

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), 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 2017A 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 2017A 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. Bond Counsel is also of the opinion that, under 48 U.S.C. Section 1423a, interest on the 2017A Senior Bonds is exempt from taxation by the government of Guam, or by any state or territory or any political subdivision thereof, or by the District of Columbia. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2017A Senior Bonds. See “TAX MATTERS” herein.



\$148,670,000

**GUAM POWER AUTHORITY
Revenue Refunding Bonds, 2017 Series A**

Dated: Date of Delivery

Due: October 1, as shown on the inside front cover

This cover page contains certain information for general reference only. It is not a summary of the security for or terms of the 2017A Senior Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The Guam Power Authority Revenue Refunding Bonds, 2017 Series A (the “**2017A Senior 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 2017A Senior Bonds. Individual purchases of the 2017A Senior Bonds will be made in book-entry form only. Interest on the 2017A Senior Bonds will be payable semiannually on April 1 and October 1 of each year, commencing April 1, 2018. The 2017A Senior 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 2017A Senior Bonds are required to be made to purchasers by DTC through the DTC participants. See APPENDIX F—“BOOK-ENTRY SYSTEM” herein. Purchasers will not receive physical delivery of 2017A Senior Bonds purchased by them.

The 2017A Senior Bonds are subject to redemption prior to maturity, as described herein.

The 2017A Senior Bonds are being issued pursuant to an Indenture, dated as of December 1, 1992, as subsequently amended and supplemented by supplemental indentures, including by the Seventh Supplemental Indenture, dated as of December 1, 2017 (collectively, the “**Senior Indenture**”), each by and among the Guam Power Authority (the “**Authority**”), the Bank of Guam, as Trustee (the “**Senior Trustee**”) and Depository (the “**Senior Depository**”), and U.S. Bank National Association, as Co-Trustee (the “**Senior Co-Trustee**”).

The 2017A Senior Bonds are being issued for the purposes of (i) refunding all of the Authority’s outstanding 2010 Senior Bonds (as defined herein), and (ii) paying expenses incurred in connection with the issuance of the 2017A Senior Bonds and the refunding of all of the 2010 Senior Bonds. See “REFUNDING PLAN” herein.

The 2017A Senior Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues, subject to the prior application of such Revenues for the payment of Maintenance and Operation Expenses, all of the proceeds of the 2017A 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 any 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**”).

Neither the Government of Guam nor any political subdivision thereof is obligated to pay the principal or redemption price of, if applicable, or interest on the 2017A Senior 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 such principal, redemption price, if applicable, and interest.

AN INVESTMENT IN THE 2017A SENIOR BONDS INVOLVES CERTAIN RISKS, INCLUDING THOSE DESCRIBED HEREIN UNDER THE HEADINGS “INTRODUCTION,” “SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS,” “THE GUAM POWER AUTHORITY,” “FINANCIAL MATTERS,” “OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC UTILITY INDUSTRY,” AND “BONDHOLDER RISKS,” AND ELSEWHERE IN THIS OFFICIAL STATEMENT.

The 2017A Senior Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, 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, Kutak Rock LLP, Spokane, Washington. Certain legal matters will be passed upon by Orrick, Herrington & Sutcliffe LLP as disclosure counsel to the Authority. It is expected that the 2017A Senior Bonds in book-entry form will be available for delivery through the DTC book-entry system on or about December 21, 2017.

Barclays

Citigroup

MATURITY SCHEDULE

\$148,670,000
GUAM POWER AUTHORITY
REVENUE REFUNDING BONDS
2017 SERIES A

Maturity (October 1)	Principal Amount	Interest Rate	Yield	CUSIP* No. 400653
2018	\$ 135,000	4.00%	1.89%	HR5
2019	180,000	5.00	2.18	HS3
2022	315,000	5.00	2.51	HT1
2023	4,050,000	5.00	2.60	HU8
2024	4,245,000	5.00	2.73	HV6
2025	4,460,000	5.00	2.84	HW4
2026	4,680,000	5.00	2.96	HX2
2027	4,920,000	5.00	3.10	HY0
2028	5,165,000	5.00	3.23 [†]	HZ7
2029	5,425,000	5.00	3.31 [†]	JA0
2030	5,695,000	5.00	3.39 [†]	JB8
2031	5,980,000	5.00	3.44 [†]	JC6
2032	6,280,000	5.00	3.49 [†]	JD4
2033	6,590,000	5.00	3.54 [†]	JE2
2034	6,920,000	5.00	3.58 [†]	JF9
2035	7,265,000	5.00	3.62 [†]	JG7
2036	13,815,000	5.00	3.64 [†]	JH5
2037	14,515,000	5.00	3.66 [†]	JJ1
2038	15,235,000	5.00	3.67 [†]	JK8

\$32,800,000 5.00% 2017A Term Bonds due October 1, 2040, Yield 3.68%[†], CUSIP* No. 400653 JL6

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[†] Priced to first optional redemption date of October 1, 2027 at par.

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Francis E. Santos
Vice Chairman

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Secretary

Judith T. Guthertz, Ph.D.
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Los Angeles, California

Dissemination Agent
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Verification Agent
Causey Demgen & Moore P.C.
Denver, Colorado

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 part of, their respective 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.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. 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 2017A Senior Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2017A Senior Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

Certain statements contained or incorporated by reference in this Official Statement are not intended to reflect historical facts but are estimates and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the expectations or forecasts described herein. In this respect, the words “estimate,” “project,” “forecast,” “anticipate,” “expect,” “assume,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinion, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The Authority does not plan to issue any updates or revisions to such forward-looking statements whether or not its expectations, or any events, conditions or circumstances on which such statements are based, do or do not occur.

The information set forth in this Official Statement has been furnished by the Authority and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion stated 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 information or opinions stated herein or in the affairs of the Authority since the date hereof.

The 2017A Senior Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The 2017A Senior Bonds have not been registered or qualified under the securities laws of any state.

In connection with this offering the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2017A Senior Bonds offered hereby at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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\$148,670,000
Guam Power Authority
Revenue Refunding Bonds, 2017 Series A

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, inside 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 \$148,670,000 Guam Power Authority Revenue Refunding Bonds, 2017 Series A (the “**2017A Senior Bonds**”). All capitalized terms used in this Official Statement and not otherwise defined in this Official Statement shall have the respective meanings given to them in the Senior Indenture hereinafter mentioned.

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 and inside cover pages 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 2017A Senior Bonds to potential investors is made only by means of the entire Official Statement.

Authorization

The 2017A Senior Bonds are authorized to be issued pursuant to Chapter 8 of Title 12 of the Guam Code Annotated (the “**Act**”), and by Public Law No. 34-69, approved by the 34th Guam Legislature on December 5, 2017 and signed by the Governor of Guam on December 5, 2017 (the “**Authorizing Legislation**”). The Consolidated Commission on Utilities (the “**CCU**”) has approved the issuance, sale and delivery of the 2017A Senior Bonds pursuant to Resolution No. 2017-44, adopted on November 22, 2017 (the “**2017A Senior Bond Resolution**”). The issuance and sale of the 2017A Senior Bonds have also been approved by Guam Economic Development Authority (“**GEDA**”) pursuant to Resolution No. 17-003, adopted on November 22, 2017 (the “**2017 GEDA Resolution**”). The terms of the 2017A Supplemental Senior Indenture (as defined below) and the respective amounts and certain terms of the 2017A Senior Bonds were approved by the Guam Public Utilities Commission (the “**PUC**”) on December 5, 2017 pursuant to GPA Docket No. 17-20 (the “**PUC 2017 Bond Docket**”).

The 2017A Senior Bonds are being issued pursuant to an Indenture, dated as of December 1, 1992 (the “**General Indenture**”), as subsequently amended and supplemented, including as supplemented by the Seventh Supplemental Indenture, dated as of December 1, 2017 (the “**2017A Supplemental Senior Indenture**” and together with the General Indenture as previously amended and supplemented, the “**Senior Indenture**”), each by and among the Authority, Bank of Guam, as Trustee (the “**Senior Trustee**”), and U.S. Bank National Association, as Co-Trustee (the “**Senior Co-Trustee**”).

As of December 1, 2017, the Authority had outstanding pursuant to the Senior Indenture \$564,960,000 aggregate principal amount of Senior Bonds (as defined below), consisting of \$150,440,000 aggregate principal amount of its Guam Power Authority Revenue Bonds, 2010 Series A (the “**2010 Senior Bonds**”), all of which will be refunded with the proceeds of the 2017A Senior Bonds, \$339,360,000 aggregate principal amount of its Guam Power Authority Revenue Bonds, 2012 Series A (the “**2012 Senior Bonds**”) and \$75,160,000 aggregate principal amount of its Guam Power Authority Revenue Bonds 2014 Series A (the “**2014 Senior Bonds**” and together with the 2010 Senior Bonds and the 2012 Senior Bonds, the “**Prior Senior Bonds**”). The Prior Senior Bonds, the 2017A Senior Bonds and any additional revenue bonds that may be issued under the Senior Indenture on a parity therewith are collectively referred to herein as the “**Senior Bonds**.” The 2017A Senior Bonds, when issued, will be secured on a parity with all other Senior Bonds that have been and may be issued and outstanding under the Senior Indenture.

No Subordinate Bonds are currently outstanding under the Subordinate Indenture (as defined herein). See “**SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS—Subordinate Obligations.**”

Purposes of the 2017A Senior Bonds

The 2017A Senior Bonds are being issued for the purposes of (i) refunding all of the outstanding 2010 Senior Bonds (as further defined herein, the “**Refunded Bonds**”) and (ii) paying expenses incurred in connection with the issuance of the 2017A Senior Bonds and the refunding of the Refunded Bonds. See “REFUNDING PLAN.”

Security for the 2017A Senior Bonds

The 2017A Senior Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues (as defined herein), subject to the prior application of such Revenues for the payment of Maintenance and Operation Expenses (as defined herein), all of the proceeds of the 2017A Senior Bonds and any other amounts held in any Fund (as defined herein) or Account (as defined herein) established pursuant to the Senior Indenture (except amounts held in the Rebate Fund), on a parity with any 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**”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS.”

Senior Bond Reserve Fund

The Senior Bonds, including the 2017A Senior Bonds, are secured by a Bond Reserve Fund established under the Senior Indenture (the “**Senior Bond Reserve Fund**”), the balance in which is required to be maintained in an amount equal to the maximum annual debt service on the outstanding Senior Bonds (the “**Senior Bond Reserve Fund Requirement**”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS.”

Additional Senior Bonds

The Senior Indenture provides that the Authority may issue additional bonds payable from the Revenues on a parity basis with the then outstanding 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 SENIOR BONDS—Additional Senior Bonds.”

Rate Covenant

The Authority has covenanted in the Senior Indenture to at all times that any Senior Bonds remain Outstanding under the Senior Indenture to establish, fix, prescribe and collect rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System so as to yield Net Revenues, with respect to the then immediately ensuing 12 months, which are equal to at least 1.30 times the Annual Debt Service on Outstanding Senior Bonds to be paid from Net Revenues during such 12-month period. “**Net Revenues**” are defined in the Senior Indenture to mean, 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 SENIOR BONDS—Senior Rate Covenant.”

Investment Considerations

The purchase of the 2017A Senior 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 2017A Senior Bonds. For a summary of certain risk factors associated with an investment in the 2017A Senior Bonds, see “BONDHOLDER RISKS.”

Continuing Disclosure

The Authority will covenant for the benefit of the holders and beneficial owners of the 2017A Senior Bonds to provide annually certain financial information and operating data relating to the System by not later than 240 days following the end of each fiscal year of the Authority (which fiscal year currently ends September 30) (the “**Annual Report**”), commencing with the report for Fiscal Year 2017, and to provide notices of the occurrence of certain events listed in Rule 15c2-12 of the Securities Exchange Commission (“**Rule 15c2-12**”). Each Annual Report, and any notices of specified events, will be filed by the Authority with the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access (“**EMMA**”) system website. The specific nature of the information to be contained in the Annual Reports and the specified events of which the Authority is to provide notice are set forth in APPENDIX E—“PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12.

Forward-Looking Statements

Certain statements contained or incorporated by reference in this Official Statement are not intended to reflect historical facts but are estimates and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the expectations or forecasts described herein. In this respect, the words “estimate,” “project,” “forecast,” “anticipate,” “expect,” “assume,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinion, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The Authority does not plan to issue any updates or revisions to such forward-looking statements whether or not its expectations, or any events, conditions or circumstances on which such statements are based, do or do not occur.

Miscellaneous

Brief descriptions of the 2017A Senior Bonds, the Authority and Guam are provided below. Such descriptions do not purport to be comprehensive or definitive. All references to the 2017A Senior Bonds and the Senior Indenture are qualified in their entirety by reference to the respective forms thereof, which are available for inspection at the office of Guam Power Authority, Gloria B. Nelson Public Service Building, 688 Route 15, Suite 100, Mangilao, Guam 96913-6203.

The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made with respect hereto shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the System since the date hereof.

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any of the 2017A Senior Bonds.

REFUNDING PLAN

The Authority is issuing the 2017A Senior Bonds (i) to refund all of the Authority's outstanding 2010 Senior Bonds, as shown in the table below (the "**Refunded Bonds**") and (ii) to pay costs of issuing the 2017A Senior Bonds and of refunding the Refunded Bonds.

Guam Power Authority Revenue Bonds, 2010 Series A

Maturity Date (October 1)	Principal Amount	Interest Rate	Redemption or Retirement Date	Redemption or Retirement Price	CUSIP No. (400653)[†]
2030 [†]	\$38,980,000	5.50%	10/01/2020	100%	FV8
2037 [†]	55,000,000	5.00	10/01/2020	100	FX4
2040 [†]	56,460,000	5.50	10/01/2020	100	FW6

[†] Term Bond

The refunding of the Refunded Bonds is expected to be effected by depositing proceeds of the 2017A Senior Bonds, together with other available funds of the Authority, in an escrow fund (the "**Escrow Fund**"). The moneys in the Escrow Fund will be applied to the purchase of non-callable and non-prepayable obligations of the United States of America (the "**Escrow Securities**") or held uninvested as cash. The Escrow Securities will bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid in accordance with their terms, such amounts, together with any amounts held as cash in the Escrow Fund, will provide sufficient available moneys to pay the redemption price (*i.e.*, 100% of the principal amount) of and accrued interest on the Refunded Bonds on the redemption date. The Escrow Fund will be held by the Senior Co-Trustee in irrevocable trust and used for the payment of the principal of and interest on the Refunded Bonds when due.

Upon the making of the deposit described in the immediately preceding paragraph, the pledge of the Revenues and other moneys and securities securing the Refunded Bonds (other than amounts in the Escrow Fund) will be discharged, and the Refunded Bonds will no longer be deemed to be Outstanding under the Senior Indenture.

On the date of delivery of the 2017A Senior Bonds, the Authority will receive a report from Causey Demgen & Moore P.C., a firm of independent certified public accountants (the "**Verification Agent**"), verifying the adequacy of the maturing principal amounts of the Escrow Securities and/or cash on deposit in the Escrow Fund to pay the redemption price of and accrued interest on the Refunded Bonds on the Redemption Date. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

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ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2017A Senior Bonds are expected to be applied as shown below:

	2017A Senior Bonds
Sources:	
Principal Amount	\$148,670,000.00
Plus Original Issue Premium	17,876,458.80
Funds released from Bond Fund	1,999,800.00
Total Sources	<u>\$168,546,258.80</u>
Uses:	
Deposit to Escrow Fund	\$166,007,862.64
Costs of Issuance ⁽¹⁾	2,538,396.16
Total Uses	<u>\$168,546,258.80</u>

⁽¹⁾ Includes Underwriters' discount, Senior Trustee and Senior Co-Trustee fees, escrow and verification fees, legal fees and expenses, rating agency fees, printing costs and other miscellaneous costs of issuing the 2017A Senior Bonds and of refunding the Refunded Bonds.

THE 2017A SENIOR BONDS

Authority for the 2017A Senior Bonds

The 2017A Senior Bonds are authorized to be issued pursuant to the Act, the Authorizing Legislation and by the 2017A Senior Bond Resolution. Section 50103(k) of the Act provides that agencies and instrumentalities of the Government of Guam, including public corporations, shall issue bonds only through the agency of GEDA, and the Act requires the terms of the Senior Indenture and the amount and certain terms of the 2017A Senior Bonds to be approved by the PUC. The issuance and sale of the 2017A Senior Bonds have been approved by the Board of Directors of GEDA pursuant to the 2017 GEDA Resolution. The terms of the 2017A Supplemental Senior Indenture and the respective amounts and certain terms of the 2017A Senior Bonds were approved by the PUC pursuant to the PUC 2017 Bond Docket.

For a summary of certain provisions of the Senior Indenture, see APPENDIX C hereto. For a description of the pledged Revenues and the existing liens on the Revenues, see "SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS."

Description of the 2017A Senior Bonds

The 2017A Senior Bonds are being issued in the aggregate principal amounts and will bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover of this Official Statement.

The 2017A Senior 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 2017A Senior Bonds, all payments of principal and Redemption Price, if applicable, of and interest on the 2017A Senior 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 2017A Senior 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 2017A Senior Bonds will be payable by check mailed by first-class mail to the persons in whose names the 2017A Senior 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 2017A Senior Bonds of a Series received prior to the applicable Record Date, by wire transfer. See APPENDIX F—"BOOK-ENTRY SYSTEM" herein.

The 2017A Senior 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 April 1, 2018. Interest will be calculated on the basis of a 360-day year comprised of 12 30-day months.

Redemption of the 2017A Senior Bonds

Optional Redemption. The 2017A Senior Bonds maturing on or before October 1, 2027 are not subject to optional redemption prior to their respective stated maturities. The 2017A Senior Bonds maturing on or after October 1, 2028 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, 2027, 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.

Mandatory Sinking Account Redemption. The 2017A 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 the Mandatory Sinking Account Payments for such 2017A Senior Bonds, in the amounts and on October 1 in the years set forth below:

Mandatory Sinking Account Payments for 2017A Senior Bonds Due 2040

Year	Amount
2039	\$16,000,000
2040 [†]	16,800,000

[†] Unamortized balance at final maturity

Upon any optional redemption of term 2017A Senior Bonds or other retirement of 2017A Senior Bonds in excess of any Mandatory Sinking Account Payments in any year, the principal amount of such 2017A Senior Bonds shall be credited against the remaining Mandatory Sinking Account Payments of such 2017A Senior Bonds 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 denomination for such 2017A Senior Bonds).

Extraordinary Optional Redemption. The 2017A Senior Bonds are subject to redemption on any date prior to their respective stated maturities, at the option of the Authority, as a whole, or in part (by lot), and if in part so that the reduction in Annual Debt Service for the 2017A Senior 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 any portion thereof by eminent domain proceedings, if such amounts are not used for additions, improvements or extensions to the System, as provided in the Senior Indenture, at the principal amount thereof plus interest accrued thereon, without premium.

Selection of 2017A Senior Bonds to Be Redeemed

For purposes of selecting 2017A Senior Bonds for redemption, such 2017A Senior Bonds will be deemed to be composed of \$5,000 portions, and any such portion may be separately redeemed. If less than all of the 2017A Senior Bonds of any maturity are called for redemption at any one time, the Senior Co-Trustee will select the particular 2017A Senior Bonds or portions thereof to be redeemed within such maturity by lot.

Notice of Redemption

The Senior Co-Trustee is to give notice of redemption of any 2017A Senior Bonds not less than 20 nor more than 60 days prior to the date fixed for redemption, by first class mail to each of the registered owners of the 2017A Senior Bonds designated for redemption at their addresses appearing on the bond registration books of the Senior Co-Trustee on the date the 2017A Senior Bonds to be redeemed are selected. Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities to be redeemed, and, if less than all of any such maturity, the numbers of the 2017A Senior Bonds of such maturity to be redeemed and, in the case of 2017A Senior Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and shall also state that on said date there will become due and payable on each of said 2017A Senior Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such 2017A Senior Bonds then be surrendered, with a written instrument of transfer duly executed by the registered owner thereof or by such registered owner's attorney duly authorized in writing. No defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of such 2017A Senior Bonds. Each notice of redemption shall also state the CUSIP number, date of issue and interest rate on each 2017A Senior Bond, or portion thereof, to be redeemed, and shall include the redemption agent name and address; provided, however, that failure to include any of such information in any redemption notice, or any inaccuracy in any such information, shall not affect the sufficiency of the proceedings for redemption of any 2017A Senior Bonds. See also APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE—THE SENIOR INDENTURE—Redemption of Senior Bonds."

Any notice of optional redemption of the 2017A Senior Bonds may be conditional, and if any condition stated in such notice is not satisfied on or prior to the applicable redemption date, such notice shall be of no force and effect, and the Authority shall not be required to redeem the 2017A Senior Bonds thereby called for optional redemption, the optional redemption shall be cancelled and the Senior Co-Trustee shall within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of optional redemption was given, that such condition or conditions were not met and that the optional redemption is cancelled. In addition, the Authority may, at its option, on or prior to the date fixed for optional redemption in such notice of optional redemption, rescind and cancel such notice and corresponding optional redemption, and the Senior Co-Trustee shall thereupon give notice of such cancellation to the recipients of the notice of the redemption being cancelled.

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DEBT SERVICE REQUIREMENTS

Table 1 below sets forth the amounts required by the Authority during each year ending October 1 of the years shown for the payment of debt service on the Authority's outstanding Senior Bonds, including the 2017A Senior Bonds.

Table 1
Debt Service Schedule

Year Ending October 1	Prior Senior Bonds Debt Service ⁽¹⁾	2017A Senior Bonds		Total Senior Bonds Debt Service ⁽²⁾
		Principal	Interest	
2018	\$22,168,600	\$ 135,000	\$ 5,780,561	\$28,084,161
2019	36,551,250	180,000	7,426,750	44,158,000
2020	40,318,750	--	7,417,750	47,736,500
2021	40,318,000	--	7,417,750	47,735,750
2022	40,091,000	315,000	7,417,750	47,823,750
2023	36,551,500	4,050,000	7,402,000	48,003,500
2024	36,548,000	4,245,000	7,199,500	47,992,500
2025	36,549,750	4,460,000	6,987,250	47,997,000
2026	36,554,000	4,680,000	6,764,250	47,998,250
2027	36,548,000	4,920,000	6,530,250	47,998,250
2028	36,554,500	5,165,000	6,284,250	48,003,750
2029	36,555,000	5,425,000	6,026,000	48,006,000
2030	36,551,750	5,695,000	5,754,750	48,001,500
2031	30,791,750	5,980,000	5,470,000	42,241,750
2032	30,789,500	6,280,000	5,171,000	42,240,500
2033	30,793,000	6,590,000	4,857,000	42,240,000
2034	30,794,000	6,920,000	4,527,500	42,241,500
2035	5,084,500	7,265,000	4,181,500	16,531,000
2036	5,086,750	13,815,000	3,818,250	22,720,000
2037	5,086,000	14,515,000	3,127,500	22,728,500
2038	5,087,000	15,235,000	2,401,750	22,723,750
2039	5,084,250	16,000,000	1,640,000	22,724,250
2040	5,082,500	16,800,000	840,000	22,722,500
2041	5,085,450	--	--	5,085,450
2042	5,084,050	--	--	5,084,050
2043	5,083,050	--	--	5,083,050
2044	5,086,950	--	--	5,086,950
Total ⁽²⁾	\$645,878,850	\$148,670,000	\$124,443,311	\$918,992,161

⁽¹⁾ Does not include debt service on the Refunded Bonds.

⁽²⁾ Totals may not add due to rounding.

SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS

The ability of the Authority to pay principal of and interest on the 2017A Senior 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." Rates for electric service are established by the CCU and regulated by the PUC. The Act provides that rates established by the PUC must be at least adequate to cover the full cost of its service to its 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. All future rate increases of the Authority are subject to the approval of the PUC. The Authority has no taxing power. For additional information regarding the CCU and the Authority's electric rates and charges, see "THE GUAM POWER AUTHORITY—Governance" and "RATES—General Rate Setting."

Security for the Senior Bonds

The Senior Bonds, including the 2017A Senior Bonds, are limited obligations of the Authority payable solely from, and secured solely by a lien on and pledge of, the Revenues. As defined in the Senior Indenture, "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 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), any 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. No obligations may be issued that have a lien on the Revenues prior to the lien of the Senior Bonds, and the Senior Bonds have a parity lien on 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 will be retained therein). Amounts in the Revenue Fund are used to pay budgeted Maintenance and Operation Expenses as such expenses become due and payable. Amounts in the Revenue Fund are also transferred to the Rebate Fund as required by the Senior Indenture and to the Bond Fund to satisfy any deficiency in either such Fund in accordance with the Senior Indenture.

Pursuant to 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 (including making up any deficiencies in any such fund or account resulting from a lack of Revenues sufficient to make any earlier required deposit) and in the following order of priority:

- (1) into the Bond Fund held by the Senior 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 each 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 amounts over the Principal Payment Period for each 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 amounts 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 each such Senior Bond;
- (2) into the Senior Bond Reserve Fund, held by the Senior 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, held by the Depositary, the lesser of (i) the amount, if any, necessary to increase the amount in the Working Capital Fund to the Working Capital Requirement (as

defined in the Senior Indenture), and (ii) an amount equal to one-sixth of the Working Capital Requirement; and

(4) into the Surplus Fund, held by the Depositary, the balance remaining in the Revenue Fund after the foregoing deposits for application as provided in 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 such 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).

The Senior Indenture provides that 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, subject to the satisfaction of any deposits required under the Subordinate Indenture described below. No Subordinate Bonds are currently outstanding under the Subordinate Indenture; however, the Authority may in the future issue additional subordinate bonds under the Subordinate Indenture or under a separate indenture. See “—Subordinate Obligations” below.

See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE” for definitions of the capitalized terms used above and descriptions of certain of the Funds and Accounts referenced above.

Senior Rate Covenant

The Authority has covenanted in the Senior Indenture at all times that any Senior Bonds remain Outstanding under the Senior Indenture to establish, fix, prescribe and collect rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System so as to yield, with respect to the then immediately ensuing 12 months, Net Revenues 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 required Mandatory Sinking Account Payments (all as calculated for the applicable Bond Year) on the Outstanding Senior Bonds 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 such 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. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE—THE SENIOR INDENTURE—Sources of Payment; Rate Covenant; Use and Allocation of Revenues.” Currently, none of the Authority’s Outstanding Senior Bonds are Variable Rate Senior Bonds.

Additional Senior Bonds

The Senior Indenture permits the Authority to issue additional Senior Bonds (“**Additional Senior Bonds**”) secured on a parity with all then-Outstanding Senior Bonds upon the satisfaction of the conditions and requirements set forth in the Senior Indenture, including, among others, the following:

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

(2) The Supplemental Indenture providing for the issuance of such Additional Senior Bonds (A) specifies the purposes for which such Additional Senior Bonds are being issued, which shall be one or both of

the following: (i) to provide moneys for deposit into the Construction Fund and withdrawal therefrom in accordance with law for purposes other than the refunding of Outstanding Senior Bonds; or (ii) to refund all or any part of the Senior Bonds of any one or more Series outstanding under the Senior Indenture by depositing with the Senior Co-Trustee, in trust, cash and 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; and (B) provides for a deposit to be made to the Senior Bond Reserve Fund on the date such Additional Senior Bonds are issued in an amount necessary to make the balance in that Fund at least equal to the Bond Reserve Fund Requirement with respect to all Senior Bonds outstanding under the Senior Indenture, including the Additional Senior Bonds;

(3) 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;

(4) Unless the requirement described in paragraph (6) is satisfied, Net Revenues for the last Fiscal Year or last recorded 12-month period preceding the date of the Supplemental Indenture providing for the issuance of such Additional 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 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 last recorded 12-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 36 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 last recorded 12-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 last recorded 12-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 Senior Bonds;

(5) Unless the requirement described in 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 Senior Bonds, all as shown by a certificate of an independent consultant. Pursuant to the Senior Indenture, the independent consultant's projection shall be made subject to the following assumptions and limitations:

(i) 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 Senior Bonds); and

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

(a) 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);

(b) 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;

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

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

(6) If any of the Senior Bonds of such Series of Additional 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 and the maximum rate payable to any Credit Provider for such Additional Senior Bonds (whether or not the obligation to such Credit Provider is subordinate to the Senior Bonds).

Senior Bond Reserve Fund

The 2017A 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 Senior Bond Reserve Fund Requirement.

All amounts in the Senior Bond Reserve Fund are required to be used and withdrawn by the Senior 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. The Senior Bond Reserve Fund is not available to secure payment of principal of or interest on any Subordinate Bonds.

“**Senior Bond Reserve Fund Requirement**” is defined in the Senior Indenture to mean, 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. Prior to the date of issuance of the 2017A Senior Bonds, the Senior Bond Reserve Fund Requirement is \$48,526,250. See “REFUNDING PLAN,” “ESTIMATED SOURCES AND USES OF FUNDS” and “FINANCIAL MATTERS—Financial Contracts and Investments.”

Upon the Request of the Authority, any amount in the Senior Bond Reserve Fund on any October 5 in excess of the Senior Bond Reserve Fund Requirement may be transferred to the Senior Trustee for deposit into the Revenue Fund on such date. The Senior Bond Reserve Fund Requirement may be wholly or partially satisfied by a Credit Facility, provided 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 (“**Moody’s**”) and S&P Global Ratings (“**S&P**”). For purposes of the Senior Bond Reserve Fund, “**Credit Facility**” is defined in the Senior Indenture to mean any instrument designated by a Supplemental Indenture as providing supplemental credit support for a series of Senior Bonds 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.

Events of Default; Remedies

The Senior Indenture specifies a number of Events of Default and remedies. For descriptions of the Events of Default and various remedies under the Senior Indenture, see APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE—THE SENIOR INDENTURE—Events of Default.”

Energy Capital Leases

The Authority has entered into an agreement to purchase power with Marianas Energy Company (“**MEC**”) with respect to MEC Units 8 and 9 (the “**MEC Capital Lease**”). Pursuant to the MEC Capital Lease, MEC constructed and owns and operates MEC Units 8 and 9 and the Authority provides fuel and pays fees to MEC until ownership of the facilities is transferred to the Authority, which is currently scheduled for January 2019. Under the MEC Capital Lease, the Authority’s payments include both an operating and maintenance component and a capital component. The operating and maintenance components are payable as Maintenance and Operation Expenses of the Authority, and the capital components are payable from Revenues, subordinate to the prior payment of Senior Bonds and any subordinate bonds, including any subordinate bonds issued under the Subordinate Indenture, and to the deposits and transfers described above under “—Security for the Senior Bonds.” Following the transfer of MEC Units 8 and 9, the Authority expects to enter into another agreement to purchase power with a separate Independent Power Producer that will operate MEC Units 8 and 9 at lower costs than those under the MEC Capital Lease. See “FINANCIAL MATTERS—Outstanding Indebtedness—*Certain Payments Pursuant to Energy Capital Leases*” and APPENDIX B—“FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS’ REPORT FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015,” Note 5.

The Authority also previously entered into an agreement to purchase power with Taiwan Electrical and Mechanical Engineering Services, Inc. (“**TEMES**”) with respect to TEMES Unit 7 (the “**TEMES Capital Lease**”). Pursuant to the TEMES Capital Lease, TEMES constructed, owned and operated TEMES Unit 7 and the Authority provided fuel and paid fees to TEMES until ownership of the facility was transferred to the Authority at no additional cost on December 5, 2017. Although there will be no early termination fees regarding TEMES Unit 7, there will be the anticipated settlement of outstanding invoices for services rendered. The Authority plans to operate TEMES Unit 7 at lower costs than costs under the TEMES Capital Lease.

The Authority also previously entered into an agreement to purchase power with another independent power producer with respect to Tanguisson Units 1 and 2 (the “**Tanguisson Capital Lease**” and, together with the MEC Capital Lease and the TEMES Capital Lease, the “**Energy Capital Leases**”). Pursuant to the Tanguisson Capital Lease, the independent power producer refurbished, managed and operated Tanguisson Units 1 and 2. The Authority terminated the Tanguisson Capital Lease effective as of January 2, 2015, prior to its scheduled expiration date, and made a termination payment in the amount of approximately \$2.8 million.

Subordinate Obligations

The Senior Indenture does not prevent the Authority from issuing or incurring any indebtedness secured by a lien or charge on Revenues that is junior and subordinate to the lien and charge of the Senior Bonds; however, the Authority does not currently have any such subordinate indebtedness outstanding.

In 2010, the Authority issued its Guam Power Authority Subordinate Revenue Bonds, 2010 Series A (the “**2010 Subordinate Bonds**”) pursuant to a Subordinate Indenture, dated as of June 1, 2010 (the “**Subordinate Indenture**”), by and among the Authority, the Bank of Guam, as Trustee (the “**Subordinate Trustee**”), and U.S. Bank National Association, as Co-Trustee (the “**Subordinate Co-Trustee**”), which are no longer outstanding. The Authority may in the future issue additional subordinate bonds under either the Subordinate Indenture or another indenture.

THE GUAM POWER AUTHORITY

General

The Authority is a retail electric utility that provides electric generation, transmission and distribution service throughout Guam, as well as wholesale power to the United States (“U.S.”) military bases on Guam, and is currently the only retail provider of electricity in Guam. The Authority serves a population of approximately 163,000 with a power supply portfolio that consists of various fuel-oil based generating units with a combined net capacity of over 420 MW (approximately 140 MW of which constitutes capacity reserves). The Authority’s electric system also includes 29 substations, 189 miles of transmission lines and over 1,608 miles of distribution lines. Table 2 below presents selected statistics regarding Authority operations for Fiscal Year 2017, based on preliminary, unaudited financial information, and such information is subject to year-end adjustment and audit.

Table 2
Selected Fiscal Year Ended September 30, 2017 Statistics

Total Number of Customers	50,843
Peak Load (kW)	261,000
Megawatt-hour Sales	1,610,093
Operating Revenues ⁽¹⁾	\$333,318,773
Gross Investment in Utility Plant	\$1,055,801,931
Net Utility Plant Investment	\$490,657,031
Total Assets and Deferred Outflows	\$908,672,770
Total Liabilities and Deferred Inflows	\$821,581,016
Total Net Position	\$87,091,754

⁽¹⁾ Does not include bad debt expense of \$472,466.

Source: Guam Power Authority Fiscal Year 2017 Unaudited Financial Statements.

History

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 affirmed the continuation of its status as a public corporation of the Government of Guam.

Over the years, the U.S. Navy (the “Navy”) 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 CCU. The CCU, a five-member board elected in a general election to staggered four-year terms, is charged with oversight of both the Authority and Guam Waterworks Authority (“GWA”). The enabling legislation empowers the CCU with contracting authority, as well as the authority 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 and PUC 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 2017A Senior Bonds.

The current members of the CCU are:

Joseph (Joey) T. Duenas, Chairman. Mr. Duenas was elected as Chairman of the CCU in January 2015. Elected to the CCU and member since January 2009, Mr. Duenas's government and community service includes serving as Finance Officer for the Archdiocese of Hagåtña, Director of the Guam Department of Revenue & Taxation, President of the Guam Housing Corporation, Vice Chairman of the Guam Election Commission, PUC Chairman, Board of Directors Chairman for the American Red Cross, Vice Chairman of the Board of Trustees for Guam Community College, and former President of the Rotary Club of Guam. Mr. Duenas has a B.A. in Business Management from the Chaminade University of Honolulu.

Francis E. Santos, Vice Chairman. Mr. Santos has over 25 years of experience in the private and public sectors, specializing in health insurance and business management. He previously served as Chief Financial Officer at Guam Regional Medical City, Guam's newest private hospital, and as Plan Administrator for StayWell Health Plan and President/Chief Executive Officer of Island Home Insurance Company. Mr. Santos also served three terms as a Senator in the Guam Legislature. Mr. Santos served as chairman of the Guam Education Policy Board, chairman of the board of iLearn Academy Charter School, Guam's second public charter school, and as member/director of Global Health Systems, which specializes in wound care and hyperbaric medicine. Mr. Santos holds a Master of Business Administration in Health Care Administration from Loma Linda University and a Bachelor of Science Degree in Business Management from Seattle University.

J. George Bamba, Secretary. Mr. Bamba was elected to the CCU in November 2014 and was elected as Secretary in January 2015, and is Chairman of the CCU IT/Cybersecurity Committee. Mr. Bamba has served as Chief of Staff to two former Governors of Guam (Paul M. Calvo and Felix P. Camacho). Mr. Bamba served as Senator in the Guam Legislature for 10 years and as chairman of numerous boards and commissions while serving in the Executive Branch of the Government of Guam. He also served on the Council of State Governments Committee on Economic Development and International Affairs.

Dr. Judith (Judi) T. Guthertz, Ph.D., Treasurer. Dr. Guthertz is the newest of the recently elected commissioners. Dr. Guthertz was one of the initial members elected when the CCU was first established in 2003. She resigned her seat in 2004 to run for Senator. Dr. Guthertz has over 40 years of experience in the public and private sectors, specializing in public administration and as a former Public School Teacher within the Guam Department of Education. She is a former Senator of the Guam Legislature, former Acting Chief of Police of the Guam Police Department, and a former board member of the Guam Visitors Bureau where she focused on initiatives to safeguard tourists visiting Guam. She has served on numerous government and civic organization boards, including the Guam Organic Act Commemoration Task Force and the Government of Guam Executive Branch Reorganization Commission. She is currently the Chairperson for the Western Pacific Regional Fishery Management Council and is an adjunct professor at the University of Guam. She began teaching at the Academy of Our Lady of Guam for the 2017-2018 school year. Dr. Guthertz graduated from the University of the Philippines where she obtained a B.A. in Speech and Communications, an M.A. in Mass Communications, a master's degree in Public Administration and a doctorate degree in Public Administration and Public Policy.

Simon A. Sanchez II, Member. Originally elected to the CCU in 2003, Mr. Sanchez served as chairman from January 2003 until January 2015. He is a former Senator and former Vice Chairman, Public Utilities Commission 1988-1994. Mr. Sanchez has served as Vice President/General Manager of Guam Dry Cleaners since 1988. He 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. Mr. Sanchez graduated from Harvard University in 1980 with an M.A. in City and Regional Planning and Stanford University in 1978 with a B.A. in history.

Key Management Personnel

Following are brief résumés of key management personnel of the Authority:

John M. Benavente, P.E., General Manager. Mr. Benavente has served as General Manager of the Authority since October 2014, and previously served as General Manager of the Authority from 1987 to 1993. Mr. Benavente previously served as General Manager of Consolidated Utility Services from 2005 to 2014 where he oversaw the Authority and the GWA. Mr. Benavente has over 35 years of technical, engineering and management experience in the power and water related field both in the government and private sectors. Mr. Benavente is experienced in management, operations and maintenance in both water and power utilities and his experience includes work on negotiating a customer supplier agreement with the U.S. Military, negotiating energy conversion agreements with private power providers, and is further experienced in strategic planning, succession planning, rate proceedings, legislative hearings, environmental permitting, power plant construction, transmission and distribution construction, energy management system, budgeting, collections, typhoon and earthquake recoveries. Mr. Benavente holds a Master of Science in Engineering Management degree from the University of Missouri (Rolla) and a Bachelor of Science Mechanical Engineering degree from the University of Dayton. He is also a registered Professional Mechanical Engineer in Guam.

John J.E. Kim, Chief Financial Officer. Mr. Kim joined the Authority as Chief Financial Officer in 2015. Prior to joining the Authority, Mr. Kim spent 11 years working in the telecommunications field. His projects included privatization of the last government-owned telecommunication company, merger and acquisition and financing. Mr. Kim also worked at Deloitte & Touche LLP for eight years and has industry audit experience in utilities, construction, hospitality, retail, wholesale and government.

Melinda C. Mafnas, P.E., Assistant General Manager, Operations Ms. Mafnas was appointed to her current position in September 2010 and manages the Authority's generation, transmission & distribution, SCADA/dispatching, engineering, facilities, and transportation divisions. She has more than 20 years of electric utility experience in engineering and management with the Authority. Her experience includes; leading work in engineering, procurement, permitting, construction, and commissioning of various generation, transmission, and distribution systems; managing maintenance activities and expenditures to ensure continuity of electric service at the lowest cost; she is also involved in contract negotiations with performance management contractors and the Navy ensuring the Authority's requirements are represented. She provides testimony on the Authority's behalf to the PUC in Authority rate proceedings. She also manages recovery efforts after natural disasters, and represents the Authority at legislative hearings, commission meetings, and other forums to discuss plans, policies, and regulations. Ms. Mafnas holds a Bachelor of Science degree in Electrical Engineering from the University of Hawaii at Manoa. She is a registered Professional Electrical Engineer in Guam.

John J. Cruz, Jr., P.E., CEA, CEM, MBA, Assistant General Manager, Engineering & Technical Services. Mr. Cruz has over 27 years of experience with the Authority. Prior to joining the Authority, Mr. Cruz worked for Hughes Aircraft Company for seven years. Mr. Cruz has expertise in radar systems engineering, systems engineering, SCADA, communications/networking engineering, software programming, solar PV design and installation, renewable energy, energy storage, system planning, statistical testing and project management. Mr. Cruz also holds a Certified Energy Manager and Certified Energy Auditor designation from the Association of Energy Engineers. Mr. Cruz graduated from Gonzaga University. He holds a Bachelor of Science degree in Electrical Engineering, a Bachelor of Arts degree in Mathematics, a minor degree in business, and a Master in Business Administration degree. He is a registered Professional Electrical Engineer in Guam. From time to time, Mr. Cruz serves as an adjunct instructor at Guam Community College.

Beatrice P. Limtiaco, Assistant General Manager, Administration. Ms. Limtiaco joined the Authority in March 2017 to manage its customer service, human resources, safety and procurement divisions. Ms. Limtiaco has over 15 years of private sector administrative management experience in various industries including specialty chemicals and building material manufacturing. Prior to joining the Authority, she served as Special Assistant to the Governor of Guam and was directly involved with various local, regional and federal issues. Ms. Limtiaco holds a Juris Doctor degree from California Western School of Law and a Bachelor of Arts degree from Boston University.

D. Graham Botha, General Counsel. Mr. Botha has served as General Counsel of the Authority since September, 2004. Mr. Botha has over 28 years of legal experience both in government and private sectors. He represents the agency in practice before the Public Utilities Commission, the Guam Supreme Court and the U.S. District Court in Guam. In private practice, he has experience in criminal and civil litigation, and has represented clients in civil, real property, commercial, bankruptcy, criminal and immigration matters before the 9th Circuit Court of Appeals. Mr. Botha holds a Bachelor of Science degree in Economics from the Wharton School, University of Pennsylvania, and a Juris Doctor from the Boston University School of Law.

POWER SUPPLY

General

As of December 1, 2017, the Authority's power supply includes various fuel-oil based generating units that have an aggregate available capacity of 424.4 MW, as well as approximately 25.3 MW of net capacity from renewables. Except for the 25.3 MW of capacity from renewables, all of the Authority's power resources are powered by fuel oil. The Authority's power supply resources include generation units owned by the Authority, generation units leased by the Authority, generation units owned and operated by third parties and renewable resources. For brief descriptions of these power supply resources, see "—Primary Power Supply Resources." Table 3 below summarizes the electric generating resources currently available to the Authority for dispatch. See also "—Capacity Recovery Plan—*Loss of Generating Capacity.*"

Table 3
Power Supply Resources

	Year Installed	Owner	Operator	Available Capacity (MW)
Baseload				
Cabras Unit 1	1974	Authority	TEMES	66.0
Cabras Unit 2	1975	Authority	TEMES	66.0
MEC Unit 8 ⁽¹⁾	1999	MEC	MEC	44.2
MEC Unit 9 ⁽¹⁾	1999	MEC	MEC	44.2
Intermediate				
Macheche CT	1993	Authority	TEMES	20.0
Yigo CT	1993	Authority	TEMES	20.0
TEMES Unit 7	1997	Authority ⁽²⁾	Authority ⁽²⁾	40.0
Dededo CT	1993	Authority	TEMES	40.0
Aggreko Temporary Power Plant	2016	Aggreko	Aggreko	40.0
Peaking				
Diesel Units (10 Units)	1993	Authority	Authority	44.0
Total				424.4
Renewable Resources				
Dandan Solar Project	2015	NRG Solar	NRG Solar	25.0
Wind Turbine	2016	Authority	Authority	0.3
Total				25.3

⁽¹⁾ MEC Units 8 and 9 are sometimes also referred to as Piti Units 8 and 9.

⁽²⁾ Ownership of TEMES Unit 7 was transferred to the Authority on December 5, 2017. See "SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS—Energy Capital Leases."

Source: Guam Power Authority.

Primary Power Supply Resources

Baseload Power Supply Resources

The Authority's baseload generating units are comprised of (i) Cabras Units 1 and 2, two oil-fired steam generating units, which have combined available capacity of 132.0 MW, and (ii) MEC Units 8 and 9, two oil-fired, slow speed reciprocating engines, which have combined available capacity of 88.4 MW.

