

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 2012 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 2012 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.A. Section 1423a, interest on the 2012 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 accrual or receipt of, interest on the 2012 Senior Bonds. See “TAX MATTERS” herein.



GUAM POWER AUTHORITY

\$340,620,000

Revenue Bonds

2012 Series A

Dated: Date of Delivery

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

This cover page contains certain information for general reference only. It is not a summary of the security for or terms of the 2012 Senior Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The Guam Power Authority Revenue Bonds, 2012 Series A (the “2012 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 2012 Senior Bonds. Individual purchases of the 2012 Senior Bonds will be made in book-entry form only. Interest on the 2012 Senior Bonds will be payable semiannually on April 1 and October 1 of each year, commencing April 1, 2013. The 2012 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 2012 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 2012 Senior Bonds purchased by them.

The 2012 Senior Bonds are subject to redemption prior to maturity, as described herein.

The 2012 Senior Bonds are issued pursuant to an Indenture, dated as of December 1, 1992, as supplemented by Supplemental Indentures, dated as of October 1, 1993, October 1, 1994, May 1, 1999, June 1, 2010 and October 1, 2012 (the “Senior Indenture”), each by and among Guam Power Authority (the “Authority”), Bank of Guam, as Trustee, and U.S. Bank National Association, as Co-Trustee.

The 2012 Senior Bonds are being issued for the purposes of (i) refunding certain of the Authority’s outstanding Senior Bonds; (ii) making a deposit to the Senior Bond Reserve Fund to increase the amount on deposit therein to the Senior Bond Reserve Fund Requirement (taking into account the issuance of the 2012 Senior Bonds and reimbursement of Authority funds used to pay the fee related to the Authority’s termination of a forward delivery agreement currently held to the credit of the Senior Bond Reserve Fund) and (iii) paying expenses incurred in connection with the issuance of the 2012 Senior Bonds. See “PLAN OF FINANCE” herein.

The 2012 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 2012 Senior Bonds and any other amounts held in any Fund or Account established pursuant to the Senior Indenture (except amounts held in the Rebate Fund), on a parity with the outstanding Revenue Bonds, 1993 Series A, 1999 Series A and 2010 Series A (the “Prior Senior Bonds” and, together with the 2012 Senior Bonds and any future obligations of the Authority issued on a parity therewith, the “Senior Bonds”). “Revenues” generally consist of any and all rates and charges received in connection the operation of the electric power system of the Authority (the “System”). The scheduled payment of principal of and interest on the 2012 Senior Bonds maturing on October 1 of the years 2019 through 2030 will be insured by a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. See “BOND INSURANCE” herein.

Neither the Government of Guam nor any political subdivision thereof is obligated to pay the principal or redemption price, if applicable, of or interest on the 2012 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 2012 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.

The 2012 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, Sidley Austin LLP, San Francisco, California. It is expected that the 2012 Senior Bonds in book-entry form will be available for delivery through the DTC book-entry system, on or about October 18, 2012.

Morgan Stanley

Barclays

\$340,620,000
GUAM POWER AUTHORITY
REVENUE BONDS
2012 SERIES A

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> ^{††} <u>No.</u>
2013	\$110,000	2%	1.45%	400653 FY 2
2014	455,000	3	1.70	400653 FZ 9
2015	110,000	3	1.86	400653 GA 3
2016	115,000	3	2.06	400653 GB 1
2017	470,000	3	2.32	400653 GC 9
2018	120,000	3	2.58	400653 GD 7
2019*	14,505,000	5	2.50	400653 GE 5
2020*	18,995,000	5	2.86	400653 GF 2
2021*	19,945,000	5	3.19	400653 GG 0
2022*	20,715,000	5	3.40	400653 GH 8
2023*	18,215,000	5	3.52 [†]	400653 GJ 4
2024*	19,120,000	5	3.60 [†]	400653 GK 1
2025*	20,080,000	5	3.67 [†]	400653 GL 9
2026*	21,085,000	5	3.71 [†]	400653 GM 7
2027*	22,135,000	5	3.78 [†]	400653 GN 5

\$73,285,000 5% Term Bonds Due October 1, 2030* - Yield 3.86%[†] CUSIP^{††} No. 400653 GQ 8

\$91,160,000 5% Term Bonds Due October 1, 2034 – Yield 4.35%[†] CUSIP^{††} No. 400653 GP 0

* Insured by Assured Guaranty Municipal Corp.

[†] Yield to October 1, 2022 optional call date.

^{††} Copyright, American Bankers Association. CUSIP numbers herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of Standard & Poor's Financial Services LLC. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the 2012 Senior Bonds, and no representation is made with respect to such numbers and no responsibility for their accuracy now or at any time in the future is taken. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2012 Senior Bonds as a result of subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to

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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 2012 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 to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the Guam Power Authority or the Underwriters.

Certain of the information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. This Official Statement is submitted with respect to the sale of the 2012 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.

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 2012 SENIOR BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2012 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 2012 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.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the 2012 Senior Bonds or the advisability of investing in the 2012 Senior Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and APPENDIX H – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of 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. The Authority does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

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Guam Power Authority
\$340,620,000 Revenue Bonds 2012 Series A

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices hereto (collectively, the “Official Statement”), is to provide information in connection with the offering by Guam Power Authority (the “Authority”) of its Revenue Bonds, 2012 Series A (the “2012 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 2012 Senior Bonds to potential investors is made only by means of the entire Official Statement. All references to the 2012 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 96921.

Authorization

The 2012 Senior Bonds are authorized to be issued pursuant to Chapter 8 of Title 12 of the Guam Code Annotated, and by Public Law No. 31-233, approved by the 31st Guam Legislature on August 28, 2012 and signed by the Governor of Guam on September 7, 2012 (the “Act”) and by Consolidated Commission on Utilities by Resolution 2012-61 adopted on September 25, 2012 (the “2012 Bond Resolution”). The issuance and sale of the 2012 Senior Bonds have also been approved by Guam Economic Development Authority pursuant to Resolution No. 12-050 adopted on September 20, 2012.

The 2012 Senior Bonds are issued pursuant to an Indenture, dated as of December 1, 1992, as supplemented by Supplemental Indentures, dated as of October 1, 1993, October 1, 1994, May 1, 1999, June 1, 2010 and October 1, 2012 (said indenture and supplemental indentures, collectively, the “Senior Indenture”), each by and among the Authority, Bank of Guam, as Trustee, and U.S. Bank National Association, as Co-Trustee.

There are currently three series of Bonds outstanding under the Senior Indenture: Guam Power Authority Revenue Bonds, 1993 Series A (currently outstanding in the amount of \$56,370,000) (the “1993 Senior Bonds”), Guam Power Authority Revenue Bonds, 1999 Series A (currently outstanding in the amount of \$299,680,000) (the “1999 Senior Bonds”) and Guam Power Authority Revenue Bonds, 2010 Series A (currently outstanding in the amount of \$150,440,000) (the “2010 Senior Bonds” and, collectively with the 1993 Senior Bonds and the 1999 Senior Bonds, the “Prior Senior Bonds” and, together with the 2012 Senior Bonds and any additional bonds which may be issued under the Senior Indenture, the “Senior Bonds”). The 2012 Senior Bonds, when issued, will be secured on a parity with all other Senior Bonds that have been and may be issued under the Indenture.

The Authority also has one series of subordinate revenue bonds outstanding under a Subordinate Indenture, dated as of June 1, 2010 (the “Subordinate Indenture”), by and among the Authority, Bank of Guam, as Trustee, and U.S. Bank National Association, as Co-Trustee: Guam Power Authority

Subordinate Revenue Bonds, 2010 Series A (currently outstanding in the amount of \$39,500,000) (the “2010 Subordinate Bonds”). The 2010 Subordinate Bonds and any additional subordinate revenue bonds that may be issued under the Subordinate Indenture are and will be secured on a parity with all other subordinate revenue bonds that have been and may be issued under the Subordinate Indenture and are collectively referred to herein as the “Subordinate Bonds.” The Senior Indenture and the Subordinate Indenture are collectively referred to herein as the “Indentures.”

Purpose of the 2012 Senior Bonds

The 2012 Senior Bonds are being issued for the purposes of (i) refunding all of the Authority’s 1993 and 1999 Senior Bonds (collectively, the “Refunded Bonds”); (ii) making a deposit to the Senior Bond Reserve Fund to increase the amount on deposit therein to the Bond Reserve Fund Requirement (taking into account the issuance of the 2012 Senior Bonds and reimbursement of Authority funds used to pay the fee related to the Authority’s termination of a forward delivery agreement currently held to the credit of the Senior Bond Reserve Fund); and (iii) paying expenses incurred in connection with the issuance of the 2012 Senior Bonds. See “PLAN OF FINANCE.”

Security for the 2012 Senior Bonds

The 2012 Senior Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of (i) Revenues (defined herein) subject to the prior application of such Revenues for the payment of Maintenance and Operation Expenses, (ii) all of the proceeds of the Senior Bonds and (iii) any other amounts held in any Fund or Account established pursuant to the Senior Indenture (except amounts held in the Rebate Fund), on a parity with outstanding and future Senior Bonds. “Revenues” generally consist of any and all rates and charges received in connection with the operation of the electric power system of the Authority (the “System”).

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

Senior Bond Reserve Fund

The Senior Bonds, including the 2012 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 BONDS.”

Bond Insurance

Concurrently with the issuance of the 2012 Senior Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the 2012 Senior Bonds maturing on October 1 of the years 2019 through 2030 (the “Insured 2012 Senior Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured 2012 Senior Bonds when

due, as set forth in the form of the Policy included as an exhibit to this Official Statement. See “BOND INSURANCE” and “APPENDIX H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

Additional Senior Bonds

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

Senior Indenture Rate Covenant

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

Investment Considerations

The purchase of the 2012 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 2012 Senior Bonds. For a summary of certain risk factors associated with an investment in the 2012 Senior Bonds, see “BONDHOLDER RISKS.”

Continuing Disclosure

The Authority has covenanted for the benefit of the holders and beneficial owners of the 2012 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 2011-12, 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 Report and the notice of specified events is set forth in APPENDIX F – “FORM 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 furnished by R.W. Beck, Inc., an SAIC Company (the "Consulting Engineer"), a copy of which is attached hereto as Appendix A. See "CONSULTING ENGINEER'S REPORT" and APPENDIX A – "CONSULTING ENGINEER'S REPORT." The Consulting Engineer has provided services to the Authority since the 1970's in the areas of load forecasting, power supply planning, environmental, regulatory and financing support activities. Recent activities have included financial planning, regulatory and power supply consulting.

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

THE 2012 SENIOR BONDS

Authority for the 2012 Senior Bonds

The 2012 Senior Bonds are authorized to be issued pursuant to the Act and by Resolution 2012-61 adopted by the Consolidated Commission on Utilities on September 25, 2012 (the "2012 Bond Resolution"). Section 50103(k) of Title 12 of the Guam Code Annotated provides that agencies and instrumentalities of the Government shall issue bonds only through the agency of Guam Economic Development Authority ("GEDA"), and the Act requires the terms of the Indentures and the amount and certain terms of the 2012 Senior Bonds to be approved by Guam Public Utilities Commission (the "PUC"). The issuance and sale of the 2012 Senior Bonds have been approved by the Board of Directors of GEDA pursuant to Resolution No. 12-050, adopted on September 20, 2012. The terms of the Supplemental Indenture with respect to the 2012 Senior Bonds and the respective amounts and certain terms of the 2012 Senior Bonds were approved by the PUC September 25, 2012 in GPA Docket 12-03.

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 2012 Senior Bonds

The 2012 Senior Bonds, designated as the "Guam Power Authority Revenue Bonds, 2012 Series A" are being issued in the aggregate principal amount shown on the inside cover. The 2012 Senior Bonds bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover.

The 2012 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 2012 Senior Bonds, all payments of principal and Redemption Price, if applicable, of and interest on the 2012 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 2012 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 2012 Senior Bonds will be payable by check mailed by first class mail to the persons in whose names the 2012 Senior Bonds are registered on the 15th day of the calendar month immediately preceding each such Interest Payment Date (each, a "Record Date"), or, upon the written request of a registered owner of \$1,000,000 or more in

aggregate principal amount of 2012 Senior Bonds of a Series received prior to the applicable Record Date, by wire transfer. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM” herein.

The 2012 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, 2013. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Redemption of the 2012 Senior Bonds

Optional Redemption. The 2012 Senior Bonds maturing after October 1, 2022 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, 2022, 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 2012 Senior Bonds maturing on October 1, 2030 are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments, upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. Subject to the terms and conditions set forth in the Senior Indenture, such Senior Bonds shall be redeemed (or paid at maturity, as the case may be) by application of the Mandatory Sinking Account Payments for such Senior Bonds, in the amounts and on October 1 in the years set forth below:

Mandatory Sinking Account
Payments for 2012 Senior Bonds Due October 1,
2030

<u>Year</u>	<u>Amount</u>
2028	\$23,245,000
2029	24,410,000
2030*	25,630,000

* Unamortized balance at final maturity

The 2012 Senior Bonds maturing on October 1, 2034 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 Senior Bonds, in the amounts and on October 1 in the years set forth below:

Mandatory Sinking Account
Payments for 2012 Senior Bonds Due October 1,
2034

<u>Year</u>	<u>Amount</u>
2031	\$21,150,000
2032	22,205,000
2033	23,320,000
2034*	24,485,000

* Unamortized balance at final maturity

Upon any optional redemption of term 2012 Senior Bonds or other retirement of 2012 Senior Bonds in excess of any Mandatory Sinking Account Payments in any year, the principal amount of such Senior Bonds shall be credited against the remaining Mandatory Sinking Account Payments of such 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 Senior Bond denomination).

Extraordinary Optional Redemption. The 2012 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 2012 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 2012 Senior Bonds to be Redeemed

For purposes of selecting 2012 Senior Bonds for redemption, such 2012 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 2012 Senior Bonds of any maturity are called for redemption at any one time, the Co-Trustee will select the particular 2012 Senior Bonds or portions thereof to be redeemed within such maturity by lot.

Notice of Redemption

The Co-Trustee will give notice of redemption of any 2012 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 2012 Senior Bonds designated for redemption at such owner's address as shown on the registration books of the Co-Trustee on the date the 2012 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 2012 Senior Bonds are to be surrendered for payment, the series and maturities to be redeemed and, if less than all of the 2012 Senior Bonds of any such maturity and series will be redeemed, the numbers of the 2012 Senior Bonds of such maturity and series to be redeemed and, in the case of 2012 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 2012 Senior Bonds the Redemption Price thereof or of said specified portion of the principal

thereof in the case of a 2012 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 2012 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 2012 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 2012 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 the applicable redemption date fixed in such notice of optional redemption, rescind and cancel such notice and corresponding optional redemption, and the 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.

DEBT SERVICE REQUIREMENTS

The following table sets forth the amounts required to be paid by the Authority during each year ending October 1 of the years shown for the payment of debt service on all long-term indebtedness of the Authority upon the issuance of the 2012 Senior Bonds and the refunding of the Refunded Bonds (such long-term indebtedness consisting of the 2012 Senior Bonds and the 2010 Senior Bonds, as well as the 2010 Subordinate Bonds).

DEBT SERVICE SCHEDULE

Senior Bonds

Year ending October 1	2012 Senior Bond Principal	2012 Senior Bond Interest	Prior Senior Bond Debt Service	Total Senior Bond Debt Service	Subordinate Bond Debt Service	Total Senior Bond and Subordinate Bond Debt Service
2013	\$110,000.00	\$16,199,413.62	\$7,999,200.00	\$24,308,613.62	\$15,162,500	\$39,471,113.62
2014	455,000.00	17,000,100.00	7,999,200.00	25,454,300.00	15,192,500	40,646,800.00
2015	110,000.00	16,986,450.00	7,999,200.00	25,095,650.00	15,216,625	40,312,275.00
2016	115,000.00	16,983,150.00	7,999,200.00	25,097,350.00		25,097,350.00
2017	470,000.00	16,979,700.00	7,999,200.00	25,448,900.00		25,448,900.00
2018	120,000.00	16,965,600.00	7,999,200.00	25,084,800.00		25,084,800.00
2019	14,505,000.00	16,962,000.00	7,999,200.00	39,466,200.00		39,466,200.00
2020	18,995,000.00	16,236,750.00	7,999,200.00	43,230,950.00		43,230,950.00
2021	19,945,000.00	15,287,000.00	7,999,200.00	43,231,200.00		43,231,200.00
2022	20,715,000.00	14,289,750.00	8,254,200.00	43,258,950.00		43,258,950.00
2023	18,215,000.00	13,254,000.00	11,970,175.00	43,439,175.00		43,439,175.00
2024	19,120,000.00	12,343,250.00	11,966,000.00	43,429,250.00		43,429,250.00
2025	20,080,000.00	11,387,250.00	11,970,000.00	43,437,250.00		43,437,250.00
2026	21,085,000.00	10,383,250.00	11,966,075.00	43,434,325.00		43,434,325.00
2027	22,135,000.00	9,329,000.00	11,968,950.00	43,432,950.00		43,432,950.00
2028	23,245,000.00	8,222,250.00	11,967,525.00	43,434,775.00		43,434,775.00
2029	24,410,000.00	7,060,000.00	11,971,250.00	43,441,250.00		43,441,250.00
2030	25,630,000.00	5,839,500.00	11,969,025.00	43,438,525.00		43,438,525.00
2031	21,150,000.00	4,558,000.00	11,970,300.00	37,678,300.00		37,678,300.00
2032	22,205,000.00	3,500,500.00	11,969,550.00	37,675,050.00		37,675,050.00
2033	23,320,000.00	2,390,250.00	11,968,550.00	37,678,800.00		37,678,800.00
2034	24,485,000.00	1,224,250.00	11,966,550.00	37,675,800.00		37,675,800.00
2035			11,967,800.00	11,967,800.00		11,967,800.00
2036			18,156,300.00	18,156,300.00		18,156,300.00
2037			18,161,800.00	18,161,800.00		18,161,800.00
2038			18,159,725.00	18,159,725.00		18,159,725.00
2039			18,159,150.00	18,159,150.00		18,159,150.00
2040			18,161,825.00	18,161,825.00		18,161,825.00
2041						
2042						
Total	\$340,620,000.00	\$253,381,413.62	\$372,209,175.00	\$966,210,588.62	\$45,571,625	\$1,011,782,213.62

* For the year ending October 1, 2013, \$6,789,200 of debt service with respect to the 2010 Senior Bonds will be paid from capitalized interest.

PLAN OF FINANCE

Refunding. A portion of the proceeds of the 2012 Senior Bonds will provide funds to refund the Refunded Bonds. The Refunded Bonds will be redeemed at a redemption price equal to the aggregate principal amount thereof, without premium, on November 19, 2012 (the “Redemption Date”) as shown in the following table:

<u>Refunded Bonds</u>	<u>Principal Amount to be Refunded</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Redemption Price</u>	<u>CUSIP</u> [†]
<u>Series 1993</u>					
<u>Bonds</u>					
	\$ 3,915,000 ¹	5¼%	10/01/2013	100%	400653 BF 7
	\$ 52,455,000	5¼	10/01/2023	100%	400653 BG 5
<u>Series 1999</u>					
<u>Bonds</u>					
	\$ 5,175,000	5¼%	10/01/2013	100%	400653 CZ 2
	\$ 5,445,000	5¼	10/01/2014	100%	400653 DA 6
	\$ 5,730,000	5¼	10/01/2015	100%	400653 DB 4
	\$ 19,005,000	5	10/01/2018	100%	400653 DC 2
	\$ 14,305,000	5	10/01/2020	100%	400653 DD 0
	\$ 40,045,000	5	10/01/2024	100%	400653 DE 8
	\$ 91,810,000	5⅛	10/01/2029	100%	400653 DF 5
	\$ 118,165,000	5¼	10/01/2034	100%	400653 DG 3

¹ Amount shown represents the remaining amortization requirement for this maturity.

[†] Copyright, American Bankers Association. CUSIP numbers are provided by Standard & Poor’s, CUSIP Service Bureau, a division of Standard & Poor’s Financial Services LLC, and the Authority takes no responsibility for their accuracy.

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

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

On the date of delivery of the 2012 Senior Bonds, the Authority will receive a report from a firm of independent certified public accountants verifying the adequacy of the maturing principal amounts of the Escrow Securities and/or cash on deposit in the Escrow Fund to pay the redemption price of and accrued interest on the Refunded Bonds on the Redemption Date. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

Termination Payment. A portion of the proceeds of the 2012 Senior Bonds will also be used to make a deposit to the Senior Bond Reserve Fund to increase the amount therein to the Senior Bond Reserve Fund Requirement, taking into account (i) the issuance of the 2012 Senior Bonds and (ii) the simultaneous reimbursement at closing from the Senior Bond Reserve Fund of Authority Funds used to pay the fee related to the Authority’s termination of a forward delivery agreement currently held to the

credit of the Senior Bond Reserve Fund. See “THE GUAM ELECTRIC POWER SYSTEM – Financial Contracts and Investments.”

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are shown below:

Principal Amount	\$340,620,000.00
Plus: Net Original Issue Premium	<u>33,518,709.10</u>
Total Sources	\$374,138,709.10
<i>Estimated Uses of Funds</i>	
Deposit to Escrow Fund	\$358,502,697.00
Deposit to Senior Bond Reserve Fund ⁽¹⁾	7,501,662.76
Costs of Issuance ⁽²⁾	<u>8,134,349.34</u>
Total Uses	\$374,138,709.10

⁽¹⁾ Of the amount shown, \$3,574,285 will be withdrawn on the expected date of delivery of the 2012 Senior Bonds and transferred to the Authority as reimbursement for its prior payment of the fee related to the termination of a reserve fund forward delivery agreement. See “Financial Contracts and Investments” under “FINANCIAL MATTERS.”

⁽²⁾ Includes underwriters’ discount, bond insurance premium and financing expenses.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The ability of the Authority to pay principal of and interest on the 2012 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 Consolidated Commission on Utilities and regulated by the PUC. The PUC has determined that the issuance of the 2012 Senior Bonds subject to their authorized terms is in the best interest of the Authority’s rate payers. The Act provides 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. 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

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

On or before the fifth day of each calendar month, the Depositary shall transfer moneys in the Revenue Fund remaining after payment of Maintenance and Operation Expenses for deposit in the following funds, in the amounts and in the following 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 uncompounded basis on any interest payment date in equal monthly amounts over the Interest Accrual Period for each such Senior Bond ending on such interest payment date (or in the case of a variable rate Senior Bond, the amount of interest that would have accrued during the next preceding calendar month if such Senior Bond had borne interest at the maximum rate, less any excess deposited for the next preceding calendar month), and the amount of interest payable on each Senior Bond on a deferred compounded basis on any interest payment date in equal monthly amounts over the Principal Payment Period for each such Senior Bond ending on the maturity date for such Senior Bond, plus (b) during the Principal Payment Period for each Senior Bond, an amount which, if paid in equal monthly amounts in each month during such Principal Payment Period, would yield moneys sufficient to pay the principal or Mandatory Sinking Account Payment due and payable on the next succeeding principal payment or mandatory sinking account payment date for each such Senior Bond; (2) into the Senior Bond Reserve Fund, held by the 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. All amounts in the Surplus Fund on the fifth day of each month after the deposits required under the Senior Indenture have been made shall be paid by the Depositary to the Authority, free and clear of the pledge and lien of the Senior Indenture.

If, on the fifth day before any interest payment date, the amount in the Bond Fund is insufficient to pay the principal of, mandatory sinking account payments for and interest on the Senior Bonds due on 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).

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, the costs associated with the issuance of Senior Bonds of such series, and any capitalized interest, and, to the extent necessary, to fund any deficiency in the Bond Fund to pay principal or Redemption Price of or interest on the Senior Bonds.

Revenue Fund - The Authority shall pay all Revenues, upon receipt, to the Depositary for deposit in the Revenue Fund. Moneys on deposit in the Revenue Fund shall be applied in the manner described

under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS Senior Bonds - Security” above.

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

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

Senior Bond Reserve Fund - Moneys in the Senior Bond Reserve Fund shall be applied solely to make up any deficiency in the Bond Fund. Any moneys in the Senior Bond Reserve Fund on any October 5th in excess of the Bond Reserve Fund Requirement may be transferred to the Revenue Fund.

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

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

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

Rate Covenant

The Senior Indenture includes a contractual undertaking for the benefit of Senior Bondholders to the effect that rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System will be established, fixed, prescribed and collected so as to yield, 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 said 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 the foregoing calculation shall be the actual interest rate for periods prior to the date of calculation and the maximum rate then permitted on such Variable Rate Senior Bonds for periods subsequent to the date of calculation. Net Revenues means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation Expenses incurred during such period.

Additional Senior Bonds

The Authority may issue additional Series of Senior Bonds upon the terms and conditions set forth in the Senior Indenture. If issued, such additional Series of Senior Bonds will be payable from and secured by the Revenues pledged under the Senior Indenture on a parity with all then Outstanding Senior Bonds.

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

- (1) No Event of Default shall have occurred and be continuing under the Senior Indenture;
- (2) The Supplemental Indenture under which the additional Series of Senior Bonds may be issued is required to (A) specify the purposes for which such additional Series of Senior Bonds is 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) provide for a deposit to be made to the Senior Bond Reserve Fund on the date such additional Series of Senior Bonds is 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 Series of Senior Bonds;
- (4) The aggregate principal amount of Senior Bonds issued under the Senior Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture;
- (5) Unless the requirement of paragraph (6) is satisfied, Net Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of the Supplemental Indenture providing for the issuance of such additional Series of Senior Bonds, as shown by a certificate of an independent consultant, plus
 - (i) An allowance for Net Revenues from any Projects to be financed with the proceeds of such additional Series of Senior Bonds or with the proceeds of Senior Bonds previously issued under the Senior Indenture, and for Net Revenues from any improvements to the System which have been made from moneys from any source, but which, during all or any part of such Fiscal Year or 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 Series of Senior Bonds;

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

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

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

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

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

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

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

(7) If any of the Senior Bonds of such additional Series of Senior Bonds are Variable Rate Senior Bonds, Maximum Annual Debt Service on such Variable Rate Senior Bonds shall, for purposes of these provisions, be calculated using the greater of the maximum rate permitted on such Variable Rate

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

Senior Bond Reserve Fund

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

"Senior Bond Reserve Fund Requirement" means, on any date of calculation, an amount equal to Maximum Annual Debt Service on all then Outstanding Senior Bonds, or such higher amount as may be specified by Supplemental Indenture. For purposes of this definition, the interest rate on each Variable Rate Senior Bond shall be assumed to be the maximum rate then permitted on such Senior Bond. As of the date of issuance of the 2012 Senior Bonds, the Senior Bond Reserve Fund Requirement is \$43,441,250. Proceeds of the 2012 Senior Bonds in the net amount of \$3,927,378 (net of the \$3,574,285 released to the Authority as reimbursement for its prior payment of the fee to terminate a reserve fund forward delivery agreement, see "Financial Contracts and Investments" under "FINANCIAL MATTERS") 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.

The Senior Bond Reserve Fund does not secure payment of principal of or interest on any Subordinate Bonds.

Bond Insurance with Respect to Insured 2012 Senior Bonds

The scheduled payment of principal of and interest on the 2012 Senior Bonds maturing on October 1 of the years 2019 through 2030 (the "Insured 2012 Senior Bonds"), when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2012 Senior Bonds by Assured Guaranty Municipal Corp. See "BOND INSURANCE" and "APPENDIX H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

Subordinate Bonds

Security

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

Appendix D and “THE CONSULTING ENGINEER’S REPORT - Historical and Projected Operating Results.”

The Subordinate Indenture creates within the Surplus Fund a separate “Subordinate Revenue Fund,” which the Depositary maintains and holds in trust. All Revenues deposited in the Surplus Fund and available for transfer to the Authority free and clear of the lien of the Senior Indenture shall be promptly paid over to the Subordinate Trustee and deposited by the Subordinate Trustee to the credit of the Subordinate Revenue Fund. All moneys at any time held in the Subordinate Revenue Fund will be held in trust for the benefit of the Owners of the Subordinate Bonds and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Subordinate Indenture. In a manner similar to that described above under “Funds” in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” moneys in the Subordinate Revenue Fund will be applied to pay debt service and provide reserves for the Subordinate Bonds. For a description of the application of moneys held under the Subordinate Indenture, see “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES” in Appendix D.

Rate Covenant

The Subordinate Indenture includes a contractual undertaking for the benefit of Subordinate Bondholders to the effect that rates and charges for the sale or use of electric energy produced, transmitted, distributed or furnished from the System will be established, fixed, prescribed and collected so as to yield, 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 said 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.

Additional Subordinate Bonds

The Authority may issue additional Series of Subordinate Bonds upon the terms and satisfaction of the conditions and subject to the limitations set forth in the Subordinate Indenture. If issued, such additional Series of Subordinate Bonds are to be payable from and secured by the Revenues and other amounts pledged under the Subordinate Indenture on a parity with Subordinate Bonds previously issued. “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES” in Appendix D hereto.

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 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 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 2012 Senior Bonds or any other Senior Bonds.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2012 Senior Bonds, Assured Guaranty Municipal Corp. ("AGM" or the "Insurer") will issue its municipal bond insurance policy (the "Policy") for the Insured 2012 Senior Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Insured 2012 Senior Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Assured Guaranty Municipal Corp.

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

AGM's financial strength is rated "AA-" (stable outlook) by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (on review for possible downgrade) by Moody's Investors Service, Inc. ("Moody's"). 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 prices 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 March 20, 2012, Moody's issued a press release stating that it had placed AGM's "Aa3" insurance financial strength rating on review for possible downgrade. AGM can give no assurance as to any further ratings action that Moody's may take. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

On November 30, 2011, S&P published a Research Update in which it downgraded AGM's financial strength rating from "AA+" to "AA-". At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

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, 2011, its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, and its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012.

Capitalization of AGM.

At June 30, 2012, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,169,404,271 and its total net unearned premium reserve was approximately \$2,204,572,593, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2011, for the quarterly period ended March 31, 2012, and for the quarterly period ended June 30, 2012, which have been filed with the New York State Department of Financial Services and posted on AGL's website at <http://www.assuredguaranty.com>, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

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, 2011 (filed by AGL with the SEC on February 29, 2012);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 (filed by AGL with the SEC on May 10, 2012); and

- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 (filed by AGL with the SEC on August 9, 2012).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Insured 2012 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) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – 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 2012 Senior Bonds or any uninsured 2012 Senior Bonds offered under this Official Statement and may hold them for investment or may sell or otherwise dispose of such Insured 2012 Senior Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the 2012 Senior Bonds or the advisability of investing in the 2012 Senior Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

THE GUAM POWER AUTHORITY

General

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

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

Governance

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

In addition, pursuant to statutory requirements, the Guam legislature, the Governor of Guam, GEDA, and the PUC are required to approve the issuance of bonds by the Authority, and each has approved the issuance of the 2012 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, Commissioner. 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 13th, 14th and 15th Guam Legislature. He was the Founding president of the Guam Jaycees, and served as Vice-President for the Jaycee International, and also was a founding member of the Chamorro Cultural Association. Mr. Palomo graduated from Belmont Abbey College with a BA, attended DePaul College of Law, Chicago, Illinois, and numerous workshops and seminars on effective management.

Gloria B. Nelson, Secretary. Ms. Nelson was elected to the CCU and has been a member since January 2005. She has served as a teacher at all educational levels, including at the University level. Mrs. Nelson has served as the Chairperson of the Elected Territorial Board of Education and Chairwoman, Guam Election Commission. Ms. Nelson is an active member of many government and community/civic organizations, including Board President – Lytico & Bodig Organization of Guam, Vice President – GARP Guam Association, helped establish the adolescent residential Treatment Center, Humanitarian Volunteer Shelter for Young Adults and the Elderly and Chairperson – Fiestan Guam Liberation Day Festivities. She is a member of the Statehood for Guam Taskforce, National Federation of Democratic Women, Guam Radiation Nuclear Survivors, Ayuda Man Malango (an organization dedicated to helping and assisting the sick and elderly), and the Guam State Agency for Adult Education. Ms. Nelson graduated from the Territorial College of Guam with an Associate of Arts Degree (1957); obtained a Bachelor of Arts from Ohio State University (1960); and a Masters Degree from the University of New Mexico in Education and Administration (1965). Ms. Nelson has also taken post-graduate

courses from the University of Oregon, the University of Southern California and the University of California Los Angeles.

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

Key Management Personnel

Following are resumes of key management personnel of the Authority.

General Manager of Consolidated Utility Services - John M. Benavente, P.E. Mr. Benavente was appointed to his current position in June 2005 to oversee the Authority and Guam Waterworks Authority, which provides the civilian community in Guam with water and wastewater services. 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.

General Manager - 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 independent power producers (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.

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 the Guam Waterworks Authority 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

General

The Authority provides electric service throughout Guam and has approximately 540 employees.

Principal Existing Resources

Following is a brief description of the Authority's principal existing resources. Collectively, these resources have a total net capacity of 540.6 MW. See Appendix A – "CONSULTING ENGINEER'S REPORT" for more detailed information concerning the resources currently available to the Authority.

Units Owned by the Authority. The Authority owns three oil-fired, steam generating units, four combustion turbine units, two slow-speed, diesel units and twelve high-speed, diesel units. In addition to

the generation units it owns, the Authority is leasing at no cost for a period of up to fifty years, one oil fired, steam generating unit owned by the Navy, ownership of which is expected to be transferred to the Authority prior to the end of the lease term in 2046. The Authority has retained private operators for certain of the units which it owns. Collectively these units represent approximately 383 MW of capacity.

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

Contract Units Privately Owned and Operated. The Authority has contracted with the owner/operators of three units located on Guam. Pursuant to these arrangements, the Authority pays fees to the owner/operators (which fees include certain components which the Authority treats as subordinate to the Subordinate Bonds for purposes of debt service coverage calculations; see Table 5 – Historical and Projected Operating Results and Debt Service Coverage), and also provides fuel. At the end of the terms of these agreements, the units (totaling approximately 128 MW of capacity) will revert to the Authority at no cost.

