

*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 2014A 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 2014A Senior Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is 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 2014A 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 2014A Senior Bonds. See “TAX MATTERS” herein.*



**\$76,470,000**  
**Guam Power Authority**  
**Revenue Bonds, 2014 Series A**

**Dated:** Date of Delivery

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

The Guam Power Authority Revenue Bonds, 2014 Series A (the “2014A 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 2014A Senior Bonds. Individual purchases of the 2014A Senior Bonds will be made in book-entry form only. Interest on the 2014A Senior Bonds will be payable semiannually on April 1 and October 1 of each year, commencing April 1, 2015. The 2014A 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 2014A Senior Bonds are to be made to purchasers by DTC through the DTC participants. See APPENDIX G - “BOOK-ENTRY SYSTEM” herein. Purchasers will not receive physical delivery of 2014A Senior Bonds purchased by them.

The 2014A Senior Bonds are subject to redemption prior to maturity, as described herein.

The 2014A 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 a Supplemental Indenture, to be dated as of September 1, 2014 (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 2014A Senior Bonds are being issued for the purposes of (i) paying, or reimbursing the Authority for the payment of, costs of the 2014 Projects (as defined herein); (ii) funding a deposit to the Senior Bond Reserve Fund; (iii) funding capitalized interest with respect to all of the 2014A Senior Bonds to September 30, 2016; and (iv) paying expenses incurred in connection with the issuance of the 2014A Senior Bonds. See “PLAN OF FINANCE” herein.

The scheduled payment of principal and interest when due on the 2014A Senior Bonds maturing on October 1 in years 2032 through 2034, inclusive, and on October 1 in years 2039 and 2044 (collectively, the “Insured 2014 Bonds”) will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2014A Senior Bonds by ASSURED GUARANTY MUNICIPAL CORP.



The 2014A Senior Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues (defined herein), subject to the prior application of such Revenues for the payment of Maintenance and Operation Expenses, all of the proceeds of the 2014A 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 (as defined herein). “Revenues” generally consist of any and all rates and charges received in connection the operation of the electric power system of the Authority (the “System”).

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 2014A 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 2014A SENIOR BONDS INVOLVES CERTAIN RISKS, INCLUDING THOSE DESCRIBED HEREIN UNDER THE HEADINGS “INTRODUCTION,” “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” “THE GUAM POWER AUTHORITY,” “THE GUAM ELECTRIC POWER SYSTEM,” “FINANCIAL MATTERS,” “CONSULTING ENGINEER’S REPORT,” “OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC UTILITY INDUSTRY,” AND “BONDHOLDER RISKS,” AND ELSEWHERE IN THIS OFFICIAL STATEMENT. THIS COVER PAGE CONTAINS INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

This cover page contains certain information for general reference only. It is not a summary of the security for or terms of the 2014A 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 2014A 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, Katten Muchin Rosenman LLP, New York, New York. It is expected that the 2014A Senior Bonds in book-entry form will be available for delivery through the DTC book-entry system, on or about September 30, 2014.*

# MATURITY SCHEDULE

**\$76,470,000**  
**GUAM POWER AUTHORITY**  
**REVENUE BONDS**  
**2014 SERIES A**

<i><b>Maturity Date</b></i> <i><b>October 1</b></i>	<i><b>Principal</b></i> <i><b>Amount</b></i>	<i><b>Interest</b></i> <i><b>Rate</b></i>	<i><b>Yield</b></i>	<i><b>CUSIP No.</b></i> <i><b>400653<sup>†</sup></b></i>
2017	\$1,310,000	5.00%	1.29%	GU9
2018	1,375,000	5.00	1.62	GV7
2019	1,445,000	5.00	1.96	GW5
2020	1,520,000	5.00	2.33	GX3
2021	1,595,000	5.00	2.67	GY1
2022	1,675,000	5.00	2.97	GZ8
2023	1,755,000	5.00	3.19	HA2
2024	1,845,000	5.00	3.29	HB0
2025	1,935,000	5.00	3.44	HC8
2026	2,035,000	5.00	3.53	HD6
2027	2,135,000	5.00	3.61	HE4
2028	2,245,000	5.00	3.67	HF1
2029	2,355,000	5.00	3.73	HG9
2030	2,470,000	5.00	3.78	HH7
2031	2,595,000	5.00	3.82	HJ3
2032*	2,725,000	5.00	3.59	HK0
2033*	2,860,000	5.00	3.62	HL8
2034*	3,005,000	5.00	3.64	HM6

\$17,440,000 5.00% 2014A Term Bonds due October 1, 2039\*, Priced to Yield 3.77%\*\* , CUSIP No. 400653HN4<sup>†</sup>  
\$5,000,000 4.00% 2014A Term Bonds due October 1, 2044\*, Priced to Yield 4.06%, CUSIP No. 400653HQ7<sup>†</sup>  
\$17,150,000 5.00% 2014A Term Bonds due October 1, 2044\*, Priced to Yield 3.85%\*\* , CUSIP No. 400653HP9<sup>†</sup>

<sup>†</sup> Copyright 2014, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Capital IQ. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with either the Authority or GEDA and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity or maturities are subject to change after the issuance of the 2014A Senior Bonds. None of the Authority, GEDA or the Underwriters takes responsibility for the accuracy of the CUSIP numbers, and no representation is made as to their correctness on the applicable 2014A Senior Bond certificates or in this Official Statement.

\* Insured 2014 Bond.

\*\* Priced to a par call date of October 1, 2024.

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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 2014A Senior Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriters.

Certain of the information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. This Official Statement is submitted with respect to the sale of the 2014A Senior Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. As described herein, AGM is insuring a portion of the 2014A Senior Bonds. The information about Assured Guaranty Municipal Corp. ("AGM" or the "2014 Bond Insurer") was provided by AGM. None of the Authority or the Underwriters makes any representation as to the accuracy or completeness of this information.

AGM makes no representation regarding the 2014A Senior Bonds or the advisability of investing in the 2014A Senior Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "THE 2014 BOND INSURER" and in APPENDIX H – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

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

IN CONNECTION WITH THE OFFERING OF THE 2014A SENIOR BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2014A SENIOR BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE 2014A SENIOR BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

**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." THE ACHIEVEMENT OF RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. 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 IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED DO OR DO NOT OCCUR.**

**THE 2014A SENIOR BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2014A SENIOR BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

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**OFFICIAL STATEMENT**  
**Relating to**  
**\$76,470,000**  
**Guam Power Authority Revenue Bonds**  
**2014 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 \$76,470,000 Guam Power Authority Revenue Bonds, 2014 Series A (the “2014A 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 Indentures 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 2014A Senior Bonds to potential investors is made only by means of the entire Official Statement. All references to the 2014A Senior Bonds and the Indentures are qualified in their entirety by reference to the respective forms thereof, which are available for inspection at the office of Guam Power Authority, 1911 Route 16, Harmon, Guam 96913.

**Authorization**

The 2014A 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. 32-140, approved by the 32<sup>nd</sup> Guam Legislature on April 15, 2014 and signed by the Governor of Guam on April 28, 2014, as amended by Public Law No. 32-181, approved by the 32<sup>nd</sup> Guam Legislature on August 25, 2014 and signed by the Governor of Guam on September 5, 2014 (collectively, the “Authorizing Legislation”). The Consolidated Commission on Utilities (the “CCU”) has approved the issuance, sale and delivery of the 2014A Senior Bonds pursuant to Resolution No. 2014-26, adopted on July 8, 2014 (the “2014A Senior Bond Resolution”). The issuance and sale of the 2014A Senior Bonds have also been approved by Guam Economic Development Authority (“GEDA”) pursuant to Resolution No. 14-024, adopted on June 19, 2014 (the “2014 GEDA Resolution”). The terms of the 2014A Supplemental Senior Indenture and the respective amounts and certain terms of the 2014A Senior Bonds were approved by the Guam Public Utilities Commission (the “PUC”) on July 31, 2014 pursuant to GPA Docket No. 14-09 (the “PUC 2014 Bond Docket”).

The 2014A 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 a Supplemental Indenture, to be dated as of September 1, 2014 (the “2014 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 August 31, 2014, the Authority has outstanding pursuant to the Senior Indenture \$490,950,000 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”) and \$340,510,000 aggregate principal amount of its Guam Power Authority Revenue Bonds, 2012 Series A (the “2012 Senior Bonds”) and together with the 2010 Senior Bonds, the “Prior Senior Bonds” and the Prior Senior Bonds together with the 2014A Senior Bonds and any additional revenue bonds that may be issued under the Senior Indenture on a parity therewith, the “Senior Bonds”). The 2014A 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.

As of August 31, 2014, the Authority also has outstanding pursuant to a Subordinate Indenture, dated as of June 1, 2010 (the “Subordinate Indenture” and together with the Senior Indenture, the “Indentures”), each 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”), \$27,300,000 aggregate principal amount of its Guam Power Authority Subordinate Revenue Bonds, 2010 Series A (the “2010 Subordinate Bonds” and together with any additional subordinate revenue bonds that may be issued and outstanding under the Subordinate Indenture on a parity therewith, the “Subordinate Bonds”), which are scheduled to mature by October 1, 2015.

The Senior Bonds and Subordinate Bonds together are sometimes referred to herein as the “Bonds.”

### **Purposes of the 2014A Senior Bonds**

The 2014A Senior Bonds are being issued for the purposes of (i) paying, or reimbursing the Authority for the payment of, costs of the 2014 Projects (as defined herein); (ii) funding a deposit to the Senior Bond Reserve Fund; (iii) funding capitalized interest with respect to all of the 2014A Senior Bonds to September 30, 2016; and (iv) paying expenses incurred in connection with the issuance of the 2014A Senior Bonds. See “PLAN OF FINANCE.”

### **Security for the 2014A Senior Bonds**

The 2014A Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues (defined herein), subject to the prior application of such Revenues for the payment of Maintenance and Operation Expenses, all of the proceeds of the 2014A 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”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SENIOR BONDS.”

### **Senior Bond Reserve Fund**

The Senior Bonds, including the 2014A 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”). The Senior Bond Reserve Fund does not secure payment of principal of or interest on any Subordinate Bonds. 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 twelve 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 BONDS – Senior Bonds – Rate Covenant.”

## **Investment Considerations**

The purchase of the 2014A 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 2014A Senior Bonds. For a summary of certain risk factors associated with an investment in the 2014A Senior Bonds, see “BONDHOLDER RISKS.”

## **Continuing Disclosure**

The Authority will covenant for the benefit of the holders and beneficial owners of the 2014A 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 2014, 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 Marketplace (“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 F – “PROPOSED FORMS OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12.

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

## **Consulting Engineer’s Report**

In preparing this Official Statement, the Authority has relied, in part, upon studies, considerations, assumptions, and opinions set forth in the Consulting Engineer’s Report, dated September 17, 2014 (the “Consulting Engineer’s Report” or the “Report”) furnished by Leidos Engineering, LLC (“Leidos” or the “Consulting Engineer”), a copy of which is attached hereto as APPENDIX A. The Consulting Engineer’s Report includes, among other things, a description of the facilities of and an evaluation of the condition of the System, projected operating results for the Authority for Fiscal Years 2014 through 2018 (the “Forecast Period”), a description of the Authority’s compliance with federal and Guam environmental laws and regulations and a comparison of the Authority’s monthly electric bills for selected customer loads and bills charged by other similarly situated electric utilities. No assurance can be given that the projections and expectations discussed in the Report will be achieved or that the assumptions upon which the projections and conclusions are based will be realized. There may be differences between the projections and actual results, and such differences may be material. The financial projections in the Report are based upon certain information and assumptions that were provided or reviewed with and agreed to by the Authority. In the opinion of the Consulting Engineer, these assumptions provide a reasonable basis for the projections set forth in the Report. The Report is an integral part of this Official Statement and should be read in its entirety. See “CONSULTING ENGINEER’S REPORT” and APPENDIX A – “CONSULTING ENGINEER’S REPORT.”

## **PLAN OF FINANCE**

The 2014A Bonds are being issued for the purposes of (i) paying, or reimbursing the Authority for the payment of, costs of the 2014 Projects (as defined herein); (ii) funding a deposit to the Senior Bond Reserve Fund; (iii) funding capitalized interest with respect to all of the 2014A Senior Bonds to September 30, 2016; and (iv) paying expenses incurred in connection with the issuance of the 2014A Senior Bonds.

## **THE 2014 PROJECTS**

A portion of the proceeds of the 2014A Senior Bonds is to be applied to pay, or to reimburse the Authority for the payment of, the costs of a variety of generation improvements, including costs associated with environmental compliance and reliability and performance improvements to the Authority’s generating facilities and energy storage

facilities; transmission system improvements, including reliability and performance improvements to the Authority's transmission facilities; distribution improvements, including projects relating to the SmartGrid project and mobile workforce management; supervisory control and data acquisition system upgrade improvements, including to the power system control reliability center and to network communications at the Authority's facilities; and cyber security and information technology upgrades, including upgrades to the Authority's information technology systems and to Authority's physical security facilities (collectively, the "2014 Projects"). For a more detailed discussion of certain of the 2014 Projects, see "THE GUAM ELECTRIC POWER SYSTEM—Capital Improvement Program" and APPENDIX A—"CONSULTING ENGINEER'S REPORT."

The Senior Indenture provides that the Authority may reallocate the proceeds of the Senior Bonds, including the 2014A Senior Bonds, to other projects; however, pursuant to the PUC Orders, such reallocation would require the approval of the PUC.

### **ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds of the 2014A Bonds are expected to be applied as shown below:

	<b>2014A Senior Bonds</b>
<b>Sources:</b>	
Principal Amount	\$76,470,000
Net Original Issue Premium	7,831,290
Total Sources	<u>\$84,301,290</u>
<b>Uses:</b>	
Deposit to Construction Fund	\$69,000,000
Deposit to Capitalized Interest Account <sup>(1)</sup>	7,547,000
Deposit to Senior Bond Reserve Fund	5,085,000
Costs of Issuance <sup>(2)</sup>	<u>2,669,290</u>
Total Uses	<u>\$84,301,290</u>

<sup>(1)</sup> Equal to a portion of interest accrued with respect to all of the 2014A Senior Bonds to September 30, 2016.

<sup>(2)</sup> Includes Underwriters' discount, Senior Trustee and Senior Co-Trustee fees, legal fees and expenses, rating agency fees, Consulting Engineer fees, bond insurance premiums, printing costs and other miscellaneous costs of issuance.

### **THE 2014A SENIOR BONDS**

#### **Authority for the 2014A Senior Bonds**

The 2014A Senior Bonds are authorized to be issued pursuant to the Act, the Authorizing Legislation and by the 2014A Senior Bond Resolution. Section 50103(k) of Title 12 of the Guam Code Annotated provides that agencies and instrumentalities of the Government, including public corporations, shall issue bonds only through the agency of GEDA, and the Act requires the terms of the Indentures and the amount and certain terms of the 2014A Senior Bonds to be approved by the PUC. The issuance and sale of the 2014A Senior Bonds have been approved by the Board of Directors of GEDA pursuant to the 2014 GEDA Resolution. The terms of the 2014A Supplemental Senior Indenture and the respective amounts and certain terms of the 2014A Senior Bonds were approved by the PUC pursuant to the PUC 2014 Bond Docket.

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

## Description of the 2014A Senior Bonds

The 2014A Senior Bonds are being issued in the aggregate principals amount shown on the inside cover and will bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover.

The 2014A 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 2014A Senior Bonds, all payments of principal and Redemption Price, if applicable, of and interest on the 2014A 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 2014A 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 2014A Senior Bonds will be payable by check mailed by first class mail to the persons in whose names the 2014A Senior Bonds are registered on the 15<sup>th</sup> 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 2014A Senior Bonds of a Series received prior to the applicable Record Date, by wire transfer. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM” herein.

The 2014A 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, 2015. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

## Redemption of the 2014A Senior Bonds

**Optional Redemption.** The 2014A Senior Bonds maturing on or before October 1, 2024 are not subject to optional redemption prior to their respective stated maturities. The 2014A Senior Bonds maturing on or after October 1, 2025 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, 2024, 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 2014A Senior Bonds maturing on October 1, 2039 and bearing interest at a rate of 5.00% per annum 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 2014A Senior Bonds, in the amounts and on October 1 in the years set forth below:

#### Mandatory Sinking Account Payments for 2014A Senior Bonds Due 2039

<u>Year</u>	<u>Amount</u>
2035	\$3,155,000
2036	3,315,000
2037	3,480,000
2038	3,655,000
2039**	3,835,000

\*\* Unamortized balance at final maturity

The 2014A Senior Bonds maturing on October 1, 2044 and bearing interest at a rate of 4.00% per annum 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 2014A Senior Bonds, in the amounts and on October 1 in the years set forth below:

Mandatory Sinking Account  
Payments for 2014A Senior Bonds at 4.00% Due 2044

<u>Year</u>	<u>Amount</u>
2040	\$920,000
2041	960,000
2042	1,000,000
2043	1,040,000
2044**	1,080,000

\*\* Unamortized balance at final maturity

The 2014A Senior Bonds maturing on October 1, 2044 and bearing interest at a rate of 5.00% per annum 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 2014A Senior Bonds, in the amounts and on October 1 in the years set forth below:

Mandatory Sinking Account  
Payments for 2014A Senior Bonds at 5.00% Due 2044

<u>Year</u>	<u>Amount</u>
2040	\$3,105,000
2041	3,260,000
2042	3,420,000
2043	3,590,000
2044**	3,775,000

\*\* Unamortized balance at final maturity

Upon any optional redemption of term 2014A Senior Bonds or other retirement of 2014A Senior Bonds in excess of any Mandatory Sinking Account Payments in any year, the principal amount of such 2014A Senior Bonds shall be credited against the remaining Mandatory Sinking Account Payments of such 2014A 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 2014A Senior Bonds).

***Extraordinary Optional Redemption.*** The 2014A 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 2014A 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 2014A Senior Bonds to Be Redeemed**

For purposes of selecting 2014A Senior Bonds for redemption, such 2014A 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 2014A Senior Bonds of any maturity are called for redemption at any one time, the Co-Trustee will select the particular 2014A 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 2014A Senior Bonds not less than 30 nor more than 60 days prior to the date fixed for redemption, by first class mail to each registered owner of 2014A Senior Bonds designated for redemption at such owner's address as shown on the registration books of the Co-Trustee on the date the 2014A Senior Bonds to be redeemed are selected. Each notice of redemption is required to state, among other things, the date fixed for redemption, the place or places where 2014A Senior Bonds are to be surrendered for payment, the series and maturities to be redeemed and, if less than all of the 2014A Senior Bonds of any such maturity and series will be redeemed, the numbers of the 2014A Senior Bonds of such maturity and series to be redeemed and, in the case of 2014A Senior Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. The notice is also required to state that on said date there will become due and payable on each of said 2014A Senior Bonds the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2014A Senior Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such date fixed for redemption, interest thereon shall cease to accrue. Each notice is required to state the CUSIP number, date of issue and interest rate on each 2014A Senior Bond, or portion thereof, to be redeemed, and shall include the redemption agent name and address. Any failure to provide such redemption notice or any defect in such notice will not affect the validity of the proceedings for redemption. See also "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – THE SENIOR INDENTURE – Redemption of Senior Bonds" in APPENDIX D hereto.

Any notice of optional redemption of the 2014A 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 2014A Senior Bonds thereby called for optional redemption, the optional redemption shall be cancelled and the 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 date fixed for optional redemption in such notice of optional redemption, rescind and cancel such notice and corresponding optional redemption, and the Senior Trustee shall thereupon give notice of such cancellation to the recipients of the notice of the redemption being cancelled in the manner required by the Senior Indenture.

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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 2014A Senior Bonds, and the Authority's outstanding Subordinate Bonds.

**Table 1**  
**DEBT SERVICE SCHEDULE**

Year ending October 1	Senior Bonds			Total Senior Bond Debt Service	Prior Subordinate Bond Debt Service	Total Bond Debt Service <sup>(1)</sup>
	2014A Senior Bonds					
	Prior Senior Bonds Debt Service	Principal	Interest			
2014	\$ 25,454,300	--	--	\$25,454,300	\$ 15,192,500	\$40,646,800
2015	25,095,650	--	\$3,783,982	28,879,632	15,216,625	44,096,257
2016	25,097,350	--	3,773,500	28,870,850	--	28,870,850
2017	25,448,900	\$1,310,000	3,773,500	30,532,400	--	30,532,400
2018	25,084,800	1,375,000	3,708,000	30,167,800	--	30,167,800
2019	39,466,200	1,445,000	3,639,250	44,550,450	--	44,550,450
2020	43,230,950	1,520,000	3,567,000	48,317,950	--	48,317,950
2021	43,231,200	1,595,000	3,491,000	48,317,200	--	48,317,200
2022	43,258,950	1,675,000	3,411,250	48,345,200	--	48,345,200
2023	43,439,175	1,755,000	3,327,500	48,521,675	--	48,521,675
2024	43,429,250	1,845,000	3,239,750	48,514,000	--	48,514,000
2025	43,437,250	1,935,000	3,147,500	48,519,750	--	48,519,750
2026	43,434,325	2,035,000	3,050,750	48,520,075	--	48,520,075
2027	43,432,950	2,135,000	2,949,000	48,516,950	--	48,516,950
2028	43,434,775	2,245,000	2,842,250	48,522,025	--	48,522,025
2029	43,441,250	2,355,000	2,730,000	48,526,250	--	48,526,250
2030	43,438,525	2,470,000	2,612,250	48,520,775	--	48,520,775
2031	37,678,300	2,595,000	2,488,750	42,762,050	--	42,762,050
2032	37,675,050	2,725,000	2,359,000	42,759,050	--	42,759,050
2033	37,678,800	2,860,000	2,222,750	42,761,550	--	42,761,550
2034	37,675,800	3,005,000	2,079,750	42,760,550	--	42,760,550
2035	11,967,800	3,155,000	1,929,500	17,052,300	--	17,052,300
2036	18,156,300	3,315,000	1,771,750	23,243,050	--	23,243,050
2037	18,161,800	3,480,000	1,606,000	23,247,800	--	23,247,800
2038	18,159,725	3,655,000	1,432,000	23,246,725	--	23,246,725
2039	18,159,150	3,835,000	1,249,250	23,243,400	--	23,243,400
2040	18,161,825	4,025,000	1,057,500	23,244,325	--	23,244,325
2041	--	4,220,000	865,450	5,085,450	--	5,085,450
2042	--	4,420,000	664,050	5,084,050	--	5,084,050
2043	--	4,630,000	453,050	5,083,050	--	5,083,050
2044	--	4,855,000	231,950	5,086,950	--	5,086,950
Total <sup>(1)</sup>	\$896,330,350	\$76,470,000	\$73,457,232	\$1,046,257,582	\$30,409,125	\$1,076,666,707

<sup>(1)</sup> Totals may not add due to rounding.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The ability of the Authority to pay principal of and interest on the 2014A 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. For additional information regarding the

Authority's electric rates and charges, see "THE GUAM ELECTRIC POWER SYSTEM – Electric Rates and Charges – Public Utilities Commission." The Authority has no taxing power.

## **Senior Bonds**

***Security for the Senior Bonds.*** The Senior Bonds, including the 2014A 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 are to 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 Co-Trustee an amount equal to (a) the amount of interest payable on each Senior Bond on a current un compounded 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 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 the deposits required under the Subordinate Indenture. See “—Subordinate Bonds—*Security for the Subordinate Bonds*” below.

See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES—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 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, with respect to the then immediately ensuing twelve 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 D--“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES—THE SENIOR INDENTURE—Sources of Payment; Rate Covenant; Use and Allocation of Revenues.”

**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 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 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 twelve-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 twelve-month period, were not in service, all in an amount equal to 75% of the estimated additional average annual Net Revenues to be derived from such Projects or such other improvements for the first thirty-six months in which each Project or improvement is, respectively, to be in operation, all as shown by such certificate, and

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

shall have produced a sum equal to at least 1.30 times the Maximum Annual Debt Service on the Senior Bonds then Outstanding under the Senior Indenture and on such Additional 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 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 2014A 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 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 does not 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. For purposes of this definition, the interest rate on each Variable Rate Senior Bond shall be assumed to be the maximum rate then permitted on such Senior Bond. As of the date of issuance of the 2014A Senior Bonds, the Senior Bond Reserve Fund Requirement is \$48,526,250. Proceeds of the 2014A Senior Bonds in the net amount of \$5,085,000 will be deposited in the Senior Bond Reserve Fund which, together with the amounts on deposit therein, will equal the Senior Bond Reserve Fund Requirement.

Of the amounts currently on deposit in the Senior Bonds Reserve Fund, \$13,742,000 allocable to the 2012 Senior Bonds is invested pursuant to forward delivery investment 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”), and \$12,028,872 allocable to the 2010 Senior Bonds is invested pursuant to an investment agreement, dated as of June 30, 2011 (the “Natixis Reserve Investment Agreement”), by and between the Authority, the Senior Co-Trustee and Natixis Funding Corp. (“NFC”). See “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 and Standard & Poor’s. A 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 D—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES—THE SENIOR INDENTURE—Events of Default.”

## **Subordinate Bonds**

**Security for Subordinate Bonds.** The Subordinate Bonds are limited obligations of the Authority payable solely from Revenues and all amounts (including proceeds of Subordinate Bonds) held by the Subordinate Trustee under the Subordinate Indenture. The Subordinate Bonds are secured by a lien on and pledge of the Revenues that is subject to the prior pledge of Revenues securing the Senior Bonds under the Senior Indenture and to the provisions of the Senior Indenture requiring or permitting the application of the Revenues for the purposes and on the terms and conditions set forth in the Senior Indenture.

The Subordinate Indenture creates within the Surplus Fund a separate “Subordinate Revenue Fund,” which the Subordinate Depositary maintains and holds in trust. Pursuant to the Subordinate Indenture, all Revenues

deposited in the Surplus Fund and available for transfer to the Authority free and clear of the lien of the Senior Indenture are required to be promptly paid over to the Subordinate Trustee and deposited by the Subordinate Trustee to the credit of the Subordinate Revenue Fund. Pursuant to the Subordinate Indenture, on or before the fifth day of each calendar month, the Subordinate Depositary shall transfer from the Subordinate Revenue Fund 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 Subordinate Bond Fund held by the Co-Trustee an amount equal to (a) the amount of interest payable on each Subordinate Bond on a current uncompounded basis on any interest payment date in equal monthly amounts over the Interest Accrual Period for each such Senior Bond ending on such interest payment date (or in the case of a variable rate Subordinate Bond, the amount of interest that would have accrued during the next preceding calendar month if such Subordinate Bond had borne interest at the maximum rate, less any excess deposited for the next preceding calendar month), and the amount of interest payable on each Subordinate Bond on a deferred compounded basis on any interest payment date in equal monthly amounts over the Principal Payment Period for each such Subordinate Bond ending on the maturity date for such Senior Bond, plus (b) during the Principal Payment Period for each Subordinate 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 Subordinate Bond; and

(2) into the Subordinate Bond Reserve Fund, held by the Subordinate Co-Trustee, the amount, if any, necessary to increase the balance in such Fund to the Subordinate Bond Reserve Fund Requirement

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

Amounts in the Subordinate Revenue Fund are also transferred to the Subordinate Rebate Fund as required by the Subordinate Indenture.

The Subordinate Indenture provides that all amounts in the Surplus Fund on the fifth day of each month after the deposits required under Subordinate Indenture have been made shall be paid by the Depositary to the Authority, free and clear of the pledge and lien of the Subordinate Indenture.

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

***Subordinate Rate Covenant.*** The Authority covenants in the Subordinate 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 twelve months, Net Revenues which are equal to at least (a) 1.20 times the sum of (1) the interest falling due on then outstanding Senior Bonds and Subordinate Bonds (assuming that all then outstanding Serial Senior Bonds and Serial Subordinate Bonds are retired on their respective maturity dates and that all then outstanding Term Senior Bonds and Term Subordinate Bonds are retired at the times of and in amounts provided for by the Mandatory Sinking Account Payments applicable to such Term Bonds), but not including Capitalized Interest, (2) the principal amount of then outstanding Serial Senior Bonds and Serial Subordinate Bonds falling due by their terms, and (3) the aggregate amount of all required Mandatory Sinking Account Payments (all as calculated for the applicable Bond Year) on the Outstanding Subordinate Bonds to be paid from Net Revenues during such 12-month period; and (b) the amount necessary to pay all obligations to be paid from Net Revenues during such period under then-existing contracts or under law (including amounts payable from Net Revenues on a basis subordinate to the Subordinate Bonds). For the purpose

of determining the interest payable on Senior Bonds or Subordinate Bonds that are variable rate bonds, the interest rate used in the foregoing calculation shall be the actual interest rate for periods prior to the date of calculation and the maximum rate then permitted on such bonds for periods subsequent to the date of calculation. Net Revenues means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation Expenses incurred during such period. See APPENDIX D--“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES—THE SUBORDINATE INDENTURE—Sources of Payment; Rate Covenant.”

***Additional Subordinate Bonds.*** The Subordinate Indenture permits the Authority to issue additional Subordinate Bonds (“Additional Subordinate Bonds”) secured on a parity with all then-Outstanding Subordinate Bonds upon the satisfaction of the conditions and requirements set forth in the Subordinate Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES—The Subordinate Indenture—Additional Subordinate Bonds.”

***Subordinate Bond Reserve Fund.*** The Subordinate Bonds are secured by the Subordinate Bond Reserve Fund, established pursuant to the Subordinate Indenture and required to be funded and maintained in an amount equal to the Subordinate Bond Reserve Fund Requirement, which as defined in the Subordinate Indenture means, on any date of calculation, an amount equal to the lesser of: (i) Maximum Annual Debt Service on all Subordinate Bonds then Outstanding and (ii) 125% of average Annual Debt Service on all Subordinate Bonds then Outstanding. The interest rate on each Variable Rate Bond shall for purposes of this definition be assumed to be the maximum rate then permitted on such Subordinate Bond, and if the Subordinate Bond Reserve Fund would have to be increased by an amount greater than ten percent (10%) of the stated principal amount of a Series of Subordinate Bonds (or, if such Series has more than a de minimis amount of original issue discount or premium, of the issue price of such Subordinate Bonds), then the Subordinate Bond Reserve Fund Requirement shall be such lesser amount as is determined by a deposit of such ten percent (10%).

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

The Subordinate Bond Reserve Fund does not secure payment of principal of or interest on the Senior Bonds, including the 2014A Senior Bonds.

***Events of Default; Limitation on Remedies.*** The Subordinate Indenture specifies a number of Events of Default and remedies. The Subordinate Indenture provides that, while any Senior Bonds remain outstanding under the Senior Indenture, the Subordinate Co-Trustee shall not exercise any remedy under the Subordinate Indenture, or take any action to protect or enforce its rights or the rights of the Bondholders under the Subordinate Indenture, in a manner that is inconsistent with, or that could reasonably be expected to impair, the rights of the holders of the Senior Bonds or their fiduciaries under the Senior Indenture. In addition, the Subordinate Bonds are not subject to acceleration unless and until an event of default shall have occurred under the Senior Indenture and a declaration of acceleration shall have been made with respect to the Senior Bonds. For descriptions of the Events of Default and various remedies under the Subordinate Indenture, see APPENDIX D– “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES—THE SUBORDINATE INDENTURE—Events of Default.”

## **Energy Capital Leases**

The Authority has entered into three energy conversion agreements with three separate entities (each, an “Independent Power Producer”), two of which are with respect to three units (Piti Nos. 7, 8 and 9) (collectively, the “Piti Capital Leases”) constructed, owned and operated by the applicable Independent Power Producers located on Guam and one with respect to two units (Tanguisson Unit Nos. 1 and 2) refurbished, managed and operated by the Independent Power Producer (the “Tanguisson Capital Lease” and together with the Piti Capital Leases, the “Energy Capital Leases”). Pursuant to the Piti Capital Leases, the Authority provides fuel and pays fees to the

Independent Power Producers until such time as the ownership of the facilities is transferred to the Authority, currently scheduled to occur in December 2017 with respect to Piti Unit No. 7 and January 2019 with respect to Piti Unit Nos. 8 and 9. Pursuant to the Tanguisson Capital Lease, the Independent Power Producer refurbished and manages and operates one unit owned by the Navy (and leased to the Authority) and one unit owned by the Authority. The Authority provides fuel and pays fees to the Independent Power Producer until such time as the Tanguisson Capital Lease terminates. The Tanguisson Capital Lease is currently scheduled to terminate in August 2017; however, the Authority is currently in negotiations with the Independent Power Producer to terminate the Tanguisson Capital Lease prior to its scheduled expiration date. The Authority's payments under the Energy Capital Leases 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" and "—Subordinate Bonds—Security for the Subordinate Bonds." See "THE GUAM ELECTRIC POWER SYSTEM—Principal Existing Resources—Contract Generation Units Privately Owned and Operated," "FINANCIAL MATTERS—Outstanding Indebtedness—*Certain Payments Pursuant to Energy Capital Leases*," Tables 10 and 11 under "CONSULTING ENGINEER'S REPORT—Historical and Projected Operating Results" and APPENDIX B – "FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012," Note 7.

### **Rights of the 2014 Bond Insurer**

Concurrently with the issuance of the 2014A Senior Bonds, Assured Guaranty Municipal Corp. is expected to issue its municipal bond insurance policy guaranteeing the payment of the scheduled principal and interest on the Insured 2014 Bonds mentioned below. The Senior Indenture will provide that, subject to the satisfaction of certain conditions, the 2014 Bond Insurer will be deemed to be the sole holder of the Insured 2014 Bonds for purposes of exercising any voting or consent rights or of directing certain actions under the Senior Indenture. See "THE 2014 BOND INSURER" and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES—SENIOR INDENTURE—Rights of the 2014 Bond Insurer."

### **THE 2014 BOND INSURER**

#### **Bond Insurance Policy**

Concurrently with the issuance of the 2014A Senior Bonds, Assured Guaranty Municipal Corp. ("AGM" or the "2014 Bond Insurer") will issue its Municipal Bond Insurance Policy (the "2014 Bond Insurance Policy") for the 2014A Senior Bonds maturing on October 1 in years 2032 through 2034, inclusive, and on October 1 in years 2039 and 2044 (collectively, the "Insured 2014 Bonds"). The 2014 Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Insured 2014 Bonds when due as set forth in the form of the 2014 Bond Insurance Policy included as APPENDIX H to this Official Statement.

The 2014 Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

#### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the

significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

**Current Financial Strength Ratings.** On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

**Capitalization of AGM.** At June 30, 2014, AGM's policyholders' surplus and contingency reserve were approximately \$3,654 million and its net unearned premium reserve was approximately \$1,850 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

**Incorporation of Certain Documents by Reference.** Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (filed by AGL with the SEC on February 28, 2014);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 (filed by AGL with the SEC on May 9, 2014); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 (filed by AGL with the SEC on August 8, 2014).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the 2014A Senior Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “THE 2014 BOND INSURER – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

**Miscellaneous Matters.** AGM or one of its affiliates may purchase a portion of the Insured 2014 Bonds or any uninsured 2014A Senior Bonds offered under this Official Statement and such purchases may constitute a significant proportion of the 2014A Senior Bonds offered. AGM or such affiliate may hold such Insured 2014 Bonds or uninsured 2014A Senior Bonds for investment or may sell or otherwise dispose of such Insured 2014 Bonds or uninsured 2014A Senior Bonds at any time or from time to time.

AGM makes no representation regarding the 2014A Senior Bonds or the advisability of investing in the 2014A Senior Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “THE 2014 BOND INSURER” and APPENDIX H – “Specimen Municipal Bond Insurance Policy.”

## THE GUAM POWER AUTHORITY

### General

The Authority is a retail electric utility that provides electric generation, transmission and distribution service through Guam, with the exception of distribution of power on the United States military bases on Guam. The Authority serves a population of approximately 159,358 with a power supply portfolio that consists of fuel oil based generating units with a combined net capacity of over 500 MW. The Authority’s electric system also includes 29 substations, 175 miles of transmission lines and over 645 miles of distribution lines. Table 2 below presents selected statistics regarding Authority operations for Fiscal Year 2013.

**Table 2**  
**Selected Fiscal Year 2013 Statistics**

Number of Customers	48,598
Peak Load (kW)	257,000
Megawatt-hour Sales	1,566,410
Operating Revenues <sup>(1)</sup>	\$450,733,045
Gross Investment in Utility Plant	\$931,105,288
Net Utility Plant Investment	\$526,734,955
Total Assets and Deferred Outflows	\$885,007,297
Total Liabilities and Deferred Inflows	\$745,116,968
Total Net Position	\$139,890,329

<sup>(1)</sup> Does not include bad debt expense of \$1,222,905.

*Source: Consulting Engineer’s Report*

### History

Current electric utility operations on Guam date back to the post-World War II period when electric power production facilities consisted of individual diesel plants located at the then-existing principal military load centers. 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 United States Navy (the “Navy”), which has significant facilities on Guam, has transferred a number of electric facilities to the Government of Guam, PUAG and the Authority. As described herein, the Navy is a significant customer of the Authority and distributes electricity purchased from the Authority throughout the military bases on Guam.

## **Governance**

In 2001, by virtue of the passage of Public Law 26-76, oversight of the Authority was delegated to the newly created and elected five-member CCU. The CCU 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 to make decisions regarding service policies, management, budgeting, and financing of the Authority’s operations. Certain actions, such as issuing bonds for financing utility capital projects, also require legislative approval. The CCU also has responsibility for the setting of rates of the Authority, subject to the regulatory review and approval of the PUC. The original CCU members took office on January 3, 2003.

In addition, pursuant to statutory requirements, the Guam legislature, the Governor of Guam, GEDA, and the PUC are required to approve the issuance of bonds by the Authority, and each has approved the issuance of the 2014A Senior Bonds.

The current members of the CCU are:

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

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

Eloy P. Hara, Vice Chairman. Mr. Hara was elected to the CCU and has been Vice Chairman since January 2007. He is the President and CEO of International Technology, Inc. Mr. Hara was previously the Administrator of the Guam Memorial Hospital Authority, Executive Director of the Civil Service Commission, and Assistant General Manager for Administration, Guam Power Authority. He also served in several other positions such as Member, Executive Management Committee, American Public Power Association (APPA – 5 years), Member, PUC, Vice President, Statehood Task Force for the Guam Decolonization Commission, Society for Human Resources, Guam Chapter and Cabinet Member for two prior government administrations. He attended San Diego City College, College of the Sequoias, Chaminade College, University of Hawaii, Northern Oklahoma College – AS Degree, and East Texas State University, where he received a BBA degree in Business Administration.

Joseph T. Duenas, Secretary. 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 BA in Business Management from the Chaminade University of Honolulu.

Pedro S.N. Guerrero, Treasurer. Elected to the CCU and member since January 2013, Mr. Guerrero has over 39 years of industry experience in utilities engineering and management, theoretical applications and instruction, and resources consultation and operations within the federal, local, and private sectors in Guam. Mr. Guerrero's experience includes, among other things, serving as Residential Energy Manager, Andersen Air Force Base, Electrical Superintendent, 36th Civil Engineering Squadron, Andersen Air Force Base, Deputy Chief of Operations, 36th Civil Engineering Squadron, Andersen Air Force Base (retired 2006), as well as serving as an adjunct professor at Guam Community College. Mr. Guerrero completed an apprenticeship with the United States Navy Public Works Center in 1973 and completed training as a High Voltage/Power Plant Electrician at the United States Navy Public Works Center in 1978.

Following is a brief résumé of the General Manager of Consolidated Utility Services for the CCU.

General Manager of Consolidated Utility Services - John M. Benavente, P.E. Mr. Benavente was appointed to his current position in June 2005 to oversee the Authority and GWA, which provides the civilian community in Guam with water and wastewater services. In 2013, Mr. Benavente was made an employee of the CCU providing decision-making support to the Board. Mr. Benavente has over thirty-five years of technical, engineering and management experience in the power and water related fields both in the government and private sectors. He has served as the General Manager of the Authority for 9 years. Mr. Benavente is experienced in management, operations and maintenance in both utilities, and his experience includes work on negotiating a Customer Supplier Agreement with the US Military and negotiating Energy Conversion Agreements with private power providers, in strategic planning, succession planning, rate proceedings, legislative hearings, environmental permitting, power plant construction, transmission and distribution construction, energy management system, budgeting, collections and natural disaster 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.

### **Key Management Personnel**

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

General Manager of Guam Power Authority - Joaquin "Kin" C. Flores, P.E. Prior to becoming the General Manager of the Authority in 2005, Mr. Flores served in numerous Authority management capacities since 1983. Mr. Flores has nearly 30 years of electric utility experience with a strong emphasis in electric utility systems planning and operations for the Authority. His experience primarily focuses in the areas of Engineering, Generation, Transmission & Distribution and Power System Control. Mr. Flores is a Graduate - Magna Cum Laude, from the University of Portland (1981) - Bachelor of Science, Electrical Engineering and he also obtained a Masters of Science, Electrical Engineering (Detroit Edison /Westinghouse Fellow Recipient) from the University of Missouri – Rolla (1982). He is a registered Professional Electrical Engineer in Guam. Mr. Flores possesses management experience with utility power contracts involving the IPPs valued at \$33 million per year for about 170 MW of generation capacity. His responsibilities included managing engineering, construction, permitting and procurement of various projects that included transmission, substation, distribution and generation systems. Mr. Flores has conducted numerous studies involving power systems engineering analysis; in-house load forecasting; 115kV and 34.5 kV transmission systems planning; and the development of a 15-year integrated resource study. He has submitted testimony to the PUC on several occasions to justify the Authority's major capital improvement projects, and he has assisted in several base and fuel rate petitions for the Authority.

Mr. Flores has tendered his resignation to the CCU, effective as of September 30, 2014. In his resignation, Mr. Flores indicated that he would accept re-appointment as General Manager under certain conditions. The earliest the CCU could take action is September 25, 2014, the next scheduled meeting of the CCU. The CCU could elect (i) to re-appoint Mr. Flores as General Manager, effective as of October 1, 2014, (ii) to accept Mr. Flores's resignation as General Manager, but engage him in some other capacity to assist the Authority while the CCU conducts a search for, and transitions to, a replacement, or (iii) to accept Mr. Flores's resignation and appoint an interim or a new General Manager.

Assistant General Manager, Operations - Melinda R. Camacho, P.E. Ms. Camacho 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. Ms. Camacho holds a Bachelor of Science degree in Electrical Engineering from the University of Hawaii at Manoa. She is also a registered Professional Electrical Engineer in Guam. Her experience includes developing justifications and analyses for major capital expenditure programs; leading work in engineering, procurement, permitting, construction, and commissioning of various transmission and distribution systems; managing maintenance activities and expenditures to ensure continuity of electric service at the least cost; leading successful negotiation for the current 10-year Utility Services Contract with the Navy; and providing testimony on the Authority's behalf to the Guam Public Utilities Commission 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.

Chief Financial Officer - Randall V. Wiegand. Prior to becoming the Chief Financial Officer for the Authority and GWA in September 2003, Mr. Wiegand spent nearly three years as Audit Manager for the Guam Office of the Public Auditor. Before that he spent a year as the Underwriting Manager for PacificCare Asia Pacific, nearly five years as Comptroller for the Authority and five years at Deloitte & Touche ending in the role of Audit Supervisor. Each year at Deloitte & Touche, Mr. Wiegand was involved in audits of utilities. Mr. Wiegand is a graduate of the University of Washington (MBA-1990) and Seattle Pacific University (1983 – BA – Business Finance). Mr. Wiegand holds certifications as a Certified Public Accountant (Washington State and Guam), a Certified Government Financial Manager, and a Certified Fraud Examiner. Mr. Wiegand is the Past President of the Guam Chapter of the Association of Government Accountants.

## THE GUAM ELECTRIC POWER SYSTEM

### Principal Existing Resources

Following is a brief description of the Authority's principal existing resources. Collectively, the Authority has rights to dispatch generating units that have an aggregate nameplate capacity rating of approximately 553.2 MW, of which approximately 464.8 MW of net capacity is available for dispatch by the Authority. Numerous other Navy, privately-owned and publicly-owned small generation units are dispersed throughout Guam to provide back-up/emergency power to the Navy, municipal water pumping stations, airport operations and certain hotel loads. These units are not available to the Authority for dispatch and are only used in the event of system outages. See APPENDIX A – “CONSULTING ENGINEER'S REPORT” for more detailed information concerning the resources currently available to the Authority.

***Generation Units Owned/Leased by the Authority.*** The Authority owns (i) three oil-fired, steam generating units, (ii) four combustion turbine generator (“CTG”) units, (iii) two slow-speed, reciprocating engine diesel units and (iv) eight high-speed, reciprocating engine diesel units. In addition to the generation units the Authority owns, the Authority is leasing at no cost for a period of up to fifty years one oil-fired, steam generating unit owned by the Navy, ownership of which is expected to be transferred to the Authority prior to the end of the lease term in 2046. Pursuant to the Tanguisson Capital Lease, an Independent Power Producer manages and operates the owned by the Navy (and leased to the Authority) and one unit owned by the Authority. In addition, the Authority has retained private operators to manage, operate and maintain certain of the units that it owns pursuant to two performance management contracts scheduled to expire on June 30, 2015 and September 30, 2015, subject to prior termination in accordance with their respective terms. Each of these performance management contracts may be extended for an additional five year term. The Authority also owns four additional high-speed, reciprocating engine diesel units and another CTG unit that have recently been removed from service. Collectively, the in-service generation units owned and/or leased by the Authority have a nameplate capacity rating of approximately 387.8 MW (net). The Authority is currently negotiating the early termination of the Tanguisson Capital Lease. Although Authority currently plans to deactivate Tanguisson Unit Nos. 1 and 2 upon the early termination of the Tanguisson Capital Lease, the Authority is considering keeping Tanguisson Unit Nos. 1 and 2 in near operational condition so that they could be available in the event of an emergency. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Energy Capital Leases,” FINANCIAL MATTERS—Outstanding Indebtedness—*Certain Payments Pursuant to Energy Capital Leases*,” Tables 10 and 11 under “CONSULTING ENGINEER'S REPORT—Historical and Projected Operating Results,” APPENDIX A—“CONSULTING ENGINEER'S REPORT—POWER SUPPLY AND DELIVERY—Generating Resources—*Tanguisson Power Plant*” and

APPENDIX B – “FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS’ REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012,” Note 7.

***Contract Generation Units Privately Owned and Operated.*** The Authority has entered into the Piti Capital Leases for three units constructed, owned and operated by Independent Power Producers located on Guam. These units have a combined nameplate capacity rating of approximately 129.8 MW (net). Pursuant to these Energy Capital Leases, the Authority provides fuel and pays fees to the owner/operators. Pursuant to the terms of the Piti Capital Leases, ownership of these facilities will be transferred to the Authority at the end of the terms of the respective Energy Capital Lease, currently scheduled to occur in December 2017 with respect to Piti Unit No. 7 and January 2019 with respect to Piti Unit Nos. 8 and 9. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Energy Capital Leases,” FINANCIAL MATTERS—Outstanding Indebtedness—*Certain Payments Pursuant to Energy Capital Leases*,” Tables 10 and 11 under “CONSULTING ENGINEER’S REPORT—Historical and Projected Operating Results” and APPENDIX B – “FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS’ REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012,” Note 7.

***Generation Units Operated by the Authority.*** The Authority also operates and maintains for the Authority’s use a two-unit, reciprocating diesel plant owned by Miyama Development International Co., Ltd., the developer of one of the resorts on Guam, which has a nameplate capacity rating of approximately 10.6 MW (net).

***Transmission and Distribution.*** 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 175 miles of 115 kV and 34.5-kV transmission lines. The substations supply 63 distribution feeds with approximately 2,500 miles of distribution line, more than 60 percent of which is rated 13.8kV. 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.

To assist in improving System reliability, the Authority is planning on installing an Energy Storage System (“ESS”) consisting of a 40 MW battery system. The ESS is expected to increase System reliability and power quality, to lower spinning reserve requirements, to mitigate under frequency load shedding caused by loss of generating units and outages and to ease integration of renewable energy resources into the System. The Authority is currently considering different battery systems, but expects the ESS to be online by the end of Fiscal Year 2016 at an estimated cost of approximately \$60 million. The Authority expects to apply a portion of the proceeds of the 2014A Senior Bonds to pay or to reimburse the Authority for payment of costs relating to the ESS.

***New Office Building.*** In conjunction with the GWA, the Authority is constructing a new office building in Fadian, which is expected to fully accommodate all Authority staff. The construction of the building is being funded primarily with proceeds of the 2010 Senior Bonds and is expected to be completed by the end of calendar year 2014. The Authority expects to lease space to GWA.

## **Renewable Generation Resources**

The Authority is seeking to integrate renewable generation resources into the System in order to comply with Guam legislation that requires the Authority to establish renewable energy targets, as well as to provide a more cost-effective, diversified and cleaner generation system. In early 2012, the Authority awarded a 20 MW solar project to Quantum Guam Power Holdings, LLC (“QGP”) and a 14.38 MW combination wind (9.34 MW) and solar (5.04 MW) project to Pacific Green Resources (“PGR”). Subsequent to these awards, the PGR project capacity was raised to 15 MW (9.34 MW wind and 5.65 MW solar) and QGP acquired the rights to and obligations of the PGR solar project. In July 2013, NRG Solar, a subsidiary of NRG Energy Inc., acquired the solar project from QGP. The development of the solar project, now known as the Dandan Solar Project, is being fully funded by NRG Solar (as the successor in interest to QGP and PGR) and is expected to be online late in calendar year 2014 or early in calendar year 2015. 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 Authority also has a 25-year power purchase agreement for the PGR wind projects that are under development; however, its status is uncertain, and the Authority understands that PGR is seeking to sell its interests in the power purchase agreement.

On July 1, 2014, the Authority issued an additional Invitation for Multi-Step Bid (Renewable Procurement Phase II) to procure additional renewable resources. The Authority is seeking an additional 40 MW of renewable resources. The Authority currently expects to notify successful bidders by the end of January 2015. In addition, on June 19, 2014, the Authority issued a multi-step bid for design and construction of a 0.275 MW wind turbine pilot project to be funded with a grant from the U.S. Department of the Interior, Office of Insular Affairs.

The Authority is also in the process of developing a pilot program to construct solar projects on rooftops and in open areas. The Authority would own the facilities and pay customers a "green energy credit."

The Authority is seeking to satisfy some of its energy needs from renewable energy sources as provided in its most recent Integrated Resource Plan ("IRP"), which was approved by the CCU in December 2012 and by the PUC in June 2013. The IRP includes analyses leading to the determination of the timing, sizing, location and technologies to be utilized for future Authority generation resources, as well as analyses of existing units that would be likely candidates for retirement or mothballing. The Authority's planning is also 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 percent of its net electricity sales from renewable generation by December 31, 2015, 8 percent by December 31, 2020, 10 percent by December 31, 2025, 15 percent by December 31, 2030 and 25 percent 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 percent of any traditional power supply that is constructed be furnished from a renewable resource.

See APPENDIX A - "CONSULTING ENGINEER'S REPORT—Electric System Overview—Renewable Generation Resources" and "—Historical and Projected Operating Results."

### **Historical and Projected Demand and Load Growth**

From Fiscal Year 2009 to Fiscal Year 2013, the Authority's peak demand load decreased from 268 MW to 257 MW, or by 4.1 percent (a compound annual growth rate of -1.0 percent). During the same period, the Authority's energy sales decreased from 1,624,383 MW to 1,566,410 MW, or by 3.6 percent (a compound annual growth rate of -0.9 percent). The average number of total customers during this same period, however, increased from 46,490 in Fiscal Year 2009 to 48,598 in Fiscal Year 2013, or by 4.5 percent (a compound annual growth rate of 1.1 percent). In the aggregate, the usage per customer declined during this same period. Specifically, the usage per residential customer decreased from approximately 11,825.1 kWh/yr in Fiscal Year 2009 to approximately 11,080.9 kWh/yr in Fiscal Year 2013. The Authority believes that the decrease in the usage per customer is the result of both increasing rates (and conservation programs), as well as economic conditions that have affected Guam in a similar manner to that of the mainland United States.

In July 2014, Leidos prepared a baseline load forecast for Fiscal Year 2014 through Fiscal Year 2018 for the Authority. As indicated in the load forecast, the peak demand and energy sales for the period Fiscal Year 2014 through Fiscal Year 2018 are fairly flat, with annualized average growth rates projected to be -0.1 percent for energy sales and 0.0 percent for peak demand. The load forecast prepared by Leidos does not include any increases in loads relating to the proposed U.S. military build-up on Guam because the timing of the proposed build-up in Guam is uncertain and the Authority does not expect the build-up to significantly impact Authority load demand.

During the Forecast Period, the Authority expects to meet its projected peak load requirements primarily from existing generation resources and renewable resources, such as solar and wind. For planning purposes, the Authority has established a reserve requirement of having available generating resources equivalent to the greater of: (i) the Authority's two largest generating units (currently Cabras Unit No. 1 and 2 at 66.0 MW (net) each) or (ii) meeting a loss of load equal to one day in 4.5 years or 5.3 hours per year. Based on this criterion and taking into account the Authority's currently planned unit retirements, the Authority expects to meet its generation reserve target during the Forecast Period.

In addition, in October 2012, the Authority began replacing existing meters with so-called “smart meters” as part of the Authority’s SmartGrid program. The new meters communicate with Authority equipment to enable the Authority to obtain better customer load information, respond quickly and precisely to outages and provide expanded information to customers on their usage allowing the Authority to make decisions on the basis of more reliable and up-to-date data. As of August 31, 2014, the Authority had completed the installation of approximately 49,000 meters.

See APPENDIX A – “CONSULTING ENGINEER’S REPORT” for a description of the Authority’s load projections, future resources, as well as historical and projected information relating to peak demand and energy sales.

## **Fuel Supply**

The Authority is responsible for providing fuel for all of its generating resources, including those owned and operated by private contractors. The facilities generally require residual fuel oil No. 6 and diesel fuel oil No. 2. Fuel cost is the most significant element of the Authority’s costs. Fuel commodity and handling costs totaled approximately \$295 million in Fiscal Year 2013, representing approximately 64% of the Authority’s total expenses in Fiscal Year 2013.

***Fuel Oil Supply Contracts.*** In general, the Authority receives approximately one tanker per month of fuel oil for generation. The Authority has approximately 90 days’ storage capacity. As a result, 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.

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 the contract expires August 31, 2015; however, the parties may mutually agree to renew the contract annually for three additional one-year terms. The minimum purchase under the contract is 2,000,000 barrels per year. For the twelve months ended September 30, 2013, the Authority took delivery of approximately 2.56 million barrels of oil under the contract at a cost of approximately \$274 million. This represents approximately 97 percent of the Authority’s usage in terms of barrels consumed.

In 2009, the Authority entered into two, three-year contracts with Isla Petroleum and Energy Holdings, LLC Guam (“IP&E”) for diesel fuel oil No. 2 to supply the Authority’s CTG units, diesel units and emergency standby generators. For the twelve months ended September 30, 2013, the Authority took delivery of approximately 87,800 barrels of fuel from IP&E at a cost of approximately \$12.9 million. The original terms of these contracts were scheduled to expire in November 2012. The Authority exercised its options to extend the terms of the contracts, however, and they are currently scheduled to expire on November 30, 2014. The Authority solicited bids for new diesel fuel contracts having in a multi-step bid process. New three-year fuel contracts with IP&E and Mobil Guam were approved by the CCU in August 2014 and are expected to be approved by the PUC in September 2014. The Authority believes that IP&E may lodge a protest regarding the new contracts, in which case the current contracts would continue on a month-to-month basis.

***Fuel Liquidity Facility.*** 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 \$23 to \$28 million to make payment 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 Australia and New Zealand Banking Group Limited (“ANZ Bank”), which has been the Authority’s fuel facility provider since 2003. The current fuel liquidity facility expires in February 2015. In August 2014 ANZ Bank and the Authority executed a facility letter setting forth the terms of the new fuel liquidity facility, which will have a term of five years, with the option to renew for three additional one year terms.

The new fuel liquidity facility is expected to be approved by the CCU in September 2014. See “FINANCIAL MATTERS—Outstanding Indebtedness—*Short-Term Debt*.”

***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. This approach consists of buying a call option (i.e., the right to purchase fuel at a set price in the future) and selling a put option (i.e., the obligation to sell fuel to the counterparty at a different, lower fixed price in the future) to exactly offset the costs of purchasing the call option to create a fuel pricing band within which there would not be a gain or loss to the Authority from the combined transactions. If the price of fuel rose above the price set in the call option, the Authority would receive from the counterparty a payment for the difference between the actual average market price for the month and the call price (with the result that the Authority’s cost of fuel which is subject to the hedging agreement would be the call price, even if the prevailing price was higher). If the price of fuel dropped below the price set in the put, the Authority would be required to pay to the counterparty the difference between the put price and the actual average market price for the month (with the result that the Authority’s cost of fuel which is subject to the hedging agreement would be the put price, even if the prevailing price was lower).

The Authority 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. The Authority is in the process of fully implementing the revised program and plans to hire a full-time staff member to handle the fuel hedging analytics and related hedging activities. The Authority is running the model daily. 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 updated 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 percent 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 has entered into International Swaps and Derivatives Association agreements with J. Aron & Company (“J. Aron”), a subsidiary of The Goldman, Sachs Group Inc., and ANZ Bank to execute the trades. 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. The Authority executed two hedging transactions in November 2013 under the new program. As of August 31, 2014, the Authority does not have any fuel hedge transactions in place.

See also “FINANCIAL MATTERS – Fuel Supply Hedges” for a discussion of some additional risks associated with the Authority’s fuel hedging program. In addition, the Authority’s cost of fuel that is not the subject of a hedging agreement fluctuates with the prevailing price of oil.

***Levelized Energy Adjustment Clause.*** The Authority is generally entitled to recover 100% of the cost of fuel and fuel-related costs in its rates through the “Levelized Energy Adjustment Clause component” (“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 (five times since 2006), the PUC has heard the petition within 30 days and granted the Authority’s request. See “—Electric Rates and Charges – Public Utilities Commission.”

***Liquefied Natural Gas Project.*** In an effort to comply with environmental regulations, the Authority began exploring alternative fuel for electric power generation. Beginning in 2011, the Authority began evaluating with the assistance of Leidos and a team of other industry experts the feasibility of using liquefied natural gas (“LNG”) on Guam as a fuel source for electric power generation. The initial study included preliminary siting, configuration and costing of a land-based LNG terminal, as well as price forecasts for LNG delivered to Guam, cost estimates for operation and maintenance of the LNG termination, regasification facilities and pipelines, conversion of units from oil-fired to natural gas-fired operation and emissions. The Authority included the results of this study when considering the potential costs, benefits and risks associated with importation and use of natural gas versus other resources options during the development of the Authority’s current Integrated Resource Plan. Based on these analyses, the Authority determined that LNG was a price competitive fuel for the Authority, even with the relatively large capital outlays, because forecasts showed that converting to LNG would provide significant price savings over the long-term and would allow the Authority to avoid significant environmental mitigation costs, currently estimated to be more than \$400 million.

The Authority is currently working with various engineering and economic consultants to evaluate converting to LNG as the Authority’s primary fuel supply and to develop a plan for implementing a conversion to LNG. Project development is still in its preliminary stages; however, the Authority currently is planning to have LNG available by 2021. Although the LNG implementation plan is still under consideration, the Authority is currently planning the construction of dual-fueled, combined cycle combustion turbine power plants to run as baseload plants, as well as the possible construction of one or more 55-60 MW pods of units prior to the construction of the LNG facility to run as peaking units burning diesel fuel, and the modification or retrofitting of some units to burn natural gas or diesel, with the Authority’s remaining units burning diesel. No assurance can be given, however, that the Authority will proceed with the development of an LNG conversion program and construction of LNG facilities. For more detailed discussions of the Authority’s potential development of LNG facilities and currently projected potential costs of the LNG project from Fiscal Year 2014 through Fiscal Year 2018, see “FINANCIAL MATTERS--Capital Improvement Program” and APPENDIX A—“CONSULTING ENGINEER’S REPORT—FUTURE RESOURCES—Liquefied Natural Gas.”

The planned conversion to LNG as the Authority’s primary fuel supply is part of the Authority’s future energy plan, which also includes the retirement of certain units, the installation of the ESS and the procurement of additional energy from renewable resources. See “—Principal Existing Resources—Transmission and Distribution” and “—Renewable Generation Resources.” The Authority currently estimates that the future energy plan, including the conversion to LNG as the Authority’s primary fuel source, represents the lowest cost option for complying with certain environmental compliance requirements (allowing the Authority to avoid approximately \$400 million in costs), and is expected to avoid up to \$15 million in annual operating costs. Based on the Authority’s discussions with USEPA and the previous interactions with the USEPA, Authority management believes that the Authority’s energy plan will be viewed favorably by the USEPA. No assurance can be given, however, that the USEPA will view the Authority’s energy plan favorably. See “OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC INDUSTRY—Air Quality Compliance” and “—Maximum Achievable Control Technology (“MACT”)” and APPENDIX A—“CONSULTING ENGINEER’S REPORT—FUTURE RESOURCES—Liquefied Natural Gas” and “—ENVIRONMENTAL CONSIDERATIONS.”