Cabras Units 1 and 2 are owned by the Authority and operated and maintained, using Authority employees, by Taiwan Electrical and Mechanical Engineering Services, Inc. ("**TEMES**") pursuant to a performance management contract, the term of which was originally scheduled to terminate on September 30, 2015, but was extended pursuant to a five-year extension option to September 30, 2020. For Fiscal Year 2017, Cabras Units 1 and 2 provided 39% of the Authority's power supply.

MEC Units 8 and 9 are owned and operated by an Independent Power Producer, Marianas Energy Company ("**MEC**"), an indirect wholly-owned subsidiary of Osaka Gas Co., Ltd., of Japan, pursuant to the MEC Capital Lease as further described under "SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS—Energy Capital Leases." For Fiscal Year 2017, MEC Units 8 and 9 provided 36% of the Authority's power supply. See also "FINANCIAL MATTERS—Outstanding Indebtedness—*Certain Payments Pursuant to Energy Capital Leases*," and APPENDIX B—"FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015," Note 5.

Intermediate Load Power Supply Resources

The Authority's intermediate load generating units are comprised of (i) Macheche CT, a combustion turbine generator ("**CTG**") with available capacity of 20.0 MW, which is owned by the Authority and operated by TEMES (the "**Macheche CT**"); (ii) Yigo CT, a CTG unit with available capacity of 20.0 MW, which is owned by the Authority and operated by TEMES (the "**Yigo CT**"); (iii) TEMES Unit 7, a CTG unit with available capacity of 40.0 MW, which is owned and operated by the Authority (the "**TEMES Unit 7**"); (iv) the Dededo CT, with two CTG units having combined available capacity of 40.0 MW, which is owned and operated by the Authority (the "**Dededo CT**"); and (v) a temporary power unit at the Yigo substation site (the "**Aggreko Temporary Power Plant**"), with available capacity of 40.0 MW, which is owned and operated by Aggreko International Projects Ltd. ("**Aggreko**").

TEMES Unit 7 was previously owned and operated by TEMES under the TEMES Capital Lease, pursuant to which the Authority provided fuel and paid fees to TEMES until ownership of the facility was transferred to the Authority at no additional cost on December 5, 2017. See "SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS—Energy Capital Leases," "FINANCIAL MATTERS—Outstanding Indebtedness—*Certain Payments Pursuant to Energy Capital Leases*," and APPENDIX B—"FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015," Note 5.

As part of the Capacity Recovery Plan described below in "—Capacity Recovery Plan", the Authority procured and installed the Aggreko Temporary Power Plant, operated by Aggreko. In November 2016, the PUC approved the Authority's request to extend the existing lease contract for the operation of the Aggreko Temporary Power Plant with Aggreko for an additional four years with an option to purchase the Aggreko Temporary Power Plant. See "—Capital Recovery Plan—*Interim Plan*."

Peaking Power Supply Resources

The Authority's peak load generating units include 10 diesel units owned and operated by the Authority, which have a combined available capacity of 44.0 MW.

Existing Renewable Resources

The Authority has approximately 25.3 MW of available capacity from renewable resources.

The Authority has two separate 25-year power purchase agreements with respect to the Dandan Solar Project, pursuant to which NRG Solar guarantees delivery of a minimum of 51,944 MWh in the aggregate for the first contract year, with the guaranteed minimal amount decreasing slightly each contract year thereafter. The Authority's obligation to purchase power under these agreements is contingent upon delivery. The Dandan Solar Project was commissioned in October 2015.

In addition, the Authority also has a 0.275 MW wind turbine pilot project (the "**Wind Turbine Project**") that was funded with a grant from the U.S. Department of the Interior, Office of Insular Affairs. The Wind Turbine Project was commissioned in January 2016 and construction of the project was substantially completed in March 2016.

Capacity Recovery Plan

Loss of Generating Capacity. On August 31, 2015, a fire and explosion occurred at Cabras Units 3 and 4. The fire caused substantial damage to the two generating units and related infrastructure and resulted in a loss of 78.6 MW of capacity. Independent consultants for the Authority's insurer and the Authority determined that damage caused by the fire rendered Cabras Unit 4 beyond repair. Cabras Unit 3 was initially deemed repairable; however, because of the age of the generating unit and additional significant investments required to be made to Cabras Unit 3 to comply with current and future environmental regulations, the Authority's insurer and the Authority are evaluating whether to spend funds to repair the unit. See also "FINANCIAL MATTERS—Insurance Claim."

The Authority has faced a combination of scheduled outages to its power generation facilities for overhauls and repairs and unplanned outages, further reducing the Authority's power generation capacity.

The Authority responded to these outages by developing a capacity recovery plan (the "**Capacity Recovery Plan**"), which in this Official Statement is described as consisting of three stages: (1) the interim plan, covering the period from September 2015 through January 2016 (the "**Interim Plan**"); (2) the intermediate plan, covering years 2016 through 2020 (the "**Intermediate Plan**"); and (3) the long-term plan, covering years 2020 and beyond (the "**Long-Term Plan**").

Interim Plan. The Interim Plan addressed the capacity shortage through adjustments to both the Authority's supply and demand. The Authority approved a program in September 2015 to coordinate with large customers to establish an interruptible load program whereby a customer's energy demand was isolated or reduced as directed by the Authority's dispatcher during high peak periods or otherwise when the Authority's capacity is insufficient to meet demand (the "**Interruptible Load Program**"). Instead of drawing on the Authority's power system for its supply, a customer used its own back-up generator capacity and was given a monthly credit based on the number of hours of outage experienced by the customer. Many of the Authority's larger customers have significant generator capacity. The Interruptible Load Program ended on December 31, 2016. The Authority credited an aggregate amount of \$2.7 million to 14 participants.

The Interim Plan also called for the Authority to utilize its smaller and older units to a greater degree to increase its capacity. Finally, the Authority procured and installed the Aggreko Temporary Power Plant, which is owned and operated by Aggreko. The Aggreko Temporary Power Plant commenced operations on January 9, 2016. In November 2016, the PUC approved the Authority's request to extend the existing lease contract for the operation of the Aggreko Temporary Power Plant with Aggreko for an additional four years with an option to purchase the Aggreko Temporary Power Plant. See "**—Primary Power Supply Resources—Intermediate Load Power Supply Resources.**" The Authority paid the costs of the Interim Plan with internal cash flow, the Self Insurance Fund, insurance advances and additional insurance claims.

Intermediate Plan. The Intermediate Plan focused on overhauling and repairing certain existing facilities. The Authority rehabilitated and activated the Dededo CT in February 2017 to provide an additional 40 MW of

capacity. The Authority also overhauled the boiler and the steam turbine at Cabras Unit 2 in April 2016 and increased its capacity from 42 MW to 66 MW. Additionally, an overhaul on the Cabras Unit 1 was completed in August 2017. In addition, the Authority repaired the transformer damaged in May 2015, which increased its capacity from 42 MW to 66 MW. The Authority also assisted the Navy in reactivating the Navy's Orote power plant, which supplies an additional 18 MW and acts as reserve capacity. Finally, the Authority completed repairs in September 2016 to rehabilitate Macheche CT, which provides an additional 20 MW. The Authority paid the costs of the Intermediate Plan with internal cash flow, insurance advances and additional insurance claims.

Long-Term Plan. The Long-Term Plan involves implementation of the Combined Cycle/Flexible Generation Project as described in the IRP. See “—Power Supply Development—*Combined Cycle/Flexible Generation Project.*” The Authority expects to pay for the Long-Term Plan through developer financing or future Authority borrowing.

Power Supply Development

Combined Cycle/Flexible Generation Project

As a part of the Authority's efforts to meet future demand and reliability requirements and to comply with current and upcoming environmental regulations, the CCU and PUC have initiated the procurement process for a new up to 180 MW of dual-fueled, combined cycle combustion turbine power plant to run as baseload units (the “**Combined Cycle/Flexible Generation Plant**”).

The Combined Cycle/Flexible Generation Plant is expected to be dual-fired and have the ability to use ultralow sulfur diesel (“**ULSD**”) and liquefied natural gas (“**LNG**”) to provide the Authority with greater fuel diversity. The Combined Cycle/Flexible Generation Plant is expected to be more fuel-efficient than the Authority's existing baseload units, thereby helping to offset the higher costs of ULSD compared to the residual fuel oil currently used by the Authority in its baseload facilities. The Combined Cycle/Flexible Generation Plant is also expected to have fast-reacting units, allowing them to better respond to the Authority's power-supply fluctuations caused by the intermittent nature of the Authority's existing and proposed renewable power facilities.

In November 2017, the Authority made a deposit in the amount of \$100,000 toward the purchase of a site it intends to use for future construction of the Combined Cycle/Flexible Generation Plant. The site is proximate to GWA's Northern District Wastewater Treatment Plant, which will allow the Combined Cycle/Flexible Generation Plant to use treated water for plant cooling instead of extracting up to three million gallons of fresh water from Guam's water aquifer on a daily basis. The site is also adjacent to the Harmon Substation, which the Authority expects will reduce costs of transmission line construction, operations and maintenance, and maximize reliability. The PUC is expected to review and approve procurement parameters and generation capacity of the Combined Cycle/Flexible Generation Plant in the first quarter of 2018. The Authority's preliminary estimate of project costs (including generating units, land and transmission) is currently between \$350-450 million. The Authority plans to use a portion of its insurance claim funds to offset such project costs. See “**FINANCIAL MATTERS—Insurance Claim.**” Construction is anticipated to commence in 2018 and the Combined Cycle/Flexible Generation Plant is expected to be commissioned by December 2021. However, as the project is in preliminary stages, no assurance can be given regarding the cost, timing or scope of the Combined Cycle/Flexible Generation Project.

Future Renewable Generations

The Authority's planning is influenced by Public Law 29-62, signed into law on April 4, 2008, which requires the Authority to establish a preliminary renewables portfolio standard goal of providing 5% of its net electricity sales from renewable generation by December 31, 2015, 8% by December 31, 2020, 10% by December 31, 2025, 15% by December 31, 2030 and 25% by December 31, 2035, the amount of renewable capacity to be subject to engineering and economic analysis by the Authority. Public Law 29-62 also provides that 10% of any traditional power supply that is constructed be furnished from a renewable resource. The Authority has established a program to acquire and integrate renewable generation resources into the System in order to comply with Guam Public Law 29-62 and with the Authority's 2013 IRP.

Solar

The Authority has two separate 25-year power purchase agreements with respect to the Dandan Solar Project, pursuant to which NRG Solar guarantees delivery of a minimum of 51,944 MWh in the aggregate for the first contract year, with the guaranteed minimal amount decreasing slightly each contract year thereafter. The Authority's obligation to purchase power under these agreements is contingent upon delivery.

Wind

The Authority also has a 0.275 MW wind turbine pilot project (the "**Wind Turbine Project**") that was funded with a grant from the U.S. Department of the Interior, Office of Insular Affairs. The Wind Turbine Project was commissioned in January 2016 and construction of the project was substantially completed in March 2016.

Storage

On September 22, 2015, the Authority issued its bid for the 40 MW Energy Storage System ("**ESS**") (24 MW at the Agana substation and 16 MW at the Talofofo substation). The 24 MW ESS will provide spinning reserve ancillary services. The 16 MW ESS will mitigate the intermittency of a NRG Solar PV plants and net metering customer systems. The Authority awarded the contract for this bid in May 2017 to LG CNS America Inc. The Authority expects this storage system plan will be in place by July 2018.

Phase II

On July 1, 2014, the Authority issued an additional Invitation for Multi-Step Bid (Renewable Procurement Phase II) to procure additional renewable resources. The bid was subsequently cancelled and reissued on May 12, 2016, to also include energy storage requirements for ramp controls. The Authority is currently conducting system impact studies and has petitioned for an award of up to four 30 MW solar photovoltaic proposals, each with an obligation to pay that is contingent upon delivery, and with capacity for load shifting to evening with an ESS. This bid is currently under protest and waiting determination from the Office of the Public Auditor.

Phase III

On July 28, 2016, the Guam PUC approved the Authority's lease with the Navy for approximately 192 acres of property for the sole purpose of installing approximately 37 to 40 MW of utility-scale solar PV generation, including energy storage with capability to release energy at night to reduce peak, on the property acquired by the Navy. This generation would be shared throughout the Authority's rate base. The Authority issued its Renewable Energy Acquisition Phase III for bid in November 2017 and anticipates that the bid will be awarded in summer 2018.

Renewables Integration

On October 27, 2016, the PUC, under GPA Docket 17-06, approved the Authority's request to fund the GPA-Navy Renewables Integration System Study. This study will holistically evaluate integration of all existing Renewable Energy in the grid including the 1 MW of solar on the Naval Base on Guam to date, the Authority's solar and wind projects, the Authority's net energy metering ("**NEM**") customers, and future renewable energy integration projects including 50 MW from the Navy, 160 MW from Phase II and Phase III, and an evaluation of projected additional NEM customers. The purpose of the study is to:

- Evaluate integration requirements for each group of projects on the Navy and the Authority's systems;
- Evaluate the impacts using several generation plans;
- Analyze a wide array of potential solutions to mitigate the effects of intermittent generation to the transmission and distribution systems; and

- Recommend plans to reliably integrate these renewable resources to the transmission, distribution and generation systems.

Distributive Generation

Customers may develop self-generation options, such as by installing individual solar panels. As of October 30, 2017, approximately 1,544 customers have installed individual solar panels and wind turbines, providing approximately 15.8 MW, with an annual estimated revenue impact of approximately \$2.8 million. At the end of Fiscal Year 2017 there were only 17 pending solar permits. In 2008, at the direction of the Legislature, the Authority implemented a “net metering” program under which net metering customers are credited on a “one-for-one” basis (customers are reimbursed for energy fed into the System at the same retail rate they pay for power). As a result, net metering customers are not paying all of their allocable portions of certain transmission and distribution costs. Given the relatively small number of net metering customers, however, the Authority estimates the annual impact to be less than one percent (1%) of its total operating revenues. As part of the 2011 Multi-Year Base Rate Relief filing described below, the Authority requested approval of a “net metering” charge intended to ensure appropriate recovery of costs for providing secondary and back-up power and the ability to charge reconnection fees. Although the PUC authorized the Authority to charge reconnection fees, it did not approve the Authority’s request to implement a “net metering” surcharge. The existing net metering tariff requires that the PUC may revisit the program once the number of net metering customers exceeds 1,000, which it did in 2016. The Authority and the PUC are expected to continue discussions regarding the Authority’s rate structure in 2018 to more accurately reflect the cost of distribution services. The Authority also plans to discuss issues involving net metering and the impact of renewables with stakeholders.

Liquefied Natural Gas Project

The Authority has approval from the CCU and PUC to begin the procurement of up to 180 MW of dual-fueled, combined cycle combustion turbine power plants to run as baseload plants. The Authority intends for the new plants to be initially fueled by ULSD but with capability of firing natural gas as the alternate future fuel. Although not a primary fuel, the Authority considers LNG as part of its future energy plan for fuel diversity and energy security. The Authority is currently working with various engineering and economic consultants to evaluate converting to LNG as an alternative fuel supply and to develop a plan for implementing a conversion to LNG when the economics support this addition. Project development is still in its preliminary stages; however, the Authority anticipates a long series of education and collaboration with the CCU and PUC in order to obtain approvals for LNG infrastructure investments. No assurance can be given, however, that the Authority will proceed with the development of an LNG conversion program and construction of LNG facilities.

2016 Integrated Resource Plan

In July 2016, the Authority filed its updated 2016 Integrated Resource Plan (the “**2016 IRP**”) with the PUC. The goal of the 2016 IRP is to ensure compliance with USEPA by December 31, 2021 and to provide greater unit reliability at the lowest cost option. The 2016 IRP is focused on (1) transitioning the Authority’s fuel supply from residual fuel oils to ULSD and LNG by building new facilities fueled by ULSD and/or LNG and retrofitting existing facilities to be fueled by ULSD and/or LNG and (2) retiring facilities that are too expensive to retrofit to comply with current and future USEPA requirements and are operating beyond their expected useful life.

As described above, the Authority has begun procurement for the Combined Cycle/Flexible Generation Plant, a 180 MW combined cycle facility expected to be dual-fueled by ULSD and natural gas. The Authority also plans to convert the MEC Units 8 and 9, with a combined capacity of 88 MW, to ULSD within one year of commencement of operations by the Combined Cycle/Flexible Generation Plant, by December 31, 2022. The Authority expects to retire Cabras Units 1 and 2, totaling 132 MW, by July 1, 2022. The Authority intended to retire Cabras Unit 4 (39.3 MW) and the August 31, 2015 fire rendered Cabras Unit 4 damaged beyond repair, so it will be retired. Cabras Unit 3 (39.3 MW) was also severely damaged in the fire, the Authority already intended to retire the unit, and due to the age and expense required to repair and retrofit Cabras Unit 3 to comply with current and future environmental standards, the Authority may choose to retire Cabras Unit 3 rather than rehabilitate the facility. See “—*Combined Cycle/Flexible Generation Project*.”

FUEL SUPPLY

General

The Authority is responsible for providing fuel for all of its generating resources, including those owned and operated by private contractors. Essentially all of the Authority's generating resources are fired with fuel oil products (residual fuel oil No. 6, which comprises approximately 98% of the Authority's fuel source, and fuel oil No. 2). In Fiscal Year 2017, the Authority purchased three million barrels of oil products, 52.2% of those classified as residual fuel oil (high sulfur), 18.9% low sulfur fuel oil, and 28.8% diesel. The Authority has a program to adjust rates quarterly to address changes in fuel costs known as the Levelized Energy Adjustment Clause (the "**LEAC**"), and has embarked on a fuel price hedging program, which is discussed further herein, and maintains a dedicated \$35 million bank facility for fuel payments. Fuel cost is the most significant element of the Authority's costs. See "**RATES—Levelized Energy Adjustment Clause**" and "**FINANCIAL MATTERS—Outstanding Indebtedness—Short-Term Debt.**"

Fuel Oil Supply Contracts

The Authority receives approximately one tanker per month of residual fuel oil for generation. The Authority has approximately 90 days' storage capacity for both high-sulfur and low-sulfur residential fuel. As a result, between its two fuels, the Authority generally has from 45 to 90 days' fuel supply on hand at any given time. The price paid by the Authority for its fuel 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.

The Authority has entered into three contracts for the purchase of fuel for its generation facilities, each described below.

In August 2013, the Authority entered into a two-year fuel purchase contract with Hyundai Corporation, a South Korea-based company ("**Hyundai**"), for the purchase of residual fuel oil No. 6 for the Authority's baseload plants. The original term of this contract expired on August 31, 2015; however, the parties mutually agreed to renew the contract for three additional one-year terms. The minimum purchase under the contract is two million barrels per year. For the 12 months ended December 30, 2016, the Authority took delivery of approximately 1.92 million barrels of oil under the contract at a cost of approximately \$80 million. This represents approximately 71% of the Authority's usage in terms of barrels consumed.

In January 2015, the Authority entered into two, three-year purchase contracts with Isla Petroleum and Energy Holdings, LLC Guam ("**IP&E**"), and with Mobil Oil Guam, Inc. ("**Mobil**"), for diesel fuel oil No. 2 to supply the Authority's CTG units, diesel units and emergency standby generators. For the 12 months ended December 31, 2016, the Authority took delivery of approximately 106,000 barrels and 742,000 barrels of fuel from IP&E and Mobil, respectively, at costs of approximately \$6.8 million and \$43.8 million, respectively. The original terms of these contracts expire on December 31, 2017. The Authority is currently soliciting new contracts for fuel supply and expects to award new contracts by June 2018 that will address the increase in demand for ULSD.

The recent loss of two baseload units (Cabras Units 3 and 4) has also increased the dispatching of the Authority's Peaking Units, fired with Ultra-Low Sulfur Diesel ("**ULSD**") fuel. This has increased the utility's ULSD consumption up to 28.4% of the total fuel consumption, whereas before, the percentage was as low as 3.1% in the year prior to the loss. The Authority has contracted with two local fuel supply and delivery companies for the supply and delivery of ULSD to its various peaking plants. However, because of the urgent and significant increase in demand that may occur with unexpected baseload outages, the Authority has also started to store up to 100,000 barrels of additional ULSD.

Fuel Price Risk Management Program

The Authority has established, with PUC approval, a fuel hedging program utilizing financial derivative transactions known as a "Zero Cost Collar Option" to mitigate a portion of its exposure to fuel price fluctuations. In

the last few years, the Authority has not executed hedge under its program given the low and relatively stable prices. Nevertheless, the Authority's risk management program is always in place and being evaluated.

The Authority last updated the fuel hedging program in January 2012 with the assistance of Leidos to base its hedging decisions on a statistical model that estimates volatility of the fuel markets and recommends changes in hedging position. The process and authorization were approved by the PUC in March 2012. The program is designed to identify future consumer exposure to movements in fuel prices and quantify the impact and mitigate the negative effect of these exposures. The program employs additional financial instruments and the use of the statistical model to measure risk and gauge the need to establish or modify hedges. Its design requires ongoing monitoring of changing parameters and the timely implementation of proposed strategies. Based on model results, the Authority makes decisions on how much, when and what hedge instruments to use. Leidos continues to provide ongoing technical and auditing support as the Authority continues to implement and improve the program.

The Authority's approach entails the measurement of fuel price changes and entering into hedges if the risks of price changes are projected to be beyond those deemed tolerable by the Authority's management. More specifically, the Authority uses a best-practice Value-at-Risk ("VaR") approach that measures potential price movement within a 12-month horizon and a 95% confidence interval. This potential movement is then factored into customer rate increases and compared against the risk that rates for customers may increase if prices of fuel are not hedged.

The Authority's general strategy is to evaluate hedging opportunities three to 12 months forward to lock in fixed prices for a portion of its fuel supply. The Authority's fuel hedging transactions entail risk to the Authority. The market value of the fuel hedging transactions will fluctuate with prevailing oil prices. 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. The Authority believes that, while a 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.

During periods of fuel price volatility, the Authority may be required to post collateral in the event the market value of the hedging transactions declines. The Authority has not had any margin or collateral calls since 2009.

The Authority has entered into International Swaps and Derivatives Association agreements with J. Aron & Company ("J. Aron"), a subsidiary of The Goldman, Sachs Group Inc., and Australia and New Zealand Banking Group Limited ("ANZ Bank") to execute the prior trades. As of December 1, 2017, Goldman Sachs Group Inc. was the guarantor of J. Aron's obligations under its fuel hedging agreement. The Authority does not currently have any International Swaps and Derivatives Association agreements and has no net position to either counterparty.

The Authority also competitively bids the counterparties against each other for better pricing options. The counterparties also provide market prices to update the models that measure the risk exposure tolerable for the Authority. As of December 1 2017, the Authority does not have any fuel hedge transactions in place.

Under the Authority's current fuel hedging agreements, the thresholds that govern the Authority's collateral posting requirements have been modified to reduce the frequency and amount of collateral required to be posted by the Authority. The Authority's current fuel hedging agreements permit the Authority to trade within a credit limit of \$15,000,000 without posting collateral. If the Authority were to exceed this amount, or if the Authority's credit ratings were substantially downgraded, the Authority may be required to post collateral. Under the fuel hedging agreement with J. Aron, the Authority is only required to post collateral if the amount exceeded \$15,000,000. ANZ Bank has agreed that it will not require the Authority to post collateral. There can be no assurance that requirements to post collateral in the future will not, however, materially adversely affect the financial condition of the Authority.

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 (if applicable), 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 hedge, 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.

TRANSMISSION AND DISTRIBUTION SYSTEM

General

The Authority is responsible for the transmission, distribution, metering and accounting of electrical power to consumers on Guam. The Authority operates and maintains overhead and underground power lines and associated hardware, substation equipment, energy/revenue meters and relay protective devices. In addition, the Authority provides new power installations, line extensions, work clearances and miscellaneous power-related services to its customers. The Authority's power delivery system includes 29 substations connected through approximately 189 miles of 115 kV and 34.5-kV transmission lines. The substations supply 67 distribution feeders with approximately 1,600 miles of distribution primary and secondary lines, more than 42% of which is rated 13.8 kV. Power delivery is controlled from the Power System Control Center (the "PSCC"). The power delivery system also includes other buildings, equipment, stores and related facilities.

System Resilience

Over the last 15 years, the Authority has undertaken several comprehensive steps to strengthen the resilience of its System. In 2002, the Authority received funding from the Federal Emergency Management Agency ("FEMA") 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 undergrounding 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 CT.

The Authority has an ongoing program to replace wooden electric utility poles with concrete poles that are more resistant to high winds. Currently, approximately 32,000 of Guam's 36,000 power lines are steel or concrete. This program is ongoing as 300 poles have been converted in 2017.

In addition to more resistant electric poles, the Authority has expanded the undergrounding of certain transmission and distribution lines; the use of concrete buildings to house its permanently installed generating units; and the installation of 208 standby diesel generators (of which 196 are currently in use) and four trailer-mounted diesel generators to provide backup power for GWA's municipal water pumps, sewer lift pumps and two large sewer treatment plants. As of November 2017, approximately 60% of the System's load (in key business areas and high density residential regions) is served through underground infrastructure; 129 miles (18%) of primary lines are underground; and approximately 88% of distribution poles are made of concrete or steel.

As part of these efforts, the Authority is continuing implementation of its village underground hybrid system, which involves placing secondary lines underground. The Authority has completed several such projects, with an aggregate cost of approximately \$41.4 million, and is scheduled to complete an additional project in December 2018, with an aggregate cost of \$2.5 million, and several additional projects scheduled to be completed between September 2019 and September 2022, with an aggregate cost of approximately \$49.9 million.

The Authority maintains inventory of essential transmission and distribution equipment on the island.

Although the Authority believes these undergrounding projects and other projects will provide for improved service to those customers served and will mitigate revenue losses due to typhoons and other natural disasters, no assurance can be given that natural disasters will not materially adversely affect the operations and/or financial condition of the Authority. To mitigate any sudden financial burden to the Authority that may result from

any natural calamity, the Authority maintains a balance of approximately \$20 million in self-insurance funds. See “RATES—Surcharges—*Self-Insurance Fund Surcharge*” and “OTHER MATTERS—Insurance; Self-Insurance Fund.”

Smart Grid Projects

The Authority has installed new smart meters for customers in its System. Since 2010, the Authority has completed several “smart grid” projects, including advanced meter infrastructure, electric smart meters, network communications, meter data management system, geographical information system, substation automation, broadband communication, outage management system, back office infrastructure, improved cybersecurity and an e-portal. These improvements have resulted in reducing the duration of outages increasing efficiency in delivering power, as well as in increased customer satisfaction. The Authority entered into a contract with Benson Guam Enterprises, Inc. (“**Benson**”) for the installation and commissioning of a supervisory control and data acquisition (“**SCADA**”) system in December 2016 and is currently working with Benson on system architecture and compliance with the Authority’s cybersecurity requirements. The Authority anticipates that the project will be completed by the fourth quarter of 2018.

AUTHORITY CUSTOMERS

General

The Authority serves a population of approximately 163,000 people with a 2017 peak demand of 261 MW and 2017 energy sales of 1.6 million MWh. The Authority’s larger customers include the Navy, various components of the Government of Guam and the shopping and hotel industry. For Fiscal Year 2017, small commercial and government customers purchased 384,731 MWh of power, accounting for \$88,453,000 (or 26.7%) of revenue; large commercial and government customers (including Independent Power Producers) purchased 390,475 MWh of power, accounting for \$81,368,000 (or 24.6%) of revenue; residential customers purchased 506,336 MWh of power, accounting for \$100,602,000 (or 30.4%) of revenue; the Government and private outdoor lighting customers purchased 9,965 MWh of power, accounting for \$5,746,000 (or 1.7%) of revenue, and the Navy purchased 318,586 MWh of power, accounting for \$54,905,000 (or 16.6%) of revenue.

Historical Energy Requirements

Table 4 below shows historical customers, energy sales, peak demand and Revenues for Fiscal Years 2013 through 2017. The information for Fiscal Year 2017 is based on preliminary, unaudited financial information, and such information is subject to year-end adjustment and audit.

From Fiscal Year 2013 to Fiscal Year 2017, the Authority’s peak demand load increased from 257 MW to 261 MW, or by a compounded annual rate of 0.4%. During the same period, the Authority’s energy sales increased from 1,566,410 MWh to 1,610,093 MWh, or by a compounded annual rate of 0.7%. The average number of total customers during this same period increased from 48,598 in Fiscal Year 2013 to 50,843 in Fiscal Year 2017, or by a compounded annual rate of 1.1%. In the aggregate, the usage per customer increased during this same period. Specifically, the usage per residential customer increased from approximately 923 kWh/month in Fiscal Year 2013 to approximately 964 kWh/month in Fiscal Year 2017 and usage per customer (excluding the Navy and outdoor lighting) increased from approximately 2,100 kWh/month in Fiscal Year 2013 to approximately 2,133 kWh/month in Fiscal Year 2017 although the usage per customer (including the Navy and outdoor lighting) decreased from approximately 2,686 kWh/month in Fiscal Year 2013 to approximately 2,639 kWh/month in Fiscal Year 2017.

Table 4
Historical Customers, Energy Sales, Peak Demand and Revenues
Fiscal Years 2013-2017

Fiscal Year Ending September 30:	2013	2014	2015	2016	2017
Number of Customers (Average)					
Residential	41,708	41,993	42,590	43,252	43,756
Small Commercial/Government	5,966	6,011	6,056	6,100	6,143
Large Commercial/Government	191	196	176	160	161
Independent Power Producer	3	3	3	2	3
Government/Private Streetlight & Outdoor Lighting	729	714	705	692	779
Navy	1	1	1	1	1
Total Customers	48,598	48,918	49,531	50,207	50,843
Energy Requirements (MWh):					
Energy Sales					
Residential	462,163	457,812	461,569	487,023	506,336
Small Commercial/Government	376,269	373,591	367,977	377,602	384,731
Large Commercial/Government	367,187	364,895	379,873	378,890	389,471
Independent Power Producers	639	799	610	768	1,004
Government/Private Streetlight & Outdoor Lighting	12,001	11,998	12,165	11,974	9,965
Navy	348,151	324,228	317,393	318,083	318,586
Total Energy Sales	1,566,410	1,533,324	1,539,587	1,574,339	1,610,093
System Losses ⁽¹⁾	103,038	86,468	87,722	78,281	83,949
Total System Energy Requirements ⁽²⁾	1,669,448	1,619,792	1,627,309	1,652,620	1,694,042
Peak Demand (MW) ⁽³⁾	257	249	255	258	261
Base Rate and LEAC Revenues (000's)					
Residential	\$125,932	\$125,023	\$105,533	\$92,057	\$100,602
Small Commercial/Government	120,461	118,377	98,437	83,517	88,453
Large Commercial/Government	110,062	108,089	93,776	76,241	81,157
Independent Power Producers	206	251	178	160	211
Government/Private Streetlight & Outdoor Lighting	7,469	7,400	6,676	5,728	5,746
Navy	84,899	75,323	61,586	49,193	54,905
Total Base Rate and LEAC Revenues	\$449,029	\$434,463	\$366,186	\$306,897	\$331,074
Usage/Customer-w/ Navy and Lighting (kWh)	32,205	31,345	31,083	31,357	31,668
Usage/Customer-w/o Navy and Lighting (kWh)	25,200	24,835	24,783	25,130	25,599
Usage/Residential Customer/Month (kWh)	923	909	903	938	964
Customer Growth	--	--	--	--	1.1%
Energy Growth	--	--	--	--	0.7%
Demand Growth	--	--	--	--	0.4%
Navy	--	--	--	--	-2.1%

⁽¹⁾ Includes transmission losses and distribution losses.

⁽²⁾ Reflects total net generation of the System excluding station use.

⁽³⁾ Reflects total gross peak demand of the System.

Source: Guam Power Authority Fiscal Years 2013-2016 Audited Financial Statements and Fiscal Year 2017 Unaudited Financial Statements.

Civilian Energy Sales

From Fiscal Years 2013 through 2017, civilian energy sales, including the residential, small commercial and government and large commercial and government (including Independent Power Producers) customer classes, constituted approximately 79.2% and 82.9% (5-year averages) of the Authority's total energy sales and revenues, respectively. During the same period, civilian energy sales increased at a compounded annual rate of 1.5% and revenues from civilian energy sales decreased at a compounded annual rate of 6.7%.

Power Sales to the U.S. Military

U.S. Military Energy Sales. Energy sales to the Navy for Fiscal Years 2013 through 2017 accounted for approximately 20.8% (5-year average) of the Authority's total annual energy sales during such period, and Revenues generated from sales to the Navy during the same period accounted for 17.1% (5-year average) of the Authority's total annual revenues during such period. Energy sales to the Navy decreased from 348,151 MWh in Fiscal Year 2013 to 318,586 MWh in Fiscal Year 2017, at a compounded annual rate of 2.2%. Total revenues from the Navy decreased from \$84,899,000 in Fiscal Year 2013 to \$54,905,000 in Fiscal Year 2017, at a compounded annual rate of 10.3%. For the Fiscal Year 2017, the Navy was the Authority's largest customer, accounting for approximately 16.6% of the Authority's energy sales revenues.

Agreements with the Navy. 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. On July 31, 2012, the Authority, the Department of Defense ("DoD"), the Navy and other interested parties finalized a new Utility Services Contract (the "**Utility Services Contract**") to replace the expiring customer services agreement. The Utility Services Contract went into effect on August 1, 2012 and is scheduled to expire on July 31, 2022, subject to early termination by the Navy in accordance with its terms. The Utility Services Contract is expected to provide approximately \$800 million in revenue to the Authority over its term, based on Fiscal Year 2012 use and rate projections, and to result in approximately \$120 million in additional system assets being transferred to the Authority. Under the Utility Services Contract, the Authority continues as the Navy's only power provider (with the Navy continuing to act as a transmission-level cost-of-service customer at rates approved by the PUC). The Utility Services Contract continues the asset transfers under the terms and conditions previously set forth in the prior customer services agreement, retains the Authority's use of Navy assets and real property and allows for Navy easements and facilities to serve the Authority's customers when necessary. The Utility Services Contract also covers the proposed U.S. military build-up on Guam, providing that any capital additions to the Authority's System that are necessary to support the expected military build-up are not to be paid for by the Authority. If necessary, the Authority may finance such improvements, so long as any associated debt service is paid for only by military ratepayers.

The Utility Services Contract requires the Navy to continue to make weekly fuel payments, maintaining a minimum contract demand (but eliminating maximum limits), and requires that the Navy pay within 15 days of invoice presentation and be subject to late payment charges. The termination liability includes debt incurred during the previous contract period and adds the ability for the Authority to seek additional compensation from the Navy subject to PUC approval.

Top Ten Customers

Table 5 below sets forth the Authority's ten largest customers by energy sales revenues for Fiscal Year 2017. The information for Fiscal Year 2017 is based on preliminary, unaudited financial information, and such information is subject to year-end adjustment and audit.

Table 5
Largest Customers by Energy Sales Revenues
Fiscal Year 2017

Customer	Industry	Energy Sales (kWh)	Energy Sales Revenues
Navy	Military	318,585,901	\$54,904,634
Guam Waterworks Authority	Utilities	52,783,153	12,071,351
Department of Education	Government Agency	46,334,012	11,660,165
Guam International Airport Authority	Transportation	25,841,391	5,193,692
Pacific Island Club	Hotel	16,007,645	2,890,301
Hyatt Regency Guam	Hotel	11,470,043	2,076,512
Guam Healthcare Development Inc.	Hospital	11,161,742	2,069,887
Guam Memorial Hospital	Hospital	8,750,360	1,833,122
Sheraton Laguna Guam	Hotel	8,575,546	1,579,429
Pacific Star Resort and Spa	Hotel	8,482,578	1,544,191
Total		507,992,371	\$95,823,286
% of Authority Total (Annual Basis)		32%	29%
Total Revenues		1,610,093,011	\$331,074,056

Source: Guam Power Authority Fiscal Year 2017 Unaudited Financial Statements.

Conservation Programs

Demand-Side Management Program. The Authority launched its Demand-Side Management program on December 1, 2015. The program includes rebates to customers who purchase energy efficient appliances, including energy efficient ductless split air conditioning, central air conditioning and washers and dryers. The Authority is currently working with local vendors to certify additional products, including commercial rooftop air conditioning, outdoor lighting and water heaters. The Authority has reserved approximately \$1.8 million for this program and total rebates through the end of Fiscal Year 2017 have totaled over \$868,000.

Impact of New Development on Customer Base

Civilian Development. In recent years, the Authority has added several large customers, including the Guam Regional Medical Facility and several large hotels and resorts, such as the Dusit Thani Hotel. As development in the tourism and retail sectors increases, including several hotels expected to open by 2020, the number of commercial customers will also increase. See APPENDIX A—"GENERAL INFORMATION REGARDING THE TERRITORY OF GUAM."

Potential Impact of U.S. Military Build-Up. The U.S. military has a significant impact on the economy of Guam through the employment of civilian personnel, construction contracts and purchasing of material and services, and Federal income taxes paid by military personnel which are remitted to the Government of Guam. In 2010, the Authority, the CCU, the Navy and the DoD entered into a Memorandum of Understanding in connection with the expected increase in Navy power requirements resulting from the relocation to Guam of a portion of the U.S. military base on Okinawa, Japan. In September 2010, the Navy signed a Record of Decision (the "2010 ROD") regarding the 2010 Final Environmental Impact Statement (the "EIS") for Guam and the Commonwealth of the Northern Mariana Islands Military Relocation, among other things. In the months and years following issuance of

the 2010 ROD, the Navy and the DoD made various decisions that caused the Navy to supplement the EIS. In July 2015, the DoD released the Supplemental Environmental Impact Statement (the “SEIS”) for the purpose of supplementing the portions of the EIS regarding the establishment on Guam of a cantonment (main base) area, family housing, a live-fire training range complex, and associated infrastructure to support the relocation of a substantially reduced number of marines and dependents than was previously analyzed. On August 29, 2015, a record of decision based on the SEIS (the “2015 ROD”) was released, which identifies the final locations for additional bases and facilities to accommodate the relocation of approximately 4,700 marines from Okinawa and Iwakuni to Guam. The proposed U.S. military build-up now is not expected to occur until after 2018, with an anticipated construction period of approximately 13 years. The DoD recently awarded a \$28,000,000 contract for the new construction of a 34.5 kV underground electrical transmission line and related system needs using Fiscal Year 2017 funds. The Authority expects that related power transmission and substation infrastructure will be funded by the DoD. As a result of the proposed military build-up, the Authority expects that revenues will increase. See also APPENDIX A—“GENERAL INFORMATION REGARDING THE TERRITORY OF GUAM—Military Personnel.”

RATES

General Rate Setting

Rates for electric service are established by the CCU, which acts as the Authority’s Board of Directors, and are regulated by the 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 and charges for services that are reasonable and 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; however, rates must always be sufficient to satisfy the rate covenants set forth in the Senior Indenture.

See “SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS—Senior Rate Covenant.”

The Authority rate structures consists of a base rate, which includes fixed costs and non-fuel related operating and maintenance expenses, and a charge permitting the Authority to recover 100% of the cost of fuel and fuel-related costs in its rates through the Levelized Energy Adjustment Clause (“LEAC”) component. The Authority has also from time to time charged, and may in the future charge, various surcharges to address certain costs.

Table 6 below sets forth the various components of the charges for a residential customer using 1,000 kilowatt hours (kWh) of energy in a month, effective as of September 30, 2017. The average residential customer uses approximately 964 kWh per month.

Table 6
Representative Monthly Charges for Residential Customer
Fiscal Year 2017

	<u>Unit Cost</u>	<u>Monthly Cost</u>
kWh		1,000
Fixed Monthly Charge	\$15.00	\$15.00
Non-Fuel Energy Charge		
First 500 kWh (per kWh)	0.06955	34.78
Over 500 kWh (per kWh)	0.08687	43.44
Emergency Water-Well Charge ⁽¹⁾	0.00279	1.40
Self-Insurance Surcharge (per kWh) ⁽²⁾	--	--
Working Capital Surcharge (per kWh) ⁽³⁾	--	--
Subtotal (not including LEAC)		<u>\$ 94.61</u>
LEAC (per kWh) ⁽⁴⁾	0.117718	<u>\$117.72</u>
Total		<u><u>\$212.32</u></u>

⁽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 and wastewater facilities.

⁽²⁾ Implemented until self-insurance funding is restored to authorized minimum level. The surcharge was deactivated in September 2015, when the \$20 million cap was reached. See "RATES—Surcharges—*Self-Insurance Fund Surcharge*" and "OTHER MATTERS—Insurance; Self-Insurance Fund."

⁽³⁾ This surcharge was deactivated in October 2015 when the 2010 Subordinate Debt was paid off.

⁽⁴⁾ New LEAC rate effective August 1, 2017 approved by PUC under GPA docket 17-19 on July 27, 2017. See "—Levelized Energy Adjustment Clause."

Source: Guam Power Authority.

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Base Rates

Since 2008, the Authority has petitioned the PUC four times for base rate increases. Since then, the PUC has granted at least a portion of the Authority's request and enabled the Authority to satisfy the rate covenants and debt service coverage requirements required under the Senior Indenture. Although the PUC has historically granted at least a portion of the Authority's requests since 2008, no assurance can be given that the PUC will grant future requests by the Authority. Table 7 below shows for Fiscal Years 2008 through 2017 the effective date of base rate increases, the requested base rate increase, the approved base rate increase and the principal reasons for such base rate increases.

Table 7
Historical Base Rate Increases
Fiscal Years 2008-2017

Effective Date of Base Rate Increases	Requested Base Rate Increase	Approved Base Rate Increase	Principal Reason for Base Rate Increase
March 1, 2008 ⁽¹⁾	13.10%	8.53%	Phase I of updated revenue requirements and cost of service study performed in 2008.
March 1, 2010	11.20%	7.44%	Phase II of updated revenue requirements and cost of service study performed in 2008.
May 1, 2012	11.80%	6.00%	Revenue requirements and cost of service study performed in 2011.
December 1, 2012	-6.00%	-6.00%	"Rollback" of base rate increase received in May 2012, totaling \$9.1 million, to compensate ratepayers for the debt service savings gained from 2012 bond issuances. The "rollback" was in effect for 10 months.
October 1, 2013	7.30%	6.00%	Base rate increase to cover reductions in load and rising costs.

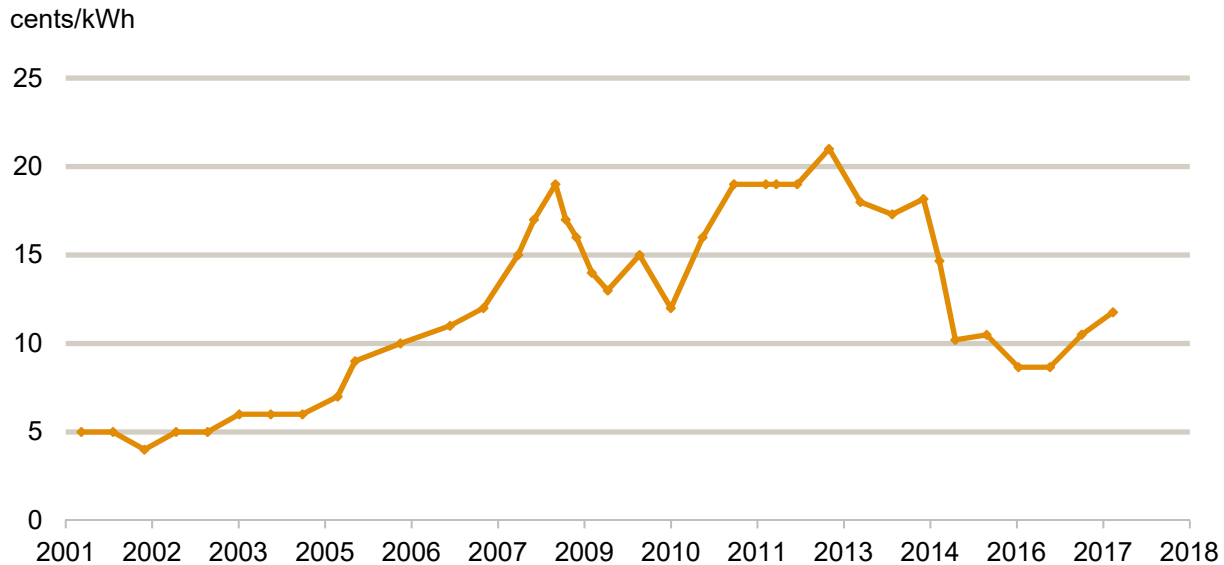
⁽¹⁾ Initially applied to Navy customer class; applied to other customer classes effective March 1, 2009.
Source: Guam Power Authority.

In November 2011, the Authority petitioned the PUC for a multi-year base rate increase (the "**2011 Multi-Year Base Rate Relief Filing**"). In accordance with the PUC orders approving in part the 2011 Multi-Year Base Rate Relief Filing, the Authority submitted in April 2013 its petition for a base rate increase for Fiscal Year 2014 of 7.3%. The Authority also requested adoption of four rate design proposals, including, among other things, increasing kW-based demand rates, increasing customer charges on all rate schedules (excluding residential) and moving residential and commercial rates closer to rate parity. On September 24, 2013, the PUC issued its rate decision approving an overall 6% base rate increase, effective as of October 1, 2013.