Transmission and Distribution. In addition to the generating units discussed above, the Authority's properties include 29 substations, 175 miles of 115 kV and 34.5-kV transmission lines, 63 13.8kV distribution feeders with approximately 645 miles of primary distribution lines, and other buildings, equipment, stores and related facilities.

Capital Improvement Program. As described in the Consulting Engineer's Report, and herein in "Capital Improvement Program," except for renewable facilities which it may develop, the Authority does not contemplate the development and construction of significant new generating facilities through the end of Fiscal Year 2016, and expects to meet load requirements from existing facilities. The capital improvement program contains a number of renewal and maintenance projects with respect to the Authority's existing facilities.

Historical and Projected Demand and Load Growth

As described in the Consulting Engineer's Report, from 2007 to 2011 the Authority's peak loads remained relatively flat, having declined from 269,000 kW to 263,000 kW (an annual compound rate of -0.6 percent). Energy sales have been similarly flat having declined slightly by 16,812 MWh or 1 percent (an annual compound rate of -0.3 percent).

The growth in number of customers however from 2007 to 2011 has been greater with an increase of 6.5 percent (an annual growth rate of about 1.6 percent per year). This has resulted in the usage per customer declining during this same period. Specifically the usage per residential customer in 2007 was approximately 12,633.4 kWh/yr as compared to the usage per residential customer in 2011 of approximately 11,810.2 kWh/yr. The Authority believes that the usage per customer decline has resulted from both increasing rates as well as economic conditions that have affected Guam in a similar manner to that of the mainland United States.

For the period 2012 through 2016, a load forecast for GPA was prepared by P.L. Mangilao Energy, which does not include any increases in loads relating to the potential move of a portion of the United States military base in Okinawa, Japan to Guam described in the Consulting Engineer's Report. The annualized growth rate for peak and energy sales for the period 2012 2016 as set forth in the load forecast are 1.5 percent and 0.0 percent, respectively.

During the period covered by the Projected Operating Results (from fiscal years 2012 through 2016) (the “Projected Operating Results”) set forth in the Consulting Engineer’s Report and in “THE CONSULTING ENGINEER’S REPORT - Historical and Projected Operating Results”, the Authority expects to meet its projected peak load requirements primarily from existing resources, renewable resources, such as solar and wind. In addition, the Authority expects to implement a \$34 million program (half funded by federal grant money) in October 2012 and lasting into early 2014 to remove existing meters and replace them with so called “smart” units that will 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 them to make decisions on the basis of more reliable and up-to-date data.

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.

Renewable Resources

As described in Appendix A – “CONSULTING ENGINEER’S REPORT,” the Authority developed its most recent Integrated Resource Plan (“IRP”) which was filed with the PUC in 2008 and is developing a new IRP expected to be completed later in 2012. The plan includes analyses leading to the determination of the timing, sizing, location and technologies to be utilized for future Authority generation resources. The Authority’s planning is influenced by legislation adopted by the Guam Legislature in 2008 establishing goals for renewable portfolio standards. The legislation provides that the Authority shall establish preliminary goals of 5 percent of its net electricity sales to be furnished from renewable generation by December 31, 2015 and 25 percent by December 31, 2035, subject to engineering and economic analysis by the Authority. The legislation also requires that 10 percent of any traditional power supply that is constructed be furnished from a renewable resource. In early 2012 the Authority awarded a 25-year, 20 MW solar project to Quantum Guam Power and a 14.39 MW project to Pacific Green Resources consisting of 9.34 MW wind and 5.05 MW solar. These projects will be built and financed by the named developers, who have advised the Authority that these projects are expected to be operational by end of calendar year 2014.

The Authority is currently considering adding additional renewable resources during the 5 year study period ending in late 2016. A second phase of renewable acquisition, a Request for Proposals (“RFP”) is contemplated later in 2012 in which the proponent format will be more open, as well as the ownership and contracting arrangements. The Consulting Engineer has assumed that the Authority will only proceed with financially feasible projects for which power to be purchased is priced at or below the Authority’s incremental cost of power. See APPENDIX A - “CONSULTING ENGINEER’S REPORT - Historical and Projected Operating Results.”

Fuel Supply

The Authority is responsible for providing fuel for all of its generating resources, including those owned and operated by private contractors. The facilities generally require No. 2 and No. 6 diesel fuel. Fuel cost is the most significant element of the Authority’s costs, representing approximately 68.3% of the Authority’s total expenses in Fiscal Year 2011.

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, the Authority generally has from 30 to 60 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 contracts for the purchase of fuel for its facilities. The current, 3-year contract for substantially all of its residual fuel oil No. 6 for the baseload plants is with Petrobras Singapore PTE, Ltd., a Brazilian-based company ("Petrobras") under which Petrobras agrees to provide all of the Authority's fuel requirements (estimated to be three million barrels per year). Petrobras has also extended to the Authority a \$30 million line of credit since June 2011. The 3-year contract with Petrobras expires February 28, 2013. The Authority also has two, 3-year contracts for distillate fuel oil No. 2 for the Authority's combustion turbines, diesel units and emergency standby generators. These two contracts expire on November 30, 2012 and are with Isla Petroleum and Energy Holdings, LLC Guam.

For the twelve months ended September 30, 2011, the Authority took delivery of approximately 2.6 million barrels of oil from Petrobras at a cost of approximately \$251 million. The Authority does not expect to renew its contract with Petrobras upon its February 2013 expiration date and will seek a new supplier through a bidding process. For the twelve months ended September 30, 2011, the Authority took delivery of approximately 58,000 barrels under its distillate fuel oil contracts at a cost of approximately \$8.3 million.

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 currently utilizes this fuel hedging program with respect to approximately 50% of its projected fuel requirements.

This hedging approach has recently been updated by the Authority in consultation with the Consulting Engineer but has not yet been fully implemented. As updated, the Authority's fuel hedging program will utilize financial derivative transactions to mitigate a portion of its exposure to fuel price fluctuations. The goal of the updated program is to create a direct linkage between the hedging activities and the effect on ratepayers given the rise or fall in fuel prices. The program is designed to identify future consumer exposure to movements in fuel prices and quantify the impact and mitigate the effect of these exposures. The program employs additional financial instruments and the use of a proposed statistical model to measure risk and gauge the need to establish hedges. Its design requires ongoing monitoring of changing parameters and the timely implementation of proposed strategies. Implementation of the revised program and staff training have begun, and the Consulting Engineer will provide ongoing technical support as the Authority implements the program.

The updated approach entails the measurement of fuel price changes and entering into hedges if the combined effect of these changes is beyond what the Authority's management has established as tolerable potential price movements given their impact on retail customer rates. More specifically, the Authority will utilize 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 compared against the tolerances for risk if prices of fuel are not hedged.

The Authority plans to use three counterparties (Goldman Sachs & Co., Morgan Stanley (Singapore) and Australia and New Zealand Banking Group Limited) to execute the trades and competitively bids each counterparty against the others for better pricing options. These counterparties, which are also the counterparties for the Authority's existing hedging program described above, will also provide market prices to update the models that measure the risk exposure tolerable for the Authority and have signed standard hedging agreements with the Authority that significantly reduce the need for the Authority to post collateral.

As set forth in the "THE CONSULTING ENGINEER'S REPORT – Fuel Oil Supply – Fuel Risk Management Program," the Authority has not yet implemented the updated fuel hedging, citing lack of internal personnel resources among other reasons. Until such resources are added, the review and full execution of hedging strategies will remain on hold. This lack of a fully implemented fuel hedging program, with fuel costs comprising such a large portion of total operating costs, is stated by the Consulting Engineer to open the Authority and its ratepayers to a high degree of risk and the Authority to potentially large losses if not all fuel price increases can be effectively passed along to its customers.

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

LEAC. The Authority is generally entitled to recover 100% of the cost of fuel in its rates through the "Levelized Energy Adjustment Clause component" ("LEAC"). See "Electric Rates and Charges – Public Utilities Commission." LEAC Adjustments are generally considered twice annually. However, the Authority can petition for an increase at any time when the Authority's projected under-recovery of fuel costs exceeds \$2 million. Each time the Authority has petitioned for such an emergency adjustment, the PUC has generally heard it within 30 days and granted the Authority's petition.

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

Power Sales to the Military; Island Wide Power System

Electric Service to the Military. A significant portion of the work force of Guam is employed by the Federal government, including the armed forces of the United States stationed on Guam to which the Authority is the only service provider. Federal government personnel and their families comprise a significant percentage of the population of Guam. In addition, the military has a substantial impact on the economy of Guam through the employment of civilian personnel, through construction contracts and purchasing of material and services, and through Federal income taxes paid by military personnel which are remitted to the Government of Guam. The Authority projects that energy sales to the Navy should generate approximately 17.6% of the total revenues of the Authority during each of the Fiscal Years 2012 through 2016.

Military Energy Sales. Military energy sales for Fiscal Year 2007 through Fiscal Year 2011 accounted for 21.5% (5-year average) of the Authority's total annual energy sales. Revenues generated from the military for the same period accounted for 18.7% (5-year average) of the Authority's total annual revenues. Military energy sales increased from 330,278 MWh in Fiscal Year 2007 to 358,017 MWh in Fiscal Year 2011, an average annual increase of 2%. During the same period, total revenues

from the military increased from \$51.4 million in Fiscal Year 2007 to \$71.9 million in Fiscal Year 2011, an average annual increase of 8.7%. Military energy sales are projected to decline between 2012 and 2016 at an average annual rate of 1.8%.

Potential Increase in Navy Power Requirements. The Authority is currently negotiating the terms of a memorandum of understanding with the Department of Defense, the Navy and other interested parties in connection with the expected increase in Navy power requirements resulting from the relocation to Guam of a portion of the United States military base on Okinawa, Japan. The ten-year Utility Services Contract signed earlier this year by the Navy and the Authority reflects the operational and financial ramifications of the increase, implementing the principles being reflected in the memorandum of understanding, or will be appropriately amended to cover any such increase.

As described herein in the Consulting Engineer's Report, the specific timing of the relocation of a portion of the Okinawa facilities of the U.S. military to Guam, and corresponding increase in military electricity requirements, is uncertain. The Projected Operating Results assume that the total electricity sales through 2016 will increase by approximately 19% over 2011 levels, which forecast which does not include any expected increase in loads resulting from the relocation of a portion of the Okinawa, Japan U.S. military base to Guam. Although there is an expectation that the peak build-up activity will likely occur post 2014, for planning purposes the load forecast assumes no increased buildup activity through 2016. Prior delays in then scheduled military expansion on Guam have enabled the Authority to reallocate some or all of its capital funds toward projects that have increased System reliability and studies of possible fuel diversification. There can be no assurance that any increasing usage will occur within the time period addressed by the Projected Operating Results. See APPENDIX A - "CONSULTING ENGINEER'S REPORT - Historical and Projected Operating Results." Also see the Consulting Engineer's Report for a discussion of the assumptions and qualifications relating to the Projected Operating Results.

Island Wide Power System. Historically, the Authority's power supply requirements have been supplied from generating facilities owned and operated by the Authority, generating facilities owned and operated by the Navy and generating facilities owned by the Navy and operated by the Authority. The major generating assets of the Navy and the Authority constitute the Island Wide Power System ("IWPS"). Beginning in 1972 there has been a gradual transition, consolidating all of the IWPS ownership and operating responsibilities with the Authority. This transition has been accomplished through two major agreements between the Navy and the Authority: the Power Pooling Agreement, entered into in 1972 (the "Power Supply Agreement"), and Utility Service Contracts (collectively, the "Customer Agreement") described below.

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

Customer Agreement. In July 1989, the Authority and the Navy entered into a ten year Guam Power Authority Utility Service Contract (the "Customer Agreement") which provided for the termination of the Power Supply Agreement and became effective in August 1992. The Customer Agreement was renewed for an additional ten year term, which expired on July 31, 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. (The Authority transmits electricity to Navy facilities, and the Navy distributes the electricity so delivered

through its individual facilities.) The Customer Agreement also provided for the transfer of additional 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 Department of Defense facilities on Guam.

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

On July 31, 2012, the Authority, the Department of Defense, the Navy and other interested parties finalized a new, ten-year Utility Services Contract that replaced the expiring Customer Agreement on a number of subjects. The new Contract, which will provide approximately \$800 million in revenue to the Authority over its term, based on current use and rate projections and result in approximately \$120 million in additional system assets being transferred to the Authority, will keep the Authority as the Navy’s only power provider (with the Navy continuing to be a transmission-level cost-of-service customer at rates approved by the PUC, continue on the same terms the asset transfers to the Authority as were begun under prior agreements, and specify that any capital additions to the Authority’s system that are necessary to support the expected military build-up on Guam will not be paid for by the Authority. If necessary, the Authority may finance such improvements, so long as any associated debt service is paid for 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 providing for the transfer to the Authority of responsibility for the operation, maintenance and custody of certain Navy-owned, joint-use, electric power generation facilities. The Lease Agreement was developed to transfer certain assets, prior to completion of environmental remediation at all of the locations involved. See Appendix A – “CONSULTING ENGINEER’S REPORT” for a detailed discussion of the current status of the transfer of Navy assets to the Authority.

Civilian Energy Sales

Between Fiscal Year 2007 and Fiscal Year 2011, civilian energy sales, including the residential, small commercial and large commercial customer classes, constituted approximately 78.5% and 81.3% (5-year averages) of the Authority’s total energy sales and revenues, respectively. Concurrently, civilian energy sales decreased at a compounded rate of 0.6% and revenues grew at a compounded rate of 6.2%, respectively. Civilian load demands are expected to grow at an average annual rate of 0.2% per year from Fiscal Year 2012 through Fiscal Year 2016.

A significant portion of civilian energy sales are to government entities. Historically, certain of these governmental agencies failed to pay Authority bills for energy in a timely manner. The balance owed by such governmental customers, including the Department of Education, the Department of Public Works, Guam Memorial Hospital, and the Guam Water Works Authority was approximately \$43 million at the end of Fiscal Year 2003. The Authority entered into payment arrangements with such entities to provide for the repayment of delinquent amounts. As of the end of Fiscal Year 2011, the outstanding balance owed was approximately \$4.7 million, which the Authority expects to be repaid by July 2013.

Top Ten Customers

The following table sets forth the Authority's ten largest customers for Fiscal Year 2011.

Table 1
Largest Customers Fiscal Year 2011

Customer	Energy Sales (KWh)	Energy Sales Revenues
U.S. Navy	358,016,811	\$ 71,892,503
Guam Waterworks Authority	54,675,507	14,859,758
Department of Education	43,226,374	12,347,522
Guam Airport Authority	27,662,441	6,779,100
Goodwin Development Corporation	16,346,800	4,161,873
University of Guam	13,051,787	3,609,390
Tanota Partners	12,386,200	3,032,168
DPW	11,697,354	6,294,351
Guam Hilton Hotel	11,649,600	2,906,084
Hyatt Regency Guam	<u>10,768,800</u>	<u>2,614,674</u>
Total	<u>559,481,674</u>	<u>\$ 128,497,422</u>
Average Monthly Total	46,623,473	\$ 10,708,118.53
% of Authority Total (Annual Basis)	34.58%	32.79%

Source: The Authority

Electric Rates and Charges - Public Utilities Commission

Rates for electric service are established by CCU, which acts as the Authority's Board of Directors, and is 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 which 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.

As part of the September 25, 2012 PUC order approving the issuance of the 2012 Senior Bonds, the Authority will be required to petition the PUC for a reduction in revenue requirements that takes into account the debt service savings resulting from the issuance of the 2012 Senior Bonds and the refunding of the Refunded Bonds. This petition must be accompanied by a detailed analysis of ongoing revenue requirements including the retention of adequate debt service coverage (as mandated by the Senior Indenture), working capital cash balances and revenue requirements. The impact of this revenue reduction will affect only fiscal year 2013. In future years, any shortfall in revenue requirements would be recovered in rate petitions to the PUC. The Authority expects that if the petition is approved, the potential financial impact in fiscal year 2013 of a reduction of rates resulting from this petition will be around \$9 million or a reduction of approximately 0.28x of total debt service coverage after paying IPP capital costs.

Under a prior PUC order for the 2012 rate case earlier this year, the Authority is required to file its petition for FY 2014 rate relief by March 2013. This petition will be adjudicated using an agreed upon true-up methodology that is consistent with the PUC's established position to provide rate support to

continue to move the Authority towards having a debt service coverage ratio of 1.75 times, as set forth in “FINANCIAL MATTERS – Working Capital and Liquidity” herein.

The Authority’s rates also include the LEAC. See “Fuel Supply – LEAC”. The Authority has petitioned the PUC seven times for base rate increases since 1995. 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 maintain sufficient debt service coverage under the Indentures.

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

Table 2
Representative Monthly Charges for Residential Customer

	<u>Unit Cost</u>	<u>Monthly Cost</u>
Fixed Monthly Charge	\$10.00	\$10.00
Non Fuel Variable Charge		
First 500 kWh (per kWh)	\$0.03644	\$18.22
Over 500 kWh (per kWh)	\$0.09585	\$47.93
Emergency Water Well Charges (per kWh) ⁽¹⁾	\$0.00279	\$1.40
Self-insurance surcharge (per kWh) ⁽²⁾	\$0.00290	\$2.90
Working capital surcharge (per kWh)	\$0.00778	<u>\$7.78</u>
Subtotal (not including LEAC)		\$88.23
LEAC (per kWh)	\$0.186830	<u>\$186.83</u>
Total		<u>\$275.06</u>

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

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

Source: The Authority

In May 2012, the Authority continued through September 30, 2015 and increased a Working Capital Fund Surcharge, now \$0.00778 per kWh (or \$7.78 per month for a 1,000 kWh customer) for the civilian customers and a monthly flat fee of \$179,152 for the Navy. The base rate increase implemented in May 2012 was designed, in part, to garner a balance of approximately 41 days’ cash in the working capital fund, as measured by total operating and maintenance expenditures, at the end of fiscal year 2012 and 48 days’ at the end of fiscal year 2013, assuming moderate load growth from the end of fiscal year 2011. However, demand and associated energy sales have been significantly less than expected in fiscal year 2012, and it is unlikely the working capital fund target will be reached either this fiscal year or next without reductions to budgeted operating and maintenance and revenue-funded capital expenditures.

The Projected Operating Results identifies additional revenues (in addition to the revenues to be generated from projected energy sales at current rates) will be required commencing in Fiscal Year 2011-12 in order for the Authority to meet the requirements of the Indentures, as well as undertake the planned level of capital improvements. Taking into account these additional required revenues, the average unit cost per kWh of energy sold is projected to increase from 22.8 cents per kWh in fiscal year 2012 to 23.5 cents per kWh in fiscal year 2016, a compounded annual increase of 0.8%.

While the Consulting Engineer’s Report does not specify a particular level of rate increases that will be necessary to generate the additional revenues contained in the Projected Operating Results, it presumes that the Authority’s multi-year rate increase will be granted by the PUC in the amounts necessary for the Authority to maintain the coverage levels set forth in the Report (see APPENDIX A -

“CONSULTING ENGINEER’S REPORT – Historical and Projected Operating Results”), and in April 2012, the Authority secured approval from the PUC for a 6% increase in base rates to be effective for the period May 1, 2012 through September 30, 2013 (although the Authority expects that a significant portion, if not all, of this base rate increase will be offset by the PUC pursuant to its September 25, 2012 order described in the third paragraph under “Electric Rates and Charges - Public Utilities Commission” above). Additional rate increases may be required for lower growth in energy sales than projected. Significant increases to the LEAC adjustment would also be required in the event fuel costs significantly exceed projected amounts.

Any further adjustments to rates for the Working Capital Fund Surcharge would be subject to CCU and PUC approval. See APPENDIX A - “CONSULTING ENGINEER’S REPORT - Historical and Projected Operating Results”

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

Capital Improvement Program

As part of its planning process, the Authority has prepared a projection of the capital requirements and related costs for its electric system, which is summarized in the Consulting Engineer’s Report. The Authority’s capital improvement program consists largely of ongoing improvements and upgrades to existing generating and transmission and distribution facilities, extension of transmission lines and the construction of associated substations, and the addition of Smart Grid technologies. The Authority believes that these additions will help it to meet recent and projected increases in system demand while maintaining overall system reliability. The Authority currently projects the expenditure of approximately \$280 million on its capital improvement program through the end of fiscal year 2016. Funds for the capital improvement program are expected to come from a combination of existing funds (including any remaining proceeds of prior Senior Bonds), operating revenues and grants. In addition, the capital improvement program contemplates that the Authority will issue additional Senior Bonds (subject to future PUC and legislative approvals) to fund approximately \$60 million of capital improvement costs in Fiscal Year 2014. However, the Projected Operating Results assume that interest on such Bonds will be funded from capitalized interest until after Fiscal Year 2016.

The Authority’s capital improvement plan as described above and in the Consulting Engineer’s Report does not include the cost of capital improvements directly related to increasing U.S. military presence resulting from the relocation of certain naval facilities to Guam. Such costs could be significant and could occur during the period through the end of Fiscal Year 2016. However, the Authority currently intends that any such capital improvement costs would be paid by the U.S. military (whether through direct capital contributions or through energy price increases sufficient to pay debt service on any bonds issued by or on behalf of the Authority to fund such costs), and such costs are, therefore, not reflected in the capital improvement program or in the Projected Operating Results. Also not included are any costs associated with the use of liquefied natural gas, which the Authority is considering as a fuel substitute for oil, because its assessment of the use of such fuel is in the early stages as set forth in the Consulting Engineer’s Report. See APPENDIX A - “CONSULTING ENGINEER’S REPORT – Future Resources – Liquefied Natural Gas.”

Employment and Labor Relations

The Authority has approximately 540 employees. The Authority’s employees are not represented by labor unions. Management of the Authority believes relations with its employees remain positive.

The Authority provides employees with a range of benefits, including health insurance, life insurance and a retirement plan.

The cost associated with the funding of retirement benefits for Authority employees has increased over the last several years, from approximately \$4.0 million in Fiscal Year 2007, to approximately \$7.1 million in Fiscal Year 2011. See Note 7 in APPENDIX C - "AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011" for a discussion of the defined benefit retirement system in which Authority employees participate. There can be no assurance that required contributions, payable from Revenues, will not continue to increase significantly.

In addition to the retirement benefit program described above, the Authority is required to contribute to a post-employment benefit program undertaken by the Government of Guam for retired employees. The Authority's share of these costs was approximately \$2.8 million in Fiscal Year 2011.

Insurance

The Authority maintains all risk insurance, directors and officers liability insurance, general liability insurance, pollution liability insurance, vehicle and marine cargo insurance and a blanket crime policy for covering employee dishonesty. All policies provide coverage, with applicable deductibles, that the Authority believes to be standard, provided through qualified insurance companies. Most policies will expire on November 1, 2013, at which time it is expected the Authority will renew them. The aggregate of the premiums for the current year is \$6.1 million.

The Authority generally maintains a self-insurance fund the balance, which in recent years has been authorized by the PUC at \$10 million. The Authority is authorized to draw from the self-insurance fund for any losses in excess of \$50,000. The fund is replenished by a surcharge imposed on customers. The surcharge is automatically discontinued once the level in the self-insurance fund reaches the maximum approved by the PUC and will be reinstated if there are significant draws on the fund. In a 2011 report, the Consulting Engineer analyzed the propriety to the Authority of maintaining a \$10 million self-insurance fund balance and recommended that the Authority increase the balance to \$20 million to protect the Authority better against losses to be paid from the fund. In February 2011, the Authority petitioned the PUC to increase the self-insurance fund balance to \$20 million, and pending the PUC's final determination on that petition, the PUC has permitted the Authority to maintain the balance in the self-insurance fund in excess of \$10 million and to continue the self-insurance fund surcharge. As of August 31, 2012 the balance in the self-insurance fund was \$14.6 million.

Environmental Matters

As described in the Consulting Engineer's Report, all of the Authority's generating plants and associated facilities must comply with federal environmental laws and regulations. In addition, local Guam environmental regulations are also applicable. Certain legal and financial liabilities may be associated with regulatory requirements. The Federal Clean Water Act and Clean Air Act are the two most significant environmental statutes affecting the Authority's operations. Some aspects of these programs are administered by the United States Environmental Protection Agency ("USEPA") and some are administered by the Guam Environmental Protection Agency ("Guam EPA"). The acid rain provision of the Federal Clean Air Act (Title IV), which 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. The Authority’s compliance with the various federal and territorial requirements is discussed below.

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

While the Authority does not expect the development and construction of significant new generation resources though the period of review in the Projected Operating Results (through Fiscal Year 2016) (other than potential renewable resources), the Consulting Engineer’s Report contains a discussion of potential issues and regulatory hurdles relating to the future development or repowering of Authority resources, particularly in light of the fact that significant existing facilities (which would also be the likely site for future resources) are located in areas designated under Clean Air Act regulations of Guam as “non-attainment” areas. See “OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC UTILITY INDUSTRY.”

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).

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

In addition, in 2002 the Authority received funding from the Federal Emergency Management Agency to undertake projects designed to reduce the Authority’s vulnerability to natural disasters. The Authority utilized FEMA funding to pay 90% of the cost of underground major power lines which connected certain significant generating facilities and substations and others which served certain significant customers of the Authority, including major hotels, Guam Memorial Hospital, Guam International Airport and certain major malls and shops. In addition to these projects, the U.S. military constructed an underground line between Andersen Air Force Base and the Dededo Combustion Turbine Plant. Currently, approximately 60% of the Authority’s load is served by this underground infrastructure, and its current capital improvement program, see “Capital Improvement Program” above, allocates an

additional \$45 million in Authority funds towards these projects. The Authority believes these undergrounding projects will provide for improved service to those customers served and will mitigate revenue losses due to typhoons.

There can be no assurance 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. Aside from the U.S. Navy, which is a party to a long-term customer agreement with the Authority, there is no one load greater than 2 MW. It would therefore be difficult for a potential competitor to aggregate sufficient load to justify an economically sized facility. However, customers may develop self-generation options, such as solar panels.

FINANCIAL MATTERS

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

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

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

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

Fiscal Year Ending September 30:	Historical					Projected				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of Customers (Average)										
Residential	38,464	39,097	39,863	40,633	41,255	41,602	43,009	43,093	44,093	45,681
Small Commercial	4,547	4,598	4,629	4,663	4,679	4,867	4,995	5,080	5,134	5,163
Large Commercial	171	169	169	172	173	180	154	160	165	166
Auxiliary/Standby ⁽¹⁾	0	0	0	1	1	0	0	0	0	0
Government and Outdoor Lighting	1,878	1,786	1,826	1,863	1,863	1,858	1,965	1,998	2,023	2,036
Navy	1	1	1	1	1	1	1	1	1	1
Total Customers	45,060	45,650	46,490	47,333	47,972	48,507	50,124	50,332	51,416	53,047
Energy Requirements (MWh):										
Energy Sales										
Residential	485,931	471,061	471,385	486,962	487,230	471,205	494,018	493,280	496,439	501,596
Small Commercial	260,823	264,025	263,440	265,653	258,861	248,760	263,869	265,842	266,017	263,249
Large Commercial	346,874	350,006	323,331	308,457	303,595	311,740	305,534	312,328	309,876	306,262
Auxiliary/Standby ⁽¹⁾	0	0	0	3,584	4,090	0	0	0	0	0
Government and Outdoor Lighting	210,715	208,437	206,976	211,488	206,017	201,687	188,109	188,683	187,482	185,880
Total Civilian Energy Sales	1,304,345	1,293,530	1,265,132	1,276,143	1,259,793	1,233,391	1,251,529	1,260,133	1,259,815	1,256,988
Total Navy Energy Sales	330,278	341,393	359,521	361,518	358,017	329,941	310,797	313,669	311,098	306,358
Total Energy Sales	1,634,622	1,634,922	1,624,653	1,637,662	1,617,810	1,563,332	1,562,326	1,573,802	1,570,913	1,563,346
System Losses ^{(2), (3)}	132,752	126,415	126,822	117,416	113,275	117,958	117,882	118,748	118,530	117,959
Total IWPS Energy Requirements ⁽⁴⁾	1,767,374	1,761,337	1,751,475	1,755,078	1,731,086	1,681,290	1,680,208	1,692,550	1,689,444	1,681,305
Peak Demand (kW) ⁽⁵⁾	269,000	268,000	268,000	272,000	263,000	269,000	272,000	279,000	285,000	286,000
Revenues (\$000) ⁽⁶⁾										
Residential	\$85,135	\$101,513	\$103,972	\$101,892	\$112,320	\$124,683	\$138,474	\$138,283	\$139,264	\$140,888
Small Commercial	54,960	66,119	68,465	66,625	70,897	76,901	86,017	86,695	86,781	85,902
Large Commercial	67,279	80,529	78,874	71,545	76,460	89,138	93,115	95,187	94,444	93,344
Auxiliary/Standby ⁽¹⁾	0	0	0	918	1,110	0	0	0	0	0
Government and Outdoor Lighting	47,092	53,251	55,320	54,787	59,195	64,557	65,834	65,897	65,473	65,044
Navy	51,402	67,546	81,373	69,123	71,893	84,679	80,494	81,217	80,570	79,377
Total Revenues	\$305,869	\$368,958	\$388,004	\$364,890	\$391,875	\$439,958	\$463,935	\$467,280	\$466,533	\$464,555

⁽¹⁾ In 2011, the auxiliary/standby customer moved to Schedule P, Large Power Service.

⁽²⁾ Includes IWPS transmission losses and Authority distribution losses.

⁽³⁾ System losses are assumed to be 7.5 percent for the period 2012-2016.

⁽⁴⁾ Reflects total net generation of the IWPS excluding station use.

⁽⁵⁾ Reflects total gross peak demand of the IWPS.

⁽⁶⁾ Fiscal year 2012 is based on actual results through July 2012 and Authority estimates for August and September 2012 based on current rate schedules effective May 1, 2012. Projections for FY 2013-2016 are based on projected energy sales with anticipated rate schedules effective October 1, 2012. Anticipated rates starting on October 1, 2012 have been authorized, but are currently pending final approval by the PUC. This projection includes customer reclassifications, which are to occur due to the new demand charges. 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 R. W. Beck (SAIC). For future fiscal years, it was assumed that the fuel costs would remain at August 2012 (\$0.19026 per kWh) LEAC levels through the projection period. 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 FY 2016. On September 25, 2012, the PUC issued an order stating that the PUC will reduce the Authority’s retail rates for FY 2013 by the amount of the reduction in debt service resulting from refunding the Authority’s 1993 Series A and 1999 Series A Revenue Bonds in connection with the issuance of the 2012 Senior Bonds. Such retail rate reduction has not been incorporated into these projections. Upon the closing of the 2012 Senior Bonds, the Authority is required under the PUC’s order to petition for a reduction in FY 2013 revenue requirements, after taking into account the debt service savings, accompanied by a detailed analysis of ongoing revenue requirements, including the retention of adequate debt service coverage (as mandated by the Senior Indenture) and working capital cash balances. The Authority expects that PUC approval of the petition will reduce FY 2013 retail rates on account of the refunding by approximately \$9 million, which reduction will offset most if not all of the Authority’s May 2012 base rate increase. Any shortfalls in revenue requirements in future fiscal years resulting from the above retail rate reduction would be recovered in additional rate petitions to the PUC. See “THE GUAM ELECTRIC POWER SYSTEM - Electric Rates and Charges - Public Utilities Commission” and APPENDIX A - “CONSULTING ENGINEER’S REPORT.”

Source: Consulting Engineer’s Report

Historical and Projected Costs of the Authority's Power Supply

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

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

Fiscal Year Ending September 30:	Historical					Projected ⁽¹⁾				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Authority Operated Resources ⁽²⁾										
Fuel Oil Costs ⁽³⁾	\$104,948	\$135,278	\$175,121	\$125,586	\$138,540	\$167,225	\$171,944	\$173,207	\$172,889	\$172,056
Other Production Expenses	16,561	20,083	24,631	23,670	20,840	24,123	24,802	27,036	28,735	27,692
Subtotal	\$121,509	\$155,361	\$199,752	\$149,256	\$159,380	\$191,347	\$196,745	\$200,243	\$201,624	\$199,748
IPP Operated Resources										
Fuel Oil Costs ⁽³⁾	\$69,800	\$101,785	\$79,251	\$94,276	\$105,171	\$121,865	\$125,304	\$126,225	\$125,993	\$125,386
Lease Payments – Energy Conversion Costs	18,276	18,883	19,181	19,484	19,705	19,726	20,121	19,744	19,424	19,594
Lease Payments – Debt Service	23,084	23,084	23,084	23,084	23,084	23,083	23,084	23,084	23,084	23,084
Subtotal	\$111,160	\$143,752	\$121,516	\$136,844	\$147,960	\$164,674	\$168,510	\$169,053	\$168,501	\$168,064
Total Cost of Power	\$232,669	\$299,113	\$321,268	\$286,100	\$307,339	\$356,021	\$365,255	\$369,297	\$370,125	\$367,812
Authority Energy Sales (GWh)	1,635	1,635	1,625	1,638	1,618	1,563	1,562	1,574	1,571	1,563
Average Unit Cost Per kWh of Energy Sold (cents/kWh)	14.23	18.30	19.77	17.47	19.00	22.77	23.38	23.47	23.56	23.53
Total Cost of Power Less IPP Debt Service	\$209,585	\$276,029	\$298,184	\$263,016	\$284,255	\$332,938	\$342,171	\$346,212	\$347,041	\$344,728

⁽¹⁾ Assumes economic dispatch of the generating units. Projected fuel and other production costs estimated by R. W. Beck (SAIC).

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

⁽³⁾ For fiscal year 2012, assumes fuel costs are based on an average LEAC rate of \$0.18492 per kWh and thereafter assumes costs will remain at August 2012 levels (\$0.19026 per kWh) through the remainder of projection period.

Source: Consulting Engineer's Report

Outstanding Indebtedness

Outstanding Bonds. After taking into account the issuance of the 2012 Senior Bonds and the refunding of the Refunded Bonds, \$150,440,000 of the 2010 Senior Bonds are currently outstanding along with the 2012 Senior Bonds. In addition, \$39,500,000 of the 2010 Subordinate Bonds are currently outstanding. Debt service requirements with respect to such bonds is set forth in "DEBT SERVICE REQUIREMENTS."