## **Power Sales to the U.S. Military; Island Wide Power System**

***Electric Service to the U.S. Military; Potential Impact of Proposed U.S. Military Build-up on Navy Power Requirements.*** The U.S. military has a significant impact on the economy of Guam through the employment of civilian personnel, through construction contracts and purchasing of material and services, and through Federal income taxes paid by military personnel which are remitted to the Government of Guam. For the Fiscal Year ended September 30, 2013, the Navy was the Authority’s largest customer, accounting for approximately 19% of the Authority’s energy sales revenues.

In 2010, the Authority, the CCU, the Navy and the Department of Defense (“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 United States military base on Okinawa, Japan. Because the specific timing of the relocation and corresponding increase in military electricity requirements is uncertain, the load forecast prepared by Leidos and the Consulting Engineer’s Report do not include any increases in loads relating to the

proposed U.S. military build-up on Guam, and there can be no assurance that any increasing usage will occur within the Forecast Period. In the load forecast prepared by Leidos in July 2014, energy sales to the Navy from Fiscal Year 2014 to Fiscal Year 2018 are projected to increase approximately 1.8 percent, or at an annual rate of 0.5 percent. See APPENDIX A - “CONSULTING ENGINEER’S REPORT—POWER REQUIREMENTS—GPA’s Energy and Capacity Loads.”

***U.S. Military Energy Sales.*** Energy sales to the Navy for Fiscal Years 2009 through 2013 accounted for approximately 20.5% (5-year average) of the Authority’s total annual energy sales during the same period. Revenues generated from sales to the Navy during the same period accounted for 19.1% (5-year average) of the Authority’s total annual revenues during the same period. Energy sales to the Navy decreased from 359,251 MWh in Fiscal Year 2009 to 348,151 MWh in Fiscal Year 2013, an average annual decrease of 0.8%. Although total revenues during the same period fluctuated, total revenues from the Navy in Fiscal Year 2009 and Fiscal Year 2013 were approximately \$77.5 million. The Authority projects that energy sales to the Navy should generate approximately 18.9% of the total revenues of the Authority during each of the Fiscal Years 2014 through 2018.

***Island Wide Power System.*** Historically, the Authority’s power supply requirements have been supplied from generating facilities owned and operated by the Authority, generating facilities owned and operated by the Navy and generating facilities owned by the Navy and operated by the Authority. The major generating assets of the Navy and the Authority constitute the Island Wide Power System (“IWPS”). Beginning in 1972 there has been a gradual transition, consolidating all of the IWPS ownership and operating responsibilities with the Authority, and in Fiscal Year 2013, less than 2.8% of the Authority’s energy came from Navy-owned resources. This transition has been accomplished through three major agreements between the Navy and the Authority: the Power Pooling Agreement, entered into in 1972 (the “Power Pool Agreement”), the Customer Agreement and the Utility Service Contract described below.

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

***Customer Agreement.*** In July 1989, the Authority and the Navy entered into the Guam Power Authority Utility Service Contract (the “Customer Agreement”), which provided for the termination of the Power Pool Agreement and was in effect from August 1992 until July 2012. Under the Customer Agreement, the Authority became increasingly more responsible for operational control of the IWPS, while the Navy transitioned to a transmission-level (wholesale) customer of the Authority, with the Authority transmitting electricity to Navy facilities, and the Navy distributing the electricity so delivered through its individual facilities. The Customer Agreement also provided for the transfer of certain Navy generation, transmission and distribution assets (collectively, “system assets”) to the Authority and assigned certain responsibilities to the Authority for providing electric capacity and energy to the Navy and other DoD facilities on Guam.

The Customer Agreement included operational, management and financial criteria to be met by the Authority to effect the transfer of Navy assets, as well as set forth financial provisions, including the manner in which the Navy payments to the Authority were to be calculated.

***Utility Services Contract.*** On July 31, 2012, the Authority, the 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, which 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, maintains the Authority 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), continues the asset transfers under the terms and conditions previously set forth in the Customer Services Agreement and 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.

Financial terms include the Navy continuing to make weekly fuel payments, maintaining a minimum contract demand (but eliminating maximum limits), and requirements that the Navy pay within fifteen 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.

***Lease Agreement.*** On September 15, 1996, the Navy and the Authority entered into a lease agreement (the "Lease Agreement") providing for the transfer to the Authority of responsibility for the operation, maintenance and custody of certain Navy-owned, joint-use, electric power generation facilities. The Lease Agreement was developed to transfer certain assets, prior to completion of environmental remediation at all of the locations involved, which is the responsibility of the Navy, and has a maximum term of 50 years.

See APPENDIX A – "CONSULTING ENGINEER'S REPORT" for a detailed discussion of the current status of the transfer of Navy assets to the Authority.

### **Civilian Energy Sales**

From Fiscal Year 2009 through Fiscal Year 2013, civilian energy sales, including the residential, small commercial and large commercial customer classes, constituted approximately 79.5% and 80.9% (5-year averages) of the Authority's total energy sales and revenues, respectively. During the same period, civilian energy sales decreased at a compounded rate of 0.9% and revenues from civilian energy sales grew at a compounded annual rate of 3.0%. For Fiscal Years 2014 through 2018, civilian load demands are expected to decline at an average annual rate of 0.4%.

A significant portion of the Authority's energy sales are to governmental entities. Historically, certain of these 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 July 2013, the last of these past due balances was paid off. Since 2003, these governmental entities have remained current their on-going bills, and as of August 31, 2014, the Authority had no outstanding long-term receivables from any governmental entities.

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## Top Ten Customers

Table 3 below sets forth the Authority's ten largest customers by energy sales revenues for Fiscal Year 2013.

**Table 3**  
**Largest Customers**  
**Fiscal Year 2013**

<u>Customer</u>	<u>Energy Sales (KWh)</u>	<u>Energy Sales Revenues</u>
U.S. Navy	348,150,857	\$ 82,869,609
Guam Waterworks Authority	52,910,075	17,484,463
Department of Education	41,093,786	14,215,521
Guam International Airport Authority	22,356,154	7,633,155
Goodwin Development Corporation	17,245,560	5,451,242
Department of Public Works	14,102,295	8,000,137
Guam Hilton Hotel	11,512,000	3,443,529
University of Guam	11,506,399	3,861,979
Hyatt Regency Guam	11,200,000	3,163,510
Onward Beach Resort Guam	10,538,680	3,176,792
Total	540,615,806	\$ 149,299,937
 % of Authority Total (Annual Basis)	 34.6%	 34.1%

*Source: Guam Power Authority*

## Electric Rates and Charges - Public Utilities Commission

Rates for electric service are established by CCU, which acts as the Authority's Board of Directors, and 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 Indentures. In addition, in approving rates for the Authority, the PUC also takes into account rates necessary to satisfy the PUC's target debt service coverage level of 1.75 times, as calculated in accordance with the Senior Indenture. The Act provides, however, that the debt service coverage ratio used in the Authority's rate covenants shall not exceed an amount approved by the Governor and shall be the debt service coverage ratio used by the PUC, together with other appropriate factors, in setting rates. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Senior Bonds—Rate Covenant" and "—Subordinate Bonds—Rate Covenant."

Since 1995, the Authority has petitioned the PUC seven times for base rate increases. The PUC has always granted at least a portion of the Authority's request (except for the petition in 1995) and enabled the Authority to satisfy the rate covenants and debt service coverage requirements required under both of the Indentures. Table 4 below shows for Fiscal Years 2008 through 2014 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 4**  
**Historical Base Rate Increases**  
**(Fiscal Years 2008-2014)**

<b>Effective Date of Base Rate Increases</b>	<b>Requested Base Rate Increase</b>	<b>Approved Base Rate Increase</b>	<b>Principal Reason for Base Rate Increase</b>
March 1, 2008 <sup>(1)</sup>	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.
October 1, 2012	0.00%	0.00%	Emergency rates with reclassification of customers impacted by switch to demand billing.
December 1, 2012	-6.00%	-6.00%	“Rollback” of base rate increase received in May 2012-totaling \$9.1 million. This was to compensate ratepayers for the debt service savings gained from the 2012 bond issuance. The “rollback” was in effect only 10 months.
October 1, 2013	7.30%	6.00%	Base rate increase to cover reductions in load and rising costs.

<sup>(1)</sup> 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”). The 2011 Multi-Year Base Rate Relief Filing also requested, among other things, raising the cap on the Authority’s Self-Insurance Fund to \$20,000,000, increasing the Authority’s liquidity to 60 days’ cash on hand and implementing a quarterly LEAC true-up process. The 2011 Multi-Year Base Rate Relief Filing also included requests for rate classification adjustments and creation of new rate classes and surcharges. The PUC approved some aspects of the 2011 Multi-Year Base Rate Relief Filing, but deferred others. See “—Fuel Supply—*Levelized Energy Adjustment Clause*,” “—Insurance; Self-Insurance Fund,” and “—Liquidity and Working Capital Fund.”

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 on the order 7.3 percent. 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. The Authority also requested the ability to charge reconnection fees and adoption of a “net metering tariff.” On September 24, 2013, the PUC issued its rate decision approving an overall 6 percent base rate increase, effective as of October 1, 2013. The PUC also authorized the Authority to set a reconnection fee for smart meters, but did not approve the proposed net metering tariff. See “—Competition.”

As discussed above, the rates charged by the Authority include the LEAC component to offset the cost of fuel. As of August 31, 2014, the LEAC charge is \$0.181670 kWh. Since 2001, there have been 30 adjustments to the LEAC. See “—Fuel Supply—*Levelized Energy Adjustment Clause*” and APPENDIX A—CONSULTING ENGINEER’S REPORT—Fuel Oil Supply—LEAC.”

As discussed below, the rates charged by the Authority include a surcharge to fund the Authority’s Self-Insurance Fund. As of August 31, 2014, the Self-Insurance Fund surcharge is \$0.00290 per kWh for civilian rate classes and \$0.00070 per kWh for the Navy. See “—Insurance; Self-Insurance Fund.”

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 GWA’s

water wells and wastewater facilities. As of August 31, 2014, the Emergency Water Well and Wastewater surcharge is \$0.00279 per kWh.

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. The effective date of the initial Working Capital Fund Surcharge was April 2, 2012. 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 Working Capital Fund Surcharge is subject to adjustment every six months to enable the Authority to recover increases or decreases in its required Working Capital Fund balance caused by fuel price changes. Any further adjustments to rates for the Working Capital Fund Surcharge would be subject to CCU and PUC approval. For Fiscal Year 2014, the Working Capital Fund Surcharge for civilian customers is 0.00466 cent/kWh and \$110,374 per month for the Navy. See "FINANCIAL MATTERS—Liquidity and Working Capital Fund" and APPENDIX A - "CONSULTING ENGINEER'S REPORT - Historical and Projected Operating Results."

Table 5 below sets forth the various components of the charges for a residential customer using 1,000 kilowatt hours (kWh) of energy in a month.

**Table 5**  
**Representative Monthly Charges for Residential Customer**  
**Fiscal Year 2014**

	<u>Unit Cost</u>	<u>Monthly Cost</u>
Fixed Monthly Charge	\$11.00	\$11.00
Non-Fuel Energy Charge		
First 500 kWh (per kWh)	\$0.05579	\$27.90
Over 500 kWh (per kWh)	\$0.09335	\$46.68
Emergency Water-Well Charge (over 500 kWh) <sup>(1)</sup>	\$0.00279	\$1.40
Self-Insurance Surcharge (per kWh) <sup>(2)</sup>	\$0.00290	\$2.90
Working Capital Surcharge (per kWh)	\$0.00466	\$4.66
Subtotal (not including LEAC)		<u>\$94.53</u>
LEAC (per kWh) <sup>(3)</sup>	\$0.176441	\$176.44
Total		<u><u>\$270.97</u></u>

<sup>(1)</sup> A charge approved by PUC to recover the cost associated with the financing, operation and maintenance of standby electric generators dedicated to GWA's water wells and wastewater facilities.

<sup>(2)</sup> Implemented until self-insurance funding is restored to authorized minimum level.

<sup>(3)</sup> Effective for the six-month period commencing on August 1, 2014.

Source: Guam Power Authority

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Set forth in Table 6 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. See “Electric Bill Comparisons” in APPENDIX A.

**Table 6**  
**Monthly Electric Bills**  
**As of May 1, 2014**

	<b>Residential</b> <b>(1,000 kWh)</b>	<b>Commercial</b> <b>(25 kW, 16,000</b> <b>kWh)</b>	<b>Large</b> <b>Customer/Industrial</b> <b>(300 kW, 200,000</b> <b>kWh)</b>
GPA <sup>(1)</sup>	\$262.85	\$4,852.78	\$56,882.64
The Barbados Light & Power Co., Ltd. <sup>(2)</sup>	360.45	5,628.66	67,298.07
Commonwealth Utility Corp. (Saipan)	379.66	7,022.16	87,662.00
Hawaii Electric Light Co., Inc.	378.52	4,288.78	63,896.80
Kauai Island Utility Cooperative	358.01	5,387.59	84,795.78
Maui Electric Company, Ltd.	368.35	5,616.41	67,110.80
Virgin Islands Water and Power Authority	\$591.34	\$10,353.75	\$119,308.31

<sup>(1)</sup> Rates effective October 1, 2013.

<sup>(2)</sup> Converted to U.S. Dollars using foreign exchange rates as of May 8, 2014. Rates include value added taxes (“VAT”).

Source: Consulting Engineer’s Report

### Capital Improvement Program

As part of its planning process, the Authority has prepared a projection of the capital requirements and related costs for its electric system, which is summarized in the Consulting Engineer’s Report. The Authority’s capital improvement program (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 the potential construction of a LNG terminal and related facilities and 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, including the potential LNG project, which is still under consideration.

The Authority currently projects the expenditure of approximately \$861 million on its Capital Improvement Program from Fiscal Year 2014 through Fiscal Year 2018, which amount includes costs associated with the potential LNG project currently being considered by the Authority; however, 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 Bonds previously issued by the Authority, proceeds of the 2014A Senior Bonds, proceeds of Additional Senior Bonds expected to be issued in Fiscal Year 2016 through Fiscal Year 2018 (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 and in the Consulting Engineer’s Report does not include the cost of capital improvements directly related to increasing U.S. military presence resulting from the relocation of certain naval facilities to Guam. The Authority currently intends that any such capital improvement costs would be paid by the U.S. military (whether through direct capital contributions or through energy price increases sufficient to pay debt service on any bonds issued by or on behalf of the Authority to fund such costs), and such costs are, therefore, not reflected in the capital improvement program or in the Projected Operating Results.

Table 7 below, excerpted from the Consulting Engineer’s Report, sets forth the allocation of projected Capital Improvement Program project costs among (i) transmission system additions and improvements, (ii)

distribution system additions and improvements, (iii) substation system additions and improvements, (iv) generation plant additions and improvements (non-LNG), (v) generation plant improvements and replacements (non-LNG), (vi) LNG facilities, plant conversions and new generation, and (vii) other projects, as well as the projected sources of funding for such Capital Improvement Program projects.

See APPENDIX A - “CONSULTING ENGINEER’S REPORT – FUTURE RESOURCES—Liquefied Natural Gas (“LNG”)” and “FINANCIAL—Capital Requirements” and “—Historical and Projected Operating Results.”

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**Table 7**  
**Projected Capital Improvement Program**  
**Fiscal Years 2012-2018**  
**(\$000)**

	Historical		Projected <sup>(1)</sup>					Five-Year Total
Fiscal Year Ending September 30:	2012	2013	2014	2015	2016	2017	2018	
Capital Improvements:								
Transmission System Additions and Improvements	\$6,493	\$29,805	\$1,640	\$11,771	\$25,255	\$56,494	\$54,268	\$149,428
Distribution System Additions and Improvements	11,571	3,556	18,563	5,392	6,383	6,139	41,028	77,505
Substation System Additions and Improvements	1,220	0	8,193	8,259	16,594	17,556	13,897	64,498
Generation Plant Additions and Improvements, non-LNG	9,971	16,421	34,137	31,164	20,697	36,138	14,676	136,811
General Plant Improvements and Replacements, non-LNG	11,656	5,935	7,363	10,038	10,711	11,430	12,197	51,740
LNG Facilities, Plant Conversions, and New Generation	0	0	0	3,475	90,839	153,643	86,376	334,334
Other <sup>(2)</sup>	5,426	684	33,200	450	0	0	13,017	46,667
Total Capital Improvement Program	\$46,337	\$56,399	\$103,096	\$70,549	\$170,479	\$281,400	\$235,459	\$860,983
Amounts Funded from:								
Prior Bond Proceeds <sup>(3)</sup>	\$20,542	\$23,502	\$69,734	\$8,785	\$0	\$0	\$0	\$78,519
Current Revenues <sup>(4)</sup>	18,587	17,128	12,416	15,430	16,465	17,569	18,748	80,627
External-Developer Contribution	0	0	1,943	0	2,147	8,340	8,640	21,069
Proceeds of 2014 Bonds	0	0	19,004	29,421	20,163	412	0	69,000
Proceeds of Current/Future Bonds <sup>(5)</sup>	0	0	0	3,475	90,839	181,441	153,616	429,372
Self-Insurance, Grants, Contributions from Outside Sources	7,208	15,770	0	13,438	40,866	73,638	54,456	182,397
Total	\$46,337	\$56,399	\$103,096	\$70,549	\$170,479	\$281,400	\$235,459	\$860,983

<sup>(1)</sup> Inflated dollars based on an assumed annual rate of escalation specific to Capital Improvements Program items on Guam of 3.6 percent.

<sup>(2)</sup> Includes expenditures for new office building in Fadian, security, information technology ("IT") upgrades, Dededo facility expansion and Agana renovation.

<sup>(3)</sup> Reflects remaining bond proceeds from the Authority's prior bond issues.

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

<sup>(5)</sup> Assumed to be provided from proceeds of the 2014A Senior Bonds and Additional Senior Bonds to be issued between Fiscal Year 2016 and Fiscal Year 2018 in the aggregate principal amount of \$862 million, which includes certain funds for capital expenditures and capitalized interest costs which will occur beyond the study period.

## **Employment and Labor Relations**

As of September 30, 2013, the Authority had approximately 524 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**

The Government of Guam Retirement Fund (the "Retirement Fund") provides retirement annuities and other payments to retired Government employees, including employees of the Authority, and their dependents. Employees hired before September 30, 1995 are members of the Government of Guam Employees Retirement System, a defined benefit pension plan (the "DB Plan"), and employees hired after September 30, 1995 are members of the new Defined Contribution Retirement System (the "DC Plan"). The DB Plan and the DC Plan are administered by the Government of Guam Retirement Fund (the "GGRF"). The GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. As of September 30, 2013, there were a total of 15,468 members in the DB Plan and 7,885 active employees under the DC Plan. As of September 30, 2013, 351 Authority employees were members of the DB Plan and 173 Authority employees were members of the DC Plan.

The DB Plan is a cost-sharing multiple-employer 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, and may be amended, by the GGRF.

Based on the Government of Guam Retirement Fund Actuarial Valuation as of September 30, 2013, which was issued on May 6, 2014 (the "2013 Valuation"), at September 30, 2013 the DB Plan had an actuarial accrued liability of approximately \$2.855 billion, with an unfunded actuarial accrued liability of approximately \$1.442 billion.

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 2031. 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. Based on the information provided in the 2013 Valuation and in prior valuations, the actuarial employer contribution rates for the fiscal years ended September 30, 2014, 2013, 2012 and 2011 were 33.03%, 30.76%, 30.09% and 28.06%, respectively, of covered payroll.

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. For the Fiscal Years ended September 30, 2013, 2012 and 2011, employers, including the Authority, funded lower statutory contribution rates of 30.09%, 28.30% and 27.46%, respectively, of covered payroll, based in part on Section 3 of Public Law No. 28-150, which provides that the employer contribution rate to the Retirement Fund are to increase over a five-year period, beginning with Fiscal Year 2007, until it reaches the actuarial recommended contribution rate. The contribution rate for Fiscal Year 2011 was further reduced to 21.44% for the period from June 4, 2011 to September 30, 2011 for most Government agencies. Statutory employee contribution rates for the DB Plan were 9.50% in each such Fiscal Year. During the Fiscal Years ended September 30, 2013, 2012 and 2011, the Authority made contributions to the DB Plan in the amounts of \$3,311,501, \$3,142,095, and \$3,001,267, respectively, which amounts were equal to the required contributions for those years.

For the Fiscal Year ending September 30, 2014, the Legislature of Guam has adopted statutory employer and employee contribution rates of 30.09% and 9.5%, respectively. Based on the information provided in the 2013 Valuation, the actuarial employer contribution rate for the DB Plan the Fiscal Year ending September 30, 2015 is 29.85%.

Contributions to the DC 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 annuity account within the DC Plan. The statutory employer contribution rate for the DC Plan for the years ended September 30, 2013, 2012 and 2011 were determined using the same employer statutory contribution rates as the DB Plan. Of such amounts contributed by the employers under the DC Plan, only an amount equal to 5% of the DC Plan member's regular base pay is deposited into the member's individual annuity account; the remaining amount 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.

For the years ended September 30, 2013, 2012 and 2011, the Authority made contributions to the DC Plan in the amounts of \$5,052,969, \$4,576,734 and \$4,141,724, respectively.

See APPENDIX B – “FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS’ REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012,” Note 8.

### **Other Post-Employment Benefits**

The Government makes certain annual expenditures for certain postretirement healthcare benefits (“OPEBs”) to retirees who are members of the GGRF. 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 ended September 30, 2013, the OPEB unfunded actuarial accrued liability for the Government was approximately \$2.08 billion.

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.

For the years ended September 30, 2013, 2012 and 2011, the Authority made contributions in the amounts of \$2,748,420, \$2,797,254 and \$2,757,587, respectively, to reimburse the Government for the OPEB costs of the Authority's retirees.

See APPENDIX B – “FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS’ REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012,” Note 8.

### **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 for 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. Most the Authority's current insurance policies will expire on November 1, 2016, at which time it is expected the Authority will renew or re-bid them. The aggregate of the premiums for the current year is \$6.137 million.

The Authority maintains a self-insurance fund (the “Self-Insurance Fund”) upon which the Authority is authorized to draw from the Self-Insurance fund 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 August 31,

2014, the balance in the Self-Insurance Fund was approximately \$16.6 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. Provided the Authority does not incur any additional self-insurance losses or apply funds in the Self-Insurance Fund to other costs and energy sales occur at currently projected rates, the Authority expects that the balance of the Self-Insurance Fund will reach \$20 million by the end of Fiscal Year 2015. See “—Electric Rates and Charges—Public Utilities Commission” and “APPENDIX A—“REPORT OF THE CONSULTING ENGINEER—Self-Insurance Assessment.”

## **Environmental Matters**

As described in the Consulting Engineer’s Report, all of the Authority’s generating plants and associated facilities must comply with federal environmental laws and regulations. In addition, local Guam environmental regulations are also applicable. Certain legal and financial liabilities may be associated with regulatory requirements. The Federal Clean Water Act and Clean Air Act are the two most significant environmental statutes affecting the Authority’s operations. Some aspects of these programs are administered by the United States Environmental Protection Agency (“USEPA”) and some are administered by the Guam Environmental Protection Agency (“Guam EPA”). The USEPA administers permits of wastewater discharges and new sources of air admissions 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 United States and, consequently, does not apply to Guam. Guam EPA is responsible for administration of the island’s operating permit program for air pollution sources including all of the Authority’s power plants. The Authority must also comply with the provisions of the Oil Pollution Act of 1990 and the Toxic Substances Control Act (“TSCA”) as well as other laws and regulations.

As described in the Consulting Engineer’s Report, the Authority reports that it has received only two Notices of Violation (“NOV”) with regard to environmental compliance issues, which have been satisfactorily resolved with the regulatory agencies and are discussed in detail in the Consulting Engineer’s Report. 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 NOVs. In addition, the Consulting Engineer’s Report describes an alternate control strategy fuel switching program, which the Authority uses in connection with an exemption from the New Source Performance Standards regulating sulfur dioxide emissions from steam electric generating facilities and the prohibition on intermittent control of air pollutants.

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 “OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC INDUSTRY—Air Quality Compliance,” “—Maximum Achievable Control Technology (“MACT”),” “—Greenhouse Gas (“GHG”) Regulations,” “—Clean Power Act,” “—Water Quality Compliance,” “—Spill Prevention Control and Countermeasures Plan” and “—Hazardous Substances and Wastes” and APPENDIX A—“CONSULTING ENGINEER’S REPORT—Environmental Considerations.” See also “BONDHOLDERS RISKS—Environmental Issues.”

## **Potential Impact of Natural Disasters**

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

In December 1997, Typhoon Paka struck Guam, damaging the Authority’s facilities. Within two months, service had been restored to virtually all of the Authority’s customers. The Authority’s facilities sustained damages in excess of \$50 million (excluding lost revenues), a significant portion of which was funded from federal and local

disaster relief and emergency funds. In 2002, two other major typhoons struck Guam, causing approximately \$38.5 million in damages (excluding lost revenues) to the Authority's facilities.

The Authority has taken certain measures over the past decade to make its system more resistant to typhoons and earthquakes. These include its ongoing program to replace wooden electric utility poles with concrete poles that are more resistant to high winds; the undergrounding of certain transmission and distribution lines; the use of concrete buildings to house its permanently installed generating units; and the installation of 128 standby diesel generators (of which 122 are currently in use) and 12 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 August 31, 2014, approximately 60% of the System's load is served through underground infrastructure; 29 miles (4.5%) of primary lines are underground; and approximately 80% of distribution poles are made of concrete.

In addition, 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 underground major power lines which connected certain significant generating facilities and substations and others which served certain significant customers of the Authority, including major hotels, Guam Memorial Hospital, Guam International Airport and certain major malls and shops. In addition to these projects, the U.S. military constructed an underground line between Andersen Air Force Base and the Dededo Combustion Turbine Plant.

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.

## **Competition**

The Authority is currently the only retail provider of electricity in Guam. The Authority believes that the potential for retail competition is reduced due to a number of factors specific to Guam. Currently, bulk storage is available solely for fuel oil, with only limited facilities for other fuel. Consequently, there is less risk that a competitor could use an alternative, less expensive fuel to provide service to the Authority's customers at a lower cost. In terms of facilities siting, the physical site for any competitor would most likely need to be on the western (leeward) side of the island because of environmental permit requirements relating to emissions. Few, if any, such sites are currently available with access to fuel and proximity to large loads. A competitor not in proximity to sufficient load to sell its output would need to rely upon the Authority for transmission service. Environmental permitting requirements and existing transmission facilities further limit the siting options available. Other than the Department of Education and the Navy, which is a party to a long-term customer agreement with the Authority, there is no one load greater than 10.0 MW. It would therefore be difficult for a potential competitor to aggregate sufficient load to justify an economically sized facility.

Customers may develop self-generation options, however, such as by installing individual solar panels. As of August 31, 2014, approximately 183 customers have installed individual solar panels, providing approximately 1.4 MW. 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 (approximately 183 as of August 31, 2014), however, the Authority estimates the annual impact to be less than one percent (1%) of its operating revenues. As part of its Fiscal Year 2014 Base Rate filing, the Authority requested approval of a "net metering" charge intended to ensure appropriate recovery of costs for providing secondary and back-up power. Although the PUC did not approve the Authority's request to implement a "net metering" surcharge, the existing net metering tariff requires that the PUC revisit the program once the number of net metering customers exceeds 1,000. The Authority has also submitted a petition to the PUC to revisit its overall rate structure to ensure that rates adequately reflect the Authority's cost structure. See APPENDIX A—*"CONSULTING ENGINEER'S REPORT—POWER REQUIREMENTS—GPA's Energy and Capacity Loads—Projected Load Growth FY 2014-2018."*

## **FINANCIAL MATTERS**

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

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

Table 8 below, excerpted from the Consulting Engineer's Report, shows historical customers, energy sales, peak demand and Revenues for Fiscal Years 2009 through 2013 and projected customers, energy sales, peak demand and Revenues for Fiscal Years 2014 through 2018.

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**Table 8**  
**Historical and Projected Customers,**  
**Energy Sales, Peak Demand and Revenues**

<b>Fiscal Year Ending September 30:</b>	<b>Historical</b>					<b>Projected</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Number of Customers (Average)										
Residential	39,863	40,633	41,255	41,612	41,708	41,925	42,283	42,642	43,103	43,616
Small Commercial	4,629	4,663	4,679	4,879	4,907	4,953	4,966	4,955	4,947	4,939
Large Commercial	169	172	173	176	149	145	140	140	139	138
Auxiliary/Standby and Indep. Power Prod. <sup>(1)</sup>	0	1	1	0	3	3	0	0	0	0
Government and Outdoor Lighting	1,826	1,863	1,862	1,851	1,830	1,871	1,921	1,945	1,965	1,979
Navy	1	1	1	1	1	1	1	1	1	1
<b>Total Customers</b>	<b>46,490</b>	<b>47,333</b>	<b>47,972</b>	<b>48,519</b>	<b>48,598</b>	<b>48,897</b>	<b>49,312</b>	<b>49,683</b>	<b>50,156</b>	<b>50,674</b>
Energy Requirements (MWh):										
Energy Sales										
Residential	471,385	486,962	487,230	459,499	462,163	453,570	441,455	442,655	442,128	442,362
Small Commercial	263,440	265,653	258,861	253,895	265,607	263,750	257,548	256,728	254,287	251,141
Large Commercial	323,331	308,457	303,595	306,985	298,732	297,451	311,925	313,854	312,197	310,114
Auxiliary/Standby and Indep. Power Prod.	0	3,584	4,090	0	639	765	0	0	0	0
Government and Outdoor Lighting	206,976	211,488	206,017	199,385	191,118	186,419	185,301	185,310	184,238	183,230
Total Civilian Energy Sales	1,265,132	1,276,143	1,259,793	1,219,764	1,218,259	1,201,955	1,196,229	1,198,546	1,192,849	1,186,847
Total Navy Energy Sales	359,251	361,518	358,017	343,711	348,151	332,656	343,076	343,353	341,106	338,755
Total Energy Sales	1,624,383	1,637,662	1,617,810	1,563,475	1,566,410	1,534,611	1,539,305	1,541,900	1,533,955	1,525,602
System Losses <sup>(2), (3)</sup>	127,249	117,416	113,275	117,269	103,038	101,284	101,594	101,765	101,241	100,690
Total System Energy Requirements <sup>(4)</sup>	1,751,632	1,755,078	1,731,085	1,680,744	1,669,448	1,635,895	1,640,899	1,643,665	1,635,196	1,626,292
Peak Demand (MW) <sup>(5)</sup>	268	272	263	258	257	251	250	250	250	250
Base Rate and LEAC Revenues (000's) <sup>(6)</sup>										
Residential	\$103,487	\$101,157	\$111,560	\$119,859	\$121,785	\$120,305	\$119,492	\$119,726	\$115,742	\$116,591
Small Commercial	67,685	65,684	70,174	75,870	81,773	80,909	79,481	79,074	76,090	75,563
Large Commercial	77,802	70,783	75,613	86,039	85,947	85,179	90,855	91,242	88,005	87,908
Auxiliary/Standby and Indep. Power Prod.	0	890	1,099	0	208	238	0	0	0	0
Government and Outdoor Lighting	55,400	54,957	58,654	63,056	62,544	60,517	61,645	61,584	59,663	59,649
Navy	81,098	68,576	71,893	85,026	82,817	78,962	85,304	84,845	81,278	81,255
Total Base Rate and LEAC Revenues	\$385,472	\$362,048	\$388,992	\$429,850	\$435,074	\$426,109	\$436,777	\$436,471	\$420,777	\$420,965
Water Well Surcharge Revenues	\$2,532	\$2,842	\$2,883	\$2,774	\$2,758	\$2,687	\$2,688	\$2,782	\$2,767	\$2,750
Self-Insurance Fund Surcharge Revenues	3,847	3,774	3,905	3,741	3,721	3,719	3,710	3,720	3,700	3,680
Working Capital Surcharge Revenues				5,488	11,198	6,926	6,852	807	777	729
Total Rate Revenues	\$391,851	\$368,664	\$395,780	\$441,853	\$452,751	\$439,440	\$450,027	\$443,781	\$428,021	\$428,124
Usage/Customer-w/Navy and Lighting (kWh)	34,941	34,599	33,724	32,224	32,232	31,384	31,216	31,035	30,584	30,106
Usage/Customer-w/o Navy and Lighting (kWh)	23,692	23,415	22,854	21,865	21,963	21,595	21,332	21,225	20,930	20,611
Usage/Residential Customer/Month (kWh)	985	999	984	920	923	902	870	865	855	845

[FOOTNOTES ON FOLLOWING PAGE.]

- (1) In 2011, the auxiliary/standby customer moved to Schedule P, Large Power Service. Currently there are three customers classified in the “Independent Power Producer” class.
- (2) Includes transmission losses and Authority distribution losses.
- (3) System losses are assumed to be 5.9 percent for the period Fiscal Year 2014 through Fiscal Year 2018, reflecting the reduction in losses due to advanced meter infrastructure implementation and other Smart Grid investments. Historical System losses have averaged 6.3% the last five years.
- (4) Reflects total net generation excluding station use.
- (5) Reflects total gross peak demand.
- (6) Fiscal Year 2014 is based on actual results through March 2014 and reflects estimates for April through September 2014 based on current rate schedules effective October 1, 2013. Projections for Fiscal Year 2014-2018 are based on projected energy sales with rate schedules effective as of October 1, 2013. No future rate increases have been incorporated into the projections for this table. Projected revenues include estimated Working Capital Fund surcharge and LEAC rates. The fuel component of these projected rates was estimated by the Consulting Engineer. More information about these rates is available in APPENDIX A—“CONSULTING ENGINEER’S REPORT—FINANCIAL – Electric Rates.” The projected sales reflect the estimated adjustments for the full implementation of the Authority’s Smart Grid program by Fiscal Year 2015.

### **Historical and Projected Costs of the Authority’s Power Supply**

Table 9 below, excerpted from the Consulting Engineer’s Report, shows historical costs of the Authority’s power supply for Fiscal Years 2009 through 2013 and projected costs of the Authority’s power supply for Fiscal Years 2014 through 2018. As shown below, the cost of fuel is the largest component of the Authority’s costs. See “THE GUAM ELECTRIC POWER SYSTEM - Fuel Supply” for a discussion of the Authority’s fuel supply program.

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**Table 9**  
**Historical and Projected Costs of the Authority's Power Supply**  
**(\$000)**

Fiscal Year Ending September 30:	Historical					Projected <sup>(1)</sup>				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GPA Operated Resources <sup>(2)</sup>										
Fuel Oil Costs <sup>(3)</sup>	\$112,155	\$117,415	\$141,638	\$189,390	\$176,536	\$158,418	\$165,892	\$160,759	\$145,167	\$131,711
Other Production Expenses	24,631	23,670	20,840	24,991	22,009	20,214	24,019	24,611	25,127	25,073
Subtotal	\$136,786	\$141,085	\$162,477	\$214,381	\$198,545	\$178,632	\$189,911	\$185,370	\$170,294	\$156,785
IPP Operated Resources										
Fuel Oil Costs <sup>(3)</sup>	\$79,251	\$94,264	\$105,171	\$110,974	\$110,613	\$105,465	\$98,922	\$98,890	\$97,362	\$97,174
Lease Payments—Energy Conversion Costs	19,181	19,484	19,705	19,937	20,264	19,776	15,269	15,720	16,182	17,741
Lease Payments—Debt Service	23,084	23,084	23,084	23,084	23,084	23,084	23,878	20,789	20,789	18,885
Renewable Power Contract Costs	0	0	0	0	0	0	7,262	12,398	14,981	15,400
Subtotal	\$121,516	\$136,832	\$147,960	\$153,996	\$153,962	\$148,325	\$145,330	\$147,797	\$149,315	\$149,200
New Combined Cycle										
Fuel Oil Costs <sup>(3)</sup>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$93	\$14,269
Other Production Expenses	0	0	0	0	0	0	0	0	0	1,320
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$93	\$15,589
Fuel Handling/Adjustments	\$62,965	\$8,182	(\$3,098)	(\$11,762)	\$8,317	\$8,317	\$8,499	\$8,333	\$7,787	\$7,804
Total Cost of Power	\$321,268	\$286,099	\$307,340	\$356,614	\$360,824	\$335,275	\$343,741	\$341,500	\$327,489	\$329,378
GPA Energy Sales (GWh)	1,624	1,638	1,618	1,563	1,566	1,535	1,539	1,542	1,534	1,526
Average Production Cost of Energy Sold (cents/kWh)	19.78	17.47	19.00	22.81	23.04	21.85	22.33	22.15	21.35	21.59
Total Production Cost, Less IPP Debt Service	\$298,184	\$263,015	\$284,256	\$333,530	\$337,740	\$312,190	\$319,862	\$320,711	\$306,699	\$310,493

<sup>(1)</sup> Assumes economic dispatch of the generating units. Projected fuel and other production costs estimated by the Consulting Engineer.

<sup>(2)</sup> Includes all costs of generation, excluding Authority debt service.

<sup>(3)</sup> Fiscal Year 2014 fuel costs assumed to be based on an average LEAC rate of \$0.177374 per kWh. As of Fiscal Year 2015, a greater percentage of fuel costs are attributable to Authority operated resources due to the reduction in usage of IPP operated resources.

## Outstanding Indebtedness

**Outstanding Bonds.** As of the date of delivery of the 2014A Bonds, the Senior Bonds will be outstanding in the aggregate principal amount of \$567,480,000\* (after taking into account the issuance of the 2014A Senior Bonds), and the Subordinate Bonds will be outstanding in the aggregate principal amount of \$27,300,000. The debt service requirements with respect to the Senior Bonds and the Subordinate Bonds are set forth in “DEBT SERVICE REQUIREMENTS.”

**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 \$23 to \$28 million to make payment for fuel deliveries in such month, and then reimburses the provider in the same month. Any letter of credit issued under the 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 February 2015. In August 2014 ANZ Bank and the Authority executed a facility letter setting forth the terms of the new fuel liquidity facility, which will have a term of five years, with the option to renew for three additional one year terms. The new fuel liquidity facility is expected to be approved by the CCU in September 2014. See “THE GUAM ELECTRIC POWER SYSTEM—Fuel Supply—Fuel Liquidity Facility.”

**Certain Payments Pursuant to Energy Capital Leases.** As described in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Energy Capital Leases,” the Authority has entered into the Piti Capital Leases with respect to three units constructed, owned and operated by the Independent Power Producers and the Tanguisson Capital Lease with respect to two units refurbished, managed and operated by a contractor. Ownership of Piti units will revert to the Authority at no cost of the end of the respective terms of the Piti Capital Leases, currently scheduled to occur in December 2017 with respect to Piti Unit No. 7 and January 2019 with respect to Piti Unit Nos. 8 and 9. The Tanguisson Capital Lease is currently scheduled to expire in August 2017; however, the Authority is currently in negotiations to terminate the Tanguisson Capital Lease prior to its scheduled expiration date. If the Authority terminates the Tanguisson Capital Lease prior to its scheduled expiration date, the Authority will be required to pay a termination fee, the amount of which is currently undetermined. In the Authority’s forecast, it has assumed a \$3.1 million payment to the Independent Power Producer under the Tanguisson Capital Lease (which amount the counterparty disputes) for early termination based on the Authority’s current estimation of contract termination penalties; however, additional termination penalties may be determined. If the Authority is unable to reach agreement with respect to the early termination of the Tanguisson Capital Lease, Authority management believes such occurrence will not have a material impact on the Authority’s financial condition or operations. The Authority’s payments under the Energy Capital Leases 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” and “—Subordinate Bonds—Security for the Subordinate Bonds.” As of August 31, 2014, the aggregate amount of the remaining capital payments under the Energy Capital Leases is approximately \$74.4 million. The final capital payment under the Energy Capital Leases is scheduled to occur in Fiscal Year 2019. See “THE GUAM ELECTRIC POWER SYSTEM—Principal Existing Resources—Contract Generation Units Privately Owned and Operated,” “FINANCIAL MATTERS—Outstanding Indebtedness—Certain Payments Pursuant to Power Contracts,” Tables 10 and 11 under “CONSULTING ENGINEER’S REPORT—Historical and Projected Operating Results” and APPENDIX B – “FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS’ REPORT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012,” Note 7.

## Financial Contracts and Investments

The Authority has entered into the Natixis Reserve Investment Agreement for the investment of the amounts in the Senior Bond Reserve Fund allocable to the 2010 Senior Bonds and to the 2012 Senior Bonds, which

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\* Preliminary, subject to change.

is scheduled to terminate on October 1, 2015. NFC's obligations under the Natixis Reserve Investment Agreement are guaranteed by Natixis. After a downgrade of Natixis's credit rating to below the required rating level, NFC posted collateral as provided under the Natixis Reserve Investment Agreement.

Approximately \$13.7 million of the Senior Bond Reserve Fund allocable to the Series 2012 Senior Bonds is invested pursuant to the BofA Forward Delivery Agreement, which 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 a 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 August 31, 2014, the Authority had approximately \$32.8 million of unrestricted reserves, including \$17.1 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. In addition, the Authority also maintains \$35 million bank facility, currently with ANZ Bank, for intra-month fuel payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Senior Bonds—Security for the Senior Bonds" and "—Subordinate Bonds—Security for the Subordinate Bonds" and "THE GUAM ELECTRIC POWER SYSTEM—Fuel Supply—Fuel Liquidity Facility" and "--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 1/12<sup>th</sup> 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 2014, the amount required to be on deposit in the Working Capital Fund is \$34.9 million. Over the past few years, the Authority has taken actions to help minimize the impact of fluctuations in fuel prices on the Authority's working capital, including, among other things, implementing a Working Capital Fund Surcharge and increasing the frequency of interim petitions for LEAC adjustments. 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. To provide substantial working capital funds and to mitigate the impact on its ratepayers, however, the Authority deposited to the Working Capital Fund \$27.5 million from the proceeds of the 2010 Subordinate Bonds and imposed the Working Capital Fund Surcharge at a level approximately equal to pay, over the then-remaining term of the 2010 Subordinate Bonds, debt service on the portion of the 2010 Subordinate Bonds used to fund the Working Capital Fund deposit. In April 2012, a stipulation was entered into by the Authority, the PUC and the Navy requiring that the Working Capital Fund was to be fully funded in the amount of \$33 million by Fiscal Year 2013. As of September 30, 2013, the balance of the Working Capital Fund was \$29.5 million; however, the Authority held an additional \$17.7 million in unrestricted cash. The Working Capital Fund Surcharge is subject to adjustment every six months to enable the Authority to recover increases or decreases in its required Working Capital Fund balance caused by fuel price changes. The Authority expects to deposit approximately \$4.5 million of the proceeds of the 2014A Senior Bonds to the Working Capital Fund to reimburse the payment of amounts used in 2014 to pay certain 2014 Project costs. See "PLAN OF FINANCE," "THE 2014 PROJECTS" and "ESTIMATED SOURCES AND USES OF FUNDS."

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. Each time the Authority has petitioned for such an interim adjustment, the PUC has generally heard the petition within 30 days and granted the Authority's request. Despite the Authority's ability to petition the PUC for interim LEAC adjustments, periods of significant volatility may still result in fluctuations in the Authority's working capital and liquidity. See "THE GUAM ELECTRIC POWER SYSTEM—Fuel Supply—*Levelized Energy Adjustment Clause*" and "—Electric Rates and Charges – Public Utilities Commission" and "BONDHOLDER RISKS – Risks Relating to Fuel."

## **Fuel Supply Hedges**

As discussed above, the Authority has previously entered into financial arrangements intended to mitigate volatility in the price of fuel and is in the process of fully implementing its revised fuel hedging program. See "THE GUAM ELECTRIC POWER SYSTEM—Fuel Supply—*Fuel Risk Management Program*" for a discussion of the Authority's fuel risk hedging program.

As part of the new fuel hedging program, the Authority entered into International Swaps and Derivatives Association agreements with J. Aron and ANZ Bank to execute the trades under the fuel hedging program. As of August 31, 2014, Goldman Sachs Group Inc., as the guarantor of J. Aron's obligations under its fuel hedging agreement, was rated "Baa1," "A-" and "A" and ANZ Bank was rated "Aa2," "AA-" and "AA-," respectively, by Moody's, S&P and Fitch. No assurance can be given, however, any of such ratings will remain in effect.

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. For example, during a period in 2009, as a result of significant declines in the prevailing price of oil, the market value of the Authority's fuel hedging transactions was at one point negative by approximately \$67.2 million (i.e., since the prevailing price of oil was below the price established in the hedging arrangements). Some of the Authority's counterparties elected at their discretion not to require the Authority to post the full amount of collateral contractually required, and the Authority posted collateral of approximately \$21 million. The Authority has not had any margin or collateral calls since 2009.

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 would only be 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.

### **PROSPECTIVE FINANCIAL INFORMATION**

The Authority does not, as a matter of course, make public projections as to future sales, earnings, or other results. However, the Consulting Engineer has prepared the prospective financial information set forth in Tables 9 and 11 to provide projected energy sales and revenues, costs of power supply and operating results and debt service coverage. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Authority's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to management's knowledge and belief, the expected course of action and the expected future financial performance of the Authority. However, this information is not fact and should not be relied upon as being necessarily indicative of future results. Readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information. Neither the Authority's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information. The assumptions and estimates underlying the prospective financial information are inherently uncertain and, though considered reasonable by Authority management as of the date of preparation, are subject to a wide variety of significant business and economic, risks and uncertainties that could cause actual results to differ materially from those contained in the prospective financial information, including, among others, risks and uncertainties as set forth in the Consulting Engineer's Report. Accordingly, there can be no assurance that the prospective results are indicative of the future performance of the Authority or that actual results will not differ materially from those presented in the prospective financial information. Inclusion of the prospective financial information in this Official Statement should not be regarded as a representation by any person that the results contained in the prospective financial information will be achieved.

### **CONSULTING ENGINEER'S REPORT**

The Consulting Engineer has been retained on a non-contingent basis to prepare the Consulting Engineer's Report for inclusion in this Official Statement as APPENDIX A. The Consulting Engineer's Report includes, among other things, a description of the facilities of and an evaluation of the condition of the System, projected operating results and debt service coverage for the Authority for the Forecast Period, a description of the Authority's compliance with federal and Guam environmental laws and regulations and a comparison of the Authority's monthly electric bills for selected customer loads and bills charged by other similarly situated electric utilities dependent on oil-fired generation and sets forth the information and assumptions upon which the forecasts and the findings of the Consulting Engineer's Report are based. Certain information concerning the Authority and the Authority's System in this Official Statement has been excerpted from the Consulting Engineer's Report.

As described in the Consulting Engineer's Report, Leidos and its predecessor firms have provided consulting and engineering services to the Authority since the 1970s across a broad range of service areas, including load forecasting, power supply planning, environmental, regulatory and financing support activities. Recent activities include services relating to renewable resource procurement, resource planning, LNG feasibility analysis, rate and regulatory efforts, load forecasting, DMS program analysis, reciprocating engine life extension and improvement assessment, SmartGrid implementation, customer care and billing system and implementation and energy service provider consulting services. See APPENDIX A—"CONSULTING ENGINEER'S REPORT."

### **Historical and Projected Operating Results**

The Consulting Engineer's Report presents a variety of historical and projected operational and financial information relating to the Authority. As described in the Consulting Engineer's Report, the projections are based on a variety of assumptions, which were provided by, or reviewed and approved by, the Authority. As noted in the Consulting Engineer's Report, any forecast is subject to uncertainties. Some of the assumptions used to develop the projections will not be realized, and unanticipated events and circumstances could occur. There are, therefore, likely

to be differences between the projections and the actual results, and those differences may be material. See APPENDIX A – “CONSULTING ENGINEER’S REPORT.”

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

Tables 10 and 11 below setting forth the Authority’s historical operating results and debt service coverages for Fiscal Years 2009 through 2013 and projected operating results and debt service coverages for Fiscal Years 2014 through 2018 have been excerpted from the Consulting Engineer’s Report. The Consulting Engineer’s Report must be read in its entirety for a description of the information set forth in the table, the underlying assumptions, as well as the various factors taken into account for purposes of preparing the projections. See “PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS” in APPENDIX A – “CONSULTING ENGINEER’S REPORT.”

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**Table 10**  
**Historical Operating Results and Debt Service Coverage (Cash Basis)**  
**Fiscal Years 2009 through 2013**  
**(\$000)**

<b>Fiscal Year Ending September 30:</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Operating Revenues:					
Energy Sales Revenues	\$388,004	\$364,890	\$391,875	\$438,112	\$449,029
Additional Revenue from Future Rate Increases	0	0	0	0	0
Other Electric Revenues	1,521	1,449	2,606	1,916	2,927
Total Operating Revenues	\$389,525	\$366,339	\$394,481	\$440,027	\$451,956
Operating Expenses:					
Power Supply Costs <sup>(1)</sup>	\$298,184	\$263,015	\$284,256	\$333,530	\$337,746
Transmission and Distribution Expenses	11,141	11,228	12,241	12,717	13,368
Bad Debt Expense	577	672	943	1,355	1,223
Customer Accounting <sup>(2)</sup>	3,242	3,404	3,511	3,676	3,878
Administrative and General	26,682	27,584	30,432	31,378	31,589
Total Operating Expenses	\$339,826	\$305,903	\$331,382	\$382,655	\$387,805
Amounts Available for Debt Service					
Net Operating Revenues	\$49,699	\$60,436	\$63,099	\$57,372	\$64,151
Interest/Other Income (Expense) <sup>(3)</sup>	(55)	242	5,925	1,113	720
Balance Available for Debt Service	\$49,644	\$60,679	\$69,024	\$58,484	\$64,872
Senior Lien Debt Service <sup>(4)</sup>					
Existing Senior Lien Debt Service	\$27,482	\$27,483	\$27,484	\$27,483	\$19,306
2014 Bonds	0	0	0	0	0
Future Bonds <sup>(5)</sup>	0	0	0	0	0
Total Senior Lien Debt Service	\$27,482	\$27,483	\$27,484	\$27,483	\$19,306
Senior Lien Coverage Pursuant to the Senior Indenture <sup>(6)</sup>	1.81	2.21	2.51	2.13	3.36
IPP Operated Resources – Lease Payments Capital	\$23,084	\$23,084	\$23,084	\$23,084	\$23,084
Balance Available for Debt Service	\$26,560	\$37,595	\$45,940	\$35,400	\$41,787
Coverage of Senior Lien Debt by Balance Available for Debt Service after paying IPP Capital <sup>(7)</sup>	0.97	1.37	1.67	1.29	2.16
Amount Available After Senior Lien Debt and IPP Capital	(\$922)	\$10,112	\$18,457	\$7,917	\$22,481
Subordinate Lien Debt Service <sup>(4)</sup>					
2010 Subordinate Bonds	\$0	\$398	\$7,242	\$15,934	\$15,163
Subordinate Lien Coverage Pursuant to the Subordinate Indenture <sup>(7)</sup>	n/a	2.18	1.99	1.35	1.88
Subordinate Lien Coverage after paying IPP Capital <sup>(7)</sup>	n/a	1.35	1.32	0.82	1.21
Total Debt Service Coverage after paying IPP Capital <sup>(7)</sup>	0.97	1.35	1.32	0.82	1.21
Amount Available After Senior and Subordinate after IPP	(\$922)	\$9,714	\$11,215	(\$8,017)	\$7,319

<b>Fiscal Year Ending September 30:</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Sources/(Uses) of Cash Margins					
Changes in Assets/Liabilities	\$11,283	(\$4,691)	(\$996)	\$18,041	\$11,198
Construction Fund Interest Earned	661	553	728	1,364	1,209
Forward Delivery Agreement Termination	0	0	0	0	(3,574)
Deposits to Escrow Fund	0	0	0	0	(8,782)
Capital related financing activities, Grants and External	7,247	98	383	2,582	6,079
Bond Proceeds	0	0	0	0	11,799
Misc. Activities	0	0	5,174	0	0
Subtotal Sources/(Uses) of Cash <sup>(8)</sup>	\$19,191	(\$4,040)	\$5,289	\$21,987	\$17,929
Remaining Available for Capital Improvements	\$18,269	\$5,673	\$16,504	\$13,970	\$25,248
Capital Improvement Program:					
Amount Funded from Bond Construction Funds	2,684	2,287	1,843	20,541	23,502
Amount Funded from Current Revenues	\$11,312	\$7,699	\$11,986	\$18,587	\$17,128
Amount Funded from Grants <sup>(9)</sup>	3,621	98	1,319	7,208	11,142
Amount Funded from Self Insurance	0	0	0	0	4,628
Amount Funded from Other External Sources	0	0	0	0	0
Total from Revenue and External Sources	\$14,933	\$7,797	\$13,305	\$25,795	\$32,897
Total Capital Improvements	\$17,617	\$10,084	\$15,148	\$46,336	\$56,399
Remaining Balance Available	\$3,336	(\$2,123)	\$3,199	(\$11,825)	(\$7,649)
Energy Sales (MWh)	1,624,383	1,637,662	1,617,810	1,563,475	1,566,410
Cost of Power per kWh of Energy Sold(cents/kWh)	20.9	18.7	20.5	24.5	24.8
Unit Revenue from Energy Sales (cents/kWh)	24.0	22.4	24.4	28.1	28.9
Unit Revenue from Energy Sales, Excluding Fuel (cents/kWh)	8.32	8.94	9.32	9.69	9.99
Increase in Unit Revenue from Energy Sales, Excl. Fuel Over Previous Year (percent)	1.5%	7.5%	4.2%	3.9%	3.2%

<sup>(1)</sup> Excludes capital component of lease payments under the Energy Capital Leases. These amounts are reflected in "IPP Operated Resources—Lease Payments Capital."

<sup>(2)</sup> Includes bad debt recovery or expense.

<sup>(3)</sup> Includes interest earned on investments less Construction Fund interest/deferred interest earned.

<sup>(4)</sup> Amounts shown reflect interest payments paid through the capitalized interest account through Fiscal Year 2013 for the 2010 Senior Bonds and Fiscal Year 2011 for the 2010 Subordinate Bonds.

<sup>(5)</sup> Excludes debt service on Commercial Paper Notes which were converted to a term loan in April 2009. Reflects capitalized interest paid from 2010 Senior Bonds through Fiscal Year 2013.

<sup>(6)</sup> Calculated based on a net revenue basis. Excludes capital component of lease payments under the Energy Capital Leases. These amounts are reflected in "IPP Operated Resources—Lease Payments Capital."

<sup>(7)</sup> Calculated based on a net revenue basis.

<sup>(8)</sup> Reflects estimated annual cash flows for each category of activity based on historical operating results and Authority projections. Includes monies received related to grants, contributions from customers/project developers, and other external sources for capital improvements.

<sup>(9)</sup> The level of grant funding reflects Department of Energy contributions for smart grid.

**Table 11**  
**Projected Operating Results and Debt Service Coverage (Cash Basis)**  
**Fiscal Years 2014 through 2018**  
**(\$000)**

<b>Fiscal Year Ending September 30:</b>	<b>Projected<sup>(1)</sup></b>				
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Operating Revenues:					
Energy Sales Revenues <sup>(2)</sup>	\$437,114	\$447,904	\$441,763	\$426,016	\$426,132
Additional Revenue from Future Rate Increases <sup>(3)</sup>	0	0	0	0	0
Other Electric Revenues	3,030	3,140	3,250	3,370	3,490
Total Operating Revenues	\$440,144	\$451,044	\$445,013	\$429,386	\$429,622
Operating Expenses:					
Power Supply Costs <sup>(4)</sup>	\$312,190	\$319,862	\$320,711	\$306,699	\$310,493
Transmission and Distribution Expenses <sup>(5)</sup>	12,417	12,968	13,318	13,684	14,060
Bad Debt Expense	1,360	1,350	1,330	1,280	1,280
Customer Accounting <sup>(5), (6)</sup>	4,168	3,910	3,779	3,873	3,969
Administrative and General <sup>(5)</sup>	34,396	35,052	36,469	37,948	39,491
Total Operating Expenses	\$364,531	\$373,142	\$375,607	\$363,484	\$369,293
Amounts Available for Debt Service					
Net Operating Revenues	\$75,612	\$77,901	\$69,406	\$65,902	\$60,329
Interest/Other Income (Expense) <sup>(7)</sup>	1,514	1,573	1,544	1,473	1,479
Balance Available for Debt Service	\$77,126	\$79,474	\$70,950	\$67,376	\$61,808
Senior Lien Debt Service <sup>(8)</sup>					
Existing Senior Lien Debt Service <sup>(9)</sup>	\$25,454	\$25,096	\$25,097	\$25,449	\$25,085
2014A Senior Bonds <sup>(10)</sup>	0	0	10	5,084	5,083
Future Bonds <sup>(11)</sup>	0	0	0	0	0
Total Senior Lien Debt Service	\$25,454	\$25,096	\$25,108	\$30,532	\$30,168
Senior Lien Coverage Pursuant to the Senior Indenture <sup>(12)</sup>	3.03	3.17	2.83	2.21	2.05
IPP Operated Resources – Lease Payments Capital	\$23,084	\$23,878	\$20,789	\$20,789	\$18,885
Balance Available for Debt Service	\$54,042	\$55,595	\$50,161	\$46,586	\$42,923
Coverage of Senior Lien Debt by Balance Available for Debt Service after paying IPP Capital <sup>(13)</sup>	2.12	2.22	2.00	1.53	1.42
Amount Available After Senior Lien Debt and IPP Capital	\$28,588	\$30,500	\$25,053	\$16,054	\$12,755
Subordinate Lien Debt Service <sup>(14)</sup>					
2010 Subordinate Bonds	\$15,193	\$9,603	\$0	\$0	\$0
Subordinate Lien Coverage Pursuant to the Subordinate Indenture <sup>(13)</sup>	1.90	2.29	n/a	n/a	n/a
Subordinate Lien Coverage after paying IPP Capital <sup>(13)</sup>	1.33	1.60	n/a	n/a	n/a
Total Debt Service Coverage after paying IPP Capital <sup>(13)</sup>	1.33	1.60	2.00	1.53	1.42
Amount Available After Senior and Subordinate after IPP	\$13,395	\$20,897	\$25,053	\$16,054	\$12,755

Sources/(Uses) of Cash Margins					
Changes in Assets/Liabilities	\$1,092	(\$1,761)	(\$1,463)	(\$218)	(\$1,120)
Construction Fund Interest Earned	212	124	2,029	472	3,741
Forward Delivery Agreement Termination	0	0	0	0	0
Deposits to Escrow Fund	0	0	0	0	0
Capital related financing activities, Grants and External	1,943	13,438	43,012	81,977	63,095
Bond Proceeds	0	5,614	0	0	0
Misc. Activities	0	0	0	0	0
Subtotal Sources/(Uses) of Cash <sup>(15)</sup>	<u>\$3,247</u>	<u>\$17,415</u>	<u>\$43,579</u>	<u>\$82,232</u>	<u>\$65,716</u>
Future Working Capital Fund Surplus/(Shortage)	(837)	(699)	(187)	0	(481)
Remaining Available for Capital Improvements	\$15,804	\$37,612	\$68,445	\$98,285	\$77,991
Capital Improvement Program:					
Amount Funded from Bond Construction Funds	\$88,738	\$41,681	\$111,002	\$181,853	\$153,616
Amount Funded from Current Revenues	12,416	15,430	16,465	17,569	18,748
Amount Funded from Grants <sup>(16)</sup>	0	0	0	0	0
Amount Funded from Self Insurance	0	0	0	0	0
Amount Funded from Other External Sources	1,943	13,438	43,012	81,977	63,095
Total from Revenue and External Sources	<u>\$14,358</u>	<u>\$28,868</u>	<u>\$59,477</u>	<u>\$99,547</u>	<u>\$81,843</u>
Total Capital Improvements	\$103,096	\$70,549	\$170,479	\$281,400	\$235,459
Remaining Balance Available	<u>\$1,446</u>	<u>\$8,745</u>	<u>\$8,968</u>	<u>(\$1,261)</u>	<u>(\$3,853)</u>
Energy Sales (MWh)	1,534,611	1,539,305	1,541,900	1,533,955	1,525,602
Cost of Power per kWh of Energy Sold(cents/kWh)	23.8	24.2	24.4	23.7	24.2
Unit Revenue from Energy Sales (cents/kWh)	28.7	29.3	28.9	28.0	28.2
Unit Revenue from Energy Sales, Excluding Fuel (cents/kWh)	10.9	11.1	10.7	10.7	10.7
Increase in Unit Revenue from Energy Sales, Excl. Fuel Over Previous Year (percent)	9.5%	1.2%	-3.6%	0.1%	0.1%

<sup>(1)</sup> The projected fuel and production costs were estimated by the Consulting Engineer. The Consulting Engineer forecasted fuel prices using the Leidos Q2 2014 Henry Hub Gas price forecast and the January 2014 World Bank Commodities Price Forecast for crude oil in conjunction with certain market based assumptions and transportation cost assumptions to estimate delivered commodity prices for Guam through 2018. Leidos expects delivered commodity prices to average \$30.29 per MMBtu for number 2 fuel oil, \$16.12 per MMBtu for number 6 high sulfur fuel oil, and \$15.17 per MMBtu for LNG in nominal terms.

<sup>(2)</sup> Projections for Fiscal Years 2014 through 2018 are based on projected energy sales with anticipated rate schedules effective October 1, 2013 and previous PUC-approved rate changes occurring between Fiscal Year 2014 and Fiscal Year 2017. Projected revenues include estimated Working Capital Fund Surcharge and LEAC rates. The fuel component of these projected rates was estimated by the Consulting Engineer. More information about these rates is available in APPENDIX A—"CONSULTING ENGINEER'S REPORT—FINANCIAL – Electric Rates."