Levelized Energy Adjustment Clause

The Authority is entitled to recover 100% of the cost of fuel and fuel-related costs in its rates through the LEAC. LEAC adjustments to rates generally go into effect in August and February and are structured and set to recover costs within six months. The Authority is generally required to file before the PUC any proposed adjustments 45 days prior to the effective date of the proposed LEAC adjustment. The Authority can petition for an interim LEAC adjustment prior to the next scheduled biannual adjustment, however, if the Authority's projected over/under recovery amount of fuel costs exceeds \$2 million. Each time the Authority has petitioned for such an interim adjustment (seven times since 2006), the PUC has heard the petition within 30 days and granted the Authority's request. As of August 1, 2017, the LEAC charge is \$0.117718/kWh. The Authority plans to file a proposed adjustment with the PUC for an adjustment effective February 1, 2018. The following chart shows the 38 adjustments to the LEAC since 2001.

LEAC Adjustments Fiscal Years 2001-2017



Source: Guam Power Authority.

Surcharges

Self-Insurance Fund Surcharge. As discussed below, the rates charged by the Authority include a surcharge to fund the Authority’s Self-Insurance Fund. The Self-Insurance Fund is replenished by a surcharge reflected in customer billings. The surcharge is automatically discontinued once the balance in the Self-Insurance Fund reaches the maximum level approved by the PUC (currently \$20 million), which occurred in September 2015, and is reinstated if the amount in the Self-Insurance Fund drops below \$18 million. As of September 30, 2017, the balance in the Self-Insurance Fund was approximately \$19.3 million. See “OTHER MATTERS—Insurance; Self-Insurance Fund.”

Working Capital Fund Surcharge. In June 2011, the PUC established a Working Capital Fund Surcharge to provide a funding source for the Authority to ensure the replenishment of the Working Capital Fund over a 24-month period. In May 2012, the PUC approved increasing the Working Capital Fund Surcharge to reflect the increase in the fuel portion of the Authority’s working capital requirements, which increase was to be amortized over a 42-month period rather than over the period remaining prior to the scheduled expiration date of September 30, 2015. The Authority discontinued this surcharge in October 2015. See “FINANCIAL MATTERS—Liquidity and Working Capital Fund.”

Water Well Surcharge. The rates charged by the Authority include an “Emergency Water Well and Wastewater” surcharge to recover the cost associated with the financing, operation and maintenance of standby electric generators dedicated to the water wells and wastewater facilities of the Guam Water Authority. As of December 1, 2017, the Emergency Water Well and Wastewater surcharge is \$0.00279 per kWh.

Other Surcharges. The Authority has from time to time, and may in the future, petition the PUC to permit it to charge surcharges to address other costs. For example, in March 2011, the Authority received an invoice from the Government of Guam Department of Administration for \$12.25 million, representing annual assessments for Fiscal Years 1998 through 2011 relating to certain requested revenue transfers. In September 2013, the Authority received another invoice for \$875,000 from the Chamorro Land Trust Commission relating to the same annual assessment. The Authority obtained approval from the CCU to offer the Department of Administration a settlement amount of \$2.6 million, conditioned upon PUC approval of a surcharge to recover the assessment from ratepayers.

As of December 1, 2017, the PUC has not approved such an assessment. See APPENDIX B—“FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS’ REPORT FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015,” Note 9.

Comparative Rates

Table 8 below shows a comparison of average monthly electric bills for selected residential, commercial and large customer loads to bills charged by certain other public and private electric utilities, which are island-based (and therefore not interconnected with other electric utilities) and dependent primarily on oil-fired generation.

Table 8
Average Monthly Electric Bills
As of October 1, 2017 (U.S. Dollars)

	Residential (1,000 kWh)	Commercial (25 kW, 16,000 kWh)	Large Customer/ Industrial (300 kW, 200,000 kWh)
Guam Power Authority ⁽¹⁾	\$212.32	\$3,796.53	\$43,979.95
The Barbados Light & Power Co., Ltd. ⁽²⁾	273.98	4,244.47	49,980.31
Commonwealth Utility Corp. (Saipan)	246.26	4,519.76	56,382.00
Hawaii Electric Light Co., Inc.	403.96	5,142.48	58,422.00
Kauai Island Utility Cooperative	343.90	5,020.90	59,003.38
Maui Electric Company, Ltd.	257.21	3,404.98	39,614.86
Virgin Islands Water & Power Authority	347.92	6,228.51	64,808.98

⁽¹⁾ Rates effective October 1, 2017.

⁽²⁾ Converted to U.S. Dollars using foreign exchange rates as of November 15, 2017. Rates include value added taxes (VAT).

Source: Guam Power Authority.

FINANCIAL MATTERS

Historical Operating Results

Table 9 below sets forth the Authority’s historical operating results and debt service coverages for Fiscal Years 2013 through 2017. The information for Fiscal Year 2017 is based on preliminary, unaudited financial information, and such information is subject to year-end adjustment and audit.

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Table 9
Historical Operating Results and Debt Service Coverage (Cash Basis)
(\$000)

Fiscal Year Ending September 30:	2013	2014	2015	2016	2017 ^(*)
Operating Revenues:					
Energy Sales Revenues	\$449,029	\$434,462	\$366,185	\$306,897	\$331,074
Additional Revenue from Future Rate Increases	0	0	0	0	0
Other Electric Revenues	2,927	2,156	4,775	2,294	2,245
Total Operating Revenues	<u>\$451,956</u>	<u>\$436,618</u>	<u>\$370,960</u>	<u>\$309,191</u>	<u>\$333,319</u>
Operating Expenses:					
Power Supply Costs ⁽¹⁾	\$337,746	\$311,112	\$242,619	\$178,975	\$204,144
Transmission and Distribution Expenses	13,368	12,950	11,170	10,816	11,704
Customer Accounting ⁽²⁾	5,101	3,999	4,739	5,492	4,756
Administrative and General	31,590	28,393	21,908	29,058	26,801
Total Operating Expenses	<u>\$387,805</u>	<u>\$356,454</u>	<u>\$280,436</u>	<u>\$224,341</u>	<u>\$247,405</u>
Amounts Available for Debt Service					
Net Operating Revenues	\$64,151	\$80,164	\$90,524	\$84,850	\$85,913
Interest/Other Income (Expense) ⁽³⁾	720	157	256	57	(32)
Balance Available for Debt Service	<u>\$64,871</u>	<u>\$80,321</u>	<u>\$90,780</u>	<u>\$84,907</u>	<u>\$85,881</u>
Senior Lien Debt Service ⁽⁴⁾					
Existing Senior Lien Debt Service	\$19,306	\$25,454	\$25,096	\$25,106	\$30,532
Future Bonds	0	0	0	0	0
Total Senior Lien Debt Service	<u>\$19,306</u>	<u>\$25,454</u>	<u>\$25,096</u>	<u>\$25,106</u>	<u>\$30,532</u>
Senior Lien Coverage Pursuant to Senior Indenture ⁽⁵⁾	3.36	3.16	3.62	3.38	2.81
IPP Operated Resources – Lease Payments Capital	<u>\$23,084</u>	<u>\$23,084</u>	<u>\$26,622</u>	<u>\$20,790</u>	<u>\$26,405</u>
Balance Available for Debt Service	<u>\$41,787</u>	<u>\$57,237</u>	<u>\$64,158</u>	<u>\$64,117</u>	<u>\$59,476</u>
Coverage of Senior Lien Debt by Balance Available for Debt Service after paying IPP Capital ⁽⁶⁾	2.16	2.25	2.56	2.55	1.95
Amount Available after Senior Lien Debt and IPP Capital	\$22,481	\$31,783	\$39,062	\$39,011	\$28,944
Subordinate Lien Debt Service					
2010 Subordinate Bonds ⁽⁴⁾	<u>\$15,163</u>	<u>\$15,193</u>	<u>\$9,604</u>	<u>\$0</u>	<u>\$0</u>
Total Subordinate Lien Debt Service	<u>\$15,163</u>	<u>\$15,193</u>	<u>\$9,604</u>	<u>\$0</u>	<u>\$0</u>
Subordinate Lien Coverage Pursuant to Subordinate Indenture ⁽⁶⁾	1.88	1.98	2.62	n/a	n/a
Subordinate Lien Coverage after paying IPP Capital ⁽⁶⁾	1.21	1.41	1.85	n/a	n/a
Total Debt Service Coverage after paying IPP Capital ⁽⁶⁾	1.21	1.41	1.85	2.55	1.95

* Information for Fiscal Year 2017 is based on actual unaudited data.

⁽¹⁾ Excludes capital component of lease payments under the Energy Capital Leases. These amounts are reflected in IPP Operated Resources – Lease Payment Capital.

⁽²⁾ Includes bad debt recovery or expense.

⁽³⁾ Includes interest earned on investment less Construction fund interest/deferred interest earned.

⁽⁴⁾ Amounts shown reflect interest payment paid through the capitalized interest account through Fiscal Year 2013 for the 2010 Senior Bonds and Debt Service Reserve Fund applied in Fiscal Year 2015 for the 2010 Subordinate Bonds.

⁽⁵⁾ Calculated based on a net revenue basis. Excludes capital component of lease payments under the Energy Capital Leases. These amounts are reflected on IPP Operated Resources – Lease Payments Capital.

⁽⁶⁾ Calculated based on a net revenue basis.

Source: Guam Power Authority.

Outstanding Indebtedness

Outstanding Bonds. As of the date of delivery of the 2017A Senior Bonds, the Senior Bonds will be outstanding in the aggregate principal amount of \$563,190,000 (after taking into account the issuance of the 2017A Senior Bonds and the defeasance of the Refunded Bonds). The debt service requirements with respect to the Senior Bonds are set forth in “DEBT SERVICE REQUIREMENTS.” No Subordinate Bonds are currently outstanding under the Subordinate Indenture; however, the Authority may in the future issue additional subordinate bonds under the Subordinate Indenture or under a separate indenture.

Short-Term Debt. The Authority maintains a letter of credit facility under which the Authority is authorized to borrow up to \$35 million for the purpose of assuring its residual 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 \$13 to \$16 million to make payments for fuel deliveries in such month, and then reimburses the provider in the same month. Any letter of credit issued under the fuel letter of credit facility is an unsecured obligation of the Authority, payable as a Maintenance and Operation Expense. The current fuel letter of credit facility provided by ANZ Bank is scheduled to expire in August 2019, with the option to renew for three additional one-year terms.

Certain Payments Pursuant to Energy Capital Leases. As described in “SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS—Energy Capital Leases,” TEMES Unit 7 was constructed and previously owned and operated by TEMES under the TEMES Capital Lease until ownership of the facility was transferred to the Authority at no additional cost on December 5, 2017. In addition, MEC Units 8 and 9 were constructed and are currently owned and operated by MEC, an Independent Power Producer, under the MEC Capital Lease. Ownership of MEC Units 8 and 9 will revert to the Authority at no additional cost at the end of the term of the MEC Capital Lease, currently scheduled to occur in January 2019. The Authority’s payments under the MEC Capital Lease include both an operating and maintenance component and a capital component. The operating and maintenance components are payable as Maintenance and Operation Expenses of the Authority, and the capital components are payable from Revenues, subordinate to the prior payment of Senior Bonds and the Subordinate Bonds and to the deposits and transfers described above under “—Senior Bonds—Security for the Senior Bonds.” As of December 1, 2017, the aggregate amount of the remaining capital payments under the MEC Capital Lease is approximately \$19.7 million. The final capital payment under the MEC Capital Lease is scheduled to occur in Fiscal Year 2019. See “SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS—Energy Capital Leases” and APPENDIX B—“FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS’ REPORT FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015,” Note 5.

Financial Contracts and Investments

Approximately \$13.7 million of the Senior Bond Reserve Fund allocable to the Series 2012 Senior Bonds is invested pursuant to the forward delivery agreement, dated as of September 28, 2000, as amended as of October 1, 2012 (collectively, the “**BofA Forward Delivery Agreement**”), by and among the Senior Co-Trustee, the Authority and Bank of America, N.A. (“**BofA**”). The BofA Forward Delivery Agreement is currently scheduled to terminate on October 1, 2034. In connection with the execution and delivery of the BofA Forward Delivery Agreement, the Authority received an up-front payment in the approximate amount of \$13.5 million, representing the then-present value of the interest the Authority would otherwise have received over the term of the BofA Forward Delivery Agreement. BofA may at its option, but is not obligated, to cause a qualified dealer to deliver investment securities of one of the types listed in the BofA Forward Delivery Agreement, with a maturity value equal to the scheduled invested amount.

The Authority has also entered into an investment agreement (as amended, the “**BLB Investment Agreement**”) with the Senior Co-Trustee and Bayerische Landesbank Girozentrale, acting through its New York Branch (“**BLB**”), providing for the investment of a portion of the amounts on deposit in the Senior Bond Fund allocable to debt service on the 2012 Senior Bonds. The BLB Investment Agreement has a rate of earnings of 6.02% per annum and is scheduled to terminate on October 1, 2034. Pursuant to the BLB Investment Agreement, under certain circumstances following the down-grade of BLB’s credit rating to below the required rating levels, BLB may be required to post collateral.

Liquidity and Working Capital Fund

As of September 30, 2017, the Authority had approximately \$82.8 million of unrestricted reserves, including \$30.7 million in the Working Capital Fund. In addition to using amounts on deposit in the Working Capital Fund to address fluctuations in working capital and cash resources, the Authority may also use amounts on deposit in the Operating Fund, the Surplus Fund and the Revenue Fund (in each case, after making required transfers and deposits), as well as under certain, limited circumstances, amounts on deposit in the Self-Insurance Fund to pay unexpected expenses. See “SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS,” “FUEL SUPPLY,” “RATES—Surcharges—*Self-Insurance Fund Surcharge*” and “OTHER MATTERS—Insurance; Self-Insurance Fund.” The Authority maintains a Working Capital Fund pursuant to the Senior Indenture, which is required to be funded in an amount equal to 1/12th of the aggregate amount of Maintenance and Operation Expenses, including fuel costs, budgeted to be paid from Revenues during the then-current Fiscal Year. For Fiscal Year 2018, the amount required to be on deposit in the Working Capital Fund is \$28.5 million. In June 2011, the PUC 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 a 42-month period. The Authority discontinued the Working Capital Fund Surcharge in October 2015. See “RATES—Surcharges—*Working Capital Fund Surcharge*.”

As discussed above, the Authority is generally entitled to recover 100% of the cost of fuel and fuel-related costs in its rates through the LEAC. Although LEAC adjustments are generally made on a biannual basis, the Authority is authorized, and the PUC encourages the Authority, to seek interim LEAC adjustments under certain conditions. See “RATES—Levelized Energy Adjustment Clause” and “BONDHOLDER RISKS—Risks Relating to Fuel.”

In addition, the Authority maintains a letter of credit facility under which the Authority is authorized to borrow up to \$35 million for the purpose of assuring its residual fuel oil 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 \$13 to \$16 million to make payments for fuel deliveries in such month, and then reimburses the provider in the same month. Any letter of credit issued under the fuel letter of credit facility is an unsecured obligation of the Authority, payable as a Maintenance and Operation Expense. The current fuel letter of credit facility is provided by ANZ Bank, which has been the Authority’s fuel facility provider since 2003. The current fuel liquidity facility expires in July 2019, with the option to renew for three additional one year terms. See “—Outstanding Indebtedness—*Short-Term Debt*.”

Insurance Claim

On August 31, 2015, a fire and explosion occurred at Cabras Units 3 and 4, causing substantial damage to the two generating units and related infrastructure and resulting in a loss of 78.6 MW of capacity. The Authority maintained a \$300 million insurance policy with Lloyd’s of London (“**Lloyd’s**”) in connection with Cabras Units 3 and 4. In 2016, the Authority hired Greenspan Company Adjusters International to file and assist with the Authority’s insurance claim. In late 2016, Lloyd’s provided an initial insurance payout of approximately \$50 million. In 2017, Lloyd’s has provided an additional \$34 million. A portion of such funds have been used as part of the Authority’s efforts to restore capacity since the fire; however, most of the funds are targeted to reduce the Authority’s costs of proposed generation additions. The Authority expects to receive additional insurance proceeds and continues to work with Lloyd’s towards a settlement. See “POWER SUPPLY—Capacity Recovery Plan—*Loss of Generating Capacity*” and “—Power Supply Development—*Combined Cycle/Flexible Generation Project*.”

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. The Authority’s capital improvement program (the “**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, as well as new generation resources. The Authority believes that these additions will help it to meet recent and projected System demand requirements while maintaining overall System reliability. The Authority is continuing to develop and refine its Capital Improvement Program.

The Authority currently projects the expenditure of approximately \$177 million on its Capital Improvement Program from Fiscal Year 2018 through Fiscal Year 2022. Table 10 below sets forth the allocation of projected Capital Improvement Program project costs. Most of the amounts for Fiscal Year 2018 are related to the Authority's Energy Storage System that are funded from prior bond proceeds. The remaining amounts for Fiscal Years 2019 through 2022 average approximately \$26 million and will be funded from internally generated proceeds. The Capital Improvement Program projects and projected costs remain subject to change, as the Authority continues to evaluate, develop and refine the projects included in the Capital Improvement Program. The Authority currently expects to fund the Capital Improvement Program from a combination of operating revenues, remaining proceeds of Senior Bonds previously issued by the Authority, proceeds of Additional Senior Bonds (subject to future PUC and legislative approvals), amounts released from the Self-Insurance Fund, grants, developer contributions and other outside contributions.

The Authority's Capital Improvement Plan as described above does not include costs related to the Combined Cycle/Flexible Generation Plant. The Authority currently intends to purchase power from a private company that will develop, own and finance the Combined Cycle/Flexible Generation Plant and such costs are, therefore, not reflected in the Capital Improvement Program. No assurance can be given that the Authority will proceed with its current plan and the Authority could instead choose to self-finance the cost of the project with appropriate authorization and approvals.

The Authority's Capital Improvement Plan as described above also 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. 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.

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Table 10
Projected Capital Improvement Program
Fiscal Years 2016-2022
(\$000)

Fiscal Year Ending September 30:	Historical		Projected ⁽¹⁾					Five-Year Total
	2016	2017	2018	2019	2020	2021	2022	
Capital Improvements:								
Transmission System Additions and Improvements	\$ 904	\$ 1,713	\$ 1,424	\$ 1,093	\$ 986	\$ 900	\$ 0	\$ 4,403
Distribution System Additions and Improvements	4,569	4,273	6,071	4,580	3,600	2,578	0	16,829
Substation System Additions and Improvements	1,675	305	2,293	1,306	895	500	450	5,444
Generation Plant Additions and Improvements	16,974	44,903	37,910	538	0	0	0	38,448
General Plant Improvements and Replacements ⁽²⁾	2,813	7,732	20,530	14,244	16,042	17,184	27,268	95,268
Other	0	0	1,650	5,000	5,000	5,750	0	17,400
Total Capital Improvement Program	\$26,936	\$58,116	\$69,878	\$26,761	\$26,523	\$26,912	\$27,718	\$177,792
Amounts Funded from:								
Prior Bond Proceeds ⁽³⁾	\$13,464	\$15,342	\$44,648	\$1,394	\$ 395	\$ 0	\$ 0	\$ 46,437
Current Revenues ⁽⁴⁾	10,333	22,689	25,230	25,367	26,128	26,912	27,718	131,355
External – Developer Contribution	0	0	0	0	0	0	0	--
Proceeds of Future Bonds	0	0	0	0	0	0	0	--
Self-Insurance, Grants, Contributions from Outside Sources	3,139	20,085	0	0	0	0	0	--
Total	\$26,936	\$58,116	\$69,878	\$26,761	\$26,523	\$26,912	\$27,718	\$177,792

⁽¹⁾ Inflated dollars based on an assumed annual rate of escalation specific to Capital Improvements Program items on Guam of 3%.

⁽²⁾ Includes expenditures for new office building in Fadian, security, information technology (IT) upgrades, Dededo CT expansion and Agana renovation.

⁽³⁾ Reflects remaining bond proceeds from the Authority's prior bond issues.

⁽⁴⁾ Revenues available for capital improvements after payment of Maintenance and Operation Expenses, debt service on the Authority's Senior Bonds, payments of the capital components of payments to Independent Power Producers under the Energy Capital Leases and other uses of cash.

Source: Guam Power Authority.

Collections

As of September 30, 2016, Accounts Receivable were approximately \$30.7 million, approximately \$4.0 million or about 13.2% of which are doubtful for collection. As of September 30, 2017, Accounts Receivable were approximately \$40.1 million, approximately \$4.5 million or about 11.3% of which are doubtful for collection. The Authority's bad-debt losses are at a level consistent with the best utilities in the U.S.

A significant portion of the Authority's energy sales are to governmental entities. Historically, certain governmental agencies failed to pay the Authority for energy in a timely manner, and as of September 30, 2003, the aggregate balance owed to the Authority by these entities was approximately \$43 million. The Authority entered into payment arrangements with these entities to provide for the repayment of the delinquent amounts, and as of 2014, the last of these past due balances was paid off. Since 2003, these governmental entities have remained current their on-going bills, and the Authority had no outstanding long-term receivables from any governmental entities.

Management Discussion

In the near term, given the Authority's prevailing operating costs and rate structure, the Authority believes it is positioned to achieve margins and debt service coverage at or above its 1.3x Senior Indenture rate covenant.

In addition, potential cost savings related to recent and near term generating unit retirements and the expiration of capital leases as well as potential funds from the Cabras Units 3 and 4 insurance claim will assist the Authority in managing the additional costs related to its proposed Combined Cycle/Flexible Generation Project.

See "SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS—Energy Capital Leases," "POWER SUPPLY—Power Supply Development—*Combined Cycle/Flexible Generation Project*," and "FINANCIAL MATTERS—Insurance Claim."

OTHER MATTERS

Operational Initiatives

The Authority has initiated several new programs intended to improve customer service and experience, focusing on improving its online customer platform and interface and online payment systems. The Authority has improved the management of web payment and its payment gateway, including introducing a new utility credit card rate, a new bill print system and new billing software, and has plans to enable customers to make mobile payments. The Authority also has improved its social media presence for customer-communications and outage notifications and has plans to introduce payment kiosks.

The Authority has initiated certain measures to reduce costs. In 2017, the Authority reduced the number of employees to 476 (as compared to 522 in 2010), thus saving approximately \$2 million per year, and reduced the amount of overtime costs to \$1.4 million (as compared to \$3.7 million in 2012). The Authority also expects to save \$400,000 per year due to lower rates from its utility credit card company. In addition, the Authority expects to save approximately \$5 million per year now that ownership of TEMES Unit 7 has been transferred to the Authority, and approximately \$18 million per year once MEC Units 8 and 9 are transferred to the Authority in January 2019. See "SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS—Energy Capital Leases."

The Authority has made additional investments to improve system operations. These efforts include investment in additional smart grids and electric vehicles and other electrical infrastructure. The Authority continued its ongoing system hardening and underground village hybrid system programs. As of December 1, 2017, the Authority has also completed approximately 38% of its conversion of Guam's streetlights to LED lights.

Employment and Labor Relations

As of September 30, 2017, the Authority had approximately 476 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.

Employees' Retirement Plan

General. The Government of Guam Retirement Fund (the "**GGRF**") provides retirement annuities and other payments to retired Government employees, including employees of the Authority, and their dependents. Employees hired on or before September 30, 1995 are members of the Government of Guam Employees Retirement System, a defined benefit pension plan (the "**DB Plan**"). Employees hired after September 30, 1995 are members of the Defined Contribution Retirement System (the "**DC Plan**") but may elect to become members of the Defined Benefit 1.75 Retirement System (the "**DB 1.75 Plan**"). Employees hired between April 1, 2017 and December 31, 2017 are members of the DC Plan but may also elect to become members of the DB 1.75 Plan. Eligible DC Plan members may elect to participate in the DB 1.75 Plan or the Guam Retirement Security Plan (the "**GRSP**"), a cash balance plan, during the established election periods between April 1, 2017 and January 31, 2018. A member's election shall only apply to members who are employed by the Government as of January 1, 2018. Beginning January 1, 2018, the GRSP will be the default plan for all new employees whose employment commences on or after that date. These new employees will have 60 days from the date of hire to elect to participate in the DC Plan. The DB Plan, DC Plan, DB 1.75 Plan, and GRSP are administered by the GGRF.

DB Plan. The DB Plan is a single-employer (Government of Guam) defined benefit pension plan to which the Authority contributes based upon a fixed percentage of the payroll for those employees who are members of the DB Plan. A single actuarial valuation is performed annually covering all DB Plan members, and the same contribution rate applies to each employer, including the Authority. Members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The DB Plan member and employer contribution requirements are established by statute.

The GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. As of September 30, 2016 (the most recent date for which such information is publicly available), there were a total of 13,969 members (active, inactive and retirees) in the DB Plan, and 9,506 active employees and 4,463 inactive members with account balances under the DB Plan. As of September 30, 2016, 127 Authority employees were members of the DB Plan.

Based on the Government of Guam Retirement Fund Actuarial Valuation as of September 30, 2016 (the "**2016 Valuation**"), the DB Plan had an actuarial accrued liability of approximately \$2.905 billion, with an unfunded actuarial accrued liability of approximately \$1.249 billion, or a funded ratio of 57.0%.

Under Title 4, Chapter 8, Section 8137 of the Guam Code Annotated, as amended, the Government of Guam is required to completely fund the unfunded actuarial accrued liability by 2033, effective January 1, 2018. The annual actuarial valuations prepared for the DB Plan include actuarial employer contribution rates intended to satisfy this requirement. The actuarial employer contributions rates set forth in the annual valuations apply to the fiscal year beginning one year after the valuation date. Table 11 below sets forth the actuarial employer contribution rates of covered payroll for Fiscal Years 2012 through 2016 based on the information provided in the 2016 Valuation and in prior valuations:

Table 11
Actuarial Employer Contribution Rates of Covered Payroll
Fiscal Years 2012 through 2016

Fiscal Year	Rate
2012	30.03%
2013	29.85
2014	28.16
2015	27.41
2016	27.83

Source: Guam Power Authority.

Although the actuarial contributions rates are provided to the Legislature of Guam by the GGRF in advance of each Fiscal Year and used for budget preparation, the Legislature of Guam is not required to adopt such rates. Table 12 sets forth statutory contribution rates of covered payroll for Fiscal Years 2012 through 2016. Statutory employee contribution rates for the DB Plan were 9.50% in each such Fiscal Year.

Table 12
Statutory Employer Contribution Rates of Covered Payroll
Fiscal Years 2012 through 2016

Fiscal Year	Rate
2012	28.30%
2013	30.09
2014	30.03
2015	29.85
2016	28.16

Source: Guam Power Authority.

In addition, statutory employer contribution rates of covered payroll for Fiscal Years 2017 and 2018 are 27.41% and 27.83%, respectively, and statutory employee contribution rates for the DB Plan continue to be 9.50% in each such Fiscal Year.

Table 13 below sets forth the actual contributions made by the Authority to the DB Plan during the Fiscal Years 2014 through 2016. Such amounts were equal to the required actuarial contributions for Fiscal Years 2014 through 2016.

Table 13
Authority Contributions to DB Plan
Fiscal Years 2012 through 2016

Fiscal Year	Amount
2014	\$3,046,347
2015	2,772,299
2016	2,438,748

Source: Guam Power Authority.

In addition, based on preliminary, unaudited financial information, the Authority contributed \$2,284,475 to the DB Plan for Fiscal Year 2017.

DC Plan. The DC Plan is a single-employer (Government of Guam) pension plan. As of September 30, 2016 (the most recent date for which such information is publicly available), there were a total of 8,858 members (active) in the DC Plan. As of September 30, 2016, 337 Authority employees were members of the DC Plan.

Contributions to the DC Plan by members are based on an automatic deduction of 5.0% of the member's regular base pay through December 31, 2017 and 6.2% of the member's regular base pay starting on January 1, 2018. Contributions are deposited into each individual employees' 401(a) account with the DC Plan. The statutory employer contribution rate for the DC Plan for Fiscal Years 2015, 2014 and 2013 were determined using the same employer statutory contribution rates as the DB Plan. Of such amounts contributed by the employers under the DC Plan, an amount equal to 5.0% of the DC Plan member's regular base pay through December 31, 2017 and 6.2% of the DC Plan member's regular base pay starting on January 1, 2018 is deposited into the member's individual annuity account; the remaining amount in excess of 5.0% through December 31, 2017 and 6.2% starting on January 1, 2018 of the DC Plan member's regular base pay is contributed towards the unfunded liability of the DB Plan. DC Plan members are fully vested upon the completion of five years of government service.

Table 14 below sets forth the Authority's contributions to the DC Plan, as well as the portion of such contributions that are applied to the unfunded liability of the DB Plan for Fiscal Years 2014 through 2016:

Table 14
Authority Contributions to DC Plan and DB Plan toward Unfunded Liability
Fiscal Years 2014 through 2016

Fiscal Year	DC Plan Amount	Portion of DC Plan Amount to DB Plan
2014	\$5,219,217	\$4,379,771
2015	5,244,535	4,395,461
2016	5,075,223	4,206,313

Source: Guam Power Authority.

In addition, based on preliminary, unaudited financial information, the Authority contributed \$5,280,871 to the DC Plan for Fiscal Year 2017.

GASB 67 and 68

In June 2012, the Governmental Accounting Standards Board ("GASB") issued GASB Statement 68, Accounting and Financial Reporting for Pensions ("GASB 68"), requiring changes in how state and local governments calculate and report the costs and obligations associated with providing pension benefits. In October 2015, the GGRF published the Government of Guam Retirement Fund GASB 67 and 68 Disclosures as of September 30, 2014 (the "GASB 68 Report"), prepared by Milliman, Inc., the Government's actuary. The GASB 68 Report included schedules for the allocation of net pension liability by component unit, to be used by employers required to implement GASB 68, including the Authority. Based on the information included in the schedules to the GASB 68 Report, the Authority's share of the Net Pension Liability (the present value of the unfunded portion of future benefits which have accrued) as of September 30, 2014 was approximately \$77.9 million. The implementation of GASB 68 had a material effect on the Authority's financial statements, resulting in the restatement of the Authority's financial statements for Fiscal Year 2014 to reflect the reporting of deferred outflows of resources relating to its pension plan of \$7.2 million, deferred inflows of resources related to its pension plan of \$4.7 million and a Net Pension Liability of \$77.9 million, which also resulted in the restatement of the Authority's net position for Fiscal Year 2014. For Fiscal Year 2015, the Authority reported deferred outflows of resources relating to its pension plan of \$7.5 million, deferred inflows of resources related to its pension plan of \$7.7 million and a Net Pension Liability of \$67.0 million. For Fiscal Year 2016, the Authority reported deferred outflows of resources relating to its pension plan of \$8.2 million, deferred inflows of resources related to its pension plan of \$0.7 million and a Net Pension Liability of \$71.0 million.

See APPENDIX B—"FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015," Note 6.

DB 1.75 Plan and Guam Retirement Security Plan

In September 2016, the Legislature of Guam overrode the Governor's veto and approved Public Law 33 186, which creates as alternatives to the DC Plan, upon timely election by applicable members in accordance with regulations to be promulgated, a new "Defined Benefit 1.75" retirement system (the "**DB 1.75 Plan**") and a new Guam Retirement Security Plan ("**GRSP**"), a cash balance plan.

The DB 1.75 Plan is a governmental defined benefit pension plan with an effective date of January 1, 2018. The DB 1.75 Plan is not a stand-alone and separate plan, but rather is an alternative benefit structure under GGRF. The DB 1.75 Plan is open for participation by certain existing employees, new employees, and reemployed employees who would otherwise participate in the DC Plan or the new GRSP (as described below) and who make a timely election on a voluntary basis to participate in the DB 1.75 Plan. New employees that commence employment between April 1, 2017 and December 31, 2017 may elect to become a member of the DB 1.75 Plan instead of participating in the DC Plan by filing a new employee election (a "**New Employee Election**"). A New Employee Election must be made during the window commencing on the date of employment and ending on December 31, 2017 (or January 31, 2018 if the date of employment commenced in the month of December 2017).

Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 9.5% of the employee's base salary. The employer makes contributions to the DB 1.75 Plan in accordance with reasonable actuarial methods and assumptions based on the determination of the GGRF. Members of the DB 1.75 Plan automatically participate in the Government deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution.

The GRSP is a governmental defined benefit plan with an effective date of January 1, 2018. The GRSP is intended to be the primary retirement plan for new employees beginning January 1, 2018. Certain existing employees and members of the DC Plan are also provided limited opportunity to participate in the GRSP. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 6.2% of the employee's base salary. The employer makes matching contributions at the same rate of 6.2% of the employee's base salary.

In addition, Public Law 33-186 provides that if the Government is authorized to extend Social Security coverage to Government employees on a prospective basis, then all employees hired on or after the effective date or dates from which such coverage is extended shall be enrolled into Social Security and shall not be eligible for the DB 1.75 Plan or the GRSP. The provisions of Public Law 33 186 are not effective until January 1, 2018 and no actuarial valuation of the DB 1.75 Plan or the GRSP has been performed; however, it is possible that the unfunded actuarial accrued liability of the GGRF may increase if the Government authorizes to extend Social Security coverage to Government employees.

Other Post-Employment Benefits

The Government makes certain annual expenditures for certain postretirement healthcare benefits ("**OPEB**") to retirees who are members of the GGRF. In 2008, the Government was required to account for and report OPEB under GASB Statement No. 45. The Government provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The Government shares in the cost of these plans with its contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, the Government contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, the Government provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. As of Fiscal Year 2016 (the latest Fiscal Year for which such information is available), the OPEB unfunded actuarial accrued liability for the Government was approximately \$1.3 billion, of which \$51.7 million is allocable to the Authority.

The Governor's Executive Budget transmitted to the Legislature of Guam typically includes provisions to appropriate sums from the General Fund to accommodate the cost of living allowances, supplemental annuities and the medical and dental benefits (generally, the Government's share of the premiums for the retirees' insurance) for Government of Guam retirees, which the Government is currently paying on a "pay-as-you-go" basis. The Authority is then required to reimburse the General Fund for the OPEB costs of the Authority's retirees.

Table 15 below sets forth contributions made by the Authority for Fiscal Years 2014 through 2016 to reimburse the Government for the OPEB costs of the Authority's retirees.

Table 15
Authority Contributions to Reimburse OPEB Costs
Fiscal Years 2014 through 2016

Fiscal Year	Amount
2014	\$3,057,199
2015	3,833,401
2016	4,146,630

Source: Guam Power Authority.

In addition, the Authority contributed \$4,302,240 to reimburse the Government for the OPEB costs of the Authority's retirees for Fiscal Year 2017.

See APPENDIX B—"FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015," Note 6.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. The Authority has not determined the potential impact of the new standards on its financial statements.

In June 2015, GASB approved new accounting and financial reporting standards for state and local government OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74"), applies to OPEB plans. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), applies to state and local employers that sponsor OPEB. Generally, the new OPEB standards parallel those applied to defined-benefit pension plans and participating employers by GASB 67 and 68, respectively. The new standards introduce new procedures for measuring OPEB liabilities and costs, require employers to report a net OPEB liability on their financial statements, and require more extensive disclosure in plan and employer financial statements. GASB 74 will be effective for plans with fiscal years beginning after June 15, 2016. GASB 74 will not have a material impact on the financial statements. GASB 75 will be effective for employers for fiscal years beginning after June 15, 2017. The Authority has not determined the potential impact of GASB 75 on its financial statements but it is anticipated that the impact is going to be material.

Insurance; Self-Insurance Fund

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 covering employee dishonesty. All policies provide coverage, with applicable deductibles, that the Authority believes to be standard, provided through qualified insurance companies. The current policies have three year terms and provide for annual renewals. The current policies have three-year terms and provide for annual renewals. Most of the Authority's current insurance policies will expire on November 1, 2018, at which time it is expected the Authority will re-bid them. The estimated aggregate of the premiums for the current year is \$7.2 million.

The Authority maintains a self-insurance fund (the "**Self-Insurance Fund**") upon which the Authority is authorized to draw for any transmission and distribution and generation losses or property losses in excess of \$200,000, as well as for other purposes, subject to PUC approval. As of September 30, 2017, the balance in the Self-Insurance Fund was approximately \$19.3 million. The Self-Insurance Fund is replenished by a surcharge reflected in customer billings. The surcharge is automatically discontinued once the balance in the Self-Insurance Fund reaches the maximum level approved by the PUC (currently \$20 million) and is reinstated if the amount in the Self-Insurance Fund drops below \$18 million. The General Manager is allowed to draw up to \$5 million in the aggregate

using self-certifications, but any draws in excess of \$5 million require CCU approval. On July 31, 2015, the Self-Insurance Fund balance reached \$19.5 million and the Self-Insurance Fund surcharge was suspended for all meters read on or after July 31, 2015. As of December 1, 2017, the Self-Insurance Fund surcharge has not been reactivated. See “RATES—Surcharges—*Self-Insurance Fund Surcharge*.”

REGULATORY MATTERS

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 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. The Federal Power Act provides the Federal Energy Regulatory Commission (“**FERC**”) the 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 the EPAct 1992, electric utilities owned by municipalities and other public agencies that own or operate electric power transmission facilities that are used for the sale of electric energy at wholesale, such as the Authority, are “transmitting utilities” subject to the requirements described in the paragraph above. The 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 adversely affect the System in the future by, among other things, causing an increase in costs to the Authority and/or by reducing the availability of transmission resources to the Authority.

The Authority believes that the requirements of EPAct 1992 will not materially adversely affect its operations.

Energy Policy Act of 2005

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

The EPAct 2005 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’s aggregate electricity sales for Fiscal Year 2017 were 1,610,093 megawatt hours. However, the Authority is not able to predict when, if ever, its sales of electricity would reach eight million megawatt hours. Additionally, the 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**”).

The 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. The 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 an 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 the EPCRA 2005, electric utilities are required to offer each of their customer classes a time-based rate schedule to enable customers to manage energy use through advanced metering and communications technology. It also authorizes FERC to exercise eminent domain powers to construct and operate transmission lines if FERC determines a state or territory has unreasonably withheld approval. The EPCRA 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies. The EPCRA 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.

The Authority does not believe that the EPCRA 2005 will have an adverse impact on its operations.

Air Quality Compliance

The Clean Air Act (the “CAA”) is a comprehensive federal law that addresses the nation’s air quality and the stratospheric ozone layer, and authorizes the USEPA to implement and enforce regulations reducing air pollutant emissions. Under the CAA, the USEPA is authorized to establish and enforce limits on certain air pollutants from various sources, including utilities. Pursuant to the CAA, the USEPA promulgated primary and secondary national ambient air quality standards (“NAAQS”) with respect to certain air pollutants, including particulate matter (“PM”), sulfur dioxide (“SO₂”), and nitrogen oxide (“NO_x”). These standards are to be achieved by the application of control strategies developed by the states (including Guam) and included in implementation plans that must be approved by the USEPA to be effective. The Guam EPA has adopted a State Implementation Plan, which was approved by the USEPA, generally designed to achieve the NAAQS.

The CAA requires new major stationary sources of air pollution and certain modifications to existing sources to obtain an air permit before commencing construction. This permitting process is known as the New Source Review (“NSR”). The NSR program applies to sources that are located in areas that meet the NAAQS (“Attainment Areas”), areas that do not meet the NAAQS (“Nonattainment Areas”) and areas that are unclassifiable with respect to the NAAQS. Permits for sources in attainment or unclassifiable areas are issued under the Prevention of Significant Deterioration (“PSD”) permit program, and permits for sources in Nonattainment Areas are issued under the Non-attainment New Source Review permit program. The purpose of the PSD program is to prevent the development of new Nonattainment Areas, among other things. As part of the one-hour SO₂ NAAQS set in June 2010, the 1971 annual and 24-hour standards were revoked. In a July 26, 2013 update, the USEPA indicated that it was not yet designating any areas outside of the continental U.S. as Nonattainment Areas and that the 2010 SO₂ NAAQS Nonattainment Area designations for Guam would be addressed in a separate future action. In a letter dated August 22, 2017 to the Governor, the USEPA stated that they intended to designate a 6 km radius Nonattainment Area centered in the Cabras-Piti area and to designate the rest of Guam as unclassifiable/Attainment Area. If the Authority were to build new generation facilities or sufficiently modify existing generation facilities within a designated Nonattainment Area, the costs of constructing, permitting and operating such facilities may increase significantly. The Authority does not currently plan to build new generation facilities within a Nonattainment Area.

The CAA also establishes a permit program (the “Title V Operating Permit Program”) for large industrial and commercial sources that release pollutants into the air above a specified threshold, (known as “major sources”). Title V operating permits include information on which pollutants are being released, how much may be released, and what kinds of steps the source’s owner or operator is required to take to reduce pollution. Responsibility for the Title V Operating Permit Program in Guam was delegated to the Guam EPA.

The Authority’s power plants are subject to the Title V Operating Permit Program under the CAA. The Title V operating permits for the Authority’s generating plants at Cabras Power Plant, Dededo CT, Macheche CT, Manenggon, Marbo, Tenjo, Talofoto and Yigo CT were issued in March 2009 in accordance with the Guam Air Pollution Control Standards Regulations and expired on March 1, 2014. The Authority submitted renewal applications for the Title V operating permits for these plants (other than the plants the Authority expected to retire from service) to the Guam EPA on September 4, 2013. Although the Authority has not received any formal notification from the Guam EPA that the expired Title V operating permits have been extended, the Authority is continuing to operate under the 2009 Title V operating permits. The Authority does not anticipate more stringent requirements under the new Title V operating permits and does not expect any issues with renewal of the Title V operating permits.

The Title V operating permits for the Tanguisson Power Plant and MEC Units 8 and 9 have been obtained by the Independent Power Producers. The Tanguisson Power Plant was officially retired on January 1, 2015, and the Title V operating permit was cancelled.

When Cabras Unit 4 exploded on August 31, 2015, the Authority lost almost 80 MW of generation capacity. The Authority has taken measures to meet the generation capacity deficit, including the 40 MW Fast Track Generating Units at Yigo substation site (the “**Aggreko Diesel Units**”). The Authority is expected to continue to need the Aggreko Diesel Units beyond the initial one year period as temporary non-road units. These units currently have an operating permit. The Authority is currently working with Aggreko and Guam EPA to ensure that the units are issued new Title V Permits. They also have Selective Catalytic Reduction Units (“**SCRs**”) to control NO_x emissions to keep them under the 250 tons per year threshold, thereby making them minor sources and not be subject to the PSD permit program. The SCR installation was completed on April 12, 2017.

Maximum Achievable Control Technology

USEPA has issued new regulations related to the requirements of Sections 111 and 112 of the CAA. Section 111 of the CAA requires USEPA to set emissions limits for major new stationary sources referred to as New Source Performance Standards or NSPS regulations. Section 112 of the CAA requires the USEPA to issue technology-based standards for major sources and certain area sources for hazardous air pollutants (“**HAPs**”). The categories and subcategories of sources to be regulated under these provisions are listed in Section 112(c) of the CAA. For these sources, the USEPA is required to establish emissions standards that require the maximum degree of reduction in emissions of HAPs. These emissions standards are commonly referred to as maximum achievable control technology (“**MACT**”) standards. Section 112(b) of the CAA contains a list of those pollutants that must be regulated as HAPs pursuant to CAA Section 112, and requires the USEPA Administrator to periodically review this list and, where appropriate, revise the list by adding pollutants which present or may present a threat of adverse human health effects or adverse environmental effects.

In connection with the Section 111 standards, on February 27, 2006, the USEPA promulgated amendments to the NSPS for PM, SO₂, and NO_x contained in the standards of performance for coal- and oil-fired electric utility steam generating units (“**EGUs**”). Subsequently, a lawsuit was filed against the USEPA in connection with these amendments, and on September 2, 2009, USEPA was granted a voluntary remand without vacatur of these amendments. The final revisions to these amendments were approved on December 16, 2011.

In 2008, in response to a U.S. federal court decision and a related consent decree, the USEPA decided to regulate coal- and oil-fired EGUs, under Section 112(c) of the CAA. The USEPA also subsequently proposed Section 112 air toxic standards for these EGUs that reflect the application of MACT consistent with the requirements of the CAA. This proposal was also made final (with minor modifications) on December 16, 2011.