In connection with the original issuance of the 1999 Senior Bonds, the Authority obtained an insurance policy for certain of the maturities from Ambac Assurance Inc ("Ambac"). The insurance policy is applicable with respect to \$89,705,000 of the currently outstanding 1999 Senior Bonds. The final maturity of the 1999 Senior Bonds which are insured by Ambac is October 1, 2024, and all of the 1999 Senior Bonds so insured will (along with the uninsured 1999 Senior Bonds) be redeemed on November 19, 2012 using a portion of the proceeds of the 2012 Senior Bonds. In connection with the original issuance of the 2010 Senior Bonds, the Authority obtained an insurance policy from AGC on

\$55,000,000 of the currently outstanding 2010 Senior Bonds maturing October 1, 2037. AGC has certain rights under the Senior Indenture with respect to the Senior Bonds it insures, including approval rights over any amendments to the Indentures. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – THE SENIOR INDENTURE - Provisions Relating to the 2010 Credit Provider.” The Authority currently anticipates that the 1999 Senior Bonds insured by Ambac will be retired using a portion of the proceeds of the 2012 Senior Bonds. See “PLAN OF FINANCE.”

Short-Term Debt. The Authority maintains a fuel letter of credit facility in the amount of \$35 million for the purpose of assuring its fuel supplier that payment for delivery of fuel will be made at the time and manner specified in the fuel purchase contract. The Authority draws on the facility each month in the approximate amount of \$23 to \$28 million to make payment for fuel deliveries in such month, and then reimburses the provider in the same month. The fuel letter of credit is an unsecured obligation of the Authority, payable as a Maintenance and Operation Expense.

Certain Payments Pursuant to Power Contracts. As described in “THE GUAM ELECTRIC POWER SYSTEM - Principal Existing Resources,” the Authority has entered into long term contracts with the owner/operators (“IPPs”) of three units located on Guam. Ownership of these units will revert to the Authority at no cost of the end of the respective terms of the agreements in 2018. For purposes of calculating debt service coverage in accordance with the Indentures (as reflected in the Projected Operating Results herein), the Authority treats a portion of the amounts owed to the private contractors as subordinate to debt service on the 2012 Senior Bonds and other bonds outstanding pursuant to the Indentures.

Financial Contracts and Investments

Approximately \$13.7 million of the Senior Bond Reserve Fund is invested pursuant to a Forward Delivery Agreement, dated as of September 28, 2000 (the “Lehman Forward Agreement”), among the Authority, the Co-Trustee and Lehman Brothers Special Financing Inc. (“LBSFI”), and approximately \$13.7 million is invested pursuant to a Forward Delivery Agreement, dated as of September 28, 2000 (together with the Lehman Forward Agreement, the “Forward Delivery Agreements”), among the Authority, the Co-Trustee and Bank of America, N.A. (“BofA”). In connection with the execution and delivery of the Forward Delivery Agreements, the Authority received up front payments of totaling approximately \$17.5 million, representing the then present value of the interest the Authority would otherwise have received over the term of the Forward Delivery Agreements. LBSFI and BofA may at their option, but are not obligated to, cause a qualified dealer to deliver investment securities of one of the types listed in the agreements, with a maturity value equal to the scheduled invested amount. LBSFI sought relief under bankruptcy laws in September 2008. Since then, LBSFI has continued to perform under the Lehman Forward Agreement and has from time to time caused a dealer to deliver eligible securities to the Authority in accordance with the pre-determined schedule. Prior to the issuance of the 2012 Senior Bonds, the Lehman Forward Agreement will be terminated. A portion of the proceeds of the 2012 Senior Bonds will be used to replenish funds released from the Senior Bond Reserve Fund at closing to reimburse the Authority for its prior payment of the agreed-upon termination amount to LBSFI. See “PLAN OF FINANCE.”

The Authority has entered into investment agreements with the Trustee or Co-trustee, as appropriate, and Natixis Funding Corp. (“NFC”) for the investment of the portion of the Senior Bond Reserve Fund relating to the 2010 Senior Bonds and the 2010 Senior Bonds construction and capitalized interest accounts. NFC’s obligations under these agreements is guaranteed by Natixis. After a recent downgrade of Natixis’s credit rating to below the required rating level, NFC posted collateral as provided under the agreements. The Authority has also entered into an investment agreement with the Co-trustee and Bayerische Landesbank (“BLB”) for the investment of the portion of the Senior Bond Fund related to

debt service on the Refunded Bonds. Upon the issuance of the 2012 Senior Bonds, this agreement will apply to the portion of the Bond Fund related to most of the debt service on the 2012 Senior Bonds.

Working Capital and Liquidity

The working capital and cash available to the Authority fluctuates (sometimes significantly). In recent years, the Authority has successfully reduced what had been in 2003 significant (in excess of \$40 million) government of Guam accounts receivable balances to below \$5 million, and the government of Guam has been current on existing billings since then. The Authority maintains a Working Capital Fund pursuant to the Senior Indenture, and as of August 31, 2012, the balance in the Working Capital Fund was approximately \$30.7 million. The Authority generally attributes this fluctuation in its working capital and available cash resources to frequent changes in fuel prices and the generally, six-month lag between the incurring increased fuel costs and the recovery of such costs through the LEAC, although recently, the PUC has acted promptly in response to special fuel cost adjustment petitions filed by the Authority, which action has helped to cushion large working capital swings for the Authority.

In June 2011, the Public Utilities Commission ordered that a Working Capital Fund Surcharge be created to provide a funding source for the Authority to ensure the replenishment of the Working Capital Fund over a 24-month period. However, in order to provide substantial working capital funds and to mitigate the impact on its ratepayers, the Authority deposited to the Working Capital Fund \$27.5 million from the proceeds of the 2010 Subordinate Bonds and imposed the Working Capital 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. This 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.

In 2009, the Authority retained the Consulting Engineer to complete a study of the Authority's liquidity. The study contained several recommendations to improve liquidity, including the following: (i) the establishment of a target debt service coverage ratio of 2.0 times, including lease payments required to be made pursuant to the Authority's arrangements with the IPPs (which is in excess of the amount required by the Senior Indenture); (ii) the establishment of a minimum cash reserve amount equal to 60 days' operating expenses; and (iii) providing for quarterly LEAC adjustments, rather than the semi-annual adjustments currently utilized. The Authority has petitioned the PUC to increase the LEAC adjustments to quarterly and is awaiting its decision. Currently, rates are set primarily to satisfy the PUC's target debt service coverage level of 1.75 times, as calculated in accordance with the Senior Indenture. There can be no assurance that the Authority's petition described in this paragraph will be acted upon favorably by the PUC. See also APPENDIX A – "CONSULTING ENGINEER'S REPORT – Financial – Working Capital."

Fuel Supply Hedges

As described in "THE GUAM ELECTRIC POWER SYSTEM - Fuel Supply," the Authority has entered into financial arrangements intended to mitigate volatility in the price of fuel and currently is considering changes recommended by the Consulting Engineer to its hedging program.

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

During periods of fuel 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 more than \$66 million (i.e., since the prevailing price of oil was below the price established in the hedging arrangements). Some of the Authority's counterparties elected at their discretion not to require the Authority to post the full amount of collateral contractually required, and the Authority posted collateral of approximately \$21 million. Under its current 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. 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 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.

The Authority currently has fuel hedge agreements in place with three counterparties: Goldman, Sachs & Co., Morgan Stanley Capital Group Inc. and Australia and New Zealand Banking Group Limited ("ANZ Bank"). Each of the current counterparties currently has credit ratings at least equal to Baa1 from Moody's and A- from S&P. There can be no assurance that such any of such ratings will remain in effect.

The Authority has currently entered into fuel hedging transactions for approximately 50% of its fuel requirements through September 30. As of September 7, 2012, the fuel hedging arrangements had a net positive market value of approximately \$2.6 million. The market value of the fuel hedging transactions will fluctuate with prevailing oil prices.

The Authority's counterparties have the right to require collateral postings in the event that the market value of the fuel hedging transactions is negative to the Authority. The Authority has been required to post significant amounts of collateral in the past, and there can be no assurance that collateral requirements will not materially adversely effect the Authority's financial position. See "FINANCIAL MATTERS - Fuel Supply Hedges."

The respective counterparties to fuel hedging transactions may terminate any of the transactions upon the occurrence of certain termination events or events of default, which may include the failure of the Authority to post required collateral, or the failure of either the Authority or the counterparty to maintain credit ratings at specified levels. If either the counterparty or the Authority terminates any 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.

INDEPENDENT AUDITORS

The Authority's "Financial Statements, Additional Information and Independent Auditors' Report for Years Ended September 30, 2010 and 2011," are included in Appendix B to this Official Statement. The financial statements contained in the Comprehensive Annual Financial Report, have been audited by Deloitte & Touche LLP, Tamuning, Guam (the "Independent Auditors") as stated in their report, dated March 15, 2012, appearing in Appendix C.

PROSPECTIVE FINANCIAL INFORMATION

The Authority does not, as a matter of course, make public projections as to future sales, earnings, or other results. However, the Consulting Engineer has prepared the prospective financial information set forth in Tables 3, 4 and 5 to provide projected energy sales and revenues, costs of power supply and operating results and debt service coverage. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Authority's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to 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. As described in the Consulting Engineer's Report, the Consulting Engineer has provided services to the Authority since the 1970's in the areas of load forecasting, power supply planning, environmental, regulatory and financing support activities. Recent activities have included financial planning, regulatory and power supply consulting. The Consulting Engineer's Report provides certain information with respect to the System and presents forecasts of Revenues, Operating Expenses and debt service coverage for the 2012 Senior Bonds (Fiscal 2011-12 through Fiscal Year 2015-16), among other debt service coverages, and sets forth the information and assumptions upon which the forecasts and the findings of the Consulting Engineer's Report are based. Certain information concerning the System in this Official Statement has been excerpted from the Consulting Engineer's Report.

Historical and Projected Operating Results

The Consulting Engineer's Report presents a variety of historical and projected operational and financial information relating to the Authority. As described in the Consulting Engineer's Report, the projections are based on a variety of assumptions, 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.

The following table has been excerpted from the Consulting Engineer’s Report. The Consulting Engineer’s Report must be read in its entirety for a description of the information set forth in the table, the underlying assumptions, as well as the various factors taken into account for purposes of preparing the projections. See “PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS” in APPENDIX A – “CONSULTING ENGINEER’S REPORT.”

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

Fiscal Year Ending September 30:	Historical ⁽¹⁾⁽²⁾					Projected ⁽²⁾				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues:										
Energy Sales Revenues	\$305,869	\$368,958	\$388,004	\$364,890	\$391,875	\$439,958	\$463,935	\$467,280	\$466,533	\$464,555
Additional Future Requirements ⁽⁴⁾	0	0	0	0	0	0	0	12,154	20,790	7,384
Other Electric Revenues	2,177	2,587	1,521	1,449	2,606	1,651	2,403	2,460	2,520	2,580
Total Operating Revenues	\$308,046	\$371,544	\$389,525	\$366,339	\$394,481	\$441,609	\$466,338	\$481,893	\$489,843	\$474,519
Operating Expenses:										
Power Supply Costs ⁽⁵⁾	\$209,585	\$276,029	\$298,184	\$263,015	\$284,256	\$332,938	\$342,171	\$346,212	\$347,041	\$344,728
Transmission and Distribution Expenses ⁽⁶⁾	8,542	10,284	11,141	11,228	12,241	12,253	13,267	13,704	14,671	15,160
Customer Accounting ^{(6),(7)}	4,263	3,900	3,819	4,076	4,454	4,882	4,974	5,099	5,342	5,464
Administrative and General ⁽⁶⁾	22,998	25,154	26,682	27,584	30,432	30,811	33,169	34,668	35,952	37,611
Total Operating Expenses	\$245,388	\$315,366	\$339,826	\$305,903	\$331,382	\$380,883	\$393,581	\$399,684	\$403,006	\$402,963
Amounts Available for Debt Service										
Net Operating Revenues	\$62,658	\$56,178	\$49,699	\$60,436	\$63,099	\$60,726	\$72,757	\$82,209	\$86,837	\$71,556
Interest/Other Income (Expense) ⁽⁸⁾	7,299	14,446	6	245	5,804	1,638	1,531	1,500	1,500	1,500
Balance Available for Debt Service	\$69,957	\$70,624	\$49,705	\$60,681	\$68,903	\$62,364	\$74,288	\$83,709	\$88,337	\$73,056
Senior Lien Debt Service ⁽⁹⁾										
Existing Senior Lien Debt Service ⁽¹⁰⁾	\$27,481	\$27,481	\$27,482	\$27,483	\$27,484	\$27,483	\$1,210	\$7,999	\$7,999	\$7,999
2012 Senior Bonds ⁷	0	0	0	0	0	0	16,289	17,084	17,086	17,088
Future Bonds ⁽¹¹⁾	0	0	0	0	0	0	0	2,949	5,899	5,899
Total Senior Lien Debt Service	\$27,481	\$27,481	\$27,482	\$27,483	\$27,484	\$27,483	\$17,499	\$28,033	\$30,984	\$30,986
Senior Lien Coverage Pursuant to the Senior Indenture ⁽¹²⁾	2.55	2.57	1.81	2.21	2.51	2.27	4.25	2.99	2.85	2.36
IPP Operated Resources – Lease Payments Capital	\$23,084	\$23,084	\$23,084	\$23,084	\$23,084	\$23,083	\$23,084	\$23,084	\$23,084	\$23,084
Balance Available for Debt Service	\$46,873	\$47,540	\$26,621	\$37,597	\$45,819	\$39,281	\$51,204	\$60,625	\$65,253	\$49,972
Coverage of Senior Lien Debt by Balance Available for Debt Service after paying IPP Capital ⁽¹³⁾	1.71	1.73	0.97	1.37	1.67	1.43	2.93	2.16	2.11	1.61
Amount Available After Senior Lien Debt and IPP Capital	\$19,392	\$20,059	(\$861)	\$10,114	\$18,335	\$11,798	\$33,705	\$32,592	\$34,269	\$18,986
Subordinate Lien Debt Service ⁽⁹⁾										
2010 Subordinate Bonds	\$0	\$0	\$0	\$398	\$7,242	\$15,934	\$15,163	\$15,193	\$15,217	\$0
Subordinate Lien Coverage Pursuant to the Subordinate Indenture ⁽¹²⁾	n/a	n/a	n/a	2.18	1.98	1.44	2.27	1.94	1.91	n/a
Subordinate Lien Coverage after paying IPP Capital ⁽¹³⁾	n/a	n/a	n/a	1.35	1.32	0.90	1.57	1.40	1.41	n/a
Total Debt Service Coverage after paying IPP Capital ⁽¹³⁾	1.71	1.73	0.97	1.35	1.32	0.90	1.57	1.40	1.41	1.61
Interest Income ⁽¹⁴⁾	\$679	\$769	\$600	\$550	\$850	\$508	\$1,109	\$550	\$350	\$150
Amount Available for Capital Improvements	\$20,071	\$20,828	(\$261)	\$10,266	\$11,944	(\$3,628)	\$19,651	\$17,950	\$19,402	\$19,136
Capital Improvement Program:										
Amount Funded from Current Revenues	\$5,676	\$11,365	\$11,312	\$7,699	\$11,986	\$13,580	\$14,897	\$17,950	\$19,402	\$19,136
Amount Funded from Bond or Loan Proceeds	1,271	581	2,684	2,287	1,843	50,863	40,699	42,808	26,200	18,575
Amount Funded from Grants ⁽¹⁵⁾	2,950	4,926	3,621	98	1,319	5,386	9,432	795	0	0
Total Capital Improvements	\$9,897	\$16,872	\$17,617	\$10,084	\$15,148	\$69,829	\$65,028	\$61,553	\$45,602	\$37,711
Remaining Balance Available ⁽¹⁶⁾	\$11,445	\$9,463	(\$11,573)	\$2,567	(\$42)	(\$17,208)	\$4,754	(\$0)	\$0	(\$0)
Energy Sales (MWh)	1,634,622	1,634,922	1,624,653	1,637,662	1,617,810	1,563,332	1,562,326	1,573,802	1,570,913	1,563,346
Cost of Power per kWh of Energy Sold (cents/kWh)	14.2	18.3	19.8	17.5	19.0	22.8	23.4	23.5	23.6	23.5

Unit Revenue from Energy Sales per kWh	(cents/kWh)	18.7	22.6	23.9	22.3	24.2	28.1	29.7	30.5	31.0	30.2
Increase in unit Revenue from Energy Sales											
Over Previous Year (percent)		n/a	20.9%	5.8%	-6.7%	8.5%	16.1%	5.7%	8.5%	4.4%	-1.0%

- (1) Audited information provided by the Authority.
- (2) Reflects the Navy as a customer of the Authority. The projected fuel and production costs were estimated by R. W. Beck (SAIC).
- (3) Based on projected energy sales at current rate schedules effective October 1, 2012 for fiscal years 2013-2016. Fiscal year 2012 is based on actual, unaudited financial results through July and Authority estimates for August and September. Anticipated rates starting on October 1, 2012 have been authorized, but are currently pending final approval by the PUC. This projection includes customer reclassifications, which are to occur due to the new demand charges. No future rate increases have been incorporated into these projections. Projected revenues include estimated working capital surcharge and LEAC rates. The fuel component of these projected rates was estimated by R. W. Beck (SAIC). For future fiscal years, it was assumed that the fuel costs would remain at August 2012 (\$0.19026 per kWh) LEAC levels through the projection period. More information about these rates is available in APPENDIX A – “CONSULTING ENGINEER’S REPORT - Financial – Electric Rates”. The projected sales herein reflect the estimated adjustments for the full implementation of the Authority’s Smart Grid program by FY 2016. On September 25, 2012, the PUC issued an order stating that the PUC will reduce the Authority’s retail rates for FY 2013 by the amount of the reduction in debt service resulting from refunding the Authority’s 1993 Series A and 1999 Series A Revenue Bonds in connection with the issuance of the 2012 Senior Bonds. Such retail rate reduction has not been incorporated into these projections. Upon the closing of the 2012 Senior Bonds, the Authority is required under the PUC’s order to petition for a reduction in FY 2013 revenue requirements, after taking into account the debt service savings, accompanied by a detailed analysis of ongoing revenue requirements, including the retention of adequate debt service coverage (as mandated by the Senior Indenture) and working capital cash balances. The Authority expects that PUC approval of the petition will reduce FY 2013 retail rates on account of the refunding by approximately \$9 million, which reduction will offset most if not all of the Authority’s May 2012 base rate increase. Any shortfalls in revenue requirements in future fiscal years resulting from the above retail rate reduction would be recovered in additional rate petitions to the PUC. See “THE GUAM ELECTRIC POWER SYSTEM - Electric Rates and Charges - Public Utilities Commission” and APPENDIX A - “CONSULTING ENGINEER’S REPORT.”
- (4) For fiscal years 2014-2016, the increased revenues are calculated based on the amount that will need to be requested by the Authority to maintain minimum coverage under the Indentures. These projected revenues are not directly tied to the Authority’s rate-related filings currently pending before the PUC.
- (5) See Table 10 in APPENDIX A – “CONSULTING ENGINEER’S REPORT.” Excludes lease payments debt service for the IPP operated resources.
- (6) Projections based on prior year expenses and escalated annually to reflect the change in projections of these expenses as filed in Docket 11-09 Petition for the Approval of a Multi-Year Base Rate Increase.
- (7) Includes bad debt recovery or expense.
- (8) FY 2008 includes collection of a \$13.5 million GovGuam receivable for streetlight arrearages. FY 2011 includes \$5.2 million received in restitution related to an agreement entered into by BofA with the Securities and Exchange Commission.
- (9) Amounts shown reflect capitalized interest paid from the 2010 Series Bonds through fiscal year 2013 for the Senior Bonds and April 1, 2011 for the 2010 Subordinate Bonds.
- (10) Excludes debt service on Commercial Paper Notes which were converted to a term loan in April 2009. Takes into account the refunding of all of the Refunding Bonds with the 2012 Senior Bonds and reflects capitalized interest paid from 2010 Series Bonds through FY 2013.
- (11) Assumes additional Senior Bonds are issued in fiscal year 2014 and interest only is payable currently through the projection period.
- (12) Calculated based on a net revenue basis. Does not include effects of paying capital costs related to certain power agreements. See “Outstanding Indebtedness” under “FINANCIAL MATTERS.”
- (13) Calculated based on a net revenue basis.
- (13) Includes interest income on the Construction Fund established by the Senior Indenture, amortization of deferred interest on the Forward Purchase Agreements and Reserve Fund interest.
- (15) The projected level of grant funding reflects DOE contributions for Smart Grid.
- (16) The sources of funding for the negative balance in fiscal year 2009 include collection of a \$13.5 million GovGuam receivable in fiscal year 2008 for streetlight arrearages.

Source: Consulting Engineer’s Report.

OTHER FACTORS AFFECTING THE AUTHORITY AND THE ELECTRIC UTILITY INDUSTRY

Energy Policy Act of 1992

The Energy Policy Act of 1992 (“EPAct 1992”) made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access under Sections 211, 212 and 213 of the Federal Power Act, 16 U.S.C. § 791a et seq. (“Federal Power Act”).

The purpose of these changes, in part, was to bring about increased competition in the electric utility industry. As amended by the Federal Power Act, Sections 211, 212 and 213 of the Federal Power Act provide the Federal Energy Regulatory Commission (“FERC”) authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under EAct 1992, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities which are used for the sale of electric energy at wholesale, such as the Authority, are “transmitting utilities” subject to the requirements of Sections 211, 212 and 213. EAct 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 EAct 1992 will not materially adversely effect its operations.

Energy Policy Act of 2005

The Energy Policy Act of 2005 (“EAct 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 ELECTRIC POWER SYSTEM – General.” Additionally, EAct 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”).

EAct 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. EAct 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 EAct 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. EAct 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy

technologies. EPLA 2005 also extends for 20 years the Price-Anderson Act, which concerns nuclear power liability protection and provides incentives for the construction of new nuclear plants.

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

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

Air Quality Compliance

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

The Authority’s power plants are subject to the Title V operating permit program under the CAA. All of these power plants were issued their corresponding Title V permits in 2009 in accordance with the Guam Air Pollution Control Standards Regulations. Generally, the Authority is in compliance with its Title V permits.

MATS Regulation

EPA 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 or 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 2008, in response to a United States federal court decision and a related consent decree, the USEPA decided to regulate coal- and oil-fired electric utility steam generating units, also referred to as 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 made final (with minor modifications) on December 16, 2011.

In connection with the Section 111 standards, on February 27, 2006, USEPA promulgated amendments to the NSPS for PM, SO₂, and NO_x contained in the standards of performance for EGU's. USEPA was subsequently sued for these amendments, and on September 2, 2009, was granted a voluntary remand without vacatur of these amendments. The final revisions to these amendments were approved on December 16, 2011, along with the Section 112 air toxic standards discussed above.

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 electric generating units ("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, or 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 particulate matter, sulfur dioxide and nitrogen oxides. 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 maximum achievable control technology ("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. The Authority's Cabras and Tanguisson facilities fall within this standard. Existing EGU's generally will have up to four years if they need it to comply with the MATS. This includes the three years provided to all sources by the CAA, and an additional year that may be granted by the Guam EPA, as needed, for technology installation. In essence, the rule establishes: (i) numerical emission limits for mercury, PM, and HCl for all existing coal-fired EGUs; (ii) numerical emission limits for PM, HCl and HF for existing and new oil-fired EGUs, but compliance for HCl and HF may also be achieved by limiting the moisture content of the oil; (iii) alternative numeric emission standards, including SO₂ (as an alternate to HCl), individual, non-mercury metal air toxics (as an alternate to PM), and total, non-mercury metal air toxics (as an alternate to PM) for certain subcategories of power plants; and (iv) work practices, instead of numerical limits, to limit emissions of organic air toxics, including dioxin/furan, from existing and new coal and oil-fired power plants, which require annual performance test program for each unit to ensure optimal combustion.

As for Section 111, USEPA revised the NSPS for fossil-fuel-fired EGU's. This NSPS revised the standards that new coal and oil-fired power plants must meet for PM, SO₂, and NO_x, by establishing

revised numerical emission limits for these. These standards apply to EGUs that burn fossil fuel to produce steam.

Units 1 and 2 at the Authority's Cabras and Tanguisson facilities are subject to the requirements of the MATS rule, and the Authority's diesel units and combustion turbines are subject to the MACT standards in controlling carbon monoxide emissions, among other things. It is not possible at this time to specify which technology may be used for (or the associated capital cost of) meeting these new standards. The Authority would have until April 2015 to install the MACT. Any additional capital investments to control emissions in order to comply with the MATS would be undertaken by the Authority without being able to offset these costs with any cost savings on the purchase of fuel.

Greenhouse Gas ("GHG") Regulations

On April 2, 2007, the U.S. Supreme Court (the "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.

In response to the decision, and after receiving public comments, on April 17, 2009, the USEPA issued proposed "endangerment" and "cause or contribute" findings for greenhouse gases 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 final rule does not require control of GHGs, rather it requires only that sources above certain threshold levels monitor and report emissions. Additionally, the USEPA stated that this rulemaking does not indicate that the agency has made any final decisions on pending actions. The USEPA stated that the mandatory GHG reporting program will provide the agency, 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.

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 light-duty vehicles, which the USEPA proposed in a joint proposal including the Department of Transportation's proposed standards on September 15, 2009.

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 May 13, 2010, the USEPA issued a final rule setting thresholds for GHG emissions that define when permits under the NSR-PSD and Title V operating permit programs are required for new and existing facilities. This final 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 is known as the “tailoring rule”. Under this rule, the following dates and limits will apply:

1) January 2, 2011 through June 30, 2011: Existing PSD sources undertaking projects that will increase GHG emissions in excess of 75,000 tons per year will be subject to the PSD review for GHGs and would require implementation of the Best Available Control Technology for the emission source. In a similar manner, existing Title V sources will be subjected to Title V requirements for GHGs if a project exceeds 75,000 tons per year of GHGs.

2) July 1, 2011 through June 30, 2013: In addition to step one 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 requirements.

In connection with the USEPA rule requiring GHG reporting, in September 2011, the Authority submitted its first report on GHG emissions.

As for the “tailoring rule,” at this moment, the Authority believes that this rule may require it to take measures to reduce GHG emissions, but it is still evaluating the extent of such reductions. One of the alternatives identified to achieve this reduction is the installation of carbon sequestration technology, but this technology does not appear to be feasible for the Authority. In addition, as a result of this rule, the Authority may have to conduct an evaluation of impacts to endangered species, which could potentially require a consultation with other federal agencies, such as the Fish and Wildlife Service, under Section 7 of the Endangered Species Act. The Authority is currently evaluating the extent of this evaluation, if any.

The possibility exists that the United States Congress in the future may decide to enact legislation addressing GHGs. At this time, it is not entirely clear what the level of future regulation of these emissions will be, or the costs associated with it.

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. The Authority holds a draft NPDES permit for the Cabras facility under the CWA, which affords continued coverage under applicable regulations.

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.

The Authority is in compliance with CWA regulations (NPDES permits, Drinking Water Act program, Oil Pollution Act (FRP and operations manual), and SPCC regulations). A February 2012 USEPA compliance inspection revealed no major concerns.

Proposed Regulation under the CWA

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. Compliance with this rule is established in reference to the date of issuance of the final rule. According to the terms of a settlement agreement, USEPA must sign the final rule by June 27, 2013. Therefore, the compliance date with the rule is anticipated to occur at some time after that date.

This new proposed 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 would be subject to an upper limit on how many fish can be killed by impingement. In order to comply with this requirement, the facility is given the option of choosing technologies that would be best suited to address it or reduce its intake velocity to 0.5 feet per second. Second, existing facilities that withdraw very large amounts of water- at least 125 million gallons per day- would be 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 cooling water systems, known as entrainment. Third, new units that add electrical generation capacity at an existing facility would be required to add technology that is equivalent to closed-cycle cooling which may be achieved by incorporating a closed-cycle system into the design of the new unit or making other design changes with equivalent results.

Underground Injection Control Regulation

EPA regulations in 40 C.F.R. Parts 144 to 147 establish requirements governing the protection of ground water. In accordance with these requirements, USEPA regulates the construction, operation,

permitting, and closure of underground injection control facilities, which are injection wells used to place fluids underground for storage or disposal. This implementation and enforcement of this regulatory program was delegated to the Guam EPA which has issued regulations governing these types of well referred to as underground injection control facilities.

The Authority has no septic systems and sanitary wastewater discharges directly into municipal wastewater systems.

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 already implemented the monitoring and inspection requirements under these new regulations (40 C.F.R. §112.7(k)).

All Authority facilities required to have FRPs have these plans in place in accordance with USEPA regulations.

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.

Underground Storage Tank Regulations

Pursuant to RCRA, USEPA has issued regulations establishing standards and corrective action requirements applicable to underground storage tanks (“USTs”) that store regulated materials, including petroleum and related substances. Guam EPA has issued regulations essentially mirroring the federal requirements and has been delegated the implementation of this program. These regulations establish requirements governing registration and operation of USTs and related recordkeeping, among other things. The Authority stores no regulated materials that are subject to UST requirements.

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 2012 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 2012 Senior Bonds prior to purchasing any 2012 Senior Bonds. The following discussion of investment considerations does not necessarily reflect the relative importance of the various topics discussed. The 2012 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 2012 Senior Bonds and should confer with their legal and financial advisors before considering a purchase of the 2012 Senior Bonds. Prospective purchasers of the 2012 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 2012 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 2012 Senior Bonds.

General

The principal of and interest on the 2012 Senior Bonds are payable pursuant to the Senior Indenture solely from the Revenues. The ability to pay debt service on the 2012 Senior Bonds will depend on the receipt of sufficient Revenues, pledged as payment for the 2012 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 2012 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 2012 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 2012 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 Indentures and the 2012 Senior Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2012 Senior Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors enacted before or after delivery.

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

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

Consulting Engineer's Report

The Consulting Engineer's Report included as APPENDIX A to this Official Statement contains certain assumptions and forecasts. Actual results are likely to differ, perhaps materially, from those projected. Accordingly, the projections contained in the Consulting Engineer's Report are not necessarily indicative of future performance, and neither the Consulting Engineer nor the Authority assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the Authority are subject to change. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Revenues may be materially less than expected and consequently, the ability to make timely payments of principal and interest on the 2012 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.

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,” in Fiscal Year 2011-12 the Authority estimates that the costs of fuel will comprise approximately two-thirds of the total operating costs of the Authority. 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, such rate adjustments lag behind fuel costs increases by as long as six months, which lag has resulted in depletion of the Working Capital Fund and overall liquidity. Continued volatility in the cost of fuel could materially adversely affect the financial condition, including the liquidity, of the Authority. In addition, because of its geographic location, all of the fuel used by the Authority is imported by tanker ship. Disruptions in the delivery of fuel, whether due to shortages generally, or shipping or other delivery problems, could materially adversely effect the operations and financial condition of the Authority.

Impact of Tourism

Tourism, particularly from Japan, where approximately 71% of visitors to Guam originate, represents a significant share of the economic activity on Guam. In the event of a significant downturn in tourism, including a downturn related to Japanese economic, political or societal conditions, the Authority could likely suffer a reduction in revenues. For example, in the four months after the devastating, March 2011 earthquake that struck Japan, the number of tourists visiting Guam from Japan dropped by about 25% when compared to the same period in 2010. For fiscal year 2011 as a whole, visitors from Japan

declined by 7.4%. Monthly data through May 2012 show a return to fiscal year 2010 level for visitors from Japan.

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 Concerns

The working capital and cash available to the Authority fluctuates (sometimes significantly). The Authority maintains a Working Capital Fund pursuant to the Senior Indenture, and as of August 31, 2012, the balance in the Working Capital Fund was approximately \$30.7 million. The Authority generally attributes the fluctuation of its working capital and available cash resources to frequent fuel price changes, and the generally, six-month lag between incurring increased fuel costs and the recovery of such costs through the LEAC. The Authority utilized approximately \$27.5 million from the proceeds of the 2010 Bonds for working capital and has petitioned the PUC for a temporary increase in rates to bolster its working capital balance consistent with the Consulting Engineer's recommendation in that regard. The Authority's current working capital level is, however, below that recommended by the Consulting Engineer, and there can be no assurance that the Authority will maintain sufficient working capital to address fuel price volatility, unexpected increases in costs or declines in Revenues, or other demands on the Authority's cash resources. Insufficient liquidity and cash resources could materially adversely affect the financial condition of the Authority.

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 approximately \$17.8 million for fiscal years 2012 through 2016. 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.

With respect to the new USEPA MATS regulations, the Authority may be required to reduce (possibly significantly) emissions of hazardous air pollutants (including mercury) at its EGUs. The Authority is currently determining whether its facilities comply with these new rules and whether additional capital expenditures will be required.

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.”

LITIGATION

At the time of delivery of the 2012 Senior Bonds, an appropriate officer of the Authority will certify and counsel to the Authority will deliver an opinion to the effect that there is no litigation or proceeding pending with service of process accomplished or, to the knowledge of the Authority, threatened (either in Guam, state or Federal courts) seeking to restrain or enjoin the execution, issuance, sale or delivery of the 2012 Senior Bonds or the collection, pledge or payment of Revenues by the Authority under the Indentures, or in any way contesting or affecting the legal existence of the Authority or the titles of certain relevant officials of the Authority to their offices or the validity or enforceability of the 2012 Senior Bonds or the Indentures. The Attorney General will deliver an opinion to the effect that the legislation approving the issuance of the 2012 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 Indentures.