<sup>(3)</sup> For Fiscal Years 2014 through 2018, no additional base rate increases are projected.

<sup>(4)</sup> See Table 15 in APPENDIX A—"CONSULTING ENGINEER'S REPORT." Excludes capital component of lease payments under the Energy Capital Leases. These amounts are reflected in "IPP Operated Resources—Lease Payments Capital."

<sup>(5)</sup> For Fiscal Year 2014 based on actual amounts and budgeted amounts. For Fiscal Years 2015 through 2018, projections are based on the Authority's estimates.

<sup>(6)</sup> Includes bad debt recovery or expense.

<sup>(7)</sup> Includes interest earned on investments less Construction Fund interest/deferred interest earned.

<sup>(8)</sup> Amounts shown reflect interest payments paid through the capitalized interest reserve fund to September 30, 2016 for the 2014A Senior Bonds.

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

<sup>(10)</sup> Amounts shown reflect interest payments paid through the capitalized interest account to September 30, 2016 for the 2014A Senior Bonds.

<sup>(11)</sup> Assumes future Senior Bonds are issued in Fiscal Year 2015 in the amount of \$298 million and \$531 million in Fiscal Year 2018. The Consulting Engineer assumes there will be interest paid through the capitalized interest account through the end of the study period and no principal payment due before the end of the study period.

<sup>(12)</sup> Calculated based on a net revenue basis. Excludes capital component of lease payments under the Energy Capital Leases. These amounts are reflected in "IPP Operated Resources—Lease Payments Capital."

<sup>(13)</sup> Calculated based on a net revenue basis.

<sup>(14)</sup> For Fiscal Year 2015, reflects application of proceeds from Subordinate Bond Reserve Fund of approximately \$5.6 million to the payment of final maturity of the outstanding 2010 Subordinate Bonds.

<sup>(15)</sup> Reflects estimated annual cash flows for each category of activity based on historical operating results and Authority projections. Includes monies received related to grants, contributions from customers/project developers, and other external sources for capital improvements.

<sup>(16)</sup> The level of grant funding reflects Department of Energy contributions for smart grid.

## **OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC UTILITY INDUSTRY**

### **Energy Policy Act of 1992**

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

The Authority believes that the potential for retail competition is reduced due to a number of factors specific to Guam, and, therefore, the requirements of EPAAct 1992 will not materially adversely affect its operations.

### **Energy Policy Act of 2005**

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

It expands FERC’s jurisdiction to require open access transmission of municipal utilities that sell more than four million megawatt hours of energy and to order refunds under certain circumstances for municipal utilities that sell more than eight million megawatt hours of energy. The Authority is not able to predict when, if ever, its sales of electricity would reach eight million megawatt hours. See “THE GUAM POWER AUTHORITY – General.” Additionally, EPAAct 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”).

EPAAct 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. EPAAct 2005 also requires the creation of an electric reliability organization to establish and enforce, under FERC supervision, mandatory reliability standards to increase system reliability and to minimize blackouts. FERC has designated the North American Electric Reliability Corporation as such electric reliability organization. Failure to comply with such mandatory reliability standards exposes a utility such as the Authority to significant fines and penalties by the North American Electric Reliability Corporation.

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

Because of its unique circumstances, the Authority does not believe that EPAct 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 (“SO<sub>2</sub>”), and nitrogen oxide (“NO<sub>x</sub>”). 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 USEPA to be effective. The Guam EPA has adopted a State Implementation Plan, which was approved by 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 (known as “attainment areas”), areas that do not meet the NAAQS (known as “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 new 1-hour SO<sub>2</sub> 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 United States as non-attainment areas and that the 2010 SO<sub>2</sub> NAAQS nonattainment designations for Guam would be addressed in a separate future action. As of August 31, 2014, the USEPA had not yet taken any such action. If the Authority were to build new generation facilities or sufficiently modify existing generation facilities within a designated non-attainment area, the costs of constructing, permitting and operating such facilities may increase significantly. For a more detailed discussion regarding the Authority’s compliance with NAAQS requirements, see APPENDIX A—“CONSULTING ENGINEER’S REPORT—ENVIRONMENTAL CONSIDERATIONS—Compliance Issues” and “—Permitting of New Plant Facilities.”

The CAA also establishes a permit program (known as 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 Guam EPA.

The Authority’s power plants are subject to the Title V operating permit program under the CAA. The Title V permits for the Authority’s generating plants at Cabras, Dededo, Macheche, Manenggon, Marbo, Tenjo, Talofoto and Yigo 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 expects 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 permits have been extended, the Authority is continuing to operate under the 2009 Title V permits. The Authority does not anticipate more stringent requirements under the new Title V permits and does not expect any issues with renewal of the Title V permits. Although the Authority believes that is generally in compliance with the provisions of its 2009 Title V permits, the Authority has not always conducted required visible emissions observations and has not always timely submitted certain reports. The Authority is currently in discussions with the Guam EPA to discuss modifying certain requirements as part of the permit renewal process. For a more detailed discussion regarding 2009 Title V operating permit requirements and the Authority’s compliance with the 2009 Title

V operating permits, see APPENDIX A—“CONSULTING ENGINEER’S REPORT—ENVIRONMENTAL CONSIDERATIONS—Compliance Issues” and “—Compliance Issues—*Clean Air Act*.”

The Title V operating permits for the Tanguisson and Piti units have been obtained by the Independent Power Producers.

### **Maximum Achievable Control Technology (“MACT”)**

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, USEPA promulgated amendments to the NSPS for PM, SO<sub>2</sub>, and NO<sub>x</sub> contained in the standards of performance for coal- and oil-fired electric utility steam generating units (“EGUs”). Subsequently, a lawsuit was filed against 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 United States 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 EGU’s 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, 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, Talofoto and Tenjo, Cabras Unit Nos. 3 and 4 and Piti 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 Unit Nos. 3 and 4 and Piti Unit Nos. 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 Unit Nos. 3 and 4 and Piti Unit Nos. 8 and 9, and these units have been out of compliance since May 2013. 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 Unit Nos. 3 and 4 and Piti Unit Nos. 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, 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, SO<sub>2</sub> and NO<sub>x</sub>. 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 SO<sub>2</sub> (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, SO<sub>2</sub>, and NO<sub>x</sub>, by establishing revised numerical emission limits for these. These standards apply to EGUs that burn fossil fuel to produce steam.

The Authority’s Cabras and Tanguisson facilities are subject to the MATS, and the deadline for compliance by the Authority is April 2015, unless an extension is granted. The Authority expects to comply with these requirements through installing new units, the retirement of certain units and the conversion to 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 Nos. 1 and 2 without installation of emission controls required under MATS, until such time as the Authority is ready to retire the units. No assurance can be given, however, that the USEPA will issue a comprehensive consent decree permitting the Authority to continue running the units without installing the required emission controls or that an extension for compliance will be granted. In addition, although the Authority is currently expecting to deactivate Tanguisson Unit Nos. 1 and 2 upon the early termination of the Tanguisson Capital Lease, the Authority is considering keeping Tanguisson Unit Nos. 1 and 2 in a cold standby mode, which may result in additional compliance costs.

For a more detailed discussion regarding the Authority’s compliance with RICE MACT and MATS regulations, see APPENDIX A—“CONSULTING ENGINEER’S REPORT—ENVIRONMENTAL CONSIDERATIONS—Compliance Issues—Clean Air Act.”

### **Greenhouse Gas (“GHG”) 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 GHGs 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. 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 GHG 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 permits program would be subject to Title V 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 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 said 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 the 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 was 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 United States 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 EPA 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 percent from 2005 level. Under the proposed regulations, the EPA is proposing state-specific goals for reducing CO<sub>2</sub> 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. The proposed regulations did not include emissions standards for U.S. Territories, and the EPA expects to issue supplemental proposed regulations in the fall of 2014 addressing power plants in U.S. Territories. Because the proposed regulations do not include guidelines for Guam and have not been finalized, no assurance can be given as to the regulatory or financial impact of the proposed regulations on the Authority or its operations.

### **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 United States (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), in 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 Tanguisson 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 reports that there were no findings during the April 2012 inspection at Tanguisson. The USEPA did provide a compliance inspection report for the April 2012 inspection at Cabras. 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.

Section 316(a) of the CWA allows USEPA to impose alternative effluent limitations for the control of the thermal component of a discharge (in other words, 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 USEPA for reconsideration. As a result, on April 20, 2011, 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 percent 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 Authority is currently conducting entrainment and impingement studies at Cabras. The Authority’s currently planned conversion at Cabras to combined cycle units and the planned retirement of existing Cabras units over the next several years likely will impact which measures are selected by the Authority. The Authority will be required to be in compliance with the rule by January 31, 2018; however, the Authority may be able to request a five year extension.

See APPENDIX A—“CONSULTING ENGINEER’S REPORT—ENVIRONMENTAL CONSIDERATIONS—Compliance Issues—Clean Water Act and Oil Pollution Prevention” and “--Section 316(b) of the Clean Water Act.”

Other than as described above and in Consulting Engineer’s Report, the Authority is in compliance with CWA regulations (NPDES permits, Drinking Water Act program, Oil Pollution Act (FRP and operations manual), and SPCC regulations).

### **Spill Prevention Control and Countermeasures Plan**

Under the authority of Section 311 of the CWA, 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 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 new 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 required SPCC Plans are up-to-date, all required FRPs are in place and all plans are being implemented in accordance with USEPA regulations. There have been no reportable spills at any Authority plants during the last three years.

## **Hazardous Substances and Wastes**

The Authority's operations may be regulated or impacted by various federal laws, 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. CERCLA, on the other hand, also imposes strict liability to certain potentially responsible parties for damages and remedial action related to contamination caused by hazardous substances. Under CERCLA liability, which is strict, joint and several, can be imposed on any generator of hazardous substances who 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 Toxic Substances Control Act, 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 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 Congress concerning United States energy policies and various environmental matters, including those related to energy supplies, global warming and water quality. Many of these bills, if enacted into law, could have a material impact on the Authority.

## **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 2014A 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 2014A Senior Bonds prior to purchasing any 2014A Senior Bonds. The following discussion of investment considerations does not necessarily reflect the relative importance of the various topics discussed. The 2014A 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 2014A Senior Bonds and should confer with their legal and financial advisors before considering a purchase of the 2014A Senior Bonds. Prospective purchasers of the 2014A 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 2014A 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 2014A Senior Bonds.

## **General**

The principal of and interest on the 2014A Senior Bonds are payable pursuant to the Indenture solely from the Revenues. The ability to pay debt service on the 2014A Senior Bonds will depend on the receipt of sufficient Revenues, pledged as payment for the 2014A 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 2014A Senior Bonds may be adversely affected. See APPENDIX B – "General Information Regarding the Territory of Guam," for more information about the tourism industry and the U.S. military presence.

## **Limitations on Remedies**

Under certain circumstances, Holders of the 2014A 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 2014A 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 2014A Senior Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2014A 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 D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES—The Senior Indenture."

## **Consulting Engineer's Report**

The Consulting Engineer's Report included as APPENDIX A to this Official Statement contains certain assumptions and forecasts. Actual results are likely to differ, perhaps materially, from those projected. Accordingly, the projections contained in the Consulting Engineer's Report are not necessarily indicative of future performance, and neither the Consulting Engineer nor the Authority assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the Authority are subject to change. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Revenues may be materially less than expected and consequently, the ability to make timely payments of principal and interest on the 2014A Senior Bonds from Revenues may be materially adversely affected. See APPENDIX A – "CONSULTING ENGINEER'S REPORT."

This Official Statement, including particularly the Consulting Engineer's Report, contains statements relating to future results that are "forward-looking statements." When used in this Official Statement, the words "estimate," "anticipate," "intend," "expect," "project" and similar expressions identify forward-looking statements.

Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements.

### **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 2014A 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 2014A Senior Bonds may be materially and adversely affected.

### **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 “THE GUAM ELECTRIC POWER SYSTEM – Fuel Supply,” fuel commodity and handling costs accounted for approximately 64 percent of the Authority’s total expenses in Fiscal Year 2013. 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.

### **Impact of Tourism**

The Authority's ability to generate Revenues depends in large measure on the local economy, which is heavily dependent on tourism. Tourism, particularly from Japan, where approximately 68 percent of visitors to Guam in Fiscal Year 2013 originated, represents a significant share of the economic activity on Guam. A decrease in tourism results in reduced revenues from hotels and other related tourist facilities. In the event of a significant downturn in tourism, including a downturn related to Japanese economic conditions, the Authority could likely suffer a reduction in revenues. 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 7.3% 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 or other visitor markets as a result of other natural disasters or other economic, political or societal conditions.

### **Adverse Conditions Affecting International Economic and Political Conditions**

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

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

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

### **Natural Disasters**

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

### **Self-Insurance and Legal Proceedings**

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

### **Government Regulation**

The federal and local governments significantly regulate the operations of the Authority. Regulations and conditions affecting the acquisition, development, ownership and operation of the System could increase the operating expenses of the System or could otherwise have a material adverse effect on the financial condition of the Authority.

## **Utility Regulation**

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

## **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 few 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. In April 2012, a stipulation was entered into by the Authority, the PUC and the Navy requiring that the Working Capital Fund was to be fully funded in the amount of \$33 million by Fiscal Year 2013. As of September 30, 2013, the balance of the Working Capital Fund was \$29.5 million; however, the Authority held an additional \$14 million in unrestricted cash. As of August 31, 2014, the balance in the Working Capital Fund was approximately \$17.1 million. 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 United States 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 "THE GUAM ELECTRIC POWER SYSTEM - Environmental Matters" and APPENDIX A – "CONSULTING ENGINEER'S REPORT."

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 "OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC UTILITY INDUSTRY" and "THE GUAM ELECTRIC POWER SYSTEM - 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 "THE GUAM ELECTRIC POWER SYSTEM - Environmental Matters" and APPENDIX A – "CONSULTING ENGINEER'S REPORT."

### **Implementation of Capital Improvement Program**

The costs of the Authority's Capital Improvement Program for Fiscal Year 2014 through Fiscal Year 2018 are currently estimated to total approximately \$833 million, which includes expenditures related to the potential LNG 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 the 2014A 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.

## LITIGATION

At the time of delivery of the 2014A 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 2014A 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 2014A Senior Bonds or the Senior Indenture. The Attorney General will deliver an opinion to the effect that the legislation approving the issuance of the 2014A 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. Under the Guam Government Claims Act, the Authority has six months to respond to the claimants, and if the claimants are unsatisfied with the Authority's response, the claimants may bring suit in the Superior Court of Guam. The Authority believes that these claims are without merit and intends to vigorously defend against these claims. Although the Authority expects that it will ultimately prevail with respect to these claims, the Authority cannot predict the timing of any resolution or the eventual outcomes with respect to these claims.

## 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 2014A 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 2014A Senior Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is 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 2014A 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. A complete copy of the proposed form of Bond Counsel's opinion in respect of the 2014A Senior Bonds is set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the 2014A Senior Bonds is less than the amount to be paid at maturity of such 2014A Senior Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2014A 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 2014A 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 2014A Senior Bonds is the first price at which a substantial amount of such maturity of the 2014A 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 2014A Senior Bonds accrues daily over the term to maturity of such 2014A 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 2014A Senior Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2014A Senior Bonds. Beneficial owners of the 2014A Senior Bonds should consult their tax advisors with respect to the tax consequences of ownership of 2014A Senior Bonds with original issue discount,

including the treatment of beneficial owners who do not purchase such 2014A Senior Bonds in the original offering to the public at the first price at which a substantial amount of such 2014A Senior Bonds is sold to the public.

2014A 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 2014A 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 2014A 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 2014A Senior Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2014A 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 2014A Senior Bonds may adversely affect the value of, or the tax status of interest on, the 2014A 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 2014A 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 2014A 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 2014A 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. For example, Representative Dave Camp, Chair of the House Ways and Means Committee released draft legislation that would subject interest on the 2014A Senior Bonds to a federal income tax at an effective rate of 10% or more for individuals, trusts, and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on the 2014A Senior Bonds to some extent for high-income individuals. 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 2014A Senior Bonds. Prospective purchasers of the 2014A 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 2014A 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 2014A Senior Bonds ends with the issuance of the 2014A 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 2014A 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 2014A 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 2014A 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 prices for, or the marketability of, the 2014A Senior Bonds, and may cause the Authority or the beneficial owners to incur significant expense.

## **INDEPENDENT AUDITORS**

The Authority's "Financial Statements, Additional Information and Independent Auditors' Report for Years Ended September 30, 2012 and 2013," are included in APPENDIX C to this Official Statement. The financial statements contained in the Comprehensive Annual Financial Report, have been audited by Deloitte & Touche LLP, Tamuning, Guam (the "Independent Auditors"), as stated in their report, dated March 11, 2014, appearing in APPENDIX C.

## **UNDERWRITING**

Barclays Capital Inc., as representative of itself and Citigroup Global Markets Inc. (collectively, the "Underwriters"), has agreed, subject to certain conditions, to purchase the 2014A Senior Bonds at a purchase price of \$83,593,661.47 (consisting of the aggregate principal amount of the 2014A Senior Bonds, plus original issue premium of \$7,883,090.10, less original issue discount of \$51,800.00 and less an Underwriters' discount of \$707,628.63). The Bond Purchase Agreement relating to the 2014A Senior Bonds (the "Purchase Agreement") provides that the Underwriters will purchase all of the 2014A Senior Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters reserve the right to join with dealers and other underwriters in offering the 2014A Senior Bonds to the public. The Underwriters intend to offer the 2014A 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 2014A Senior 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.

Citigroup Global Markets Inc., an underwriter of the 2014A Senior Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the 2014A Senior Bonds.

## **CERTAIN LEGAL MATTERS**

The validity of the 2014A Senior Bonds and certain other legal matters are subject to the approving opinions of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Complete copies of the proposed forms of Bond Counsel opinion are contained in APPENDIX E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by its general counsel, and for the Underwriters by their counsel, Katten Munchin Rosenman LLP, New York, New York.

## **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 F – “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 not failed in the last five years to comply in all material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of listed events. The Authority has engaged DAC (Digital Assurance Corporation) to act as dissemination agent.

## **RATINGS**

Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), are expected to assign their ratings of “A2” (stable outlook) and “AA” (stable outlook), respectively, to the Insured 2014 Bonds, assuming the 2014 Bond Insurance Policy is delivered at the time that the Insured 2014 Bonds are issued. Moody’s, S&P and Fitch Ratings (“Fitch”) have assigned their underlying ratings of “Baa3,” “BBB” and “BBB-,” respectively, to the Insured 2014 Bonds and to the uninsured 2014A 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 2014A 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, Standard & Poor’s Ratings Service, 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 2014A Senior Bonds any proposed revision or withdrawal of the ratings of the 2014A 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 2014A 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 2014A 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 and the Subordinate Bonds shall have the meanings ascribed to them in the text or in the Senior Indenture and the Subordinate Indenture, respectively (see APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES”). The Authority has

reviewed the information contained herein and has approved all such information for use in this Official Statement. Any statements in this Official Statement involving matters of opinion or estimates are intended hereby as expressions of opinion or as good faith estimates and no assurance can be given that facts will materialize in accordance with such opinions or estimates.

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

GUAM POWER AUTHORITY

By: /s/ Simon A. Sanchez II  
Chairperson of the Consolidated Commission on Utilities

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**APPENDIX A**  
**CONSULTING ENGINEER'S REPORT**

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**CONSULTING ENGINEER'S REPORT**

**GUAM POWER AUTHORITY  
2014 Revenue Bonds**



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**APPENDIX A**

**CONSULTING ENGINEER’S REPORT**

**GUAM POWER AUTHORITY**

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September 17, 2014

Guam Power Authority  
Post Office Box 2977  
Hagatna, Guam 96932

## **CONSULTING ENGINEER'S REPORT GUAM POWER AUTHORITY**

Presented herein is a summary of Leidos Engineering, LLC ("Leidos")'s analyses and investigations with respect to the proposal by the Guam Power Authority ("GPA") to issue \$76,470,000 principal amount of its senior lien Revenue Bonds, 2014 Series A (the "2014 Senior Bonds") pursuant to the Indenture by and among GPA and certain trustees dated December 1, 1992 as supplemented and amended by supplemental indentures (the "Senior Indenture").

**2014 Senior Bonds.** The proceeds of the 2014 Senior Bonds are to be used for providing funds for (i) purchasing, constructing and installing certain capital improvement projects, related to generation, transmission, distribution, and other functions, as further described herein and occurring over the next 18 months to three years and reimbursing GPA for certain capital expenditures occurring in Fiscal Year ("FY") 2014; (ii) interest payments for interest accrued for the 2014 Senior Bonds for FY 2015 and FY 2016 (capitalized interest); (iii) funding a deposit to the Senior Debt Service Reserve Fund; and (iv) providing for certain costs of issuance.

**Table 1**  
**Estimated Application of 2014 Senior Bond Proceeds**

Uses:	
Project Fund	\$69,000,000
Capitalized Interest Fund Through 2016	7,547,000
Senior Bond Reserve Fund	5,085,000
Estimated Cost of Issuance	<u>2,669,290</u>
Total	\$84,301,290

## **SCOPE OF WORK**

Leidos has been retained by GPA to prepare this Consulting Engineer's Report (the "Report"), which includes (i) a summary of Leidos' studies and findings in conjunction with the current bond issuance; (ii) projected operating results for GPA based on the capital improvement program provided by GPA and on the load forecast prepared in July 2014 by Leidos; (iii) a description of the status of GPA's compliance with federal and Guam environmental laws and regulations; and (iv) a comparison of GPA's monthly electric bills for selected customer loads to bills charged by certain other similarly situated electric

utilities dependent on oil-fired generation. This Report has been included as Appendix A to GPA's Official Statement relating to the 2014 Senior Bonds (the "Official Statement"). For a discussion of the assumptions and information relied upon in preparing this Report, please see "PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS" at the end of this Report.

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

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

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

***Other Leidos Work:*** The firm has provided consulting and engineering services to GPA since the 1970s across a broad range of service areas, including load forecasting, power supply planning, environmental, regulatory and financing support activities. Recent activities include:

#### ***Renewable Resource Procurement***

Leidos has been actively assisting GPA in its renewable resource acquisition efforts since 2008. This includes assisting GPA staff write the Invitation for Bid ("IFB") documents for renewable acquisition and refining the Excel-based analytical tools used to evaluate the submitted proposals/bids. Leidos' team helped staff evaluate the costs and benefits of the bids and summarized findings, conclusions, and recommendations for management. Leidos provided technical and analytical support during contract negotiations, helped GPA create financial models to evaluate different contract terms, and provided additional engineering and technical support. Leidos' transmission team conducted the system integration study for the two winning renewable project bids, one of which is due to come online by 2015, as will be discussed further in this Report in the sections titled "INTRODUCTION" and "POWER SUPPLY AND DELIVERY." As part of the system integration work, Leidos helped GPA understand the infrastructure and system operation changes necessary to integrate these and other future renewable projects. Our staff crafted and refined public outreach material, including writing and distributing press releases about upcoming renewable generation procurements, answering questions and holding discussions with project developers about GPA's procurement efforts, and developing presentations on GPA's renewable resource procurement efforts for use by GPA staff in their talks with the public.

#### ***Resource Planning***

In 2008, Leidos began assisting GPA with its Integrated Resource Plan ("IRP"), assisting GPA staff learn to use an industry-standard production cost and portfolio optimization model, and creating a dataset of existing resource and new resource options. Our team provided technical and analytical support and review for the 2008 IRP. In 2012, Leidos helped GPA complete its updated IRP, providing engineering and technical support, report and presentation assistance and review, and stakeholder facilitation services. Stakeholder sessions included ongoing meetings with business leaders, community leaders, regulators and staff, Department of Defense ("DOD") representatives, and others. The IRP included evaluation of wind, solar, wood pellet, small modular reactor, and liquefied natural Gas ("LNG")-fueled resources in an effort to diversify the island's generation resources and stabilize power supply costs sustainably.

#### ***LNG Feasibility Analysis***

Beginning in 2011, Leidos was tasked with leading a team of industry experts to research LNG markets and provide a feasibility assessment for the use of LNG on Guam as a fuel source for electric power generation. The study was conducted with technical support and expertise from sub-consultants Winzler & Kelly and CH-IV. The study included preliminary siting, configuration, and costing of a land-based LNG terminal. Our team provided analytical and technical support; including price forecasts for LNG

delivered to Guam, as well as cost estimates for operation and maintenance (“O&M”) of the terminal, regasification facilities, and pipelines; conversion of units from oil-fired to natural gas-fired operation; and emissions. The study helped GPA management understand the potential costs, benefits, and risks associated with importation of natural gas versus other resource options. GPA is now embarking on a plan to procure an LNG terminal, regasification facility, and new generation resources to be fired with natural gas, as well as conversion of existing resources from oil; which will be discussed in greater detail further on in this Report in the section titled “FUTURE RESOURCES.”

### ***Rates and Regulatory***

Leidos acted as the lead consultant for GPA’s rates and regulatory efforts from 2009 through 2012. Initial efforts included financial planning activities such as developing a working capital and cash reserve analysis that established long-term financial goals and metrics for GPA, as well as GPA’s first financial management plan model. Leidos led the development of GPA’s regulatory strategy for a base rate increase request, among other issues, filed in its 2011 rate case and prepared associated testimony, exhibits, and presentation. Leidos also assisted in on-site negotiations with the Guam Public Utilities Commission (“PUC”) consultants and hearings before the PUC’s Administrative Law Judge, as well as assisting in Stakeholder informational materials regarding the rate case. Leidos also conducted a self-insurance assessment, as well as a subsequent self-insurance benchmarking and protocol report, which were designed to evaluate GPA’s insurance options. Primary objectives were to determine if alternatives to GPA’s self-insurance program are beneficial, from a rate setting perspective and in terms of GPA meeting its recommended financial goals, as well as to determine the appropriate level of self-insurance funding and the development of self-insurance protocols. There were also qualitative reviews of the Federal Emergency Management Agency (“FEMA”) coverage and reimbursement policies for losses resulting from natural disasters. Leidos also assisted GPA in developing its current fuel hedging program and provides on-going analytical support and model updates to assist GPA in its fuel hedging activities and associated regulatory requirements. Leidos has also prepared two other recent consulting engineer’s reports in support of GPA’s bond issuances in 2010 and 2012.

### ***Load Forecasting***

Since 2013, Leidos has worked with GPA staff to compile, verify, and correct utility data and externally collected data and information regarding the island’s economy, customer base, and weather conditions. In 2013, and in support of this Report, Leidos developed econometric forecasts of GPA’s retail sales, relating energy consumption to a series of economic data, the price of electricity, and weather conditions and simulating the resulting equations with future assumed values of the driving variables.

### ***DSM Screening Analysis***

As part of an interdisciplinary review project in support of the GPA IRP process, Leidos was retained to perform an evaluation of the cost-effectiveness of residential and commercial Demand-Side Management (“DSM”) program measures for potential implementation by GPA. The study was designed to supplement the IRP analyses and studies being undertaken by GPA, which were also reviewed for reasonableness by Leidos in advance of filings with the PUC. This DSM study was conducted in a manner to provide a practical investigation of DSM program potential for GPA, evaluating the cost of the program measure commensurate with the size and scope of GPA’s electric system. The analysis was conducted in two phases: (i) a technical screening assessment, and (ii) an economic screening analysis. Cost-effectiveness evaluations were performed from three different perspectives on DSM program implementation, specifically, the Utility Cost Test, the Rate Impact Measure Test, and the Total Resource Cost Test.

### ***Reciprocating Engine Life Extension and Improvement Assessment***

As part of an IRP engagement for GPA, Leidos conducted an assessment of the condition of the existing GPA power generating assets in order to determine the estimated useful life of each unit, potential life extension options, and possible modifications or upgrades for efficiency improvements, including fuel switching. The GPA power generating assets reviewed included slow-speed, medium-speed, and

high-speed reciprocating engines ranging in size from 2.5 megawatts (“MW”) to 45 MW, combustion turbine generators (“CTGs”) ranging in size from 20 MW to 40 MW, and conventional boiler/steam turbine generator units ranging in size from 25 MW to 66 MW. The assessment was based on the review of historical operations and maintenance data, outage and inspection reports, previous condition assessments, visual observations, and discussions with GPA staff. Leidos also considered new and potential future environmental regulations in our determination of how best to extend or improve each unit.

### ***Smart Grid Implementation***

In 2011, GPA worked closely with Leidos on a number of projects designed to pave the way for its future smart grid and enterprise needs. In addition to engineering technical support for the initial selection and rollout of smart grid technologies, most recent endeavors include performing an assessment on GPA’s network and communications systems to identify areas that would be significantly impacted by the rapid growth that the smart grid technologies would place on the GPA network. Leidos assessed the Smart Grid Security Plan to anticipate cyber security challenges that could create significant vulnerabilities that would need to be addressed as the applications and infrastructure handles the increased data and systems within the GPA utility environment; migrated the existing Microsoft Exchange 2003 to Exchange 2010; and assessed the business requirements of the Customer Information System (“CIS”), since it would be a significant interface to the typical new applications deployed in smart grid solutions.

### ***Customer Care and Billing System Implementation***

As GPA began its implementation of a new CIS, Leidos provided technical and managerial resources to assist GPA in support of the Customer Care and Billing (“CC&B”) implementation as smart grid transformed the network with new software and hardware upgrades as required by the smart grid infrastructure. In this advisory role, designed to provide the technical expertise to GPA during the initial fact finding and implementation phase of the CC&B project being conducted by Wipro, Leidos continues to support the effort with an Oracle Database Administrator (“DBA”) experienced in SQL and the administration of Oracle databases for Meter Data Management System (“MDMS”) DBA services, CC&B DBA services, and general SQL DBA services.

### ***Energy Service Provider (“ESP”) Consulting Services***

As one of the companies awarded the customer DSM contract with GPA, Leidos worked with large private businesses and government customers and provided site evaluations and energy audits for its facilities. Working with GPA and the Guam Energy Office, Leidos continued work under the contract on American Reinvestment and Recovery Act (“ARRA”) projects in upgrading Guam Public Health and Social Services, Mental Health, the Governor’s Office, and Finegayan Elementary School with much needed energy efficiency improvements. Along with the installation of energy efficiency appliances, lights, roof coating and others; Leidos helped GPA also completed the short-term ARRA project of the residential solar hot water heating rebate program.

## **INTRODUCTION – GPA**

GPA operates as the sole electric utility service provider in the United States (“U.S.”) Territory of Guam (“Guam”), an island located in the western Pacific Ocean approximately 3,800 miles west-southwest of Honolulu, Hawai’i, 1,550 miles south-southeast of Tokyo, Japan and 1,600 miles east of Manila, the Philippines. The island, which is the western-most territory of the U.S., is approximately 30 miles long and ranges from 5 to 8.5 miles wide with a total land area of approximately 212 square miles.

# GUAM POWER AUTHORITY

## SHOWING MAJOR POWER PLANT LOCATIONS AND TOWNS



Figure 1: Map

**Summary Statistics:** GPA presently provides electric generation, transmission, and distribution service throughout the island, with the exception of distribution of power on the military bases, and had approximately 568 employees as of FY 2013. All financial values reported herein, unless otherwise noted, are in reference to the applicable fiscal year. GPA's fiscal year ends September 30<sup>th</sup> each year. Table 2 includes selected statistics for FY 2013.

**Table 2**  
**FY 2013 Statistics**

Total Number of Customers	48,598
Peak Load (kW)	257,000
Megawatt-hour Sales	1,566,410
Operating Revenues <sup>(1)</sup>	\$450,733,045
Gross Investment in Utility Plant	\$931,105,288
Net Utility Plant Investment	\$526,734,955
Total Assets and Deferred Outflows	\$885,007,297
Total Liabilities and Deferred Inflows	\$745,116,968
Total Net Position	\$139,890,329

(1) Does not include bad debt expense of \$1,222,905.

**History:** Current electric utility operations on Guam date back to the post-World War II period when electric power production facilities consisted of individual diesel-fired plants located at the then existing principal military load centers. In 1950, portions of the power system, which historically and presently serves the other DOD facilities on the island, including Andersen Air Force Base, were transferred by the U.S. Navy (the "Navy") to the Government of Guam. In general, the transferred facilities consisted of those portions of the system which were devoted to civilian use and were considered surplus to the needs of the military. Subsequently, the Government of Guam created the Public Utility Agency of Guam ("PUAG") as the agency responsible for O&M of electric power and other utility services provided by the Government of Guam. In 1968, GPA was established by an act of the Legislature of Guam as a public corporation and an autonomous instrumentality of the Government of Guam. The Legislature provided for the transfer of the electric utility assets of PUAG to GPA,<sup>1</sup> which officially commenced operations on April 1, 1969. Additional Navy generation, transmission, and distribution facilities were transferred to GPA in August 1996.

Today GPA is regulated by the PUC and governed by the Consolidated Commission on Utilities (the "CCU"). The PUC is an independent regulatory commission, comprised of seven appointed commissioners, which regulates the rates and rate impacting procurements of GPA, amongst other utility service providers on Guam. The CCU was created in 2001 by Public Law 26-76, which sets forth the management and oversight structure of GPA and Guam Waterworks Authority ("GWA"). Public Law 26-76 also stated that GPA would continue in existence as a public corporation and no longer an autonomous instrumentality of the government. For more information, see the Report section titled "REGULATORY ENVIRONMENT."

## **Electric System Overview**

Collectively, GPA has rights to dispatch generating units that have an aggregate nameplate capacity rating of approximately 553.2 MW. Currently, approximately 464.8 MW of net capacity is available for

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<sup>1</sup> PUAG, which changed its name to the Guam Waterworks Authority in the mid-1990s, remains the agency responsible for water and sewer utility services owned by the Government of Guam.

dispatch. Numerous other Navy, privately owned and publicly owned small diesel-fired generation units are dispersed throughout the island to provide backup (emergency) power to the Navy, municipal water pumping stations, airport operations, and certain hotel loads. Such units are not available for dispatch and are only used in the event of system outages. The major generating resources of GPA, combined with those of the Navy, normally serve the entire island and are jointly operated. For more information, see Figure 1 and the “POWER SUPPLY AND DELIVERY” Section herein.

***Owned Generation Units.*** GPA owns three oil-fired steam generating units, four CTG units, two slow-speed reciprocating engine units, and eight high-speed reciprocating engine units. In addition to the generation units it owns, GPA is leasing one oil-fired steam generating unit owned by the Navy. GPA is leasing this unit at no cost and ownership is expected to be transferred to GPA before the end of the lease term. Collectively, these in-service units owned/leased by GPA have a nameplate capacity rating of approximately 387.8 MW. GPA also owns four additional reciprocating engines and another CTG that have recently been removed from service.

***Contract Generation Units.*** GPA has also entered into energy conversion agreements (“ECAs”) for three units constructed, owned and operated by Independent Power Producers (“IPPs”), as discussed further in the “POWER SUPPLY AND DELIVERY” section herein. These units – Piti Unit No. 7, 8, and 9 – have a combined nameplate capacity rating of approximately 129.8 MW. Ownership of each unit will transfer to GPA at the end of each respective contract.

***Renewable Generation Resources.*** In early 2012, GPA awarded a 20 MW solar project to Quantum Guam Power Holdings, LLC (“QGP”) and a 14.38 MW combination solar (5.04 MW) and wind (9.34 MW) project to Pacific Green Resources (“PGR”). Subsequent to the award, the PGR project capacity was raised to an even 15 MW and QGP acquired, through assignment, the rights to develop and sell an additional 5.65 MW of solar capacity from PGR. In July 2013, NRG Energy Inc.’s subsidiary NRG Solar acquired the solar project from QGP. Development of the project, now known as the Dandan Solar Project, is fully funded by the developer and is scheduled to be in service late 2014 or early 2015. There are two separate power purchase agreements with the project developer for a period of 25 years. The status of the PGR remaining wind project is uncertain. It is Leidos’ understanding that PGR is seeking to sell the contract. An additional Invitation for Multi-Step Bid (“Renewable Procurement Phase II”) was issued by GPA on July 1, 2014. GPA is seeking an additional 40 MW of renewable resources and the selection will be conducted through a two-step process (using GPA’s language): step one will establish a Qualified Bidders List (“QBL”) based on acceptable submitted non-price Bid information (or Technical Qualification Proposals); step two will evaluate the priced proposals from the vendors identified on the QBL and which, if any, Qualified Bidder(s) will be awarded a contract(s). The request for proposal (“RFP”) schedule indicates that proposal sections will be due by the end of 2014 and successful bidders will be notified by end of January 2015. On June 19, 2014 GPA issued a multi-step bid for a wind turbine pilot project design and construction funded through a grant from the U.S. Department of the Interior, Office of Insular Affairs. GPA is seeking the services of an Engineer/Procure/Construct (“EPC”) or Design/Build (“DB”) contractor for the design and installation of a single 2.75 MW wind turbine and interconnection to the GPA electrical distribution grid, which will be fully operational upon commissioning.

***Operated Generation Unit.*** Miyama Development International Co., Ltd. (“MDI”), the developer of the Leo Palace Resort, has constructed and owns a two-unit, reciprocating engine plant with a nameplate capacity rating of approximately 10.6 MW, which is being operated and maintained by GPA for GPA’s use.

***Fuel Supply.*** Essentially all of GPA’s generating resources are fired with fuel oil products (residual fuel oil No. 6 and fuel oil No. 2). In FY 2013, GPA purchased 2.6 million barrels of oil products, 76 percent of those classified as residual fuel oil (high sulfur), 21 percent low sulfur fuel oil, and 3 percent diesel. Volatility in fuel oil prices has had a significant impact on GPA’s financial resources and need for working capital. As an example, in FY 2013 GPA used approximately 66 percent of the revenues collected to pay for fuel costs, as compared to approximately 46 percent in FY 2005. Monthly fuel expenditures for the past three years (FY 2011-2013) have averaged approximately \$23 million

(\$276 million per FY). GPA has a program to adjust rates periodically 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.

**Transmission and Distribution.** GPA is responsible for the transmission, distribution, metering, and accounting of electrical power to consumers. GPA operates and maintains overhead and underground power lines and associated hardware, substation equipment, energy/revenue meters, and relay protective devices. In addition, GPA provides new power installations, line extensions, work clearances, and miscellaneous power-related services to its customers. GPA follows the standards of the National Electrical Manufacturers Association / American National Standards Institute C84 for delivery of power and imbalance regulation.

The power delivery system includes 29 substations connected through approximately 175 miles of 115 kilovolt (“kV”) and 34.5 kV transmission lines. The substations supply 65 distribution feeders with approximately 2,500 miles of line, over 60 percent of which is rated at 13.8 kV. GPA serves approximately 48,500 customers, consisting primarily of residential and commercial customers, governmental entities, and the Navy. Power delivery is controlled from the Power System Control Center (“PSCC”) located adjacent to the Cabras Power Plant.

**New Office Building.** In conjunction with GWA, GPA is building a new office building that will fully accommodate its staff, allowing it to vacate the space it currently leases. The new building will be approximately 125,000 square feet. and located in Fadian, in east central Guam. The construction cost is estimated to be approximately \$35 million and was funded by GPA’s 2010 Bonds. Construction is expected to be completed by end of year 2014. GPA has indicated that there will be a lease agreement for the new office space between GPA and GWA.

## **Governance**

GPA is governed by the CCU and regulated by the PUC. The CCU acts much like a Board of Directors and has fiduciary, strategic, and oversight responsibility for all aspects of GPA, including the setting of rates subject to the regulatory review and approval of the PUC. The CCU is comprised of five commissioners elected in the Guam general election. The term for each position is four years. Two commissioners are up for election at the end of calendar year 2014. The current CCU commissioners are as follows:

- Simon A. Sanchez II – Elected to the CCU and Chairman since 2003, current term expires end of 2014
- Benigno M. Palomo – Elected to the CCU since 2003, current term expires end of 2014
- Eloy P. Hara – Elected to the CCU since 2007, current term expires end of 2014
- Joseph T. Duenas – Elected to the CCU since 2009, current term expires end of 2016
- Pedro S.N. Guerrero – Elected to the CCU since 2013, current term expires end of 2016

## **Regulatory Environment**

The PUC functions similar to a state regulatory commission under applicable Guam laws. The PUC is governed by seven commissioners who serve six-year terms under appointment of the Governor with confirmation by the Legislature. The PUC regulates utility rates and significant expenditures that affect such rates. Lummus Consultants International Ltd. (a subsidiary of CB&I with corporate headquarters in the Netherlands); Slater, Nakamura & Co, LLC with offices in Tamuning, Guam; and Georgetown Consulting Group Inc. of Ridgefield, Connecticut serve as the PUC’s staff consultants. Recent petitions to the PUC, which is Leidos’ estimation involve major issues critical to GPA’s financial standing, include the following:

- *Docket 10-03 Fuel Hedging Program* – In 1999, GPA petitioned the PUC and established a fuel hedging program to mitigate exposure to fuel price fluctuations. At various times since then, GPA has petitioned the PUC to revise certain aspects of its fuel hedging program. The most recent request for such revision was filed in January 2012 and resulted in a more robust fuel hedging program which employs additional financial instruments and the use of a statistical model to measure risk and gauge the need to establish hedges. For more information please see the “FUEL OIL SUPPLY” section herein.
- *Docket 11-09 Petition for the Approval of a Multi-Year Base Rate Increase for the Guam Power Authority* – In November 2011, GPA petitioned the PUC for a multi-year increase in base rates as well as a request to double GPA’s self-insurance fund balance to \$20 million, to increase its liquidity to approximately 60 days’ cash on hand, to change the LEAC methodology from semi-annually to quarterly, and in a related petition to PUC to introduce a payment in lieu of taxes surcharge to cover amounts owed to the Guam Government. Additionally, the rate filing included certain rate classification adjustments and creation of new rate classes and surcharges with a long-term goal of having full fixed cost recovery without regard to the amount of energy consumed.

In April 2013, GPA petitioned the PUC for base rate increase on the order of 7.3 percent or 2.2 percent increase in total bill (\$10.9 million annually). GPA also requested adoption of four rate design proposals as part of its filing: (a) increasing kW-based demand rates; (b) increasing the customer charge on all rate schedules, except for residential; and (c) moving residential and commercial rates closer to rate parity as determined by the cost-of-service study. GPA also submitted a report regarding decoupling of rates. There was also a request to charge a fee for reconnections (\$10) and an additional fee if reconnections were done outside business hours (\$10). GPA also requested adoption of a “Net Metering Tariff,” which would have changed the current system of crediting net metering customers on a “one-for-one trade” basis, i.e., reimbursing customers for energy fed into the grid at the same retail rate they pay for power, to a system that would only reimburse net metering customers the avoided cost of energy, or the current LEAC rate. The PUC approved a 6 percent base rate increase in effect for FY 2014, starting October 1, 2013, which equates to approximately a \$9.038 million increase in annual revenues using the billing determinants assumed as part of the proceeding.

- *Docket 11-12 Petition for Contract Review of Renewable Energy Acquisition* – In 2011, GPA petitioned the PUC to approve renewable energy contracts with QGP and PGR for solar and wind projects totaling 34.4 MW, as discussed previously. The PUC approved GPA entering into the contracts December 2011.
- *Docket 11-13 Petition for Contract Review of Smart Grid Project* – In November 2011, GPA petitioned the PUC for approval to proceed with the Smart Grid Project and expend \$17 million of 2010 Bond funds on the project. On December 19, 2011, the PUC provided its approval.
- *Docket 12-03 Application of the Guam Power Authority to Issue Bonds* – On September 25, 2012, the PUC issued an order with respect to the issuance of the 2012 Senior Bonds by GPA. Inclusive in this order is a requirement that upon the issuance of the 2012 Senior Bonds, GPA would petition the PUC to reset its revenue requirement as a result of the savings in debt service from the restructuring / refunding of GPA’s 1993 Series A and 1999 Series A Revenue Bonds. Additionally, GPA provided a summary of the reduction in debt service achieved and provided revised tariffs for review. The total amount of realized savings in the first year was calculated to amount to \$11.5 million with \$9.1 million being delivered back to rate payers over a ten-month period; effectively, it was a “roll-back” of the rate increase that was done on May 1, 2012 (\$9.1 million). Any revenue shortfalls in future years would be recovered in rate petitions to the PUC.

As a matter of practice, GPA petitions the PUC on a frequent basis with respect to its rates, financings, planning, and procurement activities.

## **Natural Disasters and Impacts on GPA's Properties**

The island of Guam occasionally experiences both typhoons and earthquakes. Its last such notable events were in 2002 with Typhoons Pongsona and Chataan, which were reported to have caused approximately \$38.5 million of damage to GPA's facilities.

In addition, the FEMA declared "Major Disasters" on Guam for an earthquake in 2001 and Tropical Storm Tingting in July 2004. Numerous additional tropical storms have caused damage over the last 10 years, including Halong, Talsa, Nockten, and Chaba.

GPA has taken measures to make its system more resistant to typhoons and earthquakes. These include its on-going program to replace wooden electric utility poles with concrete poles that are more resistant to high winds; the undergrounding of certain transmission and distribution lines; the use of concrete buildings to house its permanently installed generating units; and the initial installation of 131 standby diesel-fired generators to provide backup power for GWA's municipal water pumps, sewer lift pumps, and two large sewer treatment plants. GPA stated as of August 2014 that 60 percent of load was served through underground infrastructure; 29 miles (4.5 percent) of primary lines underground, with over 80 percent of distribution poles made of concrete. Due to a number of water wells being taken out of service, GPA reports that 122 standby generators are currently in use. Additionally, GPA has 12 trailer-mounted diesel-generators for the same purpose.

## **Self-Insurance Assessment**

In late 2010, GPA commissioned then R. W. Beck (an SAIC company), now Leidos, with the assistance of an insurance expert, Moore McNeil, to conduct a review of its insurance options. The report, filed in February 2011 with the PUC, analyzed various insurance options available to GPA and made recommendations regarding its self-insurance program to determine if alternatives would be beneficial from a rate setting perspective, as well as relative to achieving GPA's recommended financial goals, and to determine the appropriate level of self-insurance funding.

The study found that GPA's other insurance options are not cost-effective and its self-insurance program is the most favorable option for GPA from the standpoint of its creditworthiness and ability to access capital markets. The study also recommended the doubling of GPA's self-insurance fund balance to \$20 million.

GPA filed a petition on April 6, 2011, to request authorization to increase the fund balance to \$20 million; it had previously been capped at \$10 million.

In January 2013, GPA retained SAIC, now Leidos, to conduct a review of GPA's self-insurance program and develop self-insurance program protocols ("SIPP") to submit with the filing of the FY 2014 Rate Case in spring 2013. Specific tasks included (a) review of GPA's existing SIPP and the recommendations submitted to the PUC in 2008 by Georgetown Consulting Group; (b) review of regulatory practices and approved self-insurance protocols at the state, local, and territorial level with particular emphasis on protocols associated with overhead transmission and distribution ("T&D"), production and vehicles; (c) review of self-insurance programs by other electric utilities that are susceptible to natural disasters; and (d) development of proposed SIPP for using information gathered and derived from the history of GPA's self-insurance program. Findings included widespread precedent for the use of self-insurance, disaster reserve accounts, cost riders, surcharges, and cost deferrals, as well as the use of emerging mechanisms such as "storm" bonds and securitization for disaster-related cost recovery for utilities in the U.S. and Caribbean facing similar perils as GPA; although no standardization in terms of program protocols. Recommendations included GPA adopting SIPP as presented and having the design and administration of GPA's SIPP informed by developments globally, in the U.S., and particularly in areas facing similar risk exposure as Guam.

In May 2013, as part of GPA's rate case filing, the PUC found that the stipulation between GPA and the Georgetown Consulting Group, the PUC's consultant, established appropriate protocols for program scope, draw down of funds, and a review process, along with other aspects of the self-insurance program.

The PUC ordered the self-insurance cap be raised to \$20 million; and GPA will be required to hire a consultant specializing in actuarial studies to perform an assessment of the cap and fund in 2016. Any additional requested changes must be based on the actuarial consultant's recommendation. As of FY 2013, GPA's self-insurance fund had a balance of \$13.5 million. If GPA incurs no additional self-insurance losses and sales occur at the projected levels, the self-insurance fund will reach \$20 million by end of FY 2015 (accruing approximately \$3.7 million in self-insurance surcharge receipts per year).

## Electric Bill Comparisons

One measure of a utility's financial condition is how its electric bills compare to other similar utilities. The following Table 3 provides a comparison of GPA's monthly electric bills for selected residential, commercial, and large customer loads to bills charged by certain other similar public and private electric utilities. These utilities have been chosen because they are not interconnected with other electric utilities and depend primarily on oil-fired generation. In this regard, they are comparable to the power supply system on Guam. The comparative monthly electric bills shown are based on specific rate schedules for each utility. Accordingly, the use of other schedules applicable to particular customers will yield different results than those indicated. The average electric bill for GPA's residential customers was approximately \$3,125 for FY 2013 on an annual basis and represents approximately 8.2 percent of the most recent median household income data available from 2010.

As illustrated in Table 3, GPA's rates compare favorably to other island-based utilities that depend primarily on oil-fired generation.

**Table 3**  
**Monthly Electric Bills**  
**As of May 1, 2014**

	<b>Residential</b> <b>(1,000 kWh)</b>	<b>Commercial</b> <b>(25 kW, 16,000 kWh)</b>	<b>Large Customer/ Industrial</b> <b>(300 kW, 200,000 kWh)</b>
GPA <sup>(1)</sup>	\$ 262.85	\$ 4,852.78	\$ 56,882.64
The Barbados Light & Power Co., Ltd. <sup>(2)</sup>	\$ 360.45	\$ 5,628.66	\$ 67,298.07
Commonwealth Utility Corp. (Saipan)	379.66	7,022.16	87,662.00
Hawaii Electric Light Co., Inc.	378.52	4,288.78	63,896.80
Kauai Island Utility Cooperative	358.01	5,387.59	84,795.78
Maui Electric Company, Ltd.	368.35	5,616.41	67,110.80
Virgin Islands Water and Power Authority	\$ 591.34	\$ 10,353.75	\$ 119,308.31

(1) Rates effective October 1, 2013.

(2) Converted to U.S. dollars using foreign exchange rates as of May 8, 2014. Rates include value added taxes ("VAT").

## POWER REQUIREMENTS

GPA experienced substantial growth in capacity and energy requirements during the late 1980s and the early 1990s. Since that time, load growth has been very modest and is expected to continue to be modest over the projected study period through 2018. The anticipated, but uncertain, relocation of a portion of the Okinawa, Japan U.S. military base to Guam is not expected to have as much of an impact on GPA load and the larger Guam economy as previously expected. Therefore, the projections provided for this Report have not included any increases in load associated with this military relocation effort.

## **GPA's Energy and Capacity Loads**

From FY 2009 to 2013, GPA's peak demand and energy loads decreased by 4.1 percent and 3.6 percent, respectively (see Table 4 below). Factors that have suppressed growth on Guam have included the worldwide economic recession and conservation efforts by customers (either in response to conservation programs or as a result of higher monthly bills).

***Historical Load Growth FY 2009-2013.*** As of FY 2013, GPA's energy sales have decreased by 3.6 percent since FY 2009, at an annual compound growth rate of -0.9 percent. Peak demand loads have also decreased during this period, with an annual compound growth rate of -1.0 percent. The number of customers during this period, however, has increased by 4.5 percent (an annual growth rate of about 1.1 percent per year). This has resulted in the usage per customer declining during this same period, primarily due to decreased usage associated with increasing rates (and conservation programs), as well as economic conditions that have affected Guam in a similar manner to that of the mainland U.S. Collectively, energy sales were lower for almost all customer classes, with increased energy sales occurring only for the small commercial and street lighting customer classes. Please see Table 4 for additional detail.

***Projected Load Growth FY 2014-2018.*** For FY 2014 through 2018, a baseline load forecast for GPA was prepared by Leidos in July 2014. The forecast for peak demand and energy sales for the period FY 2014 through 2018 is fairly flat, with an annualized average growth rate projected to be -0.1 percent for energy and 0.0 percent for peak.

As shown in Table 4, the total number of customers served by GPA is projected to increase at an annualized rate of 0.9 percent during the FY 2014 through 2018 period. This compares to a historical annualized growth rate of 1.1 percent experienced during the FY 2007 through 2013 period. Usage per residential customer is assumed to continue to decrease.

Energy sales to the Navy from FY 2014 to 2018 are projected to increase approximately 1.8 percent, or at an annual rate of 0.5 percent, as compared to an annual average growth rate of 0.9 percent between FY 2007 through 2013.

Current distributed solar statistics report approximately 183 solar installations on Guam in FY 2014 subject to net metering, compared with just seven in FY 2009. Leidos' projected load growth assumes solar installations and associated solar capacity subject to net metering increase by 80 percent per year between FY 2015 and FY 2018; with total installations assumed to be 1,920 by the end of the study period. Energy produced from current installations equates to approximately 2,983 MWh per year, an average of less than 1 MW at any time (2,983 MWh divided by 8,760 hours in the year). By 2018, Leidos forecasts 31,272 MWh per year produced from distributed solar, for an average of 3.6 MW. GPA filed a petition with the PUC in June 2014 requesting a collaborative effort to revise GPA's rate structure to minimize the revenue impact to GPA from net metering, DSM, and conservation projects. GPA indicated that sales declines over the last three years are largely attributable to energy efficiency and conservation measures undertaken by GPA and its customers. On August 28, 2014, the PUC issued an order which stated that GPA has raised legitimate concerns which should be further addressed regarding rate design alternatives and that GPA should develop specific plans/programs for consideration by PUC. For the purposes of our financial projections, Leidos assumes that GPA will continue to pursue and reach an agreement with the PUC regarding full recovery of fixed costs for net metering customers, as is the expected trend for other regulated utilities throughout the U.S. Therefore, we have not assumed significant financial impact from net metering other than the loss of sales and associated revenues due to distributed solar installations.

Table 4 illustrates GPA's historical and projected energy and capacity loads. The small commercial customer class includes GPA's small general non-demand and small general demand rate customers. The large commercial customer class includes GPA's large general rate customers, and most of the larger hotels are also included in this category. GPA's private and government street/outdoor lighting, small government non-demand, small government demand, and large government are included in the "Government and Outdoor Lighting" customer class.

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

Fiscal Year Ending September 30:	Historical					Projected				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Number of Customers (Average)</b>										
Residential	39,863	40,633	41,255	41,612	41,708	41,925	42,283	42,642	43,103	43,616
Small Commercial	4,629	4,663	4,679	4,879	4,907	4,953	4,966	4,955	4,947	4,939
Large Commercial	169	172	173	176	149	145	140	140	139	138
Auxiliary/Standby and Indep. Power Prod. <sup>(1)</sup>	0	1	1	0	3	3	0	0	0	0
Government and Outdoor Lighting	1,826	1,863	1,862	1,851	1,830	1,871	1,921	1,945	1,965	1,979
Navy	1	1	1	1	1	1	1	1	1	1
<b>Total Customers</b>	<b>46,490</b>	<b>47,333</b>	<b>47,972</b>	<b>48,519</b>	<b>48,598</b>	<b>48,897</b>	<b>49,312</b>	<b>49,683</b>	<b>50,156</b>	<b>50,674</b>
<b>Energy Requirements (MWh):</b>										
<b>Energy Sales</b>										
Residential	471,385	486,962	487,230	459,499	462,163	453,570	441,455	442,655	442,128	442,362
Small Commercial	263,440	265,653	258,861	253,895	265,607	263,750	257,548	256,728	254,287	251,141
Large Commercial	323,331	308,457	303,595	306,985	298,732	297,451	311,925	313,854	312,197	310,114
Auxiliary/Standby and Indep. Power Prod.	0	3,584	4,090	0	639	765	0	0	0	0
Government and Outdoor Lighting	206,976	211,488	206,017	199,385	191,118	186,419	185,301	185,310	184,238	183,230
Total Civilian Energy Sales	1,265,132	1,276,143	1,259,793	1,219,764	1,218,259	1,201,955	1,196,229	1,198,546	1,192,849	1,186,847
Total Navy Energy Sales	359,251	361,518	358,017	343,711	348,151	332,656	343,076	343,353	341,106	338,755
<b>Total Energy Sales</b>	<b>1,624,383</b>	<b>1,637,662</b>	<b>1,617,810</b>	<b>1,563,475</b>	<b>1,566,410</b>	<b>1,534,611</b>	<b>1,539,305</b>	<b>1,541,900</b>	<b>1,533,955</b>	<b>1,525,602</b>
System Losses <sup>(2), (3)</sup>	127,249	117,416	113,275	117,269	103,038	101,284	101,594	101,765	101,241	100,690
<b>Total System Energy Requirements <sup>(4)</sup></b>	<b>1,751,632</b>	<b>1,755,078</b>	<b>1,731,085</b>	<b>1,680,744</b>	<b>1,669,448</b>	<b>1,635,895</b>	<b>1,640,899</b>	<b>1,643,665</b>	<b>1,635,196</b>	<b>1,626,292</b>
<b>Peak Demand (MW) <sup>(5)</sup></b>										
	268	272	263	258	257	251	250	250	250	250
<b>Base Rate and LEAC Revenues (000's) <sup>(6)</sup></b>										
Residential	\$103,487	\$101,157	\$111,560	\$119,859	\$121,785	\$120,305	\$119,492	\$119,726	\$115,742	\$116,591
Small Commercial	67,685	65,684	70,174	75,870	81,773	80,909	79,481	79,074	76,090	75,563
Large Commercial	77,802	70,783	75,613	86,039	85,947	85,179	90,855	91,242	88,005	87,908
Auxiliary/Standby and Indep. Power Prod.	0	890	1,099	0	208	238	0	0	0	0
Government and Outdoor Lighting	55,400	54,957	58,654	63,056	62,544	60,517	61,645	61,584	59,663	59,649
Navy	81,098	68,576	71,893	85,026	82,817	78,962	85,304	84,845	81,278	81,255
<b>Total Base Rate and LEAC Revenues</b>	<b>\$385,472</b>	<b>\$362,048</b>	<b>\$388,992</b>	<b>\$429,850</b>	<b>\$435,074</b>	<b>\$426,109</b>	<b>\$436,777</b>	<b>\$436,471</b>	<b>\$420,777</b>	<b>\$420,965</b>
Water Well Surcharge Revenues	\$2,532	\$2,842	\$2,883	\$2,774	\$2,758	\$2,687	\$2,688	\$2,782	\$2,767	\$2,750
Self Insurance Fund Surcharge Revenues	3,847	3,774	3,905	3,741	3,721	3,719	3,710	3,720	3,700	3,680
Working Capital Surcharge Revenues				5,488	11,198	6,926	6,852	807	777	729
<b>Total Rate Revenues</b>	<b>\$391,851</b>	<b>\$368,664</b>	<b>\$395,780</b>	<b>\$441,853</b>	<b>\$452,751</b>	<b>\$439,440</b>	<b>\$450,027</b>	<b>\$443,781</b>	<b>\$428,021</b>	<b>\$428,124</b>
Usage/Customer-w/Navy and Lighting (kWh)	34,941	34,599	33,724	32,224	32,232	31,384	31,216	31,035	30,584	30,106
Usage/Customer-w/o Navy and Lighting (kWh)	23,692	23,415	22,854	21,865	21,963	21,595	21,332	21,225	20,930	20,611
Usage/Residential Customer/Month (kWh)	985	999	984	920	923	902	870	865	855	845

- (1) In 2011, the auxiliary/standby customer moved to Schedule P, Large Power Service. Currently there are three customers classified in the "Independent Power Producer" class.
- (2) Includes transmission losses and GPA distribution losses.
- (3) System losses are assumed to be 5.9 percent for the period FY 2014-2018, reflecting the reduction in losses due to AMI implementation and other smart grid investments. Historical system losses have averaged 6.3% the last five years.
- (4) Reflects total net generation excluding station use.
- (5) Reflects total gross peak demand.
- (6) FY 2014 is based on actual results through March 2014 and reflects estimates for April through September 2014 based on current rate schedules effective October 1, 2013. Projections for FY 2014-2018 are based on projected energy sales with rate schedules effective October 1, 2013. No future rate increases have been incorporated into the projections for this table. Projected revenues include estimated working capital surcharge and LEAC rates. The fuel component of these projected rates was estimated by Leidos. More information about these LEAC rates is available under "FINANCIAL" – Electric Rates Section herein. The projected sales reflect the estimated adjustments for the full implementation of GPA's smart grid program by FY 2015.

## POWER SUPPLY AND DELIVERY

### Introduction

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

**Power Pooling Agreement.** In 1972, GPA and the Navy entered into the Power Pooling Agreement that combined GPA and Navy generation and transmission assets into what is known as the Island Wide Power System ("the system"). Under the terms of the Power Pooling Agreement, both GPA and the Navy supplied power to each other and shared the cost of operating and maintaining the system on a proportionate basis. The Power Pooling Agreement delegated to GPA responsibility for dispatching all generating resources available and performing the majority of maintenance.

**Customer Services Agreement.** In 1989, GPA and the Navy negotiated termination of the Power Pooling Agreement and created a new agreement titled the "Guam Power Authority Utility Service Contract" (the "Customer Services Agreement"), which became effective in 1992 and remained in effect until July 2012. Under the Customer Services Agreement, GPA became increasingly responsible for operational control of the system, while the Navy transitioned to a transmission-level (wholesale) customer of GPA. The Customer Services Agreement also provided for the transfer of certain Navy generation and T&D assets to GPA and assigned certain responsibilities to GPA for providing electric capacity and energy to the Navy and other DOD facilities on Guam.