In March 2010, the USEPA published in the Federal Register established requirements applicable to diesel engine generators, referred to as “**RICE MACT**.” The new regulations include emission standards, mechanical modifications, operating limitations, compliance testing, scheduled testing, operating and record-keeping requirements. The RICE MACT rules require that standard slow speed and small diesel units meet carbon monoxide standards. These requirements are applicable to ten units at Manenggon, Talofofo and Tenjo, Cabras Units 3 and 4 and MEC Units 8 and 9. The USEPA approved a one-year extension for the Authority’s ten smaller diesel peaking units, and the Authority achieved compliance with respect to these units in May 2014. In April 2013, the Authority initiated discussions with the USEPA to negotiate a consent decree for Cabras Units 3 and 4 and MEC Units 8 and 9 to allow continued use of diesel without installing emission controls until LNG and/or combined cycle unit(s) are in place. The USEPA did not issue an extension or a consent decree for Cabras Units 3 and 4 and MEC Units 8 and 9, and these units have been out of compliance since May 2013. Because of the explosion at Cabras Units 3 & 4, a consent decree is no longer required for those units. The Authority is working with the USEPA to develop a “comprehensive” consent decree with respect to continued use of residual fuel oil No. 6 without installing emission controls at Cabras Units 3 and 4 and MEC Units 8 and 9, as well as with respect to certain other matters described below. No assurance can be given that the USEPA will grant such a consent decree or that the Authority will not be subject to penalties for non-compliance.

On February 16, 2012, USEPA published in the Federal Register the final CAA Section 112 rule and the new CAA Section 111 standards. With respect to Section 112, the USEPA established HAP standards (known as “**National Emission Standards for Hazardous Air Pollutants**” or “**NESHAP**”) for coal and oil-fired EGUs, including diesel engine generators, to meet standards for toxic air pollutants reflecting the application of the MACT. These standards, known as mercury and air toxics standards (“**MATS**”), are geared at reducing these types of emissions from new and existing coal and oil-fired EGUs. At the same time the MATS were promulgated, revised standards for new coal and oil-fired power plants, called New Source Performance Standards (“**NSPS**”), were also promulgated imposing more stringent numerical limits on PM, SO₂ and NO_x. The MATS became effective on April 16, 2012 and require the reduction of emissions of mercury, arsenic, chromium, nickel, and acid gases, including hydrochloric acid (“**HCl**”) and hydrofluoric acid (“**HF**”) by the imposition of more stringent emissions limits that reflect the application of MACT.

The MATS apply to EGU’s larger than 25 MW that burn coal or oil for the purpose of generating electricity for sale and distribution to the public. Existing EGU’s generally will have up to four years if they need it to comply with the MATS, which includes three years provided to all sources by the CAA, and an additional year that may be granted by the Guam EPA, as needed, for technology installation. In essence, the rule establishes: (i) numerical emission limits for mercury, PM, and HCl for all existing coal-fired EGUs; (ii) numerical emission limits for PM, HCl and HF for existing and new oil-fired EGUs, but compliance for HCl and HF may also be achieved by limiting the moisture content of the oil; (iii) alternative numeric emission standards, including SO₂ (as an alternate to HCl), individual, non-mercury metal air toxics (as an alternate to PM), and total, non-mercury metal air toxics (as an alternate to PM) for certain subcategories of power plants; and (iv) work practices, instead of numerical limits, to limit emissions of organic air toxics, including dioxin/furan, from existing and new coal and oil-fired power plants, which require annual performance test program for each unit to ensure optimal combustion.

As for Section 111, USEPA revised the NSPS for fossil-fuel-fired EGU’s. This NSPS revised the standards that new coal and oil-fired power plants must meet for PM, SO₂, and NO_x, by establishing revised numerical emission limits for these. These standards apply to EGUs that burn fossil fuel to produce steam.

The Authority’s Cabras Power Plant and the Tanguisson Power Plant are subject to the MATS, and the deadline for compliance by the Authority was April 2015. The Authority expects to comply with these requirements through installing new units, the retirement of certain units and the conversion to ULSD and/or LNG as the Authority’s primary fuel source. The Authority is seeking as part of the comprehensive consent decree discussed above permission to temporarily continue use of fuel oil at Cabras Units 1 and 2 without installation of emission controls required under MATS, until such time as the Authority is ready to retire the units.

The Authority’s Tanguisson Power Plant was officially retired on January 1, 2015. A request for discontinuance of the Tanguisson Power Plant Operating Permit was sent to USEPA Region 9 in April 2015.

Greenhouse Gas Regulations

On April 2, 2007, the U.S. Supreme Court (the “**Supreme Court**”) issued a CAA decision in *Massachusetts v. Environmental Protection Agency*, 549 U.S. 497 (2007) concluding that greenhouse gases (“**GHG**”) meet the CAA definition of an air pollutant and are subject to regulation under the CAA. More specifically, the Court found that the CAA authorizes the USEPA to regulate tailpipe greenhouse gas emissions if the USEPA determines they cause or contribute to air pollution that may reasonably be anticipated to endanger public health or welfare. The Court remanded the case to the USEPA to make such an “endangerment determination,” which is the statutory prerequisite to authorizing regulations. On April 17, 2009, in response to the decision and after receiving public comments, the USEPA issued proposed “endangerment” and “cause or contribute” findings for GHGs under Section 202(a) of the CAA. On May 19, 2009, the USEPA issued a notice of intent to regulate GHG emissions for cars and trucks under Section 202 of the CAA, following up on the *Massachusetts* decision.

On September 30, 2009, the USEPA proposed new thresholds for GHG emissions that define when CAA permits under the NSR and Title V operating permits programs would be required. According to the USEPA, the proposed thresholds would “tailor” these permit programs to limit which facilities would be required to obtain permits and would cover nearly 70% of the nation’s largest stationary source GHG emitters, including power plants,

refineries, and cement production facilities, while shielding small businesses and farms from permitting requirements. Subsequently, the USEPA issued a number of rulemakings and announcements to lay a potential framework for GHG regulation under the CAA and future legislation. On October 30, 2009, the USEPA issued a final rule requiring mandatory monitoring in 2010 and reporting of GHGs emissions beginning in 2011 for virtually all industrial source categories across the country. This rule requires that sources above certain threshold levels monitor and report emissions, but does not require the sources to control GHGs. In connection with the issuance of the final rule, the USEPA stated that the rule did not indicate that the USEPA had made any final decisions on pending actions. The USEPA stated also that the mandatory GHG reporting program would provide the USEPA, other government agencies, and outside stakeholders with economy-wide data on facility-level (and in some cases corporate-level) GHG emissions, which should assist in future policy development. As required by the USEPA rule requiring GHG reporting, the Authority submitted its first report on GHG emissions in September 2011 and has timely submitted subsequent reports in accordance with the program requirements.

On December 7, 2009, the USEPA issued the final “endangerment” and “cause or contribute” findings regarding GHGs under Section 202(a) of the CAA. The USEPA received several Petitions for Reconsideration of the Endangerment and Cause or Contribute Findings. Although the findings did not themselves impose any requirements on industry or other entities, this action was a prerequisite to finalizing the USEPA’s proposed GHGs emission standards for vehicles.

On May 13, 2010, the USEPA issued a final rule (the “**Tailoring Rule**”) setting thresholds for GHG emissions from stationary sources that define when permits under the PSD and Title V Operating Permit Programs are required for new and existing industrial facilities. The Tailoring Rule tailors the requirements of these CAA permitting programs to limit which facilities will be required to obtain PSD and Title V operating permits and established a schedule for implementing the Tailoring Rule. The First two steps of the Tailoring Rule are as follows:

(1) Step 1 (January 2, 2011 through June 30, 2011): Only sources subject to the PSD permitting program at the time the Tailoring Rule was adopted would be subject to permitting requirements for GHGs under the PSD. For these projects, only those undertaking projects that would increase GHG emissions by 75,000 tons per year or more would be required to determine the Best Available Control Technology (“**BACT**”) for their GHG emissions. Similarly, sources then currently subject to the Title V Operating Permit Program would be subject to Title V Operating Permit Program requirements for GHGs.

(2) Step 2 (July 1, 2011 through June 30, 2013): In addition to Step 1 described above, any source that undertakes a new project that exceeds 100,000 tons per year of GHG emissions will be subject to PSD and Title V Operating Permit Program requirements.

On May 29, 2010, the USEPA completed its reconsideration of a memorandum of December 18, 2009, entitled “EPA’s interpretation of regulations that determine pollutants covered by the federal PSD program.” In this action, the USEPA confirmed that any new pollutant that the USEPA may regulate becomes covered under the PSD program on the date when the USEPA rule regulating that new pollutant takes effect. Accordingly, USEPA clarified that the compliance date for GHGs was January 2, 2011 when the rule applicable to mobile sources took effect.

On June 29, 2012, the USEPA issued a final rule setting forth Step 3 of the Tailoring Rule, which continued to focus on larger sources and, among other things, retained the permit standards set forth in Steps 1 and 2.

On June 23, 2014, the Supreme Court issued its decision *Utility Air Regulatory Group v. EPA*, in which the Supreme Court held that the USEPA may not treat GHGs as an air pollutant for purposes of determining whether a source is a major source required to obtain a PSD or Title V operating permit. The Supreme Court also said that the USEPA could continue to require that PSD permits otherwise required based on emissions of conventional pollutants may continue to require limitations on GHG emissions based on BACT. The USEPA is continuing to examine the implications of the Supreme Court’s decision and awaiting further action by U.S. courts. The USEPA is also continuing to examine how it may need to revise permitting regulations and related impacts to state programs.

The Authority believes that the Tailoring Rule is not applicable to the Authority, as it does not specifically address U.S. Territories. Even if the Tailoring Rule were determined to be applicable to U.S. Territories, the

Authority does not believe that the Tailoring Rule will impact the Authority's operations, as all of the Authority's generators are below the 73 MW minimum under the Tailoring Rule. The Authority is continuing to monitor developments with respect to the Tailoring Rule, as well as with respect to other potential legislation and regulation regarding GHGs. The U.S. Congress may in the future enact legislation and the USEPA may adopt additional rules and regulations addressing GHGs, and no assurance can be given as to the potential impact of any such future legislation or regulations on the Authority or its operations.

Clean Power Plan

On June 2, 2014, the USEPA proposed regulations to establish guidelines for cutting carbon pollution generated by existing power plants, which proposed guidelines were published in the Federal Register on June 18, 2014. The proposed regulations are intended to help reduce carbon emissions from the power sector by 30% from 2005 levels. Under the proposed regulations, the USEPA is proposing state-specific goals for reducing CO₂ emissions from fossil fuel-fired power plants based on the "best system of emission reduction" provisions under Section 111(d) of the CAA, as well as various options for states to achieve these goals. On October 28, 2014, the USEPA issued a supplemental proposal to the Clean Power Plan to address carbon pollution from affected power plants in Indian Country and U.S. territories, including Guam. On February 6, 2016, the Supreme Court put a stay on the Clean Power Plan. On October 16, 2017, the USEPA proposed to repeal the Clean Power Plan, contending that the Clean Power Plan is not consistent with the Clean Air Act.

Water Quality Compliance

The Clean Water Act (the "CWA") is comprehensive federal law governing water pollution. Section 301 of the CWA prohibits the discharge of pollutants, including thermal discharges, from point sources (which include any discrete conveyances from industrial facilities) into waters of the U.S. (which includes bodies of water in Guam), except as authorized under the National Pollutant Discharge Elimination System ("NPDES") permit program. Although USEPA may delegate the NPDES permitting authority to states (including Guam), the Guam EPA has retained this authority.

With respect to thermal discharges, Section 316(a) of the CWA authorizes USEPA to establish effluent limitations for these types of discharges. In addition, Section 316(b) of the CWA requires that NPDES permits for cooling water intake structures ensure that the location, design, construction, and capacity of these structures reflect the best technology available to minimize adverse environmental impacts, which include the impingement and entrainment of fish and egg larvae. Impingement refers to the killing of these aquatic organisms by being pinned against intake screens and other parts of the facility, and entrainment refers to the killing of these aquatic organisms by being sucked into the cooling water structures.

The Authority's power plants have discharges associated with their process water systems, cooling water systems and storm water discharges. For these discharges, the Authority's power plants have to comply with NPDES permits under the CWA. Renewed NPDES permits were issued to the Authority for Cabras in December 2012 (effective February 1, 2013) and for the Tanguisson Power Plant in June 2012 (effective July 2012), each of which has a five year term. The permits include effluent and monitoring requirements, as well as requirements to prepare certain plans. The USEPA conducted on-site compliance inspections at both sites in April 2012 and at Cabras in January 2014. The Authority reported that there were no findings during the April 2012 inspection at the Tanguisson Power Plant. The USEPA did provide a compliance inspection report for the April 2012 inspection at the Cabras Power Plant. No inspection compliance report for the January 2014 Cabras inspection has been issued; however, the USEPA did submit a request for additional information in May 2014.

The Tanguisson Power Plant was officially retired on January 1, 2015. As requested by the Authority, the USEPA terminated NPDES Permit GU0000027 for the Tanguisson Power Plant effective September 1, 2015.

Section 316(a) of the CWA allows the USEPA to impose alternative effluent limitations for the control of the thermal component of a discharge (i.e., a thermal variance from the otherwise applicable effluent limit). According to USEPA regulations, in order to get a thermal variance, a permit holder must demonstrate that the otherwise applicable thermal discharge effluent limit is more stringent than necessary to assure the protection and propagation of the water body's balanced, indigenous population of shellfish, fish and wildlife.

Pursuant to a consent decree with environmental organizations, the USEPA has issued past rulemaking under Section 316(b) of the CWA in three phases. In pertinent part, existing large electric-generating facilities were addressed in Phase II rulemaking finalized in February 2004, and existing small electric-generating and all manufacturing facilities were addressed in Phase III rulemaking finalized in June 2006. However, the Phase II rulemaking and a portion of the Phase III rulemaking were subject to a legal challenge and were remanded to the USEPA for reconsideration. As a result, on April 20, 2011, the USEPA published a new draft rule pertaining to Section 316(b) of the CWA. On May 19, 2014, the USEPA finalized standards under the rule. Compliance with this rule is established in reference to the date of issuance of the final rule.

This regulation has three components. First, existing facilities that withdraw at least 25% of their water from an adjacent water body exclusively for cooling purposes and have a design intake flow of greater than 2 million gallons per day are required to reduce fish impingement. To comply with this requirement, the owner/operator of the facility will be able to choose from one of seven options for meeting best technology available (“BTA”) requirements for reducing impingement. Second, existing facilities that withdraw very large amounts of water (at least 125 million gallons per day) are required to conduct studies to help their permitting authority determine whether and what site-specific controls, if any, would be required to reduce the number of aquatic organisms sucked into (entrained by) cooling water systems, which process will include public input. Third, new units that add electrical generation capacity at an existing facility would be required to add technology that achieves one of two alternatives under the national BTA standards for entrainment for new units at existing facilities: (i) the owner or operator of a facility must reduce actual intake flow at the new unit, at a minimum, to a level commensurate with that which can be attained by the use of a closed-cycle recirculating system or (ii) the owner or operator of a facility must demonstrate that it has installed, and will operate and maintain, technological or other control measures for each intake at the new unit that achieves a prescribed reduction in entrainment mortality of all states of fish and shellfish that pass through a sieve with a maximum opening dimension of 0.56 inches.

The existing NPDES permit for the Cabras Power Plant expires on January 31, 2018; therefore, based on the allowance for schedule extension provided under §125.95(a)(2) of the CWA, the Authority is requesting an extension on its schedule for submission of the information required under §316(b) of the CWA until the next NPDES permit renewal, which would be January 2023. Assuming this request for an extension is granted and that the Authority meets its schedule for building a new power plant (which management expects to occur) and decommissioning the Cabras Power Plant by no later than December 2021, then at the 2023 NPDES permit renewal there will be no cooling water-flow at the Cabras Power Plant. Therefore, the Authority’s primary plan for compliance with §316(b) of the CWA is that all cooling water intake flows will be eliminated prior to the rescheduled compliance date.

Other than as described above, the Authority is in compliance with CWA regulations (NPDES permits, Drinking Water Act program, Oil Pollution Act (FRP and operations manual), and Spill Prevention, Control, and Countermeasure (“SPCC”) regulations).

Spill Prevention Control and Countermeasures Plan

Under the authority of Section 311 of the CWA, the USEPA has issued regulations setting forth requirements for prevention of, preparedness for, and response to oil discharges at specific non-transportation-related facilities. To prevent oil from reaching navigable waters and adjoining shorelines, and to contain discharges of oil, the regulation requires these facilities to develop and implement SPCC plans (“**SPCC Plans**”) and establishes procedures, methods and equipment requirements. Some facilities are also required to implement Facility Response Plans (“**FRP**”) depending on the fuel storage capacity and risk of harm to navigable waters and extent of risk they present with respect to an oil spill to a body of water.

The Authority has a program to comply with SPCC requirements that became effective in November 2011, which addressed the containment of potential leakage from oil containing electrical equipment in its distribution substations. The Authority has implemented the monitoring and inspection requirements under these regulations (40 C.F.R. §112.7(k)).

All of the Authority’s required SPCC Plans are up-to-date, all of the Authority’s required FRPs are in place and all of the Authority’s plans are being implemented in accordance with USEPA regulations. On August 24, 2017,

diesel #2 fuel leaked from a transfer pump with less than one gallon reaching outfall 101. Absorbent booms were placed in the Piti Channel and the Authority contacted the National Response Center, the Guam EPA and the U.S. Coast Guard. Prior to the August 2017 spill, the last reportable spill was in February 2015 on the Tanguisson Pipeline, intersecting the Toto-Canada Road, when approximately 20-30 gallons of residual oil #6 spilled during the depressurization of the Tanguisson Pipeline. The Authority contacted the Guam EPA and cleanup was conducted at the spill site.

Hazardous Substances and Wastes

The Authority's operations may be regulated or impacted by various federal laws, including those described below, and their Guam counterparts, related to the handling of hazardous substances and wastes, including petroleum and related substances.

The Oil Pollution Act ("OPA") imposes substantial penalties for spills of oil or USEPA listed hazardous substances into bodies of water and for the failure to report such spills. In addition, OPA imposes strict liability on certain responsible parties for the cleanup of oil spills in bodies of water. The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"), on the other hand, also imposes strict liability and joint and several liability to certain potentially responsible parties for damages and remedial action related to contamination caused by hazardous substances. Under CERCLA, liability can be imposed on any generator of hazardous substances that arranged for disposal or treatment at the affected facility. As such, potentially responsible parties can be held liable for cleanup costs associated with superfund actions.

CERCLA provides for reporting requirements to cover the release of hazardous substances generally into the environment, including water, land and air. When these substances are processed, stored, or handled, reasonable and prudent measures must be employed to prevent a release to the environment. In addition, pursuant to the TSCA, USEPA has issued regulations imposing stringent requirements for labeling, handling, storing and disposing of polychlorinated biphenyls ("PCB") and associated equipment. There are regulations governing PCB notification and manifesting, restrictions on disposal of drained electrical equipment, spill cleanup, recordkeeping requirements, among other things.

Moreover, under the Emergency Planning and Community Right-to-Know Act of 1986 (the "EPCRA"), which forms part of CERCLA, entities that store or manage hazardous chemicals in specified quantities must comply with a program of emergency planning and a community right-to-know designed to inform the public about routine chemical hazards present at the facilities. Both programs have stringent enforcement provisions. Among other things, EPCRA requires reporting of hazardous chemicals by means of specified reports that are filed with USEPA and other public entities.

Furthermore, pursuant to the Resource Conservation and Recovery Act ("RCRA"), the USEPA has the authority to control hazardous waste from the "cradle-to-grave." This includes the generation, transportation, treatment, storage, and disposal of hazardous waste. RCRA also set forth a framework for the management of non-hazardous solid wastes, and includes provisions that enable USEPA to address environmental problems that could result from underground tanks storing petroleum and other hazardous substances. Certain waste, including spent boiler cleaning solutions, waste solvents and certain waste oils generated by the Authority may be considered hazardous wastes under RCRA.

Future Legislative Actions

Numerous bills have been under consideration in the U.S. Congress concerning U.S. 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.

Environmental Matters

All of the Authority's generating plants and associated facilities must comply with federal environmental laws and regulations. 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 USEPA and some are administered by the Guam Environmental Protection Agency ("**Guam EPA**"). The USEPA administers permits of wastewater discharges and new sources of air emissions relative to the Authority. The acid rain provision of the Federal Clean Air Act (Title IV), which provision established an allowance program for sulfur dioxide and nitrous oxide emissions, affects only electric utilities in the continental U.S. 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 reports that it has received two Notices of Violation ("**NOV**") with regard to environmental compliance issues, which have been satisfactorily resolved with the applicable regulatory agencies. The Authority reports also that the permit effluent limitations were exceeded at two of the Authority's facilities in 2013 and 2014; however, the Authority is not aware of any pending NOV's for this or any other matter.

For a discussion of various federal and territorial environmental regulation requirements and the Authority's compliance therewith, as well as potential issues and regulatory hurdles relating to the future development or repowering of Authority resources, see "REGULATORY MATTERS—Air Quality Compliance," "—Maximum Achievable Control Technology," "—Greenhouse Gas Regulations," "—Clean Power Plan," "—Water Quality Compliance," "—Spill Prevention Control and Countermeasures Plan" and "—Hazardous Substances and Wastes." See also "BONDHOLDERS RISKS—Environmental Issues."

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 2017A Senior 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 2017A Senior Bonds prior to purchasing any 2017A Senior Bonds. The following discussion of investment considerations does not necessarily reflect the relative importance of the various topics discussed. The 2017A Senior 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 2017A Senior Bonds and should confer with their legal and financial advisors before considering a purchase of the 2017A Senior Bonds. Prospective purchasers of the 2017A Senior 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 2017A Senior 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 2017A Senior Bonds.

General

The principal of and interest on the 2017A Senior Bonds are payable pursuant to the Senior Indenture solely from the Revenues. The ability to pay debt service on the 2017A Senior Bonds will depend on the receipt of sufficient Revenues, pledged as payment for the 2017A Senior Bonds, subject to the provisions of the Senior 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, natural disasters 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 2017A Senior Bonds may be adversely affected. See APPENDIX A—"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 2017A Senior Bonds may not be able to pursue certain remedies or enforce covenants contained in the Senior Indenture. The remedies available to the Holders of the 2017A Senior Bonds upon an Event of Default under the Senior 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 Senior Indenture and the 2017A Senior Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2017A Senior Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by insolvency or other laws affecting the rights of creditors generally.

The federal Bankruptcy Code dictates which entities are eligible to seek relief as debtors under each chapter of that federal law. Neither the Government of Guam nor the Authority are legally able to seek bankruptcy relief under current federal law. No proposed debt restructuring legislation has been introduced in the Legislature of Guam, nor to the Authority's knowledge is any such legislation being contemplated or discussed, and the Governor is opposed to enacting any such legislation. The Authority can neither predict nor provide any assurances regarding any future changes in law or legislative proposals.

For a description of the various remedies and limitations thereon set forth in the senior Indenture, see APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE."

Uncertainties of Projections and Assumptions

This Official Statement contains certain assumptions, estimates, projections and other forward-looking statements. Demonstration of compliance by the Authority with certain of the covenants contained in the Senior Indenture also may be based upon assumptions, estimates and projections. Actual results, however, may differ, perhaps materially, from those projected. In addition, certain assumptions with respect to future business and financing decisions, including the decision to undertake, or to postpone or cancel, future capital improvements of the System may not occur and are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the existence of any particular future set of facts or circumstances, and prospective purchasers of the 2017A Senior Bonds are cautioned not to place undue reliance upon any forecasts, estimates, plans or projections or requirements for forecasts or projections. If actual results are less favorable than the results projected or if the assumptions used in preparing projections prove to be incorrect, the ability of the Authority to make timely payment of the principal of and interest on the 2017A Senior Bonds may be materially and adversely affected.

This Official Statement 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; and

(f) deviations from projected future load requirements.

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 “FUEL SUPPLY” fuel commodity and handling costs accounted for approximately 56.5% of the Authority’s total expenses in Fiscal Year 2017. The cost of fuel is volatile. Although the LEAC component of the Authority’s rates has been adjusted a number of times the last several years, the scheduled biannual LEAC rate adjustments generally lag behind fuel costs increases by as long as six months, which in the past has resulted in depletion of the Working Capital Fund and the Authority’s overall liquidity. Although the Authority is permitted in certain circumstances to petition the PUC for an interim LEAC adjustment prior to the next scheduled biannual adjustment and the PUC has always granted these interim adjustments, no assurance can be given that the PUC will always approve such requests at the times and in the amounts requested by the Authority. Continued volatility in the cost of fuel could materially adversely affect the financial condition, including the liquidity, of the Authority. In addition, because of Guam’s 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, which generally are outside the Authority’s control, could materially adversely affect the operations and financial condition of the Authority.

Guam Economy; Impact of Tourism and Military Presence

The Authority’s ability to generate Revenues depends in large measure, on the local economy, which is heavily dependent on tourism and the U.S. military presence, both of which are dependent on world economic, social and political events.

Tourism represents a significant share of the economic activity on Guam. 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. A weak economy, war, epidemic outbreaks, or the threat of terrorist activity, among other influences that are beyond the Government’s control, can adversely affect the tourism industry. Also, currency exchange rates, trade balances, political relationships, and conflicts within and between countries are increasingly important influences on tourism. Economic conditions in Japan, South Korea and throughout the Pacific Rim, and the resulting effect on overseas travel from these countries, are 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 Japan’s international travel policy could affect tourism in Guam. Tourism, particularly from Japan and South Korea, where, in Fiscal Year 2017, approximately 43% and 42% of visitors, respectively, to Guam originate, represents a significant share of the economic activity on Guam. A significant downturn in tourism, including a downturn related to Japanese or South Korean economic conditions or social policies, could result in reduced revenues from hotels and other related tourist facilities. For example, following the earthquake and tsunami in Japan on March 11, 2011, the number of tourists visiting Guam from Japan in Fiscal Year 2011 dropped by approximately 7.2% compared to Fiscal Year 2010. Although visitor arrivals from Japan increased in Fiscal Year 2012, increasing 10.2% over Fiscal Year 2011, no assurance can be given that Guam will not experience a similar or greater reduction in the number of visitors from Japan, South Korea or other visitor markets as a result of other natural disasters or other economic, political or societal conditions. See “DEMOGRAPHIC AND ECONOMIC INFORMATION—Guam Tourist Industry” in APPENDIX A. In addition, lower levels of employment tend to reduce the revenue available to the Authority. To the extent the Authority is unable to make up for revenue shortfalls, the ability to pay debt service on the Bonds may be adversely affected.

The level of Revenues is also affected by the U.S. military presence on Guam. The U.S. military presence also affects economic activity on Guam in various ways, both directly, through individuals' demand for commercial, construction and other services, and expansions in the U.S. military presence, such as the expansions expected to occur over the next several years, can have a direct, positive impact on the Guam economy by spurring new economic activity and attracting visitors to Guam. However, economic, geopolitical, and other influences that are beyond the Government's and the Authority's control might result in a decision by the U.S. government to reduce the existing presence of the U.S. military on Guam or forego some or all of the planned enhancements to its presence on Guam. For example, in late July 2010, the Joint Guam Program Office of the Department of the Navy released its Final Environmental Impact Statement (the "EIS") pertaining to the proposed U.S. military build-up on Guam. At the time the EIS was released, it was anticipated that the military build-up would have three major parts: relocation of part of the Third Marine Expeditionary Force from Okinawa, Japan, creation of the infrastructure for an aircraft carrier berthing, and installation of an Army Air and Missile Defense Task Force. Subsequent to 2010, however, Guam began to experience a decrease in military personnel as a result of the delay in the relocation of the Third Marine Expeditionary Force from Okinawa and Iwakuni, Japan to Guam. Concerns regarding the high cost of the relocation and delays in relocating U.S. military personnel and facilities currently within Japan, among other things, have extended the implementation timeframe for the relocation of the U.S. Marines from Japan. The proposed U.S. military build-up now is not expected to occur until after 2018. In addition, the expected size of the build-up has decreased. In July 2015, the Department of Defense released the Supplemental Environmental Impact Statement (the "SEIS"), which identified potential impacts associated with several alternatives for the cantonment/family housing component of this relocation. The Record of Decision, which identified the final locations for additional bases and facilities to accommodate the U.S. Marines, was issued in August 2015. In the event that the U.S. military changes its current plans with respect to staffing and other strategic improvements on Guam, expected benefits may not be realized and the economy could be adversely affected. In the event that the U.S. military elects to reduce or eliminate its presence on Guam, the economy could decline.

In addition, it is expected that the anticipated relocation of U.S. Marines from Okinawa, Japan, to Guam will generate a significant amount of additional construction activity. Although Guam's construction industry has time to develop its capacity in anticipation of this significant increase in activity, it is possible that much of the work will be awarded to outside developers and project managers. Although the relocation of U.S. Marines to Guam is expected to reap benefits for the Guam economy in the short-term, the long-term benefits are not likely to be as great if the construction activity is largely completed by non-local firms. Furthermore, the denial of nearly all H-2B visas in Fiscal Year 2017 has resulted in a labor shortage and a potential economic downturn for Guam.

See APPENDIX A—"CERTAIN INFORMATION REGARDING THE TERRITORY OF GUAM" for more information about the tourism industry, the U.S. military presence and the denial of H-2B visas.

Uncertainties Relating to Political and Military Actions

Guam is approximately 3,800 miles west-southwest of Honolulu, Hawaii, the nearest major city of the U.S. The significant U.S. military presence on Guam, its distance from locations in the U.S. and its location in relation to potential sites of political and military conflict in Asia make Guam both a location of great value to the U.S. militarily and a potential site of military conflict. Political events in Asia may create the risk of conflict for the region in general and, in some cases, for Guam. In response to recent threats by North Korea to launch ballistic missile attacks against U.S. military targets, including targets on Guam, the U.S. military deployed a missile defense system to Guam in 2013. Although as of October 2017, these threats do not appear to have materially impacted the cumulative number of tourists visiting Guam, no assurance can be given that these threats and any future military actions will not have an adverse effect on Guam tourist activity and, as a result, the availability of Revenues sufficient to pay debt service on the Bonds, including the 2017A Senior Bonds.

Events of Force Majeure

The occurrence of a force majeure event, including but not limited to damaging storms, typhoons, winds and floods, fires and explosions, sabotage, wars, blockades and riots, may result in significant unanticipated costs which could have a material adverse effect on the System and the Authority's ability to make payments under the 2017A Senior Bonds. See also "POWER SUPPLY—Capacity Recovery Plan—*Loss of Generating Capacity*."

More specifically, 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 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. However, 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 operations and 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. Regulatory changes have in the past and may in the future imposed significant new compliance costs (both capital and operating) on the Authority. For a discussion of local regulation, see "REGULATORY MATTERS."

Liquidity

The Authority's working capital and available cash resources fluctuate (sometimes significantly), which the Authority generally attributes to frequent fuel price changes and the lag between incurring increased fuel costs and recovering of such increased costs through the LEAC. As previously discussed in "FINANCIAL MATTERS—Liquidity and Working Capital Fund," over the past several years the Authority has taken several actions to help minimize the impact of such fuel price increases on the Authority's liquidity, including, among other things, increasing the frequency of petitions for interim LEAC adjustments and implementing a Working Capital Surcharge. The Authority maintains a Working Capital Fund pursuant to the Senior Indenture. As of September 30, 2017, the balance of the Working Capital Fund was \$30.7 million; however, the Authority held an additional \$52.1 million in unrestricted cash. In addition to the amount on the deposit in the Working Capital Fund, the Authority also holds certain other funds and accounts that are available to the Authority to pay unexpected costs. There can be no assurance, however, that the Authority will maintain sufficient working capital and liquidity 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.

Changes in Federal Laws or Regulations

The electric utility industry in the U.S. mainland has changed from a regulated monopoly business to a more deregulated, competitive industry. FERC has mandated wholesale wheeling and open access for transmission facilities owned by utilities that engage in interstate commerce. The requirements of FERC, including those regarding wholesale wheeling, are generally not applicable to the Authority because it is not engaged in transactions in interstate commerce. In addition, there are currently no wholesale clients in Guam, and the Authority is not required to offer a wheeling service. As a result, the Authority has operated as a monopoly in the sale of electricity which has allowed it to charge rates determined by reference to its costs of service rather than by competitive forces. The Authority remains subject to the mandatory purchase obligation and other legal requirements in the Public Utility Regulatory Policies Act of 1978 ("PURPA"), which requires the Authority to purchase energy from certain

generators at the Authority's avoided costs. Changes in Federal legislation, market development and other factors, however, could expose the Authority to competition.

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 penalties, additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual electric generating units not in compliance.

The environmental aspects of the Authority's operations are heavily regulated under federal and Guam statutes and associated rules and regulations. In the past, there have been various instances of non-compliance by the Authority with U.S. federal and Guam environmental laws and regulations, which have resulted in monetary penalties and injunctive relief against the Authority.

There can be no assurance that the federal and Guam government agencies regulating environmental matters will not bring enforcement actions under existing statutes, which could require unexpected capital and/or operating expenditures. For more information regarding the Authority's compliance with environmental laws and regulations, see "REGULATORY MATTERS—Environmental Matters."

The Authority has budgeted for compliance with current, applicable environmental requirements, the actual cost of compliance and the Authority's total capital expenditures may vary substantially depending on, among other things, (i) the availability of an adequate pool of qualified contractors to carry out needed projects, (ii) the inflationary environment with respect to the costs of labor and supplies needed to implement the compliance program, (iii) weather conditions that could adversely affect construction schedules and consumption patterns, (iv) population trends and political and economic developments in Guam that could adversely affect the collection of operating revenues, (v) the willingness of the USEPA to cooperate with respect to various issues that may arise as the Authority implements its operating and capital plans, (vi) the possibility of new environmental legislation or regulations affecting the Authority's facilities and operations, and (vii) unanticipated costs or potential modifications to projects resulting from requirements and limitations imposed by environmental laws and regulations.

There can be no assurance that the actual cost of compliance will not be significantly higher than the Authority's current estimate (budgeted amount), nor can any assurance be given that the Authority will be able to avoid the imposition of additional monetary penalties. No assurance can be given that the Authority will be able to finance, through the issuance of bonds or otherwise, the estimated costs of the needed capital improvements during the next five years or of any additional capital improvement requirements that may be imposed on the Authority, or that rate increases will be implemented on a timely basis to support any such additional obligations.

In addition, although new or future environmental regulatory requirements may provide for a period of time to achieve compliance with, or provide a plan to comply, such regulatory requirements may also require additional capital and operating expenditures. For more information on these regulatory requirements, see "REGULATORY MATTERS—Environmental Matters." It is not possible for the Authority to determine at this point the magnitude of these expenditures.

For a more detailed description of the environmental matters affecting the Authority, see "REGULATORY MATTERS—Environmental Matters."

Implementation of Capital Improvement Program

The costs of the Authority's Capital Improvement Program for Fiscal Year 2018 through Fiscal Year 2022 are currently estimated to total approximately \$177 million, which does not include expenditures related to the Combined Cycle/Flexible Generation Plant and related facilities project currently being evaluated by the Authority.

The estimated costs of, and the projected schedules for, the projects under Capital Improvement Program are subject to a number of uncertainties. The ability of the Authority to complete the Capital Improvement Program projects may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, earthquakes or other casualty events, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation and (xi) environmental issues. No assurance can be made that the Capital Improvement Program projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue Additional Senior Bonds.

The Authority expects to fund the Capital Improvement Program from a combination of existing funds (including any remaining proceeds of Prior Senior Bonds), proceeds of Additional Senior Bonds, operating revenues, grants, developer contributions and other outside contributions. In the event one or more of these funding sources is not available to the Authority in the amount or on the schedule contemplated in the Capital Improvement Program, the implementation of some of the Capital Improvement Program projects may be delayed.

Limitation of Rights upon Insolvency

On June 30, 2016, former President Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act ("**PROMESA**"). Despite its name, PROMESA contains provisions relating to other U.S. territories, besides Puerto Rico. PROMESA defines a "territory" as (A) Puerto Rico, (B) Guam, (C) American Samoa, (D) the Commonwealth of the Northern Mariana Islands, and (E) the U.S. Virgin Islands. PROMESA establishes a financial oversight and management board only for Puerto Rico. The stated purpose of an oversight board is to "provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." There are provisions of PROMESA that contemplate that oversight boards could be established in the future for other territories, but PROMESA does not set forth a clear mechanism for doing so. It appears that action by Congress and the President would be required before an oversight board could be established for any other territory. An earlier version of the Congressional bill that became PROMESA included text providing that, except with respect to Puerto Rico, an oversight board "for a territory is established in accordance with this section only if the Legislature of the territory adopts a resolution signed by the Governor requesting the establishment." That provision is not included in the final version of PROMESA.

PROMESA provides that the purpose of an oversight board is to provide a method for the territory to achieve fiscal responsibility and access to the capital markets. One of the powers that an oversight board can exercise is to file a petition in federal court that commences a case under PROMESA pursuant to which the territory can adjust its debts. The territory is not authorized to commence a case under PROMESA by itself. Before the oversight board files such a petition, the oversight board must determine that (i) the territory has made good-faith efforts to reach a consensual restructuring with creditors, (ii) the territory has (A) adopted procedures necessary to deliver timely audited financial statements and (B) made public draft financial statements and other information sufficient for any interested person to make an informed decision with respect to a possible restructuring, and (iii) the territory has adopted a fiscal plan that has been certified by the oversight board.

While the provisions of PROMESA regarding adjustment of debts include some of the provisions found in the Bankruptcy Code, the provisions of PROMESA regarding adjustment of debts are not the same as the provisions of the Bankruptcy Code. As part of such a case, the territory may be able, with the approval of the court, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants, and other terms or provisions of the bonds that it has issued. There may be other possible effects of such a case that could result in delays or reductions in payments on, or other losses with respect to, bonds issued by the territory.

PROMESA also establishes an out-of-court process, pursuant to which bondholders and the territory can agree, under the supervision of the oversight board, to modify the terms of bonds issued by the territory. Any such

modification must be approved by two-thirds of the principal amount of bonds that vote on the proposal. If the modification is approved by at least a two-thirds vote, the court has the power to enforce the modification against the bondholders who did not vote to approve it.

LITIGATION

At the time of delivery of the 2017A Senior Bonds, an appropriate officer of the Authority will be required to certify and counsel to the Authority will be required to 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 2017A Senior Bonds or the collection, pledge or payment of Revenues by the Authority under the Senior Indenture, 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 2017A Senior Bonds or the Senior Indenture. The Attorney General will deliver an opinion to the effect that the legislation approving the issuance of the 2017A Senior Bonds has been duly enacted by the Guam Legislature and signed by the Governor, and that the Governor has duly executed and delivered the required approval with respect to the Senior Indenture.

On September 3, 2014, the Authority received two related claims brought pursuant to the Guam Government Claims Act. The claimants are alleging, among other things, that the Authority had previously failed to properly install and maintain the electric meter for a commercial building and that as a result significantly increased power billings following the repair and replacement of the electric meter, one claimant was not charging sufficient rent under certain of its lease agreements and one claimant had over-valued the leases when determining the purchase price to be paid for the building. The claimants are seeking damages in the aggregate amount of approximately \$7.14 million. The claimants filed lawsuits in the Superior Court of Guam in *South North Guam, LLC vs. Guam Power Authority*, and *Fujita Property Guam, Inc. vs. Guam Power Authority* in September 2016. The Authority believes that these lawsuits are without merit and intends to vigorously defend against these lawsuits. Although the Authority expects that it will ultimately prevail with respect to these lawsuits, the Authority cannot predict the timing of any resolution or the eventual outcomes with respect to these lawsuits.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“**Bond Counsel**”), 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 2017A 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 2017A 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. Bond Counsel is also of the opinion that, under 48 U.S.C. Section 1423a, interest on the 2017A Senior Bonds is exempt from taxation by the government of Guam, or by any state or territory or any political subdivision thereof, or by the District of Columbia. As discussed further below, legislation has been introduced which, if enacted, would repeal the alternative minimum tax for tax years beginning after December 31, 2017. A complete copy of the proposed form of Bond Counsel’s opinion in respect of the 2017A Senior Bonds is set forth in APPENDIX D hereto.

To the extent the issue price of any maturity of the 2017A Senior Bonds is less than the amount to be paid at maturity of such 2017A Senior Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2017A Senior Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the 2017A 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 2017A Senior Bonds is the first price at which a substantial amount of such maturity of the 2017A Senior Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2017A Senior Bonds accrues daily over the term to maturity of such 2017A 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 2017A

Senior Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2017A Senior Bonds. Beneficial owners of the 2017A Senior Bonds should consult their tax advisors with respect to the tax consequences of ownership of 2017A Senior Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such 2017A Senior Bonds in the original offering to the public at the first price at which a substantial amount of such 2017A Senior Bonds is sold to the public.

2017A 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 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 2017A 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 2017A 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 2017A Senior Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2017A 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 2017A Senior Bonds may adversely affect the value of, or the tax status of interest on, the 2017A 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 2017A 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 amounts treated as interest on, the 2017A 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.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2017A Senior Bonds to be subject, directly or indirectly, in whole or in part, 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. Legislation has been introduced in Congress which, if enacted, would significantly change the income tax rates for individuals and corporations and would repeal the alternative minimum tax for tax years beginning after December 31, 2017. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2017A Senior Bonds. Prospective purchasers of the 2017A Senior Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express 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 2017A 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 2017A Senior Bonds ends with the issuance of the 2017A 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 2017A 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 the 2017A Senior 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 2017A 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 2017A Senior Bonds, and may cause the Authority or the beneficial owners to incur significant expense.

INDEPENDENT AUDITORS

The financial statements of the Authority for the Fiscal Years ended September 30, 2016 and 2015 have been audited by Deloitte & Touche LLP, Tamuning, Guam, independent auditors, as stated in their report, dated April 6, 2017, appearing in APPENDIX B to this Official Statement, which report includes an emphasis of matter paragraph relative to uncertainty of amounts recorded for the incurred losses and related insurance recoveries associated with an explosion and fire at the Authority's Cabras Units 3 and 4. Reference should be made to the audited financial statements included in APPENDIX B for a complete understanding of the information provided therein.

UNDERWRITING

The 2017A Senior Bonds are to be purchased from the Authority by Barclays Capital Inc. (the "**Representative**") and Citigroup Global Markets Inc. (collectively, the "**Underwriters**") pursuant to the terms of a Bond Purchase Agreement (the "**Bond Purchase Agreement**") between the Representative and the Authority. The purchase price of the Series 2017A Senior Bonds is \$165,135,580.50, representing the aggregate principal amount of the Series 2017A Senior Bonds (\$148,670,000.00), plus original issue premium of \$17,876,458.80 and less Underwriters' discount of \$1,410,878.30. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2017A Senior Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval by counsel of certain legal matters.

The Underwriters reserve the right to join with dealers and other Underwriters in offering the 2017A Senior Bonds to the public. The Underwriters intend to offer the 2017A Senior Bonds for sale at the prices or yields set forth on the inside cover page hereof. Such initial public offering prices or yields may be changed from time to time by the Underwriters without prior notice. The Underwriters may offer and sell the 2017 Bonds to certain dealers, unit investment trusts or money market funds at prices lower than or at yields higher than the public offering prices or yields stated on the inside front cover page.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

CERTAIN LEGAL MATTERS

The validity of the 2017A Senior Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon by Orrick, Herrington & Sutcliffe LLP, as Disclosure 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, Kutak Rock LLP, Spokane, Washington.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore P.C. (the “**Verification Agent**”) will verify from the information provided to them the mathematical accuracy as of the date of the closing on the 2017A Senior Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the securities and/or cash deposits listed in the underwriters’ schedules, to be held in escrow, will be sufficient to pay, when due, the principal or redemption price of and interest on the Refunded Bonds. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the redemption price and principal of and interest on the Refunded Bonds will be paid as described in the accompanying schedules, nor as to the exemption from taxation of the interest on the 2017A Senior Bonds.

CONTINUING DISCLOSURE

Pursuant to a Master Continuing Disclosure Agreement, as supplemented by a supplemental Continuing Disclosure Agreement with the Senior Trustee and Senior Co-Trustee for the Senior Bonds, the Authority has agreed to provide annually to the Municipal Securities Rulemaking Board (“**MSRB**”), through its EMMA system, a copy of its annual audited financial statements, as well as certain financial information and 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 has covenanted to 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 events listed in Rule 15c2-12. See APPENDIX E—“PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT.” These agreements have been made in order to assist the Underwriters in complying with Rule 15c2-12. The Authority has engaged DAC (Digital Assurance Corporation) to act as dissemination agent.

The Authority has not failed in the last five years to comply in all material respects with any previous undertakings with regard to Rule 15c2-12.

RATINGS

Moody’s, S&P and Fitch Ratings (“**Fitch**”) have assigned their underlying ratings of “Baa2,” “BBB” and “BBB-,” respectively, to the 2017A Senior Bonds. Such ratings reflect only the views of only the view of the rating agencies assigning such ratings at the time such ratings are given, and do not constitute a recommendation to buy, sell or hold the 2017A Senior 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, S&P Global Ratings, 55 Water Street, New York, New York 10041, and Fitch Ratings, One State Street Plaza, New York, New York 10004. Certain information and materials not included in this Official Statement were furnished to the rating agencies by or on behalf of the Authority. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions made by the rating agencies. There is no assurance that any such ratings 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. The Underwriters have undertaken no responsibility either to bring to the attention of the owners of the 2017A Senior Bonds any proposed revision or withdrawal of the ratings of the 2017A Senior Bonds or

to oppose any such proposed revision or withdrawal. The Authority has, however, undertaken, as part of its continuing disclosure obligation (see “CONTINUING DISCLOSURE”), to file with the MSRB all rating changes relating to the 2017A Senior Bonds, and S&P and Fitch have agreed with the MSRB to file all such rating changes they may adopt relating to the Authority directly with the MSRB. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market prices of the 2017A Senior 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 in respect of the Senior Bonds shall have the meanings ascribed to them in the text or in the Senior Indenture (see APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE”). 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.

