plan resulted in the reversal of the previously reported unfunded pension liability, totaling $10,720,832, and related pension costs of $704,538 as well as related disclosure. The effect on the 2008 financial statements as a result of this restatement is as follows:

	As Previously Reported	As Restated
At September 30, 2008:		
Unfunded pension liability	$ 10,720,832	$ -
Net assets:		
Unrestricted	$ 80,571,333	$ 91,292,165
For the year ended September 30, 2008:		
Operating expenses:		
Administrative and general	$ 23,852,732	$ 23,148,194
Operating earnings	$ 30,309,864	$ 31,014,402
Net assets:		
Beginning of the year	$ 142,004,446	$ 152,020,740
End of the year	$ 151,664,624	$ 162,385,456

(17) Restricted Net Assets

At September 30, 2009 and 2008, net assets are restricted for the following purposes:

	2009	2008
Debt Service	$ 31,189,894	$ 34,507,025
Capital Projects	16,314,828	16,324,057
Escrow Deposit	5,562,118	5,500,000
	$ 53,066,840	$ 56,331,082

(18) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2009 and 2008 is as follows:

2009	Beginning Balance October 1, 2008	Transfers and Additions	Transfers and Deletions	Balance September 30, 2009
Depreciable:				
Intangible plant	$ 4,353,988	$ -	$ -	$ 4,353,988
Steam production plant	92,862,627	1,443,874	(1,039,080)	93,267,421
Other production plant	253,145,400	718,239	(741,678)	253,121,961
Transmission plant	125,225,351	11,130,750	3,192,492	139,548,593
Distribution plant	158,695,377	7,775,241	(491,365)	165,979,253
General plant	32,091,043	1,305,111	(4,145,684)	29,250,470
Production plant under capital lease	171,382,727	-	-	171,382,727
	837,756,513	22,373,215	(3,225,315)	856,904,413
Accumulated depreciation	(329,522,068)	(27,596,710)	1,370,518	(355,748,260)
	508,234,445	(5,223,495)	(1,854,797)	501,156,153
Non-depreciable:				
Construction work in progress	14,187,283	21,845,995	(26,082,461)	9,950,817
	$ 522,421,728	$ 16,622,500	$ (27,937,258)	$ 511,106,970

2008	Beginning Balance October 1, 2007	Transfers and Additions	Transfers and Deletions	Balance September 30, 2008
Depreciable:				
Intangible plant	$ 4,353,988	$ -	$ -	$ 4,353,988
Steam production plant	83,354,002	10,322,447	(813,822)	92,862,627
Other production plant	251,471,381	1,735,596	(61,577)	253,145,400
Transmission plant	118,037,053	7,282,448	(94,150)	125,225,351
Distribution plant	155,992,162	4,269,875	(1,566,660)	158,695,377
General plant	36,004,928	380,522	(4,294,407)	32,091,043
Production plant under capital lease	171,382,727	-	-	171,382,727
	820,596,241	23,990,888	(6,830,616)	837,756,513
Accumulated depreciation	(306,590,392)	(27,169,644)	4,237,968	(329,522,068)
	514,005,849	(3,178,756)	(2,592,648)	508,234,445
Non-depreciable:				
Construction work in progress	20,365,413	19,618,904	(25,797,034)	14,187,283
	$ 534,371,262	$ 16,440,148	$ (28,389,682)	$ 522,421,728

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES

Certain provisions of the Indentures are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indentures.

CERTAIN DEFINITIONS

Unless the context otherwise requires, the terms defined below will for purposes of this Official Statement have the following meanings, to be equally applicable to both the singular and plural forms of any of the terms defined.

Account

"Account" means each account established and given a designation pursuant to the Senior Indenture, the Subordinate Indenture or any Supplemental Indenture.

Accreted Value

"Accreted Value" means, with respect to any particular Bonds as of any given date of calculation, an amount equal to the sum of the principal amount of such Bonds plus accrued and unpaid interest on such Bonds as of such date, but not including interest payable on a current basis at least annually.

Act

"Act" means the Guam Power Authority Act of 1968, constituting Chapter 8, Title 12, Guam Code Annotated, as it may from time to time hereafter be amended or supplemented.

Annual Debt Service

"Annual Debt Service" means, for any Bond Year, the sum of (1) the interest falling due on then Outstanding Bonds (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times of and in amounts provided for by the Mandatory Sinking Account Payments applicable to such Term Bonds), but not including Capitalized Interest, (2) the principal amount of then Outstanding Serial Bonds falling due by their terms, and (3) the aggregate amount of all Mandatory Sinking Account Payments required; all as calculated for said Bond Year. For the purpose of determining the interest payable on Variable Rate Bonds, the interest rate used in the foregoing calculation shall be the actual interest rate for periods prior to the date of calculation and the maximum rate then permitted on such Variable Rate Bonds for periods subsequent to the date of calculation.

Authority

"Authority" means the Guam Power Authority, a public corporation of the Government created and operating pursuant to the Act.

Authorized Officer

"Authorized Officer" of the Trustee or Co-Trustee means and includes the chairman of the board of directors, the president, every vice president, every trust officer and any other officer or assistant officer of the Trustee or Co-Trustee, other than those specifically above mentioned, designated by a certificate of an Authorized Officer of the Trustee or Co-Trustee, as the case may be, as an Authorized Officer for purposes of the applicable Indenture.

Authorized Representative

"Authorized Representative" means the Chairman of the Board, the General Manager of the Authority or the Chief Financial Officer of the Authority, or any other officer or official of the Authority designated in writing by any of such officers whose signature has been certified to the Trustee and the Co-Trustee.

Board

"Board" means the Consolidated Commission on Utilities, acting as Board of Directors of the Authority. "Board" also means any officer or official of the Government whenever any action which the Act or the applicable Indenture or any Supplemental Indenture requires or permits the Board to take can, under the Organic Act of Guam or any provision of the Guam Code Annotated or any other Guam statute, be taken for or on behalf or in lieu of the Board only by such officer or official.

Bond Counsel

"Bond Counsel" means an attorney or firm of attorneys having a national reputation for expertise in matters relating to governmental obligations, the interest on which is excluded from gross income for federal income tax purposes under Section 103 of the Code, and familiar with the laws of Guam and procedures of the Government and the Authority.

Bond Fund

"Bond Fund" means each fund by that name established pursuant to the applicable Indenture.

Bond Year

"Bond Year" means, with respect to the 2010 Bonds, the period of twelve consecutive months ending on October 1 in any year in which 2010 Bonds are or will be Outstanding, and, with respect to any other Series, any other annual 12-month period as may be specified by the Supplemental Indenture authorizing such Series.

Bondholder

"Bondholder" means the person in whose name a Bond is registered.

Bonds, 1999 Series A Bonds, Serial Bonds, Term Bonds, 2010 Bonds, 2010 Senior Bonds, 2010 Subordinate Bonds, Variable Rate Bonds

"Bonds" means, as context requires, the Senior Bonds, the Subordinate Bonds, or both of them.

"1999 Series A Bonds" means the Guam Power Authority Revenue Bonds, 1999 Series A, issued pursuant to the Senior Indenture, as supplemented.

"Serial Bonds" means the Bonds, falling due by their terms on specified dates, for which no Mandatory Sinking Account Payments are provided.

"Term Bonds" means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"2010 Bonds" means, collectively, the 2010 Senior Bonds and the 2010 Subordinate Bonds.

"2010 Senior Bonds" means the Guam Power Authority Revenue Bonds, 2010 Series A, issued under the Senior Indenture.

"2010 Subordinate Bonds" means the Guam Power Authority Subordinate Revenue Bonds, 2010 Series A, issued under the Subordinate Indenture.

"Variable Rate Bonds" means Bonds which bear interest at a rate which may change from time to time.

Business Day

"Business Day" means any day on which banks in the cities in which the Principal Offices of the Trustee, the Co-Trustee, the Depositary, the Paying Agent and each Credit Provider, if applicable, are located are not required or authorized to close and on which the New York Stock Exchange is not closed.

Capitalized Interest

"Capitalized Interest" means interest on Bonds to be paid from the original proceeds of Bonds (including proceeds constituting accrued interest on the Bonds) and from income derived from the investment of such proceeds.

Certificate, Order, Request, Requisition, or Statement of the Authority

"Certificate," "Order," "Request," "Requisition," and "Statement" mean, respectively, a written certificate, order, request, requisition, or statement, executed on behalf of the Authority by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the applicable Indenture, each such instrument shall include the statements provided for in such Indenture.

Code

"Code" means the Internal Revenue Code of 1986 or any similar or successor federal law, including any applicable regulations thereunder.

Construction Fund

"Construction Fund" means the Revenue Bond Construction Fund established pursuant to the Senior Indenture within the Guam Power Authority Construction Fund created pursuant to Section 8236 of the Act.

Costs of Issuance

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising costs, Bond and official statement printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, the Co-Trustee and the Depositary, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, Credit Facility fees or premiums, fees and expenses of counsel to any Credit Provider and any other cost, charge or fee in connection with the original issuance of Bonds.

Co-Trustee

"Co-Trustee" means U.S. Bank National Association, acting as an independent co-trustee under the applicable Indenture with the duties and powers therein provided, and any other corporation or association which may at any time be substituted in its place as such co-trustee, as provided therein.

Credit Agreement

"Credit Agreement" means any agreement between the Authority and a Credit Provider pursuant to which such Credit Provider agrees to provide a Credit Facility or pursuant to which the Authority agrees to reimburse a Credit Provider for draws or advances under or claims made against a Credit Facility.

Credit Facility

"Credit Facility" means, with respect to the Senior Bonds, the municipal bond insurance policy issued by Ambac Assurance Corporation as Credit Provider for certain of the 1999 Series A Bonds maturing on October 1 in the years 2005 through 2015, 2018, 2020 and 2024 (collectively, the "1999 Series A Insured Bonds"); the insurance policy issued by the 2010 Credit Provider guaranteeing the scheduled principal of and interest on the 2010 Senior Bonds maturing on October 1, 2037 (collectively, the "2010 Insured Bonds") when due; and any other instrument designated by a Supplemental Indenture as providing supplemental credit support for a Series of Senior Bonds (including, any such instrument substituting for a deposit in the Senior Bond Reserve Fund which is approved as to form and issuer by each Credit Provider for each Series of Senior Bonds so long as the Credit Facility for such Series of Senior Bonds is in effect), and, with respect to the Subordinate Bonds, an instrument designated by a Supplemental Indenture as providing credit support for a Series of Subordinate Bonds (including, as such term is used in the Subordinate Indenture, any such instrument substituting for a deposit in the Subordinate Bond Reserve Fund which is approved as to form and issuer by each Credit Provider for each Series of Subordinate Bonds so long as the Credit Facility for such Series of Subordinate Bonds is in effect).

Credit Provider

"Credit Provider" means any person, firm or entity designated in a Supplemental Indenture as providing supplemental credit support for a Series of Bonds.

Depositary

"Depositary" means with respect to each Series of Bonds and each Fund or Account, the bank or trust company or other financial institution qualified pursuant to the applicable Indenture and appointed by such Indenture or a Supplemental Indenture or a Statement of the Authority to act as Depositary thereunder for such Series or such Fund or Account and, in each case, its successors and assigns.

Director of Administration

"Director of Administration" means the Director of Administration, head of the Department of Administration within the executive branch of the Government.

DTC

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

Event of Default

"Event of Default" means any of the events specified in the applicable Indenture.

Federal Securities

"Federal Securities" means, (1) direct obligations of the United States of America for which the full faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America); and (2) cash (insured at all times by federal deposit insurance or otherwise collateralized with obligations listed in (1) above.

Fiduciaries

"Fiduciaries" means the Trustee, the Co-Trustee, each Depositary and each Paying Agent.

Fiscal Year

"Fiscal Year" means the period beginning on October 1 of each year and ending on the next succeeding September 30, or any other twelve-month period selected and designated as the official fiscal year period of the Authority.

Fund

"Fund" means each fund established and given a designation pursuant to the Senior Indenture, the Subordinate Indenture or any Supplemental Indenture.

Government

"Government" means the Government of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

Governor

"Governor" means the Governor of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

Indenture

"Indenture" means, as context requires, either the Senior Indenture, the Subordinate Indenture, or both of them.

Independent

"Independent" means, when used with respect to any given Person, that such Person (who may be selected and paid by the Authority) is acceptable to the Trustee and (1) is in fact independent and, not under domination of the Authority; (2) does not have any substantial interest, direct or indirect, with the Authority; and (3) is not connected with the Authority as an officer or employee of the Authority, but who may be regularly retained to provide services to the Authority.

Independent Consultant

"Independent Consultant" means any Independent certified public accountant, Independent engineer or other Independent consultant, who is in any case nationally recognized as being experienced in the preparation of feasibility studies for use in connection with the financing of power facilities.

Interest Accrual Period

"Interest Accrual Period" means, for any particular Bond, each period between successive Interest Payment Dates for such Bond, including in each case in such period the concluding Interest Payment Date but not the beginning Interest Payment Date, and treating the date of original issuance of such Bond as if it were an Interest Payment Date for such Bond for this purpose.

Interest Payment Date

"Interest Payment Date" means, for any particular Bond, each date specified as an Interest Payment Date for such Bond or Bonds by the applicable Indenture or by the Supplemental Indenture authorizing the issuance of such Bond or Bonds and, for all Bonds, all such dates.

Investment Securities

"Investment Securities" means, any of the following which at the time are legal investments under the laws of Guam for moneys held hereunder and then proposed to be invested therein:

(i) any obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including any such obligations of the Export-Import Bank, the Farmers Home Administration, the General Services Administration, the U.S. Maritime Administration, the Small Business Administration, the

Government National Mortgage Association, the U.S. Department of Housing and Urban Development and the Federal Housing Administration;

(ii) bonds, notes or other evidences of indebtedness rated in the highest rating category by Moody's Investors Service and Standard & Poor's Corporation, issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, with remaining maturities not to exceed three years;

(iii) any bonds or other obligations of any state of the United States of America or any agency, instrumentality or local government unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, and (b) which are rated in the highest rating category of either Moody's Investors Service or Standard & Poor's Corporation;

(iv) U.S. Dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks (without consideration of rating of any such bank's holding company) which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's Corporation and "P-1" by Moody's Investors Service and maturing no more than 360 days after the date of purchase;

(v) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by Standard & Poor's Corporation and "P-1" by Moody's Investors Service and which matures not more than 270 days after the date of purchase;

(vi) investments in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's Corporation; and

(vii) investment agreements or other forms of investments selected by the Authority, approved in writing by the Credit Provider for such Bonds, and having no adverse impact on the rating of any Bonds after notice to each Rating Agency.

Legislature

"Legislature" means the Legislature of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

Maintenance and Operation Expenses

"Maintenance and Operation Expenses" means (i) the fees and expenses of the Fiduciaries and any Credit Providers, (ii) any amounts required to be deposited in the Rebate Fund, and (iii) all reasonable costs of operating and maintaining the System, including refunds of rates and charges that are collected in error, as authorized by Section 8204 of the Act, and all reasonable repairs, renewals, replacements, System insurance costs and costs of insurance or other provision for retirement of officers and employees of the Authority (all of which said charges are to be made in conformity with generally accepted accounting principles) exclusive in all cases of depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, and also exclusive of all interest charges and charges for the payment of principal or amortization of bonded or other indebtedness of the Authority, and also exclusive of all in-lieu tax payments required to be made by the Authority to the Government pursuant to Section 8115 of the Act.

Such Maintenance and Operation Expenses of the System include, generally, but without limitation, fuel, purchased power, salaries and wages, fees for services, materials and supplies, rents, office supplies, and all other costs that are charged directly or apportioned to the maintenance and operation of the production, transmission and distribution facilities of the System, customer accounts, sales and administrative functions, or to the general operation of the Authority.

Said term also includes all Revenues required by any Supplemental Indenture and by the Act to be deposited in any one or more reserve funds or accounts in lieu of insurance.

Said term does not include costs, or charges made therefor, for additions, betterments, extensions or improvements to or retirements from the System, which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and does not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Authority.

Mandatory Sinking Account Payment

"Mandatory Sinking Account Payment" means, as of any date of calculation with respect to any Series of Bonds, the amount required by the applicable Indenture or any Supplemental Indenture to be paid by the Authority on a given date for the retirement of Term Bonds of such Series.

Maximum Annual Debt Service

"Maximum Annual Debt Service" means, for any particular Bonds as of any date of calculation, Annual Debt Service on such Bonds for the Bond Year commencing on or after such date for which such sum shall be largest.

MSRB

"MSRB" means the Municipal Securities Rulemaking Board, and its successors and assigns. Until otherwise designated by the MSRB, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB located at http://emma.msrb.org.

Net Revenues

"Net Revenues" means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation Expenses incurred during such period.

1993 Supplemental Indenture

"1993 Supplemental Indenture" means the Supplemental Indenture, dated as of October 1, 1993, among the Authority, the Trustee and the Co-Trustee, relating to the 1993 Series A Bonds.

1994 Supplemental Indenture

"1994 Supplemental Indenture" means the Supplemental Indenture, dated as of October 1, 1994, among the Authority, the Trustee and the Co-Trustee, relating to the 1994 Series A Bonds.

"1999 Series A Credit Facility" means the municipal bond insurance policy issued with respect to the 1999 Series A Insured Bonds.

1999 Series A Insured Bonds

"1999 Series A Insured Bonds" means the 1999 Series A Serial Bonds maturing on October 1 in the years 2005 through 2015 and the 1999 Series A Term Bonds maturing on October 1, 2018, October 1, 2020 and October 1, 2024.

1999 Series A Credit Provider

"1999 Series A Credit Provider" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, and its successors.

1999 Supplemental Indenture

"1999 Supplemental Indenture" means the Supplemental Indenture, dated as of May 1, 1999, among the Authority, the Trustee and the Co-Trustee, relating to the 1999 Series A Bonds.

Opinion of Counsel

"Opinion of Counsel" means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority.