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

### Utility Services Contract

In July 2012, a new, 10-year Utility Services Contract ("USC") replaced the Customer Services Agreement. The USC covers the proposed military buildup on the island, rate setting methodology, and the inclusion of real estate assets as part of the transfer of facilities. There is no option for renewal; at contract termination Leidos expects a new contract would be negotiated.

Important components of the USC include maintaining GPA as the only service provider to the Navy and the continuation of asset transfers under the terms and conditions previously set in the Customer Services Agreement. The Navy will continue to be a transmission-level, cost-of-service customer, and rates for the Navy will be calculated according to the methodology approved by the PUC. The contract also retains GPA's use of Navy assets and real property and allows for Navy easements and facilities to serve GPA's customers when necessary. The Navy will be required to install and pay for any special power facilities it requires.

Financial terms include requirements that the Navy continue to make weekly fuel payments, maintain a minimum contract demand (with no maximum demand provision), pay GPA 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 GPA to seek additional compensation from the Navy subject to PUC approval.

**Lease Agreement.** On September 15, 1996, GPA entered into a no-cost lease agreement with the Navy to transfer the operation, maintenance, and custody of certain Navy-owned, joint-use, electric power generation facilities to GPA. The lease agreement was developed to transfer certain assets, prior to completion of environmental cleanup at all of the locations involved and has a maximum term of 50 years. The lease agreement provides for conveyance of Piti, Tanguisson No. 1, Marbo, electrical T&D

lines, substations, and related structures and equipment, together with associated land interests upon meeting a number of conditions, including environmental clean-up, which is the responsibility of the Navy. Properties being retained by the Navy include the Orote Power Plant, emergency generators at critical Navy locations and the Navy distribution system.<sup>2</sup>

Table 5 summarizes the electric generating resources currently available to the system. The table does not show other small diesel-fired generators dispersed throughout the island for use as emergency capacity for specific public, military and commercial loads, which are owned and operated by those customers.

**Table 5**  
**Power Supply Resources**

<u>Resource</u>	<u>Year Installed</u>	<u>Owner/Operator</u>	<u>Name Plate Capacity (MW)</u>	<u>Available Capacity (MW)<sup>(1)</sup></u>	<u>Status as of 21-Jun-14</u>
Cabras Power Plant					
Unit No. 1	1974	Authority	66.0	66.0	Operational
Unit No. 2	1975	Authority	66.0	63.0	Operational
Unit No. 3	1995	Authority	39.3	39.3	Operational
Unit No. 4	1996	Authority	39.3	39.3	Operational
Tanguisson Power Plant <sup>(2)</sup>					
Unit No. 1	1971	Navy/Pruvient	25.0	25.0	Operational
Unit No. 2	1973	Authority/Pruvient	25.0	25.0	Operational
Dededo Power Plant					
CTG Unit No. 1 <sup>(3)</sup>	1992	Authority	23.0	NA	Not Operational
CTG Unit No. 2 <sup>(3)</sup>	1994	Authority	23.0	NA	Not Operational
Macheche Power Plant <sup>(4)</sup>					
CTG Unit No. 1	1993	Authority	23.0	20.0	Operational
Yigo Power Plant <sup>(5)</sup>					
CTG Turbine Unit No. 1	1993	Authority	23.0	19.5	Operational
Talofofo Power Plant					
Unit No. 1 & 2	1993	Authority	8.8	8.6	Operational
Tenjo Vista Power Plant <sup>(6)</sup>					
Unit No. 1 through 6	1993	Authority	26.4	22.0	Operational
Manenggon Power Plant <sup>(7)</sup>					
Unit No. 1 & 2	1994	MDI/Authority	10.6	10.4	Operational
Independent Power Producers					
Piti Unit No. 7	1997	TEMES	41.4	39.1	Operational
Piti Unit No. 8 & 9	1999	MEC	88.4	87.6	Operational
Renewable Resources <sup>(8)</sup>					
Dandan Solar Project	2014	NRG Solar	25.0	NA	Expected online Dec 2014
Total			553.2	464.8	

(1) Available net capacity as of June 21, 2014. *Footnotes continue on following page.*

<sup>2</sup> The Navy was constrained from conveying title of the real property until required remediation measures are in place under the requirements of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"). Once these environmental remediation measures have been completed, the Navy intends to convey fee title and/or grant perpetual easements to GPA for the Leased properties.

- (2) The Tanguisson contract is scheduled to terminate in August 2017; however, GPA has indicated that it intends to cancel the contract as of September 30, 2014 and plans to deactivate the unit shortly thereafter.
- (3) These units require significant expenditures for repairs and replacements before they can be returned to service.
- (4) This unit is currently limited to 20.0 MW (net), and GPA indicates it is making repairs to return it to 23 MW (net) capacity.
- (5) GPA reported that this unit is operational but any additional investments required to keep it operational would not be made.
- (6) Unit No. 6 is not presently operable and GPA indicates repairs are pending.
- (7) Donated by MDI for use by GPA for 25 years.
- (8) The Dandan Solar Project is currently under construction.

## Generating Resources

### ***Cabras Power Plant***

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

**Units No. 1 and 2** are two identical oil-fired, 66.0 MW (net) reheat steam generating units. Cabras Units No. 1 and 2 are the largest generating resources available and as such provide baseload power. Unit No. 1 achieved commercial operation in 1974, and Unit No. 2 achieved commercial operation in 1975. The units use residual fuel oil No. 6, which is delivered to the plant via pipeline from a nearby bulk oil storage facility. Unit No. 1 and 2 are presently operated and maintained, using GPA employees, by Taiwan Electrical and Mechanical Engineering Services, Inc. ("TEMES") under a performance management contract ("PMC") that ends September 30, 2015 with a five-year extension option.

**Units No. 3 and 4** are two identical, oil-fired, slow-speed, 39.3 MW (net) reciprocating engines currently being operated as baseload generation. The units also use residual fuel oil No. 6. Unit No. 3 achieved commercial operation in November 1995 and Unit No. 4 achieved commercial operation in May 1996. Units No. 3 and 4 are presently operated and maintained, using GPA employees, by Korea East-West Co. Ltd. under a PMC that ends June 30, 2015, with a five-year extension option.

Table 6 includes historical performance metrics of the units of the Cabras Power Plant. We note that the metrics are as reported by GPA in accordance with the North American Electric Reliability Corporation Generating Availability Data System definitions. The Equivalent Availability Factor ("EAF") metric accounts for hours that a unit is not available, as well as derated hours. The Equivalent Forced Outage Rate ("EFOR") represents the percentage of hours the unit was forced into outage, excluding scheduled outage hours.

**Table 6**  
**Cabras Power Plant Historical Performance Summary**

<u>Year</u>	<u>Rated Capacity (MW-Net)</u>	<u>Net Generation (kWh)<sup>(1)</sup></u>	<u>Capacity Factor (%)</u>	<u>Equivalent Availability Factor (%)</u>	<u>Equivalent Forced Outage Rate (%)</u>	<u>Fuel Consumption (gal)</u>	<u>Heat Rate (Btu/kWh)<sup>(2)</sup></u>
<b>Cabras Unit No. 1</b>							
2009	66.0	300,965,123	52.1%	93.2%	6.4%	25,390,142	12,565
2010	66.0	254,781,558	44.1%	73.6%	9.9%	20,697,908	12,135
2011	66.0	230,806,272	39.9%	93.2%	3.2%	17,923,535	11,600
2012	66.0	287,410,553	49.6%	91.7%	7.6%	21,272,975	11,055
2013	66.0	330,811,412	57.2%	97.9%	2.3%	24,666,941	11,179
<b>Cabras Unit No. 2</b>							
2009	66.0	217,251,640	37.6%	57.5%	28.9%	17,766,482	12,180
2010	66.0	248,833,370	43.0%	74.2%	9.2%	20,596,788	12,364
2011	66.0	265,975,459	46.0%	93.8%	4.1%	21,713,542	12,194
2012	66.0	262,469,009	45.3%	82.7%	6.2%	19,731,433	11,229
2013	66.0	319,066,628	55.2%	95.9%	3.1%	25,182,623	11,833
<b>Cabras Unit No. 3</b>							
2009	39.3	230,221,845	66.9%	91.5%	2.8%	14,313,798	9,260
2010	39.3	234,228,145	68.0%	96.7%	1.0%	14,479,654	9,234
2011	39.3	244,107,755	70.9%	95.2%	1.1%	14,720,422	9,008
2012	39.3	226,726,934	65.7%	79.3%	6.9%	13,717,257	9,037
2013	39.3	32,784,026	9.5%	12.8%	87.1%	1,960,521	8,965
<b>Cabras Unit No. 4</b>							
2009	39.3	239,397,452	69.5%	94.7%	1.0%	13,489,723	8,393
2010	39.3	226,427,233	65.8%	94.1%	1.5%	14,022,492	9,251
2011	39.3	231,462,121	67.2%	94.6%	1.1%	13,993,947	9,031
2012	39.3	238,764,751	69.2%	83.6%	6.2%	14,605,087	9,137
2013	39.3	251,860,040	73.2%	92.9%	1.5%	15,118,037	8,999

(1) Kilowatt-hours ("kWh").

(2) British thermal units per kilowatt-hour ("Btu/kWh").

The Cabras Power Plant plays a major role in providing capacity and energy to the system. Historically, Unit No. 3 and 4 have been two of the most efficient units on the island. Units No. 1 and 2 are generally sequenced to have major overhauls every five years. However, Unit No. 1 had its last major overhauls in 2010 and 2013, which were only three years apart. Unit No. 2 had its last major overhauls in 2009 and 2012. The next major overhaul is scheduled in 2014, which is only two years after the previous major overhaul in 2012. Unit No. 3 and 4 are scheduled to have major outages annually, which are focused on three cylinders each year.

The age and type of generator technology are the main drivers in the higher forced outage rates and lower availability of Units No. 1 and 2 relative to Units No. 3 and 4. Leidos would expect the long-term annual average availability for units similar to Units No. 1 and 2 to be approximately 85 to 90 percent, which is generally consistent with the historical operating data.

Unit No. 1 had a major planned outage in 2010 along with several forced outages both before and after the planned outage, which impacted availability and forced outage rates. Unit No. 2 had a major planned outage in 2009 along with a significant forced outage related to boiler tube leaks that carried over into 2010, which negatively impacted availability. Unit No. 2 also had a scheduled outage in 2012, as noted above, that negatively impacted availability. Unit No. 3 incurred a forced outage due to a cracked generator rotor shaft in late 2012. The damage was repaired and the unit was returned to service in 2013. An outage was taken to verify the generator rotor condition on Unit No. 4 after the outage on Unit No. 3 was incurred to verify the condition of the Unit No. 4 rotor and mitigate potential impacts to availability.

and costly repairs. Similar damage was not found on the Unit No. 4 generator rotor. Exclusive of the Unit No. 3 forced outage discussed above, the historical availability is in the range Leidos would expect for large reciprocating engines.

### ***Piti Power Plant***

The Piti Power Plant began operation with Unit No. 1 in 1951 and is the oldest generation site on the island. The location is adjacent to GPA's Cabras Power Plant in the west-central part of the island. A total of nine units have been built at this site, including three units presently owned and operated by two Independent Power Producers. Through the Piti substation all operating Piti units (Units No. 7, 8, and 9) have connections at both 34.5 kV and 115 kV level to the grid.

**Units No. 1, 2, and 3** were built in 1951, 1955, and 1964, respectively, as the first major island units and were owned and operated by the Navy. Units No. 1, 2, and 3 are no longer operable. The Navy is responsible for any environmental clean-up associated with these units.

**Units No. 4, 5, and 6** began commercial operation in 1964 and are part of the facilities leased to GPA in 1996. Units No. 4, 5, and 6 have been out of service since FY 1999 and are no longer operable. The Navy is responsible for any environmental clean-up associated with these units.

**Unit No. 7** began commercial operation in December 1997. This 41.4 MW (net) CTG was built, and is owned and operated by TEMES under a 20-year build-own-operate-transfer ("BOOT") arrangement, which will transfer ownership to GPA in December 2017. The TEMES contractual arrangement is one of three entered into with GPA to capitalize on technical, management, and operational expertise of off-island corporations. Under the ECA for Unit No. 7, as is the case with Units No. 8 and 9, which include the provisions for the BOOT structure, GPA is supplying the fuel oil and the independent companies are returning electricity to GPA. The agreement for Unit No. 7 has 20-year term at which time the plants are to be turned over to GPA at no cost.

**Units No. 8 and 9** began commercial operation in January 1999. The units are both oil-fired, slow-speed reciprocating engines, which are very similar to Cabras Units No. 3 and 4, and use residual fuel oil No. 6. The units combined are rated at approximately 88 MW (net). The units were built, and are owned and operated by Marianas Energy Company ("MEC") under a 20-year BOOT arrangement, which will transfer ownership to GPA in January 2019. Under an ECA with MEC, the combined net rating of these units can vary on a year-to-year basis between 79.60 MW and 87.56 MW. Osaka Gas Energy America Corporation ("Osaka"), a wholly owned subsidiary of Osaka Gas Co., Ltd. of Japan, acquired 50 percent ownership of MEC in December 2005 and the remaining 50 percent in March 2007 from successors to the original owners. The Osaka contract expires in January 2019.

Table 7 includes historical performance metrics of the units of the Piti Power Plant.

**Table 7**  
**Piti Power Plant Historical Performance Summary**

<u>Year</u>	<u>Rated Capacity (MW-Net)</u>	<u>Net Generation (kWh)</u>	<u>Capacity Factor (%)</u>	<u>Equivalent Availability Factor (%)</u>	<u>Equivalent Forced Outage Rate (%)</u>	<u>Fuel Consumption (gal)</u>	<u>Heat Rate (Btu/kWh)</u>
<b>Piti Unit No. 7</b>							
2009	41.4	6,474,616	1.8%	99.2%	0.4%	672,540	14,268
2010	41.4	13,714,214	3.9%	97.4%	0.0%	1,369,843	13,632
2011	41.4	8,357,040	2.4%	99.8%	0.0%	884,782	14,449
2012	41.4	1,214,319	0.3%	49.1%	0.0%	132,926	15,004
2013	41.4	3,365,826	1.0%	62.8%	0.0%	398,351	16,267
<b>Piti Unit No. 8</b>							
2009	44.2	301,094,350	78.1%	92.4%	0.9%	17,521,355	8,667
2010	44.2	305,264,781	79.2%	96.3%	1.7%	17,882,085	8,750
2011	44.2	286,154,710	74.2%	89.1%	1.1%	16,620,269	8,676
2012	44.2	241,685,460	62.5%	69.2%	6.3%	14,198,154	8,775
2013	44.2	311,582,010	80.8%	88.8%	1.3%	18,134,456	8,725
<b>Piti Unit No. 9</b>							
2009	44.2	313,744,500	81.4%	95.3%	1.4%	18,100,226	8,593
2010	44.2	287,482,760	74.6%	91.1%	2.1%	16,634,207	8,643
2011	44.2	303,448,720	78.7%	94.3%	2.1%	17,562,739	8,645
2012	44.2	278,401,940	72.0%	79.8%	2.1%	16,348,425	8,771
2013	44.2	306,049,414	79.4%	89.2%	1.6%	17,775,903	8,708

The Piti Power Plant also plays a major role in providing capacity and energy to the system. Unit No. 7 provides peaking capacity and energy to the system and follows a major maintenance cycle based on operating hours. As such there has been limited operating hours on the unit and similarly limited major maintenance activities. TEMES reported that a combustion inspection and modified hot gas path inspection were conducted earlier than scheduled in 2013 to regain some lost capacity suffered from normal degradation. Historically, Units No. 8 and 9 have been two of the most efficient units on the island. Units No. 8 and 9 are generally sequenced to have major overhauls annually.

The availability of Unit No. 7 suffered in 2012 due to the Unit No. 8 generator step-up (“GSU”) transformer failure described further below. GPA used the Unit No. 7 GSU transformer to support operation of Unit No. 8 until a replacement GSU could be delivered and installed. Unit No. 7 availability was impacted by a scheduled outage in 2013 that was incurred to try and improve unit performance relative to the ECA with TEMES. Unit No. 8 incurred a higher than normal forced outage rate in 2012 due to an outage incurred to repair and replace the Unit No. 8 GSU, which was damaged during maintenance activities. A new GSU has been installed and placed in service. Exclusive of the GSU-related forced outage discussed above, the historical availability is in the range Leidos would expect for large reciprocating engines.

### ***Tanguisson Power Plant***

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

Units No. 1 and 2 were constructed in 1971 and 1973, respectively. Unit No. 1 is part of the Navy generating assets being transferred to GPA. Unit No. 2 is owned by GPA. In 1996, GPA entered into an ECA with HEI Power Corporation Guam (“HEI”), a subsidiary of Hawaiian Electric Industries, Inc., to refurbish the Tanguisson Power Plant. HEI completed refurbishment of both units in 1997 at a cost of approximately \$15 million. This work included increasing the capacity of Unit No. 1 from 22.0 MW

(net) to 25.0 MW (net), the same as Unit No. 2. In 2001, HEI sold its interest in the ECA to Mirant Guam (Tanguisson) Corporation (“Mirant”), which sold the interest to Pruvient Energy Guam, Inc. (“Pruvient”) in 2004. Pruvient now operates and maintains the plant.

The plant is interconnected to the 34.5 kV transmission system. Both units use residual fuel oil No. 6, which is delivered to the site via an underground pipeline operated and maintained by GPA.

Table 8 includes historical performance metrics of the units of the Tanguisson Power Plant.

**Table 8**  
**Tanguisson Power Plant Historical Performance Summary**

<u>Year</u>	<u>Rated Capacity (MW-Net)</u>	<u>Net Generation (kWh)</u>	<u>Capacity Factor (%)</u>	<u>Equivalent Availability Factor (%)</u>	<u>Equivalent Forced Outage Rate (%)</u>	<u>Fuel Consumption (gal)</u>	<u>Heat Rate (Btu/kWh)</u>
<b>Tanguisson Unit No. 1</b>							
2009	25.0	58,178,200	25.1%	91.9%	8.2%	5,656,543	14,463
2010	25.0	82,414,570	35.5%	95.1%	1.2%	8,065,473	14,627
2011	25.0	76,728,780	33.1%	98.0%	0.0%	7,511,820	14,627
2012	25.0	42,054,920	18.1%	92.1%	1.2%	4,211,399	14,942
2013	25.0	47,345,282	20.4%	96.2%	0.1%	4,465,680	14,144
<b>Tanguisson Unit No. 2</b>							
2009	25.0	68,571,198	29.5%	87.7%	8.8%	6,714,875	14,566
2010	25.0	91,387,570	39.4%	95.7%	1.2%	8,846,811	14,469
2011	25.0	65,954,641	28.4%	91.8%	1.3%	6,499,570	14,723
2012	25.0	76,470,527	32.9%	95.3%	2.3%	7,387,568	14,414
2013	25.0	27,407,159	11.8%	95.1%	0.0%	4,578,853	25,054

Units No. 1 and 2 of the Tanguisson Power Plant are generally sequenced to have major overhauls every six years. Unit No. 1 had its last major overhaul in 2010 and Unit No. 2 in 2011, with the next major overhauls currently scheduled in 2016 and 2017, respectively. The heat rate of the Tanguisson units is higher (worse) than that of the heat rate of Cabras Units No. 1 and 2 because the Cabras Units No. 1 and 2 are designed using a reheat steam cycle, which is inherently more efficient. Historical performance of Tanguisson Units No. 1 and 2 has been consistent and in accordance with Leidos’ expectations for a facility of this size and type.

The ECA contract with Pruvient terminates in August 2017. However, Leidos notes that GPA has indicated that it is currently planning to terminate its contract with Pruvient early, in fall 2014, and has begun discussions with Pruvient regarding the early termination. Leidos has assumed a \$3.1 million payment from GPA to Pruvient for early termination occurring in FY 2015, based on GPA’s current estimation of contract termination penalties; however, additional termination penalties may be determined. The current plan is to deactivate the units upon contract termination. While no firm plans have been established for the Tanguisson Power Plant, GPA may consider taking measures to keep the units in near operational condition; so that with on-going, fixed expenditures, the units could be used in future emergency situations. GPA does not have firm plans for the Tanguisson Power Plant after the deactivation of the units this year. GPA has indicated that it plans to keep on-going costs for Tanguisson Power Plant at a minimum and will consider options for the plant as more information becomes available. As such, Leidos has not assumed any costs for Tanguisson Power Plant beyond FY 2015 in the financial projections.

### ***Dededo Power Plant***

The Dededo Power Plant is located adjacent to Marine Corps Drive in the north central part of Guam. The plant includes six generating units; four reciprocating engines and two CTGs. GPA has recently discontinued operations of the four reciprocating engines. The plant is owned, operated, and maintained by GPA. All units run on No. 2 diesel fuel oil.

Both CTGs are General Electric, Frame-5 type CTGs rated at 23.0 MW (net). The units are fired on diesel fuel oil No. 2. Units No. 1 and 2 began operation in 1992 and 1994, respectively. Both units have incurred generator damage and the Unit No. 1 switchgear has also recently been damaged by fire. Unit No. 1 has not been dispatched since 2011 and Unit No. 2 has not operated over the last five years. The Unit No. 1 generator rotor is currently being repaired; however, repairs or replacements to the Unit No. 1 switchgear, fin fan coolers, and controls will need to be completed prior to Unit No. 1 being returned to service, which GPA plans to do by the end of FY 2015. Leidos believes it is unlikely that Unit No. 2 will be returned to service without additional permitting due to its historical operation and the extent of repairs currently required.

### ***Macheche and Yigo Power Plants***

Both of these power plants consist of a 23.0 MW (net) CTG unit. The units are fired on diesel fuel oil No. 2. The Yigo unit was obtained under a three-year capital lease. GPA extended the lease of this unit for an additional three years and purchased the unit upon expiration of the lease in 1999. Both units began operation in 1993 and are operated and maintained by GPA. Each unit has averaged less than 1,500,000 kWh of generation over the last five years at a heat rate of over 12,500 Btu/kWh. While both units are currently operational, GPA reported as of August 2014 that it no longer plans to make significant investments in the Yigo unit.

### ***Marbo Power Plant***

The Marbo Power Plant is a non-operating plant located in the northern part of Guam. The plant consists of a 15.2 MW (net) CTG unit, which is reported to have achieved commercial operation in July 1995. This facility was included in the lease of generation assets from the Navy that started in 1996. The unit has not operated over the last five years. Further, GPA reported that it has discontinued operations of this unit and has cancelled its Title V air operating permit.

### ***GPA Reciprocating Engines***

In 1993, GPA purchased and installed eight 4.4 MW (net) reciprocating engine units. Two of the units were permanently installed at the Talofoto site and the remaining six units were temporarily installed in pairs at various locations until the Tenjo Vista site was completed. All six units are now located at this permanent site. These units provide quick start capability with heat rates in the 9,500 to 10,000 Btu/kWh range. The efficiency of the units does not drop off significantly at part load, which makes them ideal for part load operation or load following. Further, the units have historically had annual average availabilities of approximately 85 percent. Tenjo Vista Unit No. 6 is not currently operable and GPA indicates repairs are pending. Leidos notes that all of these units have recently had oxidation catalyst installed to comply with newly promulgated environmental regulations associated with air emissions.

### ***GPA Standby Generators***

GPA has installed standby generation to provide backup power for municipal water pumping and sewer lift pumps owned and operated by GWA. Additionally, standby generation has been provided for GWA's two large sewer treatment plants. This generation is used during system power outages resulting from major storms or other causes and during peak load conditions to assure water availability on the island and to a lesser degree to help reduce the amount of generation that would otherwise be necessary. Each generator unit has been designed for automatic starting and stopping. Due to the dispersed locations of the pumps, 131 standby generators were originally installed. Due to a number of water wells being taken

out of service, GPA reports that 123 standby generators are currently in use. In locations where sufficient land is not available for permanent units, approximately 12 mobile units are available for use. GPA owns, maintains, and operates all of the standby units.

#### ***Manenggon Hills Power Plant***

MDI, a private developer, installed two Wartsila reciprocating engines, each rated at approximately 5.2 MW (net), in 1994 as part of a development in the Manenggon Hills area. The operation of the units was officially transferred to GPA in December 1994 and GPA is operating and maintaining these units as part of the system. In the event of an emergency, the development's loads are to be served first and the remaining 7 MW of net output of both units are dedicated for GPA's use. Should the development's loads grow, MDI plans to add additional units to guarantee the 7 MW (net) to GPA. These units provide quick start capability with heat rates in the 9,500 to 10,000 Btu/kWh range. The efficiency of the units does not drop off significantly at part load, which makes them ideal for part load operation or load following. Further, the units have historically had annual average availabilities of approximately 98 percent.

### **Non-System Generating Resources**

#### ***Orote Power Plant***

The Navy owns and maintains a reciprocating engine generating facility that is not part of the Island Wide Power System, the Orote Power Plant. This plant consists of three 6.0 MW (net) oil-fired reciprocating engines that became operational in 1996. When power is made available by the Navy, GPA is able to purchase power from the units at the Navy's incremental cost.

### **Additional Near-Term Generating Resources**

#### ***Dandan Solar Project***

NRG Solar began constructing the 25 MW solar project near Dandan in March 2014 (referred to herein as the "Dandan Solar Project"). GPA believes the project will be operational at the end of calendar year 2014, early 2015 at the latest. The project will interconnect with GPA transmission system through a new substation near the site and a new transmission line to the existing Talofofu substation located approximately six miles away by road. Both the new substation and transmission line are included in the project developer's cost. The Dandan Solar Project is contractually bound to provide a minimum guaranteed amount of energy per year and will contribute toward GPA meeting the Guam Renewable Portfolio Goal, which establishes a schedule for having 5 percent of net energy sales provided by renewable generation resources by December 2015 and 8 percent of net energy sales by December 2020, among other provisions.

#### ***Solar Partnering***

GPA intends to start a pilot program with Guam Community College and then other customers for solar installations. GPA would contract with a developer to construct solar projects on building rooftops and in open areas that would allow for relatively larger installations. GPA would own the facilities and pay customers a "green energy credit" based on the size of the installation, the contractor's offtake price, and the LEAC. GPA has not conducted a value of solar study; but its rate design consultant, Black & Veatch, is developing the green energy credit calculation now. This is intended to help GPA reach its solar goal and provide a benefit to customers, while still recovering fixed cost to serve.

### **Power Delivery Systems**

Scheduling and delivery of reliable energy to the electric utility customers is accomplished through a network of transmission and distribution lines monitored by a communication system. The discussion

below provides a description of the control and dispatch practices, the facilities, maintenance plans, historical operating statistics, and a summary of planned future power delivery system resources.

### ***Control and Dispatch***

Through the PSCC located adjacent to the Cabras Power Plant, GPA controls power generation and delivery. GPA's generation units are dispatched in accordance with an Economic Dispatch Program ("EDP") as much as possible. The EDP calculates the required MW output for each unit to support system demand and spinning reserve requirements. The EDP uses the most recent unit heat rate curves, fuel prices, and unit constraints (high/low MW output limits and available spinning reserve for the system) to calculate the most economical generation mix to support real-time system demand. The GPA dispatcher monitors real-time system demand via the supervisory control and data acquisition ("SCADA") system / energy management system ("EMS") 24 hours a day, 7 days a week. As system demand varies throughout the day, the dispatcher enters the system demand into the EDP and the EDP determines the optimal output of each unit. The dispatcher then contacts the affected unit control operators, via a "hot line," and directs them to adjust their output accordingly. The installation of automatic generation control ("AGC") equipment has been completed at several of the larger units, with others planned for in the near future. GPA plans to place the AGC system in service after all of the primary generators have AGC installed to help control the system. The SCADA/EMS system provides real-time power output, reactive power, voltage, amperage, and power factor monitoring of all baseload generators and three of the largest peaking units. The output generation of the smaller peaking units is monitored through transmission breakers. The SCADA/EMS system provides control and monitoring of all GPA substations and the 34.5 kV breakers and relevant equipment in the DOD substations. The system is also capable of collecting and storing analog and breaker status data for analytical use. The PSCC also maintains a meteorological monitoring station to support a fuel switching application that collects and processes meteorological information for three purposes: environmental regulatory compliance at the Cabras-Piti Area, Intermittent Control Strategy ("CPAICS"), daily load forecasting, and support of future environmental studies.

### ***Transmission and Distribution Facilities***

GPA owns, operates, and maintains the overhead and underground transmission and distribution lines and associated hardware, substation equipment, energy/revenue meters, and relay protective devices that support power transmissions and delivery to customers.

GPA reports as of June 2014, there are 29 substations located across the island connected by transmission and distribution lines. There is approximately 35 miles of 115 kV and 140 miles of 34.5 kV transmission lines. All 115 kV lines are overhead installations. Approximately 80 percent of the 34.5 kV transmission lines are overhead installations, with the remainder being underground installations. The substations supply 65 distribution feeders with approximately 2,500 miles of line, over 60 percent of which is rated at 13.8 kV. Approximately 80 percent of the distribution lines are overhead installations. The overhead transmission and distribution lines are supported by approximately 32,000 poles ranging in height from 20 to 90 feet, of which less than 20 percent are wood.

### ***Maintenance Plan***

GPA utilizes an inspection and maintenance schedule that includes visual inspection of poles on a weekly basis; breakers, transformers, and battery banks on a monthly basis; and relays on a semi-annual basis. Oil samples from oil filled breakers and transformers are collected and analyzed monthly. Infrared scans of breakers and transformers are conducted every four months. Preventative maintenance of breakers and transformers is conducted every five years.

### ***Operating Statistics***

GPA monitors outages and categorizes them to analyze and plan for future. Historically, the system has primarily been impacted by forced outages at the generating units, which has resulted in loss of power to

some customers. Recent historical indices commonly used to measure system performance by electric utilities, including system average interruption duration index (“SAIDI”) and system average interruption frequency index (“SAIFI”) are summarized in Table 9, as reported by GPA and as calculated by Leidos using raw data provided.

**Table 9**  
**Reliability Index Summary**

	All Outages		Greater than 1 Min		Greater than 2 min		Greater than 3 min	
	SAIDI	SAIFI	SAIDI	SAIFI	SAIDI	SAIFI	SAIDI	SAIFI
2009	451.93	18.53	449.65	16.03	444.66	13.54	438.65	11.53
2010	263.71	13.03	261.83	11.15	257.86	9.16	253.97	7.86
2011	667.63	15.36	666.48	14.21	660.58	11.26	656.59	9.93
2012	231.60	17.00	229.22	14.34	224.23	11.84	217.69	9.66
2013	655.02	16.96	653.17	14.89	650.13	13.37	645.97	11.98

The 2012 Pacific Power Benchmarking Report noted that the average SAIDI and SAIFI values for island systems similar to the GPA system was 794 and 8, respectively.

#### ***Future Delivery System Resources***

The proceeds of the 2014 Senior Bonds will support capital projects for the generating units and the delivery systems to improve reliability, including the installation of an energy storage system (“ESS”), a 40 MW battery system. The ESS is expected to lower spinning reserve requirements and reduce under-frequency load shedding caused by the loss of generating units. GPA has estimated approximately 60 percent of SAIDI is attributable to under-frequency load shedding and the ESS will reduce these load shedding events by 77 percent. This means for a given year, GPA would expect to see outage minutes reduced by 46 percent as a result of the ESS.

Large frequency excursions due to generation or load loss events are more common in an island grid due to lack of adequate inertia and relatively weak strength of the grid. Therefore, utilization of under-frequency load shedding schemes to prevent island-wide black out is a key mitigation strategy to manage loss of generation events. Integration of inverter-based renewable generation such as wind and solar, further reduces the system strength and increases frequency excursions aggravating the load shedding issue. GPA’s planning study work identifies these issues and recommends enforcing extended ride through capability for solar and wind generation installed and planned on the system. This will help as the inverter-based generation will stay connected to the system to provide grid support under a disturbance. Further, installation of an ESS will provide frequency response in a generation loss event and arrest frequency decline and, thereby, reduce the number of under-frequency load blocks to be shed. The ESS, if sized and controlled properly, will also help in managing other operational issues including, but not limited to, cloud cover ramp events, up and down reserve requirements, and load shifting. These recommendations, if implemented and enforced adequately, will maintain or increase the GPA system reliability as more renewable generation is integrated in future. GPA’s estimated total cost for the ESS is approximately \$60 million and GPA plans for its completion by end of FY 2016.

## **FUEL OIL SUPPLY**

As mentioned previously, GPA relies completely on residual fuel oil No. 6 and diesel fuel oil No. 2 for its generating resources. Because of the high cost, fuel oil has been a major focus of GPA during each year's budget process.

### **Contract Suppliers**

GPA's fuel supply for residual fuel oil No. 6, both high sulfur and low sulfur types, for the Cabras, Piti, and Tanguisson power plants is purchased through a contract with Hyundai Corporation, a Korea based company. The two-year contract expires August 31, 2015. The contract is renewable annually thereafter for one year terms upon mutual agreement of both parties (can be renewed through August 31, 2018).

The minimum purchase under the Hyundai contract is 2.0 million barrels per year. For the 12 months ended September 30, 2013, GPA took delivery of approximately 2.56 million barrels of oil under the contract, at a cost of approximately \$274 million. This represents approximately 97 percent of GPA's usage (in terms of barrels consumed).

GPA has two contracts for diesel fuel oil No. 2, which are put up for bid on a periodic basis to supply GPA's CTGs, reciprocating engine units, and emergency standby generators. These contracts are currently with Isla Petroleum and Energy Holdings, LLC Guam ("IP&E") and expire in November 30, 2014. With both contracts, GPA exercised the two year extension options. GPA has stated that it was satisfied with the contractual performance of IP&E during the first two years and that the annual contract cost for the Tenjo Vista plant was reduced by \$324,800 per year. For the 12 months ended September 30, 2013, GPA took delivery of approximately 87,800 barrels at a cost of approximately \$12.9 million. Currently, GPA has two new diesel fuel oil contracts under review for approval with the PUC, one with IP&E and one with Mobil Guam. Both contracts would commence on December 1, 2014 and be in effect for three years. GPA believes there is a possibility that a protest may be lodged by IP&E regarding the new contracts; in the event of a protest, the current contracts would continue on a month-to-month basis.

### **Fuel Risk Management Program**

GPA established a fuel hedging program to mitigate exposure to fuel price fluctuations in 1999. The program was updated on January 27, 2012 with the assistance of Leidos to create a direct linkage between the hedging activities and the impact to ratepayers given the rise or drop in fuel prices. The process and the authorization were approved by the PUC in March 2012. The program is designed to identify future consumer exposure to movements in fuel prices, quantify the impact of these exposures, and to mitigate their effects. The program employs additional financial instruments and the use of a statistical model to measure risk and gauge the need to establish hedges. Its design requires a disciplined approach, requiring on-going monitoring of changing parameters and the timely implementation of proposed strategies. GPA is in the process of fully implementing the revised program and plans to hire a full-time staff member to handle the fuel hedging analytics and related hedging activities. Based on model results, GPA makes decisions on how much, when, and what hedge instruments to use. Leidos has been providing on-going technical support as GPA continues to implement the program.

The updated approach entails the measurement of price changes and entering into hedges if the risks of price changes are projected to be beyond those deemed tolerable by management. More specifically, GPA is using a best-practice Value-at-Risk ("VaR") approach that measures potential price movement within a 30--day horizon and a 95 percent 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.

GPA has recently completed its Dodd Frank registration and management plans to continue to use its two counterparties (J. Aron & Company, a subsidiary of The Goldman, Sachs Group Inc., and the Australia and New Zealand Banking Group Limited ("ANZ")) to execute the trades and competitively bids each

counterparty against the others for better pricing options. These counterparties also provide market prices to update the models that measure the risk exposure tolerable for GPA. For execution of the hedges, GPA has established International Swaps and Derivatives Association, Inc. ("ISDA") agreements with each of them and hedges without collateral. Given its projected improved financial condition, no margin calls are anticipated to be required for GPA's hedge contracts. Notionally, GPA hedging agreements with J. Aron & Company allow it to trade within a credit limit of \$15 million without the need for additional collateral. If GPA were to exceed this credit limit of \$15 million, or if GPA's credit rating was substantially downgraded, which in turn would reduce the credit limit, a margin call could be triggered. GPA has stated that ANZ has an internal credit limit for GPA that ANZ will manage without asking GPA for collateral. GPA has indicated that per these arrangements as GPA's credit rating improves the credit from counterparties increases and conversely, as GPA's credit worthiness decreases, the amount of credit from counterparties decreases. GPA's credit standing also impacts the length of time counterparties are willing to enter into hedges. For example, when GPA previously had a non-investment grade rating, counterparties were unwilling to allow hedges greater than one year in the future to be purchased.

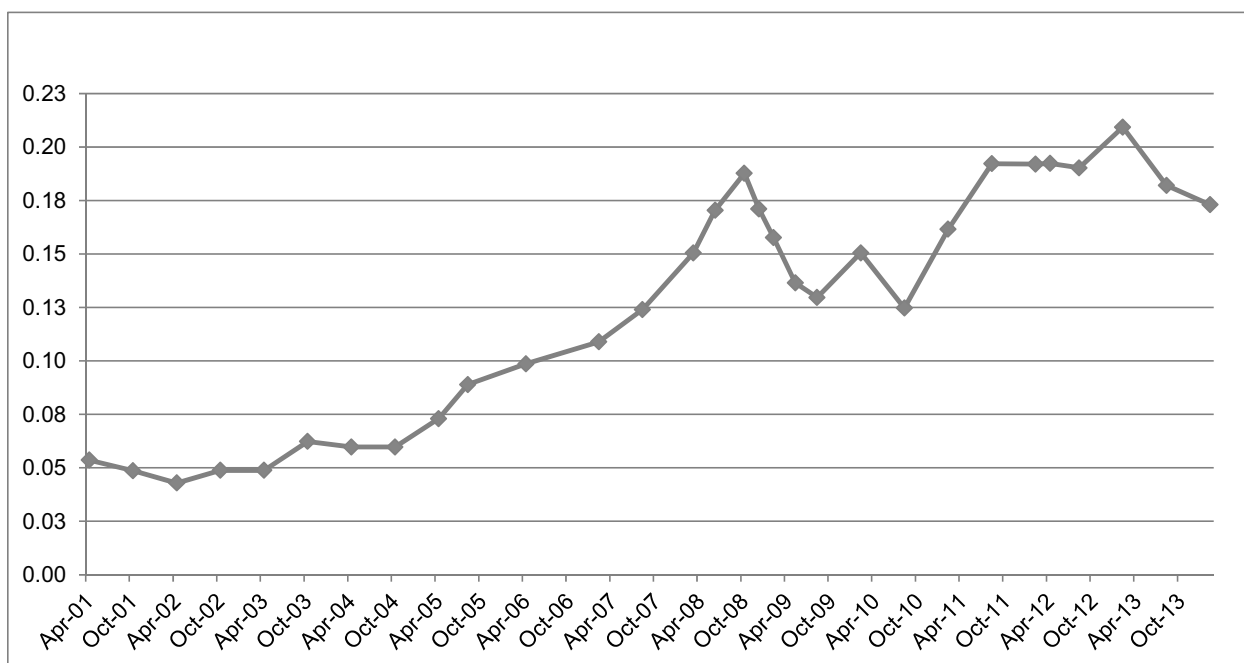
As of the date of this Report, GPA is awaiting the hiring of the full-time fuel hedging staff person. GPA is running the model weekly, and made two transactions since FY 2013 (both occurring on November 6, 2013). Currently, GPA holds hedges for none of its fuel costs within the parameters of the program.

## **LEAC**

The current LEAC allows for recovery of fuel costs including pipeline costs, storage tanks, and other related fuel costs over a six-month period, through bi-annual rate adjustments that generally go into effect in August and February. This mechanism assists in reducing the variability in the fuel costs to GPA's customers.

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

Figure 2 illustrates the adjustments that have been made to LEAC rates since 2001 because of changes in fuel costs. Fuel commodity and handling costs were approximately \$295 million in FY 2013 and they represented approximately 65 percent of GPA's total revenues.



**Figure 2: LEAC Adjustments**

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

## **FUTURE RESOURCES**

### **Resources and Peak Loads**

During the period from FY 2014 through 2017, GPA expects to meet its projected peak load requirements primarily from existing resources and new renewable resources such as solar and wind. For planning purposes GPA has established a reserve requirement of having available generating resources equivalent to the greater of: (i) its two largest generating units, or (ii) meeting a loss of load equal to one day in 4.5 years or 5.3 hours per year. The two largest generating units are currently Cabras Units No. 1 and 2 at 66.0 MW (net) each. Based on this criterion and the unit retirements currently contemplated, GPA will have a generating surplus during the study period. Resources in GPA's IRP that are expected to generate less than one percent per year have not been included as available for meeting system peak demand. Exceptions to this include units that can be started very quickly, such as the high-speed reciprocating engines at Manenggon Hills, Tenjo and Talofoto and the TEMES CTG of Piti Unit No. 7. Actual retirement dates are being studied for a number of GPA units based on economic considerations.

In meeting peak loads on a daily and annual basis, GPA is assisted by having a daily and annual load requirements that are generally flatter than that experienced by many other utilities because of relatively constant ambient temperatures and the corresponding significant proportion of electricity used for air conditioning. Table 10 compares peak loads and available resources.

**Table 10**  
**Peak Loads and Resources <sup>(1)</sup>**  
**(MW)**

Fiscal Year Ending September 30:	Historical					Projected					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<u>Peak Loads in MW</u>											
Total Peak Loads	268.0	272.0	263.0	258.0	257.0	250.5	250.5	250.5	250.0	250.2	251.3
<u>Resources in MW</u>											
<u>GPA Resources</u>											
Cabras Steam 1 and 2	129.0	129.0	129.0	129.0	129.0	129.0	129.0	129.0	129.0	129.0	129.0
Cabras Diesels 3 and 4	76.8	76.8	76.8	76.8	78.6	78.6	78.6	78.6	78.6	78.6	78.6
Dededo Combustion Turbine 1 and 2 <sup>(2)</sup>	22.0	22.0	0.0	22.0	44.0	0.0	0.0	22.0	22.0	22.0	22.0
Macheche Combustion Turbine 1	22.0	22.0	19.0	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Yigo Combustion Turbine 1	22.0	22.0	18.0	18.0	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Dededo Diesels 1, 2, 3 and 4	8.0	6.0	6.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manenggon Hills Diesels 1 and 2	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Talofofo Diesel 1 and 2	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Tenjo Vista Diesels 1, 2, 3, 4, 5, and 6	28.2	28.2	28.2	23.5	22.0	22.0	26.4	26.4	26.4	26.4	26.4
Total GPA Resources	327.0	325.0	296.0	313.3	332.1	288.1	292.5	314.5	314.5	314.5	314.5
<u>Independent Power Producers</u>											
Pruvient - Tanguisson 1 and 2 <sup>(3)</sup>	50.0	50.0	50.0	50.0	50.0	50.0	0.0	0.0	0.0	0.0	0.0
MEC - Diesels 8 and 9	87.6	87.6	87.6	87.6	87.6	87.6	87.6	87.6	87.6	87.6	87.6
TEMES - Piti Combustion Turbine 7	41.4	41.4	41.4	41.4	39.1	39.1	39.1	39.1	39.1	39.1	39.1
Total IPP Resources	179.0	179.0	179.0	179.0	176.7	176.7	126.7	126.7	126.7	126.7	126.7
<u>Renewable Resources <sup>(4)</sup></u>											
Dandan Solar Project	0.0	0.0	0.0	0.0	0.0	0.0	25.0	25.0	25.0	25.0	25.0
Total Resources (MW)	506.0	504.0	475.0	492.3	508.8	464.8	444.2	466.2	466.2	466.2	466.2
Total Available for Reserves	238.0	232.0	212.0	234.3	251.8	214.3	193.7	215.7	216.2	216.0	214.9
GPA Target Reserve <sup>(5)</sup>	48.1%	47.4%	49.0%	50.0%	50.2%	51.5%	51.5%	51.5%	51.6%	51.6%	51.3%
Calculated Reserve	88.8%	85.3%	80.6%	90.8%	98.0%	85.5%	77.3%	86.1%	86.4%	86.3%	85.5%
Resources Surplus (Deficit) (MW)	109.0	103.0	83.0	105.3	122.8	85.3	64.7	86.7	87.2	87.0	85.9

- (1) Reflects amounts available for system peak load. Any resources with an anticipated capacity factor of less than one percent have not been included. Exceptions to this include the Manenggon Hills Diesels, Tenjo Vista Diesels, Talofofo Diesels, and the TEMES Piti Combustion Turbine Unit No. 7.
- (2) The Dededo Unit No. 2 CTG unit was not available for dispatch by GPA in FY 2009 through 2013 and Unit No. 1 CTG was not available in FY 2011 through FY 2013.
- (3) Assumes Tanguisson Units No. 1 and 2 will be deactivated as of beginning of FY 2015.
- (4) A contract is under negotiation for Pacific Green Resources to provide 9.34 MW of wind generation. Leidos has not assumed any capacity from the PGR project as part of the capacity projections presented herein.
- (5) Target reserve is based on having reserves equal to two largest units as a percentage of peak load.

## Integrated Resource Planning

GPA's Strategic Planning and Operations Research Division ("SPORD") developed its most recent IRP filed with the PUC in early 2013. Leidos assisted GPA with the development of the IRP. The IRP includes analyses leading to the determination of the timing, sizing, location, and technologies to be used for future GPA generation resources, and also looks at which existing units would be likely candidates for retirement or mothballing. GPA's planning is influenced by legislation adopted in 2008 establishing goals for renewable energy portfolio standards and requiring a preliminary goal of 5 percent of its net electricity sales to be furnished from renewable generation by December 31, 2015 and increasing to 25 percent by December 31, 2035. The law also requires that 10 percent of any traditional power supply that is constructed be furnished from a renewable resource. GPA is also facing relatively new, stricter environmental regulations related to air emissions that will require retrofitting of its baseload plants and emissions control equipment to avoid paying costly emissions penalties; see section "ENVIRONMENTAL CONSIDERATIONS" for additional information.

As discussed previously, GPA currently has two renewable contracts in place and it is expected the Dandan Solar Project will come online in late calendar year 2014, early 2015. GPA continues discussions with PGR and it is Leidos' understanding that the likely outcome of the PGR wind project will be ascertained within the next few months. GPA is currently considering adding additional renewable resources during the five-year study period shown herein. A second phase of renewable acquisition, again through an Invitation for Bid process is planned for late summer/early fall 2014. Response to the first Invitation for Bid was limited. This second round of renewable procurement will adopt the same basic format as the first, with some modifications (qualification of bidders first with sealed price proposals to follow), in the hopes of securing a larger response and better pricing from prospective bidders.

In addition to evaluating the potential for and feasibility of a variety of traditional renewable and fossil-fueled options, the IRP study also assessed the feasibility of using alternative fuel sources (such as LNG), small modular nuclear reactors, ocean-derived power and fuel technologies, and demand-side management measures. For additional information on GPA's load forecast and resources see the "POWER REQUIREMENTS" and "POWER SUPPLY AND DELIVERY" sections herein.

### **Liquefied Natural Gas ("LNG")**

To manage costs, GPA is exploring alternative fuels for power generation. Beginning in 2011, GPA hired Leidos (then R. W. Beck) to lead a team of industry experts to research LNG markets and provide a feasibility assessment for the use of LNG on Guam as a fuel source for electric power generation. The study was conducted with technical support and expertise from Winzler & Kelly and CH-IV. The study included preliminary siting, configuration, and costing of a land-based LNG terminal; as well as price forecasts for LNG delivered to Guam, as well as cost estimates for O&M of the terminal, regasification facilities, and pipelines; conversion of units from oil-fired to natural gas-fired operation; and emissions. Findings from this study were refined and included in GPA's 2012 IRP analyses (for the 2013 IRP Report). The IRP examined the potential costs, benefits, and risks associated with importation and use of natural gas versus other resource options. It was determined that switching to natural gas-fired baseload resources was the least cost resource option. The analyses showed that LNG was a price competitive fuel for GPA, even with the relatively large capital outlay to provide the LNG terminal, storage, regasification, pipeline, and unit conversions—because forecasts showed a significant price savings between LNG and fuel oil products over the long term as well as being able to forego significant environmental mitigation costs facing GPA. These environmental mitigation costs, which could have been upwards of \$400 million will be largely avoided by replacing oil-fired generation resources with natural gas. See section titled "ENVIRONMENTAL CONSIDERATIONS."

GPA's consultant, CHA Consulting, Inc. ("CHA") prepared a resource implementation plan, which GPA filed with the PUC in June 2014. Although much of the planning is still in the preliminary stage, initial plans are to procure imported LNG through a land-based terminal near Apra Harbor, with a nearby regasification facility and large storage tanks; with pipelines running to new natural-gas fired resources and if converted, to existing facilities currently firing on oil. GPA plans to have LNG available by 2021. GPA plans to have two, dual-fueled smaller combined cycle generation units (approximately 55 MW each) installed prior to 2018. GPA is interested in units that can efficiently follow the load curve requirements of the system. Beginning in 2018, GPA will run the MEC Piti Nos. 8 and 9 units as those first dispatched to serve load using residual fuel oil. GPA will also run Cabras Units No. 3 and 4 as the next units dispatched on residual fuel oil. GPA will use the new generators to follow the remaining load using diesel fuel. Cabras Units No. 1 and 2 will be retired as soon as the new generators have stabilized in their operation.

GPA is making plans to have the LNG facility completed before 2021, which will coincide with additional combined cycle capacity, dual-fueled, coming online (approximately two units totaling 110 MW). GPA plans to commit to the U.S. Environmental Protection Agency (the "USEPA") that the new baseload units will be firing a majority of the time with natural gas and be online no later than 2022. After the new generators have become stable, GPA will most likely retire Cabras Units No. 3 and 4 and

make modifications to Piti Units No. 8 and 9 to enable the plant to run on LNG. Piti Unit No. 7 would also be retrofit to burn LNG. The new units will all be designed to burn LNG or diesel. All other units would run solely on diesel.

GPA reports that early indications have been that by converting to LNG as a primary fuel supply GPA will achieve savings relative to installing pollution control equipment on existing units and continuing to burn residual fuel oil as a primary fuel source. Included in this analysis are savings achieved through the issuance of tax exempt debt to fund the LNG project. That would require government ownership of the project. GPA has utilized two types of generation management contracts in the past – IPP’s and PMC’s. GPA has not decided which vehicle to use for the new generation. GPA is exploring whether or not a PMC contract can shift additional risk to the operator. If that cannot be achieved, GPA would pursue a long term IPP management contract wherein the contractor would take full risk for the operation of the plant.

Within the study period, in 2014 dollars, GPA expects to spend on LNG projects approximately \$2.0 million in FY 2014, \$4.4 million in FY 2015, \$84.6 million in FY 2016, \$138.1 million in FY 2017, \$74.9 million in FY 2018, \$186.1 million in FY 2019, \$182.3 million in FY 2020, and \$18.8 million in FY 2021, primarily on the terminal and associated storage and delivery facilities, unit conversions, and the new combined cycle plant. It is expected that approximately \$3.0 million of these expenditures will be paid for through proceeds from the 2014 Senior Bonds. Leidos’ current financial forecast assumes the rest of these expenditures, plus capitalized interest, are paid for with additional bond issuances of \$331 million in FY 2016 and \$531 million in FY 2018; a subsequent bond issuance of approximately \$273 million is assumed to occur around 2019-2020 to cover the remaining LNG-related expenditures. Total cost for the LNG projects including the terminal, regasification, storage, pipeline, and unit conversions is approximately \$691 million in 2014 dollars.

### **GPA’s Demand Side Management Program**

DSM programs are, in general, programs that utilities (and other entities) implement to increase energy efficiency and conservation efforts for their customers and to reduce their generation and associated fuel costs. While GPA has not had an active DSM program for several years, it has recently received several grants enabling it to move forward with a number of DSM projects. These projects include (i) a \$2.5 million ARRA grant to install energy efficient street lights; and (ii) \$11.5 million in ARRA grants to perform energy efficient retrofits on GovGuam buildings and to implement a solar water heater rebate pilot program for residential homeowners.

As part of an interdisciplinary review project in support of the GPA IRP process, Leidos was retained to perform an evaluation of the cost-effectiveness of residential and commercial DSM program measures for potential implementation by GPA. The study was designed to supplement the IRP analyses and studies being undertaken by GPA, which were also reviewed for reasonableness in advance of filings with the PUC. The DSM review was also intended to satisfy the requirements of the PUC that GPA perform a DSM study as part of its IRP filing. This DSM study was conducted in a manner to provide a practical investigation of DSM program potential for GPA, evaluating the cost of the program measure commensurate with the size and scope of GPA’s electric system. The analysis was conducted in two phases: (i) a technical screening assessment, and (ii) an economic screening analysis. The technical screening assessment involved a review of an expansive universe of potential DSM options. DSM measures previously examined for GPA during prior IRP efforts for technical potential were combined with an existing database of DSM measures deployed in other projects, and the entire set of measures were evaluated for technical potential using updated engineering estimates of energy and peak demand savings. Technical potential (energy and demand savings) estimates were prepared using weather patterns specific to GPA, and were vetted to make sure that savings estimates were reasonable compared to approximate Guam baselines. The economic analysis was performed using Leidos’ proprietary cost-benefit evaluation model developed in partnership with the Electric Power Research Institute (“EPRI”). Cost effectiveness evaluations were performed for three different perspectives on DSM program implementation, specifically, the Utility Cost Test, the Rate Impact Measure Test, and the Total

Resource Cost Test. GPA established that a DSM measure must pass both the Utility Cost Test and the Rate Impact Measure Test before it would promote a DSM measure as part of its IRP filing. None of the DSM measures evaluated for economic potential were found to pass both the Utility Cost Test and Rate Impact Measure Test criteria.

Upon filing its IRP in February 2013 with the Guam PUC, the PUC asked its staff consultants, Lummus Consultants, to review and provide observations relative to GPA's DSM efforts. Lummus Consultants completed an initial report and follow-up report with the following findings (among others):

- GPA's flat load curve provides opportunity to implement DSM measures that target energy savings throughout the day.
- Other islands with similar energy concerns as GPA actively promote energy conservation measures.
- There are myriad energy conservation initiatives the GPA can promote, including lighting and air conditioning, efficient refrigerators, solar photovoltaic panels, solar water heaters, and others.
- GPA should use other cost effectiveness measures besides the Rate Impact Measure Test when evaluating potential DSM options.
- Lummus's screening analysis showed potential benefit-to-cost ratios above 1.0 using various standard tests for four potential program measures: LED lamps, Energy Star refrigerators, photovoltaic panels, and solar water heating.

The PUC subsequently ordered, on July 31, 2014, GPA and Lummus Consultants develop a DSM and Energy Efficiency Program. By December 2014, GPA has been ordered to submit an implementation plan that would include steps, timeline, and milestones required for screening and implementation. Two months later, GPA will have to update the submittal with proposed sources of funding and a monitoring and verification plan. GPA has indicated that it is beginning the steps necessary to fulfill these requirements.

## **Smart Grid**

GPA's smart grid projects were funded with \$16.6 million in proceeds from GPA's 2010 Bonds and an equal amount of matching funds awarded by the Department of Energy under ARRA. The purpose of the projects includes helping GPA reduce its peak loads, allowing customers more control over their electric bills, and gaining additional load information from its customers, including assisting with outage management. GPA is also considering such programs as time-of-use rates and others to take advantage of smart grid technologies.

In FY 2011, GPA entered into contracts for the provision of program management office services, engineering services and comprehensive technical services. These contractors assisted GPA in the development of RFPs for smart grid services. In May 2012, GPA selected Tropos Networks as the network communications vendor for its smart grid rollout across the island. GPA is implementing a multi-application Tropos Gridcom network planned to meet its existing needs and future requirements. The overall objectives of the smart grid projects are to (i) provide better control of the assets, (ii) provide additional functionality and benefits from existing assets, and (iii) better integrate new assets such as renewable energy resources. GPA indicated that it has completed installation of new meters associated with the smart grid projects. Additional smart grid related work streams include Mobile Workforce Management, pre-paid accounts, and expansions of the Tier 2 (wireless) and Tier 1 (fiber) networks. GPA launched a prepaid meter program on June 2, 2014. GPA has allocated Bond and capital improvement project funds for the remaining projects.

At the onset, the smart grid project funds were anticipated to be spent over an approximately four-year period beginning in FY 2010 and ending in 2013. The total funding amount was \$33.2 million and projects were to include electric smart meters and installation, project management, distribution automation and management systems, communication infrastructure and substation automation.

However, distribution automation and management systems along with several other intended programs were cancelled due to lack of funding, various contract disputes, and delays in implementation that would place them outside the grant extension schedule. GPA had estimated these cancelled programs would have provided additional benefits in terms of further reduction in overtime labor costs due to a reduction in outages, a reduction in the number of call-ins and associated customer service costs due to a reduction in outages, and a decrease in system losses and peak demand due to Volt/VAR optimization. Leidos has not conducted a detailed analysis of the potential costs and benefits of these foregone smart grid measures.

Table 11 provides the status of GPA's various smart grid programs.

**Table 11**  
**Smart Grid Program Status**

Work Stream	Status	% of Work Completed	Notes
Advanced Meter Infrastructure (AMI)	Completed	100%	Post-grant work in progress. Operational.
Electric Smart Meters	Completed	100%	Post-grant work in progress. Operational.
Network Communications	Completed	100%	Post-grant work in progress. Operational.
Meter Data Management System (MDMS)	Substantially Complete	99%	Final punchlist and testing. Post-grant, GPA will complete integration with CC&B.
E-Portal	Completed	100%	Post-grant work in progress. Operational.
Geographical Information System (GIS)	Completed	100%	Working on obtaining post-grant funding for additional enhancement external to SGIG grant scope.
Substation Automation (SA)	Substantially Complete	99%	Punchlist items to be resolved by Contractor.
Outage Management System (OMS)	Substantially Complete	99%	Model loaded and was operational. Version upgrade in progress. Punchlist items remaining.
Back Office Infrastructure (BOI)	Completed	100%	
Cyber Security	Completed	100%	
Load Control Management System (LCMS)	Planned	0%	To be Implemented as part of GWA SCADA Rollout.
Distribution Management System (DMS)	Cancelled	0%	
Distribution Automation (DA)	Cancelled	0%	
Integrated Volt / Var Control (IVVC)	Cancelled	0%	
Demand Response (DR)	Planned	0%	To be done post-grant. Task order already awarded. Will be executed under the Guam PUC's DSM framework.

For FY 2015 through FY 2018, using GPA data, Leidos made estimates to reflect the associated financial costs and benefits of smart grid programs, including: (a) transmission and distribution cost savings, (b) customer accounting savings, (c) energy conversion cost savings, (d) additional revenues due to reductions in theft and uncollected accounts, (e) additional revenues for improved billing accuracy, and (f) additional revenues for reduction in outages. GPA has experienced a reduction in meter reading expenses, meter inaccuracy, and truck roll-outs for reconnection and disconnection of customer accounts since the installation of AMI, Smart Meters, and Network Communications. In the first half of calendar year 2014, GPA Customer Services engaged in a campaign to eliminate long standing problems with customers including: inactive accounts clean-up, temporary accounts clean-up, inaccessible meter clean-up, and opt-out customers. For 2014, Customer Services anticipates a large drop in reconnect/disconnect activity in the second part of the year as the clean-up activities subside. The smart meter operations center, located in the GPA headquarters building in Harmon, collects information daily from virtually all of the meters on the system and monitors the health of the network, notifying GPA immediately of network outages and power quality issues. It also allows for the seamless and timely disconnection and reconnection of customer accounts in a matter of seconds. Prior to this system, for example, it would take five two-man crews hours to disconnect all meters scheduled for disconnect on any given day; and oftentimes they would not be able to complete all scheduled disconnects. It now takes one operator 12 seconds. And once the customer has paid the outstanding bill, the service is typically restored within just a few hours. GPA has estimated initial smart grid cost savings and additional revenues to be above \$2 million per year; although exact figures are difficult to track given the fluctuations in GPA's load. For

the financial forecasts, Leidos has estimated \$792,000 in cost savings and \$1.6 million in additional revenues for FY 2015 rising to \$1.1 million in cost savings and \$1.7 million in additional revenues by FY 2018.

### **Customer Information System**

GPA initiated the project kick-off for its new CIS, known as CC&B, in January 2014. GPA is in the process of implementing this Oracle system with the help of Wipro, a technology services firm, and Leidos. The system will also be shared with Guam Waterworks Authority who is funding approximately 35 percent of the total project cost of \$4.2 million. The outdated customer information system required replacement due to several long-standing issues, including having unsupported technology resulting in the inability to upgrade, no audit trail for meter reading changes, inability to reconcile accurately with the general ledger, inability to handle power factor data/billing for larger customers (which required manual calculation), inability to handle Navy billing (required manual calculation), and the inability to handle automated clearing house (“ACH”) transfers. The Oracle CC&B product, once fully implemented, will allow resolution of all of these issues, in addition to being able to handle prepayments, making GPA’s web-based Customer Connect E-Portal (which provides energy usage information to customers) more user-friendly, providing more and better access to data, and allowing electronic billing via email. The original budget for GPA’s portion of the CC&B project was approximately \$2.7 million. GPA expects additional costs totaling approximately \$505,000 and completion as of January 2015.