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

GUAM POWER AUTHORITY

By: /s/ Joseph T. Duenas
Chairperson of the
Consolidated Commission on Utilities

APPENDIX A

GENERAL INFORMATION REGARDING THE TERRITORY OF GUAM

Guam is the westernmost territory of the United States of America (the “U.S.”), 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 in the western Pacific Ocean, the island is about 30 miles long and varies from four to nine miles wide, with a total land area of approximately 212 square miles. Guam is approximately 3,800 miles west-southwest of Honolulu, Hawaii, 1,550 miles south-southeast of Tokyo, Japan and 1,600 miles east of Manila, Philippines. The Mariana Trench, which has the deepest known ocean depth (36,070 ft.), extends from northeast to southwest of Guam. According to the U.S. Census Bureau, Guam’s population as of April 2010, the most recent date for which such information is available, was estimated to be 159,358 and according to World Bank Group, Guam’s population in 2016 was estimated to be approximately 163,000.

Guam was first settled approximately 4,000 years ago. 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 in 1521 when Ferdinand Magellan landed at Guam’s Umatac Bay. 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, signed in December 1898, Guam was ceded to the U.S. 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, U.S. forces recaptured Guam and reestablished a naval government. In 1950, the U.S. Congress passed the Organic Act of Guam (the “**Organic Act**”) granting the Chamorro people U.S. citizenship and establishing a civilian government.

Guam’s current political status is that of an unincorporated territory of the U.S. The organization and powers of the Government of Guam (the “**Government**”) are determined by the Organic Act. The Government consists of three branches: executive, legislative and judicial. A governor (the “**Governor**”), elected at large every four years, heads the executive branch. The Government maintains a staff of approximately 11,620 employees (as of September 2017, the most recent date for which such information is available) under the direction of the Governor and the Governor’s department heads. The unicameral legislature consists of 15 senators elected at large every two years. The judicial branch consists of the Superior Court of Guam, which is the court of general trial jurisdiction, and the Supreme Court of Guam, the court of highest appeal, established in 1996. Guam also has a Federal District Court and is within the jurisdiction of the Ninth Circuit U.S. Court of Appeals and the U.S. Supreme Court. Guam has one non-voting representative to the U.S. House of Representatives elected at large every two years.

Tourism revenues and U.S. federal and military spending contribute to Guam’s economy. Guam’s location in the Pacific region, a 3 to 5 hour flight from many Asian countries, greatly contributes to the diversity of the island’s population and the visitor industry. This geographic feature also provides U.S. military operations with significant flexibility compared to other locations in the Pacific and Asia.

On September 5, 2017, the Bureau of Economic Analysis of the U.S. Department of Commerce (“**BEA**”) released its estimates of gross domestic product (“**GDP**”) and gross domestic income (“**GDI**”) for Guam for 2016. As set forth in Table A-1, the BEA’s estimates indicate that Guam’s GDP grew from \$5.199 billion in 2012 to \$5.793 billion in 2016. The 2016 GDP figure consists of approximately \$3.255 billion of personal consumption expenditures, \$3.185 billion of government consumption expenditures and -\$1.841 billion in net exports of goods and services, and is offset by a decrease from approximately \$1.244 billion in 2015 to \$1.194 billion in 2016 of private fixed investment. The BEA also estimates that Guam’s real per capita GDP, measured in 2009 dollars adjusted for inflation, grew from \$31,202 in 2012 to \$31,961 in 2016.

Guam’s real GDP increased 0.4% in 2016 after increasing 0.5% in 2015. The increase in Guam’s real GDP in 2016 resulted primarily from an increase in consumer spending and exports of services. Consumer spending continued to increase in 2016 reflective of the growth in retail trade activity. The increase in exports of services grew for a third consecutive year in 2016, which consists of primarily spending by tourists. According to the BEA, the increase reflected growth in South Korean visitor arrivals and average spending by South Korean tourists.

However, these increases were partially offset by decreases in investment spending, both in the government and the private sector. Government spending on investment declined due to a decrease in Defense construction contracts and the completion of the Port Authority of Guam's (the "**Port Authority**") Port Investment Program in 2015. Moreover, business spending on construction and equipment decreased as major projects, including the construction of a new private hospital, and a new luxury hotel in Tumon, were completed in 2015.

TABLE A-1
GUAM GROSS DOMESTIC PRODUCT
CALENDAR YEARS 2012 – 2016
(Millions of Dollars)

<u>Calendar Year</u>	<u>Gross Domestic Product</u>
2012	5,199
2013	5,337
2014	5,531
2015	5,697
2016	5,793

Source: U.S. Department of Commerce Bureau of Economic Analysis.

Spending by tourists makes up the vast majority of Guam's exports of services. Guam's net real exports of services increased 2.0% in 2015 and increased 7.7% in 2016. Guam's real consumer spending on goods and services increased 0.6% in 2015 and increased 1.6% in 2016. According to the Government of Guam Bureau of Statistics and Plans, consumer prices increased 6.0% in 2016 over the same period in the previous year.

Average annual individual income for residents of Guam has increased from \$27,610 in 2005 to \$34,790 in 2016, a compound annual growth rate of 2.1%, according to the U.S. Department of Labor Bureau of Labor Statistics.

Most food and goods are imported, and approximately 70% of imports are from the U.S. mainland. Guam's commercial shipping port, the Jose D. Leon Guerrero Commercial Port (the "**Port**"), owns five cargo-handling piers along with two fuel piers and three marinas. The Port is the entry point for more than 90% of Guam's imports and also serves as a transshipment center for Micronesia. The Port handled approximately 2.1 million in cargo revenue tons, including the handling of over 103,000 twenty-foot-equivalent unit ("**TEUs**") containers in Fiscal Year 2016. The Port is located within Apra Harbor, a natural lagoon enclosed by a submerged coral bank and a barrier reef, and is operated by the Port Authority, a public corporation and autonomous instrumentality of the Government.

The primary carrier at the Port is Matson, accounting for approximately 65 percent of all cargo. Matson's service currently employs five containerhips with a capacity of approximately 2,500 TEUs in a string that carries cargo from the U.S. Pacific Coast to Honolulu, then to Guam.

Seabridge has a U.S. flag tug and barge operation that provides transshipment services for Matson and Saipan Shipping, a sister company of Kyowa Shipping Co ("**Kyowa**"). The biweekly/monthly service primarily carries U.S. military cargo to Kwajalein via transshipment at Guam. The service transfers an average of about 10 containers per vessel call between Guam and the Commonwealth of the Northern Mariana Islands ("**CNMI**").

The foreign-flag carriers serving Guam include Kyowa, Marianas Express Lines Pte. Ltd. and Nippon Yusen Kaisha. These carriers not only serve the Guam-Asian market, they also provide the majority of transshipment services to other non-U.S. territory ports in the region.

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 consists of two distinct areas of about equal size. The northern region of Guam 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 of Guam 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 degrees Fahrenheit. 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 tropical storms passed directly over or just south of the island. Eight 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, Typhoon Chata'an and Super Typhoon Pongsona in 2002 and Typhoon Dolphin in May 2015. In 2002, Guam adopted the International Building Code, and has subsequently adopted the 2009 Edition, requiring all new construction to be designed to tolerate wind velocities of 155 miles per hour. In 2015, Typhoon Dolphin struck the island with winds exceeding 100 miles per hour. While Guam sustained damage from the storm primarily to its agriculture lands, the island recovered quickly, in part due to targeted efforts to strengthen the island's infrastructure. Due to its location near the Mariana Trench, Guam also occasionally experiences seismic activity, including earthquakes and tsunamis. Other than a major earthquake of 8.1 magnitude on August 8, 1993, which also created a minor tsunami, no recent earthquakes or tsunamis have caused significant damage on Guam.

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 South Koreans constitute the bulk of Guam's population. There are also substantial numbers of Micronesian islanders, Vietnamese and East Indians. Guam's diverse population makes it one of the most cosmopolitan communities in the western Pacific.

According to the 2010 U.S. Census, Guam's 2010 population was 159,358. This represents a 2.9% increase over the 2000 U.S. Census tabulation of 154,805, which was in turn a 16.3% increase over the 1990 population of 133,152.

Guam currently has 41 public schools, 24 private schools, four U.S. Department of Defense ("DoD") schools, two charter schools, one community college and one university. Approximately 31,000 students attend Guam's elementary and secondary schools. The construction of a new central high school, Tiyan High School, was completed in 2014 and welcomed over 1,400 students for the 2014-2015 school year. Expansion of the existing Okkodo High School was completed on July 2014 for the school year 2014-2015. 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.

Employment

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

The island saw steady job growth in all sectors, as the total number of jobs jumped from 61,890 in 2012 to 63,410 in 2016, a growth of 2.5% over the 5-year period. The private sector saw the biggest increase in jobs, especially in the retail-trade and services industries. 2015 employment grew significantly, attributed to the growth in tourism as well as the opening of the new private hospital and the Dusit Thani Guam Resort.

As of September 2017, preliminary data shows the private sector jobs and total employment decreased slightly from the comparable period of one year ago. The total number of construction jobs over the year has declined by 300 while the number of non-construction jobs barely increased by 30. The industry job gains over the year were made up of retail trade which was up by 330; finance, insurance and real estate up by 30; and hotels up by 120. There were 10 more Federal jobs and 100 fewer Government jobs in September 2017. The total employment over the year declined by 420 jobs or by 0.67%.

The distribution of civilian employment in Guam based on payrolls as of December 31 for calendar years 2012 through 2016, and as of September 30 for calendar year 2017 is listed by industry in Table A-2. Excluded from the civilian employment estimates in Table A-2 are self-employed individuals, active duty military personnel, proprietors, volunteers and unpaid family workers. The payroll survey in Table A-2 includes all civilian personnel on payroll, including multiple jobholders counted at each place of employment, and nonresident alien workers.

TABLE A-2
Civilian Employment⁽¹⁾
(as of December for Calendar Years 2012-2016, and as of September for 2017)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016⁽³⁾</u>	<u>2017⁽⁴⁾</u>
<u>Private sector:</u>						
Agriculture	140	160	180	280	270	230
Construction	6,540	7,120	6,070	6,770	6,090	5,590
Manufacturing	1,660	1,420	1,320	1,600	1,540	1,470
Transportation & Public Utilities	4,670	4,810	4,710	4,500	4,450	4,490
Wholesale Trade	2,320	2,250	2,370	2,490	2,370	2,320
Retail Trade	11,730	11,540	11,670	11,550	12,420	12,520
Finance, Insurance, and Real Estate	2,520	2,530	2,460	2,490	2,570	2,570
Services	16,520	16,490	17,750	18,150	18,140	18,000
Total private	<u>46,100</u>	<u>46,320</u>	<u>46,530</u>	<u>47,830</u>	<u>47,850</u>	<u>47,190</u>
<u>Public sector:</u>						
Federal Government	4,060	4,020	4,110	4,030	3,960	3,910
Government of Guam ⁽²⁾	11,730	11,570	11,730	11,890	11,600	11,620
Total public	<u>15,790</u>	<u>15,590</u>	<u>15,840</u>	<u>15,920</u>	<u>15,560</u>	<u>15,530</u>
Total Payroll Employment	<u>61,890</u>	<u>61,910</u>	<u>62,370</u>	<u>63,750</u>	<u>63,410</u>	<u>62,720</u>

⁽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.

⁽³⁾ Revised figures as of December 2016.

⁽⁴⁾ Preliminary figures as of September 30, 2017.

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

Table A-3 shows the top 15 private employers by number of employees in Micronesia.

TABLE A-3
Top 15 Private Employers ⁽¹⁾
Calendar Year 2016

<u>Employer (and Type of Enterprise)</u>	<u>Number of Employees ⁽²⁾</u>
1. Imperial Pacific Intl. (CNMI) LLC (investments, casino resort)	1,307
2. Calvo Enterprises Inc. (insurance, various)	1,253
3. Triple J Enterprises Inc. (automotive, various)	950
4. DZSP 21 LLC (military support services)	880
5. Core Tech International Corp. (construction)	862
6. Pacific Islands Club Guam (hotel)	746
7. Docomo Pacific (telecommunications)	640
8. Bank of Guam (financial services)	621
9. Hilton Guam Resort & Spa (hotel)	600
10. GFS Group (support services)	550
11. GTA (telecommunications)	496
12. Pacific Islands Club Saipan (hotel)	396
13. Black Construction Corp. (construction)	395
14. Atkins Kroll Inc. (Guam and Saipan) (automotive)	330
15. Pacific International Inc. (construction)	326

⁽¹⁾ Companies selected by employee count from among top 30 by revenues, as compiled by the source.

⁽²⁾ Number of employees represents total number of employees in Micronesia.

Source: Guam Business Magazine 2016 Top Companies.

Unemployment

The Government reports employment and unemployment separately. Guam's unemployment was 5.4% as of September 2016, an increase of 0.9 percentage points from the comparable period a year ago in September 2015, but a reduction of 2.2 percentage points from the 7.6 percent rate of two years ago in September 2014 and a decrease of 4.6 percent from the 10.0 percent rate in September 2013. The total number of persons reported as unemployed in September 2016 was 3,910, an increase of 780 from the September 2015 estimates.

Table A-4 lists unemployment statistics for March 2012 to September 2016. Differences in the employment figures in Table A-2 and Table A-4 arise as a result of differences in the surveys' coverage and exclusions. For example, the household survey in Table A-4 excludes civilians living within military installations or in military housing, and employees under the age of 16 years.

TABLE A-4
Unemployment Statistics ⁽¹⁾
March 2012 - September 2016

<u>As of ⁽²⁾</u>	<u>Total Labor Force</u>	<u>Number of Unemployed</u>	<u>Unemployment Rate (%)</u>
March 2012	68,400	8,060	11.8%
June 2012	72,890	10,190	14.0%
September 2012	72,980	7,970	10.9%
December 2012	72,560	7,800	10.7%
March 2013	73,170	9,730	13.3%
June 2013	70,420	10,310	14.6%
September 2013	71,430	7,160	10.0%
December 2013	70,490	5,940	8.4%
March 2014	72,070	5,350	7.4%
June 2014	70,530	6,380	9.0%
September 2014	71,060	5,390	7.6%
December 2014	74,870	5,760	7.7%
March 2015	70,420	4,840	6.9%
June 2015	70,790	6,120	8.6%
September 2015	69,800	3,130	4.5%
December 2015	73,210	3,550	4.8%
March 2016	69,400	2,800	4.0%
June 2016	71,420	2,770	3.9%
September 2016 ⁽³⁾	71,960	3,910	5.4%

⁽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 Guam Department of Labor, Bureau of Labor Statistics.

⁽³⁾ Latest 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 A-5 lists the dollar value of the construction permits issued during the period from Fiscal Years 2012 through 2017. Values given include permits for new construction and additions.

TABLE A-5
Fiscal Year Building and Construction Permits
Fiscal Years 2012 - 2017
(Dollars in Thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017⁽³⁾</u>
Residential	\$40,141	\$54,518	\$41,123	\$53,918	\$71,736	\$66,005
Commercial & Industrial	28,663	128,727	167,587	120,115	180,834	72,327
Government	113,389	81,061	162,221	45,967	145,564	278,119
Hotels	830	—	—	—	—	—
Condominiums	20,000	161	—	—	—	—
Apartments & Dormitories	11,374	30,160	—	—	—	—
Other ⁽¹⁾	149,535 ⁽²⁾	13,927	35,241	6,013	36,143	20,380
Total	\$363,932	\$308,554	\$406,172	\$226,013	\$434,277	\$436,831

⁽¹⁾ Includes permit renewals, demolitions, relocations and church buildings.

⁽²⁾ Includes \$120 million for Guam Regional Medical City.

⁽³⁾ Preliminary data as of September 2017.

Source: Bureau of Labor Statistics, Department of Labor.

During Fiscal Year 2012, approximately \$364 million of building and construction permits were issued, due primarily to permit renewals, demolitions, relocations, church buildings and the construction of the Guam Regional Medical City. During Fiscal Year 2013, approximately \$308.6 million in building permits were issued, representing a decrease of approximately 15.2% percent over Fiscal Year 2012. During Fiscal Year 2014, approximately \$406.2 million in building permits were issued, representing an increase of approximately 32% over Fiscal Year 2013.

In Fiscal Year 2015, approximately \$226 million of building and construction projects were in place based on the permits issued, representing a decrease of approximately 44% over Fiscal Year 2014, primarily due to a sharp drop in government projects. Although there was a delay in the planned relocation of U.S. Marines and military dependents from Okinawa and Iwakuni, Japan to Guam construction projects continued to increase since Fiscal Year 2012. The relocation of U.S. Marines to Guam has been revised to include approximately 4,700 to 6,000 service members and their families, about half the amount originally expected. Negotiations between the U.S. and Japan governments of the final terms and extent of the relocation are ongoing. A Record of Decision, which identifies the final locations for additional bases and facilities to accommodate the Marines, was released on August 29, 2015 (the “**2015 Record of Decision**”). See “—Military Activity—Military Personnel” and “—Military Expenditures.”

During Fiscal Year 2016, approximately \$434 million of building and construction projects were permitted, almost doubling the amount from Fiscal Year 2015. This increase represents permits issued for the new hotel, the Tsubaki Tower, and increased government projects to include the Guam International Airport Authority (the “**Airport**”) sterile corridor project. As for Fiscal Year 2017, a total of approximately \$436.8 million of building and construction projects have been permitted with the largest growth of government construction projects.

Construction of an approximately \$2 million supermarket in the southern part of Guam was completed in October 2013, and the supermarket opened for business in November 2013. Construction of a proposed two-story Grandview Mall in Tumon has commenced; however, no opening date has been released. Construction of phase one is now complete for the Guam Regional Medical City, a nonprofit, tertiary level medical facility and the first non-governmental facility of its type on the island. The private hospital held its grand opening in July 2015 and provides the island with 125 beds at a total cost of approximately \$250 million.

A new Medical Arts Center, costing approximately \$25 million, broke ground for the first phase of the project in April 2017. This project is as a result of a partnership between CW Holdings, LLC; Sterling Design, Inc.; and the Law Offices of Cabot Mantanona, LLP. The 50,000 square foot, three-story commercial building will be located across the Guam Regional Medical City to house doctors' offices, hospice care, senior care facilities, a hemodialysis center, a pharmacy, diagnostic and therapeutic services, and others. Plans for additional phases of the project include other health and wellness-related stores and services such as health food markets.

Major civilian projects are ongoing and include the Tsubaki Hotel which is a 26-story, 340 room five-star hotel being constructed by P.H.R. Micronesia, Ken Corp. This new hotel, with total investment of approximately \$164 million, is being built adjacent to the Hotel Nikko Guam in Tumon. The ground breaking was held in March 2016 and is scheduled to be completed in October 2018. Another project is the Summer Towers, an approximately \$70 million four-tower development to house 260 luxury condominium units in Tamuning next to the Guam Memorial Hospital. Blue Ocean Investments, expected to be completed in 2020, is an approximately \$70 million 300-room hotel to be built adjacent to Tumon Sands Plaza. Bridge Capital LLC is also planning to develop an approximately \$421 million two-tower commercial facility with a total of 590 rooms at the site of the Guam Greyhound Raceway Park in Tamuning.

Two other hotel construction projects in Tumon are expected to begin in 2020 and these are Citta di Mare, an approximately \$128 million four-tower hotel expected to have a total of 500 rooms, and Yacht Ville Hotel, an approximately \$110 million 106-room hotel. Work is also continuing on the Tumon Bay Mall which is a two-story building and has 200,000 square-feet of floor space. Completed in the summer of 2017, the Camacho Landmark Center on Marine Corps Drive in Tamuning is now seeking tenants for its 21,000 square-foot two-story building costing approximately \$6.1 million. This building is designed for retail businesses, corporate and professional offices, and health care clinics. ----Lastly, the Fishermen's Co-Op project, estimated to cost approximately \$6 million, will include a 220-foot sea wall as docking area for larger vessels such as fishing, charter and dolphin watching vessels. It will also include 6,000 – 7,000 square feet for the operational facility.

Construction of a new commercial building was completed that houses Guam's new Applebee's franchise, opened in July 2014, with the same developers that own Guam's first IHOP restaurant which opened in July 2015 and Pieology in May 2016. In May 2017, Pieology opened its second location in the northern part of Guam. Expanding their line of franchises in Guam, Apple Pacific LLC is near completion of the contract to construct and open Olive Garden in 2018. The Micronesia Mall underwent an approximately \$1.3 million renovation, which provides more than 27,000 square feet of retail space for Ross Stores Inc.'s newest storefront and opened in March 2017, providing jobs for approximately 200 employees. In addition, construction of 45,000 square feet of new retail space for Macy's department stores was completed in 2016.

A groundbreaking ceremony was held in May 2017 for the construction of a new 4,382 square foot McDonald's restaurant in Yigo, anticipated to be completed in 2018. In September 2017, Jollibee Foods Corp., a Manila-based fast food company, announced its plans to reopen in Guam in the latter part of 2018. As of September 2017, the project was in the pre-construction phase inclusive of bidding and contractor selection.

Summer Town Estates Phase III will have 66 units located at the old Lada Estates. This is a low-income housing tax credit financed project approved by GHURA. Villa Del Mar LLC is also planning on 50-unit housing off the Kanada-Toto Loop for low income families as well as homeless veterans on Guam. This is to be funded by a federal tax credit program. These two housing projects are estimated to have a combined cost of approximately \$50 million. Another ongoing project is the Wonderful Windward Hills Resorts, an approximately \$107 million investment for 488 single dwelling homes with an expected completion date of August 2019, since it broke ground in July 2017. 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, Villa Pacita in Yigo, Quintas del Mar and Pago Bay Resort in Yona. The Government is providing incentives and assistance to developers and contractors to meet the Governor's goal to build 3,000 more affordable homes on Guam over a five-year period beginning in 2012, pursuant to Executive Order No. 2012-09.

Ongoing or recently completed Government construction projects include approximately \$167 million of new capital improvements, additions and extension to Airport, and \$260 million of capital improvement projects for the Port Authority master plan.

In 2014, Guam Power Authority's capital improvement program consisted largely of on-going improvements and upgrades to existing generating and transmission and distribution facilities, extension of transmission lines and construction of associated substations, as well as new generation resources. These additions are expected to help Guam Power Authority meet system demand while maintaining system reliability.

In December 2016, the University of Guam closed on an approximately \$21.7 million USDA Community Facilities Direct Loan to finance the construction of a new Student Services Center and Engineering School Annex. The Guam Community College ("GCC") also closed on an approximately \$6 million USDA Community Facilities Direct Loan to finance the construction, expansion and/or hardening of the GCC Gregorio G. Perez Crime Lab and GCC Building #100 in December 2016. The Guam Department of Education's plan for the reconstruction of another high school in Yigo is expected to be completed in 2019.

In 2016, the Guam Waterworks Authority ("GWA") issued revenue bonds to fund \$143 million of capital improvements to the GWA's water and wastewater system that include water production, treatment, distribution and storage, wastewater collection and treatment. In August 2016, the DoD, through the OEA, awarded approximately \$55.3 million to GWA to assist with upgrades and expansions to their water and wastewater facilities related to the upcoming construction of a Marine Corp's base in the northern part of the island. In November 2017, the DoD awarded GWA an additional \$117.9 million to assist with upgrades and expansions to their wastewater facilities related to upgrades to the Northern District Wastewater Treatment Plant. In addition, the \$7.0 million reconstruction and rehabilitation of the Old Guam Congress Building, the home of the Guam Legislature, was completed in 2016 and the \$23 million Guam Museum Project was completed and opened in May 2016.

The Department of Public Works ("DPW") awarded a \$44 million contract to widen Route 3 between Route 28 and Chalan Kareta. Work will entail reconstructing and widening Route 3 from the current two-lane bidirectional roadway to a widened four-lane highway (two lanes in each direction plus a median lane). Construction began in October 2017 with substantial completion anticipated in the fourth quarter of 2019.

The Impact of H-2B Visa Denials on Guam

The H-2B program in Guam has allowed employers to bring skilled foreign workers into the U.S. to fill temporary jobs in sectors other than agriculture. Employers of all sizes, primarily in construction but also in a variety of other industries in smaller numbers, turn to the program when they cannot identify enough skilled U.S. workers to hire. Although H-2B visa holders play a small role in the overall Guam workforce (approximately 0.02%), they fill an important gap.

In December 2015, the United States Citizenship and Immigration Service ("USCIS") started denying H-2B visa petitions which had, for the past 30 years, been routinely approved at a rate of about 95%. In Fiscal Year 2017, the island has experienced a 0% approval rate for all H-2B visa petitions across the board and across all industries, regardless of the employers need, occupation or situation.

Governor Calvo has been working with the USCIS to resolve the H-2B visa issues for current and future construction projects including the planned military build-up and the expected growth in the construction industry on Guam. The Government believes that the federal government has taken positive first steps with the proposal contained within the U.S. Senate's Fiscal Year 2018 Defense Budget Bill that would allow Guam to use more temporary foreign labor for the military projects associated with the build-up. On September 29, 2017, the Governor called for a pause on all military construction until a solution that will address Guam's request to augment local labor workforces with skilled laborers is addressed, referring to the Record of Decision and Programmatic

Agreement concept of the “One Guam” tenet. The Government expects that continued dialog will ensure development with respect to H-2B visas for both the local and military industries.

Other Economic Activity

The Government is seeking through legislative and regulatory efforts to streamline business and construction permitting processes, to obtain an exemption from the Jones Act, a federal law that governs domestic shipping, which would expand the market for shipments to Guam and reduce the cost of imports, to develop the captive insurance market for the Asian market, and to continue the pursuit of the China visa waiver program.

Other developments being pursued by the Government, private enterprise or both, include a bonded warehouse on Guam as a consolidation and customs clearance center, a hub for the collection and transshipment of recyclable materials in the region, a redevelopment of the *Hagåtña* area, light domestic manufacturing of construction materials, expanded eco and sports tourism, and television and commercial film production for Asian producers.

Guam Tourist Industry

Tourism has represented a primary source of income for Guam’s economy for over 25 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 A-6 sets forth the annual number of visitors to Guam for Fiscal Years 2012 through 2017. The number of annual visitors to Guam increased from 1,270,161 in Fiscal Year 2012 to 1,559,395 in Fiscal Year 2017. Visitor arrivals for Fiscal Year 2017 increased by 3.2% over Fiscal Year 2016 which placed the most recent Fiscal Year at the top of Guam’s charts for visitor arrivals. Fiscal Year 2017 set a new all-time record for visitor arrivals to Guam, exceeding the prior record for visitor arrivals set in Fiscal Year 2016.

TABLE A-6
Annual Visitor Arrivals to Guam
Fiscal Years 2012-2017

<u>Fiscal Year</u>	<u>Visitor Arrivals</u>
2012	1,270,161
2013	1,337,665
2014	1,341,171
2015	1,372,531
2016	1,511,065
2017	1,559,395

Source: Guam Visitors Bureau.

Table A-7 provides a comparison of cumulative visitor arrivals by month to Guam for calendar years 2012 through 2017. The global decline in Japanese travel has resulted in fewer Japanese tourists on Guam over the last several years. The decrease in Japanese tourists visiting Guam has not been unique to Guam and according to JTB Tourism Research and Consulting, total Japan resident visits abroad declined by more than 8% from 2012 to 2016. This decline is attributed to several factors including the weak Japanese yen, an increase in consumption taxes and a decrease in airline seat capacity to the island. Arrivals from Japan to Guam have decreased since 2012 which is consistent with the total Japanese outbound visitor market.

However, arrivals from South Korea, Taiwan and China have increased, offsetting the decline in Japan arrivals. Several factors account for the increase from these markets, such as the expanded number of airline flight routes to Guam, the favorable exchange rate for Asian visitors, preparations for the military expansion, and the relative improvement of the overall global economy.

TABLE A-7
Cumulative Visitor Arrivals to Guam by Month
2012-2017

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017⁽¹⁾</u>
January	116,588	116,558	117,076	118,501	129,259	136,029
February	228,717	238,630	234,108	244,581	271,591	269,469
March	355,093	375,358	365,361	376,915	404,926	410,131
April	442,899	466,857	464,184	473,156	510,372	532,753
May	525,596	553,027	554,835	570,029	624,725	651,606
June	620,544	652,177	657,628	671,076	743,098	774,355
July	732,514	763,484	767,380	786,167	866,094	907,307
August	864,502	897,839	900,617	921,665	1,010,852	1,051,327
September	976,844	1,006,474	1,013,148	1,042,587	1,144,602	1,168,479
October	1,081,178	1,108,429	1,117,109	1,154,879	1,267,136	1,282,005
November	1,190,311	1,215,909	1,223,239	1,276,631	1,392,884	--
December	1,308,035	1,334,497	1,343,092	1,409,050	1,535,531	--

⁽¹⁾ Preliminary Data as of October 2017

Source: *Guam Visitors Bureau*

Guam Visitors Bureau (“GVB”)

The GVB is a nonprofit membership corporation that has existed in its current form since 1984. Its mission is to efficiently and effectively promote and develop Guam as a safe and satisfying destination for visitors and to derive maximum benefits for the people of Guam. Policy for GVB is set by a twelve-member board of directors, consisting of five directors appointed by the Governor with the advice and consent of the Guam Legislature, two directors appointed by the Speaker of the Guam Legislature, four directors elected by the members, and one director selected by at least a two-thirds vote of the other eleven directors. The activities of GVB are administered by a board-appointed General Manager. Membership in GVB is not restricted to any particular group. Recent efforts to promote tourism include a Guam branding initiative; efforts to expand visitor markets through expansion of the visa waiver program and similar initiatives; the expansion of airline arrivals to Guam; and encouraging longer stays and repeat visits by enhancing and promoting tourist and cultural destinations and events on the island. Funding for GVB’s operations is appropriated by the Guam Legislature from amounts available in the Tourist Attraction Fund.

Key Visitor Markets

Guam receives visitors from a variety of countries and GVB is intent on further diversifying Guam’s visitor base. Guam’s top four visitor markets include Japan, South Korea, U.S./Hawaii and Taiwan. Fiscal Year 2017 was unique in that, for the first time in history, visitors to Guam from Japan and South Korea were nearly the same with 674,343 visitors from Japan (43% of visitors to Guam) and 649,435 visitors from South Korea (42% of visitors to Guam). Guam’s next largest tourist markets in Fiscal Year 2017 were the U.S./Hawaii (5%), Taiwan (2.3%), China (1.5%) and Philippines (1.3%). Total civilian air arrivals increased by 3.5%, while total sea arrivals decreased by 22.6% during Fiscal Year 2017 over the previous Fiscal Year 2016.

Based on data from GVB, the total number of visitors to Guam for Fiscal Year 2016 was 1,511,065 compared to 1,372,531 for Fiscal Year 2015, representing an increase of approximately 10.1%. Of these visitors, 49.82% were from Japan, 34.38% from South Korea, 5.08% from the U.S., 2.75% from Taiwan and 1.74% from China, with the remaining 6.00% coming from other countries. The Russian visitor market, once a potential growth market, was greatly impacted by the falling oil price and the subsequent weakening of Russia’s currency, and in Fiscal Year 2016 accounted for only 0.16% of visitors to Guam.

GVB continues to market to the South Korea, Taiwan, Hong Kong and China markets to further diversify and expand Guam's visitor base. From Fiscal Year 2016 to Fiscal Year 2017, visitor arrivals from South Korea grew 25% while Japan and Taiwan decreased about 10.4% and 12.7%, respectively. Based on data compiled by GVB, as of September 2016, visitors from South Korea stay an average of 3.65 nights and spend an average of \$423 per person on-island, as compared to visitors from Japan who stay an average of 3.09 nights and spend an average of \$442 per person on-island, and to visitors from China who stay an average of 4.27 nights and spend an average of \$999 per person on-island.

The meetings, incentive group and school segments shows Fiscal Year 2016 having a total of 3,082 visitors, a trend that fits with one of Guam's Tourism 2020 core objectives. The "Tourism 2020" plan is the islands strategic plan to help Guam move toward its potential as a first-tier, diversified resort destination of choice. It contains specific and measurable tasks with core objectives that are needed for Guam as a destination to thrive in a competitive global environment.

One area of focus in recent fiscal years has been to stimulate consumer demand from Japan, to slow the negative arrivals trend and to recover market share. Guam's share of Japan's visitor market is expected to diminish further due to a consumption tax that has reduced disposable income and the continued devaluation of the Japanese yen. GVB initiatives include the Premium Guam advertising campaign, the Travel Agent Incentive Program, an aggressive public relations strategy, support for travel agent brochures and groups, and marketing co-ops. Attracting new flight service from Japan will also be an objective, especially from the Haneda (Tokyo) Airport. Lastly, reaching higher yield segments of the market, such as weddings and seniors, with targeted promotions is also planned.

Fiscal Year 2017 visitor arrivals from South Korea totaled 649,435, an increase of 25% compared to Fiscal Year 2016. Arrivals from South Korea continue to grow with much of the increase attributed to additional flight service from South Korea. Since Fiscal Year 2015, Guam has seen significant increase in service between Guam and South Korea. In 2015, Jin Air upgraded its equipment from a Boeing 737 (185 seats) to a Boeing 777 (355 seats), Jeju Air beginning service from Busan to Guam, T'Way Air began daily flight services from Incheon to Guam and in July 2015, Air Busan four times weekly service from Busan making it the fifth airline to provide regular service between Guam and South Korea. In September 2017, Air Seoul, a low-cost carrier based in South Korea, arrived on Guam with its inaugural flight.

The China market continues to represent the greatest opportunity for growth in Guam tourism. Although a visa waiver has not been granted for Chinese tourists to travel to Guam, the U.S. and China have agreed to extend visa validity from a one-year, single-use visa to a ten-year, multi-use visa. This greatly reduces time and cost required for a U.S. visa and removes one of the roadblocks to attracting Chinese tourists to Guam. GVB approved an airline incentive program in 2014 that was successful in spurring United Airlines to launch regular service from Shanghai and Dynamic Airways direct charter service from Beijing. Arrivals from China increased by 11.4% in Fiscal Year 2016, as compared to Fiscal Year 2015. Flight service in Fiscal Year 2016 also increased, totaling approximately 140 flights or approximately 24,958 seats as compared to 40 flights in Fiscal Year 2015. Dynamic Airlines has scheduled summer charter flights from Hangzhou, Nanjing and Tianjin.

Since 2012, Philippine visitor arrivals have grown more than 190%. In March 2016, Cebu Pacific Air began its four times weekly services between Manila and Guam. In Fiscal Year 2017, arrivals from the Philippines increased by 6% as compared to Fiscal Year 2016. This is after the number of Philippine visitors in Fiscal Year 2016 increased by approximately 52.3% with 18,704 visitors as compared to 12,278 visitors in Fiscal Year 2015.

Recent Events in Guam's Visitor Market

Following global political events in August 2017 between North Korea and the U.S., as of October 2017, Guam had experienced approximately 7,000 individual (group organized) visitor cancelations from Japan. Despite the decrease in planned Japanese arrivals to Guam, visitors from South Korea have largely filled most of the hotel capacity resulting from Japanese visitor cancelations. As a result, as of November 1, 2017, the GVB projects net visitor arrivals to be down approximately 1.2% for calendar year 2017. In order to proactively address the recent volatility in Guam's visitor market, in September 2017, Governor Calvo has created a task force with the GVB, the Airport and Guam Economic Development Authority ("**GEDA**") to continue its efforts to reassure investors and neighboring countries that Guam remains a safe destination to live, to visit and to invest. Recently, the task force led by Governor Calvo visited Japan, South Korea and Taiwan.

Preliminary figures from October 2017 reflect visitor arrivals of 113,526, the second best October in the island's history. Events such as the Guam Ko'ko Half Marathon continue to attract more visitors to Guam during the month of October. For the month of October 2017, Guam saw a 17% increase in arrivals from South Korea over the same period last year. Increased arrivals from South Korea also continue to offset the decrease in other markets.

In December 2017, Guam welcomed an estimated 400 Japanese travel agents, media and social media influencers for a travel trade familiarization tour, the "MegaFam Tour." The tour also served as a celebration of 50 years of friendship between Japan and Guam when a Pan American Airways flight brought 109 Japanese visitors to Guam from Tokyo, the first direct flight between the countries.

At this celebration, Japan Airlines announced it would be increasing its flight frequency by offering a second daily flight to Guam from Narita beginning March 25, 2018. More details will be coming in the following months.

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Table A-8 sets forth a comparison of visitor arrivals to Guam by country for Fiscal Years 2012 through 2017.

TABLE A-8
Fiscal Year Visitor Arrivals by Country
Fiscal Years 2012-2017

	2012		2013		2014		2015		2016		2017	
	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total	Arrivals	Percent of Total
Japan	907,765	71.5%	912,093	68.19%	825,830	61.58%	779,405	56.79%	752,757	49.82%	674,343	43.24%
South Korea	165,143	13.0%	232,850	17.41%	293,437	21.88%	384,112	27.99%	519,430	34.38%	649,435	41.65%
U.S. Mainland/Hawaii	64,766	5.1%	58,546	4.38%	66,151	4.93%	69,745	5.08%	76,727	5.08%	76,296	4.89%
Taiwan	49,851	3.9%	47,904	3.58%	50,924	3.80%	42,315	3.08%	41,534	2.75%	36,270	2.33%
China, P.R.C.	9,040	0.7%	10,384	0.78%	14,547	1.08%	23,589	1.72%	26,271	1.74%	23,178	1.49%
CNMI	17,272	1.4%	15,905	1.19%	15,466	1.15%	13,757	1.00%	17,390	1.15%	18,494	1.19%
Micronesia ⁽¹⁾	14,884	1.2%	13,976	1.04%	13,019	0.97%	13,753	1.00%	17,201	1.14%	16,237	1.04%
Philippines	10,240	0.8%	10,564	0.79%	11,742	0.88%	12,278	0.89%	18,704	1.24%	19,818	1.27%
Australia	4,071	0.3%	3,265	0.24%	3,830	0.29%	2,987	0.22%	2,258	0.15%	2,227	0.14%
Canada	773	0.1%	961	0.07%	1,031	0.08%	960	0.07%	952	0.06%	991	0.06%
Europe	1,566	0.1%	2,101	0.16%	1,876	0.14%	1,686	0.12%	2,010	0.13%	2,026	0.13%
Hong Kong	8,396	0.7%	8,936	0.67%	8,605	0.64%	8,163	0.59%	8,397	0.56%	16,053	1.03%
Thailand	383	0.0%	382	0.03%	400	0.03%	459	0.03%	463	0.03%	445	0.03%
Vietnam	113	0.0%	92	0.01%	100	0.01%	166	0.01%	183	0.01%	128	0.01%
Russia	2,931	0.2%	6,134	0.46%	18,291	1.36%	3,539	0.26%	2,488	0.16%	3,151	0.20%
Others/Unknown	4,441	0.3%	6,394	0.48%	6,708	0.50%	4,174	0.30%	5,484	0.36%	5,735	0.37%
Total Air⁽²⁾	1,261,635	99.3%	1,330,487	99.5%	1,331,957	99.3%	1,361,088	99.2%	1,492,249	98.8%	1,544,827	99.1%
Total Sea⁽³⁾	8,526	0.7%	7,178	0.54%	9,214	0.69%	11,443	0.83%	18,816	1.25%	14,568	0.93%
Total Air & Sea	1,270,161	100.0%	1,337,665	100.0%	1,341,171	100.0%	1,372,531	100.0%	1,511,065	100.0%	1,559,395	100.0%

⁽¹⁾ Includes Palau, Federal States of Micronesia (“FSM”) and the Republic of the Marshall Islands (“RMI”).

⁽²⁾ Includes military air arrivals.

⁽³⁾ For Fiscal Year 2012, military vessel arrivals were not available.

Source: Guam Visitors Bureau.

Table A-9 highlights the percentage change in annual visitor arrivals to Guam by country for Fiscal Years 2012 through 2016.

TABLE A-9
Percentage Change in Annual Visitor Arrivals by Country
Fiscal Years 2012-2017

	2012	2013	% Change from 2012	2014	% Change from 2013	2015	% Change from 2014	2016	% Change from 2015	2017	% Change from 2016
Japan	907,765	912,093	0.5%	825,830	-9.5%	779,405	-5.6%	752,757	-3.4%	674,343	-10.4%
South Korea	165,143	232,850	41.0%	293,437	26.0%	384,112	30.9%	519,430	35.2%	649,435	25.0%
U.S. Mainland/Hawaii	64,766	58,546	-9.6%	66,151	13.0%	69,745	5.4%	76,727	10.0%	76,296	-0.6%
Taiwan	49,851	47,904	-3.9%	50,924	6.3%	42,315	-16.9%	41,534	-1.8%	36,270	-12.7%
China, P.R.C.	9,040	10,384	14.9%	14,547	40.1%	23,589	62.2%	26,271	11.4%	23,178	-11.8%
CNMI	17,272	15,905	-7.9%	15,466	-2.8%	13,757	-11.1%	17,390	26.4%	18,494	6.3%
Micronesia ⁽¹⁾	14,884	13,976	-6.1%	13,019	-6.8%	13,753	5.6%	17,201	25.1%	16,237	-5.6%
Philippines	10,240	10,564	3.2%	11,742	11.2%	12,278	4.6%	18,704	52.3%	19,818	6.0%
Australia	4,071	3,265	-19.8%	3,830	17.3%	2,987	-22.0%	2,258	-24.4%	2,227	-1.4%
Canada	773	961	24.3%	1,031	7.3%	960	-6.9%	952	-0.8%	991	4.1%
Europe	1,566	2,101	34.2%	1,876	-10.7%	1,686	-10.1%	2,010	19.2%	2,026	0.8%
Hong Kong	8,396	8,936	6.4%	8,605	-3.7%	8,163	-5.1%	8,397	2.9%	16,053	91.2%
Thailand	383	382	-0.3%	400	4.7%	459	14.8%	463	0.9%	445	-3.9%
Vietnam	113	92	-18.6%	100	8.7%	166	66.0%	183	10.2%	128	-30.1%
Russia	2,931	6,134	109.3%	18,291	198.2%	3,539	-80.7%	2,488	-29.7%	3,151	26.6%
Others/Unknown	4,441	6,394	44.0%	6,708	4.9%	4,174	-37.8%	5,484	31.4%	5,735	4.6%
Total Air⁽²⁾	1,261,635	1,330,487	5.5%	1,331,957	0.1%	1,361,088	2.2%	1,492,249	9.6%	1,544,827	3.5%
Total Sea⁽³⁾	8,526	7,178	-15.8%	9,214	28.4%	11,443	24.2%	18,816	64.4%	14,568	-22.6%
Total Air & Sea	1,270,161	1,337,665	5.3%	1,341,171	0.3%	1,372,531	2.3%	1,511,065	10.1%	1,559,395	3.2%

⁽¹⁾ Includes Palau, FSM and RMI.

⁽²⁾ Includes military air arrivals.

⁽³⁾ For Fiscal Years 2012 through 2014, military vessel arrivals were not available.

Source: Guam Visitors Bureau.

Hotels

Tumon Bay, located on Guam's west coast, is the heart of Guam's tourist industry. The hotels in 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. As of April 2017, there were 34 hotels in Guam, including many notable international hotel operators, with an inventory of approximately 9,244 rooms.

Table A-10 lists the weighted annual hotel occupancy and room rates from calendar year 2012-2016 and preliminary data for calendar year 2017 through August 2017.

TABLE A-10
Weighted Hotel Occupancy and Average Room Rates
Fiscal Year 2012-2017

Year	Annual Weighted Hotel Occupancy Rate	Weighted Average Room Rate
2012	81%	\$151
2013	82%	\$162
2014	83%	\$177
2015	78%	\$186
2016	80%	\$197
2017 ⁽¹⁾	86%	\$205

⁽¹⁾ As of August 2017.

Source: Guam Visitor's Bureau

Table A-11 lists the top fifteen hotel operators by number of existing rooms as of April 2017.