Outstanding

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the applicable Indenture with respect to disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Co-Trustee under the applicable Indenture except (1) Bonds theretofore cancelled by the Co-Trustee or surrendered to the Co-Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the applicable Indenture, including Bonds (or portions of Bonds) referred to in the applicable Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds of the same Series, maturity and tenor shall have been authenticated and delivered by the Co-Trustee pursuant to the applicable Indenture.

Participants

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as a securities depository.

Paying Agent

"Paying Agent" means, with respect to the 2010 Bonds, U.S. Bank National Association, and its successors and assigns, and any additional paying agent appointed by or pursuant to the applicable Indenture and its successors and assigns.

Person

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Principal Office

"Principal Office" means, with respect to the Trustee and with respect to the Depositary for the Proceeds Fund moneys derived from the issuance of the 2010 Bonds and the Subordinate Revenue Fund, the office of the Trustee in Guam; with respect to the Co-Trustee and with respect to the Paying Agent for the 2010 Bonds, the office of the Co-Trustee in St. Paul, Minnesota; and with respect to any other Fiduciary the office of such Fiduciary designated in the Supplemental Indenture or other instrument appointing such Fiduciary; in each case at such address as the respective party may have designated for such purpose. The Principal Office of any Credit Provider shall be specified by such Credit Provider pursuant to its Credit Facility or Credit Agreement.

Principal Payment Period

"Principal Payment Period means the twelve calendar months next preceding each maturity date or Mandatory Sinking Account Payment date for the 1993 Series A Bonds, the 1999 Series A Bonds, the 2010 Senior Bonds and the 2010 Subordinate Bonds, and, with respect to any of any other Series, each period so designated by the Supplemental Indenture authorizing the issuance of such Series.

Prior Subordinate Debt

"Prior Subordinate Debt" means certain subordinate indebtedness of the Authority expected to be repaid from proceeds of the 2010 Subordinate Bonds.

Proceeds Fund

"Proceeds Fund" means the Subordinate Revenue Bond Proceeds Fund established pursuant to the Subordinate Indenture.

Project

"Project" means any addition, extension, betterment or other improvement to the System, including without limitation any equipment or furnishings and any land therefor or the payment of any claims or judgments relating thereto, as specified and described by the Supplemental Indenture authorizing issuance of any Bonds for any such Project, and as such specifications and description may be modified in accordance with the applicable Indenture.

Project Costs

"Project Costs" means, with respect to any given Project, all costs thereof, including (i) Costs of Issuance of any Bonds issued to finance such Project; (ii) Capitalized Interest; (iii) any costs or expenses of the acquisition, construction or completion of such Project or any part thereof or any costs or expenses incidental thereto, including payment to the United States or any other public body for the portion to be borne by the Board of the cost of any work done by the United States or such public body for or jointly or in conjunction with the Board; and (iv) any engineering, inspection, legal, consultants' or paying agents' fees relating or incidental to the acquisition, construction or completion of the System or any part thereof; or the authorization, issue or sale of Bonds.

PUC

"PUC" means the Public Utilities Commission of Guam, established and existing pursuant to Chapter 12, Title 12, Guam Code Annotated, and any successor to its rights, duties and powers.

Rating Agency

"Rating Agency" means, at any time with respect to any Bonds, any rating agency then rating such Bonds at the request of the Board.

Rebate Fund

"Rebate Fund" means the Fund by that name established pursuant to the applicable Indenture.

Record Date

"Record Date" means, for any particular payment of principal of or interest or premium on particular Bonds, each date specified as a Record Date for such Bonds by the applicable Indenture or by the Supplemental Indenture authorizing the issuance of such Bonds. The Record Date for the 2010 Bonds is the 15th day of the calendar month next preceding the date each such payment is due, whether or not such 15th day is a Business Day.

Redemption Price

"Redemption Price" means, with respect to any Bond (or portion thereof if less than all of a Bond is to be redeemed) the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the applicable Indenture.

Representation Letter

"Representation Letter" means the Letter of Representations to DTC from the Authority and the Trustee, and any similar letter to which the provisions of the applicable Indenture are made applicable.

Revenues

"Revenues" means and includes: (i) any and all rates and charges received or receivable in connection with, and any and all other income and receipts of whatever kind and character derived by the Authority from the operation of or arising from the System, but not including refundable deposits made by customers of the System to establish the creditworthiness of such customers, customer advances for construction or contributions in aid of construction; (ii) any moneys received or receivable by the Authority pursuant to any contract between the Authority and any person, which moneys are designated as Revenues in such contract; and (iii) all earnings on any investment of any Revenues.

Securities Depository

"Securities Depository" means DTC, or such other securities depository, or no such depository, as the Authority may designate in a Certificate delivered to the Co-Trustee.

Senior Bond Reserve Fund

"Senior Bond Reserve Fund" means the fund by that name established pursuant to the Senior Indenture.

Senior Bond Reserve Fund Requirement

"Senior Bond Reserve Fund Requirement" means, on any date of calculation, an amount equal to Maximum Annual Debt Service on all then Outstanding Senior Bonds or such higher amount as may be specified by Supplemental Indenture. For purposes of this definition, the interest rate on each Variable Rate Bond shall be assumed to be the maximum rate then permitted on such Senior Bond.

Senior Bonds

"Senior Bonds" means the Guam Power Authority Revenue Bonds authorized by, and at any time outstanding pursuant to, the Senior Indenture.

Senior Indenture

"Senior Indenture" means the Indenture, dated as of December 1, 1992, by and among the Authority, the Trustee and the Co-Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture, including the 1993 Supplemental Indenture, the 1994 Supplemental Indenture, the 1999 Supplemental Indenture and the 2010 Supplemental Indenture.

Series

"Series" or "Series of Bonds" means and refers to all Bonds of like designation authenticated and delivered on original issuance at the same time pursuant to the Senior Indenture or the Subordinate Indenture, as applicable, and any Bonds thereafter delivered in lieu of or substitution for any of such Bonds pursuant to such Indenture.

Sinking Accounts

"Sinking Accounts" means any special account or accounts established in either Bond Fund for the payment of Term Bonds.

Subordinate Bond Reserve Fund

"Subordinate Bond Reserve Fund" means the fund by that name established pursuant to the Subordinate Indenture.

Subordinate Bond Reserve Fund Requirement

"Subordinate Bond Reserve Fund Requirement" means, on any date of calculation, an amount equal to the lesser of: (i) Maximum Annual Debt Service on all Subordinate Bonds then Outstanding; and (ii) 125% of average Annual Debt Service on all Subordinate Bonds then Outstanding, provided that for purposes of this definition, the interest rate on each Variable Rate Bond shall be assumed to be the maximum rate then permitted on such Bond; and provided further that with respect to a Series of Subordinate Bonds, if the Subordinate Bond Reserve Fund would have to be increased by an amount greater than ten percent (10%) of the stated principal amount of such Series (or, if such Series has more than a *de minimis* amount of original issue discount or premium, of the issue price of such

Subordinate Bonds) then the Subordinate Bond Reserve Fund Requirement shall be such lesser amount as is determined by a deposit of such ten percent (10%).

Subordinate Bonds

"Subordinate Bonds" means the Guam Power Authority Subordinate Revenue Bonds authorized by, and at any time outstanding pursuant to, the Subordinate Indenture.

Subordinate Indenture

"Subordinate Indenture" means the Indenture, dated as of June 1, 2010, by and among the Authority, the Trustee and the Co-Trustee, as amended or supplemented.

Subordinate Revenue Fund

"Subordinate Revenue Fund" means the Subordinate Revenue Bond Revenue Fund established pursuant to the Subordinate Indenture.

Supplemental Indenture

"Supplemental Indenture" means any indenture duly executed and delivered, supplementing, modifying or amending the Senior Indenture or the Subordinate Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized thereby.

Surplus Fund

"Surplus Fund" means the fund by that name established pursuant to the Senior Indenture.

System

"System" means the entire electric power system of the Authority, including the existing electric production, transmission, distribution and general plant facilities and all the electric production, transmission, distribution and general plant facilities hereafter acquired by lease, contract, purchase or otherwise or constructed by the Authority, including the facilities of the Projects, together with all additions, betterments, extensions and improvements to said electric power system or any part thereof subsequently made, and including any electric power system facilities acquired by lease, contract, purchase or otherwise from any Person, together with all administration buildings, furniture, facilities, machinery and equipment of the Authority and all lands, easements and rights of way of the Authority and all other works, property or structures of the Authority used or useful in connection with or related to said electric power system.

Tax Certificate

"Tax Certificate" means, with respect to any one or more Series of Bonds, a Certificate or Certificates of the Authority concerning the calculation of any amount to be paid to the United States of America pursuant to Section 148(f) of the Code and any other matters relating to the exclusion of interest on such Bonds from gross income for federal income tax purposes or other federal tax law matters relating to such Bonds.

Trustee

"Trustee" means Bank of Guam, and any other corporation or association which may at any time be substituted in its place as trustee, as provided in the applicable Indenture.

2010 Credit Provider

"2010 Credit Provider" means Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), a New York stock insurance company, or any successor thereto or assignee thereof.

2010 Insured Bonds

"2010 Insured Bonds" means the 2010 Senior Bonds maturing on October 1, 2037.

2010 Supplemental Indenture

"2010 Supplemental Indenture" means the Fourth Supplemental Indenture, dated as of June 1, 2010, among the Authority, the Trustee and the Co-Trustee, relating to the 2010 Senior Bonds.

Working Capital Fund

"Working Capital Fund" means the Fund by that name established pursuant to the Senior Indenture.

Working Capital Requirement

"Working Capital Requirement" means, on any date of calculation, an amount equal to one-twelfth of the aggregate amount of Maintenance and Operation Expenses budgeted, pursuant to the budget filed by the Authority pursuant to the Senior Indenture, to be paid from Revenues during the then current Fiscal Year.

THE SENIOR INDENTURE

Funds

The following funds are established under the Senior Indenture:

Construction Fund - Moneys on deposit in the Construction Fund will be disbursed by the Depositary for the payment or reimbursement of the costs of each Project for which a Series of Senior Bonds is issued, including the costs associated with the issuance of such Series of Senior Bonds and Capitalized Interest, and, to the extent necessary, to fund any deficiency in the Senior Bond Fund for the payment of principal of and interest on the Senior Bonds or redemption price thereof.

Revenue Fund - The Authority shall pay all Revenues, upon receipt, to the Depositary for deposit in the Revenue Fund. Moneys on deposit in this Fund shall be applied in the manner described under "Sources of Payment; Rate Covenant" below.

Senior Bond Fund – The Co-Trustee is required to apply moneys on deposit in this fund solely for the purposes of (1) paying interest on the Senior Bonds, and (2) paying principal of the Serial Senior Bonds when due and payable and (3) purchasing and redeeming or paying at maturity the Term Senior Bonds as provided in the Senior Indenture.

Senior Bond Reserve Fund – The Authority, is required to make monthly deposits to the Senior Bond Reserve Fund from Revenues of amounts necessary to increase the amount of such Fund to the Maximum Annual Debt Service on all Outstanding Senior Bonds issued under the Senior Indenture or such higher amount as may be specified by the Supplemental Senior Indenture. Moneys in the Senior Bond Reserve Fund shall be applied solely to make up deficiencies in the Senior Bond Fund. Any moneys in the Senior Bond Reserve Fund on any October 5 in excess of the Senior Bond Reserve Fund Requirement may be transferred to the Depositary for deposit into the Revenue Fund.

Working Capital Fund – The amounts in the Working Capital Fund may be (1) transferred to the Revenue Fund, if and to the extent that amounts in the Revenue Fund are insufficient to (a) pay Maintenance and Operation Expenses as and when they become due and payable or (b) make monthly transfers to the Senior Bond Fund or the Senior Bond Reserve Fund as required by the Senior Indenture or (2) used and withdrawn to pay costs of repair or replacement of loss or damage caused by or resulting from fire or from action of the elements (including loss from typhoons, earthquakes, floods and tidal waves), whether or not such costs are Maintenance and Operation Expenses.

Rebate Fund – The Trustee is required to hold in trust all moneys deposited in the Rebate Fund, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America and the Trustee shall disburse such moneys in accordance with the Senior Indenture and the Tax Certificate. In the event such moneys exceed the Rebate Requirement, the Authority may direct the Trustee to transfer such excess moneys to the Revenue Fund.

Surplus Fund – The Depositary is required to disburse moneys from the Surplus Fund first, to the Senior Bond Fund in the event there are insufficient moneys on deposit in the Senior Bond Fund to pay the principal or redemption price of or interest on the Senior Bonds when due, for the purpose of paying principal of and interest on the Senior Bonds or the reimbursement of amounts drawn under any Credit Facility as provided in the Senior Indenture; second, to the Senior Bond Reserve Fund to satisfy any deficiency therein; and third, for the purpose of paying costs and expenses of the Authority budgeted to be paid from Revenues in the Surplus Fund. All amounts in the Surplus Fund on the fifth day of each month, after the deposits required by the Senior Indenture have been made, shall be paid by the Depositary to the Authority, free and clear of the pledge and lien of the Senior Indenture.

Sources of Payment; Rate Covenant

The Senior Indenture contains a covenant that rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System will be established, fixed, prescribed and collected so as to yield Net Revenues, with respect to the then immediately ensuing twelve months equal to at least 1.30 times the sum of (1) the interest falling due on then Outstanding Senior Bonds (assuming that all then Outstanding Serial Senior Bonds are retired on their respective maturity dates and that all then Outstanding Term Senior Bonds are retired at the times of and in amount provided for by the Mandatory Sinking Account Payments applicable to such Term Senior Bonds), but not including Capitalized Interest, (2) the principal amount of then Outstanding Serial Senior Bonds falling due by their terms, and (3) the aggregate amount of all Mandatory Sinking Account Payments required (all as calculated for said Bond Year) to be paid from Net Revenues during such 12-month period. For the purpose of determining the interest payable on Variable Rate Senior Bonds, the interest rate used in the foregoing calculation shall be the actual interest rate for periods prior to the date of calculation and the maximum rate then permitted on such Variable Rate Senior Bonds for periods subsequent to the date of calculation. Net Revenues means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation expenses incurred during such period.

The Senior Indenture requires the Authority to transfer all Revenues, upon receipt, to the Depositary for deposit in the Revenue Fund, except that all interest and other profit from the investment of moneys in the Construction Fund are required to be retained in such Fund.

Amounts in the Revenue Fund will be used to pay budgeted Maintenance and Operation Expenses as such expenses become due and payable. Amounts in the Revenue Fund will also be transferred to the Rebate Fund as required by the Senior Indenture and to the Senior Bond Fund to satisfy any deficiency in such Fund.

On or before the fifth day of each month, the Depositary shall transfer moneys in the Revenue Fund for deposit in the following funds, in the amounts and in the following priority: (1) into the Senior Bond Fund held by the Co-Trustee, an amount, for each Series of Senior Bonds, which if paid in equal monthly installments will be sufficient to pay interest becoming due on the next Interest Payment Date plus, during the Principal Payment Period for each Senior Bond, an amount which, if paid in equal monthly installments in each month during such Principal Payment Period, would yield moneys sufficient to pay the principal or Mandatory Sinking Account Payment due and payable on the interest payment date next succeeding such Principal Payment Period for such Senior Bond; (2) into the Senior Bond Reserve Fund held by the Co-Trustee, the amount, if any, necessary to increase the balance in such Fund to the Senior Bond Reserve Fund Requirement; (3) into the Working Capital Fund, the lesser of (a) the amount, if any, needed to increase the amount in the Working Capital Fund to the Working Capital Requirement, or (b) an amount equal to one-sixth of the Working Capital Requirement; and (4) into the Surplus Fund, the balance remaining in the Revenue Fund after the foregoing deposits have been made.

Redemption of Senior Bonds

The 2010 Senior Bonds are subject to redemption prior to their respective stated maturities as explained in the Official Statement under the captions "THE 2010 BONDS —Redemption of the 2010 Bonds —2010 Senior Bonds." Any Series of Senior Bonds other than the 2010 Senior Bonds may be made subject to redemption prior to maturity as may be determined by the Authority at the time such Series is authorized or issued.

Any 2010 Senior Bonds (or portions thereof) called for redemption on the date fixed for redemption will become due and payable at the Redemption Price specified in the notice together with interest accrued thereon to the date fixed for redemption. Interest on such 2010 Senior Bonds called for redemption will cease to accrue and such Senior Bonds (or portions thereof) will not be entitled to any benefits security under the Senior Indenture, and the Senior Bondholders thereof will have no rights with respect thereof except to receive payment of the Redemption Price and accrued interest thereon. See "THE 2010 BONDS —Redemption of the 2010 Bonds —2010 Senior Bonds" in the body of this Official Statement.

Upon the redemption in part of 2010 Insured Bonds, the selection of 2010 Insured Bonds to be redeemed shall be subject to the approval of the 2010 Credit Provider.

A copy of any notice of redemption shall also be sent by overnight delivery or certified mail, with return receipt requested, to each of the Fiduciaries, each of the Credit Providers, and certain securities depositories and information services. Failure to give such notice by first class mail to any Senior Bondholders, to any Fiduciaries, to any Credit Providers or to any securities depositories or information services, or the insufficiency of any such notices, shall not affect the sufficiency of the proceedings for redemption of any 2010 Senior Bonds. A second notice shall be sent, by certified mail with return receipt requested, to the registered owner of any 2010 Senior Bond which has been called for redemption in whole or in part, and is not surrendered for payment within 60 days after the date fixed for

redemption. Failure to send any such second notice, or any deficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption of any 2010 Senior Bonds.

The Authority may, at its option, on or prior to the date fixed for optional redemption in any notice of redemption of the 2010 Senior Bonds, rescind and cancel such notice of redemption, and any optional redemption of 2010 Bonds and notice thereof shall be rescinded and cancelled and the Trustee shall mail notice of such cancellation to the recipients of the notice of redemption being cancelled pursuant to the provisions of the Senior Indenture summarized above.