## **ENVIRONMENTAL CONSIDERATIONS**

All of GPA’s generating plants and associated facilities must comply with federal environmental laws and regulations. In addition, local Guam environmental regulations are also applicable. Certain legal and financial liabilities may be associated with regulatory requirements. The Federal Clean Water Act (“CWA”) and Clean Air Act are the two most significant environmental statutes affecting GPA’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 GPA. The acid rain provisions of the Federal Clean Air Act (Title IV), which established an allowance program for sulfur dioxide (“SO<sub>2</sub>”) and nitrous oxide (“NO<sub>x</sub>”) emissions, affects only electric utilities in the continental U.S. and, consequently, do not apply to Guam. Guam EPA is responsible for administration of the island’s operating permit program for air pollution sources including all of GPA’s power plants. GPA 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 USEPA Clean Power Plan, as proposed in June 2014, for reducing carbon dioxide (“CO<sub>2</sub>”) emissions did not include the U.S. territories. GPA received correspondence from USEPA Region 9 on August 21, 2014, indicating they are currently working on a Supplemental Proposal to the Clean Power Plan that will include the U.S. territories. USEPA indicates they intend to finalize the proposal by June 2015. The June 2014 proposal for the continental U.S. applies to existing power plants and establishes goals beginning in 2020 in pound CO<sub>2</sub> per net MWh for each State, not for individual generating units, with the States determining how to meet them. USEPA indicates that, nationwide, by 2030, the Clean Power Plan will help cut carbon emissions from the power sector by 30 percent from 2005 levels. USEPA set the State goals by applying four building blocks: heat rate improvements, increased natural gas usage, renewable energy, and end-user energy efficiency programs. As GPA has plans underway that are similar to the building blocks used by USEPA, Leidos believes these programs will help GPA considerably in meeting potential goals related to the Supplemental Proposal. At the time of this Report, it is not clear how the Supplemental Proposal will impact GPA specifically, however, Leidos believes that given GPA’s existing plans relative to the four building block programs identified above, it will not materially impact GPA’s ability to repay its long-term debt obligations.

Leidos has reviewed with GPA the status of its compliance with the environmental laws and regulations discussed above. The following describes Leidos' understanding of the status of GPA power plants with respect to requirements set forth in its permits and approvals, and applicable environmental management laws and regulations, and is based on review of documents provided by, and discussions with, GPA personnel. The analyses and discussion have focused on the last five years of historical data and includes Leidos' perspective on issues that GPA may face during the next five years.

## **Compliance Issues**

GPA reports that it has received only two Notices of Violation ("NOV") with regard to environmental compliance issues. These NOVs were issued in September 2010 for violations under the CWA at Cabras and Tanguisson, the power plants with National Pollutant Discharge Elimination System ("NPDES") permits issued to GPA. GPA reports all issues were addressed and the required responses submitted timely, as discussed further below. Exceedances of the permit effluent limitations have been reported in 2013 and 2014 at both facilities, but GPA reports it is not aware of any pending NOVs.

GPA indicates in April 2013 it initiated discussions with the USEPA to negotiate a consent decree for Cabras Units No. 3 and 4 and Piti Units No. 8 and 9 regarding the National Emissions Standards for Hazardous Air Pollutants ("NESHAP") for reciprocating internal combustion engines ("RICE MACT") to allow continued use of diesel fuel without installing emission controls until LNG and/or the combined cycle unit(s) are in place, as discussed previously in this Report. A one-year extension was approved for the 10 smaller diesel peaking units and compliance achieved with RICE MACT requirements on time in May 2014. No extension or consent decree has been issued by USEPA for Cabras Units No. 3 and 4 or Piti Units No. 8 and 9; thus, these units have been out of compliance for operations since May 4, 2013.

GPA reports it is now seeking a "comprehensive" consent decree to include Cabras Units No. 1 and 2 to allow continued use of fuel oil without installation of emission controls required under the Mercury and Air Toxic Standards ("MATS") rules, which require compliance by April 16, 2015, unless an extension is granted by USEPA. The Tanguisson units are expected to be deactivated prior to the MATS compliance deadline of April 2015; thus, may not be included in the consent decree. GPA reports it is still in the planning stage for the number and location of combined cycle units, but plans to retire Cabras Units No. 1 and 2 when these units come on-line. Due to the current status of consent decree negotiations, at this time Leidos is not aware of the final resolution of these issues by the USEPA or Guam EPA or if financial penalties will be imposed.

Numerous reporting requirements are contained in GPA's air permits and applicable regulatory requirements. Based on Leidos' review of the compliance reports provided, while most of the required reporting is being conducted, the annual compliance certifications for all the generation plants and continuous emissions monitoring system ("CEMS") reports for Cabras Units No. 3 and 4 and Tenjo were not submitted to Guam EPA and/or USEPA. GPA reports that they have the records on file; CEMS reports were submitted prior to 2012, and not submitting the reports to the regulatory agencies was an oversight and omitted reports are being submitted as the information is compiled. The 2012-2014 CEMS reports for Tenjo were submitted to Guam EPA on June 30, 2014. Due to the recent/pending submittals, the response from the regulatory agencies to the reporting deviations is not known at this time.

The air operating permits also require conducting visible emissions observations weekly with an EPA Reference Method 9 certified observer. In order to be a certified observer, training is required that is repeated at a certain frequency such as once or twice a year. As this training is not available on the island and the closest available location is Hawai'i, GPA indicates they have not maintained a certified observer on staff and have not been conducting the weekly observations at any of the generating plants. GPA reports the Guam EPA used to employ a certified observer who conducted annual observations for them at Cabras Units No. 1 and 2 due its baseload operation, and opacity testing is conducted annually at the plants as part of annual compliance testing. According to GPA, they have been in on-going discussions with Guam EPA, along with other generators on the island, and hope to have the conditions modified during the permit renewal process.

Based on Leidos' review of data made available and discussions with GPA personnel, GPA appears to have obtained the key environmental permits and approvals required from the federal and state agencies, which are currently necessary to operate the generating plants. Leidos notes that permits and compliance data were not provided for the Piti Power Plant and only water permit data were provided for Tanguisson; thus, Leidos is not able to comment on compliance at these plants. Based on Leidos' review of internal monitoring and excess emission reports and wastewater Discharge Monitoring Reports ("DMRs") made available, and information provided by GPA, certain exceedances and equipment malfunctions occur from time-to-time. CEMS reports for Cabras Units No. 3 and 4 and Tenjo and annual compliance certifications have not been submitted and weekly visible emissions observations are not being conducted at any of the generating plants. Cabras Units No. 3 and 4 and Piti Units No. 8 and 9 are not in compliance with the RICE MACT for which GPA is seeking a comprehensive consent decree to include Cabras Units No. 1 and 2 for MATS requirements due next year. While Leidos is not aware of any specific NOV's or monetary penalties associated with these deviations, there is a potential that these or future exceedances could result in NOV's and monetary penalties.

### ***Clean Water Act and Oil Pollution Prevention***

Renewed NPDES permits were issued for Cabras in December 2012 (effective February 1, 2013) and June 26, 2012 (effective July 1, 2012) for Tanguisson. The permits have a five-year term and include effluent monitoring and reporting requirements for storm and process water discharges. Additional limits were added for storm water discharges based on Guam water quality standards, pH, oil and grease, and total suspended solids ("TSS") limits for process wastewater were lowered, and the statistical method for determining whole effluent toxicity ("WET") was changed. The permits also require preparation of a Storm Water Best Management Practices Plan and GPA indicates the Plans for Cabras and Tanguisson are current and being implemented as required.

The USEPA conducted on-site compliance inspections at Cabras in January 2014 and at both facilities in April 2012. At this time a full report has not been provided for the 2014 inspection and the USEPA requested additional information in May 2014, mainly related to toxicity plans and studies required by the permit due to WET results that indicate toxicity may be present, which GPA indicates were provided promptly. For the 2012 inspection at Tanguisson, GPA reports there were no findings, and consequently no inspection report. The USEPA provided a compliance evaluation inspection report for Cabras in December 2012, which also included a review of monitoring reports for January 2011 through September 2012. As outlined in the report and on the USEPA's Enforcement and Compliance History Online database, both Cabras and Tanguisson have reported violations of permit effluent limits for TSS, pH, oil and grease, copper, iron, nitrate, and nickel from storm water and process water discharges from 2011 through 2013. For the first quarter of 2014, reported violations include oil and grease and iron at Tanguisson in January, TSS in January and February at both plants and at Tanguisson in March. GPA indicates both facilities use seawater for cooling and do not add water treatment chemicals; thus, they attribute process water deviations to the incoming water quality. Testing at the intake is conducted for pH, temperature, and toxicity; toxicity results are also compared to a seawater control from Hawai'i, and have varied, but show less variation between the intake and effluent. Furthermore, GPA reports they switched to a different analytical laboratory in April 2014 to determine if laboratory error could be the cause of TSS deviations. Analytical data has not been made available; thus, Leidos is not aware if the change in laboratory resolved the issue.

Findings of Violation and Orders for Compliance were issued for Cabras and Tanguisson power plants in September 2010 by the USEPA for violations under the CWA. The violations were related to various non-compliance issues identified during March 2010 compliance inspections by the USEPA and Guam EPA. The Orders required several reports and submittals to document compliance with the permits and the Compliance Certification Reports submitted by GPA on July 8, 2011 certify that both facilities were brought into compliance. Although documentation from the USEPA terminating the orders has not been issued, GPA confirms they have been resolved and no penalties were imposed.

In addition to compliance with permit conditions, the power plants must comply with a number of other regulatory programs such as the oil pollution prevention regulations. The facilities must have a Spill Prevention Control and Countermeasure (“SPCC”) Plan in place if there is storage of more than 1,320 gallons of oil at the site (including electrical transformer oil). A Facility Response Plan is required if an oil discharge could cause “substantial harm” to the environment, based on the storage capacity and proximity to navigable waters. GPA reports the SPCC Plans are up-to-date, a routine review is being conducted on Facility Response Plans, all Plans are being implemented as required, and there have been no reportable spills at GPA power plants during the past three years.

### ***Section 316(b) of the Clean Water Act***

On March 29, 2011, the USEPA proposed a rule establishing requirements under Section 316(b) of the CWA for all existing power generating facilities and existing manufacturing facilities that withdraw more than 2 million gallons per day (“MGD”) of water from waters of the U.S. and use at least 25 percent of the water such facilities withdraw for cooling purposes. The rule proposed revisions to regulations originally promulgated in 2004, but challenged in court. The USEPA finalized standards under the rule on May 19, 2014. The rule is intended to define Best Technology Available (“BTA”) for the reduction of impingement and entrainment. The requirements, which will be implemented through NPDES permits, are applicable to the location, design, construction, and capacity of cooling water intake structures and are based on the BTA for minimizing environmental impact. Owners can choose one of seven options for meeting BTA requirements for reducing fish impingement. In addition, facilities that withdraw more than 125 MGD are required to conduct studies to assist the permitting authority determine what site-specific entrainment mortality controls, if any, will be required. Based on the design intake flow rates at Cabras and Tanguisson, the facilities are subject to requirements to reduce fish impingement and Cabras is required to conduct studies regarding site-specific controls to reduce entrainment. The Tanguisson units are expected to be deactivated prior to the date for determining compliance methods.

Per the 2004 regulations, GPA is conducting the required studies to estimate impingement mortality and entrainment losses. Currently the studies are ongoing, with the third year of impingement studies scheduled to end in July 2015 and the second year of entrainment sampling to end in April 2015. As summarized in the annual report prepared by GPA’s contractors Environmental Monitors, Inc. and Tenera Environmental for the first year, covering the period August 2012 through July 2013, impingement at the Cabras once-through cooling water intake system was variable but overall was low. As the 316(b) rule has recently been finalized and impingement and entrainment studies are ongoing, the impacts to Cabras, if any, have not been specifically determined at the time of this Report. Specific cost impacts for impingement mortality and site-specific entrainment compliance can only be developed after appropriate engineering studies are conducted. However, at this time GPA indicates that based on the results from the current studies and recommendations from Tenera Environmental in its June 9, 2014 letter outlining compliance options, it plans to comply with the impingement requirements by demonstrating a de minimis rate of impingement mortality. Compliance options for entrainment depend on the potential conversion to combined cycle units and retirement of Cabras Units No. 1 and 2. Permit application materials due under the rule are to be submitted with the next NPDES permit renewal (due in June 2017 for Cabras), as this is prior to 45 months after the expected effective date of the rule, GPA may request an amended schedule from the USEPA if it can demonstrate the required information could not be developed in time for submission.

### ***Clean Air Act***

GPA indicated that no NOV’s associated with provisions of the Clean Air Act were issued by Guam EPA or the USEPA relative to GPA facilities during the past five years. Title V operating permits for Cabras, Dededo, Macheche, Manenggon, Marbo, Tenjo, Talofoto, and Yigo power plants were issued March 2, 2009 and expired March 1, 2014; thus, renewal applications were due by September 1, 2013. In a letter dated September 3, 2013, GPA notified Guam EPA that it was retiring the units at the Marbo Power Plant and the Dededo Diesel Plant. Renewal applications for the remaining Title V operating permits were submitted to Guam EPA on September 4, 2013. While written correspondence from Guam

EPA administratively extending the permits has not been provided, GPA reports Guam EPA has not indicated there are any issues and they continue to operate under the 2009 permits, GPA personnel also note that the 2009 permits took over five years to issue. GPA reports they do not anticipate more stringent requirements in the renewed permits and do not foresee issues with permit re-issuance. As noted previously, GPA is participating in on-going discussions with Guam EPA to modify the requirement to conduct weekly visual observations.

The operating permits require annual compliance testing for NO<sub>x</sub>, carbon monoxide (“CO”), volatile organic compounds (“VOC”), SO<sub>2</sub>, and particulate matter of 10 microns in diameter or smaller (“PM<sub>10</sub>”), and opacity with the exception of Yigo that requires testing only for NO<sub>x</sub> and PM<sub>10</sub>. Based on review of compliance testing results for the past few years, the units have complied with permit limits except for PM<sub>10</sub> at Cabras Unit No. 4 that was over the permit limit during testing in August 2011. Testing in October 2012 and December 2013 were below permit limits. GPA indicates the USEPA and Guam EPA did not require re-testing prior to the scheduled annual testing in 2012, that no adjustments were made to the units in response but different stack testing companies conducted the tests, and no NOV or compliance order was issued. Stack testing data are also reported to Guam EPA as part of the annual emissions inventory/fee determination submittal.

The permits for Cabras Units No. 3 and 4 and Tenjo require CEMS or predictive emission monitoring systems (“PEMS”) for NO<sub>x</sub>, while the plants with combustion turbines (Dededo, Macheche, and Yigo) are subject to Compliance Assurance Monitoring (“CAM”) requirements for NO<sub>x</sub> including the implementation of CAM Plans. One NO<sub>x</sub> CEMS is installed at Cabras Units No. 3 and 4 and the six units at Tenjo share two NO<sub>x</sub> CEMS that were replaced in 2011. Based on the review of internal monthly and quarterly CEMS status reports for Tenjo and Cabras, no excess emissions occurred in 2013 or the first quarter of 2014, although in April 2012 five exceedances of the NO<sub>x</sub> limit of 660 parts per million (“ppm”) @15 percent oxygen (“O<sub>2</sub>”) occurred at Tenjo Unit No. 5. Quarterly quality assurance (cylinder gas audits) and annual Relative Accuracy Test Audits (“RATA”) have passed; the RATA at Tenjo Unit No. 6 is pending once the unit is returned to service following repairs. High levels of CEMS downtime have occurred at both plants due to power outages and CEMS maintenance. As noted, the semi-annual monitoring reports and quarterly excess emission reports have not been submitted to Guam EPA and the USEPA, respectively, due to an oversight; thus, the response from the regulatory agencies is not known at this time as they are likely unaware of the issue. In its CEMS reports for Tenjo, TRC recommends connecting the CEMS building to the Tenjo emergency generator, GPA indicates this is being considered.

New requirements applicable to diesel engine generators were promulgated during March 2010 under the NESHAP rules, referred to as the RICE MACT. There are different requirements for diesel engine generators located at sites that are major and area (i.e., minor) sources of hazardous air pollutants (“HAPS”). The new regulations include emissions standards, mechanical modifications, operating limitations, compliance testing, scheduled maintenance requirements, as well as record keeping and reporting requirements. A one-year extension for compliance was granted by the USEPA on May 20, 2013 for the 10 units at Manenggon, Talofofo, and Tenjo, consequently compliance with the CO emission limitation of 23 ppm by volume on a dry basis (“ppmvd”) or 70 percent reduction was required by May 3, 2014. As per the May 2, 2014 letter to the USEPA, oxidation catalysts and the required continuous parametric monitoring systems were installed on the 10 engines, and based on the results of initial performance testing the engines were in compliance with the emission limits (not including Tenjo Unit No. 6 as the unit was not operational, testing is to be conducted once the unit is returned to service). Subsequent testing is required at 8,760 hours of operation or three years, whichever comes first, and required monitoring includes monthly pressure drop across the oxidation catalyst and continuous monitoring of catalyst inlet temperature. GPA confirms the required monitoring is being conducted and there have not been any issues with compliance. As noted previously, GPA is currently in discussions with the USEPA to obtain a consent decree for the diesel units at Cabras and Piti Units No. 8 and 9.

New requirements applicable to steam electric generators were promulgated during February 2012, known as the MATS rules. These rules, which finalize standards to reduce air pollution from coal- and

oil-fired power plants under sections 111 (new source performance standards) and 112 (toxics program) of the 1990 Clean Air Act amendments, apply to Cabras Units No. 1 and 2 and Tanguisson Units No. 1 and 2. These rules set technology-based emissions limitation standards for mercury and other toxic air pollutants that must be met by April 2015. Because the modifications required under these rules may be rather complex and expensive, the rules allow permitting authorities to grant an additional year as needed for technology installation. GPA reports an extension request for Cabras Units No. 1 and 2 has been submitted, but they have not received a response from the USEPA. In addition, GPA requested a meeting with the USEPA in April 2014 to discuss the comprehensive consent decree to include Cabras Units No. 1 and 2, but prior to such a meeting the USEPA requested the LNG feasibility study, which is currently under review. As discussed in the section titled "POWER SUPPLY AND DELIVERY," GPA expects to deactivate the Tanguisson units prior to the April 2015 compliance deadline, but is investigating measures to keep the plant in cold standby should an emergency necessitate operation prior to new generation or LNG coming on-line. GPA reports Tanguisson Units No. 1 and 2 would not meet the MATS requirements; thus, would need to be included with Cabras Units No. 1 and 2 in the comprehensive consent decree if future operation is contemplated.

In addition, certain of the generating plants are subject to the mandatory greenhouse gas ("GHG") reporting regulation promulgated by the USEPA on October 30, 2009, which requires the reporting of GHG emissions beginning in 2010, the preparation of a GHG monitoring plan, and other recordkeeping requirements. GPA reports compliance with rule requirements and confirms GHG emissions have been reported via the USEPA on-line reporting tool as applicable. The Emergency Planning and Community Right to Know Act ("EPCRA"), also known as the Superfund Amendment and Reauthorization Act, Title III, Section 313 requires reporting of hazardous materials located at a facility. GPA confirms the reports have been submitted timely the past few years.

#### ***Toxic Substances Control Act and Resource Conservation and Recovery Act***

GPA reports no recent or outstanding NOV's associated with provisions of TSCA or the Resource Conservation and Recovery Act have been issued by Guam EPA or the USEPA relative to GPA facilities during the past five years. GPA is subject to requirements under TSCA for the management of polychlorinated biphenyl ("PCBs") and asbestos containing materials ("ACMs"). In November 2012, a PCB/TSCA compliance evaluation inspection was conducted by the USEPA and Guam EPA at the Dededo substation, which is used to store transformers taken out of service. According to the August 15, 2013 inspection report transmittal letter, no potential violations of TSCA were identified, and one recommendation regarding signage per TSCA was noted. All transformers removed from service are tested for total PCBs before being drained. Per the site history included in the report, GPA instituted a PCB equipment deactivation plan and by the mid-1990s the majority of TSCA level (PCBs  $\geq 50$  ppm) transformers had been removed. At the time of the report, the only PCB transformers drained at the site in recent years had been with the assistance of the USEPA in 2012 in response to two leaking transformers, one of which contained TSCA levels of PCBs in a non-leaking compartment. Based on surveys conducted in the summer of 2013, ACMs are present at Cabras Units No. 1 and 2 and Tanguisson. Labeling was conducted per the results of the sampling and based on the site visits in June 2014 some of the ACMs have been removed. GPA reports the Cabras, Tanguisson, and Dededo facilities have been issued hazardous waste identification numbers by the USEPA; however, requests have been filed to permanently exempt Dededo as hazardous waste is no longer generated at the facility.

#### ***Alternative Control Strategy Fuel Switching Program***

GPA's existing and future electric generating units at the Cabras Power Plant site and the units at the Piti Power Plant, which is located adjacent to Cabras, are currently exempt from the New Source Performance Standards regulating SO<sub>2</sub> emissions from steam electric generating facilities and the prohibition on intermittent control of air pollutants. The Cabras and Piti power plants are permitted to use a fuel switching strategy for control of air pollution. The fuel switching strategy is based upon meteorological conditions on Guam under which the trade winds blow from the east (carrying emissions from the Cabras and Piti power plants offshore) more than 90 percent of the time. Congress, in Section 325(b) of the

Clean Air Act, recognized that the use of high sulfur fuel in these specific power plant units during easterly trade winds and low sulfur fuel at other times is a practical strategy for air pollution control.

GPA is required by the USEPA to follow a fuel switching protocol as set forth in the document titled “*Cabras-Piti Area Intermittent Control Strategy, Island-Wide Power System, Cabras-Piti Complex*” issued July 2, 1993 and modified August 15, 1997 (“CPAICS”). The fuel switching protocol sets forth, among other things, the affected generating units, the meteorological conditions requiring fuel switching, the fuel oil sulfur content, the fuel switching procedures, the record keeping, and quarterly reporting requirements.

GPA has reported that it has automated (i) the fuel switching procedures for Cabras Units No. 1, 2, 3, and 4 and Piti Units No. 4 and 5 (not currently being used for generation); and (ii) the record keeping and quarterly reporting requirements as mandated by the USEPA. Recent compliance with the protocol has been achieved. There were a limited number of short-duration periods when fuel was supposed to be switched to low sulfur but was not, that were reported during 2013 and the first quarter of 2014.

### **Permitting of New Power Plant Facilities**

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

For repowering projects and repairs to existing units, such as the Dededo combustion turbines, evaluations need to be conducted prior to the projects to determine if there will be a physical change or change in the method of operation and an increase in emissions; thus, potentially a modification under PSD or NSPS. For an existing facility, reconstruction under NSPS occurs when the fixed capital cost of the replacement of components exceed 50 percent of the cost of a comparable new facility.

As discussed previously in this Report, GPA is investigating the use of LNG and/or the installation of combined-cycle unit(s). Due to being early in the planning stage, specific site(s) have not been selected; thus, the challenges associated with permitting, such as dispersion modeling, are not known at the time of this Report. The 2.2-mile radius around the Piti and Tanguisson Power Plants were designated as non-attainment with the 1971 SO<sub>2</sub> National Ambient Air Quality Standards (“NAAQS”). As part of the new 1-hour SO<sub>2</sub> NAAQS set in June 2010 the 1971 annual and 24-hour standards were revoked, except in areas designated non-attainment for those standards, where these remain in effect until implementation plans to attain or maintain the 2010 standards are approved. Per the February 6, 2013 letter from the USEPA to Guam’s Governor, Guam will not receive a designation in the first round (which were issued in August 2013); such designation is deferred to future action(s). The major federal and local permitting activities associated with repowering an existing power plant or building a new generating facility are more complicated and costly in non-attainment areas.

### **Waste Management**

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

Equipment known to contain PCBs has been replaced, and management of GPA believes that its system is presently PCB free.

Section 313 of EPCRA requires generators of certain chemical emissions, including power plants, to report by July 1 each year the amounts of certain listed chemicals that are generated. GPA is required to make these reports for its power plants and indicates the reports have been submitted timely for the past few years.

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

Several units have been retired recently or are expected to be retired in the next few years. GPA reports it is aware that the Cabras and Tanguisson power plants have ACMs; however, the current plans are to deactivate Tanguisson but not decommission it and convert Cabras Units No. 3 and 4 to LNG; thus, costs to remediate these facilities have not been provided. GPA indicates they do not expect the financial impacts from the demolition of the Marbo Power Plan and Dededo diesels to be significant.

## **FINANCIAL**

### **Working Capital**

Working capital refers to the amount of cash GPA maintains at any given moment to pay for its operations. In recent years GPA recognized that because of the potential six-month lag in fully recovering fuel price changes under its LEAC, its working capital balance was insufficient.

As mentioned previously in this Report, and in further detail below, GPA filed a petition with the PUC to request a multi-year rate increase, as well as other rate related issues (*Docket 11-09*). A stipulation to that filing was signed by GPA, PUC, and the Navy, and issued on April 6, 2012. This stipulation, as it relates to working capital, states that the working capital fund was to be fully funded by FY 2013 at \$33 million. GPA showed a working capital fund balance of \$29.5 million for FY 2013, which was a shortfall; however, they held an additional \$14 million of unrestricted cash over what is required in the working capital fund, which would be equivalent to approximately 44 days' cash on hand.

Under its Indentures, GPA is required to maintain a balance equal to 1/12 of its annual O&M expenses, including fuel costs, in its working capital fund. This requirement was approximately \$33 million for FY 2013 and will grow to \$38 million by FY 2018. If the working capital fund does not meet this required balance, GPA must make every effort to seek rates sufficient to bring the working capital fund to the required level. GPA has filed for rate increases each time the fund has been below the required amount and management reports that this strategy will remain in place going forward. The PUC may or may not increase rates sufficient to fund the working capital requirement and in such case where there is a shortfall, GPA may need to cut O&M costs or forego planned revenue-funded capital improvement projects.

### **Electric Rates**

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

Since the beginning of FY 2007, GPA has made adjustments to its retail power rates as shown in Table 12 below. The rates exclude LEAC charges, which accounted for approximately 65 percent of GPA's annual revenues in FY 2013. There have been 30 LEAC adjustments in the last 14 years as shown in Figure 2.

Base rates exclude the LEAC, as well as short-term surcharges for such items as GPA's insurance fund (now at 0.290 cents/kWh), the Emergency Water Well and Wastewater charge for paying for standby generator housings (now at 0.279 cents/kWh), and the working capital fund surcharge (which was implemented on April 2, 2012 and is set at 0.466 cents/kWh for civilian customers and \$110,374 per month for the Navy). Changes in the fuel portion of the working capital fund requirements are treated as a flow through (positive or negative) to the surcharge and change with each LEAC filing. A stipulation among GPA, PUC, and the Navy requests that the fuel portion of the working capital surcharge be amortized over a 12-month period (rather than the remaining period of the working capital surcharge). The implementation of the working capital surcharge and shorter amortization of fuel-related working capital requirements for the Navy should improve the liquidity of GPA. For more information please see "REGULATORY ENVIRONMENT herein.

As indicated previously, GPA filed a petition to PUC in April 2013 requesting a 7.3 percent rate increase (*Docket 11-09*). On September 24, 2013 a PUC ruling to that filing ordered with regard to several issues, including, but not limited to, the following:

- Approval of a 6 percent base rate increase in effect for FY 2014, starting October 1, 2013 which equates to approximately a \$9.038 million increase in annual revenues using the billing determinants assumed as part of the proceeding.
- Clarifies standards related to the calculation of debt service coverage ratios for subordinate debt and associated targets.
- GPA is authorized to set its reconnection fee for smart meters in accordance with its request.
- GPA's proposed net metering tariff was rejected. The PUC will only revisit the net metering issue once the number of net metering customers has reached 1,000.

**Table 12**  
**Summary of Effects on GPA's Revenues**  
**Due to Retail Rate Adjustments**

<b>Effective Date</b>	<b>Increase <sup>(1)</sup></b>	<b>Principal Reason</b>
March 1, 2008 <sup>(2)</sup>	8.53%	Phase 1 of updated revenue requirements and cost of service study done in 2008.
March 1, 2010 <sup>(3)</sup>	7.44%	Phase 2 of updated revenue requirements and cost of service study done in 2008.
May 1, 2012	6.00%	Revenue requirements and cost of service study done in 2011.
October 1, 2012	0.00%	Emergency rates with reclassification of customers impacted by switch to demand billing.
December 1, 2012	-6.00%	"Rollback" of base rate increase received in May 2012--totalling \$9.1 million. This was to compensate ratepayers for the debt service savings gained from the 2012 bond issuance. The "rollback" was in effect only 10 months.
October 1, 2013	6.00%	Base rate increase to cover reductions in load and rising costs.

(1) Percentage shown is based on increases in GPA's revenues from base rates. In addition to the percentage shown, electric bills are subject to a fuel adjustment factor to reflect changes in GPA's fuel oil costs. Percentage

shown is for changes in that portion of GPA's revenues attributable to energy sales and does not take into consideration other electric revenues.

- (2) The March 1, 2008 rate increase was first applied to the Navy customer class. The rate increases for other classes became effective March 1, 2009.
- (3) Represents Phase 2 of a multi-year rate case, which was approved by the PUC in February 2010.

## Recent Bond Issuances

**2012 Senior Bonds.** GPA issued in 2012 revenue bonds pursuant to the Senior Indenture in the amount of \$340,620,000 (the "2012 Senior Bonds") used for providing funds for (i) refunding all or a portion of GPA's 1993 Series A and 1999 Series A Revenue Bonds; (ii) funding a deposit to the Debt Service Reserve Fund (including the amount necessary to replenish the Debt Service Reserve Fund) for a concurrent release of funds to reimburse GPA for its prior payment of the amount owed to Lehman Brothers Special Financing Inc. ("LBSFI") under the forward purchase agreement to be terminated prior to closing of this bond issue; and (iii) providing for certain costs of issuance.

**2010 Senior and Subordinate Bonds.** GPA issued \$150,440,000 of its senior lien Revenue Bonds, 2010 Series A (the "2010 Senior Bonds") pursuant to the Senior Indenture and \$56,115,000 of its Subordinate Revenue Bonds, 2010 Series A (the "2010 Subordinate Bonds"), pursuant to the Subordinate Indenture. The proceeds of the 2010 Senior Bonds have been used for providing funds for (i) purchasing, constructing and installing certain capital improvement projects, including smart grid projects, initial construction on an office building, together with generation, transmission and distribution projects; (ii) funding a deposit to the Senior Bond Reserve Fund; (iii) providing for capitalized interest on a portion of the 2010 Senior Bonds through October 1, 2013; and (iv) providing for certain costs of issuance. The proceeds of the 2010 Subordinate Bonds were used to provide funds for (i) retiring approximately \$20 million of GPA's short-term loan held by the Cathay Bank (the "Cathay Loan"); (ii) funding a deposit to the Working Capital Fund; (iii) providing for capitalized interest on a portion of the 2010 Subordinate Bonds through April 1, 2011; (iv) funding a deposit to the Subordinate Bond Reserve Fund; and (v) providing for certain costs of issuance.

## Capital Requirements

As part of its planning process, GPA has prepared a projection of the capital requirements and related costs for its electric system as summarized in Table 13. GPA's capital improvement program consists largely of on-going improvements and upgrades to existing generating and transmission and distribution facilities, extension of transmission lines and the construction of associated substations, as well as the construction of the LNG terminal and related facilities and new generation resources. These additions will help GPA to meet system demand while maintaining overall system reliability. GPA currently projects the expenditure of approximately \$861 million on its capital improvement program over the five-year period FY 2014 through 2018, as indicated in Table 13. Funds for the capital improvement program are expected to come from a combination of operating revenues and 2014 bond issuance proceeds, and future bond issuances. For the purposes of financial modeling, Leidos has assumed future bond issuances of approximately \$862 million between FY 2016 and FY 2018, which represents the cost of capital improvement projects and capitalized interest for four years. The timing and amount of future bond issuances are subject to future conditions and events. While Leidos believes the assumptions used herein to be reasonable for the purpose of this Report, the actual timing and amount of future bond issuances may differ from those assumed.

**Table 13**  
**Projected Capital Improvement Program**  
**(\$000)**

	Historical		Projected <sup>(1)</sup>					Five-Year
Fiscal Year Ending September 30:	2012	2013	2014	2015	2016	2017	2018	Total
<b>Capital Improvements:</b>								
Transmission System Additions and Improvements	\$6,493	\$29,805	\$1,640	\$11,771	\$25,255	\$56,494	\$54,268	\$149,428
Distribution System Additions and Improvements	11,571	3,556	18,563	5,392	6,383	6,139	41,028	\$77,505
Substation System Additions and Improvements	1,220	0	8,193	8,259	16,594	17,556	13,897	\$64,498
Generation Plant Additions and Improvements, non-LNG	9,971	16,421	34,137	31,164	20,697	36,138	14,676	\$136,811
General Plant Improvements and Replacements, non-LNG	11,656	5,935	7,363	10,038	10,711	11,430	12,197	\$51,740
LNG Facilities, Plant Conversions, and New Generation	0	0	0	3,475	90,839	153,643	86,376	\$334,334
Other <sup>(2)</sup>	5,426	684	33,200	450	0	0	13,017	\$46,667
Total Capital Improvement Program	\$46,337	\$56,399	\$103,096	\$70,549	\$170,479	\$281,400	\$235,459	\$860,983
<b>Amounts Funded from:</b>								
Prior Bond Proceeds <sup>(3)</sup>	\$20,542	\$23,502	\$69,734	\$8,785	\$0	\$0	\$0	\$78,519
Current Revenues <sup>(4)</sup>	18,587	17,128	12,416	15,430	16,465	17,569	18,748	80,627
External - Developer Contribution	0	0	1,943	0	2,147	8,340	8,640	21,069
Proceeds of 2014 Bonds	0	0	19,004	29,421	20,163	412	0	69,000
Proceeds of Current/Future Bonds <sup>(5)</sup>	0	0	0	3,475	90,839	181,441	153,616	429,372
Self Insurance, Grants, Contributions from Outside Sources	7,208	15,770	0	13,438	40,866	73,638	54,456	182,397
Total	\$46,337	\$56,399	\$103,096	\$70,549	\$170,479	\$281,400	\$235,459	\$860,983

- (1) Inflated dollars based on an assumed annual rate of escalation specific to capital improvements program items on Guam of 3.6 percent.
- (2) Includes expenditures for new office building in Fadian, security, Information Technology ("IT") upgrades, Dededo facility expansion and Agana renovation.
- (3) Reflects remaining bond proceeds from GPA's prior bond issues.
- (4) Revenues available for capital improvements after payment of operating expenses, debt service, IPP expenses, and other uses of cash.
- (5) Assumed to be provided from 2014 Senior Revenue Bonds and future bond issuances of \$862 million between FY 2016 and FY 2018, which includes certain funds for capital expenditures and capitalized interest costs which will occur beyond the study period.

### Historical and Projected Operating Results

Table 14 shows the historical and projected generation resources to meet loads through FY 2018 as estimated by Leidos. These estimates are based on historical ratios of production-related operations and maintenance costs to production amounts, as well as budgeted operations and maintenance expenditures provided by GPA.

**Table 14**  
**Historical and Projected Energy Resources <sup>(1)</sup>**  
**(MWh)**

Fiscal Year Ending September 30:	Historical					Projected				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Energy Resources <sup>(2)</sup>										
<u>GPA Resources</u>										
Cabras Steam 1 and 2	560,376	547,955	535,046	591,546	448,502	394,333	390,896	380,692	326,629	311,134
Cabras Slow Speed Diesels 3 and 4	496,208	488,081	502,674	493,299	585,869	546,813	535,671	529,208	506,302	482,284
GPA Combustion Turbines										
Dededo Combustion Turbines 1 and 2	1,283	432	155	0	0	0	138	107	72	69
Macheche Combustion Turbine 1	1,472	562	2,030	817	937	877	3,219	2,560	1,243	1,184
Yigo Combustion Turbine 1	828	612	817	2,930	134	140	1,110	830	296	282
Total GPA Combustion Turbine	3,584	1,606	3,003	3,748	1,071	1,018	4,467	3,496	1,611	1,535
GPA Diesels										
Dededo Diesels 1-4	112	50	60	11	0	0	0	0	0	0
Tenjo Vista Diesels 1-6	16,751	8,957	13,122	16,848	4,864	4,659	14,343	10,760	6,403	6,099
Talofofo Diesel 1 and 2	1,156	620	2,497	3,401	620	588	2,066	1,608	829	790
Manenggon Hills Diesels	1,585	946	2,693	4,694	3,672	3,434	9,593	7,578	4,806	4,578
Total GPA Diesels	19,604	10,572	18,371	24,954	9,156	8,681	26,002	19,946	12,038	11,467
<u>Independent Power Producers</u>										
Pruvient - Tanguisson Steam 1 and 2 <sup>(3)</sup>	136,163	190,514	157,517	131,415	43,475	41,371	0	0	0	0
MEC - Piti Slow Speed Diesels 8 and 9	631,543	609,331	605,799	535,229	773,820	738,440	740,754	743,078	731,401	696,704
TEMES - Piti Combustion Turbine 7	6,585	13,944	8,499	1,235	110	121	1,128	873	270	257
Quantum Guam Power - Solar	0	0	0	0	0	0	37,153	47,626	47,263	47,009
Expected Other New Renewable Resources	0	0	0	0	0	0	0	14,077	104,524	122,092
New Combined Cycle	0	0	0	0	0	0	0	0	0	48,135
Total Resources (gross)	1,854,062	1,862,003	1,830,909	1,781,426	1,862,003	1,730,777	1,736,071	1,738,998	1,730,037	1,720,617
Station Use - All Units	(102,430)	(106,926)	(99,824)	(100,682)	(192,555)	(94,882)	(95,172)	(95,333)	(94,841)	(94,325)
System Energy Resources <sup>(4)</sup>	1,751,632	1,755,078	1,731,085	1,680,744	1,669,448	1,635,895	1,640,899	1,643,665	1,635,196	1,626,292
System Losses	(127,249)	(117,416)	(113,275)	(117,269)	(103,038)	(101,284)	(101,594)	(101,765)	(101,241)	(100,690)
Energy Requirements for Sales	1,624,383	1,637,662	1,617,810	1,563,475	1,566,410	1,534,611	1,539,305	1,541,900	1,533,955	1,525,602

(1) Reflects gross generation of the system.

(2) Projected energy amounts are the results of production modeling, using the Strategist software. Generally, this assumes that load is provided for by most efficient units. Other units are available for peak, reserves and emergencies.

(3) Assumed to be deactivated as of October 1, 2014.

(4) Net amount available at generation plant and does not include system losses.

Table 15 shows the historical and projected production costs of power to GPA for FY 2009 through 2018. This table is based on the assumptions and energy sales forecast as described herein, which result in a projection that the average unit cost per kWh of energy sold will decrease from 23.04 cents/kWh in FY 2013 to 21.59 cents/kWh in FY 2018, a compounded annual decrease of approximately 1.3 percent.

**Table 15**  
**Historical and Projected Costs of GPA's Power Supply**  
**(\$000)**

Fiscal Year Ending September 30:	Historical					Projected <sup>(1)</sup>				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GPA Operated Resources <sup>(2)</sup>										
Fuel Oil Costs <sup>(3)</sup>	\$112,155	\$117,415	\$141,638	\$189,390	\$176,536	\$158,418	\$165,892	\$160,759	\$145,167	\$131,711
Other Production Expenses	24,631	23,670	20,840	24,991	22,009	20,214	24,019	24,611	25,127	25,073
Subtotal	\$136,786	\$141,085	\$162,477	\$214,381	\$198,545	\$178,632	\$189,911	\$185,370	\$170,294	\$156,785
IPP Operated Resources										
Fuel Oil Costs <sup>(3)</sup>	\$79,251	\$94,264	\$105,171	\$110,974	\$110,613	\$105,465	\$98,922	\$98,890	\$97,362	\$97,174
Lease Payments-Energy Conversion Costs	19,181	19,484	19,705	19,937	20,264	19,776	15,269	15,720	16,182	17,741
Lease Payments-Debt Service	23,084	23,084	23,084	23,084	23,084	23,084	23,878	20,789	20,789	18,885
Renewable Power Contract Costs	0	0	0	0	0	0	7,262	12,398	14,981	15,400
Subtotal	\$121,516	\$136,832	\$147,960	\$153,996	\$153,962	\$148,325	\$145,330	\$147,797	\$149,315	\$149,200
New Combined Cycle										
Fuel Oil Costs <sup>(3)</sup>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$93	\$14,269
Other Production Expenses	0	0	0	0	0	0	0	0	0	1,320
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$93	\$15,589
Fuel Handling/Adjustments	\$62,965	\$8,182	(\$3,098)	(\$11,762)	\$8,317	\$8,317	\$8,499	\$8,333	\$7,787	\$7,804
Total Cost of Power	\$321,268	\$286,099	\$307,340	\$356,614	\$360,824	\$335,275	\$343,741	\$341,500	\$327,489	\$329,378
GPA Energy Sales (GWh)	1,624	1,638	1,618	1,563	1,566	1,535	1,539	1,542	1,534	1,526
Average Production Cost of Energy Sold (cents/kWh)	19.78	17.47	19.00	22.81	23.04	21.85	22.33	22.15	21.35	21.59
Total Production Cost, Less IPP Debt Service	\$298,184	\$263,015	\$284,256	\$333,530	\$337,740	\$312,190	\$319,862	\$320,711	\$306,699	\$310,493

(1) Assumes economic dispatch of the generating units. Projected fuel and other production costs estimated by Leidos.

(2) Includes all costs of generation, excluding GPA debt service.

(3) FY 2014 fuel costs assumed to be based on an average LEAC rate of \$0.177374 per kWh.

As of FY 2015, a greater percentage of fuel costs are attributable to GPA operated resources due to the reduction in usage of IPP operated resources.

Table 16 shows GPA's historical and projected operating results for FY 2007 through 2018. As indicated previously, the load forecast included herein was prepared by Leidos in July 2014. The annualized average growth rates for peak demand and energy sales for the period FY 2014 through 2018 are projected to be 0.0 percent and -0.1 percent, respectively. Leidos projects no additional revenues required from non-fuel related rate increases.

**Table 16**  
**Historical and Projected Operating Results and Debt Service Coverage (Cash Basis)**  
**(\$000)**

Fiscal Year Ending September 30:	Historical <sup>(1)(2)</sup>					Projected <sup>(2)</sup>				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Revenues:										
Energy Sales Revenues <sup>(3)</sup>	\$388,004	\$364,890	\$391,875	\$438,112	\$449,029	\$437,114	\$447,904	\$441,763	\$426,016	\$426,132
Additional Revenue from Future Rate Increases <sup>(4)</sup>	0	0	0	0	0	0	0	0	0	0
Other Electric Revenues	1,521	1,449	2,606	1,916	2,927	3,030	3,140	3,250	3,370	3,490
Total Operating Revenues	\$389,525	\$366,339	\$394,481	\$440,027	\$451,956	\$440,144	\$451,044	\$445,013	\$429,386	\$429,622
Operating Expenses:										
Power Supply Costs <sup>(5)</sup>	\$298,184	\$263,015	\$284,256	\$333,530	\$337,746	\$312,190	\$319,862	\$320,711	\$306,699	\$310,493
Transmission and Distribution Expenses <sup>(6)</sup>	11,141	11,228	12,241	12,717	13,368	12,417	12,968	13,318	13,684	14,060
Bad Debt Expense	577	672	943	1,355	1,223	1,360	1,350	1,330	1,280	1,280
Customer Accounting <sup>(6)(7)</sup>	3,242	3,404	3,511	3,676	3,878	4,168	3,910	3,779	3,873	3,969
Administrative and General <sup>(6)</sup>	26,682	27,584	30,432	31,378	31,589	34,396	35,052	36,469	37,948	39,491
Total Operating Expenses	\$339,826	\$305,903	\$331,382	\$382,655	\$387,805	\$364,531	\$373,142	\$375,607	\$363,484	\$369,293
Amounts Available for Debt Service										
Net Operating Revenues	\$49,699	\$60,436	\$63,099	\$57,372	\$64,151	\$75,612	\$77,901	\$69,406	\$65,902	\$60,329
Interest/Other Income (Expense) <sup>(8)</sup>	(55)	242	5,925	1,113	720	1,514	1,573	1,544	1,473	1,479
Balance Available for Debt Service	\$49,644	\$60,679	\$69,024	\$58,484	\$64,872	\$77,126	\$79,474	\$70,950	\$67,376	\$61,808
Senior Lien Debt Service <sup>(9)</sup>										
Existing Senior Lien Debt Service <sup>(10)</sup>	\$27,482	\$27,483	\$27,484	\$27,483	\$19,306	\$25,454	\$25,096	\$25,097	\$25,449	\$25,085
2014 Bonds <sup>(11)</sup>	0	0	0	0	0	0	0	10	5,084	5,083
Future Bonds <sup>(12)</sup>	0	0	0	0	0	0	0	0	0	0
Total Senior Lien Debt Service	\$27,482	\$27,483	\$27,484	\$27,483	\$19,306	\$25,454	\$25,096	\$25,108	\$30,532	\$30,168
Senior Lien Coverage Pursuant to the Senior Indenture <sup>(13)</sup>	1.81	2.21	2.51	2.13	3.36	3.03	3.17	2.83	2.21	2.05
IPP Operated Resources - Lease Payments Capital	\$23,084	\$23,084	\$23,084	\$23,084	\$23,084	\$23,084	\$23,878	\$20,789	\$20,789	\$18,885
Balance Available for Debt Service	\$26,560	\$37,595	\$45,940	\$35,400	\$41,787	\$54,042	\$55,595	\$50,161	\$46,586	\$42,923
Coverage of Senior Lien Debt by Balance	0.97	1.37	1.67	1.29	2.16	2.12	2.22	2.00	1.53	1.42
Available for Debt Service after paying IPP Capital <sup>(14)</sup>										
Amount Available After Senior Lien Debt and IPP Capital	(\$922)	\$10,112	\$18,457	\$7,917	\$22,481	\$28,588	\$30,500	\$25,053	\$16,054	\$12,755
Subordinate Lien Debt Service <sup>(9)</sup>										
2010 Subordinate Bonds	\$0	\$398	\$7,242	\$15,934	\$15,163	\$15,193	\$9,603	\$0	\$0	\$0
Subordinate Lien Coverage Pursuant to the Subordinate Indenture <sup>(13)</sup>	n/a	2.18	1.99	1.35	1.88	1.90	2.29	n/a	n/a	n/a
Subordinate Lien Coverage after paying IPP Capital <sup>(14)</sup>	n/a	1.35	1.32	0.82	1.21	1.33	1.60	n/a	n/a	n/a
Total Debt Service Coverage after paying IPP Capital <sup>(14)</sup>	0.97	1.35	1.32	0.82	1.21	1.33	1.60	2.00	1.53	1.42
Amount Available After Senior and Subordinate after IPP	(\$922)	\$9,714	\$11,215	(\$8,017)	\$7,319	\$13,395	\$20,897	\$25,053	\$16,054	\$12,755
Sources/(Uses) of Cash Margins										
Changes in Assets/Liabilities	\$11,283	(\$4,691)	(\$996)	\$18,041	\$11,198	\$1,092	(\$1,761)	(\$1,463)	(\$218)	(\$1,120)
Construction Fund Interest Earned	661	553	728	1,364	1,209	212	124	2,029	472	3,741
Forward Delivery Agreement Termination	0	0	0	0	(3,574)	0	0	0	0	0
Deposits to Escrow Fund	0	0	0	0	(8,782)	0	0	0	0	0
Capital, related financing activities, Grants and External	7,247	98	383	2,582	6,079	1,943	13,438	43,012	81,977	63,095
Bond Proceeds	0	0	0	0	11,799	0	5,614	0	0	0
Misc. Activities	0	0	5,174	0	0	0	0	0	0	0
Subtotal Sources/(Uses) of Cash <sup>(15)</sup>	\$19,191	(\$4,040)	\$5,289	\$21,987	\$17,929	\$3,247	\$17,415	\$43,579	\$82,232	\$65,716
Cash From/(To) Working Capital Fund for Surplus/(Shortage)						(837)	(699)	(187)	0	(481)
Remaining Available for Capital Improvements	\$18,269	\$5,673	\$16,504	\$13,970	\$25,248	\$15,804	\$37,612	\$68,445	\$98,285	\$77,991
Capital Improvement Program:										
Amount Funded from Bond Construction Funds	2,684	2,287	1,843	20,541	23,502	88,738	41,681	111,002	181,853	153,616
Amount Funded from Current Revenues	\$11,312	\$7,699	\$11,986	\$18,587	\$17,128	\$12,416	\$15,430	\$16,465	\$17,569	\$18,748
Amount Funded from Grants <sup>(16)</sup>	3,621	98	1,319	7,208	11,142	0	0	0	0	0
Amount Funded from Self Insurance	0	0	0	0	4,628	0	0	0	0	0
Amount Funded from Other External Sources	0	0	0	0	0	1,943	13,438	43,012	81,977	63,095
Total from Revenue and External Sources	\$14,933	\$7,797	\$13,305	\$25,795	\$32,897	\$14,358	\$28,868	\$59,477	\$99,547	\$81,843
Total Capital Improvements	\$17,617	\$10,084	\$15,148	\$46,336	\$56,399	\$103,096	\$70,549	\$170,479	\$281,400	\$235,459
Remaining Balance Available	\$3,336	(\$2,123)	\$3,199	(\$11,825)	(\$7,649)	\$1,446	\$8,745	\$8,968	(\$1,261)	(\$3,853)
Energy Sales (MWh)	1,624,383	1,637,662	1,617,810	1,563,475	1,566,410	1,534,611	1,539,305	1,541,900	1,533,955	1,525,602
Cost of Power per kWh of Energy Sold (cents/kWh)	20.9	18.7	20.5	24.5	24.8	23.8	24.2	24.4	23.7	24.2
Unit Revenue from Energy Sales (cents/kWh)	24.0	22.4	24.4	28.1	28.9	28.7	29.3	28.9	28.0	28.2
Unit Revenue from Energy Sales, Excluding Fuel (cents/kWh)	8.32	8.94	9.32	9.69	9.99	10.9	11.1	10.7	10.7	10.7
Increase in Unit Revenue from Energy Sales, Excl. Fuel Over Previous Year (percent)	1.5%	7.5%	4.2%	3.9%	3.2%	9.5%	1.2%	-3.6%	0.1%	0.1%

(1) Footnotes continue on the following page.

- (2) The projected fuel and production costs were estimated by Leidos. Leidos forecasted fuel prices using the Leidos Q2 2014 Henry Hub Gas price forecast and the January 2014 World Bank Commodities Price Forecast for crude oil in conjunction with certain market based assumptions and transportation cost assumptions to estimate delivered commodity prices for Guam through 2018. Leidos expects delivered commodity prices to average \$30.29 per MMBtu for number 2 fuel oil, \$16.12 per MMBtu for number 6 high sulfur fuel oil, and \$15.17 per MMBtu for LNG in nominal terms.
- (3) Projections for FY 2014-2018 are based on projected energy sales with rate schedules effective October 1, 2013 and previous PUC-approved rate changes occurring between FY 2014 and FY 2017. Projected revenues include estimated working capital surcharge and LEAC rates. The fuel component of these projected rates was estimated by Leidos. More information about these rates is available under "FINANCIAL – Electric Rates" herein.
- (4) For FY 2014-2018 no additional base rate increases are assumed.
- (5) This item excludes debt service payments made for IPP Operated Resources (Tanguisson Units No. 1 and 2 and Piti Units No. 7, 8, and 9). These payments are reflected in the line item "IPP Operated Resources - Lease Payments Capital."
- (6) Based on FY 2013 actual expenses and FY 2014 actual amounts and budgeted amounts. For FY 2015–2018, projections are based on GPA's estimates.
- (7) Includes bad debt recovery or expense.
- (8) Includes interest earned on investments less construction fund interest/deferred interest earned.
- (9) Amounts shown reflect interest payments paid through the capitalized interest reserve fund through FY 2013 for the 2010 Senior Bonds and FY 2011 for the 2010 Subordinate Bonds; and through FY 2016 for the 2014 Senior Bonds. For 2015, reflects proceeds from 2010 Subordinate Bond Reserve Fund of \$5.6 million removed from Existing Subordinate Lien Debt Service.
- (10) Excludes debt service on Commercial Paper Notes which were converted to a term loan in April 2009. Reflects capitalized interest paid from 2010 Senior Bonds through FY 2013.
- (11) Amounts shown reflect interest payments paid through the capitalized interest reserve fund through FY 2016 for the 2014 Senior Bonds.
- (12) Assumes future senior lien bonds are issued in FY 2016 in the amount of \$331 million and \$531 million in FY 2018. Leidos assumes there will be interest paid through the capitalized interest reserve fund through the end of the study period and no principal payment due before the end of the study period.
- (13) Calculated based on a net revenue basis. Does not include effects of paying IPP debt service payments shown in the line item "IPP Operated Resources – Lease Payments Capital."
- (14) Calculated based on a net revenue basis.
- (15) Reflects estimated annual cash flows for each category of activity based on historical operating results and GPA projections. Includes monies received related to grants, contributions from customers/project developers, and other external sources for capital improvements.
- (16) The level of grant funding reflects DOE contributions for smart grid.

## **PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS**

In preparing this Report, Leidos has assumed that all contracts, agreements, statutes, rules and regulations on which Leidos has relied will be fully enforced and enforceable in accordance with their terms and conditions and will not be changed in any material way. Leidos makes no representations or warranties, and provide no opinion concerning the enforceability or legal interpretation of contracts, statutes, rules and regulations.

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

1. All historical information regarding GPA's system has been reviewed by GPA which has represented that such information is accurately reflected herein.
2. The capital improvement program provided by GPA will be implemented as scheduled and within the projected costs.
3. The O&M expenses and power costs of GPA's electric system will increase as projected by GPA.
4. Energy sales, peak demand, and the number of customers will change as projected in the Leidos forecast as of July 2014. The projections provided for this Report have not included any increases in load associated with the relocation of a portion of the Okinawa, Japan U.S. military base to Guam. Total energy generation and revenue from energy sales will change as projected by GPA. Fuel oil prices will change as projected.
5. GPA and the PUC will increase rates as needed to cover all costs of operation, maintenance and debt service on existing and future bonds and to provide amounts necessary to meet debt service coverage and other requirements of the Indentures.
6. For purposes of this Report Leidos has assumed that the Navy remains a customer of GPA through FY 2018, and that formal transfer of Navy assets to GPA will not result in additional costs to GPA.
7. Environmental compliance related costs, including capital costs, will be as estimated by GPA, as included herein.

## **CONCLUSIONS**

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

1. The projection of operating results shown herein forms a reasonable basis for GPA's planning purposes and to implement its capital improvement plan. To achieve the projections shown, GPA and its governing and regulatory bodies must approve and implement future rate increases, incur additional debt or a combination of the two. Leidos' financial analysis assumes no future base rate increases (non-fuel related rate increases) within the study period. Leidos' financial forecast assumes GPA will have additional bond issuances of \$331 million in FY 2016 and \$531 million in FY 2018; and a subsequent bond issuance of approximately \$273 million occurring around 2019-2020 as described more fully herein.
2. Based on Leidos' review of data made available and discussions with GPA personnel, GPA appears to have obtained the key environmental permits and approvals required from the-various federal, state, and local agencies which are currently necessary to operate the generating plants. Leidos notes that permits and compliance data were not provided for the Piti Power Plant and only water permit data were provided for Tanguisson; thus, Leidos is not able to comment on compliance at these plants. Based on Leidos' review of internal monitoring and excess emission reports and wastewater Discharge Monitoring Reports ("DMRs") made available, and information provided by GPA, certain exceedances and equipment malfunctions occur from time-to-time. CEMS reports and annual compliance certifications have not been submitted and Cabras Units No. 3 and 4 and Piti Units No. 8 and 9 are not in compliance with the RICE MACT for which GPA is seeking a comprehensive consent decree to include Cabras Units No. 1 and 2 for MATS requirements due next year. While Leidos is not aware of any specific NOV's or monetary penalties associated with these deviations of the air and water permits, there is a potential that these or future exceedances could result in NOV's and monetary penalties.
3. Based on the load forecast used herein and Leidos' review of GPA's generating resources, GPA will not need additional generating facilities through FY 2018 other than to meet its plans for

implementing LNG as a fuel source for its generation resources and to meet its renewable energy resource goals as prescribed by the Guam Legislature.

4. Revenues that GPA can expect to derive from its operations, with no anticipated non-fuel rate adjustments, are projected to be adequate to: (i) provide for estimated O&M expenses, (ii) enable GPA to meet its covenants as to rates set forth in both Indentures, (iii) provide for a recommended increase in working capital reserves, and (iv) provide for deposits to fund capital additions (or to meet the tests for the issuance of additional revenue bonds under the Indentures whose proceeds will fund such additions) as estimated in this Report.

Respectfully submitted,

/S/

**LEIDOS ENGINEERING, LLC**

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## **APPENDIX B**

### **CERTAIN DEMOGRAPHIC AND ECONOMIC 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 (39,198 ft.), extends from northeast to southwest of Guam. According to the U.S. Census Bureau, Guam’s population as of April 2010 was estimated to be 159,358.

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 United States along with Cuba, Puerto Rico, and the Philippines. Guam has since remained under U.S. administration, except for two and a half years of Japanese occupation during World War II. On July 21, 1944, 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 11,340 employees 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 judiciary 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 elected 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 proximity to many of the major cities of Asia and the South Pacific 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. Guam has an international airport, the Antonio B. Won Pat Guam International Air Terminal (the “Airport”), operated by the A. B. Won Pat International Airport Authority, Guam, 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”), 1,488,187 enplaned passengers were processed through the Airport in calendar year 2013, making the Airport the 70th 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 2013, the Airport was the 8th busiest port of entry to the United States for non-U.S. resident arrivals (excluding arrivals from Canada and Mexico).

On December 5, 2013, the Bureau of Economic Analysis of the United States Department of Commerce (“BEA”) released its estimates of gross domestic product (“GDP”) and gross domestic income (“GDI”) for Guam for 2011 and 2012 and its estimates of gross domestic product by industry and compensation by industry for Guam for 2011 and revised estimates for 2008 through 2010. As set forth in Table B-1, the BEA’s estimates indicate that Guam’s GDP grew from \$3.349 billion in 2002 to \$4.761 billion in 2012. The 2012 GDP figure consists of approximately \$3.0 billion of personal consumption expenditures, \$3.0 billion of government consumption

expenditures and gross investment, and \$204 million of private fixed investment, and is offset by approximately \$1.6 billion of net exports. The BEA also estimates that Guam's real per capita GDP, measured in 2005 dollars adjusted for inflation, grew from \$23,378 in 2002 to \$25,388 in 2012.

Guam's real GDP increased 0.5% in 2012 after decreasing 0.6% in 2011. For comparison, real GDP for the United States (excluding territories) increased 2.8% in 2012 after increasing 1.8% in 2011. The decline in Guam's real GDP in 2011 resulted primarily from a decrease in private fixed investment and a deterioration in the trade balance that was partially offset by growth in territorial government spending in connection with government construction activities. The largest contributor to the growth in Guam's real GDP during 2012 was spending by tourists, which was partially offset by decreases in federal and territorial governmental spending, as governmental construction activity declined and governmental employee compensation decreased. See “—Economic Indicators—Construction” and “—Military Activity—Military Expenditures” below.

**TABLE B-1**  
**GUAM GROSS DOMESTIC PRODUCT**  
**CALENDAR YEARS 2002 – 2012**  
**(Millions of Dollars)**

<u>Calendar Year</u>	<u>Gross Domestic Product</u>
2002	\$3,349
2003	3,494
2004	3,774
2005	4,056
2006	4,077
2007	4,207
2008	4,339
2009	4,541
2010	4,588
2011 <sup>(1)</sup>	4,555
2012 <sup>(1)</sup>	4,761

<sup>(1)</sup> Estimated.

*Source: 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 0.8% in 2011 and 12.2% in 2012. These fluctuations correspond with the number of visitors to Guam. Guam's real consumer spending on goods and services increased 0.5% in 2012 after declining 0.6% in 2011. Consumer prices rose during this period, increasing 3.4% in 2012 after increasing 2.4% in 2011 and 1.1% in 2010.

Average annual individual income for residents of Guam has increased from \$26,730 in 2003 to \$32,700 in 2013, a compound annual growth rate of 2.0%, according to the United States 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 1.86 million revenue tons, including the contents of over 85,000 twenty-foot-equivalent unit containers, and received approximately 15,000 passengers (including cruise ship calls) in fiscal year 2012. 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 of Guam (the “Port Authority”), a public corporation and autonomous instrumentality of the Government.