TABLE A-11
Top Fifteen Hotel Operations in Guam
As of April 2017

<u>Hotel/Resort</u>	<u>Year Opened</u>	<u>Location</u>	<u>Number of Rooms⁽¹⁾</u>
Pacific Islands Club	1980	Tumon	777
Hilton Guam Resort & Spa	1972	Tumon	694
Outrigger Guam Resort	1999	Tumon	600
Guam Plaza Hotel	1983	Tumon	505
Hotel Nikko Guam	1992	Tumon	460
Hyatt Regency Guam	1994	Tumon	450
Leo Palace Resort Guam	1993	Yona	450
Westin Resort Guam	1996	Tumon	432
Onward Beach Resort	1992	Tamuning	430
Guam Reef & Olive Spa Resort	1974	Tumon	420
Dusit Thani Guam	2015	Tumon	419
Pacific Star Resort & Spa ⁽²⁾	1987	Tumon	388
Sheraton Laguna Guam Resort	2007	Tamuning	318
Fiesta Resort Guam	2006	Tumon	314
Holiday Resort & Spa Guam	1996	Tumon	252
Total			6,909

⁽¹⁾ Numbers may not reflect actual capacity as hotel management may make rooms unavailable at any given time.

⁽²⁾ Formerly the Guam Marriott Hotel.

Source: Guam Visitors Bureau.

Pursuant to Section 30101(b), Title 11, Guam Code Annotated, the Hotel Occupancy Tax is an excise tax levied and imposed by the Government against transient occupants of a room or rooms in a hotel, lodging house or similar facility located in Guam. The Hotel Occupancy Tax has been levied at the rate of 11% of the rental price charged or paid per occupancy per day since April 1, 1995. Table A-12 below shows the amount of Hotel Occupancy Tax Revenues collected during each of the fiscal years shown.

TABLE A-12
Annual Hotel Occupancy Tax Revenues
Fiscal Years 2012 – 2017

<u>Fiscal Year</u>	<u>Taxes Collected</u>
2012	\$26,054,476
2013	29,331,058
2014	34,362,256
2015	36,988,454
2016	40,864,063
2017 ⁽¹⁾	44,016,780

⁽¹⁾ Preliminary information as of September 30, 2017.

Source: Bureau of Budget and Management Research.

Source: Tourist Attraction Fund Audited Financial Statements (Fiscal Years 2012-2016).

Over the past few years, several existing hotels have undertaken significant hotel renovations totaling approximately \$100 million including improvements at the Hilton Guam Resort and Spa, Pacific Islands Club, Pacific Star Resort & Spa (formerly the Guam Marriott Resort), Hotel Nikko Guam, Royal Orchid Guam, Sheraton Laguna Guam Resort, Hyatt Regency Guam and Westin Resort Guam. Under new ownership, the Guam Marriott Resort and Spa completed approximately \$25 million of renovations in 2014, with the resort now operating as the Pacific Star Resort & Spa. Leo Palace Resort has completed approximately \$2.4 million of hotel renovation projects. The Royal Orchid Hotel has indicated its plans to convert 200 rooms to 98 residential condo units. The Guam Reef Hotel & Olive Spa has completed the first phase of approximately \$12 million of renovations that started in October 2012. The Sherwood Hotel was sold in September 2011 and re-opened in 2012 as the new Verona Resort and Spa with 254 rooms. In addition, Lotte Hotels and Resorts (“**Lotte Hotels**”) completed its approximately \$20 million renovation and rebranding of the Guam Aurora Resort Villa & Spa, which encompasses 222 rooms, four restaurants, three banquet halls, an outdoor swimming pool, a spa and a chapel. The Lotte Hotels renovated and rebranded such hotel and re-opened in July 2014. For the first time in nearly 20 years, Guam welcomed its first newly built hotel with property developer Tanota Partners opening an approximately \$250 million, 419-room hotel tower, the Dusit Thani Guam, in July 2015. The Dusit Thani includes a ballroom with a 2,000 person seating capacity and stands between the Outrigger Guam Resort, the Hyatt Regency Guam and a commercial center filled with retail shops and restaurants in Tumon.

In support of Guam’s Tourism 2020 strategic plan, the Government has been aggressively marketing Guam to hotel developers. There are currently plans for and additional hotels under development including the Ken Corporation, a large Japan-based developer, which broke ground in March 2016 on a new \$164 million 340-room luxury hotel, Tsubaki Tower, planned in between the Hotel Nikko Guam and the Lotte Hotel. Blue Ocean Investments plans to break ground in the fourth quarter of 2018 for a 300-room hotel costing approximately \$70 million adjacent to Tumon Sands Plaza. A developer from South Korea has announced plans for a new approximately \$128 million hotel to be called Citta di Mare featuring four towers ranging from 13 to 18 stories with a total of 500 hotel rooms, located behind Acanta Mall in Tumon extending up to Marine Corps Drive. Construction is expected to begin in 2020 and would be completed in 2023. In addition, the same investors are also expected to finance a 106-room hotel in Tumon expected to be called the Yacht Ville Hotel with an estimated development cost of approximately \$110 million located on the Garden Villa Hotel grounds across the Fiesta Hotel. The Yacht Ville Hotel is expected to break ground in 2020.

The owners of the Ladera Towers have recently completed an approximately \$134 million investments for the renovation of their condominiums with a plan of transformation into a condo-hotel. CoreTech plans to turn the four towers located adjacent to the Guam Memorial Hospital into 100 hotel rooms and 90 long term condominiums called the Summer Towers Hotel. Bridge Capital announced plans for a two tower hotel with 590 hotel rooms on the old Greyhound Park property in Tamuning. Additionally, Bridge Capital plans to develop an 800,000 square foot upscale retail complex with a water park adjacent to the hotel totaling an investment of approximately \$421 million for the Guam Pacific Plaza Hotel & Mall.

Airlines

Guam has an international airport, the Antonio B. Won Pat Guam International Air Terminal, operated by the A.B. Won Pat International Airport Authority, a public corporation and autonomous instrumentality of the Government. The Airport is centrally located in Guam’s business district on a 1,800 acre parcel of land and has 768,000 square feet of terminal space along with hangars, maintenance facilities, warehouse space, storage facilities, office space and expansive ground space.

The Airport is the only commercial air carrier airport serving Guam and is the principal air carrier airport serving the surrounding Micronesian islands. According to the Federal Aviation Administration (the “FAA”), approximately 1,774,590 enplaned passengers were processed through the Airport for Fiscal Year 2016, making the Airport the 75th busiest primary airport within the FAA system. According to data published by U.S. Department of Commerce Office of Travel and Tourism Industries, for calendar year 2015 (based on data released June 2016), the Airport was the 10th busiest port of entry to the U.S. for Overseas Visitors (excluding arrivals from Canada and Mexico), and for calendar year 2016, the Airport was the 8th busiest port of entry to the U.S. for non-U.S. resident arrivals (excluding arrivals from Canada and Mexico). The Airport’s passenger base is over 90% international from all originating markets served.

Sixteen passenger airlines currently provide service at the Airport, including two major U.S. airlines, ten flag air carriers, three regional/community airlines that provide interisland service, and three air cargo service providers. In addition, the Airport is served by other charter flights, including military charter flights, and those operated by various airline carriers. As of April 2017, the signatory airlines at the Airport provided service to 35 destinations in Asia and the U.S.

Airline service at the Airport is still provided principally by major flag carriers such as United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines and Philippine Airlines, however, low-cost carriers, including Jin Air, Jeju Air, Air Busan, T'Way Airlines and Cebu Pacific Airlines have introduced service at the Airport. Commuter air services to the CNMI are provided by Cape Air dba United Connections, Star Marianas Air, and Arctic Circle. Air Cargo service providers include Asia Pacific Airlines, FedEx and United Parcel Service.

United Airlines, a wholly owned subsidiary of United Continental Holdings Inc. and the successor to Continental Micronesia, is the largest air carrier serving the Airport and provides service to 15 destinations accounting for an estimated 41% of the total enplaned passengers at the Airport in Fiscal Year 2016. The Airport serves as a hub in United Airlines' global route network, although passenger traffic remains predominantly origination and destination. United Airlines' Guam hub is designed to serve: (1) regional origin-destination passengers on short-haul flights to and from Guam, (2) origin-destination passengers on long-haul flights, primarily tourists visiting Guam, and (3) transit passengers on connecting or through flights.

In response to a growing demand from airline operators utilizing aircraft weighing 12,500 pounds or less on a scheduled or charter basis for inter-island passenger/cargo service, a Light Aircraft Commuter Facility opened for operations on October 1, 2015, and Star Marianas and Arctic Circle airlines began operations between Guam and the Marianas. The principal commuter airline providing inter-island passenger flight service to and from Guam and the CNMI is Cape Air dba United Airlines.

A number of service changes have occurred at or been announced for the Airport in the last several years. Cebu Pacific began its four-times weekly services between Manila and Guam in March 2016. As of May 2017, China Airlines operates four flights per week on its Guam-Taipei route. Korean Air has started operating a second daily flight to and from Incheon. T'way Air began service in the 3rd quarter of 2015 providing daily flights to Incheon, and three times weekly service on the Daegu/Kansai/Guam routes.

Jeju Air applied for ten charter flights to Guam between May and June 2017 with the U.S. Department of Transportation using a Boeing 737-800. The South Korean low-cost carrier has provided daily flights between Incheon and Guam since September 2012 and regular Busan-Guam service since 2015. A new airline, Air Seoul Inc., is a South-Korea-based low-cost carrier that began operating scheduled service between Incheon, South Korea and Guam in September 2017. Air Seoul is the sixth carrier to offer nonstop service between Guam and South Korea, adding 60,349 of new annual airseats to Guam. The airline plans to provide service year-round, scheduled foreign air transportation of persons, property and mail between Incheon and Guam utilizing an Airbus 321-200 with a capacity of 195 passengers. It is privately and wholly owned by Asiana Airlines Inc. and was established in April 2015 launching its first international service in October 2016.

With the new airlines providing services for the South Korea-Guam route, Guam air seat capacity for fiscal year 2018 is projected at 804,355 seats, an 8.8% growth over fiscal year 2017 of 739,626 air seats.

Eva Air ceased service on the Guam-Taipei route as of June 2017. HK Express launched a four time weekly Hong Kong-Guam service on December 15, 2016 and three time weekly Hong Kong-Saipan service on January 17, 2017. However, the airline suspended flight services between Guam and Hong Kong effective June 26, 2017 due to space limitations at the Hong Kong International Airport. In September 2017, the Guam-Nagoya route, which was expected to begin in October 2017, was delayed until summer of 2018.

In September 2017, Delta Airlines announced that they will suspend service to Guam on January 8, 2018. Based on Delta's service to Guam as of October 1, 2017, this is expected to result in a reduction of 56,000 annual seats to Guam from Japan. Delta's decision to suspend service to Guam was a result of reduced seat demand out of Japan, network rerouting and the entry of competitive airlines in the Guam market, particularly from South Korea. United Airlines has also announced that they will be reducing flights out of Japan, South Korea and the Philippines

due to reduced demand and higher competition from low cost carriers. United has stated that the cutbacks reflect current demand but that they are not reducing staff or removing flights out of Guam as they position themselves for a resurgence in air travel early next year.

Air service development remains a priority. Diversification is a key objective and the largest and essentially untapped visitor base is the Chinese market. Regional resort destinations such as Guam are capitalizing on the increasing Chinese outbound market due to visa waiver authority or more liberal entry requirements. As a result, the Airport intends to take a more active and aggressive role in the years long quest for China visa waiver parole authority.

Political Self-Determination

Guam's political status and ability to self-govern has been discussed for decades. In the 1970s, Guam's leaders created special commissions to discuss political status. These commissions recognized the desires of the island's people, examining the island's political conditions and the status options available to Guam. There have been no change to the island's political status yet and Guam remains an unincorporated territory of the U.S.

In 1997, the Commission on Decolonization was established "for the implementation and exercise of Chamorro Self-Determination." The Commission was tasked with educating Guam on the three status options available: free association, independence and statehood. However, the Commission was inactive for most of the early 2000s, until Governor Eddie Calvo relaunched it in 2011. Since then, more native inhabitants have been registered to vote. Governor Calvo also dedicated local funding for political status education - the first such funding provision in about 20 years.

In March 2016, the Commission received \$300,000 in federal funding from the U.S. Department of Interior for an education campaign necessary to help ensure native inhabitants (as defined by law) are able to make an informed decision when they vote in a plebiscite. However, the U.S. District Court has ruled that a vote by the native people of Guam on their political status is unconstitutional; the vote is now on hold. In light of this, the Commission on Decolonization will continue with its educational outreach. Several proposals for education and outreach have been introduced including a museum exhibit, a Department of Education curriculum framework, and a social media plan. The Commission is expected to continue its educational plans through 2017 and 2018.

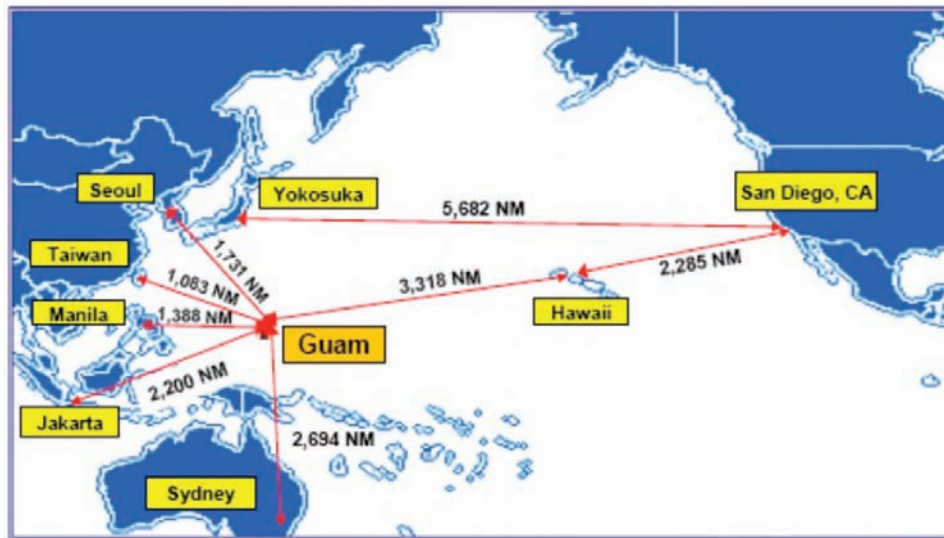
Military Activity

Recent world events have increased recognition of Guam's strategic military value and could result in increased military presence on Guam, bolstering the military's contribution to the Guam economy. A strong U.S. presence in the Pacific demonstrates active support for Japan, South Korea, Australia and other Pacific Rim allies and supports U.S. economic and security interests. Guam is positioned geographically to constitute an extended homeland defense perimeter, protecting the U.S. west coast and Hawaii from acts of aggression; and has the only substantial military facilities on U.S. soil in the Western Pacific Ocean. Military bases on Guam can support forward deployed capabilities in Asia and allow rapid response to any threat to the stability of the Asian region or any threat to the U.S. originating in the Asian region. Other advantages of Guam's military activity include:

- Geographic Location: Closer to potential flashpoints of conflict in Asia and the Middle East.
- U.S. Sovereign Territory: No need for host nation consent to pre-position war munitions, to deploy weapons or to conduct operations.
- Air Force, Navy and Marine Corps, Coast Guard, National Guard and Reserve facilities with substantial munitions, fuel supply, communications, command and control capabilities.
- Unencumbered air and sea space for live fire and special operations training including EOD, SEALs and other joint war fighting and operational readiness initiatives.

- Deep-water harbor with 17,000 linear feet of wharfage with ability to handle three million pounds of ordnance (net explosive weight).
- Significant airfield capability including dual, two mile long runways with contingency, mobilization and surge capable civilian airfields on Guam and CNMI.
- Repair capabilities for surface vessels, submarines, aircraft and combat equipment at the Intermediate Maintenance Facility, the privatized ship repair facility, the submarine tender, Naval Base Guam, Andersen Air Force Base and civilian facilities.

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



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The map below identifies major ports that can be reached from Guam via sea in five days or less.



Military Personnel

In late July 2010, the Joint Guam Program Office of the Department of the Navy released its Final Environmental Impact Statement (“EIS”) pertaining to the proposed U.S. military build-up on Guam, and in September 2010 the DoD issued its Record of Decision pertaining to the EIS. At the time the EIS was released, it was anticipated that the military build-up would have three major parts: (i) relocation of part of the Third Marine Expeditionary Force from Okinawa, Japan, (ii) creation of the infrastructure for an aircraft carrier berthing, and (iii) installation of an Army Air and Missile Defense Task Force.

In the years following 2010, Guam began to experience a decrease in military personnel as a result of the delay in the relocation of the Third Marine Expeditionary Force from Okinawa and Iwakuni, Japan to Guam. Concerns regarding the high cost of the relocation, delays in relocating U.S. military personnel and facilities currently within Japan, and the U.S. budget deficit extended the implementation timeframe for the relocation of the U.S. Marines from Japan. The proposed U.S. military build-up now is not expected to occur until after 2018. In addition, the expected size of the build-up has decreased. In particular, the relocation of part of the Third Marine Expeditionary Force from Okinawa, Japan, originally was expected to result in the relocation to Guam of approximately 8,600 Marines with approximately 9,000 dependents over a 5-year period. Now, the new plans for the build-up are expected to relocate approximately 5,000 Marines and 1,300 dependents to Guam over a 12-year period and, as discussed below, those plans are underway. The population change associated with the proposed military relocation would reach a maximum of 9,721 in 2023 and thereafter decline to a steady-state population increase of 7,412 by 2028, according to the SEIS (as defined below).

In July 2015, the DoD released the Supplemental Environmental Impact Statement (“SEIS”), which identified potential impacts associated with several alternatives for the cantonment/family housing component of this relocation, as well as for the live firing training range complex. The 2015 Record of Decision, which identifies the final locations for additional bases and facilities to accommodate the Marines, was released on August 28, 2015. According to the Navy, the SEIS showed a significantly decreased footprint and a significant decrease in the potential strain on Guam’s infrastructure. Rather than the seven years of construction, the SEIS stated there would be 13 years of moderate construction with a gradual phase-out to follow. It is expected that the costs related to the development and construction of facilities accommodating the build-up will be funded by the federal government and the government of Japan.

The expected impact from the military build-up on Guam's population is highlighted in Table A-13.

TABLE A-13
Estimated Total Population Increase ⁽¹⁾
2015-2028

Year	<u>Direct</u> <u>DOD</u>	<u>Indirect and</u> <u>Induced</u>	<u>Off island</u> <u>Construction</u>	<u>Civilian Military</u> <u>workers</u>	<u>Dependents</u>	<u>Total</u>
2015	33	89	161	4	60	347
2016	46	254	1,071	5	348	1,724
2017	46	531	2,301	38	702	3,618
2018	46	663	3,227	75	910	4,921
2019	505	686	2,871	113	767	4,942
2020	3,898	897	2,587	150	660	8,192
2021	4,327	1,082	3,175	188	814	9,586
2022	4,327	1,046	2,978	225	810	9,386
2023	5,582	915	2,205	263	756	9,721
2024	5,582	716	1,350	300	636	8,584
2025	6,079	612	618	338	499	8,146
2026	6,300	513	46	338	335	7,532
2027	6,300	455	0	338	320	7,413
2028	6,300	453	0	338	320	7,411

⁽¹⁾ Estimates shown are not additive from year to year; they represent the aggregate project related increase as of any given year relative to Base Year of 2014.

Source: 2015 Final Supplemental Environmental Impact Statement (SEIS), Guam and CNMI Military Relocation Report.

The U.S. government may choose to relocate military fleets, equipment and personnel from time to time in ways that either increase or decrease the U.S. military presence on Guam, and the Government cannot predict whether or when such adjustments may occur. However, military presence on Guam is generally expected to increase.

The U.S. Air Force hosts a rotating presence of bomber, tanker and fighter aircraft and permanently stationed RQ-4 Global Hawk unmanned aerial reconnaissance assets in addition to a variety of aircraft and contingency response training events. As of November 2017, the U.S. Navy home ports four nuclear fast attack submarines on Guam: the USS Oklahoma City, the USS Chicago, the USS Topeka and the USS Key West.

Table A-14 Lists active duty military personnel on Guam from 2012 through 2016.

TABLE A-14
Active Duty Military Personnel on Guam
2012-2016

Year	<u>Air</u> <u>Force</u>	<u>Army</u>	<u>Coast</u> <u>Guard</u>	<u>Marines</u>	<u>Navy</u>	<u>Total</u>
2012	2,007	260	223	13	2,812	5,315
2013	2,010	257	216	18	3,318	5,819
2014	2,074	257	206	16	3,453	6,006
2015	2,074	253	184	21	3,583	6,115
2016	1,852	240	195	28	3,257	5,572

Source: COMNAVMAR; Bureau of Statistics and Plans, Military Active Duty and Family Members on Guam.

Table A-15 lists military dependents on Guam from 2012 through 2016.

TABLE A-15
Military Dependents on Guam
2012-2016

<u>Year</u>	<u>Air Force</u>	<u>Army</u>	<u>Coast Guard</u>	<u>Marines</u>	<u>Navy</u>	<u>Total</u>
2012	2,319	600	281	11	2,170	5,381
2013	2,099	2,384	348	36	2,385	7,252
2014	1,846	2,498	211	36	2,057	6,648
2015	1,847	2,916	200	31	2,217	7,211
2016	1,786	3,110	213	50	2,076	7,235

Source: COMNAVMAR; Bureau of Statistics and Plans, Military Active Duty and Family Members on Guam.

The Federal Procurement Data System – Next Generation (“FPDS-NG”) website updates its procurement data such that expenditures reported for any one year changes approximately every 90 days for DoD Contracts, usually increasing the amounts previously published. To obtain a more current data of military contract awards, GEDA maintains a database of contracts awarded by the DoD for Guam as reported on various military websites supplemented with data from the Naval Facilities Engineering Command Contracting Office. This database indicates that \$264 million was awarded in Fiscal Year 2012; \$189 million in Fiscal Year 2013; \$249 million in Fiscal Year 2014; \$204 million in Fiscal Year 2015; \$309 million in Fiscal Year 2016 and \$137 million in Fiscal Year 2017. Given that not all DoD contract awards are reported on the source websites, it is believed that the database maintained by GEDA understates total contract awards for these years.

Table A-16 reflects U.S. Department of Defense Procurement Contracts from 2012 through 2017.

TABLE A-16
U.S. Department of Defense Procurement Contracts for Guam
Fiscal Years 2012-2017

<u>Fiscal Year</u>	<u>U.S. Department of Defense Procurement Contracts</u>
2012	\$264,553,000
2013	\$189,727,000
2014	\$249,310,000
2015	\$204,436,000
2016	\$309,587,000
2017 ⁽¹⁾	\$137,680,000

⁽¹⁾ Values as of August 2017

Source: Federal Procurement Data System-Next Generation (FPDS-NG), Link <https://www.fpds.gov>

Congressional authorizations for appropriations for military construction and family housing projects are depicted in Table A-17 below. In July 2015, the DoD released the SEIS, which identified potential impacts associated with several alternatives for the cantonment/family housing component of this relocation, as well as for the live firing training range complex. The 2015 Record of Decision identified the final locations for additional bases and facilities to accommodate the Marines. The National Defense Authorization Act for federal Fiscal Year 2015 authorized \$162 million for military construction in Guam, subject to the satisfaction of certain requirements, and set the maximum cost of moving the Marines from Japan to Guam at \$8.7 billion.

The National Defense Authorization Act for federal Fiscal Year 2016 amends restrictions on the development of public infrastructure on Guam to support the military build-up and authorized the use of funds for a public infrastructure project to improve water and wastewater systems on Guam if (i) the project is identified in a specified DoD report and (ii) funds have been appropriated or made available by the DoD for the project. Fiscal Year 2016 projects approved by Congress include: Live-Fire Training Range Complex North West Field (\$125.6 million); Municipal Solid Waste Landfill Closure (\$10.7 million); Sanitary Sewer System Recapitalization (\$45.3 million); APR Dispersed Maintenance Spares & SE Storage Facilities (\$19.0 million); APR Installation Control Center (\$22.2 million); APR South Ramp Utilities Phase 2 (\$7.1 million); and PRTC Roads (\$2.5 million).

The National Defense Authorization Act for federal Fiscal Year 2017 includes approximately \$248.6 million for military construction on Guam. Fiscal Year 2017 projects approved by Congress include: Munitions Storage Igloos Phase 2 (\$35.3 million); SATCOM C41 Facility (\$14.2 million); Global Hawk Block 40 Maintenance Hangar (\$31.1 million); Harmon Power Upgrade (\$62.2 million); Hardening of Guam POL Infrastructure (\$26.9 million); and Replace Andersen Housing Phase 1 (\$78.8 million).

Fiscal Year 2018 projects submitted for Congressional approval includes: Aircraft Maintenance Hangar #2 (\$75.2 million), Corrosion Control Hangar (\$66.7 million), MALS Facilities (\$49.4 million), Navy Commercial Tie-In Hardening (\$37.1 million), Water Well Field (\$56.0 million), Construct Truck Load & Unload Facility (\$23.9 million), Reserve Medical Training Facility (\$5.2 million) and the Replacement of Andersen Housing Phase 2 (\$40.8 million).

TABLE A-17
U.S. Military Construction Authorizations for Guam
Fiscal Years 2012-2017

<u>Year</u>	<u>Total Authorizations</u>
2012	\$100,977,000
2013	\$101,904,000
2014	\$494,607,000
2015	\$162,451,000
2016	\$232,568,000
2017 ⁽¹⁾	\$248,658,000

⁽¹⁾ Fiscal Year 2017 Military Construction Authorization for Guam, as passed by House Armed Services Committee (HASC).

Source: The Committee on Armed Services, National Defense Authorization Acts

Recent Military Project Awards

Congress has authorized approximately \$106.4 million for military-funded civilian water and wastewater projects in Guam. In August 2016, the DoD, through the OEA, awarded GWA approximately \$55.3 million in grants to fund civilian water and wastewater projects linked to the military build-up, including \$30.6 million to be applied to build and refurbish the sewer line that supports Andersen Air Force Base and the site of the new Marine Corps Base, \$21.0 million for improvements to the Northern District Wastewater Treatment Plant, \$3.7 million for improvements to the Northern Guam Lens Aquifer Monitoring System Expansion and Rehabilitation and \$350,000 to be used by the U.S. Environmental Protection Agency to analyze water and wastewater projects. In November 2017, the DoD, through the OEA, awarded GWA approximately \$117.9 million in additional grants to fund the construction of civilian wastewater projects linked to the military build-up, including upgrades to the Northern District Wastewater Treatment Plant.

Recent construction awards further demonstrate that the military build-up, twelve years in the planning stages, is now ready to move forward, the Naval Facilities Engineering Command Pacific, awarded a \$164.89 million contract in August, 2017, to Granite-Obayashi for the design and construction of utilities and site improvements for the future Marine Corps Base. The contract includes utilities, roads and other infrastructure in anticipation of follow-on projects in Fiscal Year 2020. Also in August, a \$78 million contract to design and build a

live-fire training range complex at Northwest Field was awarded to a Guam based company, Black Construction Corp. The project is expected to be complete by November 2020.

Other military projects awarded include a \$41.16 million contract to Contrack Watts, Inc. for upgrades to the sewer system at Naval Base Guam (estimated completion date of January 2020), a \$28.5 million contract to Hensel Phelps Construction Co. for the construction of a power upgrade at the Joint Region Marianas, Guam (March 2020 estimated completion date) and a \$7.2 million contract to Tikigaq Construction LLC to build a landfill closure capping system at Anderson Air Force Base (estimated completion date of February 2019).

APPENDIX B

**FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

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**GUAM POWER AUTHORITY
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**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

INDEPENDENT AUDITORS' REPORT

Commissioners
Consolidated Commission on Utilities:

Report on Financial Statements

We have audited the accompanying financial statements of Guam Power Authority (GPA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Power Authority as of September 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 10 to the financial statements, on August 31, 2015, GPA suffered major damage to two of its generators due to an explosion at the Cabras 3 and 4 power plants. During the year ended September 30, 2016, the Cabras 3 and 4 generators were written down to a zero value. GPA recorded insurance recoveries and incurred losses and estimated repair costs at September 30, 2016 pending final determination of the ultimate amount of losses and damages and related insurance recoveries. Ultimate losses and damages and related insurance recoveries may be materially different than estimated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 10 as well as the Schedule of Proportional Share of the Net Pension Liability on page 48, and the Schedule of Pension Contributions on page 49 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pension that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.



April 6, 2017 (except for Note 6 regarding other postemployment benefits as to which the date is December 7, 2017)

**GUAM POWER AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

This Management's Discussion and Analysis should be read in conjunction with the Guam Power Authority's September 30, 2016 audited financial statements and accompanying notes.

OVERVIEW

The Guam Power Authority (GPA or the Authority) was created in 1968 as a public corporation and autonomous instrumentality of the Government of Guam. Since that time, the Authority has maintained and expanded the island wide power system on Guam. The Authority has 420 megawatts (MW) of generation capacity, 663 miles of transmission and distribution lines, 29 substations, \$886 million in assets, and \$308 million in annual revenues. GPA currently serves approximately 50,000 customers with the U.S. Navy being the largest representing about 17% of revenues.

In 2002, the Consolidated Commission on Utilities (CCU) was established as the board of directors for both the Guam Power Authority and the Guam Waterworks Authority. The CCU is made up of five elected members and is vested with the same powers exercised by the previous board of directors. In addition, it retains contracting authority, establishes policies and controls over the selection of the top management of the Authority. GPA also continued its existence as a public corporation.

The Authority is regulated by the Guam Public Utilities Commission (PUC) – a rate setting body made up of Commissioners appointed by the Governor of Guam. The PUC has established rules of operation that are similar to those of other jurisdictions within the United States. The PUC has broad regulatory authority over GPA including approval of any contracts that might have an impact on GPA's rates.

GPA'S STRATEGY

GPA is committed to providing outstanding energy solutions to our island community by focusing on capital discipline and operational excellence. Key components of GPA's strategy include:

- Achieve Superior Customer Service – GPA is continuously reaching for ways to better serve our customers through accountability, efficiency and reliability.
- Optimize Energy Production Cost – Focus on driving down cost and on improved productivity.
- Achieve Energy Diversification – GPA implemented an Integrated Resource Plan which includes renewable energy resources like solar and wind power generating 25 megawatts. More renewable energy is in the works.
- Become Financially Sound and Stable – Improve credit rating and debt service coverage.

Promote Energy Innovation

GPA successfully completed the smart grid project. The project included installing the smart meters for all customers, substation automation, AMI technology and high broadband communication. The smart meters give customers greater control over their energy use and costs by allowing them to monitor their energy use online and determine which activities are contributing to the fluctuations in their bills.

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In conjunction with the smart grid project, GPA successfully completed the new billing system, Customer Care and Billing from Oracle, in March 2015. The new software enabled GPA to improve billing processes, customer service and credit management. In addition, it enables GPA to integrate online bill payment where posting is real time. Future integrations are prepaid power services, payment kiosk, 24/7 pay-by-phone and e-billing.

Customers can visit the MyEnergy online site which enables customers to see their current usage and past history allowing them to take actions to mitigate their consumption before being charged in their bill. Information also helps customers decide on which energy efficient appliances to purchase.

Lastly, GPA redesigned the energy statement to provide immediate information on energy usage, a historical consumption graphic, a "Tips" section on energy services, rebate program or reminder notices and much more that will enable the consumers to manage their energy usage.

Cabras 3 & 4 Fire

On August 31, 2015, GPA experienced a major failure with two of its base load units - Cabras units 3 & 4 - when an explosion and fire occurred in the Cabras 4 engine. The power system lost 78.6 MW of base load capacity. GPA promptly coordinated efforts with large customers to establish 29 MW of interruptible load program, run smaller peaking units, and installed 40 MW of newly acquired temporary generation.

In addition, GPA aggressively implemented a rehabilitation plan for its Diesel engines and turbines. GPA has been working to bring back its decommissioned Dededo Combustion Turbine 1 & 2 of 40 MW which should be fully operational by April 2017.

Currently, GPA has about 420 MW of generation capacity without Cabras 3 & 4 and GPA also has 25 MW of renewable generation. In 2016, GPA's peak demand was 258 MW which GPA was able to meet despite the Cabras plant explosion.

Prior to the outage, Cabras 3 & 4 represented 19% of GPA's total system capacity of 420 MW, and GPA's reserve margin was approximately 39% with its peak at 258 MW. With its baseload out of service, the reserve margin ran thin. Low reserve margin caused GPA to shed some load during peak demand and unplanned repairs. Over the past year, GPA was able to bring various small generators online and increased capacity of some generators; thus, bringing its total capacity back to 420 MW of generation.

Due to GPA's service focus efforts, the average customers experienced less than 1% of the total period hours of load shedding.

GPA has in place a \$300 million insurance policy with Lloyd's of London that provided cash advances to mitigate the impact of the outages. Lastly, the savings on the operational costs from not running Cabras 3 and 4 were used to fund other generation projects.

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GPA filed its updated 2016 Integrated Resource Plan (IRP) to the CCU and the PUC. The IRP includes the plan to install 180 MW of dual-fired combined-cycle generation units, retirement of Cabras 1 & 2 generators, expansion of renewable energy portfolio, and installation of an energy storage. The 180 MW of combined cycle generation is planned to be commissioned on December 31, 2020. MEC 8 and 9 with 88 MW of generation is to be converted to burn Ultra Low Sulfur Diesel (ULSD) within one year after the commission of the new combined-cycle generation. The PUC has approved GPA's generation plan in October 2016 and GPA hired a consulting engineer to assist with the engineering and procurement.

GPA obtaining the combined-cycle generation has several benefits, such as better fuel efficiency, lower capital cost compared to installing emission control system to its existing generation plants, promotion of fuel diversity, and compliance with USEPA requirements.

United States Environmental Protection Agency

The United States Environmental Protection Agency (USEPA), under the Clean Air Act, established rules under National Emission Standard for Hazardous Air Pollutants (NESHAP) for Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (RICE MACT). These rules require stack emissions control and continuous monitoring systems (CPMS) equipment to be installed on all GPA peaking and base load diesel generators including its Cabras 3 and 4 and MEC 8 and 9 slow speed diesel units. The deadline for complying with the rules was May 3, 2013. GPA applied for and received an extension for complying with the rules with respect to its small diesel peaking units. The required stack emission equipment was installed within the extension period.

With regards to the slow speed diesel units, GPA engaged the assistance of USEPA along with U.S. Department of Justice (USDOJ) to negotiate a consent decree that will allow sufficient time to implement recommendations in its Integrated Resource Plan (IRP) which included new and efficient generation, renewable energy, and diversification of its fuel sources.

In 2016, the CCU and the PUC approved the procurement of combined combustion turbine plants which will put GPA in compliance with USEPA requirements. GPA believes that ongoing negotiations with USEPA and USDOJ will defer potential fines after the RICE MACT deadlines for the slow speed diesel units. If the consent decree is not reached, the maximum liability for GPA would not exceed \$169 million as of March 1, 2017.

FINANCIAL HIGHLIGHTS

The table below highlights the financial comparison from fiscal year 2014 through 2016. During fiscal year 2015, Guam Power Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These Statements are effective for fiscal years beginning after June 15, 2014. The adoption of GASB 68 and 71 is reflected in the 2014 to 2016 fiscal year financial statements. These Statements require a new approach to recording an employer's pension liability. This new approach reflects the underlying notion that pensions are a form of compensation provided to employees in exchange for the services they provide to a government over the employees' career. The implementation of these Statements had a material effect in the liabilities and on GPA's net position resulting in the restatement of fiscal year 2014.

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During fiscal year 2016, Guam Power Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements; GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55; and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current assets	\$ 381.0	\$ 323.7	\$ 384.5
Non-current investments	9.8	9.5	9.8
Other non-current assets	4.6	5.0	5.7
Utility plant	<u>467.5</u>	<u>541.4</u>	<u>552.7</u>
	862.9	879.6	952.7
Deferred outflows of resources	<u>22.8</u>	<u>23.9</u>	<u>23.2</u>
	\$ <u>885.7</u>	\$ <u>903.5</u>	\$ <u>975.9</u>
Liabilities:			
Current liabilities	\$ 91.9	\$ 79.6	\$ 110.1
Non-current liabilities	<u>713.1</u>	<u>728.3</u>	<u>770.3</u>
	805.0	807.9	880.4
Deferred inflows of resources	3.7	11.6	26.6
Net position:			
Net investment in capital assets	(49.2)	16.9	28.0
Restricted	4.6	21.2	20.1
Unrestricted	<u>121.6</u>	<u>46.0</u>	<u>20.8</u>
	<u>77.0</u>	<u>84.1</u>	<u>68.9</u>
	\$ <u>885.7</u>	\$ <u>903.6</u>	\$ <u>975.9</u>

The increase in the current assets in 2016 compared to 2015 is due to insurance recoveries and recovery receivable accrued in 2016 (Note 3). The decrease in current assets in 2015 compared to 2014 is due to the global reduction in fuel prices. The decrease is reflected in the financial statements as a decrease in accounts receivable and fuel inventory. The materials inventory declined in 2015 compared to 2014. GPA assisted CUC-Saipan to recover from Typhoon Soudelor which reduced the materials inventory.

The increase in current liabilities in 2016 compared to 2015 is due to accrual of estimated repair costs for Cabras 3 and 4 offset by the reduction in the principal bond payment in the current maturities of the long-term debt. The decline in the current liabilities in 2015 compared to 2014 is attributable to drop in fuel price and non-current liabilities decreased due to the termination of the Energy Conversion Agreement with Pruvient for the Tanguisson units in January 2015.

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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Financial results summary:

- Loss for 2016 was \$8.4 million, compared to \$13.6 million income in 2015.
- Operating income for 2016 was \$40.6 million, compared to \$48.8 million in 2015.

The table below details certain items from GPA's Statements of Revenue, Expenses and Changes in Net Position from 2014 through 2016. The presentation below separately identifies activities that impact earnings and cost recovery activities that do not impact earnings.

(in '000)	2016			2015			2014		
	Earning Activities	Cost Recovery Activities	Total Utility	Earning Activities	Cost Recovery Activities	Total Utility	Earning Activities	Cost Recovery Activities	Total Utility
Sales of Electricity	\$ 159,567	146,340	\$ 305,907	\$ 162,049	\$ 204,136	\$ 366,185	\$ 163,287	\$ 271,175	\$ 434,462
Other	<u>2,294</u>	<u>-</u>	<u>2,294</u>	<u>3,816</u>	<u>-</u>	<u>3,816</u>	<u>1,978</u>	<u>-</u>	<u>1,978</u>
Total operating revenues	161,861	146,340	308,201	165,865	204,136	370,001	165,265	271,175	436,440
Cost of electricity	-	146,340	146,340	-	204,136	204,136	-	271,175	271,175
Operating and maintenance	77,012	-	77,012	75,342	-	75,342	85,101	-	85,101
Depreciation	<u>44,240</u>	<u>-</u>	<u>44,240</u>	<u>41,765</u>	<u>-</u>	<u>41,765</u>	<u>36,989</u>	<u>-</u>	<u>36,989</u>
Total operating expenses	121,252	146,340	267,592	117,107	204,136	321,243	122,090	271,175	393,265
Operating Income	40,609	-	40,609	48,758	-	48,758	43,175	-	43,175
Interest income			1,101			1,179			1,372
Interest expense			(33,989)			(37,145)			(37,196)
Allowance for funds used during construction			4,137			5,646			3,976
Other expense, net			(451)			(4,838)			(6,560)
Extraordinary item			<u>(19,806)</u>			<u>-</u>			<u>-</u>
(Loss) income			\$ (8,399)			\$ 13,600			\$ 4,767

Operating Revenues

GPA's operating revenues decreased by \$61.8 million, or 17%, in 2016 compared to 2015, primarily due to reduction in the LEAC rate over the course of the year. Reduction in LEAC was due to a drop in global fuel prices and GPA securing better rate on fuel. Reduction in revenue in 2015 compared to 2014 is also due to price reduction in the global fuel prices.

Electric Sales Information

	2012	2013	2014	2015	2016
Peak Demand (MW)	263	257	249	255	258
Total Electric Sales (MWh)	1,563,475	1,566,410	1,533,323	1,539,587	1,574,000
Sales Growth (%)	(3.4)	0.2	(0.2)	0.4	2.2
Total Customers	48,512	48,598	48,918	49,530	50,207

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The energy sales increased by 2.2% in fiscal year 2016 and 0.4% in fiscal year 2015. Annual electric sales were 1,574 GWH and 1,539 GWH for 2016 and 2015, respectively. Number of customers were 50,207 and 49,530 for 2016 and 2015, respectively.

The strong growth of 2.2% in 2016 is a departure from prior years and the industry where the growth is stagnate or declining in customer demand. The previous noted decline in the demand is attributable to conservation efforts, efficiencies in appliances, and growing number of net metering customers.

Operating and Maintenance

GPA's operating and maintenance expense increased slightly in 2016 compared to 2015 due to higher insurance cost. In 2016, GPA achieved several cost saving measures like headcount reduction, overtime reduction, fleet fuel consumption cost reduction, greater energy station efficiencies, reduced transmission and distribution (T&D) line loss, and lower merchant service cost from credit cards due to better rates.

GPA headcount reduced from 489 in 2015 to 466 in 2016. Overtime decreased from \$1.5 million in 2015 to \$1.2 million in 2016. Fleet fuel consumption went down from \$94,412 in 2015 to \$60,440 in 2016. Station use of energy went down from 83,060 MWH in 2015 to 64,952 MWH in 2016. T&D line loss went down from 79,267 MWH to 64,952 MWH. Credit card service fee went down by \$413,000 in 2016 compared to 2015.

GPA's operating and maintenance expenses decreased by \$9.8 million, or 11%, in 2015 compared to 2014, primarily due to retirement of power plants, Tanguisson 1 and 2, and reduction in labor cost and overtime. On December 29, 2014, the PUC approved early termination of the associated energy conversion agreement of the Tanguisson power plant effective January 2, 2015.

Depreciation and Amortization

GPA's depreciation and amortization expense increased by \$2.5 million, or 5%, in 2016 compared to 2015. The change is due to reassessment of the estimated useful life of Cabras 1 and 2 based on the expected retirement of these plants when the new power plant becomes operational.

Utility Cost Recovery Activities

Cost of Electricity

GPA's cost of electricity includes the costs of power purchased from third parties, transmission, fuel used in its own generation facilities, and fuel supplied to other facilities under power purchase agreement.

GPA relies on fuel oil to run its generation plants. The recent contract was awarded to Hyundai Corp. which significantly lowered the cost compared to prior years.

In line with GPA IRP to increase its renewable resources, GPA procured a power purchase agreement for a utility scale solar farm of 25 MW with NRG Energy, located in southern Guam and the system became available to the grid in August 2015. The project performed as expected and it is producing approximately 4,300 MWH of emission free energy each month.

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In addition, GPA commissioned 275 kW wind project which became operational in March 2016. The \$2 million wind project was funded by a USDOJ Grant and provided available experience and data on the potential of wind renewable projects.

GPA is currently working on Phase II of new solar PV. The bid was issued requesting 60 MW of renewable energy and that solar and wind renewables must have integrated battery systems. The bids are currently being evaluated and the award is expected over the next few months.

There is a Phase III renewable project where GPA will be utilizing 30-year lease of Navy property for 35 MW solar PV. The proposed property has been identified and it is close to 200 acres where the CCU and the PUC approved the lease.

Interest Income, Interest Expense, and Other Income and Expenses

Interest expense decreased in 2016 compared to 2015 due to completion of payments for 2010 Series Subordinate Revenue Bonds.

Cash Flows from Operating Activities

GPA's cash flows from operating activities primarily consist of receipts from customers less payments of operating expenses.

GPA's cash flows from operating activities from 2014 to 2016 are as follows:

(in millions)	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash received from customers	\$ 305.2	\$ 354.8	\$ 453.8
Cash payments to suppliers	(198.8)	(245.3)	(322.2)
Cash payments to employees for services	(35.3)	(40.1)	(40.2)
Cash payments to retiree benefits	(4.2)	(3.8)	(3.0)
Net cash provided by operating activities	<u><u>\$ 66.9</u></u>	<u><u>\$ 65.6</u></u>	<u><u>\$ 88.4</u></u>

Capital Activities

GPA's capital activities primarily consist of new construction and replacement of facilities necessary to deliver safe and reliable power to its customers. The largest capital cost incurred during the year was Cabras #2 turbine overhaul (\$4.4M), line extension and distribution plant (\$5.8M), Solar Dandan Interconnection (\$1.8M), Yigo and Machete CT overhaul (\$2.5M), Street lights (\$1.1M), and general plant (\$2.5M). Cash used in capital activities includes proceeds from bonds and from revenue funds.

Please refer to Note 14 to the financial statements for details of GPA's capital activities.

Investing Activities

GPA's cash flows from investing activities from 2014 to 2016 are as follows (in millions):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net cash (used in) provided by investing activities	\$ (37.8)	\$ (8.9)	\$ 0.8

GUAM POWER AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Borrowing Activities

In fiscal year 2014, GPA completed the issuance of \$76.5 million bond to fund projects such as energy storage system, transmission and distribution system improvements, and SCADA system upgrade. The bonds were sold at a rate of 4.34% - lowest rate ever achieved by the Authority. This achievement is due to GPA's improved credit rating and investors view that GPA is a stable investment grade utility.