Investment of Moneys in Funds

All moneys in any of the funds and accounts established pursuant to the Senior Indenture, other than the Working Capital Fund and the Surplus Fund, is required to be invested by the Trustee, the Co-Trustee or the Depositary, as the case may be, in Investment Securities to maximize investment income, with proper regard for the preservation of principal, pursuant to any request of the Authority as to such investment; provided that so long as the 1992 Series A Serial Senior Bonds are Outstanding, amounts in the Senior Bond Reserve Fund shall not be invested in Investment Securities maturing in more than five years without the prior written consent of the Credit Provider with respect to such Senior Bonds. All Investment Securities and other investments are subject to the limitations set forth in the Senior Indenture.

All interest and other profit derived from such investments are required to be deposited at least monthly in the Revenue Fund, except that interest and other profit derived from the investment of monies in the Construction Fund or the Rebate Fund shall be retained in each such respective fund.

Investment Securities acquired as an investment of moneys in any fund or account established under the Senior Indenture are required to be credited to such fund or account. Investment Securities in the Senior Bond Reserve Fund and the Senior Bond Fund shall be valued on each Interest Payment Date at the lesser of amortized value or market value as of such date.

If and to the extent provided by a Supplemental Indenture authorizing the issuance of an additional Series of Senior Bonds, the portion of the Senior Bond Reserve Fund Requirement allocable to such Series may be wholly or partially satisfied by a Credit Facility, provided that such Credit Facility is provided by a Credit Provider rated, at the time of deposit of such Credit Facility, in the highest rating category by Moody's Investors Service and Standard & Poor's Corporation. Such Supplemental Indenture may also provide that if a drawing on such Credit Facility is honored, amounts available under the Senior Indenture for deposit in the Senior Bond Reserve Fund shall be applied by the Co-Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing and the Co-Trustee shall give notice of such reimbursement required by the applicable Credit Agreement. The prior written consent of the 2010 Credit Provider shall be a condition precedent to the deposit of any such Credit Facility in satisfaction of all or a portion of the Senior Bond Reserve Requirement allocable to the 2010 Senior Bonds.

Certain Covenants

Punctual Payment. The Authority shall punctually pay or cause to be paid, from the Revenues and other assets pledged under the Senior Indenture, the principal or Redemption Price and interest to become due in respect of all the Senior Bonds, in strict conformity with the terms of the Senior Bonds and of the Senior Indenture.

Extension of Payment of Principal and Interest on the Senior Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Senior Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Senior Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Senior Bonds or the time of payment of any such claims for interest shall be extended, such Senior Bonds or claims for interest shall not be entitled, in case of any default under the Senior Indenture, to the benefits of the Senior Indenture, except subject to the prior payment in full of the principal of all of the Senior Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. This covenant shall not be deemed to limit the right of the Authority to issue Senior Bonds or other indebtedness for the purpose of refunding any Outstanding Senior Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Senior Bonds.

Against Encumbrances. The Board shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues or other assets pledged or assigned under the Senior Indenture while any of the Senior Bonds are Outstanding, except the pledge and assignment created by the Senior Indenture, and except any pledge or assignment subordinate in all respects to the pledge and assignment thereunder, and shall not issue any obligations secured by such pledge and assignment other than the Senior Bonds. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its governmental purposes, and reserves the right to issue other obligations for such purposes and to issue obligations secured by a subordinate pledge and assignment of the Revenues and other assets pledged under the Senior Indenture. The Board will not mortgage or otherwise encumber the System or any part thereof essential to the proper operation of the System or to the maintenance of Revenues.

Power to Issue Senior Bonds and Make Pledge. The Authority represents and warrants that it is duly authorized pursuant to law to issue the Senior Bonds and to enter into the Senior Indenture and to pledge the Revenues and other assets purported to be pledged under the Senior Indenture in the manner and to the extent provided in the Senior Indenture. The Senior Bonds and the provisions of the Senior Indenture are and will be the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority, Trustee, the Co-Trustee (subject to the provisions of the Senior Indenture) and Depositary shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of Revenues and other assets and all the rights of the Senior Bondholders under the Senior Indenture against all claims and demands of all persons whomsoever.

Payment of Taxes and Claims. The Authority shall, from time to time, duly pay and discharge, or cause to be paid and discharged, any property taxes, assessments or other governmental charges that may be lawfully imposed upon the Revenues or other assets pledged or assigned under the Senior Indenture, when the same shall become due, after notice to each Credit Provider and an opportunity to contest the same, as well as any lawful claim which, if unpaid, might by law become a lien or charge upon the Revenues or such other assets or which might impair the security of the Senior Bonds.

Accounting Records and Financial Statements. The Board shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all transactions relating to the System, the proceeds of Senior Bonds, the Revenues, and all funds and accounts established pursuant to the Senior Indenture. Such books of record and account shall be available for inspection by the Trustee, the Co-Trustee, the Depositary, any Credit Provider or the Authority, as the case may be, and, with respect to such books of record and account maintained by the Trustee, the Co-Trustee or the Depositary, by any Credit Provider or any Senior Bondholder or agent or representative thereof duly authorized in writing, at reasonable hours and under reasonable circumstances. The Authority shall provide to any Credit Provider such additional information as may be reasonably requested by such Credit Provider concerning the sources and amounts of Revenues.

The Authority shall file with the Trustee, the Co-Trustee, the Depositary and each Credit Provider, and furnish to each major national investment rating service which initially rated any Series of Senior Bonds and to each Senior Bondholder who shall have filed a name and address with the Authority or the Trustee for such purpose, within six months after the close of each Fiscal Year so long as any of the Senior Bonds are Outstanding, complete financial statements with respect to the Revenues and all funds established pursuant to the Senior Indenture, prepared in accordance with generally accepted accounting principles for governmental entities, covering receipts, disbursements, allocation and application of all Revenues for such Fiscal Year, including a statement of revenues, expenditures and fund balances (covering all of the funds established pursuant to the Senior Indenture), balance sheet and statement of changes in financial position, accompanied by an audit report and opinion of a nationally recognized Independent certified public accountant.

The Authority shall also file with the Trustee, the Co-Trustee, the Depositary and each Credit Provider, and furnish to each major national investment rating service which initially rated any Series of Senior Bonds, within 30 days after receipt of the annual audited financial statement of the Authority prepared by an Independent certified public accountant, a copy of such statement.

Maintenance of Powers. The Authority shall at all times use its best efforts to preserve its existence as a public corporation and autonomous instrumentality of the Government; not to be dissolved or lose its franchise or right to exist as such or lose any rights necessary to enable it to maintain and operate the System; and to maintain the powers, functions, duties and obligations now reposed in it pursuant to law, and will not at any time voluntarily do, suffer or permit any act or thing the effect of which would be to hinder, delay or imperil either the payment of the indebtedness evidenced by any of the Senior Bonds or the observance of any of the covenants contained in the Senior Indenture.

Tax Status. (A) The Authority intends that interest on the 2010 Senior Bonds be excluded from gross income for federal income tax purposes. The Authority reserves the right to determine the desired tax status of any additional Series of Senior Bonds.

(B) The Authority shall not use or permit the use of any proceeds of the 2010 Senior Bonds or any other funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not use or permit the use of any amounts received by the Authority in any manner, and shall not take or permit to be taken any other action or actions, which would cause any such Senior Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(C) The Authority shall at all times do and perform all acts and things permitted by law and the Senior Indenture which are necessary or desirable in order to assure that interest paid on the 2010 Senior Bonds (or on any of them) shall be excluded from gross income for federal income tax purposes.

Compliance with Senior Indenture, Contracts, Laws and Regulations. The Authority shall faithfully observe and perform all of the covenants, conditions and requirements of the Senior Indenture, shall not issue any Senior Bonds in any manner other than in accordance with the Senior Indenture, and shall not take any action that would permit any default to occur under the Senior Indenture, or do or permit to be done, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to the Senior Indenture. Subject to the limitations and consistent with the covenants, conditions and requirements contained in the Senior Indenture, the Authority shall comply with the terms, covenants and provisions, express or implied, of all contracts concerning or affecting the application of proceeds of Senior Bonds or Revenues. The Authority shall comply promptly, fully and faithfully with and abide by any statute, law, ordinance, order, rule or regulation, judgment, decree,

direction or requirement now in force or subsequently enacted, adopted, prescribed, imposed or entered by any competent governmental authority or agency applicable to or affecting the Senior Bonds.

Rate Covenant. The Authority will, at all times while any of the Senior Bonds remain outstanding, establish, fix, prescribe and collect rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished for the System which will yield Net Revenues for the next twelve months equal to at least 1.30 times Annual Debt Service on the Outstanding Senior Bonds to be paid from Net Revenues during such period. The Board may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce rates and charges below the rates then in effect unless the Net Revenues from such reduced rates will at all times be sufficient to meet the requirements described in this paragraph.

This covenant shall not prevent the Board from increasing rates and charges at any time, and the Board shall increase such rates and charges whenever necessary to produce Net Revenues to meet the requirement described in the preceding paragraph.

None of the electric energy owned, controlled or supplied by the Authority shall be furnished or supplied free to any person, but on the contrary shall always be sold or furnished so as to produce Revenues under the Senior Indenture.

The Authority further covenants and agrees that all such rates and charges shall be payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

Annual Budgets. Before the first day of each Fiscal Year, the Authority shall file with the Trustee, the Co-Trustee, the Depositary and each Credit Provider, a budget setting forth the estimated Maintenance and Operation Expenses to be paid from the Revenue Fund, the estimated Maintenance and Operation Expenses to be paid from the Surplus Fund, and other costs and expenses to be paid from Revenues, each separately stated, for such Fiscal Year. The Authority may from time to time amend any budget filed as described in this paragraph by filing such amendment with the Trustee, the Co-Trustee, the Depositary and each Credit Provider within 30 days of each amendment. In the absence of a budget for any Fiscal Year, the Trustee, the Co-Trustee and the Depositary shall assume that the budget for such Fiscal Year is the same as the final budget for the prior Fiscal Year. If the budget setting forth the estimated Maintenance and Operating Expenses is increased over the previous Fiscal Year, the Authority shall provide to the Credit Provider a calculation of the amounts required to be calculated as described in this paragraph and the estimated amounts of Revenue to be calculated in such Fiscal Year.

Construction and Maintenance of the System. The Authority will acquire and construct the Projects to be financed with the proceeds of the Senior Bonds in a sound and economical manner, with all practicable dispatch, in an expeditious manner and in. conformity with law so as to complete the same as soon as possible.

The Board will operate the System continuously, to the extent practicable under conditions as they may from time to time exist, in an efficient and economical manner, and will at all times maintain, preserve and keep, or cause to be maintained, preserved and kept, the System, including all parts thereof and appurtenances thereto, in good repair, working order and condition, and in such manner that the operating efficiency thereof will be of the highest character and so that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Board shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith), and the Board will from time to time make, or cause to be made, all necessary and proper repairs and replacements so that the business carried on in

connection with the System by the Board for the production, transmission and distribution of electric energy at all times may be properly and advantageously conducted in a manner consistent with prudent management, and the rights and security of the holders of the Senior Bonds fully protected and preserved.

Insurance. The Board will secure and maintain adequate worker's compensation insurance for all employees of the Authority at any time employed in the construction, operation, maintenance, repair or reconstruction of the System, and will secure and maintain general and automotive liability insurance relating to the operation of the System. Such general and automotive liability insurance is required to be in an amount not less than $1,000,000 for injuries, including death, to any one person, and in an amount not less than $2,000,000 for injuries, including death, to two or more persons, on account of any one accident, and property damage insurance in an amount not less than $1,000,000 for each occurrence. The Board will also take out and maintain adequate fidelity insurance or bonds on all officers and employees handling or responsible for funds of the Authority. The Board will also secure and maintain property insurance on all facilities constituting the System against risks of loss or damage caused by or resulting from fire and from action of the elements (including loss from typhoons, earthquakes, floods and tidal waves), to the extent that such insurance is obtainable at reasonable cost.

Such insurance shall be carried with companies duly authorized to transact insurance business on Guam. All such insurance shall be of a scope and nature as that usually carried in the industry. All such policies of insurance shall be in form satisfactory to the Trustee and shall contain a clause making all losses payable to the Trustee, as its interests may appear.

Any insurance required under the Senior Indenture may be maintained under a self-insurance or deductible program so long as such self-insurance or deductible program is maintained in the amounts and manner customarily maintained by prudent operators of power systems similar to the System. The Authority shall, every third year, engage an insurance consultant to review the Authority's self-insurance or deductible program and to make recommendations for any necessary modifications, including, but not limited to, any modifications necessary to comply with this covenant. Each such report shall be filed with the Trustee.

The proceeds of such insurance shall be deposited with the Trustee and held separate and apart from all other funds and moneys, to the end that such proceeds of insurance shall be applied to the reconstruction and restoration of the System to at least the same good order, state of repair and condition as it was in prior to the damage, insofar as the System may be restored from said proceeds. The Trustee shall permit withdrawals of the proceeds of such insurance from time to time, but as to each withdrawal only upon (i) a written request of the Authority, stating that the Authority has expended moneys or incurred liabilities to an amount requested in such request to be paid over to it for the purpose of reconstruction and restoration of the System, and specifying the items for which such moneys were expended or such liabilities incurred in such reasonable detail as may be required by the Trustee in its discretion, and (ii) a certificate of a qualified Independent Consultant that, in its opinion, the amount to be withdrawn is reasonable, necessary and currently required for the purposes requested. Any balance of any proceeds of insurance not required for the purpose of reconstruction and restoration as aforesaid shall be deposited by the Trustee in the Senior Bond Reserve Fund to the extent of any deficiency therein, and any remaining balance shall be applied by the Trustee to the purchase of Senior Bonds in the same manner as moneys are applied to the purchase of Senior Bonds under the provisions of the Senior Indenture.

Eminent Domain. If all or any part of the System shall be taken by eminent domain proceedings, the net proceeds realized by the Authority shall be deposited with the Trustee in a special fund in trust and shall be applied and disbursed by the Trustee subject to the following conditions, to wit:

(a) If such funds are sufficient to provide for the payment of the entire amount of principal due or to become due upon all of the Senior Bonds, together with the interest thereon and any redemption premiums, so as to enable the Authority to retire all of the Senior Bonds then outstanding, either by call and redemption as provided in the Senior Indenture or by payment at maturity or partly by redemption prior to maturity and partly by payment at maturity, the Trustee shall apply such moneys to such retirement. The balance of such moneys, if any, shall be transferred to the Authority.

(b) If such proceeds are insufficient to provide the money required for the purposes set forth in subsection (a) of this section, the Authority shall file with the Trustee a resolution requesting the Trustee to distribute such proceeds as authorized in the Senior Indenture and provided in such resolution.

(1) If such resolution requests the Trustee to apply such proceeds to the purchase or redemption of the Senior Bonds then outstanding, the Trustee shall so apply such proceeds to the purchase or redemption of the Senior Bonds then outstanding. Such proceeds shall be applied pro rata to the purchase or redemption of the Senior Bonds of each Series in the proportion which the principal amount of the Senior Bonds of each Series bears to the aggregate principal amount of all Senior Bonds then outstanding. If the Trustee is unable to purchase or redeem Senior Bonds of any particular Series in amounts sufficient to exhaust the moneys applicable to such Series, the remainder of such moneys shall be held in trust and applied to the payment of the Senior Bonds of such Series as the same become due by their terms, and, pending such application, such remaining moneys shall be invested by the Trustee in the manner provided in the Senior Indenture for the investment of moneys in the Reserve Fund.

(2) If such resolution requests the Trustee to deliver such proceeds to the Authority upon the ground that additions, betterments, extensions or improvements to or new facilities for the System will be acquired by the Authority with such proceeds, the Authority shall also file with the Trustee a report of a qualified Independent Consultant showing the loss in annual Revenues, if any, suffered or to be suffered by the Authority by reason of such eminent domain proceedings, together with a general description of the additions, betterments, extensions or improvements to or new facilities for the System then proposed to be acquired by the Authority with such proceeds. If, in the opinion of the Trustee, which shall be final, the additional Revenues to be derived from such additions, betterments, extensions or improvements or new facilities will sufficiently offset the loss of Revenues resulting from such eminent domain proceedings so that the ability of the Authority to meet its obligations under the Senior Indenture will not be substantially impaired, the Trustee shall pay such proceeds to the Treasurer. The Trustee, in reaching such determination, may rely upon the consultant's report. The Authority covenants that such proceeds will be held in a separate account in trust and applied by the Authority, to the extent necessary, for the purpose of making additions, betterments, extensions or improvements to the System, or for the acquisition of new facilities for the System in lieu of the portion of the System so taken in eminent domain proceedings, all substantially in accordance with such consultant's report. Any balance of such proceeds remaining after the accomplishment of the purposes aforesaid shall be accounted for as Revenues (except for the purpose of making the computations required for the issuance of Additional Senior Bonds). While such proceeds are so held in a separate account, they may be invested in the manner provided in the Senior Indenture for the investment of moneys in the Construction Fund.

(3) If such resolution requests the Trustee to deliver such proceeds to the Authority upon the ground that such eminent domain proceedings have had no effect, or at the most a relatively immaterial effect, upon the security of the Senior Bonds and if the Trustee determines (which determination shall be final) that such eminent domain proceedings have not substantially impaired or affected the operation of the System or the ability of the Authority to meet all of its obligations under the Senior Indenture with respect to the payment of the Senior Bonds then outstanding, the Trustee shall disburse such net proceeds to the Treasurer, which shall account for them as Revenues (except for the purpose of making computations required for the issuance of Additional Senior Bonds). The Trustee, in reaching such determination, may, but shall not be required to, obtain at the expense of the Authority the report of a qualified Independent Consultant.

Notwithstanding this covenant, it is the intent and purpose of this covenant to provide that if at any time the proceeds of any eminent domain proceedings affecting all or any part of the System are required to be applied to the payment of the Senior Bonds, such proceeds shall be applied equally and ratably to the payment of all then outstanding Senior Bonds irrespective of their date of issue.