## 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 of these storms passed directly over or just south of the island. Seven of these typhoons caused damage great enough to result in federal disaster relief: Super Typhoon Karen in 1962, Typhoon Pamela in 1976, Typhoon Russ in 1990, Super Typhoon Omar in 1992, Super Typhoon Paka in 1997, and Typhoon Chata'an and Super Typhoon Pongsona in 2002. In 2002, Guam adopted the International Building Code, 2009 Edition, requiring all new construction to be designed to tolerate wind velocities of 155 mph. 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 estimate 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 40 public schools, 25 private schools, four Department of Defense schools, one community college and one university. Approximately 31,000 students attend Guam's elementary and secondary schools. The Guam Public School System secured financing in late 2006 and in 2008 for the construction of four additional public schools. Three of the new schools opened for the 2008-2009 school year, and the remaining school, an elementary school, opened for the 2009-2010 school year. The Guam Public School System also secured additional financing in 2010 for the demolition and reconstruction of the John F. Kennedy High School facility which had closed in 2008 for safety reasons. The reconstruction of the John F. Kennedy High School was completed in August 2011, allowing it to be in service for the 2011-2012 school year. Expansion of the existing Okkodo High School is expected to be completed and the school is expected to be in service in July 2014 for the 2014-2015 school year. Both Guam Community College and the University of Guam are accredited by the Western Association of Schools and Colleges. The University of Guam is the only accredited four-year institution of higher learning in the western Pacific, and it offers graduate programs in select areas of study.

## 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.

In fiscal year 2013, the private sector gained approximately 220 jobs, whereas the public sector shed 200 jobs, including 160 Government jobs and 40 federal government jobs. The most significant changes in the private sector in fiscal year 2013 were 580 more jobs in construction and 140 more jobs in transportation and public utilities, offset in part by a decreases of 240 manufacturing jobs, 190 retail trade jobs and 70 wholesale trade jobs.

Federal employment for the year ending December 31, 2013 was down by 40 jobs from the prior year's figures. Government employment for the year ending December 31, 2013 decreased by 160 from the previous year's figure.

The distribution of civilian employment in Guam based on payrolls from 2008 to 2013 (the most recent complete Fiscal Year for which information is available), as well as preliminary information for Fiscal Year 2014, is listed by industry in Table B-2. Excluded from the civilian employment estimates in Table B-2 are self-employed individuals, active duty military personnel, proprietors, volunteers and unpaid family workers. The payroll survey in Table B-2 includes all civilian personnel on payroll, including multiple jobholders counted at each place of employment, and nonresident alien workers.

**TABLE B-2**  
**Civilian Employment<sup>(1)</sup>**  
**2008-2014**

	<u>2008</u>	<u>2009</u>	<u>As of December 31,</u>		<u>2012</u>	<u>2013<sup>(3)</sup></u>	<u>2014<sup>(3)</sup></u>
	<u>2010</u>	<u>2011</u>					
<b><u>Private sector:</u></b>							
Agriculture	350	320	320	210	140	160	190
Construction	6,460	6,660	6,660	5,860	6,540	7,120	7,240
Manufacturing	1,700	1,790	1,790	1,740	1,660	1,420	1,400
Transportation & public utilities	4,820	4,660	4,500	4,250	4,670	4,810	4,890
Wholesale trade	2,060	1,930	2,100	2,180	2,320	2,250	2,130
Retail trade	11,540	11,660	11,610	11,630	11,730	11,540	11,600
Finance, insurance, and real estate	2,560	2,520	2,650	2,640	2,520	2,530	2,450
Services	16,240	16,130	17,160	16,250	16,520	16,490	16,540
<b>Total private</b>	<u>45,730</u>	<u>45,670</u>	<u>46,790</u>	<u>44,760</u>	<u>46,100</u>	<u>46,320</u>	<u>46,440</u>
<b><u>Public sector:</u></b>							
Federal government	3,760	3,830	3,940	4,130	4,060	4,020	4,040
Guam government <sup>(2)</sup>	11,350	11,720	11,870	11,930	11,730	11,570	11,340
<b>Total public</b>	<u>15,110</u>	<u>15,550</u>	<u>15,810</u>	<u>16,060</u>	<u>15,790</u>	<u>15,590</u>	<u>15,380</u>
<b>Total Payroll Employment</b>	<u>60,840</u>	<u>61,220</u>	<u>62,600</u>	<u>60,820</u>	<u>61,890</u>	<u>61,910</u>	<u>61,820</u>

<sup>(1)</sup> 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.

<sup>(2)</sup> Includes temporary contractual employees, autonomous agencies, Agency for Human Resources Development Disaster Recovery, and senior/youth employment programs.

<sup>(3)</sup> Preliminary Values as of June 2014 (most recent available information).

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

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

**TABLE B-3**  
**Top 15 Private Employers on Guam<sup>(1)</sup>**  
**Calendar Year 2013**

<b><u>Employer (and Type of Enterprise)</u></b>	<b><u>Number of Employees<sup>(2)</sup></u></b>
1. Calvo Enterprises, Inc. (insurance, various)	1,129
2. DZSP 21 LLC (military support services)	1,000
3. Black Construction Corp. (construction)	898
4. Pacific International Inc. (construction)	676
5. Triple J Enterprises (automotive, various)	670
6. Pacific Islands Club Guam (resort)	601
7. Hilton Guam Resort & Spa (hotel)	600
8. Atkins Kroll Inc. and Microl Corp. Saipan (motor goods)	573
9. Bank of Guam (financial services)	501
10. Core Tech International (construction)	367
11. GTA TeleGuam (telecommunications)	350
12. Joeten Enterprises Inc. (retail and real estate)	323
13. dck Pacific Guam (construction)	320
14. Jones & Guerrero Co. Inc. (construction, various)	280
15. GFS Group (military support services)	275

<sup>(1)</sup> Companies selected by employee count from among top 33 by revenues, as compiled by the source.

<sup>(2)</sup> Number of employees represents total number of employees in Micronesia.

*Source: Guam Business Magazine 2013 Top Companies.*

### Unemployment

The Government reports employment and unemployment separately. Guam's unemployment was 10% as of September 2013, the most recent date for which information is available.

Table B-4 lists unemployment statistics for March 2004 to September 2013. Differences in the employment figures in Table B-2 and Table B-4 arise as a result of differences in the surveys' coverage and exclusions. For example, the household survey in Table B-4 excludes civilians living within military installations or in military housing, and employees under the age of 16 years.

**TABLE B-4**  
**Unemployment Statistics<sup>(1)</sup>**  
**2004-2013**

<b>As of<sup>(2)</sup></b>	<b>Total Labor Force</b>	<b>Number Unemployed</b>	<b>Unemployment Rate (%)</b>
Mar. 2004	61,520	4,710	7.7
Dec. 2005	64,130	4,500	7.0
Mar. 2006	65,940	4,530	6.9
Sept. 2006	66,450	4,890	7.4
Sept. 2007	63,600	5,310	8.3
Sept. 2009	70,310	6,510	9.3
March 2011	74,950	9,970	13.3
March 2012	68,400	8,060	11.8
September 2012	72,980	7,970	10.9
December 2012	72,560	7,800	10.7
March 2013	73,170	9,730	13.3
September 2013 <sup>(3)</sup>	71,430	7,160	10.0

<sup>(1)</sup> 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.

<sup>(2)</sup> Dates as of which data are provided reflect reported data available from the Guam Department of Labor, Bureau of Labor Statistics.

<sup>(3)</sup> Most recent available information.

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

### Construction

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

Table B-5 lists the dollar value of the construction permits issued during the period from Fiscal Year 2008 through Fiscal Year 2013, the most recent complete Fiscal Year for which information is available. Values given include permits for new construction and additions.

**TABLE B-5**  
**Fiscal Year Building and Construction Permits**  
**Fiscal Years 2008-2013**  
**(Dollars in Thousands)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Residential	\$69,689	\$50,419	\$67,047	\$44,899	\$40,141	54,518
Commercial & Industrial	17,744	65,417	14,729	18,305	28,663	128,727
Government	55,298	116,268	76,487	84,236	113,389	81,061
Hotels	3,070	—	200	934	830	--
Condominiums	22,417	1,175	76,537	848	20,000	161
Apartments & Dormitories	13,360	6,053	28,494	15,683	11,374	30,160
Other <sup>(1)</sup>	28,717	23,139	15,255	51,888	149,535 <sup>(2)</sup>	13,927
<b>Total</b>	<b>\$210,295</b>	<b>\$262,471</b>	<b>\$278,749</b>	<b>\$216,794</b>	<b>\$363,930</b>	<b>\$308,552</b>

<sup>(1)</sup> Includes permit renewals, demolitions, relocations and church buildings.

<sup>(2)</sup> Includes \$120 million for Guam Regional Medical City.

*Source: Guam Department of Public Works.*

During Fiscal Year 2011, approximately \$217 million of building and construction permits were issued. The delay in the planned relocation of U.S. Marines and military dependents from Okinawa and Iwakuni, Japan to Guam resulted in a decrease in construction projects for Fiscal Year 2011. 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 United States and Japan governments of the final terms and extent of the relocation are ongoing. See “—Military Activity—Military Personnel” and “—Military Expenditures.” During Fiscal Year 2012, approximately \$364 million of building and construction permits were issued, an increase of approximately 168% over Fiscal Year 2011. This increase is due primarily to permit renewals, demolitions, relocations, church buildings and the construction of the Guam Regional Medical City. During fiscal year 2013, approximately \$308.5 million in building permits were issued, representing a decrease of approximately 15.2% percent over fiscal year 2012. For the first nine months of Fiscal Year 2014, approximately \$342.7 million of building and construction permits have been issued.

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. New shopping centers in Mangilao and Tumon were completed in 2010. Construction of a \$2 million supermarket in the southern part of Guam was completed in October 2013, and the supermarket opened its doors for business in November 2013. Construction of a proposed two-story Grandview Mall in Tumon has commenced and is scheduled to begin operations in 2014. Construction is ongoing for the Guam Regional Medical City, a nonprofit, tertiary level medical facility and the first non-governmental facility of its type on the island. Phase one of the hospital is anticipated to open in 2014 with 130 beds (phase two will include 90 additional beds) at a cost of approximately \$250 million. The Hospital Development Foundation on Guam estimates that Guam residents spend \$82 million annually to pay for care at private hospitals outside of Guam; it is anticipated that this new private hospital on Guam will capture a large portion of that revenue. Construction of a new commercial building housing Guam’s new Applebee’s franchise opened in July 2014, and the same developers are also making plans to introduce Guam’s first IHOP restaurant. Both establishments, along with a commercial retail and office building, will be located in Tamuning next to the Guam Premier Outlets shopping mall.

Ongoing or recently completed Government construction projects include \$167 million new capital improvements, additions and extension to the airport, an estimated \$159.7 million to fund the closure of the Ordot Dump and the opening of a new landfill facility, and \$260 million of capital improvement projects for the Port Authority of Guam master plan. In late 2010, Guam Power Authority issued \$206.6 million of revenue bonds to

finance projects that include a smart grid, and generation, transmission and distribution facility upgrades. The Department of Education secured financing to build a new high school to replace an existing facility in Tamuning and for the expansion of another high school in Dededo. The University of Guam is working towards a \$21.7 million construction project of a new Student Services Center and Engineering School Annex. The Department of Land Management is also working towards a \$15.75 million construction project for a new administration building. The Department of Public Works' 2030 Guam Transportation Plan provided \$70 million of project funding in 2008 and over \$160 million of federal funding for projects from 2008 through 2011. The Guam Visitors Bureau ("GVB") secured financing for \$67 million of capital projects, including creation of new tourist destinations and enhancement of existing historical and park sites. In 2013, the Guam Waterworks Authority issued revenue bonds to fund \$139 million of capital improvements to the Authority's water and wastewater system that include water production, treatment, distribution and storage, wastewater collection and treatment. In addition, approximately \$7.0 million was secured for the reconstruction and the rehabilitation of the Old Guam Congress Building which will become the future home of the Guam Legislature. Finally, in August 2014 the Port Authority entered into \$4.5 million construction contract for improvements and repairs to certain berths at the Port, which are expected to be completed within the next year.

In 2009 and 2010, the Government was also awarded approximately \$386 million of American Recovery and Reinvestment Act funding for programs and infrastructure projects.

#### Other Economic Activity

Table B-6 reflects the Government's business privilege tax collections for Fiscal Years 2003 through 2013, the most recent complete Fiscal Year for which information is available. Business privilege tax collections for a given fiscal year may not directly reflect gross business receipts in the prior fiscal year because businesses sometimes file late or multi-year business privilege tax returns. Generally, collections have increased over the last several years due to population growth, inflation, expansion of existing military facilities, and upgrades to a number of local hotels to accommodate increased demand for high-end rooms.

**TABLE B-6**  
**Government of Guam Business Privilege Tax Collections**  
**Fiscal Years 2003 – 2013**

<u>Fiscal Year</u>	<u>Business Privilege Tax Collections</u>
2003 <sup>(1)</sup>	\$156,095,935
2004 <sup>(1)</sup>	170,610,706
2005	149,081,382
2006	155,386,098
2007	172,745,349
2008	185,795,875
2009	182,583,996
2010	188,621,364
2011	200,047,641
2012	221,443,640
2013	221,672,983

<sup>(1)</sup> Reflects temporary increase in the business privilege tax rate from 4% to 6% from April 2003 through April 2004.

Sources: *Government of Guam Audited Financial Statements for Fiscal Years 2003-2013.*

The Government is seeking through legislative and regulatory efforts to streamline business and construction permitting processes, to obtain an exemption from the Jones Act 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 continued 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 the primary source of income for Guam's economy for over twenty-five years. Visitor arrivals rose to over 1,000,000 travelers for the first time in 1994 and have remained near or above that level ever since.

Table B-7 sets forth the annual number of visitors to Guam for Fiscal Years 2003 through 2013. The number of annual visitors to Guam increased from 856,931 in Fiscal Year 2003 to 1,337,665 in Fiscal Year 2013, an average annual increase of 1.9%. Visitor arrivals were generally flat from Fiscal Year 2005 to Fiscal Year 2007. Arrivals for Fiscal Year 2008 declined due to the global recession. Arrivals for Fiscal Year 2009 declined due to a spike in diagnoses of the H1N1 virus in Japan in early 2009. Visitor arrivals increased approximately 11.2% from Fiscal Year 2009 to Fiscal Year 2010. Arrivals for Fiscal Year 2011 declined following the natural disasters in Japan in March 2011; however, the overall effect was mitigated by increased arrivals from South Korea and Taiwan. Based on preliminary information, visitor arrivals for Fiscal Year 2013 increased by 5.3%, with visitor arrivals in March 2013 of 136,728 setting a record for monthly visitor arrivals.

**TABLE B-7**  
**Annual Visitor Arrivals to Guam**  
**Fiscal Years 2003-2013**

<u><b>Fiscal Year</b></u>	<u><b>Visitor Arrivals</b></u>
2003	856,931
2004	1,156,199
2005	1,210,147
2006	1,217,111
2007	1,223,290
2008	1,179,246
2009	1,053,248
2010	1,170,857
2011	1,147,134
2012	1,270,161
2013	1,337,665 <sup>(1)</sup>

<sup>(1)</sup> Preliminary.

*Source: Guam Visitors Bureau.*

Table B-8 provides a comparison of cumulative visitor arrivals by month to Guam for calendar years 2006 through 2013. A year-over-year comparison between 2012 and 2013 reflects an increase of visitors for each month except January. Several factors may account for the increase, such as the expanded number of airline flight routes to Guam, the favorable exchange rate for Asian visitors, the preparations for the military expansion, and the relative improvement of the overall global economy.

**TABLE B-8**  
**Cumulative Visitor Arrivals to Guam by Month**  
**2006-2013**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
January	119,562	109,073	108,100	98,298	103,262	108,243	116,588	116,558
February	226,486	216,072	212,450	191,753	212,583	219,894	228,717	238,630
March	340,561	324,276	319,011	292,693	322,380	328,596	355,093	375,358
April	427,577	414,661	405,898	373,399	405,136	399,490	442,899	466,857
May	520,036	501,054	497,388	445,296	493,628	469,961	525,596	553,027
June	608,955	600,331	592,270	505,396	579,263	545,654	620,544	652,177
July	718,678	711,641	699,103	603,046	690,071	645,240	732,514	763,484
August	833,660	840,564	803,982	706,623	810,220	766,028	864,502	897,839
September	921,312	932,928	887,280	798,749	916,735	866,461	976,844	1,006,474 <sup>(1)</sup>
October	1,012,011	1,024,240	973,493	877,060	1,005,277	956,737	1,081,178	1,108,429 <sup>(1)</sup>
November	1,108,396	1,120,811	1,054,045	958,988	1,099,731	1,056,082	1,190,311	1,215,909 <sup>(1)</sup>
December	1,211,674	1,224,894	1,141,779	1,052,871	1,196,296	1,159,778	1,308,035	1,334,497 <sup>(1)</sup>

<sup>(1)</sup> Preliminary.

Source: Guam Visitors Bureau.

#### Guam Visitors Bureau

The Guam Visitors Bureau (“GVB”) is a nonprofit membership corporation and 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 and 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. The great majority of visitors to Guam originate from Japan, as Guam is one of only four markets worldwide that attracts nearly one million Japanese tourists per year. In Fiscal Year 2013, Japan accounted for approximately 68.3% of visitors to Guam, with approximately 49.3% of Japanese visitors originating from the Kanto (Tokyo) region. In Fiscal Year 2013, Guam’s next largest tourist markets were South Korea (17.4%), the U.S./Hawaii (4.4%), Taiwan (3.4%), and the Commonwealth of the Northern Mariana Islands (“CNMI”) (1.2%). Total civilian air arrivals increased approximately 5.9% between Fiscal Year 2012 and Fiscal Year 2013.

On March 11, 2011, an earthquake measuring 8.9 on the Richter Scale occurred near northeastern Japan, followed by a tsunami that affected Japan’s northern and central east coast. While Guam saw a decline in Japanese tourists in the months following the tsunami in Japan, with total visitor arrivals from Japan for 2011 dropping approximately 7.2% as compared to 2010, increased arrivals from Taiwan and South Korea helped to minimize the overall effect on tourist arrivals. In Fiscal Year 2011, Japan accounted for approximately 71.8% of visitors to Guam, with approximately 34% of Japanese visitors originating from the Kanto (Tokyo) region. Guam’s next largest tourist markets in Fiscal Year 2011 were South Korea (12.6%), the U.S./Hawaii (5.2%), Taiwan (3.5%), and the Commonwealth of the Northern Mariana Islands (“CNMI”) (1.6%). Total civilian air arrivals decreased

approximately 2% between Fiscal Year 2010 and Fiscal Year 2011. To date, Guam's tourist industry has fully recovered from the effects of the Japanese disasters and Guam is back to pre-disaster arrival numbers from Japan.

GVB continues to market to the South Korea, Taiwan, Hong Kong and China markets to further diversify and expand Guam's visitor base and will soon expand its marketing efforts to Russia. From Fiscal Year 2011 to Fiscal Year 2013, visitor arrivals from Korea, Taiwan, China and Russia grew 60.5%, 17.7%, 68.1%, and 1061% respectively.

In November 2009, the U.S. updated its policies relating to the visa waiver program available for travel to Guam for tourism or business. The current program allows visitors holding passports from Australia, Brunei, Hong Kong, Japan, Malaysia, Nauru, New Zealand, Papua New Guinea, Republic of Korea, Singapore, Taiwan and the United Kingdom to visit Guam and/or CNMI without a visa for a period of up to 45 days. The U.S. Department of Homeland Security granted parole authority for Russia commencing on January 15, 2012, allowing visa waivers for Russian visitors to Guam. Visitor arrivals from Russia in Fiscal Year 2012 numbered 2,931 versus 528 in Fiscal Year 2011, an increase of 455%. Visitor arrivals from Russia increased in Fiscal Year 2013 to 6,141, an increase of approximately 110%.

The Government of Guam and GVB continue to lobby for expansion of the visa waiver program to visitors to Guam from mainland China.

Table B-9 sets forth a comparison of visitor arrivals to Guam by country for Fiscal Years 2007 through 2013.

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**TABLE B-9**  
**Fiscal Year Visitor Arrivals by Country**  
**Fiscal Years 2007-2013**

	<u>2007</u>		<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u> <sup>(4)</sup>	
	<u>Arrivals</u>	<u>Percent of Total</u>	<u>Arrivals</u>	<u>Percent of Total</u>	<u>Arrivals</u>	<u>Percent of Total</u>	<u>Arrivals</u>	<u>Percent of Total</u>	<u>Arrivals</u>	<u>Percent of Total</u>	<u>Arrivals</u>	<u>Percent of Total</u>	<u>Arrivals</u>	<u>Percent of Total</u>
Japan	932,396	76.2%	884,907	75.0%	817,628	77.6%	887,986	75.8%	823,645	71.8%	907,765	71.5%	912,093	68.19%
South Korea	123,024	10.1%	116,250	9.9%	83,803	8.0%	120,065	10.3%	145,081	12.6%	165,143	13.0%	232,847	17.41%
Taiwan	22,635	1.9%	21,239	1.8%	22,191	2.1%	29,420	2.5%	40,709	3.5%	49,851	3.9%	47,904	3.58%
U.S.														
Mainland/Hawaii	48,590	4.0%	53,038	4.5%	54,386	5.2%	60,651	5.2%	59,636	5.2%	64,766	5.1%	58,546	4.38%
CNMI	17,099	1.4%	18,196	1.5%	17,786	1.7%	18,369	1.6%	17,932	1.6%	17,272	1.4%	15,905	1.19%
Micronesia <sup>(1)</sup>	11,742	1.0%	12,978	1.1%	13,894	1.3%	14,176	1.2%	14,933	1.3%	14,884	1.2%	13,976	1.04%
Philippines	8,165	0.7%	10,709	0.9%	11,386	1.1%	12,016	1.0%	10,748	0.9%	10,240	0.8%	10,564	0.79%
Australia	2,339	0.2%	2,413	0.2%	2,440	0.2%	2,896	0.2%	3,660	0.3%	4,071	0.3%	3,265	0.24%
Canada	625	0.1%	756	0.1%	672	0.1%	672	0.1%	703	0.1%	773	0.1%	961	0.07%
Europe	1,540	0.1%	1,605	0.1%	1,581	0.2%	1,589	0.1%	1,511	0.1%	1,566	0.1%	2,101	0.16%
Hong Kong	6,790	0.6%	4,921	0.4%	2,802	0.3%	5,640	0.5%	8,519	0.7%	8,396	0.7%	8,936	0.67%
Thailand	195	0.0%	217	0.0%	290	0.0%	327	0.0%	498	0.0%	383	0.0%	382	0.03%
China, P.R.C.	1,379	0.1%	1,674	0.1%	2922	0.3%	4,669	0.4%	6,179	0.5%	9,040	0.7%	10,384	0.78%
Vietnam	-	0.0%	56	0.0%	36	0.0%	80	0.0%	105	0.0%	113	0.0%	92	0.01%
Russia	31	0.0%	2	0.0%	356	0.0%	385	0.0%	528	0.0%	2,931	0.2%	6,134	0.46%
Others/Unknown	<u>3,677</u>	<u>0.3%</u>	<u>4,051</u>	<u>0.3%</u>	<u>3,621</u>	<u>0.3%</u>	<u>3,887</u>	<u>0.3%</u>	<u>4,036</u>	<u>0.4%</u>	<u>4,441</u>	<u>0.3%</u>	<u>6,397</u>	<u>0.48%</u>
<b>Total Air<sup>(2)</sup></b>	1,180,227	96.5%	1,133,012	96.1%	1,035,794	98.3%	1,162,828	99.3%	1,138,423	99.2%	1,261,635	99.3%	1,330,487	99.46%
<b>Total Sea</b>	<u>43,063</u>	<u>3.5%</u>	<u>46,234</u>	<u>3.9%</u>	<u>17,454</u>	<u>1.7%</u>	<u>8,029</u>	<u>0.7%</u>	<u>8,711</u>	<u>0.8%</u>	<u>8,526</u>	<u>0.7%</u>	<u>7,178</u>	<u>0.54%</u>
<b>Total Air &amp; Sea</b>	1,223,290	100.0%	1,179,246	100.0%	1,053,248	100.0%	1,170,857	100.0%	1,147,134	100.0%	1,270,161	100.0%	1,337,665	100.00%

<sup>(1)</sup> Includes Palau, FSM and RMI.

<sup>(2)</sup> Includes military air arrivals.

<sup>(3)</sup> For Fiscal Years 2007 and 2008, includes military vessel arrivals. For Fiscal Years 2009 through 2012, military vessel arrivals were not available.

<sup>(4)</sup> Preliminary.

Source: Guam Visitors Bureau.

Table B-10 highlights the percentage change in annual visitor arrivals to Guam by country for Fiscal Years 2007 through 2013.

**TABLE B-10**  
**Percentage Change in Annual Visitor Arrivals by Country**  
**Fiscal Years 2007-2013**

	2007	2008	% Change from 2007	2009	% Change from 2008	2010	% Change from 2009	2011	% Change from 2010	2012	% Change from 2011	2013 <sup>(4)</sup>	% Change from 2012
Japan	932,396	884,907	(5.1)%	817,628	(7.6)%	887,986	8.6%	823,645	(7.2)%	907,765	10.2	912,093	0.5%
South Korea	123,024	116,250	(5.5)	83,803	(27.9)	120,065	43.3	145,081	20.8	165,143	13.8	232,847	41.0
Taiwan	22,635	21,239	(6.2)	22,191	4.5	29,420	32.6	40,709	38.4	49,851	22.5	47,904	3.9
U.S. Mainland/Hawaii	48,590	53,038	9.2	54,386	2.5	60,651	11.5	59,636	(1.7)	64,766	8.6	58,546	(9.6)
CNMI	17,099	18,196	6.4	17,786	(2.3)	18,369	3.3	17,932	(2.4)	17,272	(3.7)	15,905	(7.9)
Micronesia <sup>(1)</sup>	11,742	12,978	10.5	13,894	7.1	14,176	2.0	14,933	5.3	14,884	(0.3)	13,976	(6.1)
Philippines	8,165	10,709	31.2	11,386	6.3	12,016	5.5	10,748	(10.6)	10,240	(4.7)	10,564	3.2
Australia	2,339	2,413	3.2	2,440	1.1	2,896	18.7	3,660	26.4	4,071	11.2	3,265	(19.8)
Canada	625	756	21.0	672	(11.1)	672	0.0	703	4.6	773	10.0	961	24.3
Europe	1,540	1,605	4.2	1,581	(1.5)	1,589	0.5	1,511	(4.9)	1,566	3.6	2,101	34.2
Hong Kong	6,790	4,921	(27.5)	2,802	(43.1)	5,640	101.3	8,519	51.0	8,396	(1.4)	8,936	6.4
Thailand	195	217	11.3	290	33.6	327	12.8	498	52.3	383	(23.1)	382	(0.3)
China, P.R.C.	1,379	1,674	21.4	2922	74.6	4,669	59.8	6,179	32.3	9,040	46.3	10,384	14.9
Vietnam	-	56	-	36	(35.7)	80	122.2	105	31.3	113	7.6	92	(18.6)
Russia	31	2	(93.6)	356	17,700.0	385	8.1	528	37.1	2,931	455.1	6,134	109.3
Other/Unknown	3,677	4,051	10.2	3,621	(10.6)	3,887	7.3	4,036	3.8	4,441	10.0	6,397	44.0
<b>Total Air<sup>(2)</sup></b>	<b>1,180,227</b>	<b>1,133,012</b>	<b>(4.0)%</b>	<b>1,035,794</b>	<b>(8.6)%</b>	<b>1,162,828</b>	<b>12.3%</b>	<b>1,138,423</b>	<b>(2.1)%</b>	<b>1,261,635</b>	<b>10.8%</b>	<b>1,330,487</b>	<b>5.5%</b>
<b>Total Sea<sup>(3)</sup></b>	<b>43,063</b>	<b>46,234</b>	<b>7.4%</b>	<b>17,454</b>	<b>(62.3)%</b>	<b>8,029</b>	<b>(54.0)%</b>	<b>8,711</b>	<b>8.5%</b>	<b>8,526</b>	<b>(2.1)%</b>	<b>7,178</b>	<b>(15.8)%</b>
<b>Total Air &amp; Sea</b>	<b>1,223,290</b>	<b>1,179,246</b>	<b>(3.6)%</b>	<b>1,053,248</b>	<b>(10.7)%</b>	<b>1,170,857</b>	<b>11.2%</b>	<b>1,147,134</b>	<b>(2.0)%</b>	<b>1,270,161</b>	<b>10.7%</b>	<b>1,337,665</b>	<b>5.3%</b>

<sup>(1)</sup> Includes Palau, FSM and RMI.

<sup>(2)</sup> Includes military air arrivals.

<sup>(3)</sup> For Fiscal Years 2007 and 2008, includes military vessel arrivals. For Fiscal Years 2009 through 2012, military vessel arrivals were not available.

<sup>(4)</sup> Preliminary.

Source: Guam Visitors Bureau.

Based on preliminary data from the Guam Visitors Bureau, the total number of visitors to Guam during the first eight months of fiscal year 2014 was 985,650 as compared to 983,368 for the same period during fiscal year 2013, representing an increase of approximately 0.2%. Of these visitors, 62.0% were from Japan, 22.0% from Korea, 5.0% from the United States, 4.0% from Taiwan, 1.0% from China and 1.0% from Russia, with the remaining 5.0% coming from other countries.

### Hotels

Tumon Bay, located on Guam's west coast, is the heart of Guam's tourist industry. The hotels that line Tumon Bay provide lodging to the majority of visitors to Guam. During the 1990s and early 2000s, Guam's inventory of hotel rooms increased over 100%, with substantial growth in the number of hotel rooms occurring from 1991 to 1993 and from 1995 to 2001. As of May 2014, there were 49 hotels in Guam, including many notable international hotel operators, with an inventory of over 8,443 rooms. During calendar year 2010, Guam's annual weighted hotel occupancy rate increased from 60% to 70% and the weighted average room rate was \$111. During calendar year 2011, the weighted hotel occupancy rate remained level at 70% and the weighted average room rate increased to \$114. During calendar year 2012, the weighted hotel occupancy rate increased to 76% and the weighted average room rate increased to \$123. During calendar year 2013, the weighted hotel occupancy rate increased to 85% and the weighted average room rate increased to \$134. As of May 2014, the 2014 year to date weighted average hotel occupancy rate and room rate are 88% and \$148, respectively.

Table B-11 lists the top fifteen hotel operators by number of rooms and the number of existing rooms as of May 2014.

**TABLE B-11**  
**Top Fifteen Hotel Operations in Guam**  
**As of May 2014**

<u>Hotel/Resort</u>	<u>Year Opened</u>	<u>Location</u>	<u>Number of Rooms<sup>(1)</sup></u>
Pacific Islands Club	1980	Tumon	777
Hilton Guam Resort & Spa	1972	Tumon	645
Outrigger Guam Resort	1999	Tumon	600
Guam Plaza Hotel	1983	Tumon	501
Hotel Nikko Guam	1992	Tumon	492
Hyatt Regency Guam	1994	Tumon	450
Leo Palace Resort Guam		Yona	438
Pacific Star Resort & Spa <sup>(2)</sup>	1987	Tumon	436
Westin Resort Guam	1996	Tumon	432
Onward Beach Resort	1992	Tamuning	430
Guam Reef & Olive Spa Resort	1974	Tumon	422
Fiesta Resort Guam	2006	Tumon	318
Sheraton Laguna Guam	2007	Tamuning	318
Holiday Resort Guam	2005	Tumon	252
Verona Resort & Spa	2012	Tumon	218
Total			6,729

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

<sup>(1)</sup> 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 B-12 below shows the amount of Hotel Occupancy Tax Revenues collected during each of the calendar years shown.

**TABLE B-12**  
**Annual Hotel Occupancy Tax Revenues**  
**Calendar Years 2004 – 2013**

<u>Calendar Year</u>	<u>Amount</u>
2004	\$17,859,367
2005	19,158,350
2006	19,528,390
2007	21,179,962
2008	20,822,521
2009	19,622,561
2010	22,334,104 <sup>(1)</sup>
2011	22,961,598
2012	26,759,709
2013	28,606,196

<sup>(1)</sup> Repeal of exemption applicable to certain Government employees was effective May 17, 2010.

*Source: Guam Visitors Bureau.*

Significant hotel renovations totaling \$100 million over the past few years have been undertaken at Hilton Guam Resort and Spa, Pacific Islands Club, Guam Marriott Resort, Hotel Nikko Guam, Royal Orchid Guam, Sheraton Laguna Guam Hotel, Hyatt Regency Guam and Westin Resort Guam. In addition, the property developer Tanota Partners is constructing a new \$110 million, 400-room hotel tower, the Dusit Thani Guam, which will include a ballroom with a 2,000 person seating capacity and stand between the Outrigger Guam Resort, the Hyatt Regency Guam, and a commercial center filled with retail shops, restaurants and clubs also owned by Tanota Partners in Tumon. The Dusit Thani Guam is scheduled to open in late 2014. Under new ownership, the Guam Marriott Resort and Spa began \$25 million of renovations in the second quarter of 2011. These projects are were completed in 2014, and the resort began operating as the Pacific Star Resort & Spa in 2014. Leo Palace Resort has completed \$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 218 rooms. In addition, Lotte Hotels and Resorts (“Lotte Hotels”) recently completed its \$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 hotel re-opened in July 2014. A new luxury hotel in Tumon is planned in between the Hotel Nikko Guam and the newly opened Lotte Hotels. The new facility is expected to be about 300 rooms with a \$120 million dollar investment.

### Airlines

Eleven passenger airlines provide service at the Airport, including two major U.S. airlines, seven foreign flag air carriers and two regional/community airlines that provide interisland service. In addition, the Airport is served by other charter flights, including military charter flights, operated by various airline carriers.

Although there has been an increase in the number of airlines providing regular passenger service at the Airport since 2002, United Airlines, Inc. (“United Airlines”), a wholly owned subsidiary of United Continental Holdings Inc. and the successor to Continental Micronesia, remains the dominant carrier, accounting for an estimated 49.1% of the total enplaned passengers at the Airport in Fiscal Year 2012. The Airport serves as a hub in United Airlines’ global route network. 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. As of May

2013, the scheduled airlines at the Airport provided service to 33 destinations in Asia, Australia and the United States. United Airlines is the largest air carrier serving the Airport and provides service to 15 of these destinations.

Airline service at the Airport is still provided principally by major flag carriers such as United Airlines, however, low-cost carriers, including Jin Air and Jeju Air, have recently introduced service at the Airport.

A number of service changes have occurred at or been announced for the Airport. United Airlines added service to and from Okinawa, Japan, and added two additional weekly flights between Guam and Sendai, Japan beginning in October 2012. Eva Airlines, which conducts service between Guam and Taiwan, operated thirteen charter flights from May to October 2012 in addition to its regularly scheduled twice-weekly flights to Taipei. Eva Airlines also operated 7 round trip winter 2013 charters servicing the Narita/Guam route with a 182-passenger plane, and have announced that it will increase servicing their Taipei/Guam route from 2-5 times weekly from July 2, 2014 through August 5, 2014 utilizing a 380 passenger plane. China Airlines completed eleven charter flights between Guam and Taiwan through June 2012. Jeju Airlines has been granted approval from the U.S. Department of Transportation to operate weekly flights between Guam and Busan, South Korea and commenced service at the Airport in late September 2012. In addition, Korean Airlines is expected to begin service from Busan, South Korea, and Cebu Pacific, a low-cost Philippine air carrier, has received conditional approval from U.S. Department of Transportation to begin service from Manila. Both Jin Air and Jeju Air have advised of double daily service starting in late October 2013. Philippine Airlines recently announced that it is expanding its service from Manila to Guam, starting October 26, 2014. PAL currently operates five flights weekly and will start servicing flights on Tuesdays and Thursdays to provide customers with daily flights for this route.

The U.S. and Japan executed an “open skies” accord in October 2010, providing airlines from both countries with more freedom to set their flight routes and decide the number of passengers and cargo flights. Japan also recently liberalized regulations on foreign carriers that fly to its airports, opening the Japanese market to new low-cost carriers. Airlift capacity and frequency from Japan increased by 12% in total seats before the October 2010 forced bankruptcy announcement of Japan Airlines, which subsequently led to the carrier’s suspension of Osaka service, a reduction of Tokyo flights, and down-gauging of their daily service to a smaller aircraft. United Airlines’ resumption of Guam-Osaka-Guam service and additional flights by Delta Airlines all contributed to the increase in Japan’s seat inventory. In addition, Star Flyer, a hybrid Japanese airline, commenced charter service from Kitakyushu, Japan in August 2013.

Russian carrier Vladivostok Air recently announced that it will begin charter service from Vladivostok in eastern Russia in October 2013, continuing through March 2014.

The inaugural flight for weekly charter services by Oren Air from Khabarovsk and Vladivostok, Russia took place on November 7 and 8, 2013 respectively, utilizing a 189-passenger plane for both flights. Oren Air also plans to service routes from Petropavlovsk-Kamchatsky, Yuzhno-Sakhalinsk, and Blagoveshchensk alternating every other weekend beginning in June 2014.

Dynamic Airways, a worldwide charter air company, has partnered with China International Travel Service Limited, to begin regularly scheduled flight services from Beijing to Guam. The Company has dedicated a 235-passenger plane to bring Chinese visitors to the island every five days. The charter commenced service on June 21, 2014 and is expected to continue on for the duration of the year.

### **Political Self-Determination**

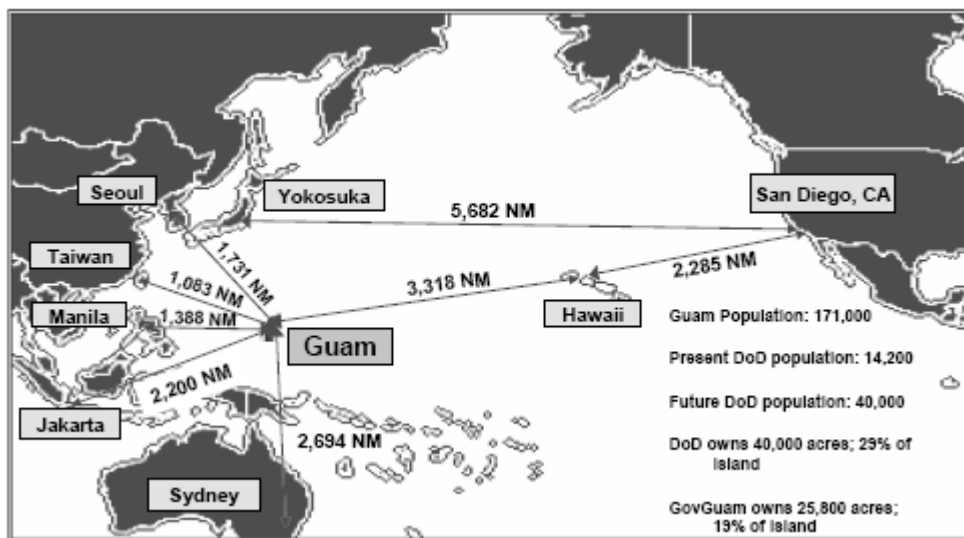
There have been efforts dating as far back as 1984 to study the potential for Guam to become a Commonwealth of the United States of America. Federal legislation that would grant Guam greater authority over its internal affairs and ensure the right of self-determination for the Chamorro people of Guam was developed on Guam and approved in two plebiscites by the people of Guam in 1987. Although such federal legislation was introduced in the 105<sup>th</sup> U.S. Congress in 1988, it was never adopted. Guam’s Commission on Decolonization reconvened in September 2011, for its first meeting since 2003, to discuss options for Guam’s political self-determination and future political status and has continued to meet periodically since.

## Military Activity

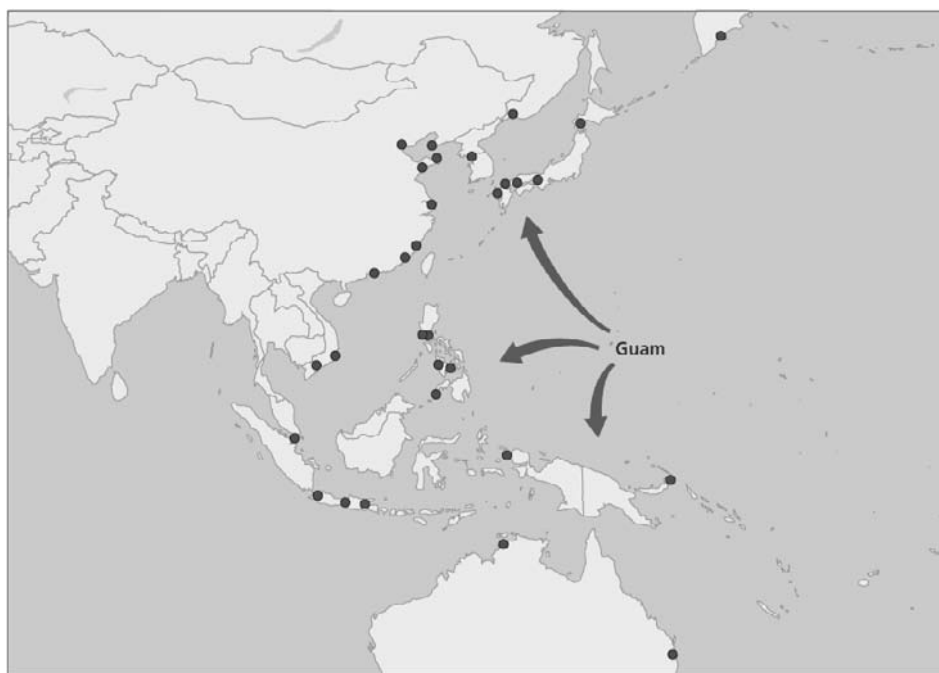
Recent world events have increased recognition of Guam's strategic military value that could result in increasing military presence in Guam and its contribution to the Guam economy. In January 2012, the U.S. Department of Defense indicated the importance of a strong U.S. military presence in Asia-Pacific region. 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. Military bases on Guam can support forward deployed capabilities in Asia and allow rapid response to any threat to stability of the Asian region or 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 and 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.



The map below identifies Major Ports that can be reached from Guam in 5 days or less.



#### Military Personnel

The level of active duty military personnel in Guam increased slightly from 2007 to 2010. 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, and in September 2010 the Department of Defense (“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: 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. Together, these were anticipated to add approximately 32,000 permanent residents to the island, and to create a peak population increase of approximately 79,000 people in 2014.

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 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 particular, the relocation of part of the Third Marine Expeditionary Force from Okinawa, Japan, is now expected to result in the relocation of approximately 4,700 marines with approximately 1,300 dependents over a 12-year period, rather than the approximately 8,600 marines and 9,000 dependents originally expected. In April 2014, the DoD released a draft Supplemental Environmental Impact Statement (2012 Roadmap Adjustments) (the “Draft 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. A Record of Decision, which will identify the final locations for additional bases and facilities to accommodate the marines, is expected to be issued in the first quarter of 2015. 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 bulk of related construction is currently expected to occur in 2017-2018, depending on the Record of Decision.

The Government cannot predict whether, when or to what extent such increase may occur. Regardless, there currently exists significant United States military missions on Guam.

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. The U.S. Navy has home-ported three fast attack submarines in Guam: the USS Oklahoma City, the USS Chicago and the USS Key West.

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 expected to increase.

Table B-13 lists active duty military personnel on Guam from 2007 through 2013.

**TABLE B-13**  
**Active Duty Military Personnel on Guam**  
**2007-2013**

<u>Year</u>	<u>Navy</u>	<u>Air Force</u>	<u>Army</u>	<u>Marines</u>	<u>Coast Guard</u>	<u>Total</u>
2007	3,878	1,596	632	4	175	6,285
2008	3,785	1,930	624	4	188	6,531
2009	3,577	2,042	618	4	191	6,432
2010	3,524	2,071	618	4	191	6,408
2011	3,579	1,865	615	5	208	6,272
2012	2,812	2,007	260	13	223	5,315
2013	3,318	2,010	257	18	216	5,819

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

Table B-14 lists military dependents on Guam from 2007 through 2013.

**TABLE B-14**  
**Military Dependents on Guam**  
**2007-2013**

<u>Year</u>	<u>Navy</u>	<u>Air Force</u>	<u>Army</u>	<u>Marines</u>	<u>Coast Guard</u>	<u>Total</u>
2007	2,774	1,941	1,178	4	154	6,051
2008	2,048	2,434	1,204	4	143	5,833
2009	1,975	3,410	1,201	7	228	6,821
2010	3,207	2,442	1,172	10	228	7,059
2011	2,445	3,365	1,199	10	228	7,247
2012	2,170	2,319	600	11	281	5,381
2013	2,385	2,099	2,384	36	348	7,252

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

As displayed in Table B-15, the number of civil service personnel on Guam steadily increased from 2006 to 2008. During this period, the number of military civil service personnel on Guam increased by over 20%. In 2009, military civil service personnel (both local and stateside hire) decreased by 11.5% but exceeded 2006 levels. From 2009 to 2010, the number of military civil service personnel on Guam increased by approximately 6.9%. Figures for 2012 reflect an increase in personnel over the 2011 level in preparation for the relocation of forces from Okinawa.

**TABLE B-15**  
**Military Civil Service Personnel on Guam**  
**2006-2012**

<u>Year</u>	<u>Non-Appropriated Fund Personnel</u>	<u>Local Hire</u>	<u>Stateside Hire</u>	<u>Total</u>
2006	860	1,415	778	3,053
2007	989	1,566	803	3,358
2008	1,121	1,692	895	3,708
2009	1,176	1,292	810	3,278
2010	942	1,556	1,022	3,520
2011	638	1,490	372	2,500
2012	1,272	1,767	283	3,322

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

#### Military Expenditures

Table B-16 provides a breakdown of military salaries expended on Guam during Fiscal Years 2004 through 2010, the most recent year for which information is available. Periodic changes in these figures reflect deployment of Guam-based troops to active duty in other locations. The U.S. Bureau of Census ceased publication of military salary data in 2011 due to budgetary constraints.

**TABLE B-16**  
**Department of Defense Expenditures on Guam**  
**Active Duty and Civilian Military Salaries**  
**Fiscal Years 2004-2010<sup>(1)</sup>**  
**(In Thousands)**

<u>Fiscal Year</u>	<u>Active Military</u>	<u>Inactive Military</u>	<u>Civil Service Employees</u>	<u>Coast Guard Employees</u>	<u>Total Salaries</u>
2004	\$206,570	\$20,533	\$38,776	\$167	\$266,046
2005	211,239	23,544	55,291	159	290,233
2006	233,475	18,986	56,065	144	308,670
2007	233,521	11,290	58,381	149	303,341
2008	101,303	13,880	60,794	157	176,134
2009	114,218	85,938	66,224	215	266,595
2010 <sup>(1)</sup>	241,496	15,751	72,923	225	330,395

<sup>(1)</sup> Latest data available.

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

An increase in Department of Defense procurement contracts results from the loss of civil service personnel. As the private sector carries out functions previously performed predominantly by civil service personnel, federal spending under procurement contracts generally increases. Expenditures also increased as the military undertook various projects in support of current missions and relocation from Okinawa including a new Naval hospital.

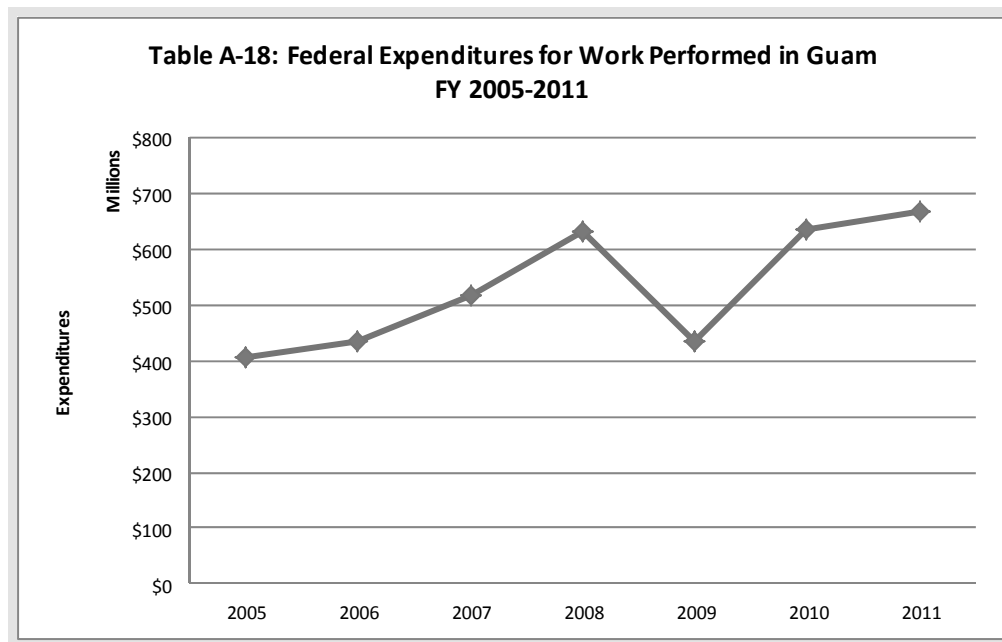
**TABLE B-17**  
**Department of Defense Procurement Contracts for Guam**  
**Fiscal Years 2006-2013**  
**(In Thousands)**

<b>Fiscal Year</b>	<b>Department of Defense Procurement</b>
2006	\$270,843
2007	341,933
2008	392,553
2009	342,630
2010	666,023
2011	663,806
2012	310,102
2013	491,569

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

The USASpending.gov website continuously updates its procurement data such that expenditures reported for any one year changes approximately every six months, usually increasing the amounts previously published. To obtain a more current picture of military contract awards, GEDA maintains a database of contracts awarded by the Department of Defense for Guam as reported on various military websites supplemented with data from the Naval Facilities Engineering Command Contracting Office. This database indicates that over \$339 million was awarded in Fiscal Year 2006; over \$351 million was awarded in Fiscal Year 2007; approximately \$476 million was awarded in Fiscal Year 2008; approximately \$636 million was awarded for Fiscal Year 2009; over \$964 million was awarded for Fiscal Year 2010; \$674 million was awarded in Fiscal Year 2011; \$532 million was awarded in Fiscal Year 2012; and \$386 million in Fiscal Year 2013. Given that not all Department of Defense contract awards are reported on the source websites, it is believed that the database maintained by GEDA understates total contract awards for these years.

The federal government publishes all federal agency transactions for work performed in Guam in its website located at [www.USASpending.gov](http://www.USASpending.gov). The chart below indicates that from Fiscal Year 2005 to Fiscal Year 2011, the most recent year for which information is available, agencies of the federal government, including the Department of Defense, paid an average of \$533 million per year to companies for work performed in Guam. The expectation is that payments will increase significantly as a result of the increased military presence on Guam. The increase in spending in 2010 and 2011 is partially attributable to funds provided under the American Recovery and Reinvestment Act of 2009.



2012 - \$816,066,304

2013 - \$751,216,106

Source: USAspending.gov compiled by GEDA and the Guam Bureau of Statistics and Plans.

Congressional authorizations for appropriations for military construction and family housing projects are depicted in Table B-19 below. Steady growth in such authorizations was evident from Fiscal Year 2007 to Fiscal Year 2010. Fiscal Year 2011 saw a significant decline in appropriations due to delays as a result of environmental and land acquisition issues associated with the relocation of Marines from Japan to Guam. This decline has continued for 2012 and 2013 as the impact of the relocation of Marines is still being studied and Department of Defense still needs to meet certain Congressional requirements. The Department of Defense studies are currently scheduled for completion in early 2014. The National Defense Authorization Act for federal fiscal year 2014 authorized \$495 million for military construction in Guam, subject to the satisfaction of certain requirements.

**TABLE B-19  
U.S. Military Construction Authorizations for Guam  
Fiscal Years 2007-2013  
(In Thousands)**

<u>Year</u>	<u>Total Authorizations</u>
2007	\$208,746
2008	290,700
2009	179,100
2010	737,614
2011	246,030
2012	116,600
2013	101,904

Source: Guam Economic Development Authority.

Of the \$116.6 million appropriated in Fiscal Year 2012, \$33 million is conditioned on certain actions to be taken by the Marine Corps, the Secretary of Defense, and other federal agencies. While the Government believes progress is being made to satisfy these conditions, no assurance can be given as to when or if such conditions will be satisfied. Fiscal Year 2013 construction projects recently authorized by Congress include upgrade of the Defense Logistics Agency Fuel Pipeline (\$67.5 million); North Ramp Utilities at Andersen Air Force Base Guam (\$25.9 Million); and the Guam Army National Guard Joint Force Headquarters (\$8.5 million). Fiscal Year 2014 has already proven to be a very active year in terms of Department of Defense spending. In December, Naval Facilities Engineering Command (NAVFAC) Marianas awarded a \$52 million contract for construction of a new fuel transfer pipeline and upgrade of an existing fuel transfer pipeline. In May, the Navy awarded task order projects for the construction/engineering of modular storage magazines and for the design and construction of an aircraft maintenance hangar, an undertaking of \$42 million and a \$53.7 million respectively. Other Fiscal Year 2014 projects submitted for Congressional approval include: Broad Area Maritime Surveillance (BAMS) Forward Operational and Maintenance Hangar (\$61.7 million); Dehumidified Supply Storage Facility (\$17.17 million); Emergent Repair Facility Expansion (\$35.86 million); Sierra Wharf Improvements (\$1.17M); X-ray Wharf Improvements (\$53.42 million); Pacific Airpower Resiliency (PAR) - Fuel Systems Hardened Buildings (\$20 million); PAR - Strike Tactical Missile Mxs Facility (\$10.53 million); PAR - Tanker GP Mx Hangar/AMU/Sqd Ops (\$132.6 million); PRTC RED HORSE Airfield Operations Facility (\$8.5 million); and PRTC SF Fire Rescue and Emergency Management (\$4.6 million).

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**APPENDIX C**

**AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR  
ENDED SEPTEMBER 30, 2013**

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

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**FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

**(RESTATED)**



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## **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, 2013 and 2012, 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, 2013 and 2012, 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 Matter

As described in note 1 to the financial statements, during the year ended September 30, 2013, GPA has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The 2012 financial statements were restated for the effect of adopting these accounting pronouncements. 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 8 as well as the Schedule of Funding Progress and Actuarial Liability – Post Employment Benefits Other than Pension on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.



March 11, 2014

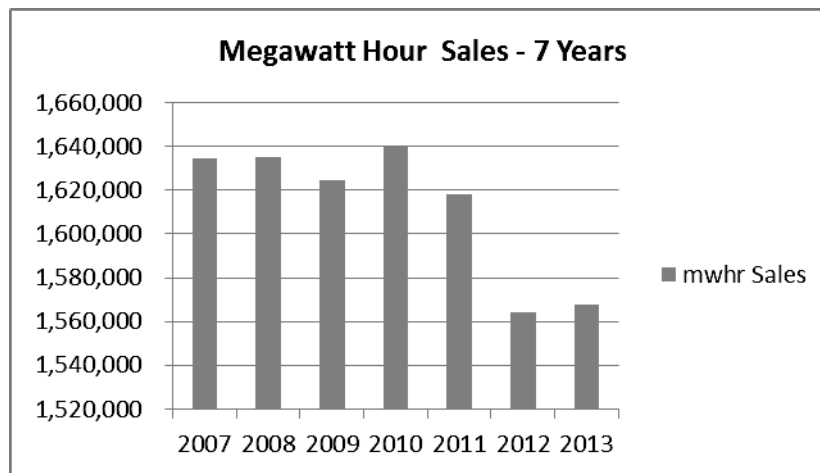
**GUAM POWER AUTHORITY**  
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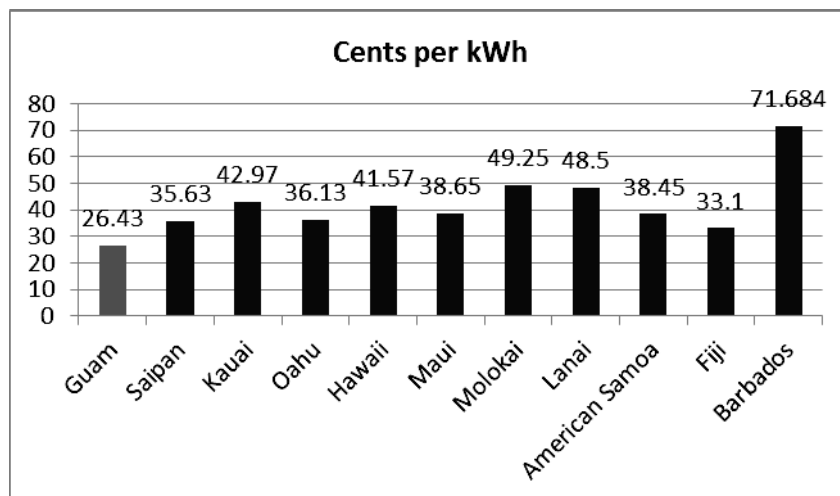
The following is a discussion and analysis of the Guam Power Authority's (GPA or the Authority) financial performance for the fiscal year ended September 30, 2013.

**Sales**

The biggest issue for the Authority remains sales. As the chart below show, sales grew slightly in Fiscal Year 2013 over Fiscal Year 2012; however, the overall trend remains negative and challenges to the GPA's sales growth remain one of the most significant issues facing the Authority. GPA is facing pressure from high fuel prices which are passed onto consumers through the Levelized Energy Adjustment Clause (LEAC). This has caused many of GPA's customers to take aggressive measures to conserve energy through reduced use and through energy efficient equipment purchases. The high cost of fuel is also making solar energy appear to be a viable alternative to GPA power. We will be addressing that issue later in the report.



As the graph below reveals, GPA's rates remain competitive in comparison to other island utilities; however, this reality is not well appreciated by our customers who are demanding lower cost energy solutions.



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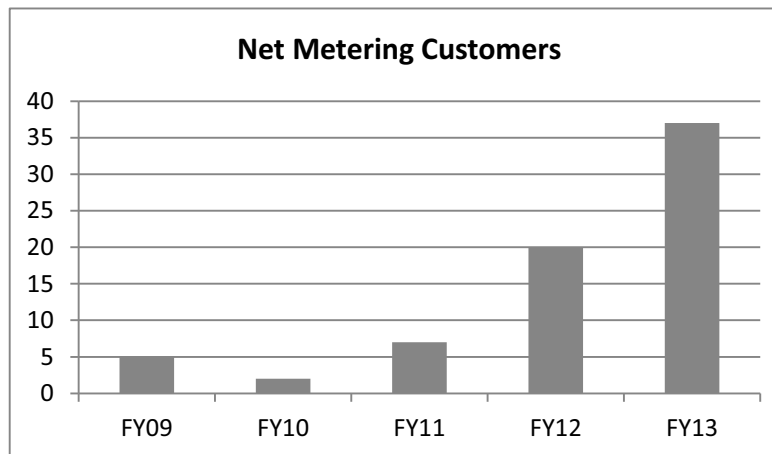
The table below reflects sales by customer class for the last three years:

**Annual Electric Sales (Kilowatt hours)**

Rate Class	FY2013 to FY2012 Comparison				
	FY2013	FY2012	FY2011	Increase (Decrease)	% Change
Residential	462,163,297	459,499,094	487,230,149	2,664,203	0.58%
Government	179,117,942	187,376,166	194,002,127	(8,258,224)	-4.41%
Commercial	564,977,723	560,879,948	566,545,898	4,097,775	0.73%
Navy	348,150,857	343,711,146	358,016,810	4,439,711	1.29%
Other	12,000,492	12,008,640	12,015,084	(8,148)	-0.07%
Total	1,566,410,311	1,563,474,994	1,617,810,068	2,935,317	0.19%

**Solar Energy**

GPA implemented a net metering program at the behest of the Guam Legislature in 2008. As is clear from the graph below, the program got off to a slow start. There were only 14 customers in the program during the first three years. In FY12, there were more net metering customers added than there were during the first three years of the program. Then in FY13, there were more customers added than in the first four years of the program. This exponential growth is another factor chipping away at GPA sales.



Like many utilities, GPA is involved in a public relations battle with solar energy providers. GPA believes there is a role for solar energy and is bringing 25 megawatts of solar energy into the grid in the Spring of 2014. However, GPA would like to make sure the amounts paid for solar energy are less than GPA's incremental cost of energy. The problem with net metering is that non-demand customers can eliminate all but the customer charge portion of the bill. That means those customers are not paying their share of costs to keep a transformer near their home, the distribution line to deliver power to their home, the cost to maintain a substation near their home, transmission line costs, and the costs to keep generators available in case the day is cloudy and they need to draw power from GPA. When GPA does not collect these costs from net metering customers, they get re-allocated to the remaining customers. This places an unfair burden on non-net metering customers. GPA is working on a solution to make rates charged to customers more reflective of proper economic signals of the costs of providing power to the island.

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**Smart Grid Technology**

In July 2009, the Guam Power Authority submitted a grant request to the U.S. Department of Energy (DOE) to implement smart grid technology at the utility. Because approximately 2/3 of GPA's annual expenses arise from fuel costs, there are significant benefits that could be obtained by improving energy losses even by small amounts. GPA's smart grid project includes the installation of smart meters for every customer, implementing a meter data management system, implementing an outage management system, a mobile workforce management system, a distribution management system, substation automation, distribution automation, and Volt/VAR optimization, etc. In November 2009, GPA received word that it would likely be awarded a grant under the American Recovery and Reinvestment Act of 2009. The grant applied for was a 50/50 matching grant wherein half of the money needed for a \$33.2 million smart grid project would be funded via a DOE grant and GPA would fund the remainder. One of the most significant purposes of the 2010 bond issuance was to provide matching funds for the grant. At September 30, 2013, GPA has installed more than 47,000 of the 49,000 meters. Some of the projects were deferred or reduced due to budget constraints. GPA is currently completing the remaining projects and expects the system to be fully installed by the end of Fiscal Year 2014. GPA is already benefitting from the ability to connect and disconnect customers without sending an employee to the service address. This savings has been passed on to customers in the form of lower re-connection charges. GPA is rolling out a prepaid metering program imminently. This rollout will be improved once the new billing system is in place. GPA is also preparing for its E-Portal program which will provide more information to customers regarding their power usage through the internet. The smart grid project has provided a foundation through which many other programs can be added in order to improve operational efficiencies and to empower customers with more information concerning their power use.