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 2012 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 2012 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.A. Section 1423a, interest on the 2012 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 2012 Senior Bonds is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the 2012 Senior Bonds is less than the amount to be paid at maturity of such 2012 Senior Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2012 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 2012 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 2012 Senior Bonds is the first price at which a substantial amount of such maturity of the 2012 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 2012 Senior Bonds accrues daily over the term to maturity of such 2012 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 2012 Senior Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2012 Senior Bonds. Beneficial owners of the 2012 Senior Bonds should consult their tax advisors with respect to the tax consequences of ownership of 2012 Senior Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such 2012 Senior Bonds in the original offering to the public at the first price at which a substantial amount of such 2012 Senior Bonds is sold to the public.

2012 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 2012 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 2012 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 2012 Senior Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2012 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 2012 Senior Bonds may adversely affect the value of, or the tax status of interest on, the 2012 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 2012 Senior Bonds is excluded from gross income for federal income tax purposes and is exempt from income taxation by any state, territory or possession of the United States or any political subdivision of any of them, the ownership or disposition of, or the accrual or receipt of interest on, the 2012 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 2012 Senior Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the 2012 Senior Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the 2012 Senior Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market prices for, or marketability of, the 2012 Senior Bonds. Prospective purchasers of the 2012 Senior Bonds should consult their tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2012 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 2012 Senior Bonds ends with the issuance of the 2012 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 2012 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 2012 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 2012 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 2012 Senior Bonds, and may cause the Authority or the beneficial owners to incur significant expense.

UNDERWRITING

Morgan Stanley & Co. LLC, as representative of itself and the underwriters listed on the cover page of this Official Statement (the “Underwriters”), has agreed, subject to certain conditions, to purchase the 2012 Senior Bonds at an aggregate purchase price of \$371,221,284.25 (consisting of the aggregate principal amount of the 2012 Senior Bonds less an Underwriters’ discount of \$2,917,424.85 and plus net original issue premium of \$33,518,709.10). The Bond Purchase Agreement relating to the 2012 Senior Bonds (the “Purchase Agreement”) provides that the Underwriters will purchase all of the 2012 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 may offer and sell the 2012 Senior Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the Authority as Underwriters) for the distribution of the 2012 Senior Bonds at their original public offering prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation with such broker dealers.

CERTAIN LEGAL MATTERS

The validity of the 2012 Senior Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix 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, Sidley Austin LLP, San Francisco, California.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of, among other things, the mathematical computations of the amounts deposited in the Escrow Fund to pay when due the redemption price of and accrued interest on the Refunded Bonds on the Redemption Date will be verified by Causey, Demgen & Moore, Inc.

CONTINUING DISCLOSURE

Pursuant to a Master Continuing Disclosure Agreement, as supplemented by a supplemental Continuing Disclosure Agreement with the Trustee and Co-Trustee for the Senior Bonds, among the Authority, the Trustee and Co-Trustee 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 operating data relating to the Authority and the System. Such audited financial statements are required to be prepared in accordance with generally accepted accounting principles applicable to government utilities. The Authority shall provide to the MSRB such information and its audited financial statements within 240 days after the end of its fiscal year, which currently ends on September 30. In addition, the Authority has agreed to give timely notice to the MSRB of the occurrence of certain events listed in Rule 15c2-12. See “APPENDIX F – PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT.” This agreement has 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 ("Moody's") and Standard & Poor's Ratings Service, a Standard & Poor's Financial Services LLC business ("S&P"), are expected to assign ratings of "Aa3" ("on review for possible downgrade"), and "AA-" ("stable outlook"), respectively, to the Insured 2012 Senior Bonds, with the understanding that, upon delivery of the Insured 2012 Senior Bonds, the Policy will be issued by the Insurer. The Insured 2012 Senior Bonds have been assigned underlying ratings of "Baa3" and "BBB," respectively, by Moody's and S&P.

Fitch Ratings ("Fitch") has assigned the 2012 Senior Bonds a rating of "BBB-," Moody's has assigned the 2012 Senior Bonds which are not insured a rating of "Baa3" and S&P has assigned the 2012 Senior Bonds which are not insured a rating of "BBB." Such ratings reflect only the views of Fitch, Moody's and S&P, respectively, and do not constitute a recommendation to buy, sell or hold the 2012 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 2012 Senior Bonds any proposed revision or withdrawal of the ratings of the 2012 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's EMMA system all rating changes relating to the 2012 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 2012 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.

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
2012 Senior Bonds**



An SAIC Company

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APPENDIX A

CONSULTING ENGINEER’S REPORT

GUAM POWER AUTHORITY

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APPENDIX A

October 4, 2012

Guam Power Authority
Post Office Box 2977
Hagatna, Guam 96932

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

Presented herein is a summary of our analyses and investigations with respect to the proposal by the Guam Power Authority (the "Authority" or "GPA") to issue \$340,620,000 principal amount of its senior lien Revenue Refunding Bonds, 2012 Series A (the "2012 Senior Bonds") pursuant to the Indenture, dated as of December 1, 1992, as supplemented (the "Senior Indenture"), by and among the Authority and the trustees named therein.

2012 Senior Bonds. The proceeds of the 2012 Senior Bonds (including original issue premium) are to be used for providing funds for (i) refunding all of the Authority'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 a forward purchase agreement to be terminated prior to closing of this bond issue); and (iii) providing for certain costs of issuance as shown in Table 1 below.

Table 1
Estimated Application of 2012 Bond Proceeds ⁽¹⁾

Escrow Fund Deposit	\$358,502,697
Deposit to Debt Service Reserve Fund ⁽²⁾	7,501,663
Costs of Issuance ⁽³⁾	8,134,349
Total	\$374,138,709

(1) Excludes accrued interest.

(2) Includes \$3,574,285 to replenish Debt Service Reserve Fund for concurrent release of funds to reimburse GPA for its prior payment of termination amount to LBSFI.

(3) Includes underwriters' discount, bond issue premium, and financing expenses.

The Authority has previously issued in 2010 one series of revenue bonds payable on a basis subordinate to the bonds outstanding under the Senior Indenture (including the 2012 Senior Bonds) pursuant to a Subordinate Indenture, dated as of June 1, 2010, as supplemented (the "Subordinate Indenture" and, together with the Senior Indenture, the "Indentures"), by and among the Authority and the trustees named therein. The revenue bonds issued and at the time outstanding under the Subordinate Indenture are called the "Subordinate Bonds."

SCOPE OF WORK

R. W. Beck, Inc., an SAIC company, has been retained by the Authority to prepare this Consulting Engineer's Report, which includes (i) a report summarizing our studies and findings in conjunction with the current refinancing; (ii) projected operating results for the Authority based on the capital improvement program provided by the Authority and on the load forecast prepared in August 2012 by P.L. Mangilao Energy, LLC (Guam), a partnership between Mangilao Economic Consulting of Guam; Information2Energy, Inc., of Atlanta, Georgia; and P&L Economics, Inc., of Philadelphia, Pennsylvania (referred to herein as "P.L. Mangilao Energy"); (iii) a description of the status of the Authority's compliance with federal and Guam environmental laws and regulations; and (iv) a comparison of the Authority's monthly electric bills for selected customer loads to bills charged by certain other similarly situated electric utilities dependent on oil-fired generation. This Consulting Engineer's Report has been included as Appendix A to the Authority's Official Statement relating to the 2012 Senior Bonds (the "Official Statement"). For a discussion of the assumptions and information relied upon in preparing our report, please see "PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS" at the end of this report.

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

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

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

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

INTRODUCTION – THE AUTHORITY

The U.S. Territory of Guam ("Guam") is 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 United States, is approximately 30 miles long and ranges from 5 to 8.5 miles wide with a total land area of approximately 212 square miles.

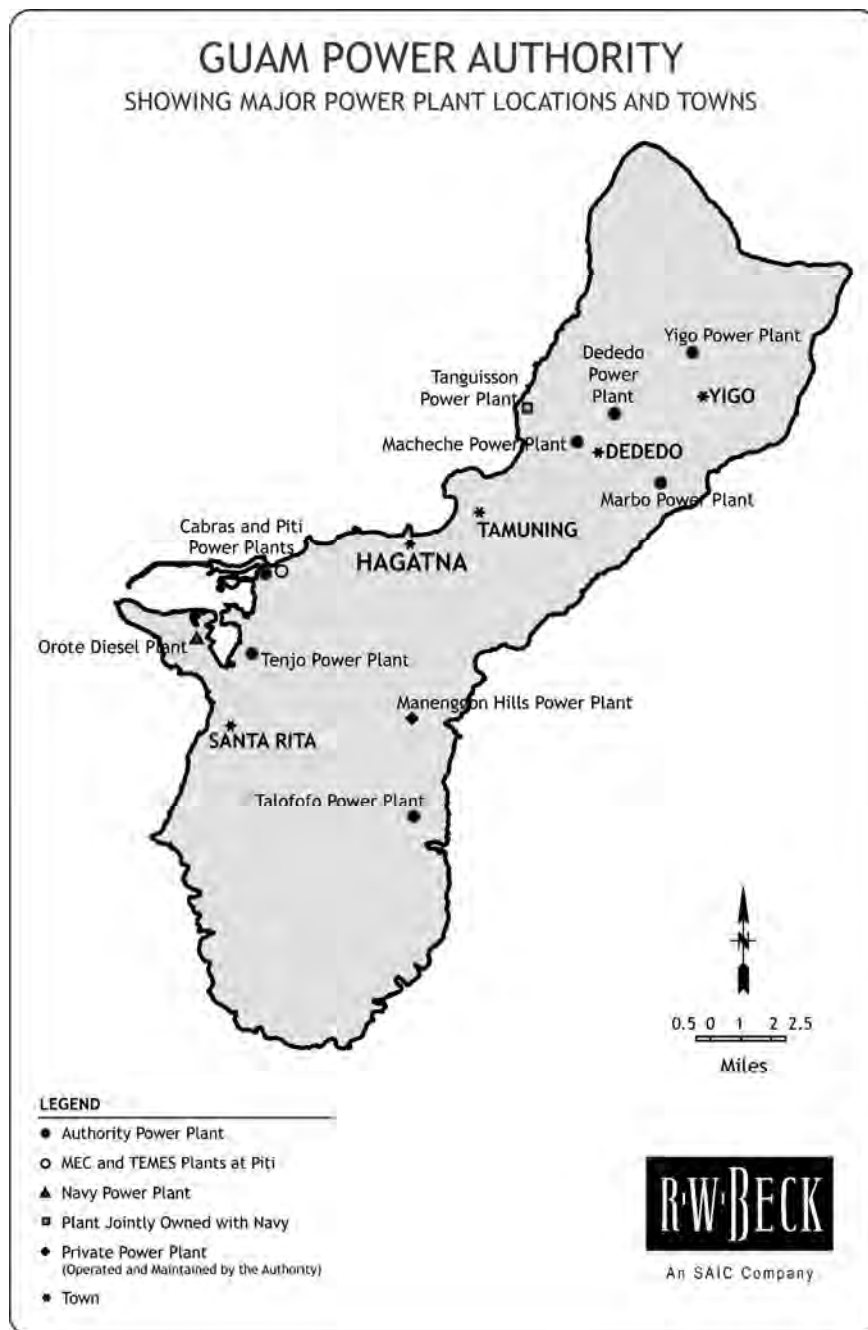


Figure 1: Map

History: Current electric utility operations on Guam date back to the post-World War II period when electric power production facilities consisted of individual diesel plants located at the then existing principal military load centers. In 1950 portions of the power system, which historically and presently serves the other Department of Defense 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 operation and maintenance of electric power and other utility services provided by the Government of Guam. In 1968, the Authority was established by an act of the Legislature of Guam as a public corporation and an autonomous instrumentality of the Government of Guam. The Legislature provided for the transfer of the electric

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

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

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

Summary Statistics: The Authority presently provides electric service throughout the island, with the exception of distribution of power on the military bases, and had approximately 536 employees as of Fiscal Year (FY) 2011. All financial values reported herein, unless otherwise noted, are in reference to the applicable fiscal year. The Authority’s fiscal year ends September 30th each year. Table 2 includes selected statistics for FY 2011.

Table 2
2011 Statistics ⁽¹⁾

Average Number of Customers	47,972
Peak Load (kW) ⁽²⁾	263,000
Megawatt-hour Sales ⁽²⁾	1,617,810
Operating Revenues ⁽²⁾⁽³⁾	\$394,480,762
Gross Investment in Utility Plant	\$890,128,590
Net Utility Plant Investment	\$481,390,770
Total Net Assets	\$139,599,884
Net Current Assets	\$288,668,937

(1) Audited values for the fiscal year ended September 30, 2011.

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

(3) Does not include bad debt expense of \$942,669.

Electric System Properties

Owned Units. The Authority owns three oil-fired steam generating units, four combustion turbine units, two slow-speed diesel units and twelve high-speed diesel units. In addition to the generation units it owns, the Authority is leasing one oil-fired steam generating unit owned by the Navy. The Authority is leasing this unit at no cost and ownership is expected to be transferred to the Authority before the end of the lease term. Collectively these units represent approximately 382.8 MW of currently owned capacity.

Operated Unit. Miyama Development International Co., Ltd. (“MDI”), the developer of the Leo Palace Resort, has constructed and owns a 9.8 MW (net) two-unit, diesel plant which is being operated and maintained by the Authority for the Authority’s use.

Contract Units. The Authority has also entered into energy conversion agreements for three units constructed, owned and operated by Independent Power Producers (“IPPs”), as discussed further in the Power Supply Section herein. These units – Piti Unit Nos. 7, 8 and 9 – represent approximately 128 MW of capacity. Ownership of each unit will transfer to the Authority at the end of each respective contract.

Renewable Resources. In early 2012 the Authority awarded a 20 MW solar project to Quantum Guam Power. This project will be built and financed by the developer. The contract with Quantum Guam Power is for a period of 25 years. Assuming the developer moves forward, the Authority expects this project to be operational by end of calendar year 2014.

Collectively, all of the units discussed above have a total net capacity of 540.6 MW. Numerous other Navy, privately owned and publicly owned small diesel 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 utilized in the event of system outages. The major generating resources of the Authority, combined with those of the Navy, normally serve the entire island and are jointly operated as the Island Wide Power System (“IWPS”). For more information, see Figure 1 and “POWER SUPPLY” herein.

Fuel Supply. Essentially all of the Authority’s generating resources operate with fuel oil products (fuel oil Nos. 2 and 6). The volatility in fuel oil prices has had a significant impact on the Authority’s financial resources. As an example, in FY 2011 the Authority used approximately 62 percent of the revenues collected that year to pay for fuel costs, as compared to approximately 46 percent in FY 2005. The Authority has a program to adjust rates periodically to address changes in fuel costs known as the Levelized Energy Adjustment Clause (the “LEAC”), which is discussed further herein.

Transmission and Distribution. The Authority is responsible for the transmission, distribution, metering and accounting of electrical power to consumers. Transmission and distribution facilities consist of five sections: administration, overhead, substation, underground and meter/relay. 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 follows the standards of the National Electrical Manufacturers Association / American National Standards Institute C84 for delivery of power and imbalance regulation.

The island-wide power system includes 29 substations connected through approximately 175 miles of 115 kilovolt (“kV”) and 34.5 kV transmission lines. These substations have 63 distribution feeders (rated at 13.8 kV) with approximately 645 miles of line. The Authority serves approximately 48,500 customers throughout Guam, consisting primarily of residential and commercial customers and the Navy.

New Office Building. In conjunction with the Guam Waterworks Authority (“GWA”), the Authority is building a new office building that will fully accommodate the Authority, allowing it to vacate the space it currently leases. The new building will be approximately 125,000 sq. ft. and located in east central Guam. The construction cost is estimated to be approximately \$35 million and was funded by the Authority’s 2010 Bonds. Construction is expected to start in April 2013 and be completed by October 2014. The Authority has indicated that there will be a lease agreement for the new office space between the Authority and GWA.

Regulatory Environment

As mentioned earlier, the Authority is governed by the CCU and regulated by the GPUC. The CCU acts much like a Board of Directors and has fiduciary, strategic and oversight responsibility for all aspects of the Authority, including the setting of rates subject to the regulatory review and approval of the GPUC. The CCU is comprised of five commissioners elected in the Guam general election. The term for each position is four years. Two commissioners are up for election at the end of calendar year 2012. 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
- Gloria B. Nelson – Elected to the CCU since 2005, current term expires end of 2012
- Joseph T. Duenas – Elected to the CCU since 2009, current term expires end of 2012

The GPUC functions similar to a state regulatory commission under applicable Guam laws. The GPUC is governed by seven commissioners who serve six-year terms under appointment of the Governor with confirmation by the Legislature. The GPUC regulates utility rates and significant expenditures that affect such rates. Georgetown Consulting Group Inc. of Ridgefield, Connecticut and the Shaw Group, Inc. of Baton Rouge, Louisiana serve as the GPUC's staff consultants. Recent petitions to the GPUC with respect to the Authority include the following:

- *Docket 10-03 Fuel Hedging Program* – In 1999, the Authority petitioned the GPUC and established a fuel hedging program to mitigate exposure to fuel price fluctuations. At various times since then the Authority has petitioned the GPUC to revise certain aspects of its fuel hedging program. The most recent request for such revision was filed in January 2012. For more information please see FUEL OIL SUPPLY – Fuel Price Risk Management Program herein.
- *Docket 11-09 Petition for the Approval of a Multi-Year Base Rate Increase for the Guam Power Authority* – In November 2011, the Authority petitioned the GPUC for a multi-year increase in base rates as follows: 11.8 percent or \$10.8 million for the period from March 1, 2012 through September 30, 2012; 1.3 percent or \$2.3 million for FY 2013; 10.6 percent or \$18.6 million for FY 2014 and 0 percent for FY 2015 and 2016. The petition also included a request to double the Authority'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 GPUC 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. For additional discussion of these issues and related filings and stipulations to the GPUC please see FINANCIAL – Electric Rates herein.
- *Docket 11-12 Petition for Contract Review of Renewable Energy Acquisition* – In November 2011, the Authority petitioned the GPUC to approve a renewable energy contract with Quantum Guam Power for a 20 MW solar project and Pacific Green Resources ("PGR") for a combined 14.4 MW wind and solar project. The Quantum contract has been submitted for approval to the GPUC. The PGR contract is still in negotiations.
- *Docket 11-13 Petition for Contract Review of Smart Grid Project* – In November 2011, the Authority petitioned the GPUC 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 GPUC provided its approval.
- *Docket 12-03 Application of the Guam Power Authority to Issue Bonds* – On September 25, 2012, the GPUC issued an order approving the issuance of the 2012 Senior Bonds by the Authority. This order includes a requirement that upon the issuance of 2012 Senior Bonds, the Authority shall petition the GPUC to adjust its revenue requirement for FY 2013 to take into account the savings in debt service from the restructuring of the Authority's 1993 Series A and 1999 Series A Revenue Bonds. The Authority will advise the GPUC of the debt service savings and provide revised tariffs for the GPUC's review. The Authority expects that the GPUC will reduce retail rates in FY 2013 by approximately \$9.1 million to take into account the reduction in debt service resulting from the refunding. If approved, the retail rate reduction would offset most, if not all, of the Authority's May 2012 base rate increase (See "FINANCIAL – Electric Rates"). Any revenue shortfalls in future years would be recovered in rate petitions to the GPUC.

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

Natural Disasters and Impacts on the Authority'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 the Authority's facilities.

In addition, the Federal Emergency Management Agency ("FEMA") declared "Major Disasters" on Guam for an earthquake in 2001 and Tropical Storm Tinging in July 2004. Numerous additional tropical storms have caused damage over the last ten years, including Halong, Talsa, Nockten, and Chaba.

The Authority has taken 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 initial installation of 131 standby diesel generators to provide backup power for GWA's municipal water pumps, sewer lift pumps and two large sewer treatment plants. Due to a number of water wells being taken out of service, the Authority reports that 123 standby generators are currently in use. Additionally, the Authority has 12 trailer-mounted diesel generators for the same purpose.

Self-Insurance Assessment

In late 2010, the Authority commissioned R. W. Beck (SAIC), 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 GPUC, analyzed various insurance options available to the Authority 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 the Authority's recommended financial goals, and to determine the appropriate level of self-insurance funding.

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

In 2007, the GPUC authorized the continuation of the self-insurance fund surcharge until the self-insurance fund reached a balance of \$10 million. GPA filed a petition on April 6, 2011, to request authorization to increase the fund balance to \$20 million. The GPUC has allowed the self-insurance fund to exceed the \$10 million balance, but deferred determination of the maximum balance. GPA's currently pending base case rate petition renews this \$20 million balance request.

As discussed in the previous section, the Authority has taken measures to make its system more natural disaster resistant, but it still susceptible to costly damage. In the event of a natural disaster, the Authority relies heavily on FEMA assistance. The level and extent of future FEMA assistance is based on meeting specific requirements (including ensuring that the insurance coverage purchased and maintained must be at or above certain required levels) and applying timely for benefits under certain assistance programs. If these requirements are not met, assistance in the future for the same facilities will not be provided. A self-insurance plan does not generally meet FEMA's insurance requirements. The Authority reported that, notwithstanding the conclusion in the insurance study referred to above, it is reviewing options for obtaining commercial insurance at reasonable rates. The Authority has indicated that it has initiated efforts to secure a regulatory consulting contract to assist with this effort.

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 the Authority'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 the Authority's residential customers is approximately \$3,250 on an annual basis and represents approximately 8.3 percent of the most recent median household income data from 2010.

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

Table 3
Monthly Electric Bills
As of August 1, 2012

	Residential (1,000 kWh)	Commercial (25 kW, 16,000 kWh)	Large Customer/ Industrial (300 kW, 200,000 kWh)
The Authority ⁽¹⁾	\$272.75	\$4,660.75	\$57,517.45
The Barbados Light & Power Co., Ltd. ⁽²⁾	\$354.81	\$5,537.74	\$66,146.19
Commonwealth Utility Corp. (Saipan)	393.29	7,164.13	89,430.53
Hawaii Electric Light Co., Inc.	430.84	6,145.34	72,372.20
Kauai Island Utility Cooperative	394.78	6,020.71	72,461.78
Maui Electric Company, Ltd.	388.84	5,858.86	69,407.82
Virgin Islands Water and Power Authority	409.01	7,081.00	76,958.46

(1) Rates effective May 1, 2012.

(2) Converted to U.S. dollars using foreign exchange rates as of August 10, 2012. Rates include value added taxes ("VAT").

POWER REQUIREMENTS

The Authority 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 (FY 2012 through 2016). The only expected sizeable increase in load would be due to the relocation a portion of the Okinawa, Japan U.S. military base to Guam. This military relocation effort has been expected for several years, but current expectations are that it will have less of an impact on the Authority and the larger Guam community and occur later than previously expected. Therefore, the projections provided for this report have not included any increases in load associated with this military relocation effort.

Authority's Energy and Capacity Loads

From FY 2007 to 2011, the Authority's peak demand and energy loads have slightly decreased (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 2007-2011. The Authority's energy loads have decreased by 1.0 percent from FY 2007 to 2011 (an annual compound rate of -0.3 percent). Peak demand loads have decreased during this period at an annual compound growth rate of -0.6 percent. The growth in number of customers during this period, however, has increased by 6.5 percent (an annual growth rate of about 1.6 percent per year). This has resulted in the usage per customer declining during this same period due to 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. The factors that have also collectively

contributed to the decreased energy sales include lower sales to the large commercial customer class that have been offset, somewhat, by increasing energy sales to the Navy and slower growth in the number of tourist visitors to the island.

Projected Load Growth FY 2012-2016. For FY 2012 through 2016, a baseline load forecast for the Authority was prepared by P.L. Mangilao Energy in August 2012. The average annualized growth rate for peak demand and energy sales for the period FY 2012 through 2016 are projected to be 1.5 percent and 0.0 percent, respectively. The projected sales herein reflect the estimated adjustments for the full implementation of the Authority's Smart Grid program by FY 2016.

R. W. Beck (SAIC) has not independently prepared a load forecast as part of this report, however, we have reviewed the projections provided by P.L. Mangilao Energy. In general, the forecast is reasonable for the purpose of projecting Authority revenues. If load growth is greater than projected and the capital required for Authority-related projects remains as projected, revenues would be expected to rise faster than expenses, thus resulting in an improved financial operating result for the Authority.

As shown in Table 4, the total number of customers served by the Authority is projected to increase at an annualized rate of 2.3 percent during the FY 2012 through 2016 period. This compares to a historical growth rate of 1.6 percent experienced during the FY 2007 through 2011 period. However, usage per residential customer is assumed to continue to decrease. Further, we have assumed that for purposes of the projected operating results, as presented herein, energy usage provided below reflects the estimated savings associated with implementation of the Authority's Smart Grid program during this period.

Energy sales to the Navy from FY 2012 to 2016 are projected to decrease approximately 7.1 percent, or at an annual rate of -1.8 percent, as compared to an annual average growth rate of 2.0 percent between FY 2007 through 2011.

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

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

Fiscal Year Ending September 30:	Historical					Projected				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of Customers (Average)										
Residential	38,464	39,097	39,863	40,633	41,255	41,602	43,009	43,093	44,093	45,681
Small Commercial	4,547	4,598	4,629	4,663	4,679	4,867	4,995	5,080	5,134	5,163
Large Commercial	171	169	169	172	173	180	154	160	165	166
Auxiliary/Standby ⁽¹⁾	0	0	0	1	1	0	0	0	0	0
Government and Outdoor Lighting	1,878	1,786	1,826	1,863	1,863	1,858	1,965	1,998	2,023	2,036
Navy	1	1	1	1	1	1	1	1	1	1
Total Customers	45,060	45,650	46,490	47,333	47,972	48,507	50,124	50,332	51,416	53,047
Energy Requirements (MWh):										
Energy Sales										
Residential	485,931	471,061	471,385	486,962	487,230	471,205	494,018	493,280	496,439	501,596
Small Commercial	260,823	264,025	263,440	265,653	258,861	248,760	263,869	265,842	266,017	263,249
Large Commercial	346,874	350,006	323,331	308,457	303,595	311,740	305,534	312,328	309,876	306,262
Auxiliary/Standby ⁽¹⁾	0	0	0	3,584	4,090	0	0	0	0	0
Government and Outdoor Lighting	210,715	208,437	206,976	211,488	206,017	201,687	188,109	188,683	187,482	185,880
Total Civilian Energy Sales	1,304,345	1,293,530	1,265,132	1,276,143	1,259,793	1,233,391	1,251,529	1,260,133	1,259,815	1,256,988
Total Navy Energy Sales	330,278	341,393	359,521	361,518	358,017	329,941	310,797	313,669	311,098	306,358
Total Energy Sales	1,634,622	1,634,922	1,624,653	1,637,662	1,617,810	1,563,332	1,562,326	1,573,802	1,570,913	1,563,346
System Losses ^{(2), (3)}	132,752	126,415	126,822	117,416	113,275	117,958	117,882	118,748	118,530	117,959
Total IWPS Energy Requirements ⁽⁴⁾	1,767,374	1,761,337	1,751,475	1,755,078	1,731,086	1,681,290	1,680,208	1,692,550	1,689,444	1,681,305
Peak Demand (kW) ⁽⁵⁾										
	269,000	268,000	268,000	272,000	263,000	269,000	272,000	279,000	285,000	286,000
Revenues (\$000) ⁽⁶⁾										
Residential	\$85,135	\$101,513	\$103,972	\$101,892	\$112,320	\$124,683	\$138,474	\$138,283	\$139,264	\$140,888
Small Commercial	54,960	66,119	68,465	66,625	70,897	76,901	86,017	86,695	86,781	85,902
Large Commercial	67,279	80,529	78,874	71,545	76,460	89,138	93,115	95,187	94,444	93,344
Auxiliary/Standby ⁽¹⁾	0	0	0	918	1,110	0	0	0	0	0
Government and Outdoor Lighting	47,092	53,251	55,320	54,787	59,195	64,557	65,834	65,897	65,473	65,044
Navy	51,402	67,546	81,373	69,123	71,893	84,679	80,494	81,217	80,570	79,377
Total Revenues	\$305,869	\$368,958	\$388,004	\$364,890	\$391,875	\$439,958	\$463,935	\$467,280	\$466,533	\$464,555

(1) In 2011, the auxiliary/standby customer moved to Schedule P, Large Power Service.

(2) Includes IWPS transmission losses and Authority distribution losses.

(3) System losses are assumed to be 7.5 percent for the period FY 2012-2016.

(4) Reflects total net generation of the IWPS excluding station use.

(5) Reflects total gross peak demand of the IWPS.

(6) FY 2012 is based on actual results through July 2012 and reflects estimates for August and September 2012 based on current rate schedules effective May 1, 2012. Projections for FY 2013-2016 are based on projected energy sales with anticipated rate schedules effective October 1, 2012. Anticipated rates starting on October 1, 2012 have been authorized, but are currently pending final approval by the GPUC. This projection includes customer reclassifications, which are to occur due to the new demand charges. 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 R. W. Beck (SAIC). For future fiscal years, it was assumed that the fuel costs would remain at August 2012 (\$0.19026 per kWh) LEAC levels through the projection period. More information about these rates is available under "FINANCIAL" – Electric Rates herein. The projected sales herein reflect the estimated adjustments for the full implementation of the Authority's Smart Grid program by FY 2016. On September 25, 2012, the GPUC issued an order stating that the GPUC will reduce the Authority's retail rates by the amount of reduction in debt service resulting from the refunding of the Authority's 1993 Series A and 1999 Series A Revenue Bonds in connection with the issuance of the 2012 Senior Bonds. Such retail rate reduction has not been incorporated into these projections. Upon the closing of the 2012 Senior Bonds, the Authority is required under the GPUC's order to petition for a reduction in FY 2013 revenue requirements, after taking into account the debt service savings. This petition must be accompanied by a detailed analysis of ongoing revenue requirements, including the retention of adequate debt service coverage (as mandated by the Senior Indenture) and working capital cash balances. The Authority expects that the GPUC will reduce retail rates in FY 2013 by approximately \$9.1 million to take into account the reduction in debt service resulting from the refunding. If approved, the retail rate reduction would offset most, if not all, of the Authority's May 2012 base rate increase (See "FINANCIAL – Electric Rates"). In future years any shortfall in revenue requirements would be recovered in rate petitions to the GPUC.

POWER SUPPLY

Introduction

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

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

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

The Customer Services Agreement contained numerous operational, management and financial criteria that were needed to be met by the Authority 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 Authority-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.

Important components of the USC include maintaining the Authority 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 GPUC. The contract also 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 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 the Authority 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 GPUC approval.

Lease Agreement. On September 15, 1996, the Authority 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 the Authority. 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 a fee simple transfer of Piti, Tanguisson No. 1, Marbo, electrical transmission and distribution lines, substations and related structures and equipment, together with associated land interests upon meeting a number of conditions, including environmental clean-up. Properties being retained by the Navy include the Orote Diesel Power Plant, emergency generators at critical Navy locations and the Navy distribution system.

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

Table 5
IWPS Power Supply Resources

<u>Resource</u>	<u>Year Installed</u>	<u>Owner/Operator</u>	<u>Net Capacity (MW)</u>
Cabras Power Plant			
Unit No. 1	1974	Authority	62.0
Unit No. 2	1975	Authority	62.0
Unit No. 3	1995	Authority	38.4
Unit No. 4	1996	Authority	38.4
Tanguisson Power Plant			
Unit No. 1	1971	Navy/Pruvient	25.0
Unit No. 2	1973	Authority/Pruvient	25.0
Dededo Power Plant			
Diesel Units 1 through 4 ⁽¹⁾	1971	Authority	6.0
Combustion Turbine Unit No. 1 ⁽²⁾	1992	Authority	22.0
Combustion Turbine Unit No. 2 ⁽²⁾	1994	Authority	22.0
Macheche Power Plant ⁽³⁾			
Combustion Turbine Unit No. 1	1993	Authority	22.0
Yigo Power Plant ⁽⁴⁾			
Combustion Turbine Unit No. 1	1993	Authority	22.0
Talofofo Power Plant			
Diesel Unit Nos. 1 & 2	1993	Authority	9.4
Tenjo Power Plant ⁽⁵⁾			
Diesel Unit Nos. 1 through 6	1993	Authority	28.2
Marbo Power Plant ⁽⁶⁾			
Combustion Turbine Unit No. 1	1995	Navy/Authority	0.0
Manenggon Power Plant ⁽⁷⁾			
Diesel Unit Nos. 1 & 2	1994	MDI/Authority	9.8
Independent Power Producers			
TEMES-Piti Unit No. 7	1997	TEMES	41.4
MEC-Piti Units Nos. 8 & 9	1999	MEC	87.0
Renewable Resources ⁽⁸⁾			
Quantum Guam Power - Solar	2014	Quantum	20.0
Total			540.6

(1) Unit 4 is not currently operable.

(2) These units are not presently operable, and the Authority indicates it is repairing them.

(3) This unit is currently limited to 19 MW, and the Authority indicates it is making repairs to return it to 22 MW (net) capacity.

Footnotes continue on the following page.

- (4) This unit is currently limited to 18 MW, and the Authority indicates it is making repairs to return it to 22 MW (net) capacity.
- (5) Unit No. 6 is not presently operable and the Authority indicates repairs are pending. The amount shown above is the value after completion of repairs.
- (6) This unit was turned over to the Authority via the Customer Service Agreement through a 50-year license agreement. A fee simple transfer to the Authority prior to the end of the license is expected. This unit is not currently operable.
- (7) Donated by MDI for use by the Authority for 25 years.
- (8) A contract is under negotiation for Pacific Green Resources to provide 9.34 MW of wind and 5.05 MW of solar by calendar year 2014.

IWPS Generating Resources

Cabras Power Plant

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

Unit Nos. 1 and 2 are two identical oil-fired, 62.0 MW (net) reheat regenerative steam thermal generating units. Cabras Unit Nos. 1 and 2 are the largest generating resources available to the IWPS and as such provide base load power. Unit No. 1 achieved commercial operation in 1974, and Unit No. 2 achieved commercial operation in 1975. The units use residual fuel oil No. 6, which is delivered to the plant via pipeline from a nearby bulk oil storage facility. Unit Nos. 1 and 2 are presently operated and maintained by Taiwan Electrical and Mechanical Engineering Services, Inc. ("TEMES") under a performance management contract ("PMC") that ends September 30, 2015 with a 5 year extension option.