Against Sale or Other Disposition of Property. The Board will not sell, lease or dispose of the System or any part thereof essential to the proper operation of the System or to the maintenance of the Revenues except as expressly permitted in the Senior Indenture. The Authority will not enter into any lease or agreement which impairs or impedes the operation of the System or any part thereof necessary to secure adequate Revenues for the payment of the principal of and interest on the Senior Bonds, or which would otherwise impair or impede the rights of the holders of the Senior Bonds with respect to the Revenues or the operation of the System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of this System, or any material or equipment which has worn out, may be sold at not less than the market value thereof without the consent of Senior Bondholders if such sale will not reduce Revenues and if all of the net proceeds of such sale are deposited in the Revenue Fund.

Against Competition. So long as any Senior Bonds are outstanding, the Authority and the Board will not acquire, own or operate any electric production, transmission or distribution systems or facilities or improvements thereto which would compete with the System. This covenant shall not be construed to prohibit the Authority or the Government from purchasing power from any cogeneration or resource recovery facility or, if required by federal law, from any other source, or to prohibit the Government from acquiring any resource recovery facility.

Protection of Security and Rights of Senior Bondholders. The Board will preserve and protect the security of the Senior Bonds and the rights of the Senior Bondholders, and will warrant and defend their rights against all claims and demands of all persons.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law in force that may affect the covenants and agreements contained in the Senior Indenture or in the Senior Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law. The Authority shall not claim, and waives any claim to, sovereign immunity from any suit or other action that may be brought under the Senior Indenture or upon the Senior Bonds.

Further Assurances. The Authority will make, execute and deliver any and all such further indentures instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Senior Indenture and for the better assuring and

confirming unto the Senior Bondholders of the Senior Bonds of the rights and benefits provided in the Senior Indenture.

Pledge by Government. The Government pledges to the holders of all Senior Bonds that the Government will not repeal, amend or modify Chapter 12 of Title 12, Guam Code Annotated, in any way that would substantially impair the powers, duties or effectiveness of the Public Utilities Commission thereunder in relation to the Authority and its rates. The Authority includes this pledge of the Government in the Senior Indenture as authorized by Section 8113.3 of the Act.

Continuing Disclosure. . The Authority covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Senior Indenture, failure of the Authority to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or of the Owners of at least 25% in aggregate principal amount of Outstanding 2010 Senior Bonds (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Owner or Beneficial Owner of any 2010 Senior Bond may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority , the Trustee or the Co-Trustee, as the case may be, to comply with their respective obligations under this Section. For purposes of this Section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2010 Senior Bonds (including persons holding Senior Bonds through nominees, depositories or other intermediaries).

Events of Default

The following events are Events of Default under the Senior Indenture:

(A) default by the Authority in the due and punctual payment of the principal or Redemption Price of any Senior Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise; default by the Authority in the redemption from any Mandatory Sinking Account Payment of any Term Senior Bonds in the amounts at the times provided therefor; or default by the Authority in the due and punctual payment of any installment of interest on any Senior Bond when and as such interest installment shall become due and payable;

(B) default by the Authority in the observance of any of the covenants, agreements or conditions on its part contained in the Senior Indenture or in the Senior Bonds, if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee or the Co-Trustee, or to the Authority and the Trustee and the Co-Trustee by any Credit Provider and by the Senior Bondholders of not less than 25% in aggregate principal amount of the Senior Bonds at the time Outstanding; or

(C) if the Authority shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America; or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America; or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property; and if, in any such case such petition is not withdrawn or dismissed or

such custody or control is not terminated or stayed within 60 days from the date of the filing of such petition or the assumption of such custody or control.

Remedies Upon Default. In each and every case during the continuance of an Event of Default, the Co-Trustee in its own name and as trustee of an express trust, on behalf and for the benefit and protection of the Senior Bondholders, after notice to the Authority, may, and upon the request of the Senior Bondholders of not less than 25% in Accreted Value of the Senior Bonds then Outstanding shall proceed to protect and enforce any rights of the Co-Trustee and, to the full extent that the Senior Bondholders themselves might do, the rights of such Senior Bondholders under the Senior Indenture and under the laws of Guam by such of the following remedies as the Co-Trustee shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Senior Bondholders, including the right to require the Authority to charge, prescribe and collect Revenues adequate to comply with the covenants and agreements made in the Senior Indenture, and to require the Authority to carry out any other covenant or agreement with the Senior Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Senior Bonds;

(3) by action or suit in equity, to require the Authority to account as if it were the trustee of an express trust for the Senior Bondholders;

(4) by realizing or causing to be realized through sale or otherwise upon the moneys, securities and other assets pledged under the Senior Indenture;

(5) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Senior Bondholders;

(6) by requiring the Authority to endorse all checks and other negotiable instruments representing Revenues to the order of the Co-Trustee immediately upon the receipt thereof and to deliver such endorsed instruments daily to the Co-Trustee;

(7) by notifying any or all account debtors of the Authority to pay any amounts representing Revenues, when due, directly to the Co-Trustee as Trustee; and

(8) by commencing proceedings for the appointment of a receiver or receivers of the System and of the Revenues, with such powers as the court making such appointment confers.

In addition, if an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Co-Trustee shall be entitled, and if requested to do so by the Senior Bondholders of not less than a majority in Accreted Value of the Senior Bonds at the time Outstanding shall be required, upon notice in writing to the Authority, to declare the principal of all of the Senior Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Senior Indenture or in the Senior Bonds contained to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been

obtained or entered, the Authority shall deposit with the Co-Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest in the Senior Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Senior Bonds, and the reasonable charges and expenses of the Trustee and the Co-Trustee, and any and all other Events of Default known to the Trustee or the Co-Trustee (other than in the payment of principal of and interest on the Senior Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee and the Co-Trustee or provision deemed by the Trustee and the Co-Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of a majority in Accreted Value of the Senior Bonds then Outstanding, by written notice to the Authority and to the Trustee and the Co-Trustee, may, on behalf of the Senior Bondholders of all of the Senior Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Revenues and Other Funds After Default

If an Event of Default occurs and is continuing, all Revenues and any other funds then held or thereafter received by the Trustee, the Co-Trustee or Depositary under any of the provisions of the Senior Indenture (subject to provisions with respect to moneys held in trust for Senior Bondholders by the Co-Trustee) is required to be under the control of and applied by the Co-Trustee as follows and in the following order:

(A) To the payment of any expenses necessary in the opinion of the Co-Trustee to protect the interests of the Senior Bondholders of the Senior Bonds and payment of reasonable charges and expenses of the Trustee, the Co-Trustee and the Depositary (including reasonable fees and disbursements of their respective counsel) incurred in and about the performance of their respective powers and duties under the Senior Indenture;

(B) To the payment of Maintenance and Operation Expenses as the same become due and payable;

(C) To the payment of the principal or Redemption Price of and interest then due on the Senior Bonds (upon presentation of the Senior Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Senior Indenture, as follows:

(1) Unless the principal of all the Senior Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payments to the persons entitled thereto of the unpaid principal or Redemption Price of any Senior Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Senior Bonds, and, if the amount available shall not be sufficient to pay in full all the Senior Bonds due

on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all the Senior Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Senior Bonds, with interest on the overdue principal at the rate borne by the respective Senior Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Bond over any other Senior Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without discrimination or preference.

Co-Trustee to Represent Senior Bondholders

The Co-Trustee has been irrevocably appointed (and the successive respective Senior Bondholders of the Senior Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Co-Trustee) as trustee and true and lawful attorney-in-fact of the Senior Bondholders of the Senior Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Senior Bondholders under the provisions of the Senior Bonds and the Senior Indenture, as well as under the Act and applicable provisions of any other law.

Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Co-Trustee to represent the Senior Bondholders, the Co-Trustee in its discretion may, subject to any direction by the holders of a majority in Accreted Value of the Senior Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Senior Bondholders by such appropriate suit, action, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Co-Trustee or in such Senior Bondholders under the Senior Indenture, the Act or any other law; and upon instituting such proceeding, the Co-Trustee shall be entitled, as a matter of right to the appointment of a receiver of the Revenues and other assets pledged under the Senior Indenture, pending such proceedings.

All rights of action under the Senior Indenture or the Senior Bonds or otherwise may be prosecuted and enforced by the Co-Trustee without the possession of any of the Senior Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Co-Trustee shall be brought in the name of the Co-Trustee for the benefit and protection of all the Senior Bondholders of such Senior Bonds, subject to the provisions of the Senior Indenture.

Senior Bondholders' Direction of Proceedings

The Senior Bondholders of a majority in aggregate principal amount of the Senior Bonds then Outstanding may, by an instrument or concurrent instruments in writing executed and delivered to the Co-Trustee, to direct the method of conducting all remedial proceedings taken by the Co-Trustee under the Senior Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Senior Indenture, and that the Co-Trustee has the right to decline to follow any such direction which in the opinion of the Co-Trustee would adversely affect those Senior Bondholders not parties to such direction.

Right of Senior Bondholders to Bring Action. As provided in Section 8235 of the Act, the holder of any Senior Bond may by mandamus or other appropriate proceeding require and compel the performance of any of the duties imposed upon or assumed by the Authority, the Board, the Treasurer or the General Manager of the Authority, the Governor, the Director of Administration or any other officer or agency of the Authority or the Board or the Government or any employee thereof, in connection with the acquisition, construction, improvement, operation, equipment, maintenance, repair, renewal, replacement, reconstruction or insurance of the System or any part thereof, or the collection, deposit, investment, application and disbursement of all Revenues or in connection with the deposit, investment and disbursement of the proceeds received from the sale of the Senior Bonds. The enumeration of such rights and remedies does not, however, exclude the exercise or prosecution of any other rights or remedies available to the holders of the Senior Bonds.

Termination of Proceedings

In case any proceedings taken by the Co-Trustee or any one or more Senior Bondholders on account of any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Trustee, the Co-Trustee or the Senior Bondholders, then in every such case the Authority, the Trustee, the Co-Trustee and the Senior Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Senior Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee, the Co-Trustee and the Senior Bondholders will continue as though no such proceedings had been taken.

Duties, Immunities and Liabilities of Co-Trustee, Trustee and Depositary

The Co-Trustee is required, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, to perform such duties and only such duties as are specifically set forth in the Senior Indenture for it to perform. The Co-Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such rights and powers vested in it by the Senior Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee and the Depositary are required, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, to perform such duties and only such duties as are specifically set forth in the Senior Indenture. The Trustee and the Depositary are required, during the existence of any Event of Default (which has not been cured), to follow the directions of the Co-Trustee with respect to any of the funds held by the Trustee or the Depositary under the Senior Indenture.

The Authority may remove the Trustee, the Co-Trustee or the Depositary at any time unless an Event of Default shall have occurred and then be continuing, and remove the Trustee, the Co-Trustee, or the Depositary if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Senior Bondholders of not less than a majority in Accreted Value of the Senior Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee, the Co-Trustee or the Depositary ceases to be eligible to act in such capacity in accordance with the Senior Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of either the Trustee, the Co-Trustee or the Depositary or their respective property is appointed, or any public officer takes control or charge of the Trustee, the Co-Trustee or the Depositary or their respective property or affairs for the purpose of rehabilitation, conservation or liquidation; in each case by giving written notice of such removal to the Trustee, the Co-Trustee and the Depositary, and thereupon is required to appoint a successor Trustee, the Co-Trustee or Depositary, as the case may be, by an instrument in writing.

The Trustee, the Co-Trustee or the Depositary may at any time resign by giving written notice of such resignation to the Authority and each of the other Fiduciaries. Upon receiving such notice of resignation, the Authority is required to promptly appoint a successor Trustee, Co-Trustee or Depositary, as the case may be, by an instrument in writing. Any such removal or resignation and appointment of a successor will become effective upon acceptance of appointment by the successor. Promptly upon such acceptance, the Authority is required to give notice thereof to each Paying Agent and Credit Provider and to the Senior Bondholders by mail in the manner provided in the Senior Indenture.

If no successor is appointed and accepts appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, Co-Trustee or Depositary, as the case may be, or any Senior Bondholder (on behalf of such Senior Bondholder and all other Senior Bondholders) may petition any court of competent jurisdiction for the appointment of a successor, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor.

Any successor Trustee must be a trust company or bank having the powers of a trust company doing business and having a combined capital and surplus of at least $50,000,000, and subject to supervision or examination by federal or state authority.

Any successor Co-Trustee must be a trust company or bank having the powers of a trust company doing business and having a combined capital and surplus of at least $75,000,000, and subject to supervision or examination by federal or state authority.

Any successor Depositary must be a trust company or bank having the powers of a trust company doing business and having a trust office in Hagatna, Guam, having a combined capital and surplus of at least $10,000,000, and subject to supervision or examination by federal or territorial authority.

Liability of Trustee and Depositary

The recitals of facts contained in the Senior Indenture and in the Senior Bonds are to be taken as statements of the Authority, and neither the Trustee, the Co-Trustee nor the Depositary assumes any responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Senior Indenture or of the Senior Bonds, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations therein or in the Senior Bonds assigned to or imposed upon them, respectively. The Co-Trustee is, however, responsible for its representations contained in its certificate of authentication and registration on the Senior Bonds. Neither the Trustee, the Co-Trustee nor the Depositary shall be liable in connection with the performance of their respective duties, except for their own respective negligence or willful misconduct.

The Trustee, the Co-Trustee and the Depositary may become the owner of Senior Bonds with the same rights they would have if they were not Trustee, the Co-Trustee or Depositary, as the case may be, and, to the extent permitted by law, may act as depositary for and permit any of their officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Senior Bondholders, whether or not such committee shall represent the Senior Bondholders of a majority in principal amount of the Senior Bonds then Outstanding.

Amendments Permitted

The Senior Indenture and the rights and obligations of the Authority and of the Senior Bondholders of the Senior Bonds and of the Trustee and the Co-Trustee may be modified or amended at any time by a Supplemental Senior Indenture which shall become effective when the written consents of

each Credit Provider and the Senior Bondholders of 60% in aggregate principal amount of the Senior Bonds then Outstanding shall have been filed with the Trustee and the Co-Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Senior Bonds of any particular maturity or Series remain Outstanding, the consent of the Senior Bondholders of Senior Bonds of such maturity or Series and the Credit Provider of such Series, if any, shall not be required and such Senior Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Senior Bonds under this provision.

No such modification or amendment may (1) extend the fixed maturity of any Senior Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided under the Senior Indenture for the payment of any Senior Bond, or extend the time of payment of any interest on any Senior Bond, or reduce the rate of interest thereon, without the consent of the Senior Bondholder of each Senior Bond so affected, or (2) reduce the aforesaid percentage of Senior Bonds the consent of the Senior Bondholders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Senior Indenture prior to or on a parity with the lien created by the Senior Indenture, or deprive the Senior Bondholders of the Senior Bonds of the lien created by the Senior Indenture upon such Revenues and other assets (except as expressly provided in the Senior Indenture), without the consent of the Senior Bondholders of all of the Senior Bonds then Outstanding.

The Senior Indenture and the rights and obligations of the Authority and of the Senior Bondholders of the Senior Bonds may also be modified or amended at any time by a Supplemental Senior Indenture, which shall become effective upon execution (or such later date as may be specified in such Supplemental Senior Indenture), without the consent of any Senior Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) To add to the covenants and agreements of the Authority contained in the Senior Indenture, to pledge or assign additional security for the Senior Bonds, or to surrender any right or power reserved to or conferred upon the Authority in the Senior Indenture, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Senior Bondholders of the Senior Bonds;

(2) To make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Senior Indenture, or in regard to matters or questions arising under the Senior Indenture, as the Authority may deem necessary or desirable and not inconsistent with the Senior Indenture, and which shall not materially adversely affect the interests of the Senior Bondholders of the Senior Bonds;

(3) To modify, amend or supplement the Senior Indenture in such manner as to permit the qualification thereof under the Trust Senior Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Senior Bondholders of the Senior Bonds;

(4) To provide for the issuance of an additional series of Senior Bonds, and to provide the terms and conditions under which such Senior Bonds may be issued, subject to and in accordance with the provisions of the Senior Indenture; or

(5) To make such changes as shall be required in connection with the procedures for making draws or other claims under any Credit Facility or for reimbursing amounts so drawn or otherwise received.

Effect of Supplemental Senior Indenture

From and after the time any Supplemental Senior Indenture becomes effective, the Senior Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Senior Indenture of the Authority, the Trustee, the Co-Trustee, the Depositary and all Senior Bondholders of Senior Bonds Outstanding shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all terms and conditions of any such Supplemental Senior Indenture shall be deemed to be part of the terms and conditions of the Senior Indenture for any and all purposes.

Discharge of Senior Indenture

If the Authority pays and discharges the entire indebtedness on all Senior Bonds Outstanding in any one or more of the following ways:

(A) by paying or causing to be paid the principal or Redemption Price of and interest on Senior Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Co-Trustee, irrevocably in trust, at or before maturity, money or Federal Securities in the necessary amount to pay or redeem Senior Bonds Outstanding; or

(C) by delivering to the Co-Trustee, for cancellation by it, Senior Bonds Outstanding;

and if the Authority also pays or causes to be paid all other sums payable under the Senior Indenture by the Authority, then and in that case, at the election of the Authority, and notwithstanding that any Senior Bonds shall not have been surrendered for payment, the Senior Indenture and the pledge of Revenues and other assets made under the Senior Indenture and all covenants, agreements and other obligations of the Authority under the Senior Indenture will cease, terminate, become void and be completely discharged and satisfied.

Discharge of Liability on Senior Bonds

Upon the deposit with the Co-Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Senior Bond (whether upon or prior to its maturity or the redemption date of such Senior Bond), then all liability of the Authority in respect of such Senior Bond will cease, determine and be completely discharged, and the Senior Bondholder thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Co-Trustee as aforesaid for their payment, subject, however, to the provisions of the Senior Indenture with respect to the payment of principal or Redemption Price of or interest on Senior Bonds after discharge of the Senior Indenture.

Deposit of Money or Securities with Trustee

Whenever in the Senior Indenture it is provided or permitted that there be deposited with or held in trust by the Co-Trustee money or securities in the necessary amount to pay or redeem any Senior Bonds, the money or securities so to be deposited or held is required to be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Senior Bonds and all unpaid interest thereon to maturity, except that, in the case of Senior Bonds which are to be redeemed prior to maturity, the amount to be deposited or held shall be the principal amount or Redemption Price of such Senior Bonds and all unpaid interest thereon to the date fixed for redemption; or

(B) noncallable Federal Securities the principal of and interest on which when due will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the date fixed for redemption, as the case may be, on the Senior Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that substitution of such Federal Securities shall not be permitted without the consent of each Credit Provider for such Senior Bonds;

provided, in each case, that the Co-Trustee shall have been irrevocably instructed pursuant to the Senior Indenture to apply such money to the payment of such principal or Redemption Price and interest with respect to such Senior Bonds.