**Customer Care & Billing**

GPA has had an inherent limitation reported in its report of internal controls completed in conjunction with its annual audit. The limitation has to do with audit tracking in its billing system. During the year, GPA purchased from Oracle Corporation the billing software named Customer Care & Billing. The software has been in use in utilities for more than a decade (in earlier versions), was purchased by Oracle and integrated with JDEdwards Enterprise One software which will be implemented by GPA in the near future. GPA is currently using an earlier version of JD Edwards Enterprise Resource Planning software.

GPA's current billing software was implemented in 2005, and although an updated version of the software has been made available to GPA, there have not been sufficient other utilities implementing the software to warrant the significant implementation expense that would be required in order to utilize the updated version. The current software has had a number of limitations that led GPA to desire a new direction for its billing system. Integration with JD Edwards software has also been an issue for GPA.

The new software will enable GPA to offer E-billing, SMS messaging, can be integrated with voice recognition software, and will enable GPA to take better advantage of the data now available from the smart grid project.

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**United States Environmental Protection Agency**

The United States Environmental Protection Agency (USEPA), under the Clean Air Act, established new rules under National Emission Standards for Hazardous Air Pollutants (NESHAP) for Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (RICE MACT). These new rules require stack emissions control and continuous monitoring system (CPMS) equipment to be installed on all GPA peaking and baseload diesel generators including its Cabras 3&4 and MEC 8&9 slow speed diesel units. The deadline for complying with the rules was May 3, 2013. GPA applied for and received a one year extension for complying with the rules with respect to its small diesel peaking units. There is a project ongoing to bring these units into compliance with the rules. GPA believes the installation will be completed well in advance of the deadline. Furthermore, GPA has engaged the assistance of USEPA along with the U.S. Department of Justice (USDOJ) to negotiate a consent decree that will allow sufficient time to implement recommendations in its IRP. The IRP was approved by the CCU and the PUC. The recommendations in the IRP include new and much more efficient generation; an additional 40-45 MW of renewable energy sources; and the diversification of its fuel source to Liquefied Natural Gas (LNG) and Ultra-Low Sulfur Diesel fuel oil. GPA believes ongoing negotiations with USEPA and USDOJ will defer potential fines post RICE MACT deadlines for the slow speed diesel units.

**Liquefied Natural Gas (LNG)**

During the year, GPA has continued to develop implementation plans of the Integrated Resources Plan (IRP). The results are indicating that GPA can replace some of its older generation equipment with combined cycle combustion turbine generators. These units are far more efficient than older fuel oil steam units presently in use. Moreover, these combine cycle combustion turbine units can utilize either LNG or Ultra-Low Sulfur diesel fuel oil and provide fuel savings that can pay for the debt service associated with the acquisition of these new units. New combine cycle facilities are planned to be constructed as soon as feasible to achieve fuel savings and improve system reliability. As GPA develops LNG facilities over the next 7-8 years, the combined cycle combustion turbines will utilize Ultra-Low Sulfur diesel fuel oil as an interim and alternative fuel source. LNG implementation is expected to be completed by the year 2022. At that time, all baseload generators will then utilize LNG as the main fuel for power production. GPA is currently exploring the number of new plants to install. The range of costs for the generation facilities and the LNG regasification plant are estimated to be between \$500 - \$800 million, depending on the number of generators to be installed. However, nearly a billion dollars in net present value savings will be achieved over a thirty-year period despite the enormous capital infrastructure cost associated with implementation plans in the IRP.

**Rate Activity**

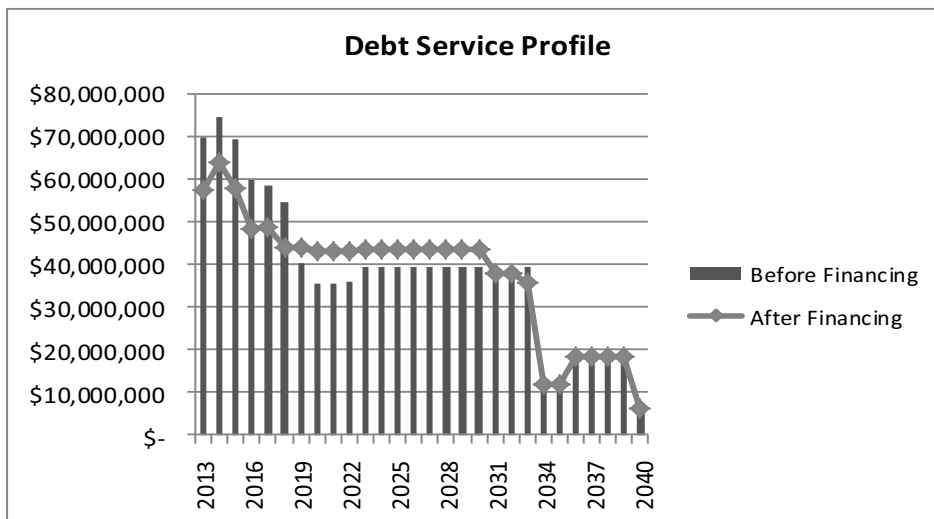
In April 2013, GPA petitioned the Public Utilities Commission (PUC) for a 2.2% rate increase. In September 2013, an increase in the amount of 1.9% was granted. The increase was a part of a financing plan in the petition wherein certain large capital projects were to be funded with a commercial paper issuance. In 2015, the commercial paper would be redeemed through the issuance of a long term bond. The financing strategy was created to minimize the rate increases required during FY14 – GPA's peak year for debt service.

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### **Borrowing Activities**

During 2013, GPA completed a restructuring and refinancing bond issuance. Approximately \$60 million of the bonds were used to restructure GPA's existing bond debt. GPA's debt profile was moving towards a peak in Fiscal Year 2014 of nearly \$75 million before debt service would begin to decline as a result of the tapering off of GPA's short term taxable subordinate debt in 2015 and 2016 and the termination of GPA's Energy Conversion Agreements in 2017-2019. The purpose of the bond restructuring was to flatten out GPA's debt service requirements by reducing the principal payments required for 2012-2018 and increasing the amount of debt service payments required in 2019-2031. The remaining amount of the \$340 million bond issuance was to refinance existing debt at lower rates. The all in cost of the bond issuance was 4.39%. The results of the bond issuance are reflected in the chart below:



GPA also started work on a commercial paper borrowing. During the year, it became apparent that the restoration of GPA's commercial paper program would not be feasible at this time. GPA's underwriter proposed a short term interest only bond issuance to simulate the commercial paper borrowing sought by the Authority. When GPA took the short term bond financing proposal to the Guam Legislature, it became apparent the senators were concerned about rising interest rates between the current period and the takeout date in 2015. The legislature appeared to be more comfortable with a traditional financing. GPA has submitted legislation for a traditional bond financing and is currently awaiting action on the part of that body.

The key projects for which funding is being sought include energy storage solutions, initial funding for the LNG project planning, and RICE MACT compliance costs.

Refer to note 9 to the financial statements for details on GPA's borrowing activities.

### **Rollback Credit**

After securing the reduced debt service costs from the bond refinancing/restructuring, GPA petitioned the Public Utilities Commission for an immediate rollback of the recently instituted base rate increase. The \$9 million rate reduction was provided through the use of a credit surcharge set to run until GPA's FY14 base rate increase petition was decided in October 2013. The surcharge was allowed to expire when GPA's new rates went into effect.

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**Future Borrowing**

As has been described GPA is planning a financing to fund the combined cycle combustion turbine plants. This financing will likely take place in 2015. GPA is exploring a few projects which may have a financing component including a streetlight replacement project, renewable energy projects, etc.

**Military Buildup**

There have been indications in the local media regarding the planned military buildup being downsized from an influx of 8,000 Marines to 5,000 Marines as well as a reduction in support staff. GPA is currently not including any military buildup projects in its five year planning horizon. GPA believes it has sufficient generation resources to meet the new demand from the expanded military presence.

**Financial Highlights**

Table 1 highlights financial comparisons from Fiscal Years 2011 through 2013. Increases in revenues and operating expenses are indicative of increased fuel charges and costs.

**Table 1. Financial Data (in millions)**

	<u>2013</u>	<u>2012</u> <u>(As Restated)</u>	<u>2011</u> <u>(As Restated)</u>
Assets:			
Current assets	\$ 281.7	\$ 334.2	\$ 351.4
Non-current investments	49.3	45.3	45.2
Other non-current assets	9.9	7.6	10.2
Utility plant	<u>526.7</u>	<u>501.7</u>	<u>484.5</u>
Total assets	867.6	888.8	891.3
Deferred outflows of resources	<u>17.4</u>	<u>12.1</u>	<u>14.6</u>
	\$ <u>885.0</u>	\$ <u>900.9</u>	\$ <u>905.9</u>
Liabilities and Net Position:			
Current liabilities	\$ 75.9	\$ 100.7	\$ 62.7
Non-current liabilities	<u>639.0</u>	<u>644.6</u>	<u>674.1</u>
Total liabilities	714.9	745.3	736.8
Deferred inflows of resources	30.2	20.6	31.6
Net Position:			
Net investment in capital assets	32.0	31.6	12.6
Restricted	28.2	37.9	33.7
Unrestricted	<u>79.7</u>	<u>65.5</u>	<u>91.2</u>
Net position	<u>139.9</u>	<u>135.0</u>	<u>137.5</u>
	\$ <u>885.0</u>	\$ <u>900.9</u>	\$ <u>905.9</u>

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**Results of Operations (in millions)**

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)
Revenues	\$ 450.7	\$ 438.7	\$ 393.6
Operating and maintenance expense	<u>417.7</u>	<u>410.3</u>	<u>356.6</u>
Operating earnings	33.0	28.4	37.0
Interest income	2.2	2.8	1.8
Other revenues and (expenses), net	<u>(38.4)</u>	<u>(40.9)</u>	<u>(43.1)</u>
Loss before capital contributions	(3.2)	(9.7)	(4.3)
Capital contributions	<u>8.1</u>	<u>7.2</u>	<u>1.3</u>
Increase (decrease) in net position	\$ <u><u>4.9</u></u>	\$ <u><u>(2.5)</u></u>	\$ <u><u>(3.0)</u></u>

**Explanations of Variances**

The change in current assets is attributed to the decrease in the Construction Fund which has been drawn down as bond projects are being completed and the Capitalized Interest Fund as capitalized interest has been paid. Another factor is normal timing fluctuations in the Fuel Inventory Account.

Non-current investments changed as a result of the 2012 bond refinancing and restructuring.

Other non-current assets have been declining as the last note receivable from the Government of Guam (the Department of Education) is being paid down. The note was fully paid off during Fiscal Year 2013.

Utility Plant has been growing as bond projects have been completed and moved into this account.

Current liabilities are moderately impacted by lower debt service requirements as a result of the refinancing and restructuring. The remaining significant changes are the result of some timing related fluctuations in other accounts.

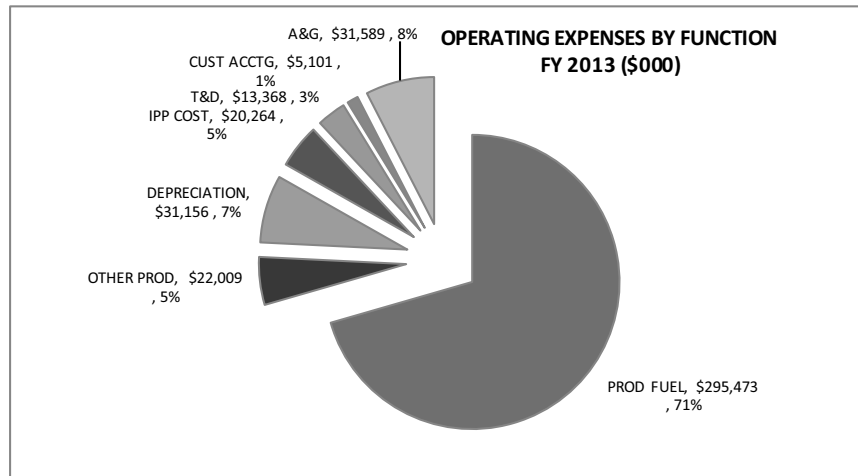
Non-current liabilities have been declining as bond principal payments are made and as the capital lease liability decreases over time. These reductions were offset in FY13 by an increase in bond debt as a result of the refinancing and restructuring plan.

The major factor in the Results of Operations is the impact of fuel. The cost of fuel increased by \$45 million from FY11 to FY12 followed by a more moderate increase of \$7 million in FY13. The recognition of income from the Smart Grid grant (capital contributions) helped improve the bottom line in FY12 and FY13.

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A breakdown of expenses by function is shown in the chart below:



### Capital Asset Activities

The largest project of the 2010 bond issuance was the construction of a consolidated office building. The design for the building was substantially completed during FY12. The project was budgeted at \$35 million and construction has begun in the summer of 2013. There was significant progress on the smart grid project during the year – approximately \$30 million of the \$33 million project costs had been incurred as of September 30, 2013. Refer to note 14 to the financial statements for details on GPA's capital asset activities.

### Commitments for Capital Expenditures

The \$33.6 million in Smart Grid Funds has been substantially obligated. The last remaining contract was obligated in March 2013. The \$35 million project for the construction of the new consolidated facility has also been fully committed. The remaining commitments are for small projects.

### Contacting GPA's Financial Management

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

Management's Discussion and Analysis for the years ended September 30, 2012 and 2011 is set forth in GPA's report on the audit of financial statements which is dated April 8, 2013. That Discussion and Analysis explains in more detail major factors impacting the 2012 and 2011 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. Randall V. Wiegand, Chief Financial Officer, Guam Power Authority, P.O. Box 2977, Hagåtña, Guam 96932-2977 or visit the website at [www.guampowerauthority.com](http://www.guampowerauthority.com).

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Statements of Net Position  
September 30, 2013 and 2012

	2013	2012 As Restated (Note 1)
<b><u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Current assets:		
Cash and cash equivalents:		
Held by trustee for restricted purposes:		
Interest and principal funds	\$ 27,161,855	\$ 36,454,297
Bond indenture funds	105,639,047	135,340,758
Held by Guam Power Authority:		
Bond indenture funds	17,708,196	17,761,703
Self-insurance fund - restricted	13,514,022	14,912,430
Total cash and cash equivalents	<u>164,023,120</u>	<u>204,469,188</u>
Investments held by trustee for restricted purposes	<u>4,845,762</u>	<u>-</u>
Accounts receivable, net	49,939,244	53,415,430
Long-term receivables, net	<u>390,377</u>	<u>2,430,120</u>
Total current receivables	<u>50,329,621</u>	<u>55,845,550</u>
Materials and supplies inventory	19,585,471	18,887,646
Fuel inventory	42,390,454	54,478,801
Prepaid expenses	<u>537,109</u>	<u>501,402</u>
Total current assets	<u>281,711,537</u>	<u>334,182,587</u>
Regulatory assets:		
Cancelled unit, net of amortization	<u>13,479</u>	<u>135,655</u>
Total regulatory assets	<u>13,479</u>	<u>135,655</u>
Utility plant, at cost:		
Depreciable utility plant, net of accumulated depreciation	484,334,813	462,108,109
Non-depreciable utility plant	<u>42,400,142</u>	<u>39,580,837</u>
Total utility plant	<u>526,734,955</u>	<u>501,688,946</u>
Other non-current assets:		
Investments - bond reserve funds held by trustee	49,278,574	45,342,829
Unamortized debt issuance costs	9,492,061	6,851,771
Other assets	<u>417,629</u>	<u>567,935</u>
Total other non-current assets	<u>59,188,264</u>	<u>52,762,535</u>
Total assets	<u>867,648,235</u>	<u>888,769,723</u>
Deferred outflows of resources:		
Unamortized loss on debt refunding	16,084,264	10,701,777
Unamortized forward delivery contract costs	<u>1,274,798</u>	<u>1,434,158</u>
Total deferred outflows of resources	<u>17,359,062</u>	<u>12,135,935</u>
	<u>\$ 885,007,297</u>	<u>\$ 900,905,658</u>

See accompanying notes to financial statements.

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Statements of Net Position, Continued  
September 30, 2013 and 2012

<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	<u>2013</u>	<u>2012 As Restated (Note 1)</u>
Current liabilities:		
Current maturities of long-term debt	\$ 12,310,000	\$ 20,815,000
Current obligations under capital leases	13,064,559	11,562,495
Accounts payable:		
Operations	22,688,570	25,995,634
Fuel	1,513,311	11,644,467
Forward delivery agreement	-	3,574,285
Self-insurance claim	448,480	1,142,970
Accrued payroll and employees' benefits	1,077,440	1,023,252
Current portion of employees' annual leave	2,078,481	2,263,391
Interest payable	14,689,852	16,007,423
Customer deposits	8,041,970	6,638,156
Total current liabilities	<u>75,912,663</u>	<u>100,667,073</u>
Regulatory liabilities:		
Provision for self-insurance	<u>12,980,814</u>	<u>13,887,062</u>
Total regulatory liabilities	<u>12,980,814</u>	<u>13,887,062</u>
Long-term debt, net of current maturities	545,937,741	538,485,569
Obligations under capital leases, net of current portion	73,203,679	86,267,770
DCRS sick leave liability	2,582,611	2,274,481
Employees' annual leave, net of current portion	1,112,489	619,029
Customer advances for construction	<u>3,149,507</u>	<u>3,100,295</u>
Total liabilities	<u>714,879,504</u>	<u>745,301,279</u>
Deferred inflows of resources:		
Unearned fuel revenue, net	25,208,323	15,195,623
Unearned forward delivery contract revenue	4,672,141	5,256,159
Other unearned revenues	<u>357,000</u>	<u>142,800</u>
Total deferred inflows of resources	<u>30,237,464</u>	<u>20,594,582</u>
Commitments and contingencies		
Net Position:		
Net investment in capital assets	32,028,800	31,683,250
Restricted	28,147,598	37,851,489
Unrestricted	<u>79,713,931</u>	<u>65,475,058</u>
Total net position	<u>139,890,329</u>	<u>135,009,797</u>
	<u>\$ 885,007,297</u>	<u>\$ 900,905,658</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2013 and 2012

	2013	2012 As Restated (Note 1)
Revenues:		
Sales of electricity	\$ 449,029,377	\$ 438,111,537
Miscellaneous	2,926,573	1,915,786
	451,955,950	440,027,323
Bad debt expense	(1,222,905)	(1,354,894)
Total revenues	450,733,045	438,672,429
Operating and maintenance expenses:		
Production fuel	295,472,656	288,602,256
Other production	22,009,288	24,990,683
	317,481,944	313,592,939
Administrative and general	31,589,477	31,377,717
Depreciation and amortization	31,155,714	28,954,754
Energy conversion costs	20,263,958	19,937,105
Transmission and distribution	13,367,775	12,716,911
Customer accounting	3,878,455	3,675,895
Total operating and maintenance expenses	417,737,323	410,255,321
Operating earnings	32,995,722	28,417,108
Non-operating revenues (expense):		
Allowance for funds used during construction	4,671,155	4,987,676
Interest revenue	2,150,244	2,775,819
Grants from the United States (U.S.) Government for GovGuam related projects	3,218,460	8,425,572
Cost of GovGuam related projects funded by grants from the U.S. Government	(3,218,460)	(8,425,572)
Interest expense	(41,254,435)	(45,272,108)
Bond issuance costs	(1,594,168)	(262,516)
Other expense	(220,504)	(299,204)
Total non-operating revenues (expense), net	(36,247,708)	(38,070,333)
Loss before capital contributions	(3,251,986)	(9,653,225)
Capital contributions:		
Grants from the U.S. Government	8,132,518	7,208,246
Change in net position	4,880,532	(2,444,979)
Net position at beginning of year	135,009,797	137,454,776
Net position at end of year	\$ 139,890,329	\$ 135,009,797

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**  
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Statements of Cash Flows  
Years Ended September 30, 2013 and 2012

<u>Increase (decrease) in cash and cash equivalents</u>	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 486,924,532	\$ 455,247,907
Cash payments to suppliers for goods and services	(369,580,391)	(341,368,136)
Cash payments to employees for services	(38,023,871)	(34,314,554)
Cash payments for retiree benefits	(2,748,420)	(2,797,254)
Net cash provided by operating activities	<u>76,571,850</u>	<u>76,767,963</u>
Cash flows from investing activities:		
Interest and dividends on investments and bank accounts	1,413,749	1,843,340
Payment of forward delivery agreement	(3,574,285)	-
Deposits to escrow fund	(8,781,507)	-
Net cash (used in) provided by investing activities	<u>(10,942,043)</u>	<u>1,843,340</u>
Cash flows from non-capital financing activities:		
Receipts from the federal government	3,926,819	8,425,572
Self insurance fund receipts net of disbursements	(906,248)	3,741,355
Proceeds from issuance of 2012 bonds	3,574,285	-
Interest paid on forward delivery agreement and deposits	(122,942)	(143,587)
Payment of self-insurance claim	(694,490)	-
Cost of GovGuam related projects funded by grants from the U.S. Government	(3,171,270)	(8,425,572)
Net cash provided by non-capital financing activities	<u>2,606,154</u>	<u>3,597,768</u>
Cash flows from capital and related financing activities:		
Receipts from the federal government	11,142,025	2,844,509
Proceeds from issuance of 2012 bonds	14,514,421	-
Cost of issuance of 2012 bonds	(7,778,590)	(262,516)
Interest paid on capital leases	(11,522,276)	(12,848,830)
Principal paid on capital leases	(11,562,027)	(10,235,475)
Principal paid on long-term debt	(20,815,000)	(12,640,000)
Interest paid on long-term debt	(26,261,162)	(25,960,200)
Additions to utility plant	(56,399,420)	(46,336,933)
Net cash used in capital and related financing activities	<u>(108,682,029)</u>	<u>(105,439,445)</u>
Net change in cash and cash equivalents	(40,446,068)	(23,230,374)
Cash and cash equivalents at beginning of year	<u>204,469,188</u>	<u>227,699,562</u>
Cash and cash equivalents at end of year	<u>\$ 164,023,120</u>	<u>\$ 204,469,188</u>
Supplemental information on noncash activities:		
Proceeds from the issuance of 2012 bonds	\$ 358,502,697	\$ -
Refunding of the 1993 and 1999 bonds	(358,502,697)	-
	<u>\$ -</u>	<u>\$ -</u>
Accounts payable - forward delivery agreement	\$ -	\$ (3,574,285)
Unamortized forward delivery contract costs	-	(1,434,159)
Unearned forward delivery contract revenue	-	5,256,159
Interest revenue	-	(247,715)
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

**GUAM POWER AUTHORITY**  
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Statements of Cash Flows, Continued  
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Reconciliation of operating earnings to net cash provided by operating activities:</u>		
Operating earnings	\$ 32,995,722	\$ 28,417,108
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	31,155,714	28,954,754
Bad debts	1,222,905	1,354,894
(Increase) decrease in assets:		
Accounts receivable	(1,042,936)	(2,985,532)
Long-term receivables	1,822,750	2,262,958
Materials and supplies inventory	(697,825)	(4,025,913)
Fuel inventory	12,088,347	2,653,442
Prepaid expenses	(35,707)	285,679
Other assets	150,306	154,648
Increase (decrease) in liabilities:		
Accounts payable - fuel	(10,131,156)	10,117,559
Accounts payable - operations	(3,307,064)	13,390,779
Customer deposits	1,403,814	453,154
Customer advances for construction	49,212	7,269
Unearned fuel revenue	10,012,700	(5,283,591)
Other unearned revenues	214,200	142,800
Accrued payroll and employees' benefits	54,188	650,661
Employees' annual and sick leave	616,680	217,294
Net cash provided by operating activities	<u>\$ 76,571,850</u>	<u>\$ 76,767,963</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2013 and 2012

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

Basis of Accounting

The accounting policies of GPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. GPA utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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, and the self-insurance fund.

GPA carries its investments at fair values. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and is primarily determined based on quoted market rates.

**GUAM POWER AUTHORITY**  
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Notes to Financial Statements  
September 30, 2013 and 2012

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

Cash, Cash Equivalents and Investments, Continued

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.

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.

Depreciation

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

**GUAM POWER AUTHORITY**  
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Notes to Financial Statements  
September 30, 2013 and 2012

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

**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 (DCRS) to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

**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.

**Unamortized Debt Issuance Costs**

Unamortized debt issuance costs mainly include insurance costs related to the issuance of the Series 2010 and 2012 bonds and the Series 1993, 1999 and 2010 bonds as of September 30, 2013 and 2012, respectively. 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.

**GUAM POWER AUTHORITY**  
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Notes to Financial Statements  
September 30, 2013 and 2012

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

Sales of Electricity

Sales of electricity are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing.

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.

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 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. The under or over recovery of the fuel inventory cost difference is included as part of unrecovered fuel cost or unearned fuel revenue, in the accompanying statements of net position.

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, respectively, in the accompanying statements of net position.

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Notes to Financial Statements  
September 30, 2013 and 2012

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

Derivative Instruments, Continued

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 (see note 6) 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 \$4,671,155 and \$4,987,676 was recognized during the years ended September 30, 2013 and 2012, respectively.

New Accounting Standards

During the year ended September 30, 2013, GPA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements  
September 30, 2013 and 2012

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

New Accounting Standards, Continued

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

The effect on the financial statements of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is as follows:

Net position as of September 30, 2011, as originally reported	\$ 139,599,884
Reversal of deferred bond issuance cost	(1,985,905)
Reversal of amortization of deferred bond issuance cost	<u>(159,203)</u>
Net position as of September 30, 2011, as restated	\$ <u>137,454,776</u>
 Change in net position for the year ended September 30, 2012, as originally reported	 \$ (2,341,666)
Reversal of deferred bond issuance cost	(262,516)
Reversal of amortization of deferred bond issuance cost	<u>159,203</u>
Change in net position for the year ended September 30, 2012, as restated	\$ <u>(2,444,979)</u>
 Long-term debt, net of current maturities for the year ended September 30, 2012, as originally reported	 \$ 527,783,792
Unamortized loss on debt refunding for the year ended September 30, 2012	<u>10,701,777</u>
Long-term debt as of September 30, 2012, as restated	\$ <u>538,485,569</u>

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

**GUAM POWER AUTHORITY**  
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Notes to Financial Statements  
September 30, 2013 and 2012

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

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements, but is of the opinion that Statement No. 68 will materially impact GPA's financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GPA.

(2) Cash, Cash Equivalents and Investments

The bond indenture agreements for the 1993, 1999, 2010, and 2012 series revenue bonds (note 9) 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.

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Notes to Financial Statements  
September 30, 2013 and 2012

**(2) Cash, Cash Equivalents and Investments, Continued**

At September 30, 2013 and 2012, cash and cash equivalents and short-term investments held by trustees and by GPA in these funds and accounts are as follows:

	2013				
	Held By Trustees		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Self Insurance Fund	Bond Indenture Funds	Total
Construction funds	\$ -	\$ 75,560,736	\$ -	\$ -	\$ 75,560,736
Interest and principal funds	27,161,855	-	-	-	27,161,855
Bond funds	-	541,185	-	-	541,185
Working capital funds	-	29,537,126	-	-	29,537,126
Self-insurance fund	-	-	13,514,022	-	13,514,022
Revenue funds	-	-	-	6,086,427	6,086,427
Operating funds	-	-	-	10,843,457	10,843,457
Surplus funds	-	-	-	778,312	778,312
	<u>\$ 27,161,855</u>	<u>\$ 105,639,047</u>	<u>\$ 13,514,022</u>	<u>\$ 17,708,196</u>	<u>\$ 164,023,120</u>

	2012				
	Held By Trustees		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Self Insurance Fund	Bond Indenture Funds	Total
Construction funds	\$ -	\$ 99,062,970	\$ -	\$ -	\$ 99,062,970
Interest and principal funds	36,454,297	-	-	-	36,454,297
Bond funds	-	5,543,818	-	-	5,543,818
Working capital funds	-	30,733,970	-	-	30,733,970
Self-insurance fund	-	-	14,912,430	-	14,912,430
Revenue funds	-	-	-	7,698,429	7,698,429
Operating funds	-	-	-	9,583,062	9,583,062
Surplus funds	-	-	-	480,212	480,212
	<u>\$ 36,454,297</u>	<u>\$ 135,340,758</u>	<u>\$ 14,912,430</u>	<u>\$ 17,761,703</u>	<u>\$ 204,469,188</u>

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**

As of September 30, 2013 and 2012, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was \$164,023,120 and \$204,469,188, respectively, and the corresponding bank balances were \$165,023,906 and \$203,842,561, respectively. Of the bank balance amount as of September 30, 2013 and 2012, \$22,197,324 and \$15,256,596 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance.

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Notes to Financial Statements  
September 30, 2013 and 2012

**(2) Cash, Cash Equivalents and Investments, Continued**

**A. Cash and Cash Equivalents, Continued**

As of September 30, 2013 and 2012, bank deposits in the amount of \$950,535 and \$1,221,124, respectively, were FDIC insured. Bank balances as of September 30, 2013 and 2012, also include \$142,826,582 and \$188,585,965, respectively, representing cash and short-term investments held and administered by GPA's trustees in GPA's name in accordance with various trust agreements and bond indentures. GPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. At September 30, 2013 and 2012, \$21,246,789 and \$14,035,472, respectively, of cash and cash equivalents are subject to custodial credit risk.

**B. Investments**

As of September 30, 2013, GPA's investments were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>S&amp;P or Moody's Rating</u>
Bond Reserve Funds:			
Natixis Funding Corp. Guaranteed Investment Certificate (GIC)	\$ 12,028,872	October 1, 2015	A2
Fortis Funding LLC (GIC)	13,742,000	October 1, 2013	P-1
US Bank Money Market Account (cash equivalents)	<u>23,507,702</u>	-	-
	<u>\$ 49,278,574</u>		
Bond Fund:			
Federated Government Ultrashort Duration Fund (mutual fund)	\$ <u>4,845,762</u>	-	-

As of September 30, 2012, GPA's investments were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>S&amp;P or Moody's Rating</u>
Bond Reserve Funds:			
General Electric Capital Corporation Commercial Paper (CP)	\$ 13,743,000	October 1, 2012	A1
Natixis U.S. Finance Company, LLC (CP)	13,742,000	October 1, 2012	P-1
Natixis Funding Corp. Guaranteed Investment Certificate	12,028,872	October 1, 2015	A2
First American Treasury (cash equivalents)	3,269	-	-
US Bank Money Market Account (cash equivalents)	<u>5,825,688</u>	-	-
	<u>\$ 45,342,829</u>		

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 bond indentures for the purpose of funding future debt service requirements.

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**(2) Cash, Cash Equivalents and Investments, Continued**

**B. Investments, Continued**

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, 2013, GPA's investments that exceeded 5% of total investments are as follows: US Bank (43.43%), Fortis Funding LLC (25.39%), and Natixis Funding Corp. (22.22%). As of September 30, 2012, GPA's investments that exceeded 5% of total investments are as follows: General Electric Capital Corporation (30.31%), Natixis U.S. Finance Company, LLC CP (30.31%), Natixis Funding Corp. (26.53%), and US Bank (12.85%).

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.

**(3) Receivables**

Accounts receivable at September 30, 2013 and 2012, are summarized as follows:

	<u>2013</u>	<u>2012</u>
Customers:		
Private	\$ 37,429,523	\$ 36,576,672
Government	<u>9,282,086</u>	<u>6,906,764</u>
	46,711,609	43,483,436
U.S. Navy	5,480,577	6,839,697
U.S. Federal Government	979,948	4,745,004
Interest	343,392	190,914
Others	<u>2,508,198</u>	<u>2,939,329</u>
	56,023,724	58,198,380
Less allowance for doubtful receivables	<u>(6,084,480)</u>	<u>(4,782,950)</u>
	\$ <u>49,939,244</u>	\$ <u>53,415,430</u>

Unbilled accounts receivable included above amounted to \$10,200,524 and \$10,009,988 at September 30, 2013 and 2012, respectively.

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**(3) Receivables, Continued**

**Long-Term Receivables**

As of September 30, 2013, long-term receivables include an uncollateralized note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of \$75,000, beginning May 2002. The note bears interest at 4.35%, per annum with the final installment payment due in April 2007. Long-term receivables also include a non-interest bearing receivable due from Guam Waterworks Authority (GWA) under a memorandum of understanding (see note 12), with monthly installments of \$25,688 starting October 2009. As of September 30, 2013 and 2012, receivables from DPW and GWA are \$390,377 and \$216,993, respectively, with the balance with GWA fully provided with an allowance as of September 30, 2013.

In 2004, GPA entered into an installment payment agreement with Guam Department of Education resulting from conversion of past due receivables payable in varying amounts starting in July 2004 with interest at 4.47% per annum. The note had a balance of \$1,822,750 at September 30, 2012 that was fully collected in July 2013.

**(4) Levelized Energy Adjustment Clause**

The under or over recoveries of fuel oil costs including the fair value of outstanding commodity swap agreements at September 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Unrecovered fuel costs:		
Under recovery of fuel costs during the year	\$ _____ -	\$ <u>5,427,903</u>
Unearned fuel revenue:		
Over recovery of fuel costs during the year	2,699,481	-
Cumulative effect of inventory cost change	<u>22,508,842</u>	<u>20,623,526</u>
Total unearned fuel revenue	<u>25,208,323</u>	<u>20,623,526</u>
Unearned fuel revenue, net	\$ <u>25,208,323</u>	\$ <u>15,195,623</u>

The cumulative effect of inventory cost change resulting from the difference between fuel inventory on hand against a base year is as follows:

	<u>2013</u>	<u>2012</u>
Cumulative effect of inventory cost change, beginning of year	\$ 20,623,526	\$ 24,040,065
Inventory cost change during the year	<u>1,885,316</u>	<u>(3,416,539)</u>
Cumulative effect of inventory cost change	\$ <u>22,508,842</u>	\$ <u>20,623,526</u>

**(5) Derivatives**

At September 30, 2012, GPA has outstanding commodity swaps of notional amounts of 90,000 metric tons of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date.

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**(5) Derivatives, Continued**

At September 30, 2012, the commodity swaps had a net positive fair value of approximately \$1,112,000 which is recorded as a component of under or over recoveries of fuel costs as discussed in note 4. At September 30, 2012, there are four counterparties, rated as P-2, A1, A3, and Baa1 by Moody's. GPA did not have outstanding commodity swap agreements at September 30, 2013.

**(6) Concentrations of Credit Risk**

Financial instruments which potentially subject GPA to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable, and commodity swap derivatives.

At September 30, 2013 and 2012, GPA has cash deposits in bank accounts that are not subject to or exceed federal depository insurance limits. GPA has not experienced any losses in such accounts.

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam. Concentrations largely result from accounts and notes receivable from Government of Guam agencies and the U.S. Navy (Navy). Management assesses the risk of loss and provides for an allowance for doubtful accounts to compensate for known credit risks.

As discussed in note 5, GPA enters into commodity swaps only with highly rated counterparties.

**(7) Obligations Under Capital Leases**

In September 1996, GPA entered into agreements to purchase electricity produced by generating plants constructed or refurbished and operated by three companies. The agreements have twenty-year terms. At the end of the agreements, ownership of the plants and the plant improvements reverts to GPA. Under each of the agreements, GPA pays capacity and operation and maintenance costs and purchase 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.

At September 30, 2013 and 2012, the costs of the plant and plant improvements are \$171,382,727 and accumulated depreciation is \$70,444,342 and \$65,759,774, respectively, which are 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 14.2%. Future capacity payments under these agreements are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2014	\$ 13,064,559	\$ 10,019,745	\$ 23,084,304
2015	14,765,627	8,318,677	23,084,304
2016	16,692,419	6,391,885	23,084,304
2017	18,875,274	4,209,030	23,084,304
2018	16,950,423	1,934,418	18,884,841
2019	<u>5,919,936</u>	<u>159,673</u>	<u>6,079,609</u>
	\$ <u>86,268,238</u>	\$ <u>31,033,428</u>	\$ <u>117,301,666</u>

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**(8) Employees' Retirement Plan**

**Defined Benefit Plan**

**Plan Description:**

GPA participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, required that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GPA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website-[www.ggrf.com](http://www.ggrf.com).

**Funding Policy:**

As a result of actuarial valuations performed as of September 30, 2011, 2010, and 2009, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2013, 2012 and 2011, respectively, have been determined as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal costs (% of DB Plan payroll)	17.52%	17.07%	17.00%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.02%</u>	<u>7.57%</u>	<u>7.50%</u>
Employer portion of normal costs (% of total payroll)	3.00%	3.03%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.33%</u>	<u>23.75%</u>	<u>21.75%</u>
Government contribution as a % of total payroll	<u>27.33%</u>	<u>26.78%</u>	<u>24.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.09%</u>	<u>28.30%</u>	<u>27.46%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GPA's contributions to the DB Plan for the years ended September 30, 2013, 2012 and 2011 were \$3,311,501, \$3,142,095 and \$3,001,267, respectively, which were equal to the required contributions for the respective years then ended.

**Defined Contribution Retirement System (DCRS)**

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.

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September 30, 2013 and 2012

**(8) Employees' Retirement Plan, Continued**

**Defined Contribution Retirement System (DCRS), Continued**

Statutory employer contributions for participants in the DCRS plan for the years ended September 30, 2013, 2012 and 2011 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.

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, 2013, 2012 and 2011 were \$5,052,969, \$4,576,734, and \$4,141,724, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$4,240,804, \$3,798,237 and \$3,415,577 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2013, 2012 and 2011, respectively.

GPA has accrued an estimated liability of \$2,582,611 and \$2,274,481 at September 30, 2013 and 2012, 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 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, 2013, 2012 and 2011, GPA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Supplemental benefits	\$ 864,907	\$ 861,618	\$ 746,609
Medical and dental	<u>1,883,513</u>	<u>1,935,636</u>	<u>2,010,978</u>
	<u>\$ 2,748,420</u>	<u>\$ 2,797,254</u>	<u>\$ 2,757,587</u>

Contributions to the OPEB plan for the years ended September 30, 2013, 2012 and 2011 were equivalent to the statutorily required contributions for those years.

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**(9) Noncurrent Liabilities**

**A. Long-term debt**

Long-term debt at September 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
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 2014, increasing to a maximum payment of \$25,630,000 in October 2031, with a final payment of \$24,485,000 in October 2034.	\$ 340,620,000	\$ -
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.	39,500,000	51,680,000
1999 Series Revenue Bonds, initial face value of \$349,178,601, interest at varying rates from 5.0% to 5.25% 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 \$2,950,000 in October 2000, increasing to \$26,110,000 in October 2034.	-	304,595,000
1993 Series Revenue Bonds, initial face value of \$100,000,000, interest at 5.25% 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 \$1,725,000 in October 1996, increasing to \$6,535,000 in October 2023.	-	60,090,000
	530,560,000	566,805,000
Less current maturities	<u>(12,310,000)</u>	<u>(20,815,000)</u>
	518,250,000	545,990,000
Add premium on 2012 bonds at September 30, 2013	31,497,387	-
Less discount on 2010 Senior and Subordinate bonds and 2010 Senior and Subordinate, 1999 Senior, and 1993 Senior bonds at September 30, 2013 and 2012, respectively	<u>(3,809,646)</u>	<u>(7,504,431)</u>
Total bonds	\$ <u>545,937,741</u>	\$ <u>538,485,569</u>

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Notes to Financial Statements  
September 30, 2013 and 2012

**(9) Noncurrent Liabilities, Continued**

**A. Long-term debt, Continued**

Proceeds of the 1993 Series Revenue Bonds were used to finance acquisitions of additional generating capacity, to construct additional transmission facilities, and to upgrade and refurbish existing equipment.

Proceeds of the 1999 Series Revenue Bonds were used to finance 1999 projects; to retire \$45 million in tax exempt commercial paper notes; to retire GPA's 1992 and 1994 series bonds; and to pay the amount due on the 1993 bonds totaling \$1,950,000.

Proceeds of the 2010 Series Senior Revenue Bonds will be used to finance capital projects, generally consisting of a new administration building and various generation, transmission and distribution facilities. Additionally, proceeds were used to make a deposit to the Bond Reserve Fund, to provide capitalized interest through October 1, 2013, and to 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, to provide capitalized interest through April 1, 2011, and to 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 issuance costs incurred in connection with the 2012 Senior Bonds.

As of September 30, 2013, 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>
2014	\$ 12,310,000	\$ 27,962,900	\$ 40,272,900
2015	13,600,000	27,039,975	40,639,975
2016	14,265,000	26,045,630	40,310,630
2017	115,000	24,980,630	25,095,630
2018	470,000	24,971,850	25,441,850
2019 through 2023	74,535,000	117,881,300	192,416,300
2024 through 2028	122,865,000	91,792,075	214,657,075
2029 through 2033	145,670,000	57,081,900	202,751,900
2034 through 2038	97,735,000	24,710,375	122,445,375
2039 through 2041	<u>48,995,000</u>	<u>5,485,700</u>	<u>54,480,700</u>
	<u>\$ 530,560,000</u>	<u>\$ 427,952,335</u>	<u>\$ 958,512,335</u>

All gross revenues of GPA have been pledged to repay the 2010 and 2012 series bond principal and interest and the 1993, 1999 and 2010 series bond principal and interest at September 30, 2013 and 2012, respectively. The debt service for the 2010 and 2012 series bonds and the 1993, 1999 and 2010 series bonds was \$39,471,114 and \$39,072,313 or approximately 8.7% and 8.9% of pledged gross revenues, for the years ended September 30, 2013 and 2012, respectively.

Premium and discounts associated with the 2010 and 2012 bond series and the 1993, 1999 and 2010 bond series at September 30, 2013 and 2012, respectively, are being amortized on the effective interest method over the life of the applicable debt.

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(9) Noncurrent Liabilities, Continued

A. Long-term debt, Continued

Debt Refunding

Part of the proceeds of the 1999 Series bonds were used to retire the 1992 and 1994 series bonds with a total principal outstanding of \$143,660,000 and \$99,820,000, respectively. The proceeds for the refunding of the aforementioned bonds were transferred to an escrow agent who used the proceeds to purchase U.S. Government securities which are to be held by the escrow agent in an irrevocable trust to provide debt service payments until maturity or earlier redemption of the 1992 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling \$21,989,949 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds.

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 almost \$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 has been 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 loss on refunding of the 1992 and 1994 Series bonds has been amortized on a straight line basis, which approximates the effective interest method, over the remaining life of the 1992 and 1994 bonds. The unamortized balance of the loss refunding of the 1993 and 1999 Series bonds and the 1992 and 1994 Series bonds is \$16,084,264 and \$10,701,777 as of September 30, 2013 and 2012, 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.

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Notes to Financial Statements  
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(9) Noncurrent Liabilities, Continued

A. Long-term debt, Continued

The termination fees and closing costs amortization 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.

On September 26, 2012, GPA entered into an agreement to terminate the portion of the Bond Reserve Fund Forward Delivery Agreement attributable to Lehman Brothers. As a result of the termination, GPA wrote off \$1,434,159 and \$5,256,159 in unamortized costs and unearned revenues, respectively, and recognized a liability of \$3,574,285 for the settlement amount presented as accounts payable – forward delivery agreement in the accompanying statements of net position. The transaction also resulted in a gain of \$247,715 which is recorded as part of interest revenue in the accompanying statements of revenues, expenses and changes in net position for the year ended September 30, 2012.

The following summarizes the unamortized costs and unearned revenues on the forward delivery contract at September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unearned forward delivery contract revenues	\$ 8,760,514	\$ 8,760,514
Accumulated amortization	<u>(4,088,373)</u>	<u>(3,504,355)</u>
	\$ <u>4,672,141</u>	\$ <u>5,256,159</u>
Unamortized forward delivery contract costs	\$ 2,390,265	\$ 2,390,265
Accumulated amortization	<u>(1,115,467)</u>	<u>(956,107)</u>
	\$ <u>1,274,798</u>	\$ <u>1,434,158</u>

B. Long-term liabilities

Changes in long-term liabilities are as follows:

	Outstanding October 1, 2012	Increases	Decreases	Outstanding September 30, 2013	Current
1993 Series bonds	\$ 60,090,000	\$ -	\$ (60,090,000)	\$ -	\$ -
1999 Series bonds	304,595,000	-	(304,595,000)	-	-
2010 Series Senior bonds	150,440,000	-	-	150,440,000	-
2010 Series Subordinate bonds	51,680,000	-	(12,180,000)	39,500,000	12,200,000
2012 Series Senior bonds	-	340,620,000	-	340,620,000	110,000
Unamortized premium on bonds	-	33,518,707	(2,021,320)	31,497,387	-
Unamortized discount on bonds	(7,504,431)	-	3,694,785	(3,809,646)	-
Obligations under capital leases	97,830,265	-	(11,562,027)	86,268,238	13,064,559
DCRS sick leave liability	2,274,481	308,130	-	2,582,611	-
Employees annual leave	2,882,420	1,898,207	(1,589,657)	3,190,970	2,078,481
Customer advances for construction	<u>3,100,295</u>	<u>49,212</u>	<u>-</u>	<u>3,149,507</u>	<u>-</u>
	\$ 665,388,030	\$ 376,394,256	\$ (388,343,219)	\$ 653,439,067	\$ 27,453,040

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Notes to Financial Statements  
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**(9) Noncurrent Liabilities, Continued**

**Long-term liabilities, Continued**

	Outstanding October 1, 2011	Increases	Decreases	Outstanding September 30, 2012	Current
1993 Series bonds	\$ 63,625,000	\$ -	\$ (3,535,000)	\$ 60,090,000	\$ 3,720,000
1999 Series bonds	309,265,000	-	(4,670,000)	304,595,000	4,915,000
2010 Series Senior bonds	150,440,000	-	-	150,440,000	-
2010 Series Subordinate bonds	56,115,000	-	(4,435,000)	51,680,000	12,180,000
Unamortized discount on bonds	(7,757,396)	-	252,965	(7,504,431)	-
Obligations under capital leases	108,065,740	-	(10,235,475)	97,830,265	11,562,495
DCRS sick leave liability	2,012,318	262,163	-	2,274,481	-
Employees annual leave	2,927,289	2,125,894	(2,170,763)	2,882,420	2,263,391
Customer advances for construction	<u>3,093,026</u>	<u>9,338</u>	<u>(2,069)</u>	<u>3,100,295</u>	<u>-</u>
	<u>\$ 687,785,977</u>	<u>\$ 2,397,395</u>	<u>\$ (24,795,342)</u>	<u>\$ 665,388,030</u>	<u>\$ 34,640,886</u>

**(10) Agreements with the United States Navy**

On September 15, 1996, a lease agreement was entered into between GPA and the 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.

In July 2012, the CSA was revised to cover the proposed military buildup, rate setting methodology, and the inclusion of real estate assets as part of the transfer of facilities. The agreement is for ten years with no option for renewal. Salient components of the CSA include maintaining GPA as the only service provider to the Navy, continuation of asset transfers under the terms and conditions previously set in the CSA, calculation of rates in accordance with the methodology approved by the PUC, GPA's continued use of the Navy's assets and real property and allowable use of Navy easements and facilities to serve GPA's customers when necessary, continuance of weekly fuel payments by the Navy, 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, among others.

During the years ended September 30, 2013 and 2012, GPA billed the Navy \$84,898,982 and \$86,032,520, respectively, for sales of electricity under the CSA. Receivables from the Navy were \$5,480,577 and \$6,839,697 at September 30, 2013 and 2012, respectively (see note 3).

**(11) 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 2009, GPA entered into two contracts to purchase diesel fuel oil. The agreements are for three years ended September 30, 2012 with an option to extend for two additional one-year terms, renewable annually. In February, 2012, GPA renewed the two contracts through November 30, 2014.

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(11) Commitments and Contingencies, Continued

Performance Management Contracts

During the year ended September 30, 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. At September 30, 2013, the minimum future management fees for the years ending September 30, 2014 and 2015 are \$2,734,177 and \$2,526,743, respectively.

The fees are subject to certain incentives and penalties, as agreed by both parties.

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 ending May 31, 2015 with an option to extend the contract for two additional one-year terms with the mutual consent of both parties. Mandatory management fees are \$675,273 annually with optional additional insurance fees of \$41,750 annually. At September 30, 2013, the minimum future management fees for the years ending September 30, 2014 and 2015 are \$675,273 and \$450,182, respectively.

Operating Leases

On January 1, 2008, GPA renewed the lease agreement for its office building with a monthly rental of \$45,000, which expired on December 31, 2009 and was renewed for an additional three year term through December 31, 2012. GPA extended the lease agreement from January 1, 2013 to December 31, 2014 at a monthly rental of \$45,110.

GPA entered into a sublease agreement for vehicle, equipment, and material storage and for a power substation beginning November 2002 with annual rental of \$61,261. The sublease has an option to exercise for a period of ten years which GPA exercised in November 2012.

On February 8, 2008, GPA renewed a lease agreement of fuel storage tanks for five year term from March 1, 2008 to February 28, 2013 at \$115,560 per month and month-to-month thereafter until a new contract was entered into effective September 1, 2013. The new contract includes fixed annual fees escalating 4% every year until August 2018.

GPA entered into a commercial space lease beginning July 1, 2010, with monthly rentals of \$4,495 through June 30, 2015. The lease has an option to renew for an additional term of five years.

At September 30, 2013, future minimum lease payments for operating leases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 2,074,250
2015	1,711,485
2016	1,594,682
2017	1,656,018
2018	1,576,545
2019 through 2023	<u>250,149</u>
	\$ <u>8,863,129</u>

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Notes to Financial Statements  
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**(11) Commitments and Contingencies, Continued**

**Operating Leases, Continued**

Rent expense under the aforementioned agreements totaled \$2,044,798 and \$2,041,916 during the years ended September 30, 2013 and 2012, respectively.

**Renewable Energy Contracts**

In 2012 and 2013, GPA entered into three renewable energy purchase agreements to purchase 20 Megawatt hour (MWh) solar renewable energy, 5.65 MWh solar renewable energy, and 9.35 MWh wind renewable energy with expected commercial operations to commence in June 2014, March 2015, and August 2014, respectively. The agreements include escalating contract prices per MWh until 2039 with a total minimum renewable energy purchase commitment of 1.7 million MWh.

At September 30, 2013, the minimum future renewable energy purchases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 2,913,270
2015	14,438,490
2016	15,444,504
2017	15,523,617
2018	15,588,509
2019 through 2023	79,110,242
2024 through 2028	81,094,540
2029 through 2033	79,371,102
2034 through 2038	50,016,726
2039	<u>6,860,619</u>
	\$ <u>360,361,619</u>

**Capital Commitments**

The 2014 capital improvement project budget is approximately \$61 million.

**Letters of Credit**

As of September 30, 2013, GPA has a \$35 million uncollateralized revolving documentary letter of credit for purchases of fuel. Commitments under the standby letter of credit at September 30, 2013 totaled \$25 million.

**Self-Insurance**

GPA self-insures its transmission and distribution (T&D) plant, because no insurance is available at reasonable rates.

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(11) Commitments and Contingencies, Continued

Self-Insurance, Continued

As the result of a PUC Decision and 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 U.S. Navy until a self-insurance fund balance of \$10 million is achieved. In May 2013, PUC approved raising the cap from \$10 million to \$20 million with the insurance surcharge remaining the same for civilian customers and the U.S. Navy. As required by the Decision and Order, GPA records the insurance charge as sales revenue and records a corresponding self-insurance expense of the same amount. Insurance charge proceeds are transferred to the restricted self-insurance fund to be used to cover uninsured or self-insured damages to the T&D plant which exceed \$50,000 per occurrence. Further, any federal or territorial funds or other recovery against third parties received on account of such losses should be deposited in the self-insurance fund.

The self-insurance fund, included in cash and cash equivalents held by GPA, is \$13,514,022 and \$14,912,430 at September 30, 2013 and 2012, respectively.

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2013. 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.

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*. Further, in September 2013, GPA received another invoice for \$875,000 from the Chamorro Land Trust Commission referring to the same annual assessment aforementioned. GPA obtained an 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, 2013 and therefore, no liability or other impact has been recognized in the accompanying financial statements.

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, 2013, GPA recognized and paid \$55,000 in merit bonus to approximately 27 employees not covered under the new pay system for the period October 2008 through September 2013. 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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(11) Commitments and Contingencies, Continued

Hazardous Waste Assessment

Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law; accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law.

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&4 and MEC 8&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 and a project is ongoing to bring these units into compliance with the rules. GPA believes the installation will be completed in advance of the deadline. As to compliance with the other units subjected to RICE MACT, GPA has engaged the assistance of EPA along with the US Department of Justice (USDOJ) to negotiate a consent decree that will allow sufficient time to implement recommendations in its Integrated Resource Plan. GPA believes ongoing negotiations with USEPA and USDOJ will defer potential fines post RICE MACT deadlines for the slow speed diesel units. No liability that may result from potential noncompliance has been recorded in the accompanying financial statements.

Integrated Resource Plan

In 2012, GPA developed its Integrated Resource Plan (IRP) which was approved by the CCU and the PUC on December 12, 2012 and July 30, 2013, respectively. 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 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 MWh of generation from renewable energy sources; and diversification of its fuel source to LNG and ULS diesel fuel oil.

The replacement of older generation equipment and the additional renewable energy sources are planned to take place as soon as feasible while the plan to develop LNG facilities is expected to take place in 2020 or 2021 with full LNG implementation expected to be completed by 2022.

As of September 30, 2013, GPA has not analyzed the effect implementation of the IRP may have on its utility plant operating units and related inventory. As such, no adjustments have been considered in the accompanying financial statements.

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**(12) Related Party Transactions and Balances**

During the years ended September 30, 2013 and 2012, GPA billed GovGuam agencies \$64,072,281 and \$63,893,223, respectively, for sales of electricity. Receivables (excluding long-term receivables) from GovGuam agencies were \$9,282,086 and \$6,906,764 at September 30, 2013 and 2012, 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, 2013 and 2012 were \$17,508,372 and \$17,008,972, respectively. Outstanding receivables for electricity billings are \$4,016,853 and \$1,527,044 at September 30, 2013 and 2012, respectively, and are 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. The MOU also covers the repayment period for prior services rendered by GPA. Total amounts billed by GPA to GWA for administrative expenses and cost reimbursements were \$291,062 and \$404,554 in 2013 and 2012, respectively. Outstanding receivables for administrative expenses and cost reimbursements totaled \$189,356 and \$197,443 as of September 30, 2013 and 2012, respectively, and are included in other receivables (see note 3).

Beginning in January 2012, GWA billed GPA for water and sewer charges on the facilities transferred by the Navy to GPA under the new CSA (see note 10) totaling \$1,508,942 and \$1,192,900 for the years ended September 30, 2013 and 2012, respectively. The amount due to GWA as of September 30, 2013 and 2012 is \$960,195 and \$753,513, respectively, which is included in accounts payable - operations in the accompanying statements of net position.

In September 2011, GovGuam transferred, in fee simple, a parcel of land for GPA's planned consolidated central office pursuant to Public Law 31-77. Title and ownership of the land must remain with GPA for a period of at least ten years and must not be sold, leased or otherwise encumbered by GPA and shall be transferred back to the Chamorro Land Trust Commission if GPA no longer requires it.

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 11). Due to uncertainty of receipt, GPA has not recorded the reimbursement in the accompanying financial statements.

**(13) Restricted Net Position**

At September 30, 2013 and 2012, net position is restricted for the following purposes:

	<u>2013</u>	<u>2012</u>
Debt Service	\$ 18,793,414	\$ 26,767,388
Capital Projects	<u>9,354,184</u>	<u>11,084,100</u>
	<u>\$ 28,147,598</u>	<u>\$ 37,851,488</u>

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**(14) Utility Plant**

A summary of changes in capital assets for the years ended September 30, 2013 and 2012 is as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2012	Transfers and Additions	Transfers and Deletions	Balance September 30, 2013
<b>2013</b>					
<u>Depreciable:</u>					
Intangible plant	30	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	25 - 50	94,452,024	1,924,053	(491,386)	95,884,691
Other production plant	25	255,703,693	6,090,281	(1,029,797)	260,764,177
Transmission plant	30 - 45	150,714,631	7,306,924	(31,382)	157,990,173
Distribution plant	25 - 45	185,792,862	23,163,905	(10,678,461)	198,278,306
General plant	3 - 60	31,828,287	15,997,499	(6,446,796)	41,378,990
Production plant under capital lease	20 - 40	171,382,727	-	-	171,382,727
		894,228,212	54,482,662	(18,677,822)	930,033,052
Accumulated depreciation		(432,120,103)	(31,155,714)	17,577,578	(445,698,239)
		462,108,109	23,326,948	(1,100,244)	484,334,813
<u>Non-depreciable:</u>					
Land and land rights		1,072,236	-	-	1,072,236
Construction work in progress		38,508,601	61,728,014	(58,908,709)	41,327,906
		39,580,837	61,728,014	(58,908,709)	42,400,142
		<u>\$ 501,688,946</u>	<u>\$ 85,054,962</u>	<u>\$ (60,008,953)</u>	<u>\$ 526,734,955</u>
	Estimated Useful Lives in Years	Beginning Balance October 1, 2011	Transfers and Additions	Transfers and Deletions	Balance September 30, 2012
<b>2012</b>					
<u>Depreciable:</u>					
Intangible plant	30	\$ 4,353,988	\$ -	\$ -	\$ 4,353,988
Steam production plant	25 - 50	92,377,773	2,744,408	(670,157)	94,452,024
Other production plant	25	254,019,987	3,808,472	(2,124,766)	255,703,693
Transmission plant	30 - 45	145,372,016	5,440,748	(98,133)	150,714,631
Distribution plant	25 - 45	178,882,163	8,214,485	(1,303,786)	185,792,862
General plant	3 - 60	31,690,168	2,176,287	(2,038,168)	31,828,287
Production plant under capital lease	20 - 40	171,382,727	-	-	171,382,727
		878,078,822	22,384,400	(6,235,010)	894,228,212
Accumulated depreciation		(408,737,820)	(28,954,754)	5,572,471	(432,120,103)
		469,341,002	(6,570,354)	(662,539)	462,108,109
<u>Nondepreciable:</u>					
Land and land rights		1,072,236	-	-	1,072,236
Construction work in progress		14,070,558	45,367,159	(20,929,116)	38,508,601
		15,142,794	45,367,159	(20,929,116)	39,580,837
		<u>\$ 484,483,796</u>	<u>\$ 38,796,805</u>	<u>\$ (21,591,655)</u>	<u>\$ 501,688,946</u>

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Schedule of Funding Progress and Actuarial Accrued Liability - Post  
Employment Benefits Other than Pension

The Schedule of Funding Progress presents GASB 45 results of Other Post Employment Benefits (OPEB) valuations as of fiscal year ends September 30, 2011, 2009, and 2007 for the Guam Power Authority's share of the Government of Guam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
October 1, 2007	\$ -	\$ 38,089,000	\$ 38,089,000	0.0%	\$ 17,568,918	216.8%
October 1, 2009	\$ -	\$ 51,730,000 *	\$ 51,730,000 *	0.0%	\$ 18,669,362	277.1%
October 1, 2011	\$ -	\$ 58,314,000	\$ 58,314,000	0.0%	\$ 20,572,185	283.5%

\* No formal valuation was performed. The liabilities as of October 1, 2009 represent discounted October 1, 2011 liabilities.

The actuarial accrued liability presented above is only for GPA's active employees. It does not include the actuarial accrued liability for GPA's retirees, which was not separately presented in the OPEB valuation.

See Accompanying Independent Auditors' Report.

## **APPENDIX D**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES**

*Certain provisions of the Indentures are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indentures.*

#### **CERTAIN DEFINITIONS**

*Unless the context otherwise requires, the terms defined below will for purposes of this Official Statement have the following meanings, to be equally applicable to both the singular and plural forms of any of the terms defined.*

“Account” means each account established and given a designation pursuant to the Senior Indenture, the Subordinate 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 applicable 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 applicable Indenture or any Supplemental Indenture requires or permits the Board to take can, under the Organic Act of Guam or any provision of the Guam Code Annotated or any other Guam statute, be taken for or on behalf or in lieu of the Board only by such officer or official.

“Bond Counsel” 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 applicable Indenture.

“Bond Year” means, with respect to the 2014 Senior Bonds, the period of twelve consecutive months ending on September 30 of each year in which 2014 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 2014 Senior Bonds and end on September 30, 2015, 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.

“Bonds” means, as context requires, the Senior Bonds, the Subordinate Bonds, or both of them.

“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 applicable 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 2014 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 F.

“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 applicable Indenture with the duties and powers therein provided, and any other corporation or association which may at any time be substituted in its place as such co-trustee, as provided therein.

“Credit Agreement” 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), and, with respect to the Subordinate Bonds, an instrument designated by a Supplemental Indenture as providing credit support for a Series of Subordinate Bonds (including, as such term is used in the Subordinate Indenture, any such instrument substituting for a deposit in the Subordinate Bond Reserve Fund which is approved as to form and issuer by each Credit Provider for each Series of Subordinate Bonds so long as the Credit Facility for such Series of Subordinate Bonds is in effect).