Unit Nos. 3 and 4 are two identical, oil-fired, slow-speed, 38.4 MW (net) diesels currently being operated as base load generation. The units also use 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 Nos. 3 and 4 are presently operated and maintained by East-West Co. Ltd. under a performance management contract that ends June 30, 2015.

Piti Power Plant

The Piti Power Plant began operation with Unit No. 1 in 1951 and is the oldest generation site on the island. The location is adjacent to the Authority's Cabras Power Plant in the 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 have connections at both 34,000 volts and 115,000 volts to the IWPS.

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

Unit Nos. 4 and 5 began commercial operation in 1964 and are part of the facilities leased to the Authority in 1996. Unit Nos. 4 and 5 have been off line since FY 1999 and are not presently operable. Supporting Unit Nos. 4 and 5 is Piti Unit No. 6, which is an auxiliary boiler that can be used as part of the operations of Unit Nos. 4 and 5. The Authority's updated Integrated Resource Plan is expected to be available in September 2012 and will address the disposition of Unit Nos. 4 and 5.

Unit No. 7 began commercial operation in December 1997. This 41.4 MW (net) combustion turbine unit was built, and is owned and operated by TEMES under a 20-year build-own-transfer arrangement, which will transfer ownership to the Authority in December 2017. The TEMES contractual arrangement is one of three entered into with the Authority to capitalize on technical, management and operational expertise of off-island corporations. Under the three energy conversion agreements, the Authority is supplying the fuel oil and the three independent companies are returning electricity to the Authority. All three

agreements have twenty-year terms, at which time the plants are to be turned over to the Authority at no cost.

Unit Nos. 8 and 9 are two, oil-fired, slow-speed diesels that are very similar to Cabras Unit Nos. 3 and 4 and also use residual fuel oil No. 6. The units combined are rated at approximately 87 MW (net) and began commercial operation in January 1999. Under the energy conversion agreement with Marianas Energy Company (“MEC”), the combined net rating of these units can vary on a year-to-year basis between 79.60 MW and 87.56 MW. Osaka Gas Energy America Corporation (“Osaka”), a wholly owned subsidiary of Osaka Gas Co., Ltd. of Japan, acquired 50 percent ownership of MEC in December 2005 and the remaining 50 percent in March 2007 from successors to the original owners. The Osaka contract expires in January 2019. These units are subject to a similar build-own-transfer arrangement as Unit No. 7.

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 regenerative, thermal generating units.

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

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

Dededo Power Plant

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

Unit Nos. 1–4 are identical high-speed diesel-generating units, each rated at approximately 2.0 MW (net). The diesel units began operation in 1971 and are now being considered for retirement. Unit No. 4 is not currently operable.

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

Macheche and Yigo Power Plants

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

Authority Diesels

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

Tenjo Vista Power Plant Unit Nos. 1 – 6. The remaining six units were purchased in 1993 and were temporarily installed in pairs in various locations until the Tenjo site was completed. All six units are now located at this permanent site. Unit No. 6 is not currently operable and the Authority indicates repairs are pending.

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

Marbo Power Plant

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

Manenggon Hills Diesels

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

Non-IWPS Generating Resources

Orote Diesel Plant

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

FUEL OIL SUPPLY

As mentioned previously, the Authority relies completely on 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 the Authority during each year's budget process.

Contract Suppliers

The Authority's fuel supply for residual fuel oil No. 6, both high sulfur and low sulfur types, for the Cabras, MEC, Piti and Tanguisson power plants is purchased through a contract with Petrobras Singapore PTE, Ltd., a Brazilian-based company. The three-year contract expires February 28, 2013. The contract is renewable annually thereafter for two years upon mutual agreement of both parties, but Petrobras Singapore has indicated to the Authority that it will not seek a contract extension. The Authority plans to issue a request for proposals to procure a new residual fuel oil No. 6 supplier. It is expected that the Authority will be able to procure a new residual fuel oil supplier; however, the contract terms for this new fuel oil supply are unknown at this time.

The minimum purchase under the Petrobras contract is 3.0 million barrels per year. For the 12 months ended September 30, 2011, the Authority took delivery of approximately 2.7 million barrels of oil under the contract, at a cost of approximately \$238 million. This represents approximately 98 percent of the Authority's usage (in terms of barrels consumed).

The Authority has two contracts for diesel fuel oil No. 2, which are put up for bid on a periodic basis to supply the Authority's combustion turbines, diesel units and emergency standby generators. Both of these three-year contracts are currently with Isla Petroleum and Energy Holdings, LLC Guam and expire in December 2012. Both contracts have a two-year extension option that is based on the mutual agreement of both parties. For the 12 months ended September 30, 2011, the Authority took delivery of approximately 63,000 barrels at a cost of approximately \$8.4 million.

Fuel Risk Management Program

The Authority 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 R. W. Beck (SAIC) to create a direct linkage between the hedging activities and the impact to ratepayers given the rise or drop in fuel prices. 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 proposed statistical model to measure risk and gauge the need to establish hedges. Its design requires a disciplined approach, requiring ongoing monitoring of changing parameters and the timely implementation of proposed strategies. The Authority is in the process of implementing the revised program and training staff to become familiar with the software tools and procedures. R. W. Beck (SAIC) will be providing ongoing technical support as the Authority implements 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, the Authority will use 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 will then be factored into customer rate increases and compared against the risk that rates for customers may increase if prices of fuel are not hedged. The process and the authorization were approved by the GPUC in March 2012.

The Authority's management plans to use three counterparties (Goldman Sachs & Co., Morgan Stanley (Singapore) and the Australia and New Zealand Banking Group Limited) 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 the Authority. For execution of the hedges, the Authority 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 the Authority’s hedge contracts. Notionally, the Authority may trade within a credit limit of \$15 million without the need for additional collateral.

As of the date of this report, the Authority has indicated that it has begun implementing the fuel risk management program as approved by the GPUC. The Authority has reported that it has initiated personnel training on the fuel hedging model as well as engaged a consultant to help draft standards of practice for the program and to assist in the establishment of the fuel hedging committee and risk management committee as referenced in the documents filed with the GPUC. Until the Authority begins execution of the approved hedging protocols, full implementation of this program will remain on hold. The Authority currently executes hedging strategies for about half of its fuel costs within the parameters of the program it has had in place since approximately 2009. However, the lack of a fully implemented and integrated fuel risk management program potentially opens the Authority and ratepayers to a high degree of risk and the Authority to potential losses if not all fuel price increases can be effectively passed along to its customers.

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 rate adjustments that generally go into effect in August and February. This mechanism assists in reducing the variability in the fuel costs to the Authority’s customers.

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

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 \$244 million in FY 2011 and they represented approximately 62 percent of the Authority’s total revenues.

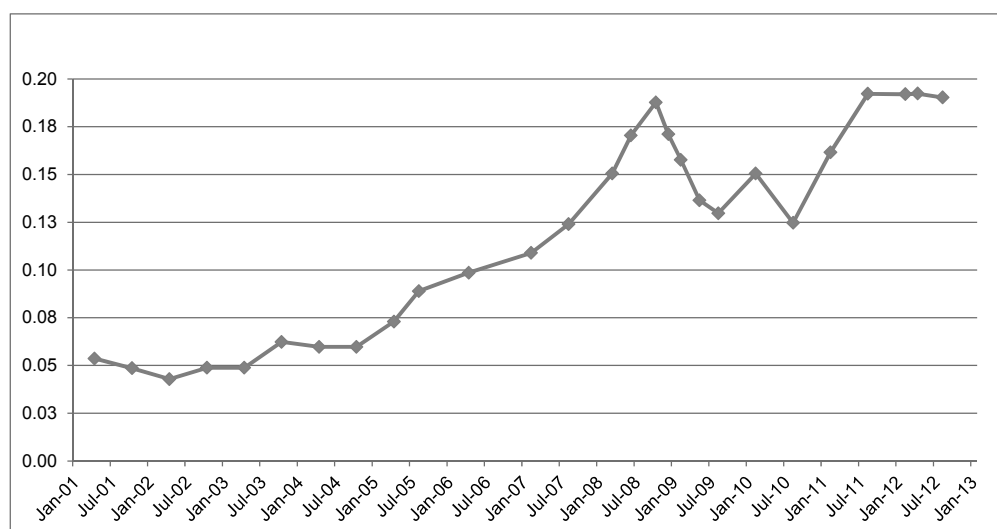


Figure 2: LEAC Adjustments

The principal cause of the semi-annual LEAC adjustments has been increasing fuel oil costs. This has also played a major part in the Authority's need for working capital, because there can be a lag of up to six months between adjustments to the LEAC and collecting the additional revenue once a change in LEAC is made. The impact on the Authority's working capital is discussed in the Section "FINANCIAL-Working Capital," later in this report. The Authority has petitioned the GPUC to increase LEAC adjustments to quarterly to more quickly reflect increases/decreases in fuel costs and thereby better accommodate its changing working capital needs. This petition is scheduled to be addressed by the GPUC in the fall of 2012.

FUTURE RESOURCES

Resources and Peak Loads

During the period from FY 2012 through 2016, the Authority expects to meet its projected peak load requirements primarily from existing resources and new 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) 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 1 and 2 at 62.0 MW (net) each. Based on this criterion and the unit retirements currently contemplated, the Authority will have a generating surplus during the projection period. Resources in the Authority's Integrated Resource Plan 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 diesels at Manenggon Hills, Tenjo and Talofoto and the TEMES combustion turbine. Actual retirement dates are being studied for a number of Authority units based on economic considerations.

In meeting peak loads on a daily and annual basis, the Authority is assisted by having a daily and annual load 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 6
Peak Loads and Resources ⁽¹⁾
(MW)

Fiscal Year Ending September 30:	Historical			Projected				
	2009	2010	2011	2012	2013	2014	2015	2016
<u>Peak Loads in MW</u>								
Total Peak Loads	268.0	272.0	263.0	269.0	272.0	279.0	285.0	286.0
<u>Resources in MW</u>								
<u>Authority Resources</u>								
Cabras Steam 1 and 2	124.0	124.0	124.0	124.0	124.0	124.0	124.0	124.0
Cabras Slow Speed Diesels 3 and 4	76.8	76.8	76.8	76.8	76.8	76.8	76.8	76.8
Dededo Combustion Turbine 1 and 2 ⁽²⁾	22.0	22.0	0.0	22.0	44.0	44.0	44.0	44.0
Macheche Combustion Turbine 1	22.0	22.0	19.0	19.0	22.0	22.0	22.0	22.0
Yigo Combustion Turbine 1	22.0	22.0	18.0	18.0	22.0	22.0	22.0	22.0
Dededo Diesels 1, 2, 3 and 4	8.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Manenggon Hills Diesels 1 and 2	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Talofofo Diesel 1 and 2	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4
Tenjo Vista Diesels 1, 2, 3, 4, 5, and 6	28.2	28.2	28.2	23.5	28.2	28.2	28.2	28.2
Total Authority Resources	322.2	320.2	291.2	308.5	342.2	342.2	342.2	342.2
<u>Independent Power Producers</u>								
Pruvient - Tanguisson 1 and 2	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Marianas Energy Co. (MEC) Slow Speed Diesels 8 and 9	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0
TEMES - Piti Combustion Turbine 7	41.4	41.4	41.4	41.4	41.4	41.4	41.4	41.4
Total IPP Resources	178.4	178.4	178.4	178.4	178.4	178.4	178.4	178.4
<u>Renewable Resources ⁽³⁾</u>								
Quantum Guam Power - Solar	0.0	0.0	0.0	0.0	0.0	0.0	20.0	20.0
Total Resources (MW)	500.6	498.6	469.6	486.9	520.6	520.6	540.6	540.6
Total Available for Reserves	232.6	226.6	206.6	217.9	248.6	241.6	255.6	254.6
GPA Target Reserve ⁽⁴⁾	46.3%	45.6%	47.1%	46.1%	45.6%	44.4%	43.5%	43.4%
Calculated Reserve	86.8%	83.3%	78.6%	81.0%	91.4%	86.6%	89.7%	89.0%
Resources Surplus (Deficit) (MW)	108.6	102.6	82.6	93.9	124.6	117.6	131.6	130.6

(1) Reflects amounts available for system peak load. Any resources with an anticipated capacity factor of less than one percent have not been included.

(2) The Dededo CT 2 unit was not available for dispatch by the Authority in FY 2009 through 2011 and is assumed to be unavailable in FY 2012, and Unit 1 was not available in FY 2011.

(3) A contract is under negotiation for Pacific Green Resources to provide 9.34 MW of wind and 5.05 MW of solar by calendar year 2014.

(4) Target reserve is based on having reserves equal to two largest units as a percentage of peak load.

Integrated Resource Planning

The Authority's Strategic Planning and Operations Research Division ("SPORD") developed its most recent Integrated Resource Plan (the "IRP") in 2008 and is developing a new IRP expected to be completed later this year. R. W. Beck (SAIC) is assisting the Authority 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 Authority generation resources, and also look at which existing units would be likely candidates for retirement or mothballing. The Authority's planning will be 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.

As discussed above, the Authority currently has two renewable contracts currently under consideration. These two contracts are the result of an initial Invitation for Bids (“IFB”) issued in 2011. In early 2012, the Authority awarded a 20 MW solar project to Quantum Guam Power and a 14.39 MW project to Pacific Green Resources consisting of 9.34 MW wind and 5.05 MW solar. These projects will be built and financed by the developers. The contract with Quantum Guam Power is for a period of 25 years and for Pacific Green Resources, the contract is under negotiation. The Authority presently expects these projects, assuming the developers move forward, to be operational by end of calendar year 2014.

The Authority is currently considering adding additional renewable resources during the 5-year study period shown herein. A second phase of renewable acquisition, through a Request for Proposals (“RFP”) process, is also contemplated later in 2012 in which the proponent format will be more open, as well as the ownership and contracting arrangements. For purposes of this report, it has been assumed that the Authority will only proceed with projects that are projected to be financially feasible (with power priced at or below the Authority’s incremental cost of power).

In addition to evaluating the potential for and feasibility of a variety of traditional renewable and fossil-fueled options, the IRP study will also assess the feasibility of using alternative fuel sources (such as liquefied natural gas), small modular nuclear reactors, ocean-derived power and fuel technologies, and demand side management measures. The IRP is expected to be completed by September 2012. For additional information on the Authority’s load forecast and resources see “POWER REQUIREMENTS” and “POWER SUPPLY” herein.

Liquefied Natural Gas (“LNG”)

As part of the IRP, the Authority commissioned R. W. Beck (SAIC), with the assistance of CH•IV International and Winzler & Kelly, to assess the feasibility of the importation of LNG on Guam and the use of natural gas as a fuel source for some of the Authority’s generation assets. This assessment considered multiple siting and sizing options regarding potential LNG import facilities and associated distribution requirements based on predicted natural gas usage both initially and for possible future growth and expansion. The LNG assessment is under review as of the date of this report and is expected to be finalized by September 2012.

Authority’s Demand Side Management Program

Demand side management (“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 the Authority 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 American Recovery and Reinvestment Act of 2009 (“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 its planning efforts, the Authority is exploring additional DSM opportunities. R. W. Beck (SAIC) is assisting the Authority in identifying and evaluating potential DSM measures for both residential and commercial customers. The DSM evaluation is being developed as of the date of this report and is expected to be completed by September 2012.

Smart Grid

The Authority's Smart Grid projects are being funded with \$16.6 million in proceeds from the Authority'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 the Authority 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. The Authority is also considering such programs as time-of-use rates and others to take advantage of Smart Grid technologies.

In FY 2011, the Authority entered into contracts for the provision of program management office services, engineering services and comprehensive technical services. These contractors are assisting the Authority in the development of RFPs for Smart Grid services. In May 2012, the Authority selected Tropos Networks as the network communications vendor for its Smart Grid rollout across the island. The Authority is implementing a multi-application Tropos Gridcom network planned to meet its existing needs and future requirements. The Authority indicates it will use the network to, among other things, backhaul smart meter data, automate switches in its distribution system, provide for communicating faulted circuit indicators and to deliver data to field workers. The rollout of new meters is expected to occur by the end of the year, according to the Authority.

The Smart Grid project funds are anticipated to be spent over an approximately three-year period beginning in FY 2010 and ending in 2013. The total funding amount of \$33.2 million; projects will include electric smart meters and installation, project management, distribution automation and management systems, communication infrastructure and substation automation.

The overall objectives of the Smart Grid projects are to (i) provide better control of the IWPS assets, (ii) provide additional functionality and benefits from existing assets, and (iii) better integrate new disbursed assets such as renewable energy resources. The Authority indicated that new meters associated with the Smart Grid projects will be installed in FY 2013 with full implementation by FY 2016.

Projected energy sales for FY 2013 through 2016 are adjusted to reflect the reduction in energy use associated with system optimization, which results in improved power flow from the distribution substation to the customer meter. It is estimated that this will result in a decrease in projected energy sales by approximately one percent by FY 2016 assuming that Smart Grid installation proceeds as scheduled and at the level of implementation estimated by the Authority.

ENVIRONMENTAL CONSIDERATIONS

All of the Authority's generating plants and associated facilities must comply with federal environmental laws and regulations. In addition, local Guam environmental regulations are also applicable. Certain legal and financial liabilities may be associated with regulatory requirements. The Federal Clean Water Act and Clean Air Act are the two most significant environmental statutes affecting the Authority's operations. Some aspects of these programs are administered by the United States Environmental Protection Agency ("USEPA") and some are administered by the Guam Environmental Protection Agency ("Guam EPA"). 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 and nitrous oxide emissions, affects only electric utilities in the continental United States 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 the Authority's power plants. The Authority must also comply with the provisions of the Oil Pollution Act of 1990 and the Toxic Substances Control Act ("TSCA"), as well as other laws and regulations. The Authority's compliance with the various federal and territorial requirements is discussed below.

R. W. Beck (SAIC) has reviewed with the Authority the status of its compliance with the environmental laws and regulations discussed above. The review included not only discussions with personnel of the

Authority, but also correspondence with representatives of Guam EPA and USEPA regarding the Authority's environmental compliance. The analyses and discussion have focused on the last ten years of historical data and includes our perspective on issues that may face the Authority during the next five years. Projections further into the future were not considered reliable since regulations and technologies can be expected to change.

Compliance Issues

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

Clean Water Act

A Finding of Violation was issued by USEPA relative to reported violations of the NPDES permits for Cabras and Tanguisson power plants during September 2010. The Authority reported that Cabras Power Plant was brought into compliance during December 2010. The firm that operates Tanguisson Power Plant on behalf of the Authority indicated that the plant was in compliance with NPDES provisions when interviewed during February 2012.

Clean Air Act

The Authority indicated that no NOV's associated with provisions of the Clean Air Act were issued by Guam EPA or USEPA relative to Authority facilities during the past ten years. Operating permits for Cabras, Dededo, Macheche, Manenggon, Marbo, Tenjo, Talofoto and Yigo power plants have all been recently renewed. All of the listed operating permits have been issued during March 2009 and remain in effect until March 2014. No unusual conditions were noted in any of the referenced operating permits. Given the conditions of the current operating permits, there appear to be no significant obstacles to new operating permits being issued by Guam EPA when the current permits expire.

New requirements applicable to large diesel engine generators were promulgated during March 2010 under the National Emissions Standards for Hazardous Air Pollutants ("NESHAPS"). There are different requirements for diesel engine generators located at sites that are major and area (i.e., minor) sources of hazardous air pollutants ("HAPS"). In general, an engine at an area source would have less demanding requirements than an engine at a major source. It is likely that the diesel units at Cabras would be treated as major sources under this new rule based on the total HAPS emissions at the site, while diesel engine generators at the Dededo, Manenggon, Tenjo and Talofoto power plants would be considered area sources. The new regulations include emissions standards, mechanical modifications, operating limitations, compliance testing, scheduled maintenance requirements, and record keeping requirements that may apply to the Authority's many diesel engine generators. The criteria for applying the new requirements are rather complicated, and the costs of compliance are difficult to predict because there is little experience regarding application of the new regulations and many of the factors affecting cost are site specific. The Authority could be exposed to significant costs depending on how the new requirements are applied on Guam. The Authority has reported that it is currently negotiating with USEPA regarding this matter and therefore we cannot predict the outcome of these negotiations.

New requirements applicable to steam electric generators were promulgated during February 2012, known as the Mercury and Air Toxic Standards ("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 GPA's Cabras and Tanguisson power plants. These rules set technology-based emissions limitation standards for mercury and other toxic air pollutants that must be met by April 2015. There are specific requirements for power plants not located in the continental United States. 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 has done some preliminary testing of one of the Cabras Power Plant units, and those results indicate that GPA may not need to make any modifications to its plants to comply with the MATS rules. This is a reasonable conclusion since the impacts are largely dependent on fuel, and both Cabras and Tanguisson power plants use the same fuel.

Toxic Substances Control Act and Resource Conservation and Recovery Act

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

Alternative Control Strategy Fuel Switching Program

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

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

The Authority has reported that it has automated (i) the fuel switching procedures for Cabras Units 1–4 and Piti Units 4 and 5 (not currently being used for generation); and (ii) the record keeping and quarterly reporting requirements as mandated by USEPA. Recent compliance with the protocol has been good. 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 2008 through 2011.

Administrative Order for Fuel Tank Repairs

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

Permitting of New Power Plant Facilities

It is reasonable to expect that the Authority will need to either build a new large power plant or repower one or more of its existing units in the future. Power needs, which will increase with growth, 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, both of which are non-attainment areas under the Clean Air Act regulations. Furthermore, the most logical place to build a new large power plant is near Cabras or Piti

where industry is concentrated, major fuel sources are most accessible, and emissions can be carried off island.

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

Waste Management

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

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

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

FINANCIAL

Working Capital

Working capital refers to the amount of cash the Authority maintains at any given moment to pay for its operations. In recent years the Authority recognized that because of the potential six-month lag in fully recovering fuel price changes under its LEAC, its working capital balance was insufficient. To assess its working capital needs, in 2009 the Authority retained R. W. Beck (SAIC) to review several of the parameters that address working capital. This review led to the Working Capital and Cash Reserve Analysis report issued to the Authority in late 2009.

Recommendations from this report included the following: (a) increasing the Authority's cash on hand to 60 days, (b) increasing unrestricted net working capital, and (c) moving to a quarterly LEAC adjustment

period. As discussed above, it is expected that the GPUC will decide later this year whether the Authority may move to a quarterly LEAC adjustment period.

As mentioned previously in this report, and in further detail below, the Authority filed a petition with the GPUC 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 the Authority, GPUC, and Navy and issued on April 6, 2012. This stipulation, as it relates to working capital, states the following:

- The working capital fund will be fully funded by FY 2013 at \$33 million.
- The Authority is projected to end FY 2013 with an additional \$18.7 million of unrestricted cash over what is required in the working capital fund, which would be equivalent to approximately 48 days' cash on hand. The billing determinants used in the proceeding were significantly different than actual results for FY 2012 and it is unknown if the working capital fund will be fully funded by the end of FY 2013.
- Requests the GPUC to set a target of 60 days' cash on hand phased in over several years.

The Authority applied \$27.5 million from the proceeds of Subordinate Bonds issued in 2010 (the "2010 Subordinate Bonds") to its working capital balance. Under its Indentures, the Authority 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 \$29.8 million for FY 2011. As of August 31, 2012, the amount in the working capital fund was \$30.7 million. Based on its projected annual O&M expenses for FY 2012, the working capital fund is currently below its annual required fund balance by approximately \$3.7 million.

Electric Rates

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

Since the beginning of FY 2007, the Authority has made three adjustments to its retail power rates as shown in Table 7 below. The rates exclude LEAC charges, which accounted for approximately 62 percent of the Authority's annual revenues in FY 2011. There have been approximately 27 LEAC adjustments in the last 12 years as shown in Figure 2.

Base rates exclude the LEAC, as well as short-term surcharges for such items as the Authority's insurance fund (now at 0.290 cent/kWh), the Emergency Water Well and Wastewater charge for paying for standby generator housings (now at 0.279 cent/kWh), and the working capital fund surcharge (which was implemented on April 2, 2012 and is set at 0.778 cent/kWh for civilian customers and \$179,152 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 the Authority, GPUC and 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 the Authority. A decision on the implementation of a surcharge for the PILOT has been deferred to later in 2012. For more information please see "REGULATORY ENVIRONMENT – Docket 11-08 Petition for Contract Review" herein.

As indicated previously, the Authority filed a multi-year petition to GPUC in November 2011 (*Docket 11-09*). On April 6, 2012 a stipulation to that filing, signed by the Authority, GPUC, and Navy, was filed with the GPUC making the following recommendations for consideration and approval with regard to several issues, including, but not limited to, the following:

- Requests a three year plan (FY 2012-2014) with base rate increases and an additional two years (FY 2015 and 2016) with revenue-neutral rate design changes going into effect.
- Requests a six percent base rate increase in effect for the remainder of FY 2012 and 2013 starting May 1, 2012 which equates to approximately a \$9.1 million increase in annual revenues using the billing determinants assumed as part of the proceeding. These billing determinants were significantly higher than actual results for FY 2012.
- Informs GPUC that an additional base rate filing will be made by the Authority for FY 2014 no later than April 2013. There is no limit to the rate relief that can be requested at that time.
- Requires that if the FY 2014 filing includes a bond issuance, then the bond issuance must be filed with the GPUC by August 1, 2013 for approval.
- Requests that the GPUC clarify standards related to the calculation of debt service coverage ratios for subordinate debt.
- Requests that the self-insurance fund be allowed to increase to a \$20 million cap.
- GPUC stipulated a reduction in O&M expenditures by \$3.6 million in FY 2012.
- Requests implementation of new rate structures for demand metered non-residential rate classes (Schedules J, K, L and P). These new rates would include separate demand and energy charges, moving the Authority towards a true demand charge rate structure.
- Requests the ability for the Authority to negotiate special rates with large customers who have a viable competitive alternative for power supply. Negotiated rates would require a longer-term commitment from the customer, including a five-year contract and a two-year advance notice of termination.

On May 7, 2012, the GPUC made determinations that the stipulations should be approved and all provisions impacting rates in the stipulation should be implemented (including the items relative to working capital identified in the previous section). In accordance with the stipulation, the Authority was awarded a single overall 6 percent base revenue requirement increase for the period covering FY 2012 and FY 2013 for meters read on and after May 1, 2012. The GPUC requires that GPA make an abbreviated base rate filing, no later than April 1, 2013, for which the GPUC agreed to an expedited review. Civilian revenue neutral rate design changes will continue to be implemented in FY 2015 and 2016.

In the above referenced filing, the Authority also petitioned for numerous other changes that included the change from a semi-annual to a quarterly LEAC mechanism and approval for Payment in Lieu of Taxes (“PILOT”) surcharge to cover payments required to the Guam General Fund of \$3.5 million in FY 2012 and \$875,000 annually for FY 2013 through 2016. The GPUC issued an order on February 8, 2012, to defer these issues along with developing further clarification on the Working Capital Fund procedures and requirements to the fall of 2012.

In relation to the above referenced filing, the Authority filed with the GPUC an Emergency Petition in August 2012 to request changes to specific retail rate tariff to address negative impacts to certain classes of ratepayers following the implementation of demand charges. In some cases, customers’ bills were projected to increase by several hundred percent on a monthly basis due to the proposed demand changes. As a result of its analysis, the Authority determined that 853 customers were classified incorrectly and are currently in the incorrect rate class. In its filing, the Authority requested to change the minimum demand for lower rate classes and be allowed to reclassify customers accordingly using a shorter timeframe for reclassification than originally proposed. The Authority also requested that the demand charges be phased in more gradually. The GPUC issued its order on August 27, 2012 and adopted the provisions of this Emergency Petition as temporary and interim provisions which are subject to further revision and modification.

On September 25, 2012, the GPUC issued an order stating that the GPUC will reduce the Authority's retail rates by the amount of reduction in debt service resulting from the refunding of the Authority's 1993 Series A and 1999 Series A Revenue Bonds in connection with the issuance of the 2012 Senior Bonds. Upon the closing of the 2012 Senior Bonds, the Authority is required under the GPUC's order to petition for a reduction in FY 2013 revenue requirements, after taking into account the debt service savings. This petition must be accompanied by a detailed analysis of ongoing revenue requirements, including the retention of adequate debt service coverage (as mandated by the Senior Indenture) and working capital cash balances. The Authority expects that the GPUC will reduce retail rates in FY 2013 by approximately \$9.1 million to take into account the reduction in debt service resulting from the refunding. If approved, the retail rate reduction would offset most, if not all, of the Authority's May 2012 base rate increase.

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

Effective Date	Increase ⁽¹⁾	Principal Reason
March 1, 2008 ⁽²⁾	8.53%	Phase 1 of updated revenue requirements and cost of service study done in 2008.
March 1, 2010 ⁽³⁾	7.44%	Phase 2 of updated revenue requirements and cost of service study done in 2008.
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 requested by GPA to go into effect October 1. The issue is proposed to be decided by the GPUC in late September 2012 pending review and agreement on handling of Navy customer class.

(1) Percentage shown is based on increases in the Authority's revenues from base rates. In addition to the percentage shown, electric bills are subject to a fuel adjustment factor to reflect changes in the Authority's fuel oil costs. Percentage shown is for changes in that portion of the Authority's revenues attributable to energy sales and 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, which was approved by the GPUC in February 2010.

Capital Requirements

As part of its planning process, the Authority has prepared a projection (net of any military expansion costs, which are expected to be covered entirely either by direct federal transfers or federal reimbursement of Authority capital outlays or related debt service) of the capital requirements and related costs for its electric system as summarized in Table 8. The Authority's capital improvement program consists largely of ongoing improvements and upgrades to existing generating and transmission and distribution facilities, extension of transmission lines and the construction of associated substations, and addition of Smart Grid technologies. These additions will help the Authority to meet recent and projected increases in system demand while maintaining overall system reliability. The Authority currently projects the expenditure of approximately \$280 million on its capital improvement program over the five-year period FY 2012 through 2016, as indicated in Table 8. Funds for the capital improvement program are expected to come from a combination of existing funds, operating revenues and future bond issues.

Table 8
Projected Capital Improvement Program
(\$000)

	Projected ⁽¹⁾					Five-Year
Fiscal Year Ending September 30:	2012	2013	2014	2015	2016	Total
Capital Improvements:						
Transmission System Additions and Improvements	\$15,172	\$21,713	\$6,480	\$4,579	\$3,385	\$51,329
Distribution System Additions and Improvements	18,767	9,134	18,522	24,218	16,652	87,293
Substation System Additions and Improvements	7,069	5,096	2,991	6,191	5,756	27,102
Generation Plant Additions and Improvements	19,677	10,095	1,303	2,295	2,969	36,339
General Plant Improvements and Replacements	9,144	17,576	30,616	8,198	8,824	74,358
Other ⁽²⁾	0	1,414	1,641	122	126	3,303
Total Capital Improvement Program	\$69,829	\$65,028	\$61,553	\$45,603	\$37,711	\$279,724
Amounts Funded from:						
Prior Bond Proceeds ⁽³⁾	\$50,863	\$38,342	\$24,250	\$0	\$0	\$113,455
Current Revenues ⁽⁴⁾	13,580	14,897	17,950	19,402	19,136	84,965
Proceeds from 2012 Bonds	0	0	0	0	0	0
Proceeds of Future Bonds ⁽⁵⁾	0	2,357	18,558	26,200	18,575	65,690
DOE Grants	5,386	9,432	795	0	0	15,613
Total	\$69,829	\$65,028	\$61,553	\$45,602	\$37,711	\$279,723

(1) Inflated dollars based on an assumed annual rate of escalation specific to capital improvements program items on Guam of 3.5 percent. Projections based on information in GPA's Financial Management Plan filed in Docket 11-09.

(2) Includes expenditures for program management services and geographic information system.

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

(4) Revenues available for capital improvements after payment of operating expenses and debt service.

(5) Assumed to be provided from senior lien bonds issued in FY 2014.

Historical and Projected Operating Results

Table 9 shows the historical and projected resources of the IWPS to meet loads through FY 2016 as estimated by R. W. Beck (SAIC). 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 the Authority.

Table 9
Historical and Projected Energy Resources ⁽¹⁾
(MWh)

Fiscal Year Ending September 30:	Historical					Projected				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Energy Resources ⁽²⁾										
<u>Authority Resources</u>										
Cabras Steam 1 and 2	658,600	544,396	560,376	547,955	535,046	519,657	519,323	523,138	522,177	519,662
Cabras Slow Speed Diesels 3 and 4	413,920	492,872	496,208	488,081	502,674	488,217	487,902	491,486	490,584	488,221
Authority Combustion Turbines										
Dededo Combustion Turbine 1 and 2	3,204	2,537	1,283	432	155	151	150	152	151	151
Macheche Combustion Turbine 1	5,414	4,180	1,472	562	2,030	1,972	1,971	1,985	1,982	1,972
Marbo Combustion Turbine 1	0	0	0	0	0	0	0	0	0	0
Yigo Combustion Turbine 1	0	0	828	612	817	794	793	799	798	794
Total Authority Combustion Turbine	8,618	6,716	3,584	1,606	3,003	2,916	2,914	2,936	2,930	2,916
Authority Diesels										
Dededo Diesels 1-4	85	25	112	50	60	58	58	58	58	58
Tenjo Vista Diesels 1-6	13,031	28,298	16,751	8,957	13,122	12,744	12,736	12,830	12,806	12,744
Talofofo Diesel 1 and 2	175	835	1,156	620	2,497	2,425	2,423	2,441	2,437	2,425
Manenggon Hills Diesels	346	2,093	1,585	946	2,693	2,616	2,614	2,633	2,628	2,616
Total Authority Diesels	13,638	31,251	19,604	10,572	18,371	17,843	17,831	17,962	17,929	17,843
<u>Independent Power Producers</u>										
Pruvient - Tanguisson Steam 1 and 2 ⁽³⁾	148,208	194,220	136,163	190,514	157,517	152,987	152,889	154,012	153,729	152,988
MEC - Piti Slow Speed Diesels 8 and 9	589,914	574,153	631,543	609,331	605,799	588,376	587,997	592,316	591,229	588,381
TEMES - Piti Combustion Turbine 7	39,748	21,909	6,585	13,944	8,499	8,255	8,249	8,310	8,295	8,255
<u>Navy Resources</u>										
Orote Diesel Units 1-3	0	0	0	0	0	0	0	0	0	0
Total Resources (gross)	1,872,646	1,865,517	1,854,062	1,862,003	1,830,909	1,778,250	1,777,106	1,790,160	1,786,874	1,778,266
Station Use - All Units	(105,272)	(104,179)	(102,587)	(106,926)	(99,824)	(96,960)	(96,898)	(97,609)	(97,430)	(96,961)
IWPS Energy Resources ⁽⁴⁾	1,767,374	1,761,338	1,751,475	1,755,078	1,731,086	1,681,290	1,680,208	1,692,550	1,689,444	1,681,305
System Losses	(132,752)	(126,415)	(126,822)	(117,416)	(113,275)	(117,958)	(117,882)	(118,748)	(118,530)	(117,959)
Energy Requirements	1,634,622	1,634,923	1,624,653	1,637,662	1,617,810	1,563,332	1,562,326	1,573,802	1,570,913	1,563,346

- (1) Reflects gross generation of the IWPS. The projected energy resources were estimated by R. W. Beck (SAIC).
- (2) Projected energy amounts assume that load is provided for by most efficient units. Other units are available for peak, reserves and emergencies.
- (3) Operated by Pruvient.
- (4) Net amount available at generation plant and does not include system losses.