Payment of Senior Bonds after Discharge of Senior Indenture

Any moneys held by the Co-Trustee in trust for the payment of the principal or Redemption Price of, or interest on, any Senior Bonds and remaining unclaimed for six years after the principal of all of the Senior Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Senior Indenture), if such moneys were so held at such date, or six years after the date of deposit of such moneys if deposited after said date when all of the Senior Bonds became due and payable, shall, upon request of the Authority, be repaid to the Authority free from the trusts created by the Senior Indenture, and all liability of the Trustee, the Co-Trustee or Depositary with respect to such moneys shall cease and the Senior Bondholders of such Senior Bonds will be entitled to look only to Revenues held by the Authority for payment of such Senior Bonds.

Liability of Authority Limited to Revenues

No Senior Bond issued under the Senior Indenture shall be or become a lien, charge or liability against the Government or the Governor or against the Authority or the Board or against any property or funds of the Authority or the Board or the Government or the Governor, except to the extent of the pledge of Revenues under the Senior Indenture, and neither the payment of the principal of any Senior Bond or any part thereof, nor of any interest thereon, is a debt, liability or obligation of the Government.

Notwithstanding anything in the Senior Indenture or in the Senior Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and in the Senior Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Senior Bonds or for any other purpose of the Senior Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of purposes under the Senior Indenture any funds of the Authority which may be made available to it for such purposes.

General Credit Provider Provisions

All provisions of the Senior Indenture regarding consents, approvals, directions, appointments or requests by any Credit Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by any Credit Provider and shall be read as if such Credit Provider were not mentioned therein and as if no Credit Facility were in effect during any time in which

such Credit Provider is in default under its Credit Facility, or after such Credit Facility shall at any time for any reason cease to be valid and binding on such Credit Provider, or shall be declared to be null and void, or while the validity or enforceability of any provision thereof is being contested by such Credit Provider or any governmental agency or authority, or while such Credit Provider is denying further liability or obligation under such Credit Facility or after such Credit Provider has rescinded, repudiated or terminated such Credit Facility.

All provisions of the Senior Indenture relating to any Credit Provider shall be of no force and effect if there is no Credit Facility in effect and there are no Senior Bonds held by such Credit Provider and all amounts owing to such Credit Provider have been paid.

Provisions Relating to the 2010 Credit Provider

So long as the Credit Facility with respect to the 2010 Insured Bonds remains in effect and the 2010 Credit Provider is not in default with respect thereto, the provisions summarized under this heading shall apply. For purposes of the provisions summarized below, the term "Credit Facility" shall mean the Credit Facility issued by the 2010 Credit Provider for the 2010 Insured Bonds.

Any amendment, supplement, modification to, or waiver of, the Senior Indenture that requires the consent of 2010 Insured Bondholders or materially adversely affects the rights and interests of the 2010 Credit Provider shall be subject to the prior written consent of the 2010 Credit Provider.

The 2010 Credit Provider shall be deemed to be the sole holder of the 2010 Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the 2010 Insured Bondholders are entitled to take pursuant to the provisions of the Senior Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Fiduciaries.

Anything in the Senior Indenture to the contrary notwithstanding, the maturity of 2010 Insured Bonds shall not be accelerated without the consent of the 2010 Credit Provider and in the event the maturity of the 2010 Insured Bonds is accelerated, the 2010 Credit Provider may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Authority) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the 2010 Credit Provider's obligations under the Credit Facility with respect to such 2010 Insured Bonds shall be fully discharged..

Notwithstanding any other provision of the Senior Indenture, in determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Senior Indenture would adversely affect the security for the 2010 Insured Bonds or the rights of the 2010 Insured Bondholders, the Trustee or the Co-Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Credit Facility.

Notwithstanding anything in the Senior Indenture to the contrary, amounts paid by the 2010 Credit Provider under the Credit Facility shall not be deemed paid for purposes of the Senior Indenture, and the 2010 Insured Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Senior Indenture. The 2010 Credit Provider shall, to the extent it makes any payment of principal of or interest on the 2010 Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Credit Facility. The Senior Indenture shall not be discharged unless all amounts due or to become due to the 2010 Credit Provider have been paid in full or duly provided for.

Notwithstanding anything in the Senior Indenture to the contrary, only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the 2010 Credit Provider, pre-refunded municipal obligations rated "AAA" and "Aaa" by Standard & Poor's Corporation Moody's Investors Service, respectively, or (5) subject to the prior written consent of the 2010 Credit Provider, securities eligible for "AAA" defeasance under then existing criteria of Standard & Poor's Corporation, or any combination thereof, shall be used to effect defeasance of the 2010 Insured Bonds unless the 2010 Credit Provider otherwise approves.

To accomplish defeasance of the 2010 Insured Bonds, the Authority shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the 2010 Credit Provider ("Accountant") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the 2010 Credit Provider), (iii) an opinion of nationally recognized bond counsel to the effect that the 2010 Insured Bonds are no longer "Outstanding" under the Senior Indenture and (iv) a certificate of discharge of the Trustee with respect to the 2010 Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Authority, the Trustee or Co-Trustee, as appropriate, and the 2010 Credit Provider. The 2010 Insured Bonds shall be deemed "Outstanding" under the Senior Indenture unless and until they are in fact paid and retired or the above criteria are met.

Notwithstanding anything in the Senior Indenture to the contrary, any adjustments to the calculation of Revenue made in anticipation of the receipt of Build America Bond subsidy payments with respect to the 2010 Insured Bonds shall be disregarded in the event the Authority does not, or will not, receive such subsidy payments.

Provisions Relating to the 1999 Series A Credit Provider

So long as the Credit Facility with respect to the 1999 Series A Insured Bonds remains in effect and the 1999 Series A Credit Provider is not in default with respect thereto, the provisions summarized under this heading shall apply. For purposes of the provisions summarized below, the term "Credit Facility" shall mean the Credit Facility issued by the 1999 Series A Credit Provider for the 1999 Series A Insured Bonds.

Any provision of the Senior Indenture expressly recognizing or granting rights in or to the 1999 Series A Credit Provider may not be amended in any manner which affects the rights of the 1999 Series A Credit Provider hereunder without the prior written consent of the 1999 Series A Credit Provider.

Unless otherwise provided in the section of the Senior Indenture summarized under this heading, the 1999 Series A Credit Provider's consent shall be required in addition to 1999 Series A Insured Bondholder consent, when required, for the following purposes: (i) execution and delivery of any Supplemental Indenture; (ii) removal of any Fiduciary and selection and appointment of any successor; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires 1999 Series A Insured Bondholder consent.

Anything in the Senior Indenture to the contrary notwithstanding, upon the occurrence

and the continuance of an Event of Default as defined in the Senior Indenture, the 1999 Series A Credit Provider shall be entitled to control and direct the enforcement of all rights and remedies granted to the 1999 Series A Insured Bondholders or the Trustee for the benefit of the 1999 Series A Insured Bondholders under the Senior Indenture to the same extent as if it were the holder of the 1999 Series A Insured Bonds insured by it, including, without limitation the right to participate in any direction to accelerate the principal of the 1999 Series A Insured Bonds as described in the Senior Indenture, to annul any such declaration of acceleration, and to approve all waivers of events of default. In order to be effective, any consent from the 1999 Series A Credit Provider to any such acceleration, annulment or waiver must, as applicable, include or be accompanied by an agreement either to pay the 1999 Series A Insured Bonds insured or otherwise secured by such Credit Facility as accelerated or to pay such 1999 Series A Insured Bonds and the interest thereon on the dates originally scheduled for such payment without regard to such acceleration.

Notwithstanding any other provision of the Senior Indenture, the Trustee or the Authority, as appropriate, shall immediately notify the 1999 Series A Credit Provider if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default under the Senior Indenture and of the declaration of acceleration of the 1999 Series A Insured Bonds.

The consent or direction of the 1999 Series A Credit Provider shall be treated as the consent or direction of the holders of the 1999 Series A Insured Bonds insured by it for purposes of any removal or replacement of a Fiduciary or any change in the qualifications applicable to any Fiduciary, as set forth in the Senior Indenture. Notwithstanding any other provision of the Senior Indenture, no removal, resignation or termination of any Fiduciary shall take effect until a successor, acceptable to the 1999 Series A Credit Provider, shall be appointed.

Notwithstanding any other provision of the Senior Indenture, in determining whether the rights of the 1999 Series A Insured Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Senior Indenture, the Trustee or Co-Trustee shall consider the effect on the 1999 Series A Insured Bondholders as if there were no Credit Facility.

Notwithstanding anything in the Senior Indenture to the contrary, in the event that the principal and/or interest due on any 1999 Series A Insured Bonds shall be paid by the 1999 Series A Credit Provider pursuant to the Credit Facility with respect thereto, such 1999 Series A Insured Bonds shall remain Outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Authority, and the assignment and pledge of the Revenues and other assets pledged under the Senior Indenture and all covenants, agreements and other obligations of the Authority to the registered owners of such 1999 Series A Insured Bonds shall continue to exist and shall run to the benefit of the 1999 Series A Credit Provider, and the 1999 Series A Credit Provider shall be subrogated to the rights of such registered owners.

Waiver of Personal Liability

No legislator, officer, agent or employee of the Authority will be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Senior Bonds; but nothing contained in the Senior Indenture will relieve any such legislator, officer, agent or employee from the performance of any official duty provided by law.

THE SUBORDINATE INDENTURE

Funds

The following funds are established under the Subordinate Indenture:

Proceeds Fund – Amounts in the Proceeds Fund shall be used and withdrawn, as provided in the Subordinate Indenture, solely for (1) the purpose of paying, or reimbursing the Authority for the payment of, or refinancing, the Project Costs and Maintenance and Operation expenses for which a Series of Subordinate Bonds is issued pursuant to the Act, including the payment of Costs of Issuance of such Series and Capitalized Interest, and (2) the payment of principal of and interest on the Subordinate Bonds in the manner and to the extent provided in the Subordinate Indenture. The Depositary shall disburse moneys in the Proceeds Fund only upon Requisition of the Authority. Upon receipt of a Certificate of the Authority that amounts in said fund are no longer required for the purpose of said fund, said amounts shall be transferred to the Subordinate Revenue Fund.

Subordinate Revenue Fund – All Revenues deposited in the Surplus Fund and available for transfer to the Authority free and clear of the lien of the Senior Indenture shall be promptly paid over to the Trustee and deposited by the Trustee to the credit of the Subordinate Revenue Fund. Moneys on deposit in this Fund shall be applied in the manner described under "Sources of Payment; Rate Covenant" below.

Subordinate Bond Fund – The Co-Trustee is required to apply moneys on deposit in this fund solely for the purposes of (1) paying interest on the Subordinate Bonds, and (2) paying principal of the Serial Subordinate Bonds when due and payable and (3) purchasing and redeeming or paying at maturity the Term Subordinate Bonds as provided in the Subordinate Indenture.

Subordinate Bond Reserve Fund – The Authority, is required to make monthly deposits to the Subordinate Bond Reserve Fund from Revenues of amounts necessary to increase the amount of such Fund to the Maximum Annual Debt Service on all Outstanding Subordinate Bonds issued under the Subordinate Indenture or such higher amount as may be specified by the Supplemental Subordinate Indenture. Moneys in the Subordinate Bond Reserve Fund shall be applied solely to make up deficiencies in the Subordinate Bond Fund. Any moneys in the Subordinate Bond Reserve Fund on any October 5 in excess of the Subordinate Bond Reserve Fund Requirement may be transferred to the Depositary for deposit into the Subordinate Revenue Fund.

Rebate Fund – The Trustee is required to hold in trust all moneys deposited in the Rebate Fund, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America and the Trustee shall disburse such moneys in accordance with the Subordinate Indenture and the Tax Certificate. In the event such moneys exceed the Rebate Requirement, the Authority may direct the Trustee to transfer such excess moneys to the Subordinate Revenue Fund.

All amounts in the Subordinate Revenue Fund on the fifth day of each month, after the deposits required by the Subordinate Indenture have been made, shall be paid by the Depositary to the Authority, free and clear of the pledge and lien of the Subordinate Indenture.

Sources of Payment; Rate Covenant

The Subordinate Indenture contains a covenant that rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System will be established,

fixed, prescribed and collected so as to yield Net Revenues, with respect to the then immediately ensuing twelve months equal to at least 1.20 times the sum of (1) the interest falling due on then Outstanding Subordinate Bonds and Senior Bonds (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times of and in amount provided for by the Mandatory Sinking Account Payments applicable to such Term Bonds), but not including Capitalized Interest, (2) the principal amount of then Outstanding Serial Subordinate Bonds and Serial Senior Bonds falling due by their terms, and (3) the aggregate amount of all Mandatory Sinking Account Payments for Subordinate Bonds and Senior Bonds required (all as calculated for said Bond Year) to be paid from Net Revenues during such 12-month period. For the purpose of determining the interest payable on Variable Rate Bonds, the interest rate used in the foregoing calculation shall be the actual interest rate for periods prior to the date of calculation and the maximum rate then permitted on such Variable Rate Bonds for periods subsequent to the date of calculation. Net Revenues means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation Expenses incurred during such period.

The Subordinate Indenture requires all Revenues deposited in the Surplus Fund and available for transfer to the Authority free and clear of the lien of the Senior Indenture to be promptly paid over to the Trustee and deposited by the Trustee to the credit of the Subordinate Revenue Fund.

Amounts in the Subordinate Revenue Fund will be transferred to the Rebate Fund as required by the Subordinate Indenture and to the Subordinate Bond Fund to satisfy any deficiency in such Fund.

On or before the fifth day of each month, the Depositary shall transfer moneys in the Subordinate Revenue Fund for deposit in the following funds, in the amounts and in the following priority: (1) into the Subordinate Bond Fund held by the Co-Trustee, an amount, for each Series of Subordinate Bonds, which if paid in equal monthly installments will be sufficient to pay interest becoming due on the next Interest Payment Date plus, during the Principal Payment Period for each Subordinate Bond, an amount which, if paid in equal monthly installments in each month during such Principal Payment Period, would yield moneys sufficient to pay the principal or Mandatory Sinking Account Payment due and payable on the interest payment date next succeeding such Principal Payment Period for such Subordinate Bond; and (2) into the Subordinate Bond Reserve Fund held by the Co-Trustee, the amount, if any, necessary to increase the balance in such Fund to the Subordinate Bond Reserve Fund Requirement.

Redemption of Subordinate Bonds

The 2010 Subordinate Bonds are subject to redemption prior to their respective stated maturities as explained in the Official Statement under the captions "THE 2010 BONDS —Redemption of the 2010 Bonds —2010 Subordinate Bonds." Any Series of Subordinate Bonds other than the 2010 Subordinate Bonds may be made subject to redemption prior to maturity as may be determined by the Authority at the time such Series is authorized or issued.

Any 2010 Subordinate Bonds (or portions thereof) called for redemption on the date fixed for redemption will become due and payable at the Redemption Price specified in the notice together with interest accrued thereon to the date fixed for redemption. Interest on such 2010 Subordinate Bonds called for redemption will cease to accrue and such Subordinate Bonds (or portions thereof) will not be entitled to any benefits security under the Subordinate Indenture, and the Subordinate Bondholders thereof will have no rights with respect thereof except to receive payment of the Redemption Price and accrued interest thereon. See "THE 2010 BONDS —Redemption of the 2010 Bonds —2010 Subordinate Bonds" in the body of this Official Statement.

A copy of any notice of redemption shall also be sent by overnight delivery or certified mail, with return receipt requested, to each of the Fiduciaries, each of the Credit Providers and the Securities Depository and by posting electronically with the MSRB; provided, however, that failure to give notice pursuant to this sentence by first class mail to any Subordinate Bondholders, to any Fiduciaries, to any Credit Providers or to any Securities Depository or Information Services, or to publish such notice, or the insufficiency of any such notices, shall not affect the sufficiency of the proceedings for redemption of any Subordinate Bonds.

The Authority may, at its option, prior to the date fixed for redemption in any notice of redemption, rescind and cancel such notice of redemption. Notice of such rescission or cancellation shall be given to the parties to whom and in the manner in which notices of redemption are to be given under the Subordinate Indenture.

Investment of Moneys in Funds

All moneys in any of the funds and accounts established pursuant to the Subordinate Indenture is required to be invested by the Trustee, the Co-Trustee or the Depositary, as the case may be, in Investment Securities to maximize investment income, with proper regard for the preservation of principal, pursuant to any request of the Authority as to such investment. All Investment Securities and other investments are subject to the limitations set forth in the Subordinate Indenture.

All interest and other profit derived from such investments are required to be deposited at least monthly in the Subordinate Revenue Fund, except that interest and other profit derived from the investment of monies in the Proceeds Fund or the Rebate Fund shall be retained in each such respective fund.

Investment Securities acquired as an investment of moneys in any fund or account established under the Subordinate Indenture are required to be credited to such fund or account. Investment Securities in the Subordinate Bond Reserve Fund and the Subordinate Bond Fund shall be valued on each Interest Payment Date at the lesser of amortized value or market value as of such date.

If and to the extent provided by a Supplemental Indenture authorizing the issuance of an additional Series of Subordinate Bonds, the portion of the Subordinate Bond Reserve Fund Requirement allocable to such Series may be wholly or partially satisfied by a Credit Facility, provided that such Credit Facility is provided by a Credit Provider rated, at the time of deposit of such Credit Facility, in one of the highest rating category by Moody's Investors Service and Standard & Poor's Corporation. Such Supplemental Indenture may also provide that if a drawing on such Credit Facility is honored, amounts available under the Subordinate Indenture for deposit in the Subordinate Bond Reserve Fund shall be applied by the Co-Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing and the Co-Trustee shall give notice of such reimbursement required by the applicable Credit Agreement.