GPA's cash flows from capital and non-capital financing activities from 2014 to 2016 are as follows (in millions):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net cash provided by non-capital financing activities	\$ 52.7	\$ 2.9	\$ 3.0
Net cash used in capital and related financing activities	\$ (83.4)	\$ (96.4)	\$ (37.1)

No new borrowing was done in 2015 and 2016. Please refer to Note 7 to the financial statements for details of GPA's borrowing activities.

Credit Ratings

GPA's credit rating relates to the Authority's cost of funds and liquidity. In particular, GPA's ability to access and engage in certain activities on a cost-effective basis is primarily dependent upon maintaining a strong credit rating.

GPA's long-term senior debt ratings are:

Long-Term Senior Debt	Rating	Long-Term Outlook
Standard & Poor's	BBB	Stable
Moody's Rating	Baa2	Stable
Fitch Rating	BBB-	Stable

Future Capital Activities

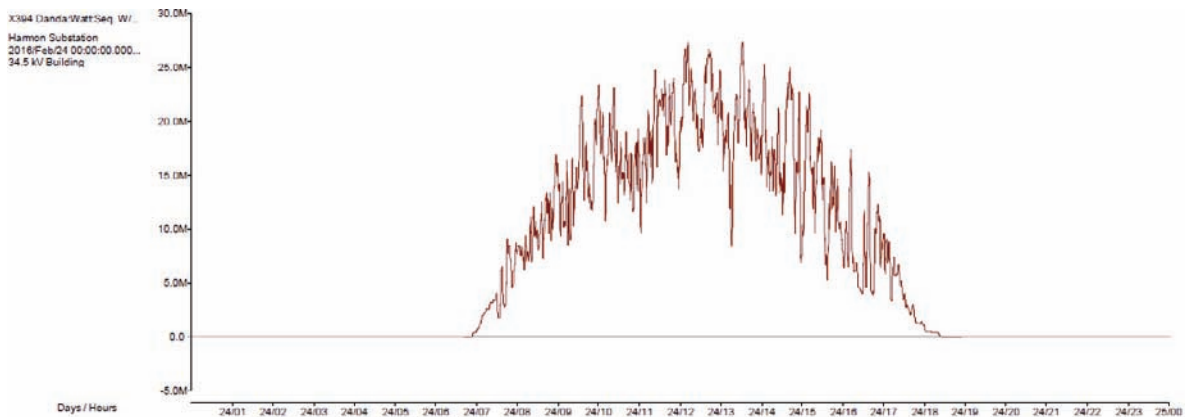
GPA is committed to green energy and the reduction of greenhouse gas emissions. GPA invested in an industry scale solar farm of 25 MW and we are committed to increasing green energy solutions as noted earlier.

The investment in a solar farm and increase in net metering customers (NEM) has led to a grid that is becoming physically and operationally very different from historical patterns. The energy received from the solar farm and net metering customers are "must take" contracts, meaning their energy goes into the grid whenever they can generate. The Power System Control Center must now monitor and respond to dramatic changes in system frequencies during certain times of the day. These fast changes are known as ramping events. Historically, the need for fast ramping was in response to load changes, but now is also due to generation output from non-GPA sources.

GPA is required to absorb all the power fluctuation emitted by the solar farm, and NEM. On any given day, the solar farm can fluctuate as much as 15 MW in an hour. Below is a sample reading for a day on February 24, 2016.

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To mitigate the drop in generation by solar PV, GPA procured energy storage solution (ESS) and should be fully operational around early part of 2018.

GPA is working to expand its renewable footprint and is currently working on Phase II 60 MW solar PV and Phase III 35 MW solar PV.

In 2016, the CCU and the PUC approved to proceed with the procurement of 180 MW dual fire combined cycle combustion turbine. The project is planned to be completed by December 2020.

GPA procured two electric vehicles (EV) and is committed to replacing some of its current aging fleet with EV and invest in charging infrastructures. The community adoption of electric vehicles should reduce the importation of oil.

Future Borrowing

Despite the advancement of renewable energy generation and storage, the traditional power generation is still required. As noted earlier, GPA filed an integrated resource plan (IRP) to the CCU and the PUC for the construction of combined cycle combustion turbine plants and an approval was given by the CCU and the PUC to authorize GPA to proceed with the procurement of up to 180 MW. The plan for the procurement model is independent power purchase agreement (IPP) where the IPP finance the construction of the plant. However, GPA is not ruling out the review to determine if financing by GPA is more economical.

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.

**GUAM POWER AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Management's Discussion and Analysis for the years ended September 30, 2015 and 2014 is set forth in GPA's report on the audit of financial statements which is dated March 11, 2016. That Discussion and Analysis explains in more detail major factors impacting the 2015 and 2014 financial statements. A copy of that report can be obtained by contacting the CFO office at (671) 648-3066 or from GPA's website at the addresses noted below.

For additional information about this report, please contact Mr. John J.E. Kim, 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
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Statements of Net Position
September 30, 2016 and 2015

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents - restricted	\$ 188,768,078	\$ 201,969,525
Cash and cash equivalents - unrestricted	15,332,510	3,835,959
Total cash and cash equivalents	<u>204,100,588</u>	<u>205,805,484</u>
Certificates of deposit - restricted	8,752,047	-
Certificates of deposit - unrestricted	18,501,460	-
Total certificates of deposit	<u>27,253,507</u>	<u>-</u>
Investments held by trustee - restricted	41,367,658	30,626,433
Accounts receivable, net	62,635,768	35,517,682
Materials and supplies inventory, net	13,555,719	16,312,559
Fuel inventory	31,326,368	34,774,612
Prepaid expenses	754,023	734,996
Total current assets	<u>380,993,631</u>	<u>323,771,766</u>
Utility plant, at cost:		
Depreciable utility plant, net of accumulated depreciation	449,259,789	509,246,172
Non-depreciable utility plant	18,278,666	32,128,337
Total utility plant	<u>467,538,455</u>	<u>541,374,509</u>
Other non-current assets:		
Investments held by trustee - restricted	9,801,436	9,458,442
Unamortized debt issuance costs	4,646,601	5,026,210
Total other non-current assets	<u>14,448,037</u>	<u>14,484,652</u>
Total assets	<u>862,980,123</u>	<u>879,630,927</u>
Deferred outflows of resources:		
Unamortized loss on debt refunding	12,324,400	13,574,416
Pension	8,168,718	7,490,630
Unrecovered fuel costs	1,492,055	1,869,344
Unamortized forward delivery contract costs	796,717	956,078
Total deferred outflows of resources	<u>22,781,890</u>	<u>23,890,468</u>
	<u>\$ 885,762,013</u>	<u>\$ 903,521,395</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
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Statements of Net Position, Continued
September 30, 2016 and 2015

<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	<u>2016</u>	<u>2015</u>
Current liabilities:		
Current maturities of long-term debt	\$ 115,000	\$ 14,265,000
Current obligations under capital leases	16,737,242	14,820,776
Accounts payable:		
Operations	18,695,325	15,521,064
Fuel	6,622,514	6,547,139
Accrued repair costs	22,317,509	-
Accrued payroll and employees' benefits	1,533,636	1,296,749
Current portion of employees' annual leave	2,405,799	2,388,129
Interest payable	15,146,696	15,673,208
Customer deposits	8,381,571	9,043,908
Total current liabilities	<u>91,955,292</u>	<u>79,555,973</u>
Regulatory liabilities:		
Provision for self-insurance	<u>19,550,977</u>	<u>19,758,320</u>
Total regulatory liabilities	<u>19,550,977</u>	<u>19,758,320</u>
Long-term debt, net of current maturities	595,057,778	597,785,166
Obligations under capital leases, net of current portion	22,872,720	39,609,006
DCRS sick leave liability	3,436,738	3,113,912
Net pension liability	71,049,220	67,025,973
Employees' annual leave, net of current portion	806,762	806,762
Customer advances for construction	<u>319,321</u>	<u>205,461</u>
Total liabilities	<u>805,048,808</u>	<u>807,860,573</u>
Deferred inflows of resources:		
Pension	732,788	7,694,438
Unearned forward delivery contract revenue	2,920,088	3,504,106
Other unearned revenues	<u>-</u>	<u>357,000</u>
Total deferred inflows of resources	<u>3,652,876</u>	<u>11,555,544</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	(49,190,904)	16,924,495
Restricted	4,645,344	21,212,177
Unrestricted	<u>121,605,889</u>	<u>45,968,606</u>
Total net position	<u>77,060,329</u>	<u>84,105,278</u>
	<u>\$ 885,762,013</u>	<u>\$ 903,521,395</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Sales of electricity	\$ 306,896,753	\$ 366,185,083
Miscellaneous	<u>2,293,868</u>	<u>4,774,889</u>
	309,190,621	370,959,972
Bad debt expense	<u>(989,762)</u>	<u>(959,008)</u>
Net operating revenues	<u>308,200,859</u>	<u>370,000,964</u>
Operating and maintenance expenses:		
Production fuel	146,339,927	204,135,936
Other production	<u>15,834,795</u>	<u>20,079,027</u>
	162,174,722	224,214,963
Depreciation and amortization	44,240,395	41,765,404
Administrative and general	29,057,723	21,907,999
Energy conversion costs	16,800,170	18,403,965
Transmission and distribution	10,816,588	11,169,991
Customer accounting	<u>4,501,923</u>	<u>3,780,276</u>
Total operating and maintenance expenses	<u>267,591,521</u>	<u>321,242,598</u>
Operating income	<u>40,609,338</u>	<u>48,758,366</u>
Non-operating revenues (expense):		
Allowance for funds used during construction	4,137,421	5,645,781
Non-operating grants from the United States (U.S.) Government	13,612	1,500,362
Interest income	1,100,895	1,179,347
Interest expense	(33,988,980)	(37,144,961)
Loss from early termination of energy conversion agreement	-	(2,840,842)
Loss from write-off of utility plant	-	(1,666,666)
Other expense, net	<u>(465,599)</u>	<u>(1,831,189)</u>
Total non-operating revenues (expense), net	<u>(29,202,651)</u>	<u>(35,158,168)</u>
Income before extraordinary item	11,406,687	13,600,198
Extraordinary item - generator explosion and fire	<u>(19,805,608)</u>	<u>-</u>
(Loss) income before capital contributions	(8,398,921)	13,600,198
Capital contributions:		
Grants from the U.S. Government	<u>1,353,972</u>	<u>1,590,937</u>
Change in net position	(7,044,949)	15,191,135
Net position at beginning of year	<u>84,105,278</u>	<u>68,914,143</u>
Net position at end of year	<u>\$ 77,060,329</u>	<u>\$ 84,105,278</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2016 and 2015

<u>Increase (decrease) in cash and cash equivalents</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 305,166,728	\$ 354,799,650
Cash payments to suppliers for goods and services	(198,802,614)	(245,294,780)
Cash payments to employees for services	(35,328,683)	(40,107,649)
Cash payments for retiree benefits	(4,146,630)	(3,833,401)
Net cash provided by operating activities	<u>66,888,801</u>	<u>65,563,820</u>
Cash flows from investing activities:		
Interest on investments and bank accounts	516,877	595,330
Investments in certificates of deposit	(27,253,507)	-
Increase in bond fund investments	(11,084,219)	(9,458,442)
Net cash used in investing activities	<u>(37,820,849)</u>	<u>(8,863,112)</u>
Cash flows from non-capital financing activities:		
Proceeds from insurance claims	50,000,000	-
Self insurance fund receipts net of disbursements	(207,343)	3,069,947
Proceeds from typhoon assistance to Saipan	2,946,569	1,762,905
Typhoon costs and other noncapital activities	-	(1,831,189)
Interest paid on deposits	(80,918)	(118,049)
Net cash provided by non-capital financing activities	<u>52,658,308</u>	<u>2,883,614</u>
Cash flows from capital and related financing activities:		
Receipts from the U.S. Government	1,763,046	1,170,459
Payment for early termination of energy conversion agreement	-	(8,100,000)
Interest paid on capital leases	(5,969,664)	(7,847,938)
Principal paid on capital leases	(14,819,819)	(13,515,250)
Principal paid on long-term debt	(14,265,000)	(13,600,000)
Interest paid on long-term debt	(25,150,895)	(22,413,653)
Additions to utility plant	(24,988,824)	(32,114,346)
Net cash used in capital and related financing activities	<u>(83,431,156)</u>	<u>(96,420,728)</u>
Net change in cash and cash equivalents	(1,704,896)	(36,836,406)
Cash and cash equivalents at beginning of year	<u>205,805,484</u>	<u>242,641,890</u>
Cash and cash equivalents at end of year	<u>\$ 204,100,588</u>	<u>\$ 205,805,484</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
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Statements of Cash Flows, Continued
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Reconciliation of operating earnings to net cash provided by operating activities:</u>		
Operating earnings	\$ 40,609,338	\$ 48,758,366
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	44,240,395	41,765,404
Bad debts	989,762	959,008
Pension recovery	(3,616,491)	(8,045,373)
Cabras 4 repairs	(20,254,497)	-
(Increase) decrease in assets:		
Accounts receivable	154,119	5,575,421
Materials and supplies inventory	1,687,682	1,731,586
Fuel inventory	3,448,244	23,260,615
Prepaid expenses	(19,027)	(225,737)
Other assets	-	262,193
Increase (decrease) in liabilities:		
Accounts payable	3,249,636	(26,990,919)
Customer deposits	288,108	585,164
Customer advances for construction	113,860	(2,965,285)
Unrecovered fuel costs	(4,222,711)	(19,355,622)
Accrued payroll and employees' benefits	236,887	(35,260)
Other unearned revenues	(357,000)	-
Employees' annual and sick leave	340,496	284,259
Net cash provided by operating activities	<u>\$ 66,888,801</u>	<u>\$ 65,563,820</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2016 and 2015

(1) Organization and Summary of Significant Accounting Policies

Organization

Guam Power Authority (GPA) is a component unit of the Government of Guam (GovGuam). GPA provides electrical services on Guam to residential, commercial and GovGuam customers and to the United States (U.S.) Navy under a Utility Services Contract (USC). 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. 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.

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.

Taxes

As an instrumentality of GovGuam, GPA and all property acquired by or for GPA, and all revenues and income therefrom 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.

Cash, Cash Equivalents and Investments

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, the bond reserve fund, the energy sense fund and the self-insurance fund.

Investments in short-term, highly liquid debt instruments, including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations are recorded at amortized cost.

GUAM POWER AUTHORITY
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Notes to Financial Statements
September 30, 2016 and 2015

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

Cash, Cash Equivalents and Investments, Continued

All other investments are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

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 has a rating in the highest classification by S&P and Moody's; and money market funds rated AAAm or better by S&P.

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 collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Uncollectible accounts are written-off against the allowance or are charged to expense in the period GPA deems the accounts to be uncollectible but with prior approval of the CCU.

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.

Allowance for inventory obsolescence is provided for inventory items with no movement for a period of five years and over and for parts and supplies for equipment no longer in use. Allowance for inventory obsolescence amounted to \$1,485,450 and \$416,292 as of September 30, 2016 and 2015, respectively.

Utility Plant

Utility plant purchased or constructed 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. Donated utility is recorded at fair market value at the date of donation or at the donating entity's basis in the asset if donated by GovGuam or a GovGuam agency. Current policy is to capitalize utility plant with a cost of \$1,000 or more.

GUAM POWER AUTHORITY
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Notes to Financial Statements
September 30, 2016 and 2015

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

Depreciation

Depreciation is computed under the straight-line method over the estimated useful lives of the respective assets.

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. The maximum accumulation of annual leave convertible to pay upon termination of employment 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. Any unused leave over 320 hours shall be lost upon retirement.

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. GPA recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents GPA's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Forward Delivery Contract Costs and Revenues

The forward delivery contract costs and revenues arose as a result of the Bond Reserve Fund Forward Delivery Agreements entered into in September 2000. The unamortized forward delivery contract costs represent termination fees and closing costs while the unearned forward delivery contract revenues represent the gross proceeds. The costs and revenues are amortized on a straight line basis until 2034.

GUAM POWER AUTHORITY
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Notes to Financial Statements
September 30, 2016 and 2015

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

Unamortized Debt Issuance Costs

Unamortized debt issuance costs mainly include insurance costs related to the issuance of the Series 2010, 2012 and 2014 bonds. These costs are being amortized using the effective interest method over the life of the applicable debt.

Net Position

Net position represents the residual interest in GPA's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of four sections:

Net investment in capital assets - include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve.

Restricted expendable - net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of GPA pursuant to those stipulations or that expire with the passage of time.

Restricted nonexpendable - net position subject to externally imposed stipulations that require GPA to maintain them permanently.

Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by management or the CCU or may otherwise be limited by contractual agreements with outside parties.

All of GPA's restricted net position is expendable.

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.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of systems to provide electrical services to the island of Guam. 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.

Deferred Outflows of Resources

Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

GUAM POWER AUTHORITY
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Notes to Financial Statements
September 30, 2016 and 2015

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

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Levelized Energy Adjustment Clause

Fuel oil costs increase or decrease billings to customers based on increases or decreases in the price of fuel oil purchased by GPA. Under or over recoveries of fuel oil costs including the fair value of outstanding commodity swap agreements (if any) are recorded as unrecovered fuel cost or unearned fuel revenue, respectively, in the accompanying statements of net position, 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.

GPA also bills customers fuel surcharges to recover the cost difference between fuel inventory on hand against a base year.

Derivative Instruments

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. GPA records commodity swap agreements associated with its fuel oil hedging activities at fair value with gains and losses recognized in operations in the statement of revenues, expenses and changes in net position. The fair value of outstanding commodity swaps at year-end is included as a component of the LEAC and is recorded as part of unrecovered fuel cost or unearned fuel revenue in the accompanying statements of net position. GPA did not have outstanding commodity swap agreements at September 30, 2016 and 2015.

GPA's power purchase agreements are considered "normal purchases and normal sales" and accordingly, the operations and maintenance portions of GPA's energy conversion agreements are not recognized in the statements of net position. Operations and maintenance costs associated with the power purchase agreements are expensed as incurred with the independent power producers.

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. AFUDC of \$4,137,421 and \$5,645,781 was recognized during the years ended September 30, 2016 and 2015, respectively.

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Notes to Financial Statements
September 30, 2016 and 2015

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

New Accounting Standards

During the year ended September 30, 2016, GPA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement resulted in additional disclosures made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Refer to note 2.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not determined the financial impact but anticipates that the implementation of this statement will have a material effect on the financial statements. Please refer to note 6 for the estimated impact if the statement were to be implemented as of September 30, 2016.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements
September 30, 2016 and 2015

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

Reclassifications

Certain items in the 2015 financial statements have been reclassified to correspond with the 2016 financial statement presentation.

(2) Cash, Cash Equivalents and Investments

The bond indenture agreements for the 2010, 2012 and 2014 series revenue bonds (note 7) 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. Certain funds are restricted by rate orders of the PUC.

At September 30, 2016 and 2015, cash and cash equivalents, certificates of deposit and investments held by trustees and by GPA in these funds and accounts were as follows:

2016						
	<u>Cash and Cash Equivalents and Certificates of Deposit</u>			<u>Investments</u>		
	<u>Held By Trustees</u>	<u>Held By GPA</u>		<u>Held By Trustees</u>		
	Bond Indenture Funds	PUC Restricted Funds	Unrestricted Funds	Cash Total	Bond Indenture Funds	Total
Construction funds	\$ 69,821,815	\$ -	\$ -	\$ 69,821,815	\$ -	\$ 69,821,815
Interest and principal funds	6,203,627	-	-	6,203,627	9,801,436	16,005,063
Excess bond funds	510,504	-	-	510,504	-	510,504
Working capital funds	11,932,417	-	-	11,932,417	20,363,113	32,295,530
Bond reserve fund	34,808,887	-	-	34,808,887	13,742,000	48,550,887
Self-insurance fund	-	19,506,796	-	19,506,796	-	19,506,796
Revenue funds	1,372,165	-	-	1,372,165	-	1,372,165
Energy sense fund	-	1,646,041	-	1,646,041	-	1,646,041
Operating funds	-	-	33,833,970	33,833,970	-	33,833,970
Surplus funds	<u>51,717,873</u>	<u>-</u>	<u>-</u>	<u>51,717,873</u>	<u>7,262,545</u>	<u>58,980,418</u>
	<u>\$ 176,367,288</u>	<u>\$ 21,152,837</u>	<u>\$ 33,833,970</u>	<u>\$ 231,354,095</u>	<u>\$ 51,169,094</u>	<u>\$ 282,523,189</u>

2015						
	<u>Cash and Cash Equivalents and Certificates of Deposit</u>			<u>Investments</u>		
	<u>Held By Trustees</u>	<u>Held By GPA</u>		<u>Held By Trustees</u>		
	Bond Indenture Funds	PUC Restricted Funds	Unrestricted Funds	Cash Total	Bond Indenture Funds	Total
Construction funds	\$ 79,336,424	\$ -	\$ -	\$ 79,336,424	\$ -	\$ 79,336,424
Interest and principal funds	13,390,665	-	-	13,390,665	9,458,442	22,849,107
Excess bond funds	510,452	-	-	510,452	-	510,452
Working capital funds	26,201,225	-	-	26,201,225	4,855,561	31,056,786
Capitalized interest fund	5,650,381	-	-	5,650,381	-	5,650,381
Bond reserve fund	28,585,721	-	-	28,585,721	25,770,872	54,356,593
Self-insurance fund	-	19,500,066	-	19,500,066	-	19,500,066
Revenue funds	5,854,823	-	-	5,854,823	-	5,854,823
Energy sense fund	-	1,806,014	-	1,806,014	-	1,806,014
Operating funds	-	-	3,835,959	3,835,959	-	3,835,959
Surplus funds	<u>21,133,754</u>	<u>-</u>	<u>-</u>	<u>21,133,754</u>	<u>-</u>	<u>21,133,754</u>
	<u>\$ 180,663,445</u>	<u>\$ 21,306,080</u>	<u>\$ 3,835,959</u>	<u>\$ 205,805,484</u>	<u>\$ 40,084,875</u>	<u>\$ 245,890,359</u>

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Notes to Financial Statements
September 30, 2016 and 2015

(2) Cash, Cash Equivalents and Investments, Continued

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

A. Cash and Cash Equivalents

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, 2016 and 2015, the carrying amount of GPA's total cash and cash equivalents and certificates of deposit was \$231,354,095 and \$205,805,484, respectively, and the corresponding bank balances were \$230,764,038 and \$205,450,169, respectively. Of the bank balance amount as of September 30, 2016 and 2015, \$53,327,876 and \$24,754,759, respectively, was maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, bank deposits in the amount of \$763,256 and \$739,756, respectively, were FDIC insured. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2016 and 2015, \$53,972,549 and \$24,370,520, respectively, of cash and cash equivalents and certificates of deposit were subject to custodial credit risk. GPA has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits. Bank balances as of September 30, 2016 and 2015, also include \$176,367,288 and \$180,663,445, respectively, representing cash, cash equivalents and certificates of deposit held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures.

B. Investments

As of September 30, 2016, GPA's investments were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>S&P or Moody's Rating</u>
<i>Current:</i>			
Investments held by trustee – restricted:			
Bond Reserve Fund:			
BNP Paribas Fortis (commercial paper)	\$ 13,742,000	Less than 1 year	P-1
Bond Fund:			
Federal Home Loan Banks	12,773,015	Less than 1 year	P-1
Federal Farm Credit Banks	5,002,380	Less than 1 year	P-1
Federal Home Loan Mortgage Corporation	2,001,210	Less than 1 year	P-1
Federal National Mortgage Association	3,013,090	Less than 1 year	P-1
Federated Government Ultrashort Duration Fund (mutual fund)	<u>4,835,963</u>	Less than 1 year	Not rated
	<u>\$ 41,367,658</u>		

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(2) Cash, Cash Equivalents and Investments, Continued

B. Investments, Continued

	<u>Amount</u>	<u>Maturity</u>	<u>S&P or Moody's Rating</u>
<i>Noncurrent:</i>			
Investments held by trustee - restricted:			
Bond Fund:			
Bayerische Landesbank Guaranteed			
Investment Certificate (GIC)	\$ <u>9,801,436</u>	More than 10 years	A1

As of September 30, 2015, GPA's investments were as follows:

	<u>Amount</u>	<u>Maturity (In Years)</u>	<u>S&P or Moody's Rating</u>
<i>Current:</i>			
Investments held by trustee - restricted:			
Bond Reserve Fund:			
Fortis Funding LLC (commercial paper)	\$ 13,742,000	Less than 1 year	P-1
Natixis Funding Corp. Guaranteed			
Investment Certificate (GIC)	12,028,872	Less than 1 year	P-1
Bond Fund:			
Federated Government Ultrashort			
Duration Fund (mutual fund)	<u>4,855,561</u>	Less than 1 year	Not rated
	\$ <u>30,626,433</u>		
<i>Noncurrent:</i>			
Investments held by trustee - restricted:			
Bond Fund:			
Bayerische Landesbank Guaranteed			
Investment Certificate (GIC)	\$ <u>9,458,442</u>	More than 10 years	A3

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, GPA will not be able to recover the value of the 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 trust agreements and bond indentures.

Credit risk for investments is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

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 investment in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 2016 and 2015, each of GPA's investments exceeded 5% of total investments, except for the investment in Federal Home Loan Mortgage Corporation which represents 4% of total investments.

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September 30, 2016 and 2015

(2) Cash, Cash Equivalents and Investments, Continued

B. Investments, Continued

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.

Investments Measured at Fair Value

GPA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of September 30, 2016 and 2015, GPA's investment in Federated Government Ultrashort Duration mutual fund is valued using Level 1 inputs.

(3) Receivables

Accounts receivable at September 30, 2016 and 2015, were summarized as follows:

	<u>2016</u>	<u>2015</u>
Customers:		
Private	\$ 22,865,829	\$ 27,337,741
Government	<u>4,546,621</u>	<u>4,449,739</u>
	27,412,450	31,787,480
U.S. Government - Navy (note 8)	2,379,893	3,116,035
U.S. Government - grants	1,964,866	2,360,325
Insurance	34,040,000	-
Others	<u>869,189</u>	<u>4,518,698</u>
	66,666,398	41,782,538
Less allowance for doubtful receivables	<u>(4,030,630)</u>	<u>(6,264,856)</u>
	\$ <u>62,635,768</u>	\$ <u>35,517,682</u>

Unbilled accounts receivable included in the accounts receivable – private customers amounted to \$5,658,070 and \$7,058,889 at September 30, 2016 and 2015, respectively.

At September 30, 2016, receivables included \$34 million of insurance receivables representing insurance recoveries realizable as at September 30, 2016 (see note 10).

At September 30, 2015, other receivables included \$2,310,358 due from the Commonwealth Utilities Corporation for the assistance provided by GPA for typhoon restoration efforts during that year.

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Notes to Financial Statements
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(3) Receivables, Continued

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam. Concentrations largely result from accounts receivable from GovGuam 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.

(4) Levelized Energy Adjustment Clause

At September 30, 2016 and 2015, GPA has under recovery of fuel costs of \$1,492,055 and \$1,869,344, respectively.

At September 30, 2016 and 2015, no under or over recovery of the fuel inventory cost difference is recognized as the fuel price for the year is lower than the base year.

(5) Obligations Under Capital Leases

In September 1996, GPA entered into energy conversion 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 and purchases fuel for the plants.

GPA has determined that the agreements to purchase electricity are in fact capital leases to acquire the plants and that the capacity payments made under the agreements are lease payments. The operations and maintenance payments under the agreements are reflected as energy conversion costs under operation and maintenance expenses.

On December 29, 2014, GPA obtained PUC approval to early terminate one of the energy conversion agreements effective January 2, 2015 for a payment of \$8.1 million. The agreement was originally to expire in September 2017. GPA incurred a \$2.8 million loss due to early termination of the agreement.

At September 30, 2016 and 2015, the costs of plant and plant improvements were \$155,382,727 and accumulated depreciation was \$69,298,046 and \$65,480,144, respectively, which were presented as part of depreciable utility plant in the accompanying statements of net position. The leases have effective interest rates ranging from 8.6% to 13.7%.

Future capacity payments under these agreements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2017	\$ 16,737,242	\$ 4,051,185	\$ 20,788,427
2018	16,950,423	1,934,418	18,884,841
2019	<u>5,922,297</u>	<u>159,673</u>	<u>6,081,970</u>
	\$ <u>39,609,962</u>	\$ <u>6,145,276</u>	\$ <u>45,755,238</u>

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(6) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: GPA participates in the GovGuam Defined Benefit (DB) Plan, a single-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. 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 commenced 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.

A single actuarial calculation 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, or by visiting GGRF's website – www.ggrf.com.

Plan Membership: As of September 30, 2015, the most recent measurement date, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,197
Terminated employees entitled to benefits but not yet receiving them	4,701
Current members	<u>2,460</u>
	<u>14,358</u>

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature, but are provided outside of the Plan.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

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Notes to Financial Statements
September 30, 2016 and 2015

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age.

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

Contributions and Funding Policy: Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2014 actuarial valuation was used for determining the year ended September 30, 2016 statutory contributions. Member contributions are required at 9.54% of base pay (9.55% in 2015).

As a result of actuarial valuations performed as of September 30, 2014, 2013, and 2012, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2016, 2015 and 2014, respectively, have been determined as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Normal costs (% of DB Plan payroll)	15.86%	15.92%	16.61%
Employee contributions (DB Plan employees)	<u>9.54%</u>	<u>9.55%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.32%</u>	<u>6.37%</u>	<u>7.11%</u>
Employer portion of normal costs (% of total payroll)	1.94%	2.05%	2.39%
Unfunded liability cost (% of total payroll)	<u>22.42%</u>	<u>24.09%</u>	<u>24.01%</u>
Government contribution as a % of total payroll	<u>24.36%</u>	<u>26.14%</u>	<u>26.40%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.16%</u>	<u>29.85%</u>	<u>30.03%</u>
Employee	<u>9.54%</u>	<u>9.55%</u>	<u>9.50%</u>

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Notes to Financial Statements
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(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

GPA's contributions to the DB Plan for the years ended September 30, 2016, 2015 and 2014 were \$2,438,748, \$2,772,299 and \$3,046,347, respectively, which were equal to the required contributions for the respective years then ended.

Actuarial Assumptions: Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	15.58 years
Asset Valuation Method:	3-year smoothed market value
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	7.00%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

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(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Discount Rate: The total pension liability is calculated using a discount rate of 7.0% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	\$ <u>86,329,406</u>	\$ <u>71,049,220</u>	\$ <u>57,905,280</u>

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

Pension Liability: At September 30, 2016 and 2015, GPA reported a net pension liability of \$71,049,220 and \$67,025,973, respectively, for its proportionate share of the Government of Guam net pension liability. GPA's proportion of the net pension liability was based on projection of GPA's long-term share of contributions to the pension plan relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2016 and 2015, GPA's proportion of the GovGuam overall liability was 5.19% and 5.38%, respectively.

Pension Expense: For the years ended September 30, 2016 and 2015, GPA recognized pension expense (recovery) of \$2,839,525 and (\$624,346), respectively.

Deferred Outflows and Inflows of Resources: At September 30, 2016 and 2015, GPA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to Financial Statements
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(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 891,044	\$ -	\$ 497,265	\$ -
Net difference between projected and actual earnings on pension plan investments	802,882	-	-	5,101,436
Contributions subsequent to the measurement date	6,474,792	-	6,993,365	-
Changes in proportion and difference between GPA contributions and proportionate share of contributions	-	732,788	-	2,593,002
	<u>\$ 8,168,718</u>	<u>\$ 732,788</u>	<u>\$ 7,490,630</u>	<u>\$ 7,694,438</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2016 will be recognized in pension expense as follows:

Year Ending September 30,

2017	\$ (241,947)
2018	\$ (422,284)
2019	\$ 587,574
2020	\$ 1,037,795

Defined Contribution Retirement System

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.

Statutory employer contributions for participants in the DCRS plan for the years ended September 30, 2016, 2015 and 2014 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only an amount equivalent to 5% of the member's regular pay is deposited into the member's individual investment account in the DCRS. The remaining amount is contributed towards the unfunded liability of the DB Plan.

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(6) Employees' Retirement Plan, Continued

Defined Contribution Retirement System, Continued

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 for participants in the DCRS plan for the years ended September 30, 2016, 2015 and 2014 were \$5,075,223, \$5,244,535, and \$5,219,217, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$4,206,313, \$4,395,461 and \$4,379,771 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2016, 2015 and 2014, respectively.

GPA has accrued an estimated liability of \$3,436,738 and \$3,113,912 at September 30, 2016 and 2015, respectively, for potential future sick leave payments pursuant to Public Law 26-86 (note 1). 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 employee 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, 2016, 2015 and 2014, GPA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Supplemental benefits and COLA	\$ 1,235,078	\$ 1,212,303	\$ 1,137,620
Medical and dental	<u>2,911,552</u>	<u>2,621,098</u>	<u>1,919,579</u>
	\$ <u>4,146,630</u>	\$ <u>3,833,401</u>	\$ <u>3,057,199</u>

GPA's net OPEB obligation at September 30, 2016, 2015 and 2014 for the above mentioned Plan is as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	\$ <u>51,711,054</u>	\$ <u>44,213,000</u>	\$ <u>38,912,000</u>

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September 30, 2016 and 2015

(7) Noncurrent Liabilities

A. Long-term Debt

Long-term debt at September 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
2014 Series Senior Revenue Bonds, initial face value of \$76,470,000, interest at varying rates from 4.0% to 5.0% per annum payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,310,000 in October 2017, increasing to a final payment of \$4,855,000 in October 2044.	\$ 76,470,000	\$ 76,470,000
2012 Series Senior Revenue Bonds, initial face value of \$340,620,000, interest at varying rates from 2.98% to 5.0% per annum payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$110,000 in October 2013, increasing to a maximum payment of \$25,630,000 in October 2031, with a final payment of \$24,485,000 in October 2034.	339,945,000	340,055,000
2010 Series Senior Revenue Bonds, initial face value of \$150,440,000, interest at varying rates from 5.0% to 5.5% per annum payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$225,000 in October 2022, increasing to \$17,215,000 in October 2040.	150,440,000	150,440,000
2010 Series Subordinated Revenue Bonds, initial face value of \$56,115,000, interest at varying rates from 6.0% to 7.5% per annum payable semi-annually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$4,435,000 in October 2011, increasing to \$14,155,000 in October 2015.	<u>-</u>	<u>14,155,000</u>
Total long-term debt	566,855,000	581,120,000
Less current maturities	<u>(115,000)</u>	<u>(14,265,000)</u>
	566,740,000	566,855,000
Add premium on 2014 and 2012 bonds	31,824,124	34,543,120
Less discount on 2010 Senior and Subordinate bonds	<u>(3,506,346)</u>	<u>(3,612,954)</u>
Total bonds	\$ <u>595,057,778</u>	\$ <u>597,785,166</u>

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Notes to Financial Statements
September 30, 2016 and 2015

(7) Noncurrent Liabilities, Continued

A. Long-term Debt, Continued

Proceeds of the 2010 Series Senior Revenue Bonds were used to finance capital projects, generally consisting of a new administration building and various generation, transmission and distribution facilities, make a deposit to the Bond Reserve Fund, provide capitalized interest through October 1, 2013, and pay costs of issuance.

Proceeds of the 2010 Series Subordinated Revenue Bonds were used to make a deposit to the Working Capital Fund, Bond Reserve Fund, provide capitalized interest through April 1, 2011, and pay costs of issuance.

Proceeds of the 2012 Series Revenue Bonds were used to refund GPA's 1993 and 1999 Senior Bonds, make a deposit to the Senior Bond Reserve Fund to increase the amount on deposit therein to the Bond Reserve Fund Requirement, and pay costs of issuance.

Proceeds of the 2014 Series Revenue Bonds were used to finance a variety of generation, transmission and distribution improvements and systems and information technology upgrades, make a deposit to the Senior Bond Reserve Fund, provide capitalized interest through September 30, 2016, and pay costs of issuance.

As of September 30, 2016, future maturities of long-term debt are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$ 115,000	\$ 28,754,130	\$ 28,869,130
2018	1,780,000	28,712,600	30,492,600
2019	1,495,000	28,636,625	30,131,625
2020	15,950,000	28,201,700	44,151,700
2021	20,515,000	27,290,075	47,805,075
2022 through 2026	119,755,000	119,790,825	239,545,825
2027 through 2031	153,850,000	85,562,450	239,412,450
2032 through 2036	139,280,000	46,178,000	185,458,000
2037 through 2041	95,990,000	19,782,150	115,772,150
2042 through 2045	<u>18,125,000</u>	<u>1,781,775</u>	<u>19,906,775</u>
	\$ <u>566,855,000</u>	\$ <u>414,690,330</u>	\$ <u>981,545,330</u>

All gross revenues of GPA have been pledged to repay the 2010, 2012 and 2014 series bonds principal and interest. The debt service for the 2010, 2012 and 2014 series bonds was \$28,870,850 and \$44,096,257 or approximately 9% and 12% of pledged gross revenues, for the years ended September 30, 2016 and 2015, respectively.

Premium and discount associated with the 2010, 2012 and 2014 series bonds at September 30, 2016 and 2015 are being amortized on the effective interest method over the life of the applicable debt.

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Notes to Financial Statements
September 30, 2016 and 2015

(7) Noncurrent Liabilities, Continued

A. Long-term Debt, Continued

Debt Refunding

In October 2012, GPA refunded its 1993 and 1999 Series bonds through the issuance of the 2012 Series bonds. At the time of refunding, the 1993 and 1999 Series bonds had principal balances outstanding of \$56,370,000 and \$299,680,000, respectively. The proceeds for the refunding were transferred to an escrow agent who used the proceeds to purchase non-callable and non-prepayable obligations of the United States of America or held as cash and are to be held in an irrevocable trust to be used for the payment of the principal of and interest on the 1993 and 1999 Series bonds. The advance refunding met the requirements of an in-substance defeasance and the 1993 and 1999 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling \$17,283,801 representing the difference between the reacquisition price and the carrying amount of the 1993 and 1999 bonds. Although the advance refunding resulted in the recognition of an accounting loss, GPA in effect reduced its aggregate debt service payments by \$16,506,398 over the next twenty years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of \$27,940,966.

The loss on refunding of the 1993 and 1999 Series bonds is being amortized using the effective interest method over the average remaining life of the 1993 and 1999 bonds which approximated the average life of the 2012 Series bonds. The unamortized balance of the loss refunding of the 1993 and 1999 Series bonds is \$12,324,400 and \$13,574,416 as of September 30, 2016 and 2015, respectively.

Forward Delivery Contract

On September 28, 2000, GPA entered into Bond Reserve Fund Forward Delivery Agreements (the agreements) with Lehman Brothers and Bank of America. In connection with the agreements, GPA received cash of \$13.5 million in October 2000, representing the present value of interest income on certain invested bond proceeds. Based on the terms of the agreements, gross proceeds totaled \$17,521,029 while GPA incurred termination fees and closing costs totaling \$3,530,000 and \$1,250,000, respectively. The \$13.5 million in net proceeds included \$759,500 of interest income earned as of the closing dates of the agreements.

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 unearned forward delivery contract revenue in the accompanying statements of net position. The termination fees and closing costs are reflected as unamortized forward delivery contract costs in the accompanying statements of net position. The amortization of forward delivery contract revenues and costs is reflected as components of interest income and interest expense, respectively, in the accompanying statements of revenues, expenses and changes in net position.

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Notes to Financial Statements
September 30, 2016 and 2015

(7) Noncurrent Liabilities, Continued

A. Long-term Debt, Continued

Forward Delivery Contract, Continued

The following summarizes the unearned revenues and unamortized costs on the forward delivery contract at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unearned forward delivery contract revenues	\$ 8,760,514	\$ 8,760,514
Accumulated amortization	<u>(5,840,426)</u>	<u>(5,256,408)</u>
	\$ <u>2,920,088</u>	\$ <u>3,504,106</u>
Unamortized forward delivery contract costs	\$ 2,390,265	\$ 2,390,265
Accumulated amortization	<u>(1,593,548)</u>	<u>(1,434,187)</u>
	\$ <u>796,717</u>	\$ <u>956,078</u>

B. Long-term Liabilities

Changes in long-term liabilities were as follows:

	Outstanding <u>October 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding <u>September 30, 2016</u>	<u>Current</u>
2010 Series Senior bonds	\$ 150,440,000	\$ -	\$ -	\$ 150,440,000	\$ -
2010 Series Subordinate bonds	14,155,000	-	(14,155,000)	-	-
2012 Series Senior bonds	340,055,000	-	(110,000)	339,945,000	115,000
2014 Series Senior bonds	76,470,000	-	-	76,470,000	-
Unamortized premium on bonds	34,543,120	-	(2,718,996)	31,824,124	-
Unamortized discount on bonds	(3,612,954)	-	106,608	(3,506,346)	-
Obligations under capital leases	54,429,781	-	(14,819,819)	39,609,962	16,737,242
DCRS sick leave liability	3,113,912	322,826	-	3,436,738	-
Employees' annual leave	3,194,892	2,599,550	(2,581,881)	3,212,561	2,405,799
Net pension liability	67,025,973	4,023,247	-	71,049,220	-
Customer advances for construction	<u>205,461</u>	<u>129,522</u>	<u>(15,662)</u>	<u>319,321</u>	-
	\$ <u>740,020,185</u>	\$ <u>7,075,145</u>	\$ <u>(34,294,750)</u>	\$ <u>712,800,580</u>	\$ <u>19,258,041</u>

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Notes to Financial Statements
September 30, 2016 and 2015

(7) Noncurrent Liabilities, Continued

B. Long-term Liabilities, Continued

	Outstanding October 1, 2014	Increases	Decreases	Outstanding September 30, 2015	Current
2010 Series Senior bonds	\$ 150,440,000	\$ -	\$ -	\$ 150,440,000	\$ -
2010 Series Subordinate bonds	27,300,000	-	(13,145,000)	14,155,000	14,155,000
2012 Series Senior bonds	340,510,000	-	(455,000)	340,055,000	110,000
2014 Series Senior bonds	76,470,000	-	-	76,470,000	-
Unamortized premium on bonds	37,137,418	-	(2,594,298)	34,543,120	-
Unamortized discount on bonds	(3,713,958)	-	101,004	(3,612,954)	-
Obligations under capital leases	73,204,190	-	(18,774,409)	54,429,781	14,820,776
DCRS sick leave liability	2,842,985	270,927	-	3,113,912	-
Employees' annual leave	3,181,559	2,545,396	(2,532,063)	3,194,892	2,388,129
Net pension liability	77,870,353	-	(10,844,380)	67,025,973	-
Customer advances for construction	<u>3,170,746</u>	<u>127,741</u>	<u>(3,093,026)</u>	<u>205,461</u>	<u>-</u>
	<u>\$ 788,413,293</u>	<u>\$ 2,944,064</u>	<u>\$ (51,337,172)</u>	<u>\$ 740,020,185</u>	<u>\$ 31,473,905</u>

(8) Agreements with the U.S. 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.

On August 1, 2012, GPA and the Navy entered into a USC for a period of ten years, unless terminated early at the option of the Navy, with no option for extension. Key features of the USC include transfer of certain Navy facilities to GPA at no charge, calculation of power rates charged to the Navy in accordance with the methodology approved by the PUC, GPA's continued use of the Navy's assets and associated real estate assets at no charge, compensation by GPA to the Navy for energy supplied to GPA's customers from Navy dedicated facilities, weekly fuel payments by the Navy, supply of water to Guam Waterworks Authority (GWA) by the Navy for power generation facilities, maintenance of a minimum contract demand with no maximum demand provision, and payment within fifteen days of electric billing by the Navy, subject to late payment charges.

On August 31, 2015, GPA and the Navy entered into a Basic Ordering Agreement (BOA) which enumerates task items that are to be contracted to identify, develop and/or implement work on Navy facilities and utility systems. The tasks are generally related to energy services including renewable energy and energy efficiency. The period during which the orders may be placed against the BOA may not exceed five years. As of September 30, 2016, no work has commenced on this BOA.

During the years ended September 30, 2016 and 2015, GPA billed the Navy \$49,193,414 and \$61,586,006, respectively, for sales of electricity under the USC. Receivables from the Navy were \$2,379,893 and \$3,116,035 at September 30, 2016 and 2015, respectively.

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Notes to Financial Statements
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(9) Commitments and Contingencies

Fuel Purchase Contracts

In August 2013, GPA entered into a fuel purchase contract with Hyundai Corporation. The agreement is for two years commencing on September 1, 2013 with options to extend for three additional one-year terms upon mutual agreement of both parties. In August 2015, the parties amended and agreed to extend the contract for three years commencing on September 1, 2015 with options to extend for a three-year term upon mutual agreement of both parties.

In January 2015, GPA entered into diesel fuel supply contracts with IP&E Guam, Inc. and Mobil Oil Guam, Inc. The agreements are for three years ending December 31, 2017 with an option to extend for two additional one-year terms, renewable annually.

In May 2015, GPA entered into cylinder lubrication oil supply contract with Pacific Petroleum Trading Corporation. The agreement is for three years commencing June 1, 2015 with options to extend for two additional one-year terms, renewable annually.