Table 10 shows the historical and projected costs of power to the Authority for FY 2007 through 2016. 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 increase from 22.8 cents/kWh in FY 2012 to 23.5 cents/kWh in FY 2016, a compounded annual increase of approximately 0.8 percent.

Table 10
Historical and Projected Costs of the Authority's Power Supply
(\$000)

Fiscal Year Ending September 30:	Historical					Projected ⁽¹⁾				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Authority Operated Resources ⁽²⁾										
Fuel Oil Costs ⁽³⁾	\$104,948	\$135,278	\$175,121	\$125,586	\$138,540	\$167,225	\$171,944	\$173,207	\$172,889	\$172,056
Other Production Expenses	16,561	20,083	24,631	23,670	20,840	24,123	24,802	27,036	28,735	27,692
Subtotal	\$121,509	\$155,361	\$199,752	\$149,256	\$159,380	\$191,347	\$196,745	\$200,243	\$201,624	\$199,748
IPP Operated Resources										
Fuel Oil Costs ⁽³⁾	\$69,800	\$101,785	\$79,251	\$94,276	\$105,171	\$121,865	\$125,304	\$126,225	\$125,993	\$125,386
Lease Payments-Energy Conversion Costs	18,276	18,883	19,181	19,484	19,705	19,726	20,121	19,744	19,424	19,594
Lease Payments-Debt Service	23,084	23,084	23,084	23,084	23,084	23,083	23,084	23,084	23,084	23,084
Subtotal	\$111,160	\$143,752	\$121,516	\$136,844	\$147,960	\$164,674	\$168,510	\$169,053	\$168,501	\$168,064
Total Cost of Power	\$232,669	\$299,113	\$321,268	\$286,100	\$307,339	\$356,021	\$365,255	\$369,297	\$370,125	\$367,812
Authority Energy Sales (GWh)	1,635	1,635	1,625	1,638	1,618	1,563	1,562	1,574	1,571	1,563
Average Unit Cost Per kWh of Energy Sold (cents/kWh)	14.23	18.30	19.77	17.47	19.00	22.77	23.38	23.47	23.56	23.53
Total Cost of Power Less IPP Debt Service	\$209,585	\$276,029	\$298,184	\$263,016	\$284,255	\$332,938	\$342,171	\$346,212	\$347,041	\$344,728

(1) Assumes economic dispatch of the generating units. Projected fuel and other production costs estimated by R. W. Beck (SAIC).

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

(3) FY 2012 fuel costs assumed to be based on an average LEAC rate of \$0.18492 per kWh. For future fiscal years, it was assumed that the fuel costs would remain at August 2012 (\$0.19026 per kWh) levels through the projection period.

Table 11 shows the Authority's historical and projected operating results for FY 2007 through 2016. As indicated previously, the load forecast included herein was prepared by P.L. Mangilao Energy in August 2012. The annualized average growth rates for peak demand and energy sales for the period FY 2012 through 2016 are projected to be 1.5 percent and 0.0 percent, respectively. However, some years are forecast to experience positive growth rates and some years are forecast to experience negative growth rates. The projections of operating results are based, in part, on the August 2012 cost levels for fuel, and have not been escalated. Operating revenues from energy sales for all projected years have been segregated to display revenues resulting from emergency rates and customer reclassifications which the Authority has requested to become effective on October 1, 2012. However, these rates have not been finalized by the GPUC and are pending review and agreement by the Navy. Additional revenues required are shown separately and are not based on explicit rate increases but instead are based on revenue requirements necessary for the Authority to pay all operating expenses, debt service and the portion of capital improvements that it has estimated will be funded from revenues.

Table 11
Historical and Projected Operating Results and Debt Service Coverage (Cash Basis)
(\$000)

Fiscal Year Ending September 30:	Historical ⁽¹⁾⁽²⁾					Projected ⁽²⁾				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues:										
Energy Sales Revenues ⁽³⁾	\$305,869	\$368,958	\$388,004	\$364,890	\$391,875	\$439,958	\$463,935	\$467,280	\$466,533	\$464,555
Additional Future Requirements ⁽⁴⁾	0	0	0	0	0	0	0	12,525	20,800	7,395
Other Electric Revenues	2,177	2,587	1,521	1,449	2,606	1,651	2,403	2,460	2,520	2,580
Total Operating Revenues	\$308,046	\$371,544	\$389,525	\$366,339	\$394,481	\$441,609	\$466,338	\$482,265	\$489,853	\$474,530
Operating Expenses:										
Power Supply Costs ⁽⁵⁾	\$209,585	\$276,029	\$298,184	\$263,015	\$284,256	\$332,938	\$342,171	\$346,212	\$347,041	\$344,728
Transmission and Distribution Expenses ⁽⁶⁾	8,542	10,284	11,141	11,228	12,241	12,253	13,267	13,704	14,671	15,160
Customer Accounting ⁽⁶⁾⁽⁷⁾	4,263	3,900	3,819	4,076	4,454	4,882	4,974	5,099	5,342	5,464
Administrative and General ⁽⁶⁾	22,998	25,154	26,682	27,584	30,432	30,811	33,169	34,668	35,952	37,611
Total Operating Expenses	\$245,388	\$315,366	\$339,826	\$305,903	\$331,382	\$380,883	\$393,581	\$399,684	\$403,006	\$402,963
Amounts Available for Debt Service										
Net Operating Revenues	\$62,658	\$56,178	\$49,699	\$60,436	\$63,099	\$60,726	\$72,757	\$82,581	\$86,847	\$71,567
Interest/Other Income (Expense) ⁽⁸⁾	7,299	14,446	6	245	5,804	1,638	1,531	1,500	1,500	1,500
Balance Available for Debt Service	\$69,957	\$70,624	\$49,705	\$60,681	\$68,903	\$62,364	\$74,288	\$84,081	\$88,347	\$73,067
Senior Lien Debt Service ⁽⁹⁾										
Existing Senior Lien Debt Service ⁽¹⁰⁾	\$27,481	\$27,481	\$27,482	\$27,483	\$27,484	\$27,483	\$1,210	\$7,999	\$7,999	\$7,999
2012 Senior Bonds ⁽¹¹⁾	0	0	0	0	0	0	16,309	17,455	17,096	17,098
Future Bonds ⁽¹²⁾	0	0	0	0	0	0	0	2,949	5,899	5,899
Total Senior Lien Debt Service	\$27,481	\$27,481	\$27,482	\$27,483	\$27,484	\$27,483	\$17,519	\$28,404	\$30,995	\$30,996
Senior Lien Coverage Pursuant to the Senior Indenture ⁽¹³⁾	2.55	2.57	1.81	2.21	2.51	2.27	4.24	2.96	2.85	2.36
IPP Operated Resources - Lease Payments Capital	\$23,084	\$23,084	\$23,084	\$23,084	\$23,084	\$23,083	\$23,084	\$23,084	\$23,084	\$23,084
Balance Available for Debt Service	\$46,873	\$47,540	\$26,621	\$37,597	\$45,819	\$39,281	\$51,204	\$60,996	\$65,263	\$49,982
Coverage of Senior Lien Debt by Balance Available for Debt Service after paying IPP Capital ⁽¹⁴⁾	1.71	1.73	0.97	1.37	1.67	1.43	2.92	2.15	2.11	1.61
Amount Available After Senior Lien Debt and IPP Capital	\$19,392	\$20,059	(\$861)	\$10,114	\$18,335	\$11,798	\$33,685	\$32,593	\$34,269	\$18,986
Subordinate Lien Debt Service ⁽⁹⁾										
2010 Subordinate Bonds	\$0	\$0	\$0	\$398	\$7,242	\$15,934	\$15,163	\$15,193	\$15,217	\$0
Subordinate Lien Coverage Pursuant to the Subordinate Indenture ⁽¹³⁾	n/a	n/a	n/a	2.18	1.98	1.44	2.27	1.93	1.91	n/a
Subordinate Lien Coverage after paying IPP Capital ⁽¹⁴⁾	n/a	n/a	n/a	1.35	1.32	0.90	1.57	1.40	1.41	n/a
Total Debt Service Coverage after paying IPP Capital ⁽¹⁴⁾	1.71	1.73	0.97	1.35	1.32	0.90	1.57	1.40	1.41	1.61
Interest Income ⁽¹⁵⁾	\$679	\$769	\$600	\$550	\$850	\$508	\$1,109	\$550	\$350	\$150
Amount Available for Capital Improvements	\$20,071	\$20,828	(\$261)	\$10,266	\$11,944	(\$3,628)	\$19,631	\$17,950	\$19,402	\$19,136
Capital Improvement Program:										
Amount Funded from Current Revenues	\$5,676	\$11,365	\$11,312	\$7,699	\$11,986	\$13,580	\$14,897	\$17,950	\$19,402	\$19,136
Amount Funded from Bond or Loan Proceeds	1,271	581	2,684	2,287	1,843	50,863	40,699	42,808	26,200	18,575
Amount Funded from Grants ⁽¹⁶⁾	2,950	4,926	3,621	98	1,319	5,386	9,432	795	0	0
Total Capital Improvements	\$9,897	\$16,872	\$17,617	\$10,084	\$15,148	\$69,829	\$65,028	\$61,553	\$45,602	\$37,711
Remaining Balance Available ⁽¹⁷⁾	\$11,445	\$9,463	(\$11,573)	\$2,567	(\$42)	(\$17,208)	\$4,734	\$0	(\$0)	\$0
Energy Sales (MWh)	1,634,622	1,634,922	1,624,653	1,637,662	1,617,810	1,563,332	1,562,326	1,573,802	1,570,913	1,563,346
Cost of Power per kWh of Energy Sold (cents/kWh)	14.2	18.3	19.8	17.5	19.0	22.8	23.4	23.5	23.6	23.5
Unit Revenue from Energy Sales per kWh (cents/kWh)	18.7	22.6	23.9	22.3	24.2	28.1	29.7	30.5	31.0	30.2
Increase in Unit Revenue from Energy Sales Over Previous Year (percent)	n/a	20.9%	5.8%	-6.7%	8.5%	16.1%	5.7%	8.5%	4.4%	-1.0%

(1) Audited information provided by the Authority.

(2) Reflects the Navy as a customer of the Authority. The projected fuel and production costs were estimated by R. W. Beck (SAIC).

Footnotes continue on the following page.

- (3) FY 2012 is based on actual results through July 2012 and reflects estimates for August and September 2012 based on current rate schedules effective May 1, 2012. Projections for FY 2013-2016 are based on projected energy sales with anticipated rate schedules effective October 1, 2012. Anticipated rates starting on October 1, 2012 have been authorized, but are currently pending final approval by the GPUC. This projection includes customer reclassifications, which are to occur due to the new demand charges. No future rate increases have been incorporated into these projections. Projected revenues include estimated working capital surcharge and LEAC rates. The fuel component of these projected rates was estimated by R. W. Beck (SAIC). For future fiscal years, it was assumed that the fuel costs would remain at August 2012 (\$0.19026 per kWh) LEAC levels through the projection period. More information about these rates is available under "FINANCIAL" – Electric Rates herein. The projected sales herein reflect the estimated adjustments for the full implementation of the Authority's Smart Grid program by FY 2016. On September 25, 2012, the GPUC issued an order stating that the GPUC will reduce the Authority's retail rates by the amount of reduction in debt service resulting from the refunding of the Authority's 1993 Series A and 1999 Series A Revenue Bonds in connection with the issuance of the 2012 Senior Bonds. Such retail rate reduction has not been incorporated into these projections. Upon the closing of the 2012 Senior Bonds, the Authority is required under the GPUC's order to petition for a reduction in FY 2013 revenue requirements, after taking into account the debt service savings, accompanied by a detailed analysis of ongoing revenue requirements, including the retention of adequate debt service coverage (as mandated by the Senior Indenture) and working capital cash balances. The Authority expects that the GPUC will reduce retail rates in FY 2013 by approximately \$9.1 million to take into account the reduction in debt service resulting from the refunding (corresponding to a reduction of approximately 0.28x of Total Debt Service Coverage after paying IPP Capital Leases). If approved, the retail rate reduction would offset most, if not all, of the Authority's May 2012 base rate increase (See "FINANCIAL – Electric Rates"). In future years any shortfall in revenue requirements would be recovered in rate petitions to the GPUC.
- (4) For FY 2014-2016, the increased revenues are calculated based on the amount that will need to be requested by the Authority to maintain minimum coverage. These projected revenues are not directly tied to the Authority's rate related filings currently before the GPUC.
- (5) See Table 10. Excludes lease payments debt service for the IPP operated resources.
- (6) Based on FY 2012 estimated expenses and FY 2013 budget. For FY 2014–2016, projections are based on prior year expenses and escalated annually to reflect the change in projections of these expenses as filed in Docket 11-09 Petition for the Approval of a Multi-Year Base Rate Increase.
- (7) Includes bad debt recovery or expense.
- (8) FY 2008 includes collection of a \$13.5 million GovGuam receivable for streetlight arrearages. FY 2011 includes \$5.2 million received in restitution related to an agreement entered into by Bank of America with the Securities and Exchange Commission.
- (9) Amounts shown reflect capitalized interest paid through FY 2013 for the 2010 Senior Bonds and FY 2011 for the 2010 Subordinate Bonds.
- (10) Excludes debt service on Commercial Paper Notes which were converted to a term loan in April 2009. Includes the refunding of all of the Authority's 1993 Series A and 1999 Series A Revenue Bonds with the 2012 Senior Bonds and reflects capitalized interest paid from 2010 Senior Bonds through FY 2013.
- (11) As provided by Morgan Stanley.
- (12) Assumes future senior lien bonds are issued in FY 2014. Values represent estimated interest only payments on these bonds.
- (13) Calculated based on a net revenue basis. Does not include effects of paying IPP capital costs.
- (14) Calculated based on a net revenue basis.
- (15) Includes interest income on the Revenue Bond Construction Fund established by the Senior Indenture, amortization of deferred interest on the Bond Reserve Fund Forward Purchase Agreement and Bond Reserve Fund interest.
- (16) The projected level of grant funding reflects DOE contributions for Smart Grid.
- (17) The sources of funding for the negative balance in FY 2009 include collection of a \$13.5 million GovGuam receivable in FY 2008 for streetlight arrearages.

PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

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

In preparing this report, we have made certain assumptions with respect to the conditions which may exist or events which may occur in the future. While we believe these assumptions to be reasonable for the purpose of this report, they are dependent upon future events, and actual conditions may differ from those assumed. In addition, for our projections and studies, we have relied upon certain information provided to us by others, including: (i) information contained in Appendix B of the Official Statement to which this report is attached; (ii) additional information provided to us by the Authority, Navy, and USEPA; (iii) assumptions regarding interest rates provided by the underwriters; and (iv) assumptions and analyses provided by the Authority regarding the financing plan for the Authority's capital improvement program, Integrated Resource Plan and other matters. While we believe the use of such information and

assumptions to be reasonable for the purposes of this report, we offer no other assurances with respect thereto, and some assumptions may vary significantly due to unanticipated events and circumstances. To the extent that actual future conditions differ from those assumed herein or provided to us by others, the actual results will vary from those projected herein. The principal assumptions and considerations made by us and the principal information and assumptions provided to us by others include the following:

1. All historical information regarding the Authority's system has been reviewed by the Authority which has represented that such information is accurately reflected herein.
2. The capital improvement program provided by the Authority will be implemented as scheduled and within the projected costs.
3. The Authority will make arrangements for the military to pay for the capital improvements necessary for the electric system to support the military buildup either through direct payment of capital improvements or guarantees to pay debt service on any debt the Authority may elect to issue to fund such improvements, as indicated in the USC.
4. The operation and maintenance expenses and power costs of the Authority's electric system will increase as projected by the Authority.
5. Energy sales, peak demand, and the number of customers will change as projected by P.L. Mangilao Energy (see Power Requirements above in this report). 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. The energy sales projections have been adjusted to reflect estimated effects from the Authority's Smart Grid projects. Total energy generation and revenue from energy sales will change as projected by the Authority. Our projections assumed no increase in the cost of fuel oil through FY 2016.
6. The Authority and the GPUC will increase rates as needed to cover all costs of operation, maintenance and debt service on existing and future bonds and to provide amounts necessary to meet debt service coverage and other requirements of the Indentures.
7. For purposes of this report we have assumed that the Navy remains a customer of the Authority through FY 2016, and that formal transfer of Navy assets to the Authority will not result in additional costs to the Authority.
8. Environmental compliance related costs, including capital costs, will be as estimated by the Authority, as included herein. These estimates exclude potential costs associated with compliance with NESHAPs and/or MATS rules.
9. The Authority will issue the 2012 Senior Bonds in FY 2013 to refund all or a portion of the Authority's 1993 Series A and 1999 Series A Revenue Bonds, using estimates provided by Morgan Stanley.

CONCLUSIONS

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

1. The projection of operating results shown herein forms a reasonable basis for the Authority's planning purposes and to implement its capital improvement plan. To achieve the projection shown, the Authority and its governing and regulatory bodies must approve and implement future rate increases, incurring additional debt or a combination of the two.
2. The Authority's partial or full refunding of the Authority's 1993 Series A and 1999 Series A Revenue Bonds with the 2012 Senior Bonds will improve its financial operations as measured by liquidity metrics for working capital. As described herein, the Authority will, however, need to continue to address its liquidity and working capital needs.

3. We believe the Authority has all of the necessary major environmental permits for its existing generating facilities, that the permits are current and that the Authority is in material compliance with the requirements of such permits. We are not aware of any technical or engineering circumstances which would preclude the Authority from meeting its permit requirements.
4. Based on the load forecast used herein and our review of the Authority's generating resources, the Authority will not need additional generating facilities through FY 2016 other than to meet its renewable energy resource goals as prescribed by the Guam Legislature.
5. Revenues that the Authority can expect to derive from its operations, with the anticipated rate adjustments identified herein are projected to be adequate to: (i) provide for estimated operation and maintenance expenses, (ii) enable the Authority 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/

R. W. BECK, INC.

An SAIC Company

APPENDIX B

CERTAIN DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE TERRITORY OF GUAM

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**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 11,380 employees under the direction of the Governor and his or her 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 an elected non-voting representative to the U.S. House of Representatives, and is within the jurisdiction of the Ninth Circuit U.S. Court of Appeals and the U.S. Supreme Court.

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 advantage 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 “Guam Airport”), operated by the Guam International Airport Authority, an autonomous agency of the Government. The airport is centrally located in Guam’s business district on an 1,800 acre parcel and has 768,000 square feet of terminal space along with

hangars, maintenance facilities, warehouse space, storage facilities, office space, and expansive ground areas. According to data published by U.S. Office of Travel and Tourism Industries, as of May 2012 the airport was the 8th largest international gateway in the United States.

On September 24, 2012, the Bureau of Economic Analysis of the United States Department of Commerce (“BEA”) released its 2010 gross domestic product (“GDP”) and gross domestic income (“GDI”) estimates for Guam and revised estimates for 2002 through 2009. As set forth in Table B-1, the BEA’s estimates indicate that Guam’s GDP grew from \$3.349 billion in 2002 to \$4.577 billion in 2010. The 2010 GDP figure consists of approximately \$2.8 billion of personal consumption expenditures, \$2.9 billion of government consumption expenditures and gross investment, and \$233 million of private fixed investment, and is offset by approximately \$1.4 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 \$25,420 in 2010.

Guam’s real GDP increased 1.2% in 2010 after increasing 1.1% in 2009. For comparison, real GDP for the United States (excluding territories) decreased 2.4% in 2010 after increasing 1.7% in 2009. The largest contributor to the growth in Guam’s real GDP during this period was federal government spending. The majority of this spending was by the Department of Defense. Federal spending increased in both 2010 and 2009; the increases in both years largely reflected increases in construction spending and in compensation.

TABLE B-1
GUAM GROSS DOMESTIC PRODUCT
CALENDAR YEARS 2002 – 2010⁽¹⁾
(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	4,335
2009	4,542
2010 ⁽¹⁾	4,577

⁽¹⁾ Latest data available.

Source: Department of Commerce Bureau of Economic Analysis.

Spending by tourists makes up the vast majority of Guam’s exports of services. Guam’s real exports of services declined 9.0% in 2009 after falling 12.1% in 2008. These declines reflected decreases in the number of visitors to Guam. Guam’s real consumer spending fell 1.5% in 2009 after remaining unchanged in 2008. Consumer prices rose during this period, increasing 1.1% in 2009 after increasing 5.5% in 2008.

Most food and goods are imported, and approximately 70% of imports are from the U.S. mainland. Guam's commercial shipping port is the entry point for 73% of all goods entering Guam, receives over 160,000 twenty-foot-equivalent containers, 5,000,000 barrels of fuel, up to 100 fuel tanker port calls and 27,000 passengers annually, and also serves as a transshipment center for Micronesia with more than 20 cargo ships outbound monthly. 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, an autonomous agency 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. Building codes enacted in 1978 require all new construction to be designed to tolerate wind velocities of 155 mph. Due to its location near the Mariana Trench, Guam also occasionally experiences seismic activity. Other than a major earthquake of 8.1 magnitude on August 8, 1993, no recent earthquakes have caused significant damage 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 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 2011-12 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 2011, the private sector shed 310 jobs, whereas the public sector added 280 jobs, including 70 new Government jobs. Some of the employment declines in the private sector can be attributed to a decline in visitor arrivals in 2011. The most significant change was 520 more jobs in services, offset by a decrease of 550 construction jobs.

Federal employment increased for the quarter ending December 31, 2011, and it was up by 210 jobs from the prior year's figures. Government employment increased by 90 jobs for the quarter.

The distribution of civilian employment in Guam based on payrolls from 2007 to 2011 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⁽¹⁾
2007-2011

	<u>As of December 31,</u>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Private sector:</u>					
Agriculture	350	350	320	320	330
Construction	5,620	6,460	6,660	6,660	6,010
Manufacturing	1,660	1,700	1,790	1,790	1,720
Transportation & public utilities	4,810	4,820	4,660	4,500	4,340
Wholesale trade	2,110	2,060	1,930	2,100	2,210
Retail trade	12,050	11,540	11,660	11,610	11,530
Finance, insurance, and real estate	2,450	2,560	2,520	2,650	2,660
Services	16,270	16,240	16,130	17,160	17,680
Total private	45,320	45,730	45,670	46,790	46,480
<u>Public sector:</u>					
Federal government	3,600	3,760	3,830	3,940	4,150
Guam government ⁽²⁾	11,430	11,350	11,720	11,870	11,940
Total public	15,030	15,110	15,550	15,810	16,090
Total Payroll Employment	60,350	60,840	61,220	62,600	62,570

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

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

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

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

TABLE B-3
Top 15 Private Employers on Guam
Calendar Year 2011

<u>Employer (and Type of Enterprise)</u>	<u>Number of Employees</u>
1. Ken Corp. (hotel)	2,421
2. United Airlines (airline)	1,400
3. Calvo Enterprises, Inc. (insurance, various)	1,108
4. DZSP 21 LLC (military support services)	972
5. Triple J Enterprises (automotive, various)	664
6. Pacific International Inc. (construction)	550
7. Black Construction Corp. (construction)	500
8. Bank of Guam (financial services)	425
9. GTA TeleGuam (communications)	334
10. DCK Pacific Guam (construction)	286
11. Jones & Guerrero Co. Inc. (construction, various)	261
12. Parsons Corp. (engineering, construction)	247
13. Core Tech International (construction)	204
14. Reliable Builders (construction)	200
15. Baba Corp. (real estate)	200
Total	9,772

Source: Guam Business Magazine 2011 Top Companies.

Unemployment

The Government reports employment and unemployment separately. Guam's unemployment was 11.8% as of March 2012, the date for which the most recent information is available.

Table B-4 lists unemployment statistics for March 2004 to March 2012. 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. 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⁽¹⁾
2004-2012

As of⁽²⁾	Total Labor Force	Number Unemployed	Unemployment Rate (%)
Mar. 2004	61,520	4,710	7.7
Dec. 2005	64,130	4,500	7.0
Mar. 2006	65,940	4,530	6.9
Sept. 2006	66,450	4,890	7.4
Sept. 2007	63,600	5,310	8.3
Sept. 2009	70,310	6,510	9.3
March 2011	74,950	9,970	13.3
March 2012 ⁽³⁾	68,400	8,060	11.8

⁽¹⁾ Data include civilian non-institutional population 16 years of age and older, but exclude non-immigrant aliens and civilians living within military installations or in military housing. Individuals with one or more jobs or dual jobs are counted once.

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

⁽³⁾ 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 to June 2012. Values given include permits for new construction and additions.

TABLE B-5
Fiscal Year Building and Construction Permits
Fiscal Years 2008-2012
(Dollars in Thousands)

	2008	2009	2010	2011	2012⁽¹⁾
Residential	\$69,690	\$50,419	\$67,047	\$45,403	\$28,899
Commercial & Industrial	17,209	44,816	14,729	26,911	30,591
Government	94,298	116,268	76,487	84,236	64,255
Hotels	3,070	—	200	934	830
Condominiums	2,200	495	76,537	848	—
Apartments & Dormitories	13,360	6,053	28,494	15,683	22,955
Other ⁽²⁾	<u>49,466</u>	<u>44,420</u>	<u>15,255</u>	<u>42,942</u>	<u>132,459⁽³⁾</u>
Total	\$249,293	\$262,471	\$278,749	\$216,957	\$279,989

⁽¹⁾ Data available through June 2012 only.

⁽²⁾ Includes permit renewals, demolitions, relocations and church buildings.

⁽³⁾ 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 5,000 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, and the Government cannot predict whether, when or to what extent service members may be relocated to Guam. See “—Military Activity—Military Expenditures”

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 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.

Ongoing Government construction projects include \$150 million of airport capital improvements, including runway extension and taxiway projects to accommodate expanded air service, long-haul flights to the U.S. mainland and projected passenger and cargo increases, demolition of former naval housing and noise insulation, an estimated \$159.7 million to fund the closure of the Ordot Dump and the opening of a new landfill facility, and \$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 is pursuing funds 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. Finally, 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 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 2012. 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 – 2011 and 2012 Year-to-Date

<u>Fiscal Year</u>	<u>Business Privilege Tax Collections</u>
2003 ⁽¹⁾	\$156,095,935
2004 ⁽¹⁾	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 ^{(2) (3)}	180,476,976

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

⁽²⁾ Unaudited.

⁽³⁾ Ten months ended July 2012.

Sources: Government of Guam Audited Financial Statements for Fiscal Years 2003- 2011;
Guam Department of Administration for Fiscal Year 2012.

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 from 2005 through 2011. Annual visitor arrivals averaged 1,173,554 from 2005 to 2011. There was a small decline in visitor arrivals in 2006 and then a marginal increase in 2007. Arrivals for 2008 declined due to the global recession. Arrivals for 2009 declined relative to 2008 due to a spike in diagnoses of the H1N1 virus in Japan in early 2009. Visitor arrivals increased approximately 14% from 2009 to 2010. Arrivals for 2011 declined following the natural disasters in Japan in March 2011. The overall effect was less than expected due to increased arrivals from South Korea and Taiwan. Fiscal Year 2012 to-date visitor arrivals from Japan (533,663) are showing a 5.7% increase over the Fiscal Year 2010 Japan arrivals for the same period (504,841).

TABLE B-7
Annual Visitor Arrivals to Guam
 Calendar Years 2005-2012

<u>Calendar Year</u>	<u>Visitor Arrivals</u>
2005	1,227,587
2006	1,211,674
2007	1,224,894
2008	1,141,779
2009	1,052,871
2010	1,196,296
2011	1,159,778
2012 ⁽¹⁾	620,544

Source: Guam Visitors Bureau.

⁽¹⁾ Data through June 2012.

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 2011, Japan accounted for approximately 71.8% of visitors to Guam, with approximately 34% of Japanese visitors originating from the Kanto (Tokyo) region. Visitor arrivals from Japan decreased following the earthquake and tsunami in Japan on March 11, 2011, with total visitor arrivals from Japan for 2011 dropping approximately 7.2% compared to 2010. In Fiscal Year 2011, Guam's next largest tourist markets 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. Table B-8 is a comparison of visitor arrivals to Guam by country from Fiscal Year 2007 to June 2012, the date for which the most recent information is available.

TABLE B-8
Fiscal Year Visitor Arrivals by Country
Fiscal Years 2007-2012

	<u>2007</u>		<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012⁽¹⁾</u>	
	<u>Percent of</u>		<u>Percent of</u>		<u>Percent of</u>		<u>Percent</u>		<u>Percent of</u>		<u>Percent</u>	
	<u>Arrivals</u>	<u>Total</u>	<u>Arrivals</u>	<u>Total</u>	<u>Arrivals</u>	<u>Total</u>	<u>Arrivals</u>	<u>of Total</u>	<u>Arrivals</u>	<u>Total</u>	<u>Arrivals</u>	<u>of Total</u>
Japan	932,396	76.2%	884,907	75.0%	817,628	77.6%	887,986	75.8%	823,645	71.8%	653,138	71.5%
South Korea	123,024	10.1%	116,250	9.9%	83,803	8.0%	120,065	10.3%	145,081	12.6%	116,716	12.8%
Taiwan	22,635	1.9%	21,239	1.8%	22,191	2.1%	29,420	2.5%	40,709	3.5%	36,128	4.0%
U.S./Hawaii	48,590	4.0%	53,038	4.5%	54,386	5.2%	60,651	5.2%	59,636	5.2%	47,826	5.2%
CNMI	17,099	1.4%	18,196	1.5%	17,786	1.7%	18,369	1.6%	17,932	1.6%	12,650	1.4%
Micronesia	11,742	1.0%	12,978	1.1%	13,894	1.3%	14,176	1.2%	14,933	1.3%	10,958	1.2%
Philippines	8,165	0.7%	10,709	0.9%	11,386	1.1%	12,016	1.0%	10,748	0.9%	7,999	0.9%
Australia	2,339	0.2%	2,413	0.2%	2,440	0.2%	2,896	0.2%	3,660	0.3%	3,186	0.3%
Canada	625	0.1%	756	0.1%	672	0.1%	672	0.1%	703	0.1%	646	0.1%
Europe	1,540	0.1%	1,605	0.1%	1,581	0.2%	1,589	0.1%	1,511	0.1%	1,180	0.1%
Hong Kong	6,790	0.6%	4,921	0.4%	2,802	0.3%	5,640	0.5%	8,519	0.7%	6,512	0.7%
Nauru	12	0.0%	25	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Thailand	195	0.0%	217	0.0%	290	0.0%	327	0.0%	498	0.0%	266	0.0%
China, P.R.C.	1,379	0.1%	1,674	0.1%	2,922	0.3%	4,669	0.4%	6,179	0.5%	6,724	0.7%
Vietnam	-	0.0%	56	0.0%	36	0.0%	80	0.0%	105	0.0%	73	0.0%
Russia	31	0.0%	2	0.0%	356	0.0%	385	0.0%	528	0.0%	1,825	0.2%
Others	3,665	0.3%	4,026	0.3%	3,621	0.3%	3,887	0.3%	4,036	0.4%	3,238	0.4%
Total Air	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%	909,065	99.5%
Total Sea	43,063	3.5%	46,234	3.9%	17,454	1.7%	8,029	0.7%	8,711	0.8%	4,796	0.5%
Total Air & Sea	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%	913,861	100.0%

⁽¹⁾ Data through June 2012.

⁽²⁾ In 2009, 2010, 2011 and 2012, military vessel arrivals were not available as in prior years.

Source: Guam Visitors Bureau.

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 May and June of this year numbered 282 and 374, respectively, versus 53 and 47, respectively, in 2011, prior to the effective date of the Russian visa waiver.

The Government of Guam and GVB continue to lobby for expansion of the program to visitors to Guam from mainland China. A decision on China is expected this year.

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 January 2011, there were 33 hotels in Guam, including many notable international hotel operators, with an inventory of over 8,900 rooms. Guam's annual weighted hotel occupancy rate improved from 60% in 2006 to 68% in 2007, but declined to 64% in 2008 and to 60% in 2009. In calendar year 2010, annual weighted hotel occupancy rates increased to 71%, then to 72% in 2011. The weighted average room rate during the period from January to December 2011 also increased to \$114 from \$111 during 2010.

Table B-9 lists the top fifteen hotel operators and the number of rooms as of January 2012.