Certain Covenants

Punctual Payment. The Authority shall punctually pay or cause to be paid, from the Revenues and other assets pledged under the Subordinate Indenture, the principal or Redemption Price and interest to become due in respect of all the Subordinate Bonds, in strict conformity with the terms of the Subordinate Bonds and of the Subordinate Indenture.

Extension of Payment of Principal and Interest on the Subordinate Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Subordinate

Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Subordinate Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Subordinate Bonds or the time of payment of any such claims for interest shall be extended, such Subordinate Bonds or claims for interest shall not be entitled, in case of any default under the Subordinate Indenture, to the benefits of the Subordinate Indenture, except subject to the prior payment in full of the principal of all of the Subordinate Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. This covenant shall not be deemed to limit the right of the Authority to issue Subordinate Bonds or other indebtedness for the purpose of refunding any Outstanding Subordinate Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Subordinate Bonds.

Against Encumbrances. The Board shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues or other assets pledged or assigned under the Subordinate Indenture while any of the Subordinate Bonds are Outstanding, except the pledge and assignment created by the Subordinate Indenture, and except any pledge or assignment subordinate in all respects to the pledge and assignment thereunder, and shall not issue any obligations secured by such pledge and assignment other than the Subordinate Bonds. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other Subordinate Indentures for any of its governmental purposes, and reserves the right to issue other obligations for such purposes and to issue obligations secured by a subordinate pledge and assignment of the Revenues and other assets pledged under the Subordinate Indenture. The Board will not mortgage or otherwise encumber the System or any part thereof essential to the proper operation of the System or to the maintenance of Revenues.

Power to Issue Subordinate Bonds and Make Pledge. The Authority represents and warrants that it is duly authorized pursuant to law to issue the Subordinate Bonds and to enter into the Subordinate Indenture and to pledge the Revenues and other assets purported to be pledged under the Subordinate Indenture in the manner and to the extent provided in the Subordinate Indenture. The Subordinate Bonds and the provisions of the Subordinate Indenture are and will be the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority, Trustee, the Co-Trustee (subject to the provisions of the Subordinate Indenture) and Depositary shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of Revenues and other assets and all the rights of the Subordinate Bondholders under the Subordinate Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Board shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all transactions relating to the System, the proceeds of Subordinate Bonds, the Revenues, and all funds and accounts established pursuant to the Subordinate Indenture. Such books of record and account shall be available for inspection by the Trustee, the Co-Trustee, the Depositary, any Credit Provider or the Authority, as the case may be, and, with respect to such books of record and account maintained by the Trustee, the Co-Trustee or the Depositary, by any Credit Provider or any Subordinate Bondholder or agent or representative thereof duly authorized in writing, at reasonable hours and under reasonable circumstances. The Authority shall provide to any Credit Provider such additional information as may be reasonably requested by such Credit Provider concerning the sources and amounts of Revenues.

The Authority shall file with the Trustee, the Co-Trustee, the Depositary and each Credit Provider, and furnish to each major national investment rating service which initially rated any Series of Subordinate Bonds and to each Subordinate Bondholder who shall have filed a name and address with the Authority or the Trustee for such purpose, within six months after the close of each Fiscal Year so long as any of the Subordinate Bonds are Outstanding, complete financial statements with respect to the Revenues and all funds established pursuant to the Subordinate Indenture, prepared in accordance with

generally accepted accounting principles for governmental entities, covering receipts, disbursements, allocation and application of all Revenues for such Fiscal Year, including a statement of revenues, expenditures and fund balances (covering all of the funds established pursuant to the Subordinate Indenture), balance sheet and statement of changes in financial position, accompanied by an audit report and opinion of a nationally recognized Independent certified public accountant.

The Authority shall also file with the Trustee, the Co-Trustee and the Depositary, and each Credit Provider, and furnish to each Rating Agency, within 30 days after receipt of the annual audited financial statements of the Authority prepared by an Independent certified public accountant, a copy of such statements.

Tax Status. (A) The Authority reserves the right to determine the desired tax status of any Series of Subordinate Bonds.

(B) The Authority shall not use or permit the use of any proceeds of a Series of Subordinate Bonds the interest on which is excluded from gross income for federal income tax purposes or any other funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not use or permit the use of any amounts received by the Authority in any manner, and shall not take or permit to be taken any other action or actions, which would cause any such Subordinate Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(C) The Authority shall at all times do and perform all acts and things permitted by law and the Subordinate Indenture which are necessary or desirable in order to assure that interest paid on such Subordinate Bonds (or on any of them) shall be excluded from gross income for federal income tax purposes.

Compliance with Subordinate Indenture, Contracts, Laws and Regulations. The Authority shall faithfully observe and perform all the covenants, conditions and requirements of the Subordinate Indenture, shall not issue any Subordinate Bonds in any manner other than in accordance with the Subordinate Indenture, and shall not take any action that would permit any default to occur under the Subordinate Indenture, or do or permit to be done, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to the Subordinate Indenture. Subject to the limitations and consistent with the covenants, conditions and requirements contained in the Subordinate Indenture, the Authority shall comply with the terms, covenants and provisions, express or implied, of all contracts concerning or affecting the application of proceeds of Subordinate Bonds or Revenues. The Authority shall comply promptly, fully and faithfully with and abide by any statute, law, ordinance, order, rule or regulation, judgment, decree, direction or requirement now in force or subsequently enacted, adopted, prescribed, imposed or entered by any competent governmental authority or agency applicable to or affecting the Subordinate Bonds.

Rate Covenant. The Authority will, at all times while any of the Subordinate Bonds remain outstanding, establish, fix, prescribe and collect rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished for the System which will yield Net Revenues for the next twelve months equal to at least (a) 1.20 times Annual Debt Service on the Outstanding Senior Bonds and Subordinate Bonds to be paid from Net Revenues during such period and (b) the amount necessary to pay all obligations to be paid from Net Revenues during such period under then existing contracts or under law (including amounts payable from Net Revenues on a basis subordinate to the Subordinate Bonds). The Board may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce rates and charges below

the rates then in effect unless the Net Revenues from such reduced rates will at all times be sufficient to meet the requirements described in this paragraph.

This covenant shall not prevent the Board from increasing rates and charges at any time, and the Board shall increase such rates and charges whenever necessary to produce Net Revenues to meet the requirement described in the preceding paragraph.

None of the electric energy owned, controlled or supplied by the Authority shall be furnished or supplied free to any person, but on the contrary shall always be sold or furnished so as to produce Revenues under the Subordinate Indenture.

The Authority further covenants and agrees that all such rates and charges shall be payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

Annual Budgets. If the budget setting forth the estimated Maintenance and Operating Expenses is increased over the previous Fiscal Year, the Authority shall provide to the Credit Provider a calculation of the amounts required to be calculated as described in this paragraph and the estimated amounts of Revenue to be calculated in such Fiscal Year.

Protection of Security and Rights of Subordinate Bondholders. The Board will preserve and protect the security of the Subordinate Bonds and the rights of the Subordinate Bondholders, and will warrant and defend their rights against all claims and demands of all persons.

Further Assurances. The Authority will make, execute and deliver any and all such further Subordinate Indentures instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Subordinate Indenture and for the better assuring and confirming unto the Holders of the Subordinate Bonds of the rights and benefits provided in the Subordinate Indenture.

Pledge by Government. The Government pledges to the holders of all Subordinate Bonds that the Government will not repeal, amend or modify Chapter 12 of Title 12, Guam Code Annotated, in any way that would substantially impair the powers, duties or effectiveness of the Public Utilities Commission thereunder in relation to the Authority and its rates. The Authority includes this pledge of the Government in the Subordinate Indenture as authorized by Section 8113.3 of the Act.

Senior Indenture Covenants. The Authority shall observe each covenant set forth under "SENIOR INDENTURE – Payment of Taxes and Claims," "Maintenance of Powers," "Construction and Maintenance of the System," "Insurance," "Eminent Domain," "Against Sale or Other Disposition of Property," "Against Competition and Waiver of Laws" and in the last sentence of "Annual Budgets," and the Authority affirms and remakes such covenants as though set forth at length in the Subordinate Indenture, provided that references in such covenants to the term "Bonds" as defined in the Senior Indenture shall be deemed to refer to both the Senior Bonds and the Subordinate Bonds.

Continuing Disclosure. . The Authority covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Subordinate Indenture, failure of the Authority to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or of the Owners of at least 25% in aggregate principal amount of Outstanding 2010 Subordinate Bonds (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise

indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Owner or Beneficial Owner of any 2010 Subordinate Bond may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority , the Trustee or the Co-Trustee, as the case may be, to comply with their respective obligations under this Section. For purposes of this Section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2010 Subordinate Bonds (including persons holding Subordinate Bonds through nominees, depositories or other intermediaries).

Events of Default

The following events are Events of Default under the Subordinate Indenture:

(A) default by the Authority in the due and punctual payment of the principal or Redemption Price of any Subordinate Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise; default by the Authority in the redemption from any Mandatory Sinking Account Payment of any Term Subordinate Bonds in the amounts at the times provided therefor; or default by the Authority in the due and punctual payment of any installment of interest on any Subordinate Bond when and as such interest installment shall become due and payable;

(B) default by the Authority in the observance of any of the covenants, agreements or conditions on its part contained in the Subordinate Indenture or in the Subordinate Bonds, if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee or the Co-Trustee, or to the Authority and the Trustee and the Co-Trustee by any Credit Provider and by the Holders of not less than 25% in aggregate principal amount of the Subordinate Bonds at the time Outstanding; or

(C) if the Authority shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America; or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America; or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property; and if, in any such case such petition is not withdrawn or dismissed or such custody or control is not terminated or stayed within 60 days from the date of the filing of such petition or the assumption of such custody or control.

Remedies Upon Default. In each and every case during the continuance of an Event of Default, the Co-Trustee in its own name and as trustee of an express trust, on behalf and for the benefit and protection of the Subordinate Bondholders, after notice to the Authority, may, and upon the request of the Holders of not less than 25% in Accreted Value of the Subordinate Bonds then Outstanding shall proceed to protect and enforce any rights of the Co-Trustee and, to the full extent that the Subordinate Bondholders themselves might do, the rights of such Subordinate Bondholders under the Subordinate Indenture and under the laws of Guam by such of the following remedies as the Co-Trustee shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Subordinate Bondholders, including the right to require the Authority to charge, prescribe and collect Revenues adequate to comply with the

covenants and agreements made in the Subordinate Indenture, and to require the Authority to carry out any other covenant or agreement with the Subordinate Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Subordinate Bonds;

(3) by action or suit in equity, to require the Authority to account as if it were the trustee of an express trust for the Subordinate Bondholders;

(4) by realizing or causing to be realized through sale or otherwise upon the moneys, securities and other assets pledged under the Subordinate Indenture;

(5) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Subordinate Bondholders;

(6) by requiring the Authority to endorse all checks and other negotiable instruments representing Revenues to the order of the Co-Trustee immediately upon the receipt thereof and to deliver such endorsed instruments daily to the Co-Trustee;

(7) by notifying any or all account debtors of the Authority to pay any amounts representing Revenues, when due, directly to the Co-Trustee as Trustee; and

(8) by commencing proceedings for the appointment of a receiver or receivers of the System and of the Revenues, with such powers as the court making such appointment confers.

While any Senior Bonds remain outstanding under the Senior Indenture, the Co-Trustee shall not exercise any remedy or take any action to protect or enforce its rights or the rights of the Subordinate Bondholders under the Subordinate Indenture, in a manner that is inconsistent with, or that could reasonably be expected to impair, the rights of the holders of the Senior Bonds or their fiduciaries under the Senior Indenture.

In addition, if an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Co-Trustee shall be entitled, and if requested to do so by the Holders of not less than a majority in Accreted Value of the Subordinate Bonds at the time Outstanding shall be required, upon notice in writing to the Authority, to declare the principal of all of the Subordinate Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Subordinate Indenture or in the Subordinate Bonds contained to the contrary notwithstanding; provided, however, that while any Senior Bonds remain outstanding under the Senior Indenture, each Subordinate Holder, the Trustee and the Co-Trustee shall not make such a declaration of acceleration of the Subordinate Bonds, or otherwise cause the Subordinate Bonds to become due and payable prior to the original stated maturity, unless and until an event of default shall have occurred under the Senior Indenture and such a declaration of acceleration shall have been made with respect to the Senior Bonds.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority shall deposit with the Co-Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Subordinate Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Subordinate Bonds,

and the reasonable charges and expenses of the Trustee and the Co-Trustee, and any and all other Events of Default known to the Trustee or the Co-Trustee (other than in the payment of principal of and interest on the Subordinate Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee and the Co-Trustee or provision deemed by the Trustee and the Co-Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of a majority in Accreted Value of the Subordinate Bonds then Outstanding, by written notice to the Authority and to the Trustee and the Co-Trustee, may, on behalf of the Holders of all of the Subordinate Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Revenues and Other Funds After Default

If an Event of Default occurs and is continuing, all Revenues and any other funds then held or thereafter received by the Trustee, the Co-Trustee or Depositary under any of the provisions of the Subordinate Indenture (subject to provisions with respect to moneys held in trust for Holders by the Co-Trustee) is required to be under the control of and applied by the Co-Trustee as follows and in the following order:

(A) To the payment of any expenses necessary in the opinion of the Co-Trustee to protect the interests of the Holders of the Subordinate Bonds and payment of reasonable charges and expenses of the Trustee, the Co-Trustee and the Depositary (including reasonable fees and disbursements of their respective counsel) incurred in and about the performance of their respective powers and duties under the Subordinate Indenture;

(B) To the payment of the principal or Redemption Price of and interest then due on the Subordinate Bonds (upon presentation of the Subordinate Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Subordinate Indenture, as follows:

(1) Unless the principal of all of the Subordinate Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Subordinate Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Subordinate Bonds, and, if the amount available shall not be sufficient to pay in full all the Subordinate Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Subordinate Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Subordinate Bonds, with interest on the overdue principal at the rate borne by the respective Subordinate Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Subordinate Bond over any other Subordinate Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Co-Trustee to Represent Subordinate Bondholders

The Co-Trustee has been irrevocably appointed (and the successive respective Holders of the Subordinate Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Co-Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Subordinate Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Subordinate Bonds and the Subordinate Indenture, as well as under the Act and applicable provisions of any other law.

Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Co-Trustee to represent the Subordinate Bondholders, the Co-Trustee in its discretion may, subject to any direction by the holders of a majority in Accreted Value of the Subordinate Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate suit, action, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Co-Trustee or in such Holders under the Subordinate Indenture, the Act or any other law; and upon instituting such proceeding, the Co-Trustee shall be entitled, as a matter of right to the appointment of a receiver of the Revenues and other assets pledged under the Subordinate Indenture, pending such proceedings.

All rights of action under the Subordinate Indenture or the Subordinate Bonds or otherwise may be prosecuted and enforced by the Co-Trustee without the possession of any of the Subordinate Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Co-Trustee shall be brought in the name of the Co-Trustee for the benefit and protection of all the Holders of such Subordinate Bonds, subject to the provisions of the Subordinate Indenture.

Subordinate Bondholders' Direction of Proceedings

The Holders of a majority in aggregate principal amount of the Subordinate Bonds then Outstanding may, by an instrument or concurrent instruments in writing executed and delivered to the Co-Trustee, to direct the method of conducting all remedial proceedings taken by the Co-Trustee under the Subordinate Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Subordinate Indenture, and that the Co-Trustee has the right to decline to follow any such direction which in the opinion of the Co-Trustee would adversely affect those Subordinate Bondholders not parties to such direction.

Right of Subordinate Bondholders to Bring Action. As provided in Section 8235 of the Act, the holder of any Subordinate Bond may by mandamus or other appropriate proceeding require and compel the performance of any of the duties imposed upon or assumed by the Authority, the Board, the Treasurer or the General Manager of the Authority, the Governor, the Director of Administration or any other officer or agency of the Authority or the Board or the Government or any employee thereof, in connection with the acquisition, construction, improvement, operation, equipment, maintenance, repair, renewal, replacement, reconstruction or insurance of the System or any part thereof, or the collection, deposit, investment, application and disbursement of all Revenues or in connection with the deposit, investment and disbursement of the proceeds received from the sale of the Subordinate Bonds. The enumeration of such rights and remedies does not, however, exclude the exercise or prosecution of any other rights or remedies available to the holders of the Subordinate Bonds.

Termination of Proceedings

In case any proceedings taken by the Co-Trustee or any one or more Subordinate Bondholders on account of any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Trustee, the Co-Trustee or the Subordinate Bondholders, then in every such case the Authority, the Trustee, the Co-Trustee and the Subordinate Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Subordinate Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee, the Co-Trustee and the Subordinate Bondholders will continue as though no such proceedings had been taken.

Duties, Immunities and Liabilities of Co-Trustee, Trustee and Depositary

The Co-Trustee is required, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, to perform such duties and only such duties as are specifically set forth in the Subordinate Indenture for it to perform. The Co-Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such rights and powers vested in it by the Subordinate Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee and the Depositary are required, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, to perform such duties and only such duties as are specifically set forth in the Subordinate Indenture. The Trustee and the Depositary are required, during the existence of any Event of Default (which has not been cured), to follow the directions of the Co-Trustee with respect to any of the funds held by the Trustee or the Depositary under the Subordinate Indenture.

The Authority may remove the Trustee, the Co-Trustee or the Depositary at any time unless an Event of Default shall have occurred and then be continuing, and remove the Trustee, the Co-Trustee, or the Depositary if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in Accreted Value of the Subordinate Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee, the Co-Trustee or the Depositary ceases to be eligible to act in such capacity in accordance with the Subordinate Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of either the Trustee, the Co-Trustee or the Depositary or their respective property is appointed, or any public officer takes control or charge of the Trustee, the Co-Trustee or the Depositary or their respective property or affairs for the purpose of rehabilitation, conservation or liquidation; in each case by giving written notice of such removal to the Trustee, the Co-Trustee and the Depositary, and each Credit Provider, and thereupon is

required to appoint a successor Trustee, the Co-Trustee or Depositary, as the case may be, by an instrument in writing.