Performance Management Contracts

In 2010, GPA entered into Performance Management Contracts (PMC) with two companies for the operation and maintenance of Cabras 1 and 2, and Cabras 3 and 4 generators, which became effective on October 1, 2010 and July 1, 2010, respectively. The PMCs are for a period of five years with an option to extend for another five-year term. The fees are subject to certain incentives and penalties, as agreed by both parties. Several extensions were made on both PMCs. The latest extension of the PMC for Cabras 1 and 2 expires on September 30, 2020 while the PMC for Cabras 3 and 4 expires on February 28, 2018.

In 2016, GPA entered into a PMC for the Dededo, Macheche and Yigo combustion turbine power plants. The PMC is for a period of five years commencing on March 1, 2016 with options to extend for one additional three-year term and one additional two-year term. The fees are subject to certain incentives and penalties, as agreed by both parties.

At September 30, 2016, the minimum future fixed management fees are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 3,533,299
2018	2,688,626
2019	2,449,963
2020	2,515,840
2021	<u>293,203</u>
	\$ <u>11,480,931</u>

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(9) Commitments and Contingencies, Continued

Fuel Bulk Storage Facility Contract

In June 2012, GPA entered into an agreement for the management and operations of its fuel bulk storage facility. The agreement is for three years ended May 31, 2015 with an option to extend the contract for two additional one-year terms. In March 2015, GPA exercised the option and extended the contract through May 31, 2017. At September 30, 2016, the minimum future management fees for the year ending September 30, 2017 is \$456,038.

Operating Leases

GPA entered into a sublease agreement for vehicle, equipment, and material storage and for a power substation beginning November 1, 2002 with annual rental of \$61,261 through October 31, 2012, and was extended for ten years.

GPA entered into a lease agreement for fuel storage tanks effective September 1, 2013. The contract includes fixed annual fees escalating 4% every year until August 31, 2018.

GPA entered into a commercial space lease beginning July 1, 2010, with monthly rentals of \$4,495 through June 30, 2015, and was extended for five years.

At September 30, 2016, future minimum lease payments for operating leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 1,709,954
2018	1,630,481
2019	115,196
2020	101,712
2021	61,261
2022 through 2023	<u>66,366</u>
	\$ <u>3,684,970</u>

Rent expense under the aforementioned agreements totaled \$1,648,617 and \$1,589,639 during the years ended September 30, 2016 and 2015, respectively.

Temporary Power Services

On December 7, 2015, GPA entered into a contract for temporary power services to provide 40 Megawatts (MW) of additional generation for \$11,781,392 a year plus an energy charge of \$4.40 per MW hour. GPA reimburses the payments for the temporary power services from the insurance proceeds from the Cabras 3 and 4 explosion (see note 10). The contract is for one year effective January 2016 with option to extend for a period to be mutually agreed. The contract is extended for four years effective January 9, 2017 and includes payments for the acquisition of the power plant.

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(9) Commitments and Contingencies, Continued

Renewable Energy Contracts

GPA entered into two renewable energy purchase agreements to purchase 20 MW and 5.65 MW of solar renewable energy. The commercial operation date of the two solar plants was October 30, 2015. The agreements include escalating contract prices per MW hour until 2041 and 90% minimum production which is the minimum requirement per contract year that is to be met to avoid production shortfall penalties. The total minimum renewable energy purchase commitment is 1.1 million MW hours.

At September 30, 2016, the minimum future renewable energy purchases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 9,135,070
2018	9,164,695
2019	9,157,338
2020	9,162,071
2021	9,171,682
2022 through 2026	46,013,014
2027 through 2031	46,055,722
2032 through 2036	46,519,297
2037 through 2041	<u>38,321,837</u>
	\$ <u>222,700,726</u>

Capital Commitments

As of September 30, 2016, GPA has various on-going construction contracts with a total contract price of \$26.9 million, of which \$16.8 million has been paid and recorded as construction work in progress.

Letters of Credit

As of September 30, 2016, GPA has a \$35 million uncollateralized revolving documentary letter of credit for purchases of fuel. There were no commitments under the standby letter of credit at September 30, 2016.

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 Order, GPA adds an insurance charge of \$0.00290 per kWh for civilian ratepayers and from \$0.00035 per kWh to \$0.00070 per kWh for the Navy until a self-insurance fund balance of \$20 million is achieved. Insurance charge proceeds are transferred to the restricted self-insurance fund to be used to cover losses that would normally be covered by insurance. GPA is not prohibited from petitioning PUC for approval to use the self-insurance fund for additional purposes to the extent that such losses are not covered by insurance.

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(9) Commitments and Contingencies, Continued

Self-Insurance, Continued

The self-insurance fund, included in cash and cash equivalents held by GPA, was \$19,506,796 and \$19,500,066 at September 30, 2016 and 2015, respectively.

In 2015, GPA reached the \$20 million self-insurance cap and the insurance surcharge was discontinued. The insurance surcharge will be reactivated after the fund balance falls to less than \$18 million.

Autonomous Agency Collections Fund

On March 31, 2011, GPA received an invoice from the Government of Guam Department of Administration (GovGuam DOA) of \$12,250,000 representing an annual assessment of \$875,000 for each of the fiscal years 1998 to 2011 pursuant to 5 GCA Chapter 22 Section 22421, *Transfer of Autonomous Agency Revenues To Autonomous Agency Collections Fund*. In September 2013, GPA received another invoice for \$875,000 from the Chamorro Land Trust Commission referring to the same annual assessment aforementioned. There was no invoice received for the years ended September 30, 2016 and 2015. GPA obtained approval from the CCU to offer GovGuam DOA a settlement amount of \$2.6 million. However, such settlement offer is conditional on the approval by the PUC of a surcharge to recover the assessment from ratepayers. The PUC has not approved the surcharge as of September 30, 2016 and therefore, no liability or other impact has been recognized in the accompanying financial statements.

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; accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law. GPA is covered by its self-insurance and worker's compensation insurance in case of accidents due to hazardous substances.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performance grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991 but was suspended by law for the years 1996, 2002, 2003 and 2004. Between 1991 and 2008, GPA did not calculate or pay any bonuses. In 2010, the Guam Legislature authorized GPA to implement a Pay for Performance program, similar to the GovGuam unified pay systems for certified, technical and professional positions, covering the evaluation period of 2009. As of September 30, 2016 and 2015, the CCU determined that there was no liability for employees covered in the new pay system. Therefore, no liability has been recognized in the accompanying financial statements.

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Notes to Financial Statements
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(9) Commitments and Contingencies, Continued

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2016. 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 accompanying financial statements.

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.

In February 2011, EPA, under the Clean Air Act, established new rules under National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (RICE MACT). These new rules require stack emissions control and continuous monitoring system equipment to be installed on all GPA peaking and baseload diesel generators including its Cabras 3 and 4 and MEC 8 and 9 slow speed diesel units. Compliance under the diesel MACT was due May 3, 2013. Non-compliance under the diesel MACT could result in penalty fees of \$37,000 per unit per day. GPA applied for and received a one year extension for complying with the rules with respect to its small diesel peaking units. The required stack emission equipment was installed within the extension period. As to compliance with the other units subjected to RICE MACT, GPA requested EPA to enter into a consent decree allowing time for GPA to comply with the regulations and allowing potential fines and penalties for non-compliance to be used for compliance with regulations. In January 2015, GPA submitted its compliance plan outlining the proposed timelines for inclusion in the consent decree. In August 2015, due to explosion and fire at Cabras 3 and 4 power plant (see note 10), these units are no longer subject to compliance. As of September 30, 2016, GPA is still negotiating the consent decree with EPA. GPA believes result of negotiations with EPA will defer potential fines post RICE MACT deadlines for the slow speed diesel units. If the consent decree is not reached, the maximum liability of GPA would be \$159 million as of September 30, 2016. No liability that may result from potential noncompliance has been recorded in the accompanying financial statements.

EPA also established rules for Electric Generating Unit Maximum Achievable Control Technology (EGU MACT) which applies to Cabras 1 and 2 and Tanguisson steam boiler units. Compliance under the EGU MACT was due in April 2015. Non-compliance could result in penalty fees of \$37,000 per unit per day. GPA obtained PUC approval to early terminate the associated energy conversion agreement of the Tanguisson unit (see note 5). By deactivating the Tanguisson unit, GPA did not incur compliance costs for this unit. As to compliance for Cabras 1 and 2, a consent decree requested from EPA for compliance with RICE MACT is also expected to cover the EGU MACT compliance.

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(9) Commitments and Contingencies, Continued

Integrated Resource Plan

In 2012, GPA developed its Integrated Resource Plan (IRP). The objectives of the IRP are primarily to identify the timing, size, technology of future power generating units, and to address issues such as fuel diversification and the renewable energy portfolio standards. Specifically, the IRP recommendations include the replacement of older generation equipment with combined cycle combustion turbine generators which can utilize either Liquefied Natural Gas (LNG) or Ultra-Low Sulfur (ULS) diesel fuel oil; adding 40-45 MW of generation from renewable energy sources; and diversification of its fuel source to LNG and ULS diesel fuel oil.

In August 2015, GPA lost 78MW of base load capacity and experienced insufficient generation reserve after the explosion and fire at the Cabras Power Plant. The PUC ordered GPA to update the IRP in consideration of this event. The results of the updated IRP indicated that GPA should procure up to 180 MW of combined cycle units. In October 2016, the PUC authorized GPA to proceed with procurement which shall be based upon the Independent Power Producer (IPP) model. No approval was given in regards to bond financing, restructuring, or financing/leasing for the IPP. The PUC also ordered GPA to retire Cabras 1 and 2 upon commission of the new combined cycle plants.

GPA reassessed the estimated useful life of Cabras 1 and 2 based on the expected retirement of these plants when the new combined cycle plant becomes operational. GPA recorded additional depreciation expense of approximately \$3.7 million during the year ended September 30, 2016 due to the revised estimated useful life of these power plants.

Asset Retirement Obligation

GPA has power plants that were identified to be retired in the future. Upon retirement, GPA may incur costs to dismantle and clean-up the power plants. GPA has no legal or contractual obligation to perform these actions when they retire their assets; therefore, no provision for this potential cost was recorded in the accompanying financial statements.

(10) Explosion and Fire at Cabras Power Plant

On August 31, 2015, GPA suffered an explosion and fire at its Cabras 3 and 4 generator building. GPA commissioned an investigation and evaluation of the loss of Cabras 4 generator. In 2016, it was determined that Cabras 4 is a total loss and is beyond repair. At the inception of the loss, GPA intended to repair the Cabras 3 generator and proceed forward at the site. For a variety of reasons, this has become an infeasible task. As a result, both the Cabras 3 and 4 generators and related facilities and equipment have been written down to zero value at September 30, 2016.

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Notes to Financial Statements
September 30, 2016 and 2015

(10) Explosion and Fire at Cabras Power Plant, Continued

As of September 30, 2016, GPA received \$50 million of insurance recoveries. Subsequent to year-end, GPA secured an additional \$34 million recovery which GPA accrued and included in the receivables (see note 3). Insurance recoveries totaling \$84 million are recorded as extraordinary item in the accompanying financial statements. GPA applied the insurance recoveries against incurred and estimated repair costs pending final determination of the total amount of losses and damages and related insurance recoveries by the insurance company. Ultimate actual losses and damages and related insurance recoveries may be materially different than estimated. Therefore, when the insurance claims are finalized and settled, any differences, in amounts recorded will be accounted for prospectively in the financial statements.

Damages, repairs and insurance recoveries presented as extraordinary item for the year ended September 30, 2016, comprise the following:

Insurance recoveries	\$ 84,040,000
Impairment of Cabras 3 and 4	(52,873,884)
Temporary power services	(13,923,247)
Repair and other costs	(24,780,107)
Administrative charges	(2,850,577)
Clean-up costs	(1,018,075)
Fuel recovery	(4,600,000)
Provision for inventory obsolescence	(1,069,158)
Revenue loss	<u>(2,730,560)</u>
	\$ <u>(19,805,608)</u>

(11) Related Party Transactions and Balances

During the years ended September 30, 2016 and 2015, GPA billed GovGuam agencies \$45,460,183 and \$53,709,913, respectively, for sales of electricity. Receivables from GovGuam agencies were \$4,546,621 and \$4,449,739 at September 30, 2016 and 2015, respectively (see note 3).

GPA provides electrical and administrative services to GWA, a component unit of the GovGuam, which is also governed by the CCU. Electricity sales to GWA for the years ended September 30, 2016 and 2015 were \$11,193,172 and \$14,070,011, respectively. Outstanding receivables were \$897,240 and \$933,386 at September 30, 2016 and 2015, respectively, and were included in GovGuam agencies receivable mentioned above.

On June 23, 2009, GPA and GWA entered into a Memorandum of Understanding (MOU) 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. Total billings by GPA to GWA for administrative expenses and cost reimbursements were \$202,090 and \$348,182 for the years ended September 30, 2016 and 2015, respectively. Outstanding receivables totaled \$112,815 and \$111,358 at September 30, 2016 and 2015, respectively, and were included in other receivables (see note 3).

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Notes to Financial Statements
September 30, 2016 and 2015

(11) Related Party Transactions and Balances, Continued

In 2015, GPA and GWA replaced their revenue billing systems with a combined billing system. In accordance with a MOU entered by GPA and GWA, costs necessary for the implementation and operation of the combined billing system are shared by GPA and GWA. Total amounts billed by GPA to GWA for its share in the implementation costs of the combined billing system approximated \$1 million in 2015. Total amounts billed by GPA to GWA for its share in the operation of the combined billing system amounted to \$250,000 in 2016. Outstanding receivables were \$118,774 and \$389,512 at September 30, 2016 and 2015, respectively, and were included in other receivables (see note 3).

Effective October 1, 2015, GPA and GWA implemented a cost sharing agreement to share in the costs of the office building commonly occupied by them for an annual cost of \$269,170 due from GWA to GPA. GWA also shares in the actual costs incurred for security, janitorial services, building insurance and other maintenance costs. Total billings by GPA to GWA for its share in the costs of the office building were \$353,291 for the year ended September 30, 2016. Outstanding receivables were \$31,935 at September 30, 2016 and were included in other receivables (see note 3).

GWA billed GPA for water and sewer charges on the facilities transferred by the Navy to GPA under the USC (see note 8) totaling \$1,166,911 and \$1,426,618 for the years ended September 30, 2016 and 2015, respectively. The amount due to GWA at September 30, 2016 and 2015 was \$139,738 and \$253,870, respectively, which was included in accounts payable - operations in the accompanying statements of net position.

In October 2011, U.S. Federal Emergency Management Agency (FEMA) reimbursed GPA for certain typhoon related costs incurred in 2002 of approximately \$1,800,000. The reimbursement was received by GovGuam DOA which plans to offset such amount against billings to GPA related to the Autonomous Agency Collections Fund (see note 9). Due to uncertainty of receipt, GPA has not recorded the reimbursement in the accompanying financial statements.

(12) Restricted Net Position

At September 30, 2016 and 2015, net position was restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Debt service	\$ 1,627,138	\$ 13,551,340
Budgeted maintenance and operating expenses	1,372,165	5,854,823
Demand Side Management Program and projects	<u>1,646,041</u>	<u>1,806,014</u>
	\$ <u>4,645,344</u>	\$ <u>21,212,177</u>

(13) Subsequent Events

In October 2016, Bill 2-33 was passed, enacting two new government retirement plans; the DB Lite plan and the Guam Retirement Security Plan. Beginning 2018, the Security Plan and Defined Contribution plan are to become the primary retirement systems for all new hires.

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Notes to Financial Statements
September 30, 2016 and 2015

(14) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2016 and 2015 were as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2015	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2016
2016					
<u>Depreciable:</u>					
Steam production plant	25 - 50	\$ 101,802,084	\$ 15,477,391	(1,058,402)	\$ 116,221,073
Other production plant	25	271,811,044	2,262,159	(48,871,299)	225,201,904
Transmission plant	30 - 45	168,377,451	10,225,658	(26,274)	178,576,835
Distribution plant	25 - 45	215,803,790	7,080,812	(1,903,533)	220,981,069
General plant	3 - 60	90,173,607	2,718,926	266,221	93,158,754
Production plant under capital lease	20 - 40	155,382,727	-	-	155,382,727
		1,003,350,703	37,764,946	(51,593,287)	989,522,362
Accumulated depreciation		(494,104,531)	(44,240,395)	(1,917,647)	(540,262,573)
		509,246,172	(6,475,449)	(53,510,934)	449,259,789
<u>Non-depreciable:</u>					
Land and land rights		1,072,236	-	-	1,072,236
Construction work in progress		31,056,101	27,252,248	(41,101,919)	17,206,430
		32,128,337	27,252,248	(41,101,919)	18,278,666
		\$ 541,374,509	\$ 20,776,799	\$ (94,612,853)	\$ 467,538,455
2015					
<u>Depreciable:</u>					
Steam production plant	25 - 50	\$ 100,124,986	\$ 2,270,643	(593,545)	\$ 101,802,084
Other production plant	25	265,726,059	6,212,470	(127,485)	271,811,044
Transmission plant	30 - 45	161,400,598	6,980,772	(3,919)	168,377,451
Distribution plant	25 - 45	211,851,249	5,799,656	(1,847,115)	215,803,790
General plant	3 - 60	42,277,762	49,893,284	(1,997,439)	90,173,607
Production plant under capital lease	20 - 40	171,382,727	-	(16,000,000)	155,382,727
		952,763,381	71,156,825	(20,569,503)	1,003,350,703
Accumulated depreciation		(469,978,040)	(41,765,404)	17,638,913	(494,104,531)
		482,785,341	29,391,421	(2,930,590)	509,246,172
<u>Non-depreciable:</u>					
Land and land rights		1,072,236	-	-	1,072,236
Construction work in progress		68,834,656	40,043,333	(77,821,888)	31,056,101
		69,906,892	40,043,333	(77,821,888)	32,128,337
		\$ 552,692,233	\$ 69,434,754	\$ (80,752,478)	\$ 541,374,509

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Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

	2016	2015	2014
Total Government of Guam net pension liability	\$ 1,370,173,934	\$ 1,246,306,754	\$ 1,303,304,636
GPA's proportionate share of the net pension liability	\$ 71,049,220	\$ 67,025,973	\$ 77,870,353
GPA's proportion of the net pension liability	5.19%	5.38%	5.97%
GPA's covered-employee payroll**	\$ 26,270,086	\$ 26,951,843	\$ 27,262,728
GPA's proportionate share of the net pension liability as percentage of its covered employee payroll	270.46%	248.69%	285.63%
Plan fiduciary net position as a percentage of the total pension liability	53.50%	56.60%	53.94%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	2016	2015	2014
Actuarially determined contribution	\$ 6,992,435	\$ 7,253,802	\$ 7,391,863
Contribution in relation to the actuarially determined contribution	<u>6,993,365</u>	<u>7,249,568</u>	<u>7,375,045</u>
Contribution (excess) deficiency	\$ <u>(930)</u>	\$ <u>4,234</u>	\$ <u>16,818</u>
GPA's covered-employee payroll **	<u>\$ 26,270,086</u>	<u>\$ 26,951,843</u>	<u>\$ 27,262,728</u>
Contribution as a percentage of covered-employee payroll	26.62%	26.90%	27.05%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE

Certain provisions of the Senior Indenture 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 Senior Indenture.

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” means each account established and given a designation pursuant to the Senior Indenture or any Supplemental Indenture.

“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” 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” 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” means the Guam Power Authority, a public corporation of the Government created and operating pursuant to the Act.

“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 Indenture.

“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” 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 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” 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” means each fund by that name established pursuant to the Indenture.

“Bond Year” means, with respect to the 2017 Senior Bonds, the period of twelve consecutive months ending on September 30 of each year in which 2017 Senior Bonds are or will be Outstanding in such twelve-month period, provided the first Bond Year shall commence on the date of delivery of the 2017 Senior Bonds and end on September 30, 2018, 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” means the person in whose name a Bond is registered.

“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” 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,” 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 Indenture, each such instrument shall include the statements provided for in such Indenture.

“Code” means the Internal Revenue Code of 1986 or any similar or successor federal law, including any applicable regulations thereunder.

“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.

“Continuing Disclosure Agreement” means, with respect to the 2017 Senior Bonds, the Continuing Disclosure Agreement entered into with respect to such Bonds, a form of which is attached to this Official Statement as APPENDIX E.

“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” means U.S. Bank National Association, acting as an independent co-trustee under the 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” 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” means, with respect to the Senior 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; the 2012 Credit Facility with respect to the 2012 Insured Bonds; the 2014 Credit Facility with respect to the 2014 Insured Bonds; 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).

“Credit Provider” means any person, firm or entity designated in a Supplemental Indenture as providing supplemental credit support for a Series of Bonds.

“Depository” 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 Indenture and appointed by such Indenture or a Supplemental Indenture or a Statement of the Authority to act as Depository thereunder for such Series or such Fund or Account and, in each case, its successors and assigns.

“Director of Administration” means the Director of Administration, head of the Department of Administration within the executive branch of the Government.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” means any of the events specified in the Indenture.

“Federal Securities” means, subject to restrictions imposed by any Credit Provider with respect to a Series of Bonds, if any, (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” means the Trustee, the Co-Trustee, each Depository and each Paying Agent.

“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” means each fund established and given a designation pursuant to the Senior Indenture or any Supplemental Indenture.

“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” means the Governor of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

“Indenture” means the Senior Indenture.

“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” 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” 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” means, for any particular Bond, each date specified as an Interest Payment Date for such Bond or Bonds by the Indenture or by the Supplemental Indenture authorizing the issuance of such Bond or Bonds and, for all Bonds, all such dates.

“Investment Securities” means, subject to restrictions imposed by any Credit Provider with respect to a Series of Bonds, if any, any of the following which at the time are legal investments under the laws of Guam for moneys held under the Indenture 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” 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” 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” means, as of any date of calculation with respect to any Series of Bonds, the amount required by the 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” 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” 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” 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” 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” 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 Supplemental Indenture” means the Supplemental Indenture, dated as of May 1, 1999, among the Authority, the Trustee and the Co-Trustee.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority. If and to the extent required, each Opinion of Counsel shall include any statements required to be included as provided for in the Indenture.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture with respect to disqualified Bonds) all Bonds theretofore, or thereupon being,

authenticated and delivered by the Co-Trustee under the 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 Indenture, including Bonds (or portions of Bonds) referred to in the 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 Indenture.

“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” means, with respect to the 2017 Senior Bonds, U.S. Bank National Association, and its successors and assigns, and any additional paying agent appointed by or pursuant to the Indenture and its successors and assigns.

“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” means, with respect to the Trustee, the office of the Trustee in Guam; with respect to the Co-Trustee and with respect to the Paying Agent for the 2017 Senior 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 means, with respect to the 2017 Senior Bonds, the period beginning on the date of issuance of such Bonds and ending October 1, 2018, and thereafter each period of twelve months ending on October 1, and with respect to any of any other Series, each period so designated by the Supplemental Indenture authorizing the issuance of such Series.

“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 Indenture.

“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” 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” means, at any time with respect to any Bonds, any rating agency then rating such Bonds at the request of the Board.

“Rebate Fund” means the Fund by that name established pursuant to the Indenture.

“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 Indenture or by the Supplemental Indenture authorizing the issuance of such Bonds. The Record Date for the 2017 Senior 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” 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 Indenture.

“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 Indenture are made applicable.

“Revenue Fund” means the Revenue Bond Revenue Fund established pursuant to the Senior Indenture within the Guam Power Authority Revenue Fund established pursuant to Section 8237 of the Act.

“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” 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” means the Bond Reserve Fund established pursuant to the Senior Indenture.

“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” or “Bonds” means the Guam Power Authority Revenue Bonds authorized by, and at any time outstanding pursuant to, the 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, the 2010 Supplemental Indenture, the 2012 Supplemental Indenture, the 2014 Supplemental Indenture and the 2017 Supplemental Indenture.

“Serial Bonds” means the Bonds, falling due by their terms on specified dates, for which no Mandatory Sinking Account Payments are provided.

“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 and any Bonds thereafter delivered in lieu of or substitution for any of such Bonds pursuant to such Indenture.

“Sinking Accounts” means any special account or accounts established in either Bond Fund for the payment of Term Bonds.

“Supplemental Indenture” means any indenture duly executed and delivered, supplementing, modifying or amending the Senior Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized thereby.

“Surplus Fund” means the fund by that name established pursuant to the Senior Indenture.

“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 subsequently 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” 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.

“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.

“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 Indenture.

“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” means the 2010 Senior Bonds maturing on October 1, 2037.

“2010 Senior Bonds” means the Guam Power Authority Revenue Bonds, 2010 Series A, issued under the Senior Indenture.

“2012 Credit Facility” means the insurance policy issued by the 2012 Credit Provider guaranteeing the scheduled principal of and interest on the 2012 Insured Bonds when due.

“2012 Credit Provider” means, so long as there are any 2012 Insured Bonds insured by the 2012 Credit Provider, Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“2012 Insured Bonds” means the 2012 Senior Bonds maturing on October 1 in the years 2019 to 2027 (inclusive) and the 2012 Senior Term Bond maturing on October 1, 2030.

“2012 Senior Bonds” means the Guam Power Authority Revenue Bonds, 2012 Series A, issued under the Senior Indenture.

“2012 Supplemental Indenture” means the Fifth Supplemental Indenture, dated as of October 1, 2012, among the Authority, the Trustee and the Co-Trustee, relating to the 2012 Senior Bonds.

“2014 Credit Provider” means, so long as there are any 2014 Insured Bonds insured by the 2014 Credit Provider, Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“2014 Insured Bonds” means the 2017 Senior Bonds maturing on October 1 in years 2032 through 2034, inclusive, and on October 1 in years 2039 and 2044.

“2014 Supplemental Indenture” means the Sixth Supplemental Indenture, dated as of September 1, 2014, among the Authority, the Trustee and the Co-Trustee, relating to the 2017 Senior Bonds.

“2017 Senior Bonds” means the Guam Power Authority Revenue Bonds, 2017 Series A, issued under the Senior Indenture.

“2017 Supplemental Indenture” means the Seventh Supplemental Indenture, dated as of December 1, 2017, among the Authority, the Trustee and the Co-Trustee, relating to the 2017 Senior Bonds.

“Variable Rate Bonds” means Bonds which bear interest at a rate which may change from time to time.

“Working Capital Fund” means the Fund by that name established pursuant to the Senior Indenture.

“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 are to be applied in the manner described under “—Sources of Payment; Rate Covenant; Use and Allocation of Revenues” 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, are to 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; Use and Allocation of Revenues

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 are to be used to pay budgeted Maintenance and Operation Expenses as such expenses become due and payable. Amounts in the Revenue Fund are also to 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 is required to 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 2017 Senior Bonds are subject to redemption prior to their respective stated maturities as explained in the front portion of this Official Statement under the captions “THE 2017A SENIOR BONDS —Redemption of the 2017A Senior Bonds.” Any Series of Senior Bonds other than the 2017 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 2017 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 2017 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 2017A SENIOR BONDS —Redemption of the 2017A Senior Bonds” in the front portion of this Official Statement for additional provisions relating to the redemption of the 2017 Senior Bonds.

Upon the redemption in part of 2012 Insured Bonds or the 2010 Senior Bonds (if any), the selection of such bonds to be redeemed shall be subject to the approval of the 2012 Credit Provider and the 2010 Credit Provider, respectively.

Except as otherwise provided in a supplemental senior indenture, notice of redemption shall be given in the form and manner set forth in the Senior Indenture by the Co-Trustee not less than thirty (30) and not more than sixty (60) days before the date fixed for redemption. 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 Senior Bonds. A second notice shall be sent, by certified mail with return receipt requested, to the registered owner of any 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 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 Senior Bonds, rescind and cancel such notice of redemption, and any optional redemption of Senior 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.

Notwithstanding the foregoing, the 2017 Supplemental Indenture requires that notice of redemption in respect of the 2017 Senior Bonds shall be given by the Co-Trustee, not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption, by first class mail to each of the registered owners of the 2017 Senior Bonds designated for redemption at their addresses appearing on the bond registration books of the Co-Trustee on the date the 2017 Senior Bonds to be redeemed are selected. Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities to be redeemed, and, if less than all of any such maturity, the numbers of the 2017 Senior Bonds of such maturity to be redeemed and, in the case of 2017 Senior Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and shall also state that on said date there will become due and payable on each of said 2017 Senior Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2017 Senior Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such 2017 Senior Bonds then be surrendered, with a written instrument of transfer duly executed by the registered owner thereof or by such registered owner’s attorney duly authorized in writing. No defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of such 2017 Senior Bonds. Each notice of redemption shall also state the CUSIP number, date of issue and interest rate on each 2017 Senior Bond, or portion thereof, to be redeemed, and shall include the redemption agent name and address; provided, however, that failure to include any of such information in any redemption notice, or any inaccuracy in any such information, shall not affect the sufficiency of the proceedings for redemption of any 2017 Senior Bonds.

A copy of any notice of redemption given pursuant to the foregoing paragraph shall also be sent by first class mail to each Owner of \$1,000,000 or more in aggregate principal amount of 2017 Senior Bonds to be redeemed and to each of the Fiduciaries in respect of the 2017 Senior Bonds, each of the Credit Providers in respect of the 2017 Senior Bonds, if any, the Securities Depositories (as defined below) and at least one of the Information Services (as defined below); provided, however, that failure to give notice pursuant to this sentence by certified mail to any 2017 Senior Bondowners, to any Fiduciaries in respect of the 2017 Senior Bonds, to any Credit Providers in respect of the 2017 Senior Bonds 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 2017 Senior Bonds. A second notice shall be sent by first class mail to the registered owner of any 2017 Senior Bond which has been called for redemption in whole or in part, and is not surrendered for payment within sixty (60) days after the date fixed for redemption; provided, however, that 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 such Bonds.

In the 2017 Supplemental Indenture, "Information Services" means the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access ("EMMA") website at www.emma.msrb.org, or its successor, or any other recognized repository in accordance with then-current guidelines of the Securities and Exchange Commission, and/or such other services providing information with respect to called bonds, or no such services, as the Authority may designate in a Certificate delivered to the Co-Trustee; and the term "Securities Depositories" means The Depository Trust Company, 18301 Bermuda Green Drive, Tampa, Florida, 33647, and/or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other nationally recognized securities depositories, or no such depositories, as the Authority may designate in a Certificate delivered to the Co-Trustee. Notice of redemption of Bonds shall be given by the Co-Trustee for and on behalf of the Authority.

Any notice of optional redemption of the 2017 Senior Bonds delivered in accordance with the 2017 Supplemental Indenture may be conditional and if any condition stated in the notice of redemption shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and the Authority shall not be required to redeem the 2017 Senior Bonds thereby called for redemption, and the redemption shall be cancelled and the Co-Trustee shall within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled. In addition, the Authority may, at its option, on or prior to the date fixed for optional redemption in any notice of redemption of the 2017 Senior Bonds, rescind and cancel such notice of redemption, and any optional redemption of 2017 Senior Bonds and notice thereof shall be rescinded and cancelled and the Co-Trustee shall give (in the same manner as notice of redemption was given) notice of such cancellation to the recipients of the notice of redemption being cancelled.

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 Depository, 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 investments. 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 2012 Credit Provider and the 2010 Credit Provider (if any) 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 Fund Requirement allocable to the 2012 Senior Bonds and the 2010 Senior Bonds, respectively.

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 2017 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 has covenanted in the 2017 Supplemental Indenture that it shall not use or permit the use of any proceeds of the 2017 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 has covenanted in the 2017 Supplemental Indenture 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 2017 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 the applicable Outstanding Senior Bonds subject to the Continuing Disclosure Agreement (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 such 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 the related Continuing Disclosure Agreement. 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 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 payment 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 2014 Credit Provider

So long as a Credit Facility with respect to the 2014 Insured Bonds remains in effect and the 2014 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 2014 Credit Provider for the 2014 Insured Bonds.

Any amendment, supplement, modification to, or waiver of, the Senior Indenture that requires the consent of 2014 Insured Bondholders or materially adversely affects the rights and interests of the 2014 Credit Provider shall be subject to the prior written consent of the 2014 Credit Provider.

The 2014 Credit Provider shall be deemed to be the sole holder of the 2014 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 2014 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 Trustee. In furtherance thereof and as a term of the Senior Indenture and each 2014 Insured Bond, the Trustee and each holder of an 2014 Insured Bond appoint the 2014 Credit Provider as their agent and attorney-in-fact and agree that the 2014 Credit Provider may at any time during the continuation of any proceeding by or against the Authority under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”) direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a “Claim”), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Trustee and each holder of a 2014 Insured Bond delegate and assign to the 2014 Credit Provider, to the fullest extent permitted by law, the rights of the Trustee and each holder of a 2014 Insured Bond in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Remedies granted to the holders of the 2014 Insured Bonds expressly include mandamus.

Anything in the Senior Indenture to the contrary notwithstanding, the maturity of 2014 Insured Bonds shall not be accelerated without the consent of the 2014 Credit Provider and in the event the maturity of the 2014 Insured Bonds is accelerated, the 2014 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 2014 Credit Provider’s obligations under the Credit Facility with respect to such 2014 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 2014 Insured Bonds or the rights of the 2014 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 2014 Credit Provider under the Credit Facility shall not be deemed paid for purposes of the Senior Indenture, and the 2014

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 2014 Credit Provider shall, to the extent it makes any payment of principal of or interest on the 2014 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 2014 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 2014 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 2014 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 2014 Insured Bonds unless the 2014 Credit Provider otherwise approves.

To accomplish defeasance of the 2014 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 2014 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 2014 Credit Provider), (iii) an opinion of nationally recognized bond counsel to the effect that the 2014 Insured Bonds are no longer "Outstanding" under the Senior Indenture and (iv) a certificate of discharge of the Trustee with respect to the 2014 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 2014 Credit Provider. The 2014 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.

Provisions Relating to the 2012 Credit Provider

So long as a Credit Facility with respect to the 2012 Insured Bonds remains in effect and the 2012 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 2012 Credit Provider for the 2012 Insured Bonds.

Any amendment, supplement, modification to, or waiver of, the Senior Indenture that requires the consent of 2012 Insured Bondholders or materially adversely affects the rights and interests of the 2012 Credit Provider shall be subject to the prior written consent of the 2012 Credit Provider.

The 2012 Credit Provider shall be deemed to be the sole holder of the 2012 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 2012 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 2012 Insured Bonds shall not be accelerated without the consent of the 2012 Credit Provider and in the event the maturity of the 2012 Insured Bonds is accelerated, the 2012 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 2012 Credit Provider's obligations under the Credit Facility with respect to such 2012 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 2012 Insured Bonds or the rights of the 2012 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 2012 Credit Provider under the Credit Facility shall not be deemed paid for purposes of the Senior Indenture, and the 2012 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 2012 Credit Provider shall, to the extent it makes any payment of principal of or interest on the 2012 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 2012 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 ("Treasures"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasures 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 Treasures 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 2012 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 2012 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 2012 Insured Bonds unless the 2012 Credit Provider otherwise approves.

To accomplish defeasance of the 2012 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 2012 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 2012 Credit Provider), (iii) an opinion of nationally recognized bond counsel to the effect that the 2012 Insured Bonds are no longer "Outstanding" under the Senior Indenture and (iv) a certificate of discharge of the Trustee with respect to the 2012 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 2012 Credit Provider. The 2012 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.

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 ("Treasures"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasures 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 Treasures 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.

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.

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

Guam Power Authority
Harmon, Guam

Guam Power Authority
Revenue Refunding Bonds, 2017 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 \$148,670,000 aggregate principal amount of Guam Power Authority Revenue Refunding Bonds, 2017 Series A (the “2017 Bonds”) issued pursuant to an indenture, dated as of December 1, 1992, as heretofore supplemented and amended, and as supplemented by the Seventh Supplemental Indenture, dated as of December 1, 2017 (as so supplemented and amended, the “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 ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, 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.

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 letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the 2017 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. 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 in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the 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 2017 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 2017 Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, 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, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, 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 Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2017 Bonds and express herein 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 2017 Bonds constitute the valid and binding limited obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.
3. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the 2017 Bonds, of the Revenues, the proceeds of the Bonds and any other amounts held in any fund or account established pursuant to the Indenture (except amounts held in the Rebate Fund), subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.
4. Interest on the 2017 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2017 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. Under 48 U.S.C. Section 1423a, interest on the 2017 Bonds is exempt from taxation by the Government of Guam, or by any State or Territory or any political subdivision thereof, or by the District of Columbia. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2017 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

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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

[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

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

SUPPLEMENTAL CONTINUING DISCLOSURE AGREEMENT

This Supplemental Continuing Disclosure Agreement (this “Supplemental Disclosure Agreement”), dated as of December 1, 2017, supplementing the Master Continuing Disclosure Agreement, dated as of May 1, 1999 (the “Master Agreement” and, as previously amended and supplemented, and as supplemented hereby, 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 \$148,670,000 Guam Power Authority Revenue Refunding Bonds, 2017 Series A (the “2017 Senior Bonds”). The 2017 Senior Bonds are being issued pursuant to the Indenture, dated as of December 1, 1992, as heretofore supplemented and amended, including as supplemented by the Seventh Supplemental Indenture executed in connection with the issuance of the 2017 Senior Bonds, dated as of December 1, 2017, 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 Master Agreement or, if not defined in the Master Agreement, in the Indenture.

SECTION 2. Purpose of the Supplemental Disclosure Agreement; Application of Master 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 2017 Senior Bonds. Except as expressly otherwise set forth herein, the terms and provisions of the Master Agreement are hereby made applicable to the 2017 Senior Bonds.

SECTION 3. Filings with MSRB; Format. Until otherwise designated by the MSRB or the Securities and Exchange Commission, 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>. Any report or filing with the MSRB pursuant to this Supplemental Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 4. Provisions Applicable to 2017 Senior Bonds. The following provisions shall apply solely to the 2017 Senior Bonds and shall supersede the provisions of the Master Agreement for purposes of the 2017 Senior Bonds.

(a) Solely with respect to the 2017 Senior Bonds, the following terms shall have the following meanings:

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) of the Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule.

“Official Statement” shall mean the Official Statement, dated December 12, 2017, relating to the 2017 Senior Bonds.

“Repository” shall mean the MSRB.

(b) With respect to the 2017 Senior Bonds, Section 4 of the Master Agreement as originally executed shall not apply and shall be deemed to be replaced by the following:

“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, and the Issuer shall promptly file the audited financial statements if and when available;

To the extent not included in the audited financial statements of the Issuer, the Annual Report shall also include operating and financial information regarding the Issuer of the following type:

(b) an update to Table 3 (Power Supply Resources) and a description of any material change to the description of the generating units owned or contracted for by the Issuer, as set forth in the Official Statement under the caption "POWER SUPPLY — Primary Power Supply Resources";

(c) a description of any material new contracts or material renewals or non-renewals of existing contracts for fuel oil, as set forth in the Official Statement under the caption "FUEL SUPPLY — Fuel Oil Supply Contracts";

(d) an update to the mark-to-market value of any fuel oil hedges of the Issuer as set forth under "FINANCIAL MATTERS — Fuel Price Risk Management Program", as of the end of such Fiscal Year, if any;

(e) an update to the historical information in Table 4 (Historical Customers, Energy Sales, Peak Demand and Revenues) for such Fiscal Year;

(f) a description of any renewal, cancellation or material changes in terms of the Issuer's Utility Services Contract with the U.S. Navy and the Department of Defense, as set forth in the Official Statement under the caption "AUTHORITY CUSTOMERS — Power Sales to the Military";

(g) an update to Table 5 (Largest Customers by Energy Sales Revenues) for such Fiscal Year;

(h) an update to the historical information in Table 9 (Historical Operating Results and Debt Service Coverage (Cash Basis)) for such Fiscal Year; and

(i) an update to the balances of the Issuer's outstanding indebtedness listed under "FINANCIAL MATTERS — Outstanding Indebtedness—Outstanding Bonds" as of the end of such Fiscal Year;

(j) the balance in the Working Capital Fund set forth under "FINANCIAL MATTERS — Liquidity and Working Capital Fund" as of the end of such Fiscal Year;

(k) the balance in the self-insurance fund under the caption "OTHER MATTERS — Insurance; Self-Insurance Fund", as of the end of such Fiscal Year;

(l) 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. The Issuer shall clearly identify each such other document so included by reference."

(l) With respect to the 2017 Senior Bonds, references in the Master Agreement to Section 5(a) shall be deemed to refer to Sections 5(a) and (b) of such Section 5, as set forth in Section 4(d) of this Supplemental Disclosure Agreement.

(m) With respect to the 2017 Senior Bonds, Section 5 of the Master Agreement as originally executed shall not apply and shall be deemed to be replaced by the following:

“SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, to the MSRB notice of the occurrence of any of the following events with respect to the 2017 Senior Bonds in a timely manner not later than ten business days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes; or
- (9) Bankruptcy, insolvency, receivership or similar event of the Issuer;

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(b) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2017 Senior Bonds, if material, to the MSRB in a timely manner not later than ten business days after the occurrence of the event:

- (1) Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the 2017 Senior Bonds or other material events affecting the tax status of the 2017 Senior Bonds;

- (2) Modifications to rights of 2017 Senior Bond holders;
- (3) Optional, unscheduled or contingent 2017 Senior Bond calls;
- (4) Release, substitution, or sale of property securing repayment of the 2017 Senior Bonds;
- (5) Non-payment related defaults;
- (6) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
- (7) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) 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, 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 subsections (d) and (e) hereof.

(d) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under subsection 5(b), whether because of a notice from the Trustee or Co-Trustee pursuant to subsection (c) or otherwise, the Issuer shall as soon as practicable determine if such event is material under applicable federal securities laws. If the Issuer determines that the occurrence of such 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 5(e) hereof. If in response to a request under subsection 5(c), the Issuer determines that such 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. If in response to a request under subsection 5(c), the Issuer determines that such Listed Event is a Listed Event under subsection 5(a), the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent to report the occurrence.

(e) 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.”

SECTION 5. Additional Annual Report Requirements. As supplemented hereby, the Master Agreement is in all respects confirmed, except with respect to such provisions which apply expressly to the 2017 Senior Bonds as set forth herein, and the Master Agreement, all agreements supplemental thereto and this Supplemental Disclosure Agreement shall be read, taken and considered as one instrument.

SECTION 6. Ratification of Master Agreement. As supplemented hereby, the Master Agreement is in all respects confirmed, except with respect to such provisions which apply expressly to the 2017 Senior Bonds as set forth herein, and the Master Agreement, all agreements supplemental thereto and this Supplemental Disclosure Agreement shall be read, taken and considered as one instrument.

SECTION 7. 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 Officer

U.S. BANK NATIONAL ASSOCIATION,
as Co-Trustee

By: _____
Authorized Officer

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APPENDIX F

BOOK-ENTRY SYSTEM

None of the Authority, the Trustee, the Co-Trustee and the Underwriters can give or do give any assurances that DTC, the Participants or others will distribute payments of principal of interest or premium, if any, on the 2017A Senior 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, the Co-Trustee and 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 2017A Senior Bonds or an error or delay relating thereto. The Authority pursuant to the Senior Indenture may discontinue the book-entry only system. In that event, the provisions of the Senior Indenture relating to issuance of 2017A Senior Bonds and the registration of transfer of ownership thereof will apply.

1. The Depository Trust Company (“**DTC**”), New York, NY, will act as securities depository for the 2017A Senior Bonds (the “**2017A Senior Bonds**”). The 2017A Senior Bonds will be issued as fully-registered Bonds 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 will be issued for each maturity of the 2017A Senior 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. 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**”). 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.

3. Purchases of 2017A Senior Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017A Senior Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2017A Senior 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 2017A Senior 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 definitive 2017A Senior Bonds, except in the event that use of the book-entry system for the 2017A Senior Bonds is discontinued.

4. To facilitate subsequent transfers, all 2017A Senior 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 2017A Senior 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 2017A Senior Bonds; DTC’s records reflect only the identity of

the Direct Participants to whose accounts such 2017A Senior 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 2017A Senior Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2017A Senior Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2017A Senior Bond documents, including the Senior Indenture. For example, Beneficial Owners of 2017A Senior Bonds may wish to ascertain that the nominee holding the 2017A Senior 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 Trustee and Co-Trustee 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 2017A Senior Bonds 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 2017A Senior 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 2017A Senior 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 2017A Senior Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Payments of principal of and premium, if any, and interest on the 2017A Senior 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 or Co-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 statutory or regulatory requirements as may be in effect from time to time. Payment of principal, 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 and Co-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.

NONE OF THE AUTHORITY, THE TRUSTEE AND THE CO-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.

None of the Authority, the Trustee and the Co-Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of and premium, if any, and interest on the 2017A Senior Bonds 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 2017A Senior Bonds at any time by giving reasonable notice to the Authority or the Trustee and Co-Trustee. Under such circumstances, in the event that a successor depository is not obtained, definitive 2017A Senior Bonds 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 also, definitive 2017A Senior Bonds will be printed and delivered.

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.

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