TABLE B-9
Top Fifteen Hotel Operations in Guam
As of February 2012

<u>Hotel/Resort</u>	<u>Year Opened</u>	<u>Location</u>	<u>Number of Rooms</u> ⁽¹⁾
Pacific Islands Club	1980	Tumon	777
Hilton Guam Resort & Spa	1972	Tumon	667
Leo Palace Resort	1993	Yona	625
Outrigger Guam Resort	1999	Tumon	600
Guam Plaza Hotel	1983	Tumon	500
Hotel Nikko Guam	1992	Tumon	492
Hyatt Regency Guam	1994	Tumon	455
Guam Reef Hotel	1974	Tumon	444
Guam Marriott Resort & Spa	1987	Tumon	436
Westin Resort Guam	1996	Tumon	432
Onward Beach Resort	1992	Tamuning	430
Fiesta Resort Guam	2006	Tumon	318
Sheraton Laguna Guam	2007	Tamuning	311
Holiday Resort & Spa	2005	Tumon	252
Aurora Resort & Spa	2009	Tumon	223
Total			6,962

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

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. The following table shows the amount of Hotel Occupancy Tax Revenues collected during each of the calendar years shown.

TABLE B-10
Annual Hotel Occupancy Tax Revenues
Calendar Years 2004 – 2011

Calendar Year	Amount
2004	\$17,859,367
2005	19,158,350
2006	19,528,390
2007	21,179,962
2008	20,822,521
2009	19,622,562
2010	22,334,104 ⁽¹⁾
2011	22,972,113

⁽¹⁾ 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, 402-room hotel tower, the Phase 5, 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. Under new ownership, the Guam Marriott Resort and Spa began \$25 million of renovations in the second quarter of 2011. These projects are expected to be completed in 2012. Leo Palace Resort has completed \$2.4 million of hotel renovation projects. The Leo Palace Resort began offering long term residential leases of its condo units in October 2010. The Royal Orchid Hotel has indicated its plans to convert 200 rooms to 98 residential condo units. The Sherwood Hotel was sold in September 2011 and is currently under renovation; it is expected to have 170 rooms upon re-opening. No time frame has been given for the opening.

Airlines

The aviation industry is highly competitive and continues to be in a state of flux, as evidenced by airline acquisitions and mergers such as the Delta/Northwest Airlines and United/Continental Airlines. 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. These changes are expected to present major opportunities for Guam, where approximately 71% of visitor arrivals during 2011 were from Japan.

Eight international passenger airlines (China Airlines, United Airlines, Delta Airlines, Eva Air, Freedom Air, Japan Airlines, Jin Air, Korean Air and Philippine Airlines) currently serve the Guam Airport, the sole commercial airport on Guam. These airlines serve 33 international destinations and over 2,700,000 passenger movements (arriving, departing, and transit passengers) a year. United Airlines maintains a major hub on Guam servicing destinations in Micronesia, Hawaii, Japan, East Asia and Australia. Two commuter airlines, Freedom Air and Cape Air also serve the Guam Airport. UPS, Federal Express, and Asia Pacific Airlines additionally provide cargo services to Guam.

A number of service changes have occurred at or been announced for the Guam Airport. United Airlines added service to and from Okinawa, Japan, and will add two additional weekly flights between Guam and Sendai, Japan starting October 2012. Jin Air added daily daytime direct flights to Incheon, South Korea in April 2010. In addition, Eva Airlines, which conducts service between Guam and Taiwan, has announced their plans to operate thirteen charter flights from May to October 2012. This is in addition to their regularly scheduled twice-weekly flights to Taipei. 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 Pusan, South Korea. Jeju Airlines is scheduled to commence service in late September 2012. Fly Guam, a small regional carrier, ceased operations at the end of 2011.

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, additional flights by Delta Airlines, and charters from Tokyo-Haneda all contributed to the increase in Japan's seat inventory.

Runway 6L/24R of the A.B. Won Pat Guam International Airport has been extended from 10,000 feet to 12,000 feet, meaning that the airport can now accommodate departures and arrivals of long-haul flights between the U.S. mainland and Guam (although no such flights are yet scheduled).

Recent Event Affecting Guam Tourist Industry

An earthquake measuring 8.9 on the Richter Scale occurred near northeastern Japan on March 11, 2011, followed by a tsunami that affected Japan's northern and central east coast. Approximately 71% of visitors to Guam in 2011 originated from Japan. While Guam saw a decline in Japanese tourists in the months following the tsunami in Japan, increased arrivals from Taiwan and South Korea helped to minimize the overall effect on tourist arrivals. 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. See "CERTAIN INVESTMENT CONSIDERATIONS – Typhoons and Earthquakes."

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 105th 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.

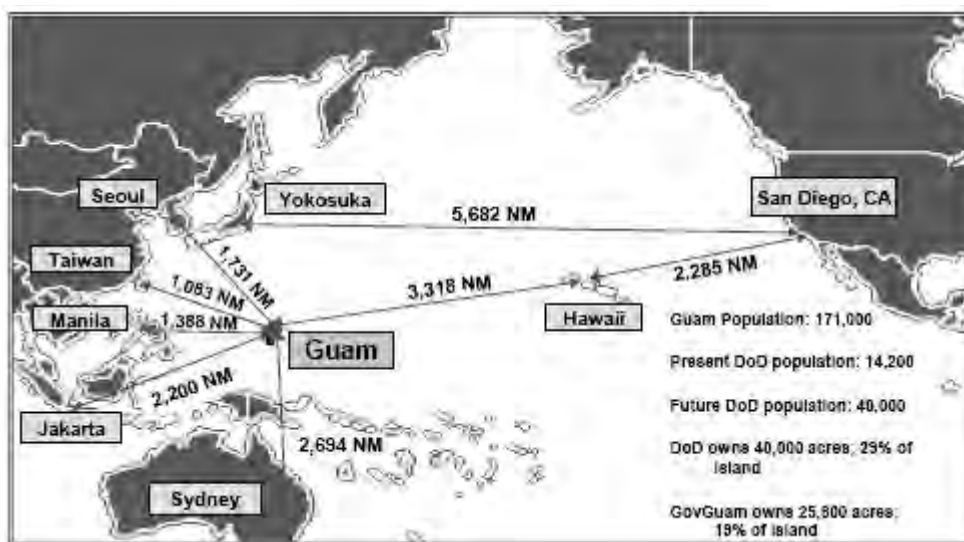
Military Activity

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. Following the events of September 11, 2001, the U.S. started to redistribute its forces in the Pacific and reassess the role that Guam can play in the region. A strong U.S. presence in the Pacific also demonstrates active support for Japan, 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 to the U.S. 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, Naval 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.



Military Personnel

The level of military personnel, dependents and civil service personnel in Guam remained relatively constant from 2006 to 2008. In the years following 2008, Guam began to experience an increase in military personnel, dependents and employees as a result of efforts to prepare for the relocation of the Third Marine Expeditionary Force from Okinawa and Iwakuni, Japan to Guam. More recently, however, 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. Regardless, there currently exists a significant United States military presence 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 Navy has homeported three fast attack submarines in Guam: the USS Oklahoma City, the USS Houston and the USS Buffalo. If current U.S. military plans come to fruition, Guam will experience an increase of up to 4,700 to 5,000 active duty military and their dependents, although the Government

cannot predict whether, when or to what extent such increase may occur. See “—*Military Expenditures*” below.

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.

Table B-11 lists active duty military personnel on Guam from 2007 through 2011.

TABLE B-11
Active Duty Military Personnel on Guam
2007-2011

<u>Year</u>	<u>Navy</u>	<u>Air Force</u>	<u>Army</u>	<u>Marines</u>	<u>Coast Guard</u>	<u>Total</u>
2007	3,879	1,596	632	4	175	6,286
2008	3,584	1,930	625	4	188	6,331
2009	3,523	2,042	619	4	191	6,379
2010	3,488	2,097	620	4	191	6,400
2011	3,555	1,907	615	5	193	6,275

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

Table B-12 lists military dependents on Guam from 2007 through 2011.

TABLE B-12
Military Dependents on Guam
2007-2011

<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

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

As displayed in Table B-13, 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 2011 reflect a reduction in personnel due to uncertainties associated with the relocation of U.S. Marines from Japan.

TABLE B-13
Military Civil Service Personnel on Guam
2006-2011

<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

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

Military Expenditures

Table B-14 provides a breakdown of military salaries expended on Guam during Fiscal Years 2004 through 2010. Periodic changes in these figures reflect deployment of Guam-based troops to active duty in other locations.

TABLE B-14
Department of Defense Expenditures on Guam
Active Duty and Civilian Military Salaries
Fiscal Years 2004-2010
(In Thousands)

<u>Fiscal Year</u>	<u>Active Military</u>	<u>Inactive Military</u>	<u>Civil Service Employees⁽¹⁾</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	241,496	15,751	72,923	225	330,395

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

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

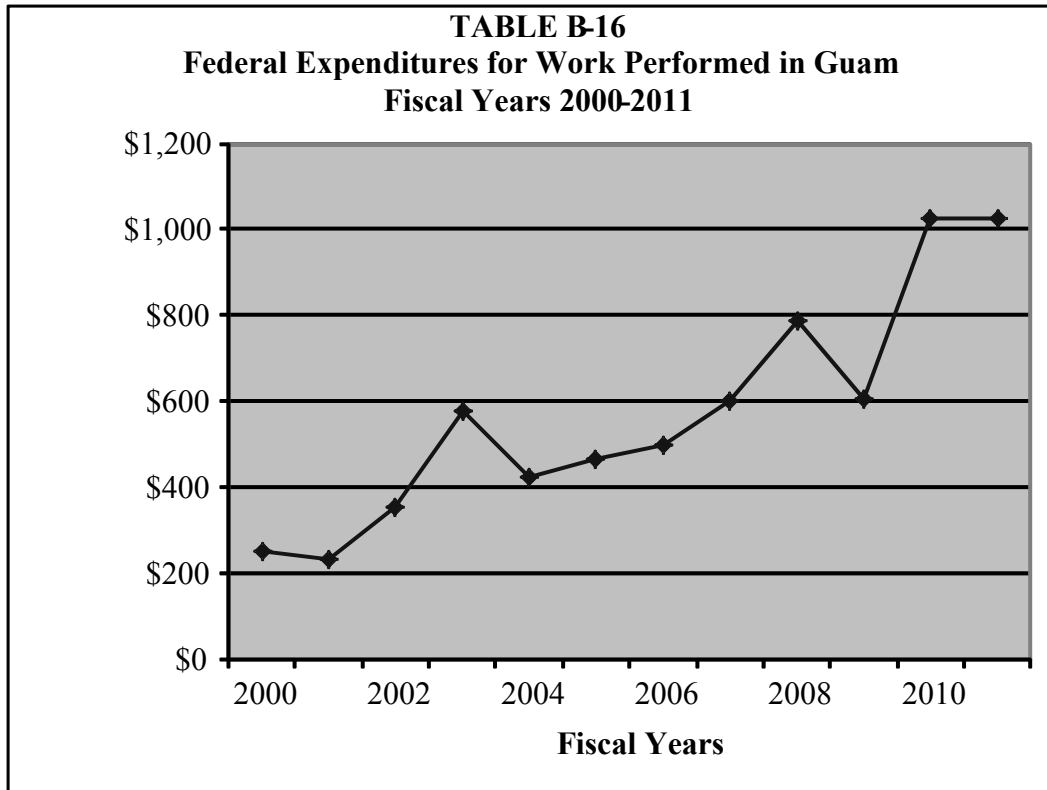
TABLE B-15
Department of Defense Procurement Contracts for Guam
Fiscal Years 2004-2010
(In Thousands)

Fiscal Year	Department of Defense Procurement
2004	\$343,065
2005	392,332
2006	388,125
2007	497,849
2008	599,244
2009	289,681
2010	734,142

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

GEDA maintains a database of contracts awarded by the Department of Defense for Guam as reported on various military websites. This database indicates that almost \$330 million of contracts were awarded in Fiscal Year 2005, over \$339 million were awarded in Fiscal Year 2006; over \$351 million were awarded in Fiscal Year 2007; approximately \$476 million were awarded in Fiscal Year 2008; approximately \$636 million were awarded for Fiscal Year 2009; and over \$964 million were awarded for Fiscal Year 2010. For Fiscal Year 2011, Department of Defense contracts total \$674 million. 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 federal transactions for work performed in Guam in its website located at www.USAspending.gov, which is not incorporated herein by reference. The chart below indicates that from Fiscal Year 2000 to Fiscal Year 2011, agencies of the federal government, including the Department of Defense, paid an average of \$570 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.



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-17 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.

TABLE B-17
U.S. Military Construction Appropriations Authorized for Guam
Fiscal Years 2007-2012
(In Thousands)

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

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.

APPENDIX C
AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR
ENDED SEPTEMBER 30, 2011

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

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2011 AND 2010



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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Consolidated Commission on Utilities:

We have audited the accompanying statements of net assets of Guam Power Authority (GPA), a component unit of the Government of Guam, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of GPA as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

A stylized, handwritten-style signature of "Deloitte & Touche LLP" in black ink.

March 15, 2012

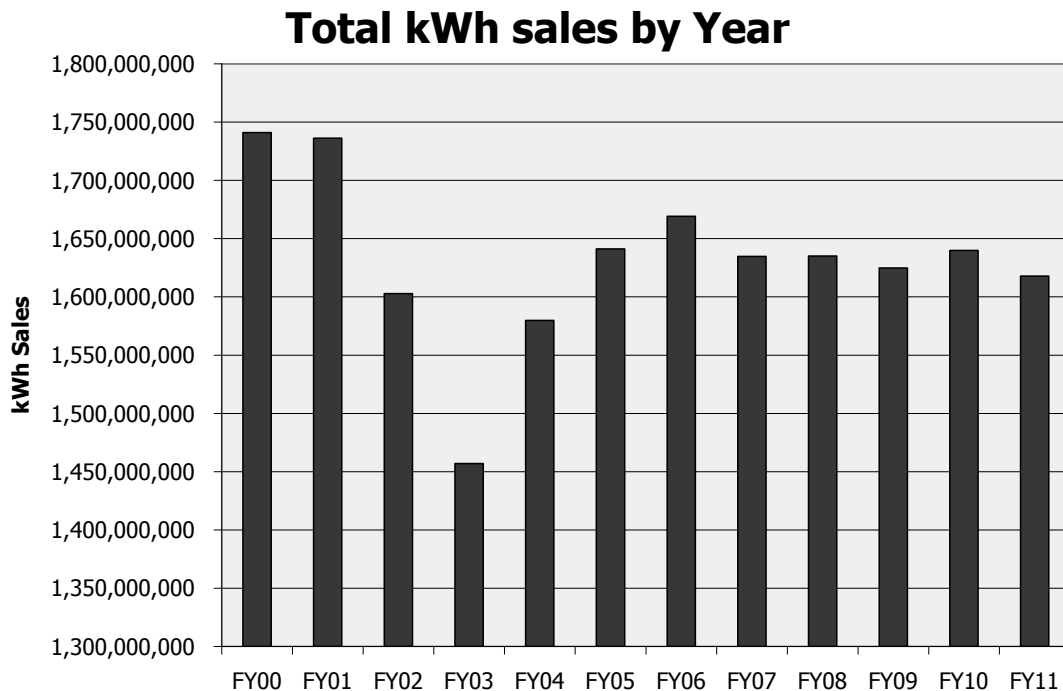
**GUAM POWER AUTHORITY
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Management's Discussion and Analysis
Year Ended September 30, 2011

The following is a discussion and analysis of the Guam Power Authority's (GPA) financial performance for the fiscal year ending September 30, 2011.

Sales Decline/Elasticity of Demand

The most significant issue being faced by GPA is the increased cost of providing energy to the island and the impact that is having on Guam's ratepayer community. The chart below depicts the energy sales for the utility for the last 12 years. The utility has not been able to exceed its Fiscal Year 2006 sales for any of the last five years.



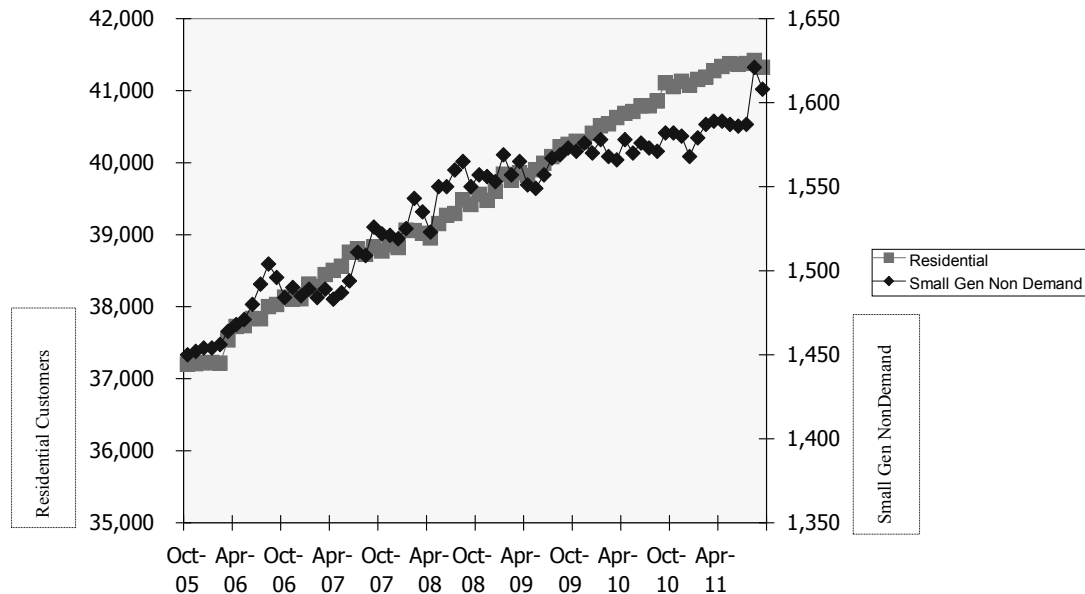
Because GPA energy is provided solely by fossil fuels, the increasing world-wide market for fuel prices has had a negative impact on GPA customers and on budgets for families and businesses throughout the island.

There is no doubt there is an elasticity of demand for GPA customers as energy sales have fallen over a period in which there has been significant growth in customers. The graph below shows the number of residential customers has grown from just over 37,000 in 2005 to over 41,000 in September 2011. If not for the customer growth, things could be much more challenging for GPA and the island.

**GUAM POWER AUTHORITY
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Management's Discussion and Analysis
Year Ended September 30, 2011

Customer Growth



The challenges created by high fossil fuel prices have impacted not only GPA but all island utilities. All of GPA's customer classes have taken significant actions to improve the efficiency of equipment used and to monitor power usage very carefully.

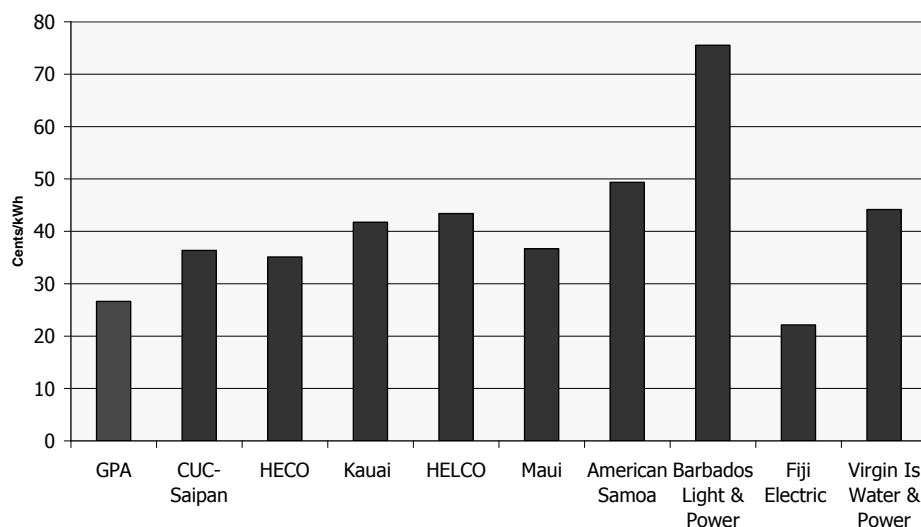
The graph below is the result of a survey of island utilities completed by GPA. As the graph reveals, GPA's price is competitive relative to other island utilities. The rate for Fiji Electric is lower than GPA's rate because they have a hydro plant which facilitates lower costs and they have all of the people living on Fiji and therefore, they do not have the costs of transmitting and distributing power throughout the island.

A major cost advantage GPA has over many other island utilities is the burning of fuel oil in GPA plants. Many of the island utilities in the chart have generation provided largely by diesel fuel. Although Guam was fortuitous in the construction of fuel oil burning plants in the 1970's and 1990's, it does not provide much solace to GPA customers facing steadily increasing power bills.

GUAM POWER AUTHORITY
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Management's Discussion and Analysis
Year Ended September 30, 2011

Island Utility Rate Comparison



There are no easy solutions to the problem of high oil prices. GPA has been exploring options for renewable energy including wind, solar and geothermal energy, liquefied natural gas, coal, and small modular reactors; however, there is no magic bullet for the problem of high fuel costs. GPA has not been able to identify any solution that would provide immediate savings to its customers anytime in the near future.

A table of sales data is shown below:

Annual Electric Sales (kWh)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011 to 2010 Comparison</u>	
				<u>Increase/Decrease</u>	<u>% Change</u>
Residential	487,230,149	486,961,506	471,384,720	268,643	0.06%
Small Non Demand	53,059,808	54,265,632	54,083,247	(1,205,824)	(2.22%)
Small Demand	205,800,944	211,387,692	209,356,703	(5,586,748)	(2.64%)
Large	303,594,906	308,456,638	323,331,267	(4,861,732)	(1.58%)
Auxiliary/Standby	4,090,240	3,584,400	-	505,840	14.11%
Private Streetlights	635,522	651,616	630,549	(16,094)	(2.47%)
Small Gov't Non Demand	10,166,523	11,207,056	12,719,408	(1,040,533)	(9.28%)
Small Gov't Demand	98,255,849	100,952,415	102,530,794	(2,696,566)	(2.67%)
Large Gov't	85,579,755	88,114,436	81,743,867	(2,534,681)	(2.88%)
Public Streetlights	11,379,562	10,561,996	9,351,639	817,566	7.74%
Navy	<u>358,016,810</u>	<u>361,518,349</u>	<u>359,520,521</u>	<u>(3,501,539)</u>	<u>(0.97%)</u>
	<u>1,617,810,068</u>	<u>1,637,661,736</u>	<u>1,624,652,715</u>	<u>(19,851,668)</u>	<u>(1.21)%</u>

GUAM POWER AUTHORITY
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Management's Discussion and Analysis
Year Ended September 30, 2011

Customer Count

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011 to 2010 Comparison</u>	
				<u>Increase/Decrease</u>	<u>% Change</u>
Residential	41,324	41,108	40,254	216	0.52%
Small Non Demand	3,080	3,088	3,078	(8)	(0.26%)
Small Demand	1,608	1,582	1,573	26	1.64%
Large	178	171	171	7	4.09%
Auxiliary/Standby	-	1	-	(1)	(100.00%)
Private Streetlights	566	569	563	(3)	(0.53%)
Small Gov't Non Demand	588	594	566	(6)	(1.02%)
Small Gov't Demand	452	449	439	3	(0.66%)
Large Gov't	59	58	56	1	1.72%
Public Streetlights	191	205	146	(14)	(6.83%)
Navy	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>0.00%</u>
	<u>48,047</u>	<u>47,826</u>	<u>46,847</u>	<u>221</u>	<u>0.46%</u>

Renewable Energy

GPA issued an Invitation For Bids in 2010, however all bids came in well above GPA's incremental cost of energy. GPA re-issued an Invitation For Bids in 2011 and has issued a Notice of Award to two vendors, however, value of the bids comes from their usefulness as a hedge against significantly increasing fuel prices in the future rather than their ability to provide any near term significant savings to GPA customers.

Liquefied Natural Gas

During 2011, GPA conducted a study into the feasibility of converting some of GPA's generating units for the burning of liquefied natural gas. While there is some potential for savings to be passed on to GPA customers, some very significant investments would be required in order to achieve such savings. The process of bringing natural gas to the island is very complex and would likely not be achieved over a period of less than five years.

Small Modular Reactors

GPA also conducted a mini-study into the feasibility of bringing small modular reactors to the island, but while GPA is very interested in this emerging technology, we do not believe this solution would be available within the next 10 years.

Thus, while GPA feels the pain of its customers caused by high fuel prices, it appears that high power costs are going to be a fixture for the island for the foreseeable future.

Regulatory Actions

GPA is also following some developments in the U.S. Environmental Protection Agency. There are some proposed pollution standards, which, if placed into effect, would only serve to exacerbate the challenges to the utility caused by high fuel prices.

GUAM POWER AUTHORITY
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Management's Discussion and Analysis
Year Ended September 30, 2011

Smart Grid Technology

In July 2009, GPA submitted a grant request to the U.S. Department of Energy (DOE) to implement smart grid technology. 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; implementation of a meter data management system; and implementation of 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 was eventually awarded in March 2010. 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. During the year, 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 Requests For Proposals for smart grid services. We expect that 2012 will be the year in which significant progress towards project completion takes place.

Rate Activity

In October 2011, GPA filed a petition for a multi-year rate petition with the Public Utilities Commission. The filing calls for an increase of rates of 10.7% over a five year period as well as including the creation of demand charges, a payment in lieu of taxes (PILOT) surcharge, and a transition plan to reduce the subsidization of residential customers by other customer classes.

Future Borrowing

GPA is exploring options for refinancing some of its existing bonds in order to lower annual debt service costs. GPA is also exploring other financing options to reduce some of the need for rate increases in its multi-year rate petition.

Military Buildup

Prior to Fiscal Year 2010, there had been a significant amount of energy being expended to plan and effect the relocation of about 8,000 Marines from a base in Okinawa to Guam. During the year, events have transpired that have taken the focus off of the relocation. The official position of the United States government as well as the Government of Japan is for the relocation to take place, however, the scale of troops coming to the island may be reduced. In any event, GPA believes it has sufficient generation capacity to meet the demands of an increased military presence on the island. Furthermore, any improvements to the transmission and distribution system required by the buildup would be manageable. The Consolidated Commission on Utilities, GPA's governing board, remain resolute in their position that the costs caused by the buildup should not have a negative impact on existing GPA customers.

GUAM POWER AUTHORITY
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Management's Discussion and Analysis
Year Ended September 30, 2011

Financial Highlights

Table 1 highlights financial comparisons from Fiscal Years 2009 through 2011. Increases in revenues and operating expenses are indicative of increased fuel charges and costs.

Table 1. Financial Data (in millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 351.4	\$ 328.7	\$ 176.1
Non-current investments	45.2	45.1	27.5
Other non-current assets	15.2	18.6	22.4
Utility plant	<u>481.4</u>	<u>492.5</u>	<u>511.1</u>
Total Assets	\$ <u>893.2</u>	\$ <u>884.9</u>	\$ <u>737.1</u>
Liabilities:			
Current liabilities	\$ 62.7	\$ 54.1	\$ 90.1
Regulatory liabilities	31.8	9.4	3.6
Non-current liabilities	<u>659.1</u>	<u>680.7</u>	<u>495.0</u>
Total Liabilities	\$ <u>753.6</u>	\$ <u>744.2</u>	\$ <u>588.7</u>
Net Assets:			
Invested in capital assets net of related debt	\$ 12.6	\$ 9.3	\$ 16.3
Restricted	33.7	29.7	53.1
Unrestricted	<u>93.3</u>	<u>101.7</u>	<u>79.0</u>
Total Net Assets	\$ <u>139.6</u>	\$ <u>140.7</u>	\$ <u>148.4</u>

Results of Operations (in millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues	\$ 393.5	\$ 365.7	\$ 388.9
Operating and maintenance expense	<u>356.6</u>	<u>333.7</u>	<u>366.8</u>
Operating earnings	36.9	32.0	22.1
Interest income	1.8	1.5	2.1
Other revenues (expense), net	<u>(41.1)</u>	<u>(41.3)</u>	<u>(41.8)</u>
Loss before capital contributions	(2.4)	(7.8)	(17.6)
Capital contributions	<u>1.3</u>	<u>0.1</u>	<u>3.6</u>
Decrease in net assets	\$ <u>(1.1)</u>	\$ <u>(7.7)</u>	\$ <u>(14.0)</u>

Explanations of Variances

The increase in current assets is caused by an increase in receivables and a \$8 million increase in the carrying value of fuel inventory due mostly to the increased cost of oil. The average cost of a barrel of oil in inventory increased from \$73.91 as of 9/30/10 to \$107.07 at 9/30/11 or an increase of nearly 45%. The balance in accounts receivable increased by \$12.5 million. This increase is largely explained by the increase in the cost of fuel.

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Management's Discussion and Analysis
Year Ended September 30, 2011

The fluctuation in current liabilities is driven by an increase in bond related liabilities.

The two components of the regulatory liabilities are the net deferred fuel revenue and provision for self-insurance which both increased by \$18.5 million and \$3.9 million, respectively. The increase in fuel revenues is caused by the increase in cost of fuel. It results from a decision by the Public Utilities Commission in 2008 to allow GPA to recover increases in the carrying cost of fuel inventory in the Levelized Energy Adjustment Clause (LEAC). GPA does not have sufficient cash reserves to tie up additional cash in fuel inventory without jeopardizing operations. The PUC recognized this problem and allowed the cost of the increased inventory value to be funded from the LEAC. The increased provision for self-insurance is related to a PUC decision to allow increased reserves to respond to future uninsured losses.

Non-current liabilities decreased by \$21.6 million mainly due to the decrease in long-term debt and capital lease obligations, both net of current portions.

The growth in revenues is related to the increased cost of fuel which is passed on to customers through the LEAC and the fact that the 2010 rate increase was in effect for the full 12 months of Fiscal Year 2011. Other production expense declined by \$2.8 million as compared to the prior year. The decrease resulted from a planned overhaul that has been delayed until Fiscal Year 2012. The estimated cost of the overhaul is approximately \$2 million. Administrative and general costs increased by nearly \$3 million. The increase was due to an increase in retiree health insurance costs, retirement contributions, medical benefits and due to some planning studies that were conducted during the period. Interest expense increased in conjunction with the recent bond issuance.

During Fiscal Year 2011, GPA received a payment from the Bank of America (BOA) in the amount of \$5,173,671 as a settlement of an investigation by the Securities and Exchange Commission covering a period in which GPA entered into an investment contract with BOA.

Capital Asset Activities

There were no major capital asset activities for Fiscal Year 2011. Most of the capital activities were related to line extension and repair projects, minor plant improvement projects, and initial expenditures for the smart grid project. We expect that there will be significant capital asset activities in Fiscal Year 2012 as a result of the expenditure of bond funds. For additional information concerning GPA's capital assets, please refer to note 15 to the accompanying financial statements.

Long Term Debt Activities

GPA issued \$206 million of bonds during 2010 and activities during 2011 relate solely to amortization and repayments. GPA is currently exploring strategies to utilize a future bond issuance as a vehicle to smooth out future rate increases. For additional information concerning GPA's long-term debt, please refer to note 6 to the accompanying financial statements.

Commitments for Capital Expenditures

While GPA has not entered into significant contracts as of September 30, 2011, it has planned for significant capital expenditures to take place during 2012 and has budgeted \$70.6 million for related activities.

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

Management's Discussion and Analysis
Year Ended September 30, 2011

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 year ended September 30, 2010 is set forth in GPA's report on the audit of financial statements which is dated February 25, 2011. That Discussion and Analysis explains in more detail major factors impacting the 2010 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.