“Credit Provider” 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 applicable 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 applicable 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, the Subordinate 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, as context requires, either the Senior Indenture, the Subordinate Indenture, or both of them.

“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 applicable 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 Indentures 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 applicable Indenture or any Supplemental Indenture to be paid by the Authority on a given date for the retirement of Term Bonds of such Series.

“Maximum Annual Debt Service” 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 applicable Indenture.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the applicable Indenture with respect to disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Co-Trustee under the applicable Indenture except (1) Bonds theretofore cancelled by the Co-Trustee or surrendered to the Co-Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the applicable Indenture, including Bonds (or portions of Bonds) referred to in the applicable Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds of the same Series, maturity and tenor shall have been authenticated and delivered by the Co-Trustee pursuant to the applicable Indenture.

“Participants” 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 2014 Senior Bonds, U.S. Bank National Association, and its successors and assigns, and any additional paying agent appointed by or pursuant to the applicable Indenture and its successors and assigns.

“Person” 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 and with respect to the Depository for the Proceeds Fund moneys derived from the issuance of the Senior Bonds and the Subordinate Revenue Fund, the office of the Trustee in Guam; with respect to the Co-Trustee and with respect to the Paying Agent for the 2014 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 2010 Senior Bonds and the 2012 Senior Bonds and the 2014 Senior Bonds, the period beginning on the date of issuance of such Bonds and ending on October 1 of the following year, and thereafter each twelve-month period ending on October 1, and with respect to the 2014 Senior Bonds, the period beginning on the date of issuance of the 2014 Senior Bonds and ending on October 1, 2015, and thereafter each twelve-month period 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.

“Proceeds Fund” means the Subordinate Revenue Bond Proceeds Fund established pursuant to the Subordinate Indenture.

“Project” means any addition, extension, betterment or other improvement to the System, including without limitation any equipment or furnishings and any land therefor or the payment of any claims or judgments relating thereto, as specified and described by the Supplemental Indenture authorizing issuance of any Bonds for any such Project, and as such specifications and description may be modified in accordance with the applicable Indenture.

“Project Costs” 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 applicable 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 applicable Indenture or by the Supplemental Indenture authorizing the issuance of such Bonds. The Record Date for the 2014 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 applicable 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 applicable 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” 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 and the 2014 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 or the Subordinate Indenture, as applicable, and any Bonds thereafter delivered in lieu of or substitution for any of such Bonds pursuant to such Indenture.

“Sinking Accounts” means any special account or accounts established in either Bond Fund for the payment of Term Bonds.

“Subordinate Bond Reserve Fund” means the Bond Reserve Fund established pursuant to the Subordinate Indenture.

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

“Subordinate Bonds” means the Guam Power Authority Subordinate Revenue Bonds authorized by, and at any time outstanding pursuant to, the Subordinate Indenture.

“Subordinate Indenture” means the Indenture, dated as of June 1, 2010, by and among the Authority, the Trustee and the Co-Trustee, as amended or supplemented.

“Subordinate Revenue Fund” means the Subordinate Revenue Bond Revenue Fund established pursuant to the Subordinate Indenture.

“Supplemental Indenture” means any indenture duly executed and delivered, supplementing, modifying or amending the Senior Indenture or the Subordinate Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized thereby.

“Surplus Fund” 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 applicable 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.

“2010 Subordinate Bonds” means the Guam Power Authority Subordinate Revenue Bonds, 2010 Series A, issued under the Subordinate Indenture.

“2010 Supplemental Indenture” means the Fourth Supplemental Indenture, dated as of June 1, 2010, among the Authority, the Trustee and the Co-Trustee, relating to the 2010 Senior Bonds.

“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 2014 Senior Bonds maturing on October 1 in years 2032 through 2034, inclusive, and on October 1 in years 2039 and 2044.

“2014 Senior Bonds” means the Guam Power Authority Revenue Bonds, 2014 Series A, issued under the Senior Indenture.

“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 2014 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. See “THE SUBORDINATE INDENTURE—Sources of Payment; Rate Covenant.”

#### **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 2014 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 2014A SENIOR BONDS —Redemption of the 2014A Senior Bonds.” Any Series of Senior Bonds other than the 2014 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 2014 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 2014 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 2014A SENIOR BONDS —Redemption of the 2014A Senior Bonds” in the front portion of this Official Statement for additional provisions relating to the redemption of the 2014 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.

### **Investment of Moneys in Funds**

All moneys in any of the funds and accounts established pursuant to the Senior Indenture, other than the Working Capital Fund and the Surplus Fund, is required to be invested by the Trustee, the Co-Trustee or the Depositary, as the case may be, in Investment Securities to maximize investment income, with proper regard for the preservation of principal, pursuant to any request of the Authority as to such 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 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 2014 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 2014 Supplemental Indenture that it shall not use or permit the use of any proceeds of the 2014 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 2014 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 2014 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 payments to the persons entitled thereto of the unpaid principal or Redemption Price of any Senior Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Senior Bonds, and, if the amount available shall not be sufficient to pay in full all the Senior Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all the Senior Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Senior Bonds, with interest on the overdue principal at the rate borne by the respective Senior Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Bond over any other Senior Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without discrimination or preference.

#### **Co-Trustee to Represent Senior Bondholders**

The Co-Trustee has been irrevocably appointed (and the successive respective Senior Bondholders of the Senior Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Co-Trustee) as trustee and true and lawful attorney-in-fact of the Senior Bondholders of the Senior Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Senior Bondholders under the provisions of the Senior Bonds and the Senior Indenture, as well as under the Act and applicable provisions of any other law.

Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Co-Trustee to represent the Senior Bondholders, the Co-Trustee in its discretion may, subject to any direction by the holders of a majority in Accreted Value of the Senior Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Senior Bondholders by such appropriate suit, action, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal

or equitable right or remedy vested in the Co-Trustee or in such Senior Bondholders under the Senior Indenture, the Act or any other law; and upon instituting such proceeding, the Co-Trustee shall be entitled, as a matter of right to the appointment of a receiver of the Revenues and other assets pledged under the Senior Indenture, pending such proceedings.

All rights of action under the Senior Indenture or the Senior Bonds or otherwise may be prosecuted and enforced by the Co-Trustee without the possession of any of the Senior Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Co-Trustee shall be brought in the name of the Co-Trustee for the benefit and protection of all the Senior Bondholders of such Senior Bonds, subject to the provisions of the Senior Indenture.

### **Senior Bondholders' Direction of Proceedings**

The Senior Bondholders of a majority in aggregate principal amount of the Senior Bonds then Outstanding may, by an instrument or concurrent instruments in writing executed and delivered to the Co-Trustee, to direct the method of conducting all remedial proceedings taken by the Co-Trustee under the Senior Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Senior Indenture, and that the Co-Trustee has the right to decline to follow any such direction which in the opinion of the Co-Trustee would adversely affect those Senior Bondholders not parties to such direction.

Right of Senior Bondholders to Bring Action. As provided in Section 8235 of the Act, the holder of any Senior Bond may by mandamus or other appropriate proceeding require and compel the performance of any of the duties imposed upon or assumed by the Authority, the Board, the Treasurer or the General Manager of the Authority, the Governor, the Director of Administration or any other officer or agency of the Authority or the Board or the Government or any employee thereof, in connection with the acquisition, construction, improvement, operation, equipment, maintenance, repair, renewal, replacement, reconstruction or insurance of the System or any part thereof, or the collection, deposit, investment, application and disbursement of all Revenues or in connection with the deposit, investment and disbursement of the proceeds received from the sale of the Senior Bonds. The enumeration of such rights and remedies does not, however, exclude the exercise or prosecution of any other rights or remedies available to the holders of the Senior Bonds.

### **Termination of Proceedings**

In case any proceedings taken by the Co-Trustee or any one or more Senior Bondholders on account of any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Trustee, the Co-Trustee or the Senior Bondholders, then in every such case the Authority, the Trustee, the Co-Trustee and the Senior Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Senior Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee, the Co-Trustee and the Senior Bondholders will continue as though no such proceedings had been taken.

### **Duties, Immunities and Liabilities of Co-Trustee, Trustee and Depositary**

The Co-Trustee is required, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, to perform such duties and only such duties as are specifically set forth in the Senior Indenture for it to perform. The Co-Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such rights and powers vested in it by the Senior Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee and the Depositary are required, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, to perform such duties and only such duties as are specifically set forth in the Senior Indenture. The Trustee and the Depositary are required, during the existence of any Event of Default (which has not been cured), to follow the directions of the Co-Trustee with respect to any of the funds held by the Trustee or the Depositary under the Senior Indenture.

The Authority may remove the Trustee, the Co-Trustee or the Depositary at any time unless an Event of Default shall have occurred and then be continuing, and remove the Trustee, the Co-Trustee, or the Depositary if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Senior Bondholders of not less than a majority in Accreted Value of the Senior Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee, the Co-Trustee or the Depositary ceases to be eligible to act in such capacity in accordance with the Senior Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of either the Trustee, the Co-Trustee or the Depositary or their respective property is appointed, or any public officer takes control or charge of the Trustee, the Co-Trustee or the Depositary or their respective property or affairs for the purpose of rehabilitation, conservation or liquidation; in each case by giving written notice of such removal to the Trustee, the Co-Trustee and the Depositary, and thereupon is required to appoint a successor Trustee, the Co-Trustee or Depositary, as the case may be, by an instrument in writing.

The Trustee, the Co-Trustee or the Depositary may at any time resign by giving written notice of such resignation to the Authority and each of the other Fiduciaries. Upon receiving such notice of resignation, the Authority is required to promptly appoint a successor Trustee, Co-Trustee or Depositary, as the case may be, by an instrument in writing. Any such removal or resignation and appointment of a successor will become effective upon acceptance of appointment by the successor. Promptly upon such acceptance, the Authority is required to give notice thereof to each Paying Agent and Credit Provider and to the Senior Bondholders by mail in the manner provided in the Senior Indenture.

If no successor is appointed and accepts appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, Co-Trustee or Depositary, as the case may be, or any Senior Bondholder (on behalf of such Senior Bondholder and all other Senior Bondholders) may petition any court of competent jurisdiction for the appointment of a successor, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor.

Any successor Trustee must be a trust company or bank having the powers of a trust company doing business and having a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state authority.

Any successor Co-Trustee must be a trust company or bank having the powers of a trust company doing business and having a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority.

Any successor Depositary must be a trust company or bank having the powers of a trust company doing business and having a trust office in Hagatna, Guam, having a combined capital and surplus of at least \$10,000,000, and subject to supervision or examination by federal or territorial authority.

### **Liability of Trustee and Depositary**

The recitals of facts contained in the Senior Indenture and in the Senior Bonds are to be taken as statements of the Authority, and neither the Trustee, the Co-Trustee nor the Depositary assumes any responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Senior Indenture or of the Senior Bonds, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations therein or in the Senior Bonds assigned to or imposed upon them, respectively. The Co-Trustee is, however, responsible for its representations contained in its certificate of authentication and registration on the Senior Bonds. Neither the Trustee, the Co-Trustee nor the Depositary shall be liable in connection with the performance of their respective duties, except for their own respective negligence or willful misconduct.

The Trustee, the Co-Trustee and the Depositary may become the owner of Senior Bonds with the same rights they would have if they were not Trustee, the Co-Trustee or Depositary, as the case may be, and, to the extent permitted by law, may act as depositary for and permit any of their officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Senior Bondholders, whether or not such committee shall represent the Senior Bondholders of a majority in principal amount of the Senior Bonds then Outstanding.

## Amendments Permitted

The Senior Indenture and the rights and obligations of the Authority and of the Senior Bondholders of the Senior Bonds and of the Trustee and the Co-Trustee may be modified or amended at any time by a Supplemental Senior Indenture which shall become effective when the written consents of each Credit Provider and the Senior Bondholders of 60% in aggregate principal amount of the Senior Bonds then Outstanding shall have been filed with the Trustee and the Co-Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Senior Bonds of any particular maturity or Series remain Outstanding, the consent of the Senior Bondholders of Senior Bonds of such maturity or Series and the Credit Provider of such Series, if any, shall not be required and such Senior Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Senior Bonds under this provision.

No such modification or amendment may (1) extend the fixed maturity of any Senior Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided under the Senior Indenture for the payment of any Senior Bond, or extend the time of payment of any interest on any Senior Bond, or reduce the rate of interest thereon, without the consent of the Senior Bondholder of each Senior Bond so affected, or (2) reduce the aforesaid percentage of Senior Bonds the consent of the Senior Bondholders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Senior Indenture prior to or on a parity with the lien created by the Senior Indenture, or deprive the Senior Bondholders of the Senior Bonds of the lien created by the Senior Indenture upon such Revenues and other assets (except as expressly provided in the Senior Indenture), without the consent of the Senior Bondholders of all of the Senior Bonds then Outstanding.

The Senior Indenture and the rights and obligations of the Authority and of the Senior Bondholders of the Senior Bonds may also be modified or amended at any time by a Supplemental Senior Indenture, which shall become effective upon execution (or such later date as may be specified in such Supplemental Senior Indenture), without the consent of any Senior Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes:

- (1) To add to the covenants and agreements of the Authority contained in the Senior Indenture, to pledge or assign additional security for the Senior Bonds, or to surrender any right or power reserved to or conferred upon the Authority in the Senior Indenture, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Senior Bondholders of the Senior Bonds;
- (2) To make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Senior Indenture, or in regard to matters or questions arising under the Senior Indenture, as the Authority may deem necessary or desirable and not inconsistent with the Senior Indenture, and which shall not materially adversely affect the interests of the Senior Bondholders of the Senior Bonds;
- (3) To modify, amend or supplement the Senior Indenture in such manner as to permit the qualification thereof under the Trust Senior Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Senior Bondholders of the Senior Bonds;
- (4) To provide for the issuance of an additional series of Senior Bonds, and to provide the terms and conditions under which such Senior Bonds may be issued, subject to and in accordance with the provisions of the Senior Indenture; or
- (5) To make such changes as shall be required in connection with the procedures for making draws or other claims under any Credit Facility or for reimbursing amounts so drawn or otherwise received.

### **Effect of Supplemental Senior Indenture**

From and after the time any Supplemental Senior Indenture becomes effective, the Senior Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Senior Indenture of the Authority, the Trustee, the Co-Trustee, the Depositary and all Senior Bondholders of Senior Bonds Outstanding shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all terms and conditions of any such Supplemental Senior Indenture shall be deemed to be part of the terms and conditions of the Senior Indenture for any and all purposes.

### **Discharge of Senior Indenture**

If the Authority pays and discharges the entire indebtedness on all Senior Bonds Outstanding in any one or more of the following ways:

(A) by paying or causing to be paid the principal or Redemption Price of and interest on Senior Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Co-Trustee, irrevocably in trust, at or before maturity, money or Federal Securities in the necessary amount to pay or redeem Senior Bonds Outstanding; or

(C) by delivering to the Co-Trustee, for cancellation by it, Senior Bonds Outstanding;

and if the Authority also pays or causes to be paid all other sums payable under the Senior Indenture by the Authority, then and in that case, at the election of the Authority, and notwithstanding that any Senior Bonds shall not have been surrendered for payment, the Senior Indenture and the pledge of Revenues and other assets made under the Senior Indenture and all covenants, agreements and other obligations of the Authority under the Senior Indenture will cease, terminate, become void and be completely discharged and satisfied.

### **Discharge of Liability on Senior Bonds**

Upon the deposit with the Co-Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Senior Bond (whether upon or prior to its maturity or the redemption date of such Senior Bond), then all liability of the Authority in respect of such Senior Bond will cease, determine and be completely discharged, and the Senior Bondholder thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Co-Trustee as aforesaid for their payment, subject, however, to the provisions of the Senior Indenture with respect to the payment of principal or Redemption Price of or interest on Senior Bonds after discharge of the Senior Indenture.

### **Deposit of Money or Securities with Trustee**

Whenever in the Senior Indenture it is provided or permitted that there be deposited with or held in trust by the Co-Trustee money or securities in the necessary amount to pay or redeem any Senior Bonds, the money or securities so to be deposited or held is required to be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Senior Bonds and all unpaid interest thereon to maturity, except that, in the case of Senior Bonds which are to be redeemed prior to maturity, the amount to be deposited or held shall be the principal amount or Redemption Price of such Senior Bonds and all unpaid interest thereon to the date fixed for redemption; or

(B) noncallable Federal Securities the principal of and interest on which when due will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the date fixed for redemption, as the case may be, on the Senior Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that substitution of such Federal Securities shall not be permitted without the consent of each Credit Provider for such Senior Bonds;

provided, in each case, that the Co-Trustee shall have been irrevocably instructed pursuant to the Senior Indenture to apply such money to the payment of such principal or Redemption Price and interest with respect to such Senior Bonds.

#### **Payment of Senior Bonds after Discharge of Senior Indenture**

Any moneys held by the Co-Trustee in trust for the payment of the principal or Redemption Price of, or interest on, any Senior Bonds and remaining unclaimed for six years after the principal of all of the Senior Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Senior Indenture), if such moneys were so held at such date, or six years after the date of deposit of such moneys if deposited after said date when all of the Senior Bonds became due and payable, shall, upon request of the Authority, be repaid to the Authority free from the trusts created by the Senior Indenture, and all liability of the Trustee, the Co-Trustee or Depositary with respect to such moneys shall cease and the Senior Bondholders of such Senior Bonds will be entitled to look only to Revenues held by the Authority for payment of such Senior Bonds.

#### **Liability of Authority Limited to Revenues**

No Senior Bond issued under the Senior Indenture shall be or become a lien, charge or liability against the Government or the Governor or against the Authority or the Board or against any property or funds of the Authority or the Board or the Government or the Governor, except to the extent of the pledge of Revenues under the Senior Indenture, and neither the payment of the principal of any Senior Bond or any part thereof, nor of any interest thereon, is a debt, liability or obligation of the Government.

Notwithstanding anything in the Senior Indenture or in the Senior Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and in the Senior Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Senior Bonds or for any other purpose of the Senior Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of purposes under the Senior Indenture any funds of the Authority which may be made available to it for such purposes.

#### **General Credit Provider Provisions**

All provisions of the Senior Indenture regarding consents, approvals, directions, appointments or requests by any Credit Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by any Credit Provider and shall be read as if such Credit Provider were not mentioned therein and as if no Credit Facility were in effect during any time in which such Credit Provider is in default under its Credit Facility, or after such Credit Facility shall at any time for any reason cease to be valid and binding on such Credit Provider, or shall be declared to be null and void, or while the validity or enforceability of any provision thereof is being contested by such Credit Provider or any governmental agency or authority, or while such Credit Provider is denying further liability or obligation under such Credit Facility or after such Credit Provider has rescinded, repudiated or terminated such Credit Facility.

All provisions of the Senior Indenture relating to any Credit Provider shall be of no force and effect if there is no Credit Facility in effect and there are no Senior Bonds held by such Credit Provider and all amounts owing to such Credit Provider have been paid.

#### **Provisions Relating to the 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 Insured 2014 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 ("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 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 (“Treasury”), (3) evidences of ownership of proportionate interests in

future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the 2010 Credit Provider, pre-refunded municipal obligations rated “AAA” and “Aaa” by Standard & Poor’s Corporation Moody’s Investors Service, respectively, or (5) subject to the prior written consent of the 2010 Credit Provider, securities eligible for “AAA” defeasance under then existing criteria of Standard & Poor’s Corporation, or any combination thereof, shall be used to effect defeasance of the 2010 Insured Bonds unless the 2010 Credit Provider otherwise approves.

To accomplish defeasance of the 2010 Insured Bonds, the Authority shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the 2010 Credit Provider (“Accountant”) verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date (“Verification”), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the 2010 Credit Provider), (iii) an opinion of nationally recognized bond counsel to the effect that the 2010 Insured Bonds are no longer “Outstanding” under the Senior Indenture and (iv) a certificate of discharge of the Trustee with respect to the 2010 Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Authority, the Trustee or Co-Trustee, as appropriate, and the 2010 Credit Provider. The 2010 Insured Bonds shall be deemed “Outstanding” under the Senior Indenture unless and until they are in fact paid and retired or the above criteria are met.

Notwithstanding anything in the Senior Indenture to the contrary, any adjustments to the calculation of Revenue made in anticipation of the receipt of Build America Bond subsidy payments with respect to the 2010 Insured Bonds shall be disregarded in the event the Authority does not, or will not, receive such subsidy payments.

#### **Waiver of Personal Liability**

No legislator, officer, agent or employee of the Authority will be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Senior Bonds; but nothing contained in the Senior Indenture will relieve any such legislator, officer, agent or employee from the performance of any official duty provided by law.

### **THE SUBORDINATE INDENTURE**

#### **Funds**

The following funds are established under the Subordinate Indenture:

*Proceeds Fund* – Amounts in the Proceeds Fund shall be used and withdrawn, as provided in the Subordinate Indenture, solely for (1) the purpose of paying, or reimbursing the Authority for the payment of, or refinancing, the Project Costs and Maintenance and Operation expenses for which a Series of Subordinate Bonds is issued pursuant to the Act, including the payment of Costs of Issuance of such Series and Capitalized Interest, and (2) the payment of principal of and interest on the Subordinate Bonds in the manner and to the extent provided in the Subordinate Indenture. The Depositary shall disburse moneys in the Proceeds Fund only upon Requisition of the Authority. Upon receipt of a Certificate of the Authority that amounts in said fund are no longer required for the purpose of said fund, said amounts shall be transferred to the Subordinate Revenue Fund.

*Subordinate Revenue Fund* – All Revenues deposited in the Surplus Fund and available for transfer to the Authority free and clear of the lien of the Senior Indenture shall be promptly paid over to the Trustee and deposited by the Trustee to the credit of the Subordinate Revenue Fund. Moneys on deposit in this Fund shall be applied in the manner described under “Sources of Payment; Rate Covenant” below.

*Subordinate Bond Fund* – The Co-Trustee is required to apply moneys on deposit in this fund solely for the purposes of (1) paying interest on the Subordinate Bonds, and (2) paying principal of the Serial Subordinate Bonds

when due and payable and (3) purchasing and redeeming or paying at maturity the Term Subordinate Bonds as provided in the Subordinate Indenture.

*Subordinate Bond Reserve Fund* – The Authority, is required to make monthly deposits to the Subordinate Bond Reserve Fund from Revenues of amounts necessary to increase the amount of such Fund to the Maximum Annual Debt Service on all Outstanding Subordinate Bonds issued under the Subordinate Indenture or such higher amount as may be specified by the Supplemental Subordinate Indenture. Moneys in the Subordinate Bond Reserve Fund shall be applied solely to make up deficiencies in the Subordinate Bond Fund. Any moneys in the Subordinate Bond Reserve Fund on any October 5 in excess of the Subordinate Bond Reserve Fund Requirement may be transferred to the Depository for deposit into the Subordinate Revenue Fund.

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

All amounts in the Subordinate Revenue Fund on the fifth day of each month, after the deposits required by the Subordinate Indenture have been made, shall be paid by the Depository to the Authority, free and clear of the pledge and lien of the Subordinate Indenture.

#### **Sources of Payment; Rate Covenant**

The Subordinate Indenture contains a covenant that rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System will be established, fixed, prescribed and collected so as to yield Net Revenues, with respect to the then immediately ensuing twelve months equal to at least 1.20 times the sum of (1) the interest falling due on then Outstanding Subordinate Bonds and Senior Bonds (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times of and in amount provided for by the Mandatory Sinking Account Payments applicable to such Term Bonds), but not including Capitalized Interest, (2) the principal amount of then Outstanding Serial Subordinate Bonds and Serial Senior Bonds falling due by their terms, and (3) the aggregate amount of all Mandatory Sinking Account Payments for Subordinate Bonds and Senior Bonds required (all as calculated for said Bond Year) to be paid from Net Revenues during such 12-month period. For the purpose of determining the interest payable on Variable Rate Bonds, the interest rate used in the foregoing calculation shall be the actual interest rate for periods prior to the date of calculation and the maximum rate then permitted on such Variable Rate Bonds for periods subsequent to the date of calculation. Net Revenues means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation Expenses incurred during such period.

The Subordinate Indenture requires all Revenues deposited in the Surplus Fund and available for transfer to the Authority free and clear of the lien of the Senior Indenture to be promptly paid over to the Trustee and deposited by the Trustee to the credit of the Subordinate Revenue Fund.

Amounts in the Subordinate Revenue Fund will be transferred to the Rebate Fund as required by the Subordinate Indenture and to the Subordinate Bond Fund to satisfy any deficiency in such Fund.

On or before the fifth day of each month, the Depository shall transfer moneys in the Subordinate Revenue Fund for deposit in the following funds, in the amounts and in the following priority: (1) into the Subordinate Bond Fund held by the Co-Trustee, an amount, for each Series of Subordinate Bonds, which if paid in equal monthly installments will be sufficient to pay interest becoming due on the next Interest Payment Date plus, during the Principal Payment Period for each Subordinate Bond, an amount which, if paid in equal monthly installments in each month during such Principal Payment Period, would yield moneys sufficient to pay the principal or Mandatory Sinking Account Payment due and payable on the interest payment date next succeeding such Principal Payment Period for such Subordinate Bond; and (2) into the Subordinate Bond Reserve Fund held by the Co-Trustee, the amount, if any, necessary to increase the balance in such Fund to the Subordinate Bond Reserve Fund Requirement.

## **Redemption of Subordinate Bonds**

Any Series of Subordinate Bonds may be made subject to redemption prior to maturity as may be determined by the Authority at the time such Series is authorized or issued.

## **Investment of Moneys in Funds**

All moneys in any of the funds and accounts established pursuant to the Subordinate Indenture is required to be invested by the Trustee, the Co-Trustee or the Depositary, as the case may be, in Investment Securities to maximize investment income, with proper regard for the preservation of principal, pursuant to any request of the Authority as to such investment. All Investment Securities and other investments are subject to the limitations set forth in the Subordinate Indenture.

All interest and other profit derived from such investments are required to be deposited at least monthly in the Subordinate Revenue Fund, except that interest and other profit derived from the investment of monies in the Proceeds Fund or the Rebate Fund shall be retained in each such respective fund.

Investment Securities acquired as an investment of moneys in any fund or account established under the Subordinate Indenture are required to be credited to such fund or account. Investment Securities in the Subordinate Bond Reserve Fund and the Subordinate Bond Fund shall be valued on each Interest Payment Date at the lesser of amortized value or market value as of such date.

If and to the extent provided by a Supplemental Indenture authorizing the issuance of an additional Series of Subordinate Bonds, the portion of the Subordinate Bond Reserve Fund Requirement allocable to such Series may be wholly or partially satisfied by a Credit Facility, provided that such Credit Facility is provided by a Credit Provider rated, at the time of deposit of such Credit Facility, in one of the highest rating category by Moody's Investors Service and Standard & Poor's Corporation. Such Supplemental Indenture may also provide that if a drawing on such Credit Facility is honored, amounts available under the Subordinate Indenture for deposit in the Subordinate Bond Reserve Fund shall be applied by the Co-Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing and the Co-Trustee shall give notice of such reimbursement required by the applicable Credit Agreement.

## **Certain Covenants**

Punctual Payment. The Authority shall punctually pay or cause to be paid, from the Revenues and other assets pledged under the Subordinate Indenture, the principal or Redemption Price and interest to become due in respect of all the Subordinate Bonds, in strict conformity with the terms of the Subordinate Bonds and of the Subordinate Indenture.

Extension of Payment of Principal and Interest on the Subordinate Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Subordinate Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Subordinate Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Subordinate Bonds or the time of payment of any such claims for interest shall be extended, such Subordinate Bonds or claims for interest shall not be entitled, in case of any default under the Subordinate Indenture, to the benefits of the Subordinate Indenture, except subject to the prior payment in full of the principal of all of the Subordinate Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. This covenant shall not be deemed to limit the right of the Authority to issue Subordinate Bonds or other indebtedness for the purpose of refunding any Outstanding Subordinate Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Subordinate Bonds.

Against Encumbrances. The Board shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues or other assets pledged or assigned under the Subordinate Indenture while any of the Subordinate Bonds are Outstanding, except the pledge and assignment created by the Subordinate Indenture, and except any pledge or assignment subordinate in all respects to the pledge and assignment thereunder,

and shall not issue any obligations secured by such pledge and assignment other than the Subordinate Bonds. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other Subordinate Indentures for any of its governmental purposes, and reserves the right to issue other obligations for such purposes and to issue obligations secured by a subordinate pledge and assignment of the Revenues and other assets pledged under the Subordinate Indenture. The Board will not mortgage or otherwise encumber the System or any part thereof essential to the proper operation of the System or to the maintenance of Revenues.

Power to Issue Subordinate Bonds and Make Pledge. The Authority represents and warrants that it is duly authorized pursuant to law to issue the Subordinate Bonds and to enter into the Subordinate Indenture and to pledge the Revenues and other assets purported to be pledged under the Subordinate Indenture in the manner and to the extent provided in the Subordinate Indenture. The Subordinate Bonds and the provisions of the Subordinate Indenture are and will be the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority, Trustee, the Co-Trustee (subject to the provisions of the Subordinate Indenture) and Depositary shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of Revenues and other assets and all the rights of the Subordinate Bondholders under the Subordinate Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Board shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all transactions relating to the System, the proceeds of Subordinate Bonds, the Revenues, and all funds and accounts established pursuant to the Subordinate Indenture. Such books of record and account shall be available for inspection by the Trustee, the Co-Trustee, the Depositary, any Credit Provider or the Authority, as the case may be, and, with respect to such books of record and account maintained by the Trustee, the Co-Trustee or the Depositary, by any Credit Provider or any Subordinate Bondholder or agent or representative thereof duly authorized in writing, at reasonable hours and under reasonable circumstances. The Authority shall provide to any Credit Provider such additional information as may be reasonably requested by such Credit Provider concerning the sources and amounts of Revenues.

The Authority shall file with the Trustee, the Co-Trustee, the Depositary and each Credit Provider, and furnish to each major national investment rating service which initially rated any Series of Subordinate Bonds and to each Subordinate Bondholder who shall have filed a name and address with the Authority or the Trustee for such purpose, within six months after the close of each Fiscal Year so long as any of the Subordinate Bonds are Outstanding, complete financial statements with respect to the Revenues and all funds established pursuant to the Subordinate Indenture, prepared in accordance with generally accepted accounting principles for governmental entities, covering receipts, disbursements, allocation and application of all Revenues for such Fiscal Year, including a statement of revenues, expenditures and fund balances (covering all of the funds established pursuant to the Subordinate Indenture), balance sheet and statement of changes in financial position, accompanied by an audit report and opinion of a nationally recognized Independent certified public accountant.

The Authority shall also file with the Trustee, the Co-Trustee and the Depositary, and each Credit Provider, and furnish to each Rating Agency, within 30 days after receipt of the annual audited financial statements of the Authority prepared by an Independent certified public accountant, a copy of such statements.

Tax Status. (A) The Authority reserves the right to determine the desired tax status of any Series of Subordinate Bonds.

(B) The Authority shall not use or permit the use of any proceeds of a Series of Subordinate Bonds the interest on which is excluded from gross income for federal income tax purposes or any other funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not use or permit the use of any amounts received by the Authority in any manner, and shall not take or permit to be taken any other action or actions, which would cause any such Subordinate Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code or to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(C) The Authority shall at all times do and perform all acts and things permitted by law and the Subordinate Indenture which are necessary or desirable in order to assure that interest paid on such Subordinate Bonds (or on any of them) shall be excluded from gross income for federal income tax purposes.

Compliance with Subordinate Indenture, Contracts, Laws and Regulations. The Authority shall faithfully observe and perform all the covenants, conditions and requirements of the Subordinate Indenture, shall not issue any Subordinate Bonds in any manner other than in accordance with the Subordinate Indenture, and shall not take any action that would permit any default to occur under the Subordinate Indenture, or do or permit to be done, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to the Subordinate Indenture. Subject to the limitations and consistent with the covenants, conditions and requirements contained in the Subordinate Indenture, the Authority shall comply with the terms, covenants and provisions, express or implied, of all contracts concerning or affecting the application of proceeds of Subordinate Bonds or Revenues. The Authority shall comply promptly, fully and faithfully with and abide by any statute, law, ordinance, order, rule or regulation, judgment, decree, direction or requirement now in force or subsequently enacted, adopted, prescribed, imposed or entered by any competent governmental authority or agency applicable to or affecting the Subordinate Bonds.

Rate Covenant. The Authority will, at all times while any of the Subordinate Bonds remain outstanding, establish, fix, prescribe and collect rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished for the System which will yield Net Revenues for the next twelve months equal to at least (a) 1.20 times Annual Debt Service on the Outstanding Senior Bonds and Subordinate Bonds to be paid from Net Revenues during such period and (b) the amount necessary to pay all obligations to be paid from Net Revenues during such period under then existing contracts or under law (including amounts payable from Net Revenues on a basis subordinate to the Subordinate Bonds). The Board may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce rates and charges below the rates then in effect unless the Net Revenues from such reduced rates will at all times be sufficient to meet the requirements described in this paragraph.

This covenant shall not prevent the Board from increasing rates and charges at any time, and the Board shall increase such rates and charges whenever necessary to produce Net Revenues to meet the requirement described in the preceding paragraph.

None of the electric energy owned, controlled or supplied by the Authority shall be furnished or supplied free to any person, but on the contrary shall always be sold or furnished so as to produce Revenues under the Subordinate Indenture.

The Authority further covenants and agrees that all such rates and charges shall be payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts.

Annual Budgets. If the budget setting forth the estimated Maintenance and Operating Expenses is increased over the previous Fiscal Year, the Authority shall provide to the Credit Provider a calculation of the amounts required to be calculated as described in this paragraph and the estimated amounts of Revenue to be calculated in such Fiscal Year.

Protection of Security and Rights of Subordinate Bondholders. The Board will preserve and protect the security of the Subordinate Bonds and the rights of the Subordinate Bondholders, and will warrant and defend their rights against all claims and demands of all persons.

Further Assurances. The Authority will make, execute and deliver any and all such further Subordinate Indentures instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Subordinate Indenture and for the better assuring and confirming unto the Holders of the Subordinate Bonds of the rights and benefits provided in the Subordinate Indenture.

Pledge by Government. The Government pledges to the holders of all Subordinate Bonds that the Government will not repeal, amend or modify Chapter 12 of Title 12, Guam Code Annotated, in any way that would substantially impair the powers, duties or effectiveness of the Public Utilities Commission thereunder in relation to the Authority and its rates. The Authority includes this pledge of the Government in the Subordinate Indenture as authorized by Section 8113.3 of the Act.

Senior Indenture Covenants. The Authority shall observe each covenant set forth under “SENIOR INDENTURE – Payment of Taxes and Claims,” “Maintenance of Powers,” “Construction and Maintenance of the System,” “Insurance,” “Eminent Domain,” “Against Sale or Other Disposition of Property,” “Against Competition and Waiver of Laws” and in the last sentence of “Annual Budgets,” and the Authority affirms and remakes such covenants as though set forth at length in the Subordinate Indenture, provided that references in such covenants to the term “Bonds” as defined in the Senior Indenture shall be deemed to refer to both the Senior Bonds and the Subordinate Bonds.

Continuing Disclosure. . The Authority covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Subordinate Indenture, failure of the Authority to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or of the Owners of at least 25% in aggregate principal amount of Outstanding Subordinate Bonds (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Owner or Beneficial Owner of any Subordinate Bond may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority, the Trustee or the Co-Trustee, as the case may be, to comply with their respective obligations under 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 Subordinate Bonds (including persons holding Subordinate Bonds through nominees, depositories or other intermediaries).

## **Events of Default**

The following events are Events of Default under the Subordinate Indenture:

(A) default by the Authority in the due and punctual payment of the principal or Redemption Price of any Subordinate Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise; default by the Authority in the redemption from any Mandatory Sinking Account Payment of any Term Subordinate Bonds in the amounts at the times provided therefor; or default by the Authority in the due and punctual payment of any installment of interest on any Subordinate Bond when and as such interest installment shall become due and payable;

(B) default by the Authority in the observance of any of the covenants, agreements or conditions on its part contained in the Subordinate Indenture or in the Subordinate Bonds, if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee or the Co-Trustee, or to the Authority and the Trustee and the Co-Trustee by any Credit Provider and by the Holders of not less than 25% in aggregate principal amount of the Subordinate Bonds at the time Outstanding; or

(C) if the Authority shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America; or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America; or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property; and if, in any such case such petition is not withdrawn or dismissed or such custody or control is not terminated or stayed within 60 days from the date of the filing of such petition or the assumption of such custody or control.

Remedies Upon Default. In each and every case during the continuance of an Event of Default, the Co-Trustee in its own name and as trustee of an express trust, on behalf and for the benefit and protection of the Subordinate Bondholders, after notice to the Authority, may, and upon the request of the Holders of not less than 25% in Accreted Value of the Subordinate Bonds then Outstanding shall proceed to protect and enforce any rights of the Co-Trustee and, to the full extent that the Subordinate Bondholders themselves might do, the rights of such

Subordinate Bondholders under the Subordinate Indenture and under the laws of Guam by such of the following remedies as the Co-Trustee shall deem most effectual to protect and enforce such rights:

- (1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Subordinate Bondholders, including the right to require the Authority to charge, prescribe and collect Revenues adequate to comply with the covenants and agreements made in the Subordinate Indenture, and to require the Authority to carry out any other covenant or agreement with the Subordinate Bondholders and to perform its duties under the Act;
- (2) by bringing suit upon the Subordinate Bonds;
- (3) by action or suit in equity, to require the Authority to account as if it were the trustee of an express trust for the Subordinate Bondholders;
- (4) by realizing or causing to be realized through sale or otherwise upon the moneys, securities and other assets pledged under the Subordinate Indenture;
- (5) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Subordinate Bondholders;
- (6) by requiring the Authority to endorse all checks and other negotiable instruments representing Revenues to the order of the Co-Trustee immediately upon the receipt thereof and to deliver such endorsed instruments daily to the Co-Trustee;
- (7) by notifying any or all account debtors of the Authority to pay any amounts representing Revenues, when due, directly to the Co-Trustee as Trustee; and
- (8) by commencing proceedings for the appointment of a receiver or receivers of the System and of the Revenues, with such powers as the court making such appointment confers.

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

In addition, if an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Co-Trustee shall be entitled, and if requested to do so by the Holders of not less than a majority in Accreted Value of the Subordinate Bonds at the time Outstanding shall be required, upon notice in writing to the Authority, to declare the principal of all of the Subordinate Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Subordinate Indenture or in the Subordinate Bonds contained to the contrary notwithstanding; provided, however, that while any Senior Bonds remain outstanding under the Senior Indenture, each Subordinate Holder, the Trustee and the Co-Trustee shall not make such a declaration of acceleration of the Subordinate Bonds, or otherwise cause the Subordinate Bonds to become due and payable prior to the original stated maturity, unless and until an event of default shall have occurred under the Senior Indenture and such a declaration of acceleration shall have been made with respect to the Senior Bonds.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority shall deposit with the Co-Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Subordinate Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Subordinate Bonds, and the reasonable charges and expenses of the Trustee and the Co-Trustee, and any and all other Events of Default known to the Trustee or the Co-Trustee (other than in the payment of principal of and interest on the Subordinate Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee and the Co-Trustee or provision deemed by the

Trustee and the Co-Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of a majority in Accreted Value of the Subordinate Bonds then Outstanding, by written notice to the Authority and to the Trustee and the Co-Trustee, may, on behalf of the Holders of all of the Subordinate Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

### **Application of Revenues and Other Funds After Default**

If an Event of Default occurs and is continuing, all Revenues and any other funds then held or thereafter received by the Trustee, the Co-Trustee or Depositary under any of the provisions of the Subordinate Indenture (subject to provisions with respect to moneys held in trust for Holders by the Co-Trustee) is required to be under the control of and applied by the Co-Trustee as follows and in the following order:

(A) To the payment of any expenses necessary in the opinion of the Co-Trustee to protect the interests of the Holders of the Subordinate Bonds and payment of reasonable charges and expenses of the Trustee, the Co-Trustee and the Depositary (including reasonable fees and disbursements of their respective counsel) incurred in and about the performance of their respective powers and duties under the Subordinate Indenture;

(B) To the payment of the principal or Redemption Price of and interest then due on the Subordinate Bonds (upon presentation of the Subordinate Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Subordinate Indenture, as follows:

(1) Unless the principal of all of the Subordinate Bonds shall have become or have been declared due and payable,

*First:* To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

*Second:* To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Subordinate Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Subordinate Bonds, and, if the amount available shall not be sufficient to pay in full all the Subordinate Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Subordinate Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Subordinate Bonds, with interest on the overdue principal at the rate borne by the respective Subordinate Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Subordinate Bond over any other Subordinate Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

### **Co-Trustee to Represent Subordinate Bondholders**

The Co-Trustee has been irrevocably appointed (and the successive respective Holders of the Subordinate Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Co-Trustee) as

trustee and true and lawful attorney-in-fact of the Holders of the Subordinate Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Subordinate Bonds and the Subordinate Indenture, as well as under the Act and applicable provisions of any other law.

Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Co-Trustee to represent the Subordinate Bondholders, the Co-Trustee in its discretion may, subject to any direction by the holders of a majority in Accreted Value of the Subordinate Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate suit, action, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Co-Trustee or in such Holders under the Subordinate Indenture, the Act or any other law; and upon instituting such proceeding, the Co-Trustee shall be entitled, as a matter of right to the appointment of a receiver of the Revenues and other assets pledged under the Subordinate Indenture, pending such proceedings.

All rights of action under the Subordinate Indenture or the Subordinate Bonds or otherwise may be prosecuted and enforced by the Co-Trustee without the possession of any of the Subordinate Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Co-Trustee shall be brought in the name of the Co-Trustee for the benefit and protection of all the Holders of such Subordinate Bonds, subject to the provisions of the Subordinate Indenture.

#### **Subordinate Bondholders' Direction of Proceedings**

The Holders of a majority in aggregate principal amount of the Subordinate Bonds then Outstanding may, by an instrument or concurrent instruments in writing executed and delivered to the Co-Trustee, to direct the method of conducting all remedial proceedings taken by the Co-Trustee under the Subordinate Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Subordinate Indenture, and that the Co-Trustee has the right to decline to follow any such direction which in the opinion of the Co-Trustee would adversely affect those Subordinate Bondholders not parties to such direction.

Right of Subordinate Bondholders to Bring Action. As provided in Section 8235 of the Act, the holder of any Subordinate Bond may by mandamus or other appropriate proceeding require and compel the performance of any of the duties imposed upon or assumed by the Authority, the Board, the Treasurer or the General Manager of the Authority, the Governor, the Director of Administration or any other officer or agency of the Authority or the Board or the Government or any employee thereof, in connection with the acquisition, construction, improvement, operation, equipment, maintenance, repair, renewal, replacement, reconstruction or insurance of the System or any part thereof, or the collection, deposit, investment, application and disbursement of all Revenues or in connection with the deposit, investment and disbursement of the proceeds received from the sale of the Subordinate Bonds. The enumeration of such rights and remedies does not, however, exclude the exercise or prosecution of any other rights or remedies available to the holders of the Subordinate Bonds.

#### **Termination of Proceedings**

In case any proceedings taken by the Co-Trustee or any one or more Subordinate Bondholders on account of any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Trustee, the Co-Trustee or the Subordinate Bondholders, then in every such case the Authority, the Trustee, the Co-Trustee and the Subordinate Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Subordinate Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee, the Co-Trustee and the Subordinate Bondholders will continue as though no such proceedings had been taken.

## **Duties, Immunities and Liabilities of Co-Trustee, Trustee and Depositary**

The Co-Trustee is required, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, to perform such duties and only such duties as are specifically set forth in the Subordinate Indenture for it to perform. The Co-Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such rights and powers vested in it by the Subordinate Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee and the Depositary are required, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, to perform such duties and only such duties as are specifically set forth in the Subordinate Indenture. The Trustee and the Depositary are required, during the existence of any Event of Default (which has not been cured), to follow the directions of the Co-Trustee with respect to any of the funds held by the Trustee or the Depositary under the Subordinate Indenture.

The Authority may remove the Trustee, the Co-Trustee or the Depositary at any time unless an Event of Default shall have occurred and then be continuing, and remove the Trustee, the Co-Trustee, or the Depositary if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in Accreted Value of the Subordinate Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee, the Co-Trustee or the Depositary ceases to be eligible to act in such capacity in accordance with the Subordinate Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of either the Trustee, the Co-Trustee or the Depositary or their respective property is appointed, or any public officer takes control or charge of the Trustee, the Co-Trustee or the Depositary or their respective property or affairs for the purpose of rehabilitation, conservation or liquidation; in each case by giving written notice of such removal to the Trustee, the Co-Trustee and the Depositary, and each Credit Provider, and thereupon is required to appoint a successor Trustee, the Co-Trustee or Depositary, as the case may be, by an instrument in writing.

The Trustee, the Co-Trustee or the Depositary may at any time resign by giving written notice of such resignation to the Authority and each of the other Fiduciaries and each Credit Provider. Upon receiving such notice of resignation, the Authority is required to promptly appoint a successor Trustee, Co-Trustee or Depositary, as the case may be, by an instrument in writing. Any such removal or resignation and appointment of a successor will become effective upon acceptance of appointment by the successor. Promptly upon such acceptance, the Authority is required to give notice thereof to each Paying Agent and Credit Provider and to the Subordinate Bondholders by mail in the manner provided in the Subordinate Indenture.

If no successor is appointed and accepts appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, Co-Trustee or Depositary, as the case may be, or any Subordinate Bondholder (on behalf of such Subordinate Bondholder and all other Subordinate Bondholders) may petition any court of competent jurisdiction for the appointment of a successor, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor.

Any successor Trustee must be a trust company or bank having the powers of a trust company doing business and having a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state authority.

Any successor Co-Trustee must be a trust company or bank having the powers of a trust company doing business and having a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority.

Any successor Depositary must be a trust company or bank having the powers of a trust company doing business and having a trust office in Hagatna, Guam, having a combined capital and surplus of at least \$10,000,000, and subject to supervision or examination by federal or territorial authority.

## **Liability of Trustee and Depositary**

The recitals of facts contained in the Subordinate Indenture and in the Subordinate Bonds are to be taken as statements of the Authority, and neither the Trustee, the Co-Trustee nor the Depositary assumes any responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Subordinate Indenture or of the Subordinate Bonds, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations therein or in the Subordinate Bonds assigned to or imposed upon them, respectively. The Co-Trustee is, however, responsible for its representations contained in its certificate of authentication and registration on the Subordinate Bonds. Neither the Trustee, the Co-Trustee nor the Depositary shall be liable in connection with the performance of their respective duties, except for their own respective negligence or willful misconduct.

The Trustee, the Co-Trustee and the Depositary may become the owner of Subordinate Bonds with the same rights they would have if they were not Trustee, the Co-Trustee or Depositary, as the case may be, and, to the extent permitted by law, may act as depositary for and permit any of their officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Subordinate Bondholders, whether or not such committee shall represent the Holders of a majority in principal amount of the Subordinate Bonds then Outstanding.

## **Amendments Permitted**

The Subordinate Indenture and the rights and obligations of the Authority and of the Holders of the Subordinate Bonds and of the Trustee and the Co-Trustee may be modified or amended at any time by a Supplemental Subordinate Indenture which shall become effective when the written consents of each Credit Provider and the Holders of 60% in aggregate principal amount of the Subordinate Bonds then Outstanding shall have been filed with the Trustee and the Co-Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Subordinate Bonds of any particular maturity or Series remain Outstanding, the consent of the Holders of Subordinate Bonds of such maturity or Series and the Credit Provider of such Series, if any, shall not be required and such Subordinate Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Subordinate Bonds under this provision.

No such modification or amendment may (1) extend the fixed maturity of any Subordinate Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided under the Subordinate Indenture for the payment of any Subordinate Bond, or extend the time of payment of any interest on any Subordinate Bond, or reduce the rate of interest thereon, without the consent of the Subordinate Holder of each Subordinate Bond so affected, or (2) reduce the aforesaid percentage of Subordinate Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Subordinate Indenture prior to or on a parity with the lien created by the Subordinate Indenture, or deprive the Holders of the Subordinate Bonds of the lien created by the Subordinate Indenture upon such Revenues and other assets (except as expressly provided in the Subordinate Indenture), without the consent of the Holders of all of the Subordinate Bonds then Outstanding.

The Subordinate Indenture and the rights and obligations of the Authority and of the Holders of the Subordinate Bonds may also be modified or amended at any time by a Supplemental Subordinate Indenture, which shall become effective upon execution (or such later date as may be specified in such Supplemental Subordinate Indenture), without the consent of any Subordinate Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) To add to the covenants and agreements of the Authority contained in the Subordinate Indenture, to pledge or assign additional security for the Subordinate Bonds, or to surrender any right or power reserved to or conferred upon the Authority in the Subordinate Indenture, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Subordinate Bonds;

(2) To make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Subordinate

Indenture, or in regard to matters or questions arising under the Subordinate Indenture, as the Authority may deem necessary or desirable and not inconsistent with the Subordinate Indenture, and which shall not materially adversely affect the interests of the Holders of the Subordinate Bonds;

(3) To modify, amend or supplement the Subordinate Indenture in such manner as to permit the qualification thereof under the Trust Subordinate Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Subordinate Bonds;

(4) To provide for the issuance of an additional series of Subordinate Bonds, and to provide the terms and conditions under which such Subordinate Bonds may be issued, subject to and in accordance with the provisions of the Subordinate Indenture; or

(5) To make such changes as shall be required in connection with the procedures for making draws or other claims under any Credit Facility or for reimbursing amounts so drawn or otherwise received.

### **Effect of Supplemental Subordinate Indenture**

From and after the time any Supplemental Subordinate Indenture becomes effective, the Subordinate Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Subordinate Indenture of the Authority, the Trustee, the Co-Trustee, the Depositary and all Holders of Subordinate Bonds Outstanding shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all terms and conditions of any such Supplemental Subordinate Indenture shall be deemed to be part of the terms and conditions of the Subordinate Indenture for any and all purposes.

### **Discharge of Subordinate Indenture**

If the Authority pays and discharges the entire indebtedness on all Subordinate Bonds Outstanding in any one or more of the following ways:

(A) by paying or causing to be paid the principal or Redemption Price of and interest on Subordinate Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Co-Trustee, irrevocably in trust, at or before maturity, Federal Securities in the necessary amount to pay or redeem Subordinate Bonds Outstanding; or

(D) by delivering to the Co-Trustee, for cancellation by it, Subordinate Bonds Outstanding;

and if the Authority also pays or causes to be paid all other sums payable under the Subordinate Indenture by the Authority, then and in that case, at the election of the Authority, and notwithstanding that any Subordinate Bonds shall not have been surrendered for payment, the Subordinate Indenture and the pledge of Revenues and other assets made under the Subordinate Indenture and all covenants, agreements and other obligations of the Authority under the Subordinate Indenture will cease, terminate, become void and be completely discharged and satisfied.

### **Discharge of Liability on Subordinate Bonds**

Upon the deposit with the Co-Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Subordinate Bond (whether upon or prior to its maturity or the redemption date of such Subordinate Bond), then all liability of the Authority in respect of such Subordinate Bond will cease, determine and be completely discharged, and the Subordinate Holder thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Co-Trustee as aforesaid for their payment,

subject, however, to the provisions of the Subordinate Indenture with respect to the payment of principal or Redemption Price of or interest on Subordinate Bonds after discharge of the Subordinate Indenture.

### **Deposit of Money or Securities with Trustee**

Whenever in the Subordinate Indenture it is provided or permitted that there be deposited with or held in trust by the Co-Trustee money or securities in the necessary amount to pay or redeem any Subordinate Bonds, the money or securities so to be deposited or held is required to be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Subordinate Bonds and all unpaid interest thereon to maturity, except that, in the case of Subordinate Bonds which are to be redeemed prior to maturity, the amount to be deposited or held shall be the principal amount or Redemption Price of such Subordinate Bonds and all unpaid interest thereon to the date fixed for redemption; or

(B) noncallable Federal Securities the principal of and interest on which when due will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the date fixed for redemption, as the case may be, on the Subordinate Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that substitution of such Federal Securities shall not be permitted without the consent of each Credit Provider for such Subordinate Bonds;

provided, in each case, that the Co-Trustee shall have been irrevocably instructed pursuant to the Subordinate Indenture to apply such money to the payment of such principal or Redemption Price and interest with respect to such Subordinate Bonds.

### **Payment of Subordinate Bonds after Discharge of Subordinate Indenture**

Any moneys held by the Co-Trustee in trust for the payment of the principal or Redemption Price of, or interest on, any Subordinate Bonds and remaining unclaimed for six years after the principal of all of the Subordinate Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Subordinate Indenture), if such moneys were so held at such date, or six years after the date of deposit of such moneys if deposited after said date when all of the Subordinate Bonds became due and payable, shall, upon request of the Authority, be repaid to the Authority free from the trusts created by the Subordinate Indenture, and all liability of the Trustee, the Co-Trustee or Depositary with respect to such moneys shall cease and the Holders of such Subordinate Bonds will be entitled to look only to Revenues held by the Authority for payment of such Subordinate Bonds.

### **Liability of Authority Limited to Revenues**

No Subordinate Bond issued under the Subordinate Indenture shall be or become a lien, charge or liability against the Government or the Governor or against the Authority or the Board or against any property or funds of the Authority or the Board or the Government or the Governor, except to the extent of the pledge of Revenues and other assets under the Subordinate Indenture, and neither the payment of the principal of any Subordinate Bond or any part thereof, nor of any interest thereon, is a debt, liability or obligation of the Government.

Notwithstanding anything in the Subordinate Indenture or in the Subordinate Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Subordinate Indenture for any of the purposes in the Subordinate Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Subordinate Bonds or for any other purpose of the Subordinate Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of purposes under the Subordinate Indenture any funds of the Authority which may be made available to it for such purposes.

### **General Credit Provider Provisions**

All provisions of the Subordinate Indenture regarding consents, approvals, directions, appointments or requests by any Credit Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by any Credit Provider and shall be read as if such Credit Provider were not mentioned therein and as if no Credit Facility were in effect during any time in which such Credit Provider is in default under its Credit Facility, or after such Credit Facility shall at any time for any reason cease to be valid and binding on such Credit Provider, or shall be declared to be null and void, or while the validity or enforceability of any provision thereof is being contested by such Credit Provider or any governmental agency or authority, or while such Credit Provider is denying further liability or obligation under such Credit Facility or after such Credit Provider has rescinded, repudiated or terminated such Credit Facility.

All provisions of the Subordinate Indenture relating to any Credit Provider shall be of no force and effect if there is no Credit Facility in effect and there are no Subordinate Bonds held by such Credit Provider and all amounts owing to such Credit Provider have been paid.

### **Waiver of Personal Liability**

No legislator, officer, agent or employee of the Authority will be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Subordinate Bonds; but nothing contained in the Subordinate Indenture will relieve any such legislator, officer, agent or employee from the performance of any official duty provided by law.

**APPENDIX E**

**PROPOSED FORM OF BOND COUNSEL OPINION**

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\_\_\_\_\_, 2014

Guam Power Authority  
Harmon, Guam

Guam Power Authority  
Revenue Bonds, 2014 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 \$76,470,000 aggregate principal amount of Guam Power Authority Revenue Bonds, 2014 Series A (the “2014 Bonds”). The issuance of the 2014 Bonds is authorized pursuant to Chapter 8, Title 12, Guam Code Annotated, as amended (the “Act”), Public Law No. 32-140, approved by the 32nd Guam Legislature (the “Legislature”) on April 15, 2014, and signed by the Governor of Guam (the “Governor”) on April 28, 2014, as amended by Public Law No. 32-181, approved by the Legislature on August 25, 2014, and signed by the Governor on September 5, 2014 (collectively, the “Law”), and Resolution No. 2014-26 of the Consolidated Commission on Utilities, adopted on July 8, 2014, and Resolution No. 14-024 of the Guam Economic Development Authority, adopted on June 19, 2014 (collectively, the “Resolutions”). The 2014 Bonds are issued pursuant to the Indenture, dated as of December 1, 1992, as heretofore supplemented and amended, and as supplemented and amended by a Sixth Supplemental Indenture, dated as of September 1, 2014 (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 set forth in the Indenture. The 2014 Bonds are being issued on a parity with other bonds which have been and may be issued under the Indenture.

In such connection, we have reviewed the Act, the Law, the Resolutions, the Indenture, the Orders of the Guam Public Utilities Commission in GPA Docket 14-09, each dated July 31, 2014, the Tax Certificate of the Authority, dated the date hereof (the “Tax Certificate”), certificates of the Authority, the Trustee, the Co-Trustee, and others, opinions of counsel to the Authority, the Trustee, the Co-Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify,

the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to above.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this 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 2014 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. Furthermore, we have assumed compliance with all covenants and agreements contained in the 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 2014 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 2014 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, 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 2014 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 2014 Bonds constitute the valid and binding limited obligations of the Authority payable solely from the revenues of an enterprise consisting of a power supply and distribution system (as more particularly defined in the Indenture, the "Revenues").
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 2014 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 therein.

4. Interest on the 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under 48 U.S.C. Section 1423a, interest on the 2014 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 2014 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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**APPENDIX F**

**PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT**

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MASTER CONTINUING DISCLOSURE AGREEMENT

among

GUAM POWER AUTHORITY,

BANK OF GUAM,  
as Trustee

and

U.S. BANK TRUST NATIONAL ASSOCIATION,  
as Co-Trustee

Dated May 1, 1999

relating to

GUAM POWER AUTHORITY  
REVENUE BONDS

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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](mailto: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](mailto: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](mailto: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@dpccdata.com](mailto:nrmsir@dpccdata.com)

**GUAM POWER AUTHORITY  
REVENUE BONDS, 2014 SERIES A**

**SUPPLEMENTAL CONTINUING DISCLOSURE AGREEMENT**

This Supplemental Continuing Disclosure Agreement (this “Supplemental Disclosure Agreement”), dated as of October 1, 2014, 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 \$76,470,000 Guam Power Authority Revenue Bonds, 2014 Series A (the “2014 Senior Bonds”). The 2014 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 Sixth Supplemental Indenture executed in connection with the issuance of the 2014 Senior Bonds, dated as of September 1, 2014, 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 2014 Senior Bonds. Except as expressly otherwise set forth herein, the terms and provisions of the Master Agreement are hereby made applicable to the 2014 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 2014 Senior Bonds. The following provisions shall apply solely to the 2014 Senior Bonds and shall supersede the provisions of the Master Agreement for purposes of the 2014 Senior Bonds.

(a) Solely with respect to the 2014 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 September 17, 2014, relating to the 2014 Senior Bonds.

“Repository” shall mean the MSRB.

(b) With respect to the 2014 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) a description of any material change to the description of the generating units owned or contracted for by the Issuer or the transmission and distribution system of the Issuer, each as set forth in the Official Statement under the caption “THE GUAM ELECTRIC POWER SYSTEM — Principal Existing 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 “THE GUAM ELECTRIC POWER SYSTEM — Fuel Supply — Fuel Oil Contracts”;

(d) 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 “THE GUAM ELECTRIC POWER SYSTEM — Power Sales to the Military; Island Wide Power System — Utility Services Agreement”;

(e) an update to Table 3 (Largest Customers Fiscal Year 2013);

- (f) the balance in the self-insurance fund under the caption “THE GUAM ELECTRIC POWER SYSTEM – Insurance; Self-Insurance Fund”, as of the end of such Fiscal Year;
- (g) an update to the historical information in Table 8 (Historical and Projected Customers, Energy Sale, Peak Demand and Revenues) for such Fiscal Year;
- (h) an update to the historical information in Table 9 (Historical and Projected Costs of the Authority’s Power Supply) for such Fiscal Year;
- (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) an update to the mark-to-market value of any fuel oil hedges of the Issuer as set forth under “FINANCIAL MATTERS — Fuel Supply Hedges”, as of the end of such Fiscal Year;
- (l) an update to the historical information in Table 10 (Historical and Projected Operating Results and Debt Service Coverage (Cash Basis)) for such Fiscal Year; and
- (m) 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.”

(c) With respect to the 2014 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.

(d) With respect to the 2014 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 2014 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 2014 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 2014 Senior Bonds or other material events affecting the tax status of the 2014 Senior Bonds;

(2) Modifications to rights of 2014 Senior Bond holders;

(3) Optional, unscheduled or contingent 2014 Senior Bond calls;

(4) Release, substitution, or sale of property securing repayment of the 2014 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 2014 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 2014 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

## APPENDIX G

### 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 2014A 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 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 2014A Senior Bonds or an error or delay relating thereto. The Authority pursuant to the Indentures may discontinue the book-entry only system. In that event, the provisions of the Indentures relating to issuance of 2014A 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 2014A Senior Bonds (the “2014A Senior Bonds”). The 2014A 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 2014A 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

3. Purchases of 2014A Senior Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014A Senior Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2014A 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 2014A 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 2014A Senior Bonds, except in the event that use of the book-entry system for the 2014A Senior Bonds is discontinued.

4. To facilitate subsequent transfers, all 2014A 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 2014A 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 2014A Senior Bonds; DTC’s records reflect only the identity of

the Direct Participants to whose accounts such 2014A 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 2014A Senior Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2014A Senior Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2014A Senior Bond documents, including the Indentures. For example, Beneficial Owners of 2014A Senior Bonds may wish to ascertain that the nominee holding the 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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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## **APPENDIX H**

### **SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
31 West 52nd Street, New York, N.Y. 10019  
(212) 974-0100

Form 500NY (5/90)

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