The Trustee, the Co-Trustee or the Depositary may at any time resign by giving written notice of such resignation to the Authority and each of the other Fiduciaries and each Credit Provider. Upon receiving such notice of resignation, the Authority is required to promptly appoint a successor Trustee, Co-Trustee or Depositary, as the case may be, by an instrument in writing. Any such removal or resignation and appointment of a successor will become effective upon acceptance of appointment by the successor. Promptly upon such acceptance, the Authority is required to give notice thereof to each Paying Agent and Credit Provider and to the Subordinate Bondholders by mail in the manner provided in the Subordinate Indenture.

If no successor is appointed and accepts appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, Co-Trustee or Depositary, as the case may be, or any Subordinate Bondholder (on behalf of such Subordinate Bondholder and all other Subordinate Bondholders) may petition any court of competent jurisdiction for the appointment of a successor, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor.

Any successor Trustee must be a trust company or bank having the powers of a trust company doing business and having a combined capital and surplus of at least $50,000,000, and subject to supervision or examination by federal or state authority.

Any successor Co-Trustee must be a trust company or bank having the powers of a trust company doing business and having a combined capital and surplus of at least $75,000,000, and subject to supervision or examination by federal or state authority.

Any successor Depositary must be a trust company or bank having the powers of a trust company doing business and having a trust office in Hagatna, Guam, having a combined capital and surplus of at least $10,000,000, and subject to supervision or examination by federal or territorial authority.

Liability of Trustee and Depositary

The recitals of facts contained in the Subordinate Indenture and in the Subordinate Bonds are to be taken as statements of the Authority, and neither the Trustee, the Co-Trustee nor the Depositary assumes any responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Subordinate Indenture or of the Subordinate Bonds, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations therein or in the Subordinate Bonds assigned to or imposed upon them, respectively. The Co-Trustee is, however, responsible for its representations contained in its certificate of authentication and registration on the Subordinate Bonds. Neither the Trustee, the Co-Trustee nor the Depositary shall be liable in connection with the performance of their respective duties, except for their own respective negligence or willful misconduct.

The Trustee, the Co-Trustee and the Depositary may become the owner of Subordinate Bonds with the same rights they would have if they were not Trustee, the Co-Trustee or Depositary, as the case may be, and, to the extent permitted by law, may act as depositary for and permit any of their officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Subordinate Bondholders, whether or not such committee shall represent the Holders of a majority in principal amount of the Subordinate Bonds then Outstanding.

Amendments Permitted

The Subordinate Indenture and the rights and obligations of the Authority and of the Holders of the Subordinate Bonds and of the Trustee and the Co-Trustee may be modified or amended at any time by a Supplemental Subordinate Indenture which shall become effective when the written consents of each Credit Provider and the Holders of 60% in aggregate principal amount of the Subordinate Bonds then Outstanding shall have been filed with the Trustee and the Co-Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Subordinate Bonds of any particular maturity or Series remain Outstanding, the consent of the Holders of Subordinate Bonds of such maturity or Series and the Credit Provider of such Series, if any, shall not be required and such Subordinate Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Subordinate Bonds under this provision.

No such modification or amendment may (1) extend the fixed maturity of any Subordinate Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided under the Subordinate Indenture for the payment of any Subordinate Bond, or extend the time of payment of any interest on any Subordinate Bond, or reduce the rate of interest thereon, without the consent of the Subordinate Holder of each Subordinate Bond so affected, or (2) reduce the aforesaid percentage of Subordinate Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Subordinate Indenture prior to or on a parity with the lien created by the Subordinate Indenture, or deprive the Holders of the Subordinate Bonds of the lien created by the Subordinate Indenture upon such Revenues and other assets (except as expressly provided in the Subordinate Indenture), without the consent of the Holders of all of the Subordinate Bonds then Outstanding.

The Subordinate Indenture and the rights and obligations of the Authority and of the Holders of the Subordinate Bonds may also be modified or amended at any time by a Supplemental Subordinate Indenture, which shall become effective upon execution (or such later date as may be specified in such Supplemental Subordinate Indenture), without the consent of any Subordinate Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) To add to the covenants and agreements of the Authority contained in the Subordinate Indenture, to pledge or assign additional security for the Subordinate Bonds, or to surrender any right or power reserved to or conferred upon the Authority in the Subordinate Indenture, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Subordinate Bonds;

(2) To make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Subordinate Indenture, or in regard to matters or questions arising under the Subordinate Indenture, as the Authority may deem necessary or desirable and not inconsistent with the Subordinate Indenture, and which shall not materially adversely affect the interests of the Holders of the Subordinate Bonds;

(3) To modify, amend or supplement the Subordinate Indenture in such manner as to permit the qualification thereof under the Trust Subordinate Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal

statute, and which shall not materially adversely affect the interests of the Holders of the Subordinate Bonds;

(4) To provide for the issuance of an additional series of Subordinate Bonds, and to provide the terms and conditions under which such Subordinate Bonds may be issued, subject to and in accordance with the provisions of the Subordinate Indenture; or

(5) To make such changes as shall be required in connection with the procedures for making draws or other claims under any Credit Facility or for reimbursing amounts so drawn or otherwise received.

Effect of Supplemental Subordinate Indenture

From and after the time any Supplemental Subordinate Indenture becomes effective, the Subordinate Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Subordinate Indenture of the Authority, the Trustee, the Co-Trustee, the Depositary and all Holders of Subordinate Bonds Outstanding shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all terms and conditions of any such Supplemental Subordinate Indenture shall be deemed to be part of the terms and conditions of the Subordinate Indenture for any and all purposes.

Discharge of Subordinate Indenture

If the Authority pays and discharges the entire indebtedness on all Subordinate Bonds Outstanding in any one or more of the following ways:

(A) by paying or causing to be paid the principal or Redemption Price of and interest on Subordinate Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Co-Trustee, irrevocably in trust, at or before maturity, Federal Securities in the necessary amount to pay or redeem Subordinate Bonds Outstanding; or

(D) by delivering to the Co-Trustee, for cancellation by it, Subordinate Bonds Outstanding;

and if the Authority also pays or causes to be paid all other sums payable under the Subordinate Indenture by the Authority, then and in that case, at the election of the Authority, and notwithstanding that any Subordinate Bonds shall not have been surrendered for payment, the Subordinate Indenture and the pledge of Revenues and other assets made under the Subordinate Indenture and all covenants, agreements and other obligations of the Authority under the Subordinate Indenture will cease, terminate, become void and be completely discharged and satisfied.

Discharge of Liability on Subordinate Bonds

Upon the deposit with the Co-Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Subordinate Bond (whether upon or prior to its maturity or the redemption date of such Subordinate Bond), then all liability of the Authority in respect of such Subordinate Bond will cease, determine and be completely discharged, and the Subordinate Holder thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Co-Trustee as aforesaid for their payment, subject, however, to the provisions of the

Subordinate Indenture with respect to the payment of principal or Redemption Price of or interest on Subordinate Bonds after discharge of the Subordinate Indenture.

Deposit of Money or Securities with Trustee

Whenever in the Subordinate Indenture it is provided or permitted that there be deposited with or held in trust by the Co-Trustee money or securities in the necessary amount to pay or redeem any Subordinate Bonds, the money or securities so to be deposited or held is required to be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Subordinate Bonds and all unpaid interest thereon to maturity, except that, in the case of Subordinate Bonds which are to be redeemed prior to maturity, the amount to be deposited or held shall be the principal amount or Redemption Price of such Subordinate Bonds and all unpaid interest thereon to the date fixed for redemption; or

(B) noncallable Federal Securities the principal of and interest on which when due will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the date fixed for redemption, as the case may be, on the Subordinate Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that substitution of such Federal Securities shall not be permitted without the consent of each Credit Provider for such Subordinate Bonds;

provided, in each case, that the Co-Trustee shall have been irrevocably instructed pursuant to the Subordinate Indenture to apply such money to the payment of such principal or Redemption Price and interest with respect to such Subordinate Bonds.

Payment of Subordinate Bonds after Discharge of Subordinate Indenture

Any moneys held by the Co-Trustee in trust for the payment of the principal or Redemption Price of, or interest on, any Subordinate Bonds and remaining unclaimed for six years after the principal of all of the Subordinate Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Subordinate Indenture), if such moneys were so held at such date, or six years after the date of deposit of such moneys if deposited after said date when all of the Subordinate Bonds became due and payable, shall, upon request of the Authority, be repaid to the Authority free from the trusts created by the Subordinate Indenture, and all liability of the Trustee, the Co-Trustee or Depositary with respect to such moneys shall cease and the Holders of such Subordinate Bonds will be entitled to look only to Revenues held by the Authority for payment of such Subordinate Bonds.

Liability of Authority Limited to Revenues

No Subordinate Bond issued under the Subordinate Indenture shall be or become a lien, charge or liability against the Government or the Governor or against the Authority or the Board or against any property or funds of the Authority or the Board or the Government or the Governor, except to the extent of the pledge of Revenues and other assets under the Subordinate Indenture, and neither the payment of the principal of any Subordinate Bond or any part thereof, nor of any interest thereon, is a debt, liability or obligation of the Government.

Notwithstanding anything in the Subordinate Indenture or in the Subordinate Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Subordinate Indenture for any of the purposes in the

Subordinate Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Subordinate Bonds or for any other purpose of the Subordinate Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of purposes under the Subordinate Indenture any funds of the Authority which may be made available to it for such purposes.

General Credit Provider Provisions

All provisions of the Subordinate Indenture regarding consents, approvals, directions, appointments or requests by any Credit Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by any Credit Provider and shall be read as if such Credit Provider were not mentioned therein and as if no Credit Facility were in effect during any time in which such Credit Provider is in default under its Credit Facility, or after such Credit Facility shall at any time for any reason cease to be valid and binding on such Credit Provider, or shall be declared to be null and void, or while the validity or enforceability of any provision thereof is being contested by such Credit Provider or any governmental agency or authority, or while such Credit Provider is denying further liability or obligation under such Credit Facility or after such Credit Provider has rescinded, repudiated or terminated such Credit Facility.

All provisions of the Subordinate Indenture relating to any Credit Provider shall be of no force and effect if there is no Credit Facility in effect and there are no Subordinate Bonds held by such Credit Provider and all amounts owing to such Credit Provider have been paid.

Waiver of Personal Liability

No legislator, officer, agent or employee of the Authority will be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Subordinate Bonds; but nothing contained in the Subordinate Indenture will relieve any such legislator, officer, agent or employee from the performance of any official duty provided by law.

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APPENDIX E

PROPOSED FORMS OF BOND COUNSEL OPINIONS

[Closing Date]

Guam Power Authority
Harmon, Guam

Guam Power Authority Revenue Bonds,
2010 Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Guam Power Authority (the "Authority") in connection with the issuance of $150,440,000 aggregate principal amount of Guam Power Authority Revenue Bonds, 2010 Series A (the "2010 Senior Bonds"). The issuance of the 2010 Senior Bonds is authorized pursuant to Chapter 8, Title 12, Guam Code Annotated, as amended (the "Act"), Public Law No. 30-147, approved by the 30th Guam Legislature on May 3, 2010, and signed by the Acting Governor of Guam on May 17, 2010 (the "Law"), and Resolution No. 2010-32 of the Consolidated Commission on Utilities, adopted on May 25, 2010, and Resolution No. 10-21 of the Guam Economic Development Authority, adopted on May 26, 2010 (collectively, the "Resolutions"). The 2010 Senior Bonds are issued pursuant to an indenture dated as of December 1, 1992, as heretofore supplemented and as supplemented by a fourth supplemental indenture dated as of June 1, 2010 (as so supplemented, the "Senior Indenture"), among the Authority, Bank of Guam, as trustee (the "Trustee") and U.S. Bank National Association, as successor co-trustee (the "Co-Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Senior Indenture. The 2010 Senior Bonds are being issued on a parity with other bonds which have been and may be issued under the Senior Indenture (collectively, the "Senior Bonds").

In such connection, we have reviewed the Act, the Law, the Resolutions, the Senior Indenture, the Orders of the Guam Public Utilities Commission in GPA Docket 10-01, each dated June 3, 2010, the Tax Certificate of the Authority, dated the date hereof (the "Tax Certificate"), certificates of the Authority, the Trustee, the Co-Trustee, and others, opinions of counsel to the Authority, the Trustee, the Co-Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to above.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such

authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the 2010 Senior Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. Furthermore, we have assumed compliance with all covenants and agreements contained in the Senior Indenture and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2010 Senior Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2010 Senior Bonds, the Senior Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Senior Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2010 Senior Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The 2010 Senior Bonds constitute the valid and binding limited obligations of the Authority payable solely from the revenues of an enterprise consisting of a power supply and distribution system (as more particularly defined in the Senior Indenture, the "Revenues").

2. The Senior Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.

3. The Senior Indenture creates a valid pledge to secure the payment of the principal of and interest on the 2010 Senior Bonds, of the Revenues, the proceeds of the Senior Bonds and any other amounts held in any fund or account established pursuant to the Senior Indenture (except amounts held in the Rebate Fund), subject to the provisions of the Senior Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. Interest on the 2010 Senior Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2010 Senior Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. The 2010 Senior Bonds are exempt,

as to principal and interest, from taxation by any state, territory or possession of the United States or any political subdivision of any of them. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Senior Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

[Closing Date]

Guam Power Authority
Harmon, Guam

Guam Power Authority
Subordinate Revenue Bonds, 2010 Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Guam Power Authority (the "Authority") in connection with the issuance of $56,115,000 aggregate principal amount of Guam Power Authority Subordinate Revenue Bonds, 2010 Series A (the "2010 Subordinate Bonds"). The issuance of the 2010 Bonds is authorized pursuant to Chapter 8, Title 12, Guam Code Annotated, as amended (the "Act"), Public Law No. 30-147, approved by the 30th Guam Legislature on May 3, 2010, and signed by the Acting Governor of Guam on May 17, 2010 (the "Law"), and Resolution No. 2010-32 of the Consolidated Commission on Utilities, adopted on May 25, 2010, and Resolution No. 10-21 of the Guam Economic Development Authority, adopted on May 26, 2010 (collectively, the "Resolutions"). The 2010 Subordinate Bonds are issued pursuant to a subordinate indenture, dated as of June 1, 2010 (the "Subordinate Indenture"), among the Authority, Bank of Guam, as trustee (the "Trustee"), and U.S. Bank National Association, as co-trustee (the "Co-Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Subordinate Indenture. The 2010 Subordinate Bonds are being issued on a parity with other bonds which may be issued under the Subordinate Indenture (collectively, the "Subordinate Bonds").

In such connection, we have reviewed the Act, the Law, the Resolutions, the Subordinate Indenture, the Orders of the Guam Public Utilities Commission in GPA Docket 10-01, each dated June 3, 2010, certificates of the Authority, the Trustee, the Co-Trustee, and others, opinions of counsel to the Authority, the Trustee, the Co-Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to above.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the 2010 Subordinate Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. Furthermore, we have assumed compliance with all

covenants and agreements contained in the Subordinate Indenture. We call attention to the fact that the rights and obligations under the 2010 Subordinate Bonds, the Subordinate Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indentures or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2010 Subordinate Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The 2010 Subordinate Bonds constitute the valid and binding limited obligations of the Authority payable solely from the revenues of an enterprise consisting of a power supply and distribution system (as more particularly defined in the Subordinate Indenture, the "Revenues").

2. The Subordinate Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.

3. The Subordinate Indenture creates a valid pledge to secure the payment of the principal of and interest on the 2010 Subordinate Bonds, of the Revenues, the proceeds of the Subordinate Bonds, and all amounts held by the Trustee under the Subordinate Indenture (except amounts held in the Rebate Fund), subject to the prior pledge of Revenues under that certain Indenture, dated as of December 1, 1992, among the Authority, the Trustee and the Co-Trustee, as heretofore and as it may hereafter be supplemented and amended (the "Senior Indenture"), to secure the payment of the Guam Power Authority Revenue Bonds outstanding thereunder (collectively, the "Senior Bonds"), to the provisions of the Senior Indenture requiring or permitting the application of the Revenues for the purposes and on the terms and conditions set forth in the Senior Indenture, and the provisions of the Subordinate Indenture permitting the application of the Revenue for the purposes and on the terms and conditions set forth in the Subordinate Indenture.

4. The 2010 Subordinate Bonds are exempt, as to principal and interest, from taxation by any state, territory or possession of the United States or any political subdivision of any of them. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Subordinate Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX F

PROPOSED FORMS OF CONTINUING DISCLOSURE AGREEMENTS

SENIOR BONDS MASTER CONTINUING DISCLOSURE AGREEMENT

This Master Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of May 1, 1999, by and among the GUAM POWER AUTHORITY, a public corporation and autonomous instrumentality of the Government of Guam (the "Issuer"), the BANK OF GUAM, as trustee (the "Trustee") , and U.S. BANK TRUST NATIONAL ASSOCIATION, as co-trustee (the "Co-Trustee"), under that certain Indenture, dated as of December 1, 1992, as amended and supplemented by one or more Supplemental Indentures (the "Indenture"), among the Issuer, the Trustee and the Co-Trustee. The Issuer, the Trustee and the Co-Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer, the Trustee and the Co-Trustee for the benefit of the Holders and Beneficial Owners of bonds issued under the Indenture to which the Issuer has elected to make this Disclosure Agreement applicable (collectively, the "Bonds"), and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any Bonds, including persons holding such Bonds through nominees, depositories or other intermediaries.

"Disclosure Representative" shall mean the General Manager of the Issuer or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Trustee and Co-Trustee from time to time.

"Dissemination Agent" shall mean the Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Trustee and the Co-Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by the Government of Guam as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

"Supplemental Disclosure Agreement" shall mean any supplemental disclosure agreement entered into among the Issuer, the Trustee and the Co-Trustee supplementing this Disclosure Agreement.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the Issuer's Fiscal Year (which currently is September 30), commencing with the report for the 1998-1999 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Issuer shall provide the Annual Report to the Dissemination Agent (if the Dissemination Agent is other than the Trustee), the Trustee (if the Trustee is not the Dissemination Agent) and the Co-Trustee. If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Issuer and the Dissemination Agent (if the Dissemination Agent is other than the Trustee) to determine if the Issuer is in compliance with subsection (a).

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) upon providing the Annual Report to each Repository, file a report with the Issuer, the Trustee (if the Dissemination Agent is not the Trustee) and the Co-Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference, with respect to the Fiscal Year just concluded, the following:

(a) the audited financial statements of the Issuer for the immediately preceding Fiscal Year, prepared in accordance with Generally Accepted Accounting Principles applicable to government entities; provided that if the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in appropriate form;

(b) the financial or operating data set forth with respect to historical data only in Table 1 titled "Historical and Projected Customers, Energy Sales, Peak Demand and Revenues" in the Official Statement of the Issuer, dated May 11, 1999 (the "Official Statement")

(c) the financial or operating data set forth in Table 2 titled "Historical Debt Service Coverage" in the Official Statement;

(d) any adjustment in rates of the Issuer, the customer class to which the rate adjustment pertains and the effective date of the rate adjustment.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) modifications to rights of Bondholders;

(4) optional, contingent or unscheduled bond calls;

(5) defeasance;

(6) rating changes;

(7) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;

(8) unscheduled draws on the Bond Reserve Fund reflecting financial difficulties;

(9) unscheduled draws on any credit enhancements reflecting financial difficulties;

(10) substitution of any Credit Provider or any failure by any Credit Provider to perform; or

(11) release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee and the Co-Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Issuer's Disclosure Representative, inform such person of the event, and request that the Issuer promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee or the Co-Trustee pursuant to subsection (b) or otherwise, the Issuer shall as soon as possible determine if such event is material under applicable federal securities laws.

(d) If the Issuer has determined that knowledge of the occurrence of a Listed Event is material under applicable federal securities laws, the Issuer shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Issuer determines that the Listed Event is not material under applicable federal securities laws, the Issuer shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by the Issuer to report the occurrence of a Listed Event, the Trustee shall as soon as possible file a notice of such occurrence with the Municipal Securities Rulemaking Board and any State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon legal defeasance under Section 10.01 of the Indenture, prior redemption or payment in full of all of the Bonds. If such termination occurs

before the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee, upon notice from the Issuer, shall be the Dissemination Agent. The initial Dissemination Agent shall be the Issuer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer, the Trustee and the Co-Trustee may amend this Disclosure Agreement (and, to the extent that any such amendment does not materially change or increase their respective obligations hereunder, the Trustee and the Co-Trustee shall agree to any amendment so requested by the Issuer), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

In addition to the foregoing provisions of this Section permitting amendments to

this Disclosure Agreement, the Issuer at any time may elect to make the provisions hereof applicable to any Series of Bonds issued under the Indenture, either by election in the applicable Supplemental Indenture or by execution of a supplement hereto; and upon request of the Issuer the Trustee shall execute any such supplement.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer, the Trustee or the Co-Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer, the Trustee or the Co-Trustee, as the case may be, to comply with their respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer, the Trustee or the Co-Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Trustee, the Co-Trustee and the Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent the Trustee, and the Co-Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's, the Trustee’s, and the Co-Trustee’s negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent, the Trustee, and the Co-Trustee and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Issuer:	Guam Power Authority P.O. Box 2977 Tamuning, Guam 96932 Attention: General Manager Fax: (671) 649-6942
To the Trustee:	Bank of Guam Chalan Santo Papa Route 4 Hagatña, Guam 96910 Attention: Corporate Trust Department Fax: (671) 477-5455
To the Co-Trustee	U.S. Bank Trust National Association 550 S. Hope Street, Suite 500 Los Angeles, CA 90071 Attention: Corporate Trust Department Fax: (213) 533-8736

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, the Co-Trustee, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. Governing Law. This Disclosure Agreement shall be governed by the laws of Guam.

IN WITNESS WHEREOF, this Disclosure Agreement has been executed on behalf of the Issuer, the Trustee and the Co-Trustee by their duly authorized representatives as of the date first written above.

GUAM POWER AUTHORITY

By_____
Chairman

BANK OF GUAM, as Trustee

By_____
Authorized Signatory

U.S. BANK TRUST NATIONAL ASSOCIATION, as Co-Trustee

By_____
Authorized Signatory

EXHIBIT A TO SENIOR BONDS MASTER CONTINUING DISCLOSURE AGREEMENT

[FORM OF] NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

[To be modified as appropriate for other Series]

Name of Issuer: Guam Power Authority
Name of Bond Issue: Guam Power Authority Revenue Bonds, ___ Series ___

Date of Issuance:

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by _____ of the Supplemental Indenture, relating to such Bonds, among the Issuer, the Trustee and the Co-Trustee. [The Issuer anticipates that the Annual Report will be filed by _____.]
Dated:_____

BANK OF GUAM, as Trustee,
on behalf of the Guam Power Authority

EXHIBIT B TO SENIOR BONDS MASTER CONTINUING DISCLOSURE AGREEMENT

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of **April, 1999**:

Bloomberg Municipal Repository
P.O. Box 840
Princeton, NJ 08542-0840
(609) 279-3200/(609) 279-3204 to order documents
(609) 279-5962 or (609) 279-5963 [FAX]
Internet address: MUNIS@bloomberg.com
Contact: Lena Panich

JJ Kenny Information Services
The Repository
65 Broadway, 16th Floor
New York, NY 10006
(212) 770-4568
(212) 797-7994 [FAX]
e-mail address: joan_horai@mcgrawhill.com
Contact: Ms. Joan Horai, Repository

Thomson NRMSIR
Secondary Market Disclosure
395 Hudson Street, 3rd Floor
New York, NY 10014
(212) 807-5001
(212) 989-2078 [FAX]
Contact: Carolyn Chin
e-mail address: Disclosure@muller.com

DPC Data, Inc.
One Executive Drive
Fort Lee, N.J. 07024
(201) 346-0701
(201) 947-0107 [FAX]
Contact: NRMSIR
Internet address: nrmsir@dpcdata.com

2010 SENIOR BONDS SUPPLEMENTAL CONTINUING DISCLOSURE AGREEMENT

This Supplemental Continuing Disclosure Agreement (this "Supplemental Disclosure Agreement"), dated as of June 1, 2010, supplementing the Master Continuing Disclosure Agreement, dated as of May 1, 1999 (the "Disclosure Agreement"), among the GUAM POWER AUTHORITY (the "Issuer"), BANK OF GUAM (the "Trustee"), and U.S. BANK NATIONAL ASSOCIATION (the "Co-Trustee"), is being executed by the Issuer, the Trustee and the Co-Trustee in connection with the issuance of $150,440,000 Guam Power Authority Revenue Bonds, 2010 Series A (the "2010 Senior Bonds"). The 2010 Senior Bonds are being issued pursuant to the Indenture, dated as of December 1, 1992, as heretofore supplemented and amended, including as supplemented and amended by the Fourth Supplemental Indenture executed in connection with the issuance of the 2010 Senior Bonds, dated as of June 1, 2010, among the Issuer, the Trustee and the Co-Trustee (collectively, the "Indenture").

The Issuer, the Trustee and the Co-Trustee covenant and agree as follows:

SECTION 1. Definitions. Unless otherwise defined herein, or the context otherwise requires, capitalized terms used in this Supplemental Disclosure Agreement shall have the meanings ascribed thereto in the Disclosure Agreement or, if not defined in the Disclosure Agreement, in the Indenture.

SECTION 2. Purpose of the Supplemental Disclosure Agreement; Application of Disclosure Agreement. This Supplemental Disclosure Agreement is being executed and delivered by the Issuer, the Trustee and the Co-Trustee for the benefit of the Holders and Beneficial Owners of the 2010 Senior Bonds. All terms and provisions of the Disclosure Agreement are hereby made applicable to the 2010 Senior Bonds described herein.

SECTION 3. Electronic Filing. All Annual Reports and reports of Listed Events shall be filed with the Repository in an electronic format as prescribed by the Repository. All documents provided to the Repository shall be accompanied by identifying information as prescribed by the Repository.

SECTION 4. Ratification of Disclosure Agreement. As supplemented hereby, the Disclosure Agreement is in all respects confirmed, and the Disclosure Agreement, all agreements supplemental thereto and this Supplemental Disclosure Agreement shall be read, taken and considered as one instrument.

SECTION 5. Credit Provider Information. So long as the 2010 Insured Bonds remain Outstanding, the Issuer shall provide all information furnished pursuant to this Supplemental Disclosure Agreement to the 2010 Credit Provider simultaneously with the furnishing of such information.

SECTION 6. Counterparts. This Supplemental Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Supplemental Disclosure Agreement has been executed on behalf of the Issuer, the Trustee and the Co-Trustee by their duly authorized representatives as of the date first written above.

GUAM POWER AUTHORITY

By:_____
General Manager

BANK OF GUAM,
as Trustee

By:_____
Authorized Signatory

U.S. BANK NATIONAL ASSOCIATION,
as Co-Trustee

By:_____
Authorized Signatory

SUBORDINATE BONDS CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the Guam Power Authority (the "Issuer"), Bank of Guam, as trustee (the "Trustee"), and U.S. Bank National Association, as co-trustee (the "Co-Trustee"), in connection with the issuance of $56,115,000 aggregate principal amount of Guam Power Authority Subordinate Revenue Bonds, 2010 Series A (the "2010 Subordinate Bonds"). The 2010 Subordinate Bonds are being issued pursuant to a Subordinate Indenture, dated as of June 1, 2010 (the "Subordinate Indenture"), among the Issuer, the Trustee and the Co-Trustee. The Issuer, the Trustee and the Co-Trustee covenant and agree as follows:

SECTION 7. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer, the Co-Trustee and the Dissemination Agent for the benefit of the Owners (as such term is defined in the Subordinate Indenture) and the Beneficial Owners (as hereinafter defined) of the 2010 Subordinate Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 8. Definitions. In addition to the definitions set forth in the Subordinate Indenture, which apply to any capitalized term used in this Disclosure Agreement and not otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2010 Subordinate Bonds (including persons holding 2010 Subordinate Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the General Manager of the Issuer or his designee, or such other officer or employee of the Issuer as the General Manager of the Issuer shall designate in writing to the Co-Trustee and the Dissemination Agent from time to time.

"Dissemination Agent" shall mean the Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Co-Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at

http://emma.msrb.org.

"Participating Underwriter" shall mean any of the original underwriters of the 2010 Subordinate Bonds required to comply with the Rule in connection with offering of the 2010 Subordinate Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission or any successor agency thereto.

SECTION 9. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the Issuer's fiscal year (which currently is September 30), commencing with the Annual Report for the fiscal year of the Issuer ending September 30, 2010, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Each Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. Neither the Co-Trustee nor the Dissemination Agent shall have any duties or responsibilities with respect to the contents of the Annual Report. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent, the Trustee (if the Trustee is not the Dissemination Agent) and the Co-Trustee. If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Issuer and the Dissemination Agent (if the Dissemination Agent is not the Trustee) to determine if the Issuer is in compliance with subsection (a).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Trustee shall send a notice, in electronic format, to the MSRB, such notice to be in substantially the form attached as Exhibit A.

(d) If the Annual Report is delivered to the Dissemination Agent for filing, the Dissemination Agent shall file a report with the Issuer, the Trustee (if the Dissemination Agent is not the Trustee) and the Co-Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided.

SECTION 10. Content of Annual Reports. The Annual Report shall contain or include by reference, with respect to the fiscal year just concluded, the following:

(a) The audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in appropriate form, and the audited financial statements shall be filed in the same manner as the Annual Report when such audited financial statements become available.

(b) the financial or operating data set forth with respect to historical data only in Table 3 titled "Historical and Projected Customers, Energy Sales, Peak Demand and Revenues" in the Official Statement of the Issuer, dated June 23, 2010 (the "Official Statement");

(c) the financial or operating data set forth in Table 5 titled "Historical Debt Service Coverage" in the Official Statement; and

(d) any adjustment in rates of the Issuer, the customer class to which the rate adjustment pertains and the effective date of the rate adjustment.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been filed with the MSRB or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 11. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2010 Subordinate Bonds, if material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) modifications to rights of Owners;

(4) optional, contingent or unscheduled bond calls;

(5) defeasances;

(6) rating changes;

(7) adverse tax opinions or events adversely affecting the tax-exempt status of the 2010 Subordinate Bonds;

(8) unscheduled draws on the debt service reserves reflecting financial difficulties;

(9) unscheduled draws on credit enhancements reflecting financial difficulties;

(10) substitution of credit or liquidity providers, or their failure to perform;

(11) release, substitution or sale of property securing repayment of the 2010 Subordinate Bonds.

(b) The Trustee and the Co-Trustee shall, within one (1) Business Day, or as soon thereafter as practicable, of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform the Disclosure Representative of the event, and request that the Issuer promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee or Co-Trustee pursuant to subsection (b) or otherwise, the Issuer shall as soon as practicable determine if such event would be material under applicable federal securities laws.

(d) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Issuer determines that the Listed Event would not be material under applicable federal securities laws, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence of such event with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (a)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of the affected 2010 Subordinate Bonds pursuant to the Subordinate Indenture.

SECTION 12. Termination of Reporting Obligation. The obligations of the Issuer, the Trustee, the Co-Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance pursuant to Section 10.01 of the Subordinate Indenture, prior redemption or payment in full of all of the 2010 Subordinate Bonds. If such termination

occurs prior to the final maturity of the 2010 Subordinate Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 13. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the Issuer, the Trustee and the Co-Trustee. The Dissemination Agent shall not be responsible in any manner for the form or the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

SECTION 14. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer, the Co-Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Co-Trustee and the Dissemination Agent shall agree to any amendment so requested by the Issuer, provided neither the Co-Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2010 Subordinate Bonds, or the type of business conducted;

(b) This Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2010 Subordinate Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Co-Trustee or the Owners of the 2010 Subordinate Bonds in the same manner as provided in the Subordinate Indenture for amendments to the Subordinate Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the 2010 Subordinate Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the

basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 15. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 16. Default. In the event of a failure of the Issuer, the Dissemination Agent or the Co-Trustee to comply with any provision of this Disclosure Agreement, the Co-Trustee may (and, at the written request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding 2010 Subordinate Bonds, shall) (but only to the extent funds in an amount satisfactory to the Co-Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Co-Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Owner or Beneficial Owner of the 2010 Subordinate Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer, the Dissemination Agent or the Co-Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Subordinate Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Co-Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 17. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Subordinate Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Subordinate Indenture and the Co-Trustee and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Co-Trustee thereunder. The Dissemination Agent (if other than the Co-Trustee or the Co-Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and the Co-Trustee and their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Co-Trustee's or the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the

Issuer under this Section shall survive resignation or removal of the Co-Trustee or the Dissemination Agent and payment of the 2010 Subordinate Bonds.

SECTION 18. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

(i) If to the Issuer:

Guam Power Authority
P.O. Box 2977
Hagåtña, Guam 96910-2977
Attention: Chief Financial Officer

(ii) If to the Trustee:

Bank of Guam
111 Chalan Santo Papa, Suite 601
Hagåtña, Guam 96910
Attn: Trust Department

(iii) If to the Co-Trustee:

U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, CA 90071
Attention: Corporate Trust Services
Reference: Guam Power Authority Subordinate Revenue Bonds

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent. Notices may also be given by electronic means.

SECTION 19. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, the Co-Trustee, the Dissemination Agent, the Participating Underwriters and Owners and Beneficial Owners from time to time of the 2010 Subordinate Bonds, and shall create no rights in any other person or entity.

SECTION 20. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 21. Governing Law. This Disclosure Agreement shall be governed by the laws of Guam.

IN WITNESS WHEREOF, this Disclosure Agreement has been executed on behalf of the Issuer, the Trustee and the Co-Trustee by their duly authorized representatives as of the date first written above.

GUAM POWER AUTHORITY

By_____
General Manager

BANK OF GUAM,
as Trustee

By_____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION,
as Co-Trustee

By_____
Authorized Officer

EXHIBIT A TO SUBORDINATE BONDS CONTINUING DISCLOSURE AGREEMENT

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF
FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Guam Power Authority
Name of Bond Issue: Guam Power Authority Subordinate Revenue Bonds, 2010 Series A
Date of Issuance of Bonds: July 1, 2010

NOTICE IS HEREBY GIVEN that the Guam Power Authority (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated the date of issuance of the above-named Bonds, among the Issuer, Bank of Guam, as trustee, and U.S. Bank National Association, as co-trustee. [The Issuer anticipates that the Annual Report will be filed by _____.]

Dated:_____

U.S. BANK NATIONAL ASSOCIATION,
as Co-Trustee on behalf of the Guam Power Authority

cc: Issuer

APPENDIX G

BOOK-ENTRY SYSTEM

None of the Authority, the Trustee, the Co-Trustee or the Underwriters can give or do give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the 2010 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the Authority, the Trustee or the Underwriters is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2010 Bonds or an error or delay relating thereto. The Authority pursuant to the Indentures may discontinue the book-entry only system. In that event, the provisions of the Indentures relating to issuance of Bond certificates and the transfer of ownership thereof will apply.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2010 Bonds (the "2010 Bonds"). The 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the 2010 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written

confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2010 Bonds, except in the event that use of the book-entry system for the 2010 Bonds is discontinued.

4. To facilitate subsequent transfers, all 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2010 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2010 Bonds may wish to ascertain that the nominee holding the 2010 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the 2010 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.[*]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority, as the issuer of the 2010 Bonds, as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Payments of principal of, premium, if any, and interest on the 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any

[*] By written notice of the Trustee, DTC will modify its practice and observe a pro rata reduction of principal with respect to the 2010B Senior Bonds.

statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Neither the Authority nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Notes paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

9. DTC may discontinue providing its services as depository with respect to the 2010 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

10. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE AUTHORITY OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL, INTEREST OR PREMIUM, IF ANY, ON THE 2010 BONDS PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR WILL DISTRIBUTE ANY OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. NEITHER THE CITY NOR THE TRUSTEE IS RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE 2010 BONDS OR AN ERROR OR DELAY RELATING THERETO.

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APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100

Form 500NY (5/90)

SPECIMEN