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

Statements of Net Assets
September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents:		
Held by trustee for restricted purposes:		
Interest and principal funds	\$ 28,292,131	\$ 20,643,782
Bond indenture funds	160,985,312	170,340,036
Held by Guam Power Authority:		
Bond indenture funds	27,439,343	28,660,542
Self-insurance fund - restricted	10,982,776	7,065,846
Total cash and cash equivalents	<u>227,699,562</u>	<u>226,710,206</u>
Short-term investments held by trustee	<u>-</u>	<u>99,916</u>
Accounts receivable, net	48,057,864	35,459,239
Current installments of long-term receivables	<u>2,870,328</u>	<u>4,470,997</u>
Total current receivables	<u>50,928,192</u>	<u>39,930,236</u>
Materials and supplies inventory	14,861,733	12,046,199
Fuel inventory	57,132,243	48,947,057
Prepaid expenses	<u>787,081</u>	<u>972,373</u>
Total current assets	<u>351,408,811</u>	<u>328,705,987</u>
Regulatory assets:		
Cancelled unit, net of amortization	<u>257,830</u>	<u>380,005</u>
Total regulatory assets	<u>257,830</u>	<u>380,005</u>
Utility plant, at cost:		
Electric plant in service	876,058,032	868,791,171
Less accumulated depreciation	<u>(408,737,820)</u>	<u>(383,122,491)</u>
	467,320,212	485,668,680
Construction work in progress	<u>14,070,558</u>	<u>6,873,135</u>
Total utility plant	<u>481,390,770</u>	<u>492,541,815</u>
Other non-current assets:		
Investments - bond reserve funds held by trustee	45,159,623	45,134,634
Long-term receivables, less current installments	1,822,750	4,131,882
Unamortized debt issuance costs	9,386,233	9,934,791
Deferred asset, net	3,027,668	3,187,019
Other assets	<u>722,583</u>	<u>899,414</u>
Total other non-current assets	<u>60,118,857</u>	<u>63,287,740</u>
	<u>\$ 893,176,268</u>	<u>\$ 884,915,547</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
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Statements of Net Assets, Continued
September 30, 2011 and 2010

<u>LIABILITIES AND NET ASSETS</u>	<u>2011</u>	<u>2010</u>
Current liabilities:		
Current maturities of long-term debt	\$ 12,640,000	\$ 7,795,000
Current obligations under capital leases	10,235,901	9,064,045
Accounts payable:		
Operations	12,604,855	11,677,153
Fuel	1,526,908	209,017
Payable to federal government	554,350	554,350
Payable to Navy	-	3,410,727
Deferred payment agreement	-	255,792
Accrued payroll and employees' benefits	372,591	255,578
Current portion of employees' annual leave	2,263,391	1,838,093
Interest payable	16,356,876	13,556,572
Customer deposits	6,185,002	5,529,260
Total current liabilities	<u>62,739,874</u>	<u>54,145,587</u>
Regulatory liabilities:		
Deferred fuel revenue, net	20,479,214	1,981,805
Provision for self-insurance	11,288,677	7,383,869
Total regulatory liabilities	<u>31,767,891</u>	<u>9,365,674</u>
Long-term debt, net of current maturities	547,466,230	558,495,132
Employees' annual leave, net of current portion	663,898	803,086
Obligations under capital leases, net of current portion	97,829,839	108,065,350
DCRS sick leave liability	2,012,318	1,722,649
Deferred revenues	11,096,334	11,680,352
Total liabilities	<u>753,576,384</u>	<u>744,277,830</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	12,641,588	9,316,246
Restricted	33,710,050	29,741,073
Unrestricted	93,248,246	101,580,398
Total net assets	<u>139,599,884</u>	<u>140,637,717</u>
	<u>\$ 893,176,268</u>	<u>\$ 884,915,547</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 Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Revenues:		
Sales of electricity	\$ 391,874,987	\$ 364,889,888
Miscellaneous	2,605,775	1,449,273
	394,480,762	366,339,161
Bad debt expense	(942,669)	(671,900)
Total revenues	393,538,093	365,667,261
Operating and maintenance expenses:		
Production fuel	243,711,339	219,861,507
Other production	20,839,638	23,669,640
	264,550,977	243,531,147
Administrative and general	30,431,797	27,583,537
Depreciation and amortization	26,121,870	28,443,290
Energy conversion costs	19,704,755	19,484,007
Transmission and distribution	12,240,510	11,228,100
Customer accounting	3,511,033	3,404,006
Total operating and maintenance expenses	356,560,942	333,674,087
Operating earnings	36,977,151	31,993,174
Non-operating revenues (expense):		
Interest revenue	1,779,178	1,541,432
Allowance for funds used during construction	1,779,789	-
Other income	5,173,671	759,585
Other expense	(299,204)	(1,505,781)
Interest expense	(47,767,482)	(40,622,793)
Total non-operating revenues (expense), net	(39,334,048)	(39,827,557)
Loss before capital contributions	(2,356,897)	(7,834,383)
Capital contributions:		
Grants from the United States Government	1,319,064	97,707
Change in net assets	(1,037,833)	(7,736,676)
Net assets at beginning of year	140,637,717	148,374,393
Net assets at end of year	\$ 139,599,884	\$ 140,637,717

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

<u>Increase (decrease) in cash and cash equivalents</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 421,787,478	\$ 383,086,641
Proceeds from Bank of America settlement	5,173,671	-
Cash payments to suppliers for goods and services	(323,186,026)	(291,061,557)
Cash payments to employees for services	(32,810,587)	(33,372,785)
Cash payments for retiree benefits	(2,757,587)	(2,234,700)
Net cash provided by operating activities	<u>68,206,949</u>	<u>56,417,599</u>
Cash flows from investing activities:		
Withdrawal from short-term investments	99,916	598,648
Interest and dividends on investments and bank accounts	1,269,127	1,137,644
Deposit to bond reserve funds	-	(17,640,372)
Net cash provided by (used in) investing activities	<u>1,369,043</u>	<u>(15,904,080)</u>
Cash flows from noncapital financing activities:		
Self insurance fund receipts	3,904,808	3,774,304
Interest paid on short-term debt, deferred payment agreements and deposits	(129,706)	(1,309,126)
Payment of short-term debt	-	(17,499,999)
Net proceeds from bond issuance	-	54,888,678
Contribution to the Government of Guam	-	(1,178,100)
Net cash provided by noncapital financing activities	<u>3,775,102</u>	<u>38,675,757</u>
Cash flows from capital and related financing activities:		
Receipts from the federal government	383,447	97,748
Additions to utility plant	(15,147,854)	(10,083,641)
Principal paid on bonds	(7,795,000)	(7,373,601)
Interest paid on bonds	(26,718,028)	(19,916,098)
Principal paid on capital leases	(9,063,655)	(8,028,312)
Interest paid on capital leases	(14,020,648)	(15,055,992)
Net proceeds from bond issuance	-	141,350,000
Net cash (used in) provided by capital and related financing activities	<u>(72,361,738)</u>	<u>80,990,104</u>
Net change in cash and cash equivalents	989,356	160,179,380
Cash and cash equivalents at beginning of year	<u>226,710,206</u>	<u>66,530,826</u>
Cash and cash equivalents at end of year	<u>\$ 227,699,562</u>	<u>\$ 226,710,206</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
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Statements of Cash Flows, Continued
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Reconciliation of operating earnings to net cash provided by operating activities:</u>		
Operating earnings	\$ 36,977,151	\$ 31,993,174
Non-recurring cash received – Bank of America Settlement	5,173,671	-
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation and amortization	26,121,870	28,443,290
Bad debts	942,669	671,900
(Increase) decrease in assets:		
Accounts receivable	(12,704,633)	912,662
Long-term receivables	3,909,801	5,345,755
Materials and supplies inventory	(2,815,534)	319,381
Fuel inventory	(8,185,186)	4,746,120
Prepaid expenses	185,292	(274,324)
Deferred fuel costs	-	4,764,848
Other assets	176,831	167,921
Increase (decrease) in liabilities:		
Accounts payable - fuel	1,317,891	(21,093,527)
Accounts payable - operations	927,702	(1,445,119)
Payable to Navy	(3,410,727)	3,410,727
Deferred payment agreement	(255,792)	(3,229,588)
Customer deposits	655,742	316,554
Deferred fuel revenue	18,497,409	1,981,805
Accrued payroll and employees' benefits	117,013	(648,464)
Employees' annual and sick leave	575,779	34,484
Net cash provided by operating activities	<u>\$ 68,206,949</u>	<u>\$ 56,417,599</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(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. GPA is governed by the Consolidated Commission on Utilities (CCU), an elected five member board. GPA is subject to the regulations of the Public Utilities Commission of Guam (PUC) and has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). Because of the rate-making process, certain differences arise in the application of accounting principles generally accepted in the United States of America between regulated and non-regulated businesses. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

Basis of Accounting

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

Net Assets

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

Accounting Estimates

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

GUAM POWER AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

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

Taxes

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

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.

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. During the year ended September 30, 2010, obsolete materials and supplies inventories of approximately \$1,044,000 were written off and included as a component of other production expense in the accompanying statements of revenues, expenses and changes in net assets.

Cash and Cash Equivalents

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

Investments

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

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. All annual leave credit is convertible to pay upon termination of employment. The maximum accumulation amount of annual leave is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over 320 hours shall be lost upon retirement.

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

GUAM POWER AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

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

Deferred Asset and Deferred Revenues

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

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.

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.

Operating and Non-Operating Revenue and Expenses

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

Derivative Instruments

During fiscal year 2010, GPA adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 requires that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value.

Disclosures required by GASB Statement No. 53 for GPA's fuel oil hedging activities are included in note 12.

GASB Statement No. 53 excludes "normal purchases and normal sales contracts". Power purchase agreements generally meet the "normal purchases and normal sales" exception. Accordingly, the operations and maintenance portions of GPA's energy conversion agreements (see note 10) are excluded from the GASB Statement No. 53 requirements under the "normal purchases and normal sales" exception.

Fuel Oil Costs

Fuel oil costs increase or decrease billings to customers based on price changes in fuel oil purchased by GPA. Under or over recoveries of fuel oil costs are recorded as deferred fuel cost assets or deferred fuel revenue liabilities, respectively, in the accompanying statements of net assets, and are recovered or deducted in future billings to customers based on the Levelized Energy Adjustment Clause (LEAC) approved by the PUC in January of 1996. The LEAC results in the conversion of the monthly fuel charge to a levelized fuel charge, which is reviewed and adjusted by the PUC on a bi-annual basis. GPA is only permitted to recover its actual fuel and related costs. Over recoveries of fuel costs amounted to \$120,090 at September 30, 2011. Cumulative unrecovered fuel costs amounted to \$2,798,172 at September 30, 2010.

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Notes to Financial Statements
September 30, 2011 and 2010

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

Fuel Oil Costs, Continued

During the year ended September 30, 2009, PUC approved new fuel surcharges to recover the cost difference between fuel inventory on hand against a base year. At September 30, 2011 and 2010, cumulative unrecovered fuel inventory costs amount to \$11,141,174 and \$184,387 and surcharges that have been billed but not yet earned amounted to \$31,500,298 and \$4,964,364, respectively. The net amounts of \$20,359,124 and \$4,779,977 are presented as components of deferred fuel revenues, net at September 30, 2011 and 2010, respectively.

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 recognized during the year ended September 30, 2011 was \$1,779,789. No AFUDC was recognized in 2010.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs include costs related to the issuance of the Series 1993, Series 1999 and Series 2010 bonds. These costs are being amortized on the straight line method over the life of the applicable debt, which approximates the effective interest method.

Reclassifications

Certain balances in the 2010 financial statements have been reclassified to correspond with the 2011 presentation.

New Accounting Standards

During fiscal year 2011, GPA implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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Notes to Financial Statements
September 30, 2011 and 2010

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

New Accounting Standards, Continued

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method were effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funding status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that implementation of this statement will have a material effect on the financial statements of GPA.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

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Notes to Financial Statements
September 30, 2011 and 2010

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

New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GPA.

(2) Concentrations of Credit Risk

Financial instruments which potentially subject GPA to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable and commodity swap derivatives.

At September 30, 2011 and 2010, 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. Management assesses the risk of loss and provides for an allowance for doubtful accounts to compensate for known credit risks.

As discussed in note 12, GPA enters into commodity swaps only with highly rated counterparties.

(3) Cash, Cash Equivalents and Investments

The bond indenture agreements for the 1993, 1999 and 2010 series revenue bonds (note 6) require the establishment of special funds to be held and administered by trustees and by GPA. In addition, proceeds from borrowings to finance generation and transmission facility construction are maintained by GPA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used for generation and transmission facility construction.

At September 30, 2011 and 2010, cash and cash equivalents and short-term investments held by trustees and by GPA in these funds and accounts are as follows:

	2011				
	Held By Trustees		Held By GPA		
	Interest and Principal Funds	Bond Indenture Funds	Self Insurance Fund	Bond Indenture Funds	Total
Construction funds	\$ -	\$ 118,957,292	\$ -	\$ -	\$ 118,957,292
Interest and principal funds	28,292,131	-	-	-	28,292,131
Bond funds	-	13,535,601	-	-	13,535,601
Working capital funds	-	28,492,419	-	-	28,492,419
Self-insurance fund	-	-	10,982,776	-	10,982,776
Revenue funds	-	-	-	9,065,972	9,065,972
Operating funds	-	-	-	14,821,123	14,821,123
Surplus funds	-	-	-	3,552,248	3,552,248
	<u>\$ 28,292,131</u>	<u>\$ 160,985,312</u>	<u>\$ 10,982,776</u>	<u>\$ 27,439,343</u>	<u>\$ 227,699,562</u>

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Notes to Financial Statements
September 30, 2011 and 2010

(3) Cash, Cash Equivalents and Investments, Continued

	2010				
	Held By Trustees		Held By GPA		
	Interest and Principal <u>Funds</u>	Bond Indenture <u>Funds</u>	Self Insurance <u>Fund</u>	Bond Indenture <u>Funds</u>	<u>Total</u>
Construction funds	\$ -	\$ 120,656,062	\$ -	\$ -	\$ 120,656,062
Interest and principal funds	20,643,782	-	-	-	20,643,782
Bond funds	-	22,303,416	-	-	22,303,416
Working capital funds	-	27,480,474	-	-	27,480,474
Self-insurance fund	-	-	7,065,846	-	7,065,846
Revenue funds	-	-	-	11,681,440	11,681,440
Operating funds	-	-	-	13,724,806	13,724,806
Surplus funds	-	-	-	3,254,296	3,254,296
	\$ 20,643,782	\$ 170,439,952	\$ 7,065,846	\$ 28,660,542	\$ 226,810,122

The deposits and investment policies of GPA are governed by 5 GCA 21, *Investments and Deposits*, in conjunction with applicable bond indentures. Authorized investments include obligations issued or guaranteed by the U.S. government or agencies of the U.S. government; bonds, notes or other indebtedness rated in the highest rating by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P); obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities of not more than three years; any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of such state which are rated in the highest rating category of either Moody's or S&P; demand and time deposits in or certificates of deposit or bankers acceptances with U.S. domestic banks which have a rating of their short term certificates of deposit of A-1 or better by S&P and P-1 by Moody's and mature no more than 360 days after purchase; commercial paper which is rating in the highest classification by S&P and Moody's; and money market funds rated AAAM or better by S&P.

A. Cash and Cash Equivalents

GASB Statement No. 3 previously required government entities to categorize cash to give an indication of the level of risk assumed by the entity at year-end. The three categories are described below:

- Category 1 Insured or registered, or collateralized with securities held by GPA or its agent in GPA's name;
- Category 2 Uninsured and unregistered, but collateralized with securities held by the broker's or dealer's trust department or agent in GPA's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in GPA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GPA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GPA does not have a deposit policy for custodial credit risk.

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Notes to Financial Statements
September 30, 2011 and 2010

(3) Cash, Cash Equivalents and Investments, Continued

A. Cash and Cash Equivalents, Continued

As of September 30, 2011 and 2010, the carrying amount of GPA's total cash and cash equivalents and time certificates of deposit was \$227,699,562 and \$226,810,122, respectively, and the corresponding bank balances were \$227,269,906 and \$227,465,041, respectively. Of the bank balance amount as of September 30, 2011 and 2010, \$16,979,077 and \$12,572,849 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits in the amount of \$1,659,088 and \$1,387,171, respectively, were FDIC insured. Bank balances as of September 30, 2011 and 2010, also include \$210,281,801 and \$214,712,193, 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, 2011 and 2010, \$15,329,017 and \$10,710,758, respectively, of cash and cash equivalents are subject to custodial credit risk.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by GPA or its agent in GPA's name;
- Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in GPA's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in GPA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 retained and expanded the element of custodial risk in GASB Statement No. 3.

As of September 30, 2011, GPA's investments, presented as bond reserve funds in the accompanying financial statements, were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>S&P or Moody's Rating</u>
Bond Reserve Funds:			
First American Treasury (cash equivalents) \$	13,746,268	-	Aaa
Intesa Funding LLC Commercial Paper (CP)	13,742,000	October 3, 2011	P-1
Natixis U.S. Finance Co. LLC (CP)	12,028,872	October 1, 2015	A
US Bank Money Market Account (cash equivalents)	<u>5,642,483</u>	-	-
	<u>\$ 45,159,623</u>		

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(3) Cash, Cash Equivalents and Investments, Continued

B. Investments, Continued

As of September 30, 2010, GPA's investments, presented as bond reserve fund in the accompanying financial statements, were as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
Bond Reserve Funds:			
US Bank Money Market Account (cash equivalents)	\$ 17,649,634	-	-
General Electric Capital Corp. (CP)	13,743,000	October 1, 2010	A-1+
Natixis U.S. Finance Co. LLC (CP)	<u>13,742,000</u>	October 1, 2010	A-1
	<u>\$ 45,134,634</u>		

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, GPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. GPA's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding future debt service requirements. At September 30, 2011 and 2010, \$45,159,623 and \$45,134,634, respectively, of investments held in the name of a trustee for GPA, are classified as category 3 risks and are subject to custodial credit risk.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total of investments for GPA. As of September 30, 2011, GPA's investments that exceeded 5% of total investments are as follows: First America Treasury (30.44%), Intesa Funding LLC CP (30.43%), Natixis Funding Corp. (26.64%) and US Bank (12.49%). As of September 30, 2010, GPA's investments, including those classified as cash equivalents, that exceeded 5% of total investments are as follows: US Bank (39.10%), General Electric Capital Corp. CP (30.45%) and Natixis U.S. Finance Co. LLC CP (30.45%).

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.

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(4) Receivables

Accounts receivable at September 30, 2011 and 2010, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Customers:		
Private	\$ 36,006,471	\$ 28,265,161
Government	<u>7,036,750</u>	<u>5,004,039</u>
	43,043,221	33,269,200
U.S. Navy	3,902,336	3,505,408
U.S. Department of Energy	935,617	-
Interest	273,374	372,330
Federal Emergency Management Agency	-	441,873
Others	<u>4,943,793</u>	<u>1,942,922</u>
	53,098,341	39,531,733
Less allowance for doubtful receivables	<u>(5,040,477)</u>	<u>(4,072,494)</u>
	\$ <u>48,057,864</u>	\$ <u>35,459,239</u>

Unbilled accounts receivable included above amounted to \$10,292,903 and \$8,453,268 at September 30, 2011 and 2010, respectively.

Long-Term Receivables

Long-term receivables at September 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Installment payment agreement receivable from Guam Department of Education, resulting from conversion of past due receivable, payable in varying amounts starting in July 2004, currently at \$200,000 per month, interest at 4.47% per annum, with the final installment due in July 2013, uncollateralized.	\$ 4,085,708	\$ 6,447,691
Note receivable from the GovGuam Department of Public Works (DPW), due in 60 monthly installments of \$75,000, beginning May 2002, including interest at 4.35%, per annum, with the final installment payment due in April 2007, uncollateralized.	390,377	390,377
Receivable due from Guam Waterworks Authority (GWA) under a memorandum of understanding (see note 11), with monthly installments of \$25,688, non-interest bearing, starting October 2009.	216,993	216,993
Receivable due from GWA, payable monthly from a water rate surcharge, interest at 4.3% per annum, uncollateralized.	<u>-</u>	<u>1,547,818</u>
	4,693,078	8,602,879
Less current portion	<u>(2,870,328)</u>	<u>(4,470,997)</u>
	\$ <u>1,822,750</u>	\$ <u>4,131,882</u>

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(4) Receivables, Continued

Scheduled maturities of long-term receivables are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2012	\$ 2,870,328
2013	<u>1,822,750</u>
	\$ <u>4,693,078</u>

(5) Deferred Payment Agreement

At September 30, 2010, deferred payments of \$255,792 are due to a vendor, payable in various monthly installments including interest at 4% to 5% per annum. The balance was fully paid in 2011.

(6) Long-Term Debt

Long-term debt at September 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
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 semiannually 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 semiannually 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.	56,115,000	56,115,000
1999 Series Revenue Bonds, initial face value of \$349,178,601, interest at varying rates from 5.0% to 5.25% per annum payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$2,950,000 in October 2000, increasing to \$26,110,000 in October 2034.	309,265,000	313,700,000
1993 Series Revenue Bonds, initial face value of \$100,000,000, interest at 5.25% per annum payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,725,000 in October 1996, increasing to \$6,535,000 in October 2023.	<u>63,625,000</u>	<u>66,985,000</u>
	579,445,000	587,240,000

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(6) Long-Term Debt, Continued

Less current maturities	<u>(12,640,000)</u>	<u>(7,795,000)</u>
	566,805,000	579,445,000
Less discount on bonds	<u>(7,757,396)</u>	<u>(8,488,896)</u>
	559,047,604	570,956,104
Loss on defeasance, net of \$10,408,575 and \$9,528,977 of accumulated amortization in 2011 and 2010, respectively	<u>(11,581,374)</u>	<u>(12,460,972)</u>
Total bonds	\$ <u>547,466,230</u>	\$ <u>558,495,132</u>

As of September 30, 2011, 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>
2012	\$ 12,640,000	\$ 30,867,313	\$ 43,507,313
2013	20,815,000	30,147,875	50,962,875
2014	21,290,000	28,878,950	50,168,950
2015	22,710,000	27,461,788	50,171,788
2016	24,225,000	25,947,238	50,172,238
2017 through 2021	58,670,000	115,735,863	174,405,863
2022 through 2026	88,130,000	97,611,419	185,741,419
2027 through 2031	122,620,000	69,663,119	192,283,119
2032 through 2036	130,665,000	34,017,550	164,682,550
2037 through 2041	<u>77,680,000</u>	<u>13,118,800</u>	<u>90,798,800</u>
	\$ <u>579,445,000</u>	\$ <u>473,449,915</u>	\$ <u>1,052,894,915</u>

Proceeds of the 1993 Series Revenue Bonds, face value of \$100,000,000, 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, face value of \$349,178,601, were used to finance new projects as specified in the bond indenture and to retire certain outstanding bonds and commercial paper previously issued for the purpose of financing certain capital projects.

Proceeds of the 2010 Series Senior Revenue Bonds, face value of \$150,440,000, 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, face value of \$56,115,000, 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.

All gross revenues of GPA have been pledged to repay the 1993, 1999 and 2010 series bond principal and interest. The debt service for the 1993, 1999 and 2010 series bonds was \$30,078,450 for the year ended September 30, 2011 or approximately 7.6% of pledged gross revenues for the year. The debt service for the 1993 and 1999 series bonds was \$27,061,414 for the year ended September 30, 2010 or approximately 7.4% of pledged gross revenues for the year.

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(6) Long-Term Debt, Continued

Discounts associated with 1993, 1999 and 2010 bond series are being amortized on the straight line method, which approximates the effective interest method, over the life of the applicable debt.

On May 1, 1999, GPA issued the 1999 Series bonds of \$349,178,601 to finance 1999 projects; to retire \$45 million in tax exempt commercial paper notes; to retire GPA's 1992 and 1994 series bonds with a total principal outstanding of \$143,660,000 and \$99,820,000, respectively; and to pay the amount currently due on the 1993 bonds totaling \$1,950,000. The proceeds for the refunding of the aforementioned bonds were transferred to an escrow agent who used the proceeds to purchase U.S. Government securities which are to be held by the escrow agent in an irrevocable trust to provide debt service payments until maturity or earlier redemption of the 1992 and 1994 bonds. The advance refunding met the requirements of an in-substance defeasance and the 1992 and 1994 bonds were removed from GPA's financial statements. The advance refunding resulted in a loss on defeasance totaling \$21,989,949 representing the difference between the reacquisition price and the carrying amount of the 1992 and 1994 bonds. The loss has been deferred and amortized on a straight line basis over the remaining life of the 1992 and 1994 bonds and is reflected as a reduction of the bond liability in the accompanying statements of net assets.

On September 28, 2000, GPA entered into a Bond Reserve Fund Forward Delivery Agreement (the agreement) with Lehman Brothers and Bank of America. In connection with the agreement, GPA received cash, totaling \$13.5 million, in October 2000 representing the present value of interest income on certain invested bond proceeds. Based on the terms of the agreement, gross proceeds totaled \$17,521,029 while GPA incurred termination fees and closing costs totaling \$3,530,000 and \$1,250,529, respectively. The \$13.5 million in net proceeds included \$759,500 of interest income earned as of the closing date of the agreement. The gross proceeds, termination fees and closing costs have been deferred and amortized on a straight line basis over the average remaining life of the 1993 and 1999 bonds. The gross proceeds, net of amortization, are reflected as deferred revenue in the accompanying statements of net assets. The termination fees and closing costs amortization are reflected as a deferred asset in the accompanying statements of net assets. The current year amortization of deferred revenue and deferred asset is reflected as components of interest income and interest expense, respectively, in the accompanying statements of revenues, expenses and changes in net assets.

The following summarizes deferred revenues and deferred asset at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Deferred revenues	\$ 17,521,029	\$ 17,521,029
Accumulated amortization	<u>(6,424,695)</u>	<u>(5,840,677)</u>
	\$ <u>11,096,334</u>	\$ <u>11,680,352</u>
Deferred asset	\$ 4,780,529	\$ 4,780,529
Accumulated amortization	<u>(1,752,861)</u>	<u>(1,593,510)</u>
	\$ <u>3,027,668</u>	\$ <u>3,187,019</u>

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(6) Long-Term Debt, Continued

Changes in long-term liabilities are presented as follows:

	Outstanding October 1, 2010	Increases	Decreases	Outstanding September 30, 2011	Current
1993 Series bonds	\$ 66,985,000	\$ -	\$ (3,360,000)	\$ 63,625,000	\$ 3,535,000
1999 Series bonds	313,700,000	-	(4,435,000)	309,265,000	4,670,000
2010 Series bonds	206,555,000	-	-	206,555,000	4,435,000
Unamortized discount on bonds	(8,488,896)	-	731,500	(7,757,396)	-
Loss on defeasance of bonds	(12,460,972)	-	879,598	(11,581,374)	-
Obligations under capital leases (see note 10)	117,129,395	-	(9,063,655)	108,065,740	10,235,901
DCRS sick leave liability	1,722,649	289,669	-	2,012,318	-
Deferred payment agreements	255,792	-	(255,792)	-	-
Employees annual leave	2,641,179	2,026,721	(1,740,611)	2,927,289	2,263,391
Deferred revenues	<u>11,680,352</u>	<u>-</u>	<u>(584,018)</u>	<u>11,096,334</u>	<u>-</u>
	<u>\$ 699,719,499</u>	<u>\$ 2,316,390</u>	<u>\$ (17,827,978)</u>	<u>\$ 684,207,911</u>	<u>\$ 25,139,292</u>

	Outstanding October 1, 2009	Increases	Decreases	Outstanding September 30, 2010	Current
1993 Series bonds	\$ 70,175,000	\$ -	\$ (3,190,000)	\$ 66,985,000	\$ 3,360,000
1999 Series bonds	317,883,601	-	(4,183,601)	313,700,000	4,435,000
2010 Series bonds	-	206,555,000	-	206,555,000	-
Unamortized discount on bonds	(4,597,790)	(4,240,661)	349,555	(8,488,896)	-
Note payable to Bank	17,499,999	-	(17,499,999)	-	-
Loss on defeasance of bonds	(13,340,570)	-	879,598	(12,460,972)	-
Obligations under capital leases (see note 10)	125,157,707	-	(8,028,312)	117,129,395	9,064,045
DCRS sick leave liability	1,559,545	163,104	-	1,722,649	-
Deferred payment agreements	3,485,380	-	(3,229,588)	255,792	255,792
Employees annual leave	2,769,799	1,533,003	(1,661,623)	2,641,179	1,838,093
Deferred revenues	<u>12,264,370</u>	<u>-</u>	<u>(584,018)</u>	<u>11,680,352</u>	<u>-</u>
	<u>\$ 532,857,041</u>	<u>\$ 204,010,446</u>	<u>\$ (37,147,988)</u>	<u>\$ 699,719,499</u>	<u>\$ 18,952,930</u>

(7) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

GPA participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GPA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

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(7) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2009, 2008, and 2007, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2011, 2010 and 2009, respectively, have been determined as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Normal costs (% of DB Plan payroll)	17.00%	18.34%	17.36%
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>7.50%</u>	<u>8.84%</u>	<u>7.86%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.73%	3.70%
Unfunded liability cost (% of total payroll)	<u>21.75%</u>	<u>22.69%</u>	<u>19.68%</u>
Government contribution as a % of total payroll	<u>24.78%</u>	<u>26.42%</u>	<u>23.38%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>27.46%</u>	<u>26.04%</u>	<u>25.20%</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, 2011, 2010 and 2009 were \$3,001,267, \$2,793,428 and \$2,705,933, respectively, which were equal to the required contributions for the respective years then ended.

Defined Contribution Plan

Contributions into the Defined Contribution Retirement System (DCRS) plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual investment account within the DCRS. Employees are afforded the opportunity to select from different investment accounts available under the DCRS.

Statutory employer contributions into the DCRS plan for the years ended September 30, 2011 and 2010 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

GPA's contributions to the DCRS plan for the years ended September 30, 2011, 2010 and 2009 were \$4,141,724, \$3,595,455, and \$3,127,292, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$3,415,577, \$2,930,927 and \$2,530,670 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2011, 2010 and 2009, respectively.

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(7) Employees' Retirement Plan, Continued

Defined Contribution Plan, Continued

GPA has accrued an estimated liability of \$2,012,318 and \$1,722,649 at September 30, 2011 and 2010, respectively, for potential future sick leave payments pursuant to Public Law 26-86. 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, 2011, 2010 and 2009, GPA reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Supplemental benefits	\$ 746,609	\$ 852,325	\$ 359,528
Medical and dental	<u>2,010,978</u>	<u>1,382,375</u>	<u>1,567,588</u>
	<u>\$ 2,757,587</u>	<u>\$ 2,234,700</u>	<u>\$ 1,927,116</u>

(8) Commitments and Contingencies

Fuel Purchase Contracts

In March 2010, GPA has entered into an agreement to purchase residual fuel oil and low sulfur fuel oil. The agreement is for three years with an option to extend for two additional one year terms, renewable annually.

In 2009, GPA entered into two contracts to purchase diesel fuel oil. The agreements are for three years ending September 30, 2012 with an option to extend for two additional one year terms, renewable annually.

Capital Commitments

The 2012 capital improvement project budget is approximately \$70.6 million.

Operating Leases

On December 31, 2002, GPA entered into a lease agreement for its office building for a period of five years, including extensions, with a monthly rental of \$25,000. On January 1, 2008, GPA renewed the lease agreement 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.

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(8) Commitments and Contingencies, Continued

Operating Leases, Continued

GPA entered into a ten-year lease of fuel storage tanks beginning in September 1998, with monthly rentals increasing to \$107,500 in March 2003. On February 8, 2008, GPA renewed the agreement for an additional five year term from March 1, 2008 to February 28, 2013.

GPA entered into a commercial space lease beginning July 1, 2010, with monthly rentals of \$4,495. The lease has an option to renew for an additional term of five years.

At September 30, 2011, future minimum lease payments for operating leases are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2012	\$ 1,636,196
2013	752,040
2014	53,935
2015	<u>40,451</u>
	\$ <u>2,482,622</u>

Rent expense under the aforementioned agreements totaled \$1,636,196 and \$1,716,756 during the years ended September 30, 2011 and 2010, respectively.

Performance Management Contracts

During the year ended September 30, 2010, GPA entered into two new 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. These PMCs are for a period of five years with an option to extend for another five-year term.

At September 30, 2011, the minimum future management fees are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2012	\$ 2,587,404
2013	2,659,801
2014	2,734,177
2015	<u>2,526,743</u>
	\$ <u>10,508,125</u>

The above fees are subject to certain incentives and penalties, as agreed by both parties.

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.

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(8) Commitments and Contingencies, Continued

Litigation

GPA has several asserted and unasserted claims outstanding as of September 30, 2011. 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.

Self-Insurance

GPA self-insures its transmission and distribution (T&D) plant, because no insurance is available at reasonable rates.

As the result of a PUC Decision and Order, GPA added an insurance charge of \$.00145 per kilowatt hour to customer billings effective January 1, 1993 until a self- insurance fund balance of \$2.5 million is established. On February 12, 2008, PUC has approved the amendment of self-insurance program to be effective March 1, 2008 to reflect the following: (1) increase in surcharge ceiling from \$2.5 million to \$10 million; (2) increase in the surcharge from \$.00145 per kWh to \$.00290 per kWh for civilian ratepayers and from \$.00035 per kWh to \$.00070 per kWh for the U.S. Navy. As required by the Decision and Order, GPA records the insurance charge as sales revenue and records 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 in the event of a natural catastrophe.

In May 2011, PUC issued an order which allows GPA to continue to collect the surcharges at the same rate, beyond the \$10 million cap established in the 2008 order. The self-insurance fund, included in cash and cash equivalents held by GPA, is \$10,982,776 and \$7,065,846 at September 30, 2011 and 2010, respectively.

During the year ended September 30, 2010, GPA recovered typhoon-related preparation costs of \$166,960 from the self-insurance fund.

Hazardous Waste Assessment

Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law and, accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law.

Autonomous Agency Collections Fund

On March 31, 2011, GPA received an invoice from the GovGuam Department of Administration (GovGuam DOA) amounting to \$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*. 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, 2011 and therefore, no liability or other impact has been recognized in the accompanying financial statements.

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September 30, 2011 and 2010

(9) Agreements with the United States Navy

On September 15, 1996, a lease agreement was entered into between GPA and the U.S. Navy (Navy) to transfer to GPA the operations, maintenance and custody of certain Navy-owned electrical transmission and distribution lines, electric power generation facilities, related structures and equipment, together with the associated land interest. The facilities are leased to GPA at no cost for a period of 50 years.

During the years ended September 30, 2011 and 2010, GPA billed the Navy \$71,892,503 and \$69,123,041, respectively, for sales of electricity under a customer-supplier agreement. Receivables from the Navy were \$3,902,336 and \$3,505,408 at September 30, 2011 and 2010, respectively.

On July 12, 2010, the PUC adopted and approved the Joint Stipulation of Settlement between the Navy and GPA wherein GPA will refund the amount of \$4,117,098 covering the period October 2008 through April 2010 to account for an error in the calculation of unit fuel cost charged to the Navy. GPA credited the Navy the amount of the refund in equal installments over one year beginning in August 2010. As of September 30, 2010, the balance due is \$3,410,727 and is presented as payable to the Navy in the accompanying statements of net assets. The balance was fully refunded in 2011.

(10) 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.

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

At September 30, 2011 and 2010, the costs of the plant and plant improvements are \$171,382,727 and accumulated depreciation is \$61,075,206 and \$56,390,638, respectively.

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>Amount</u>
2012	\$ 23,084,304
2013	23,084,304
2014	23,084,304
2015	23,084,304
2016	23,084,304
2017-2019	<u>48,047,861</u>
	163,469,381
Less amounts representing interest	<u>55,403,641</u>
	108,065,740
Less current portion	<u>10,235,901</u>
	\$ <u>97,829,839</u>

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

Notes to Financial Statements
September 30, 2011 and 2010

(11) Related Party Transactions

During the years ended September 30, 2011 and 2010, GPA billed GovGuam agencies \$58,863,737 and \$54,466,058, respectively, for sales of electricity. Receivables (excluding long-term receivables) from GovGuam agencies were \$7,036,750 and \$5,004,039 at September 30, 2011 and 2010, respectively.

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, 2011 and 2010 were \$15,191,769 and \$14,169,237, respectively.

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 amounted to \$334,576 and \$818,616 in 2011 and 2010, respectively. Outstanding receivables for administrative expenses and cost reimbursements billed by GPA to GWA amounted to \$414,436 and \$310,264 as of September 30, 2011 and 2010, respectively. Additionally, at September 30, 2010, GPA has long-term receivables due from GWA of \$1,547,818 for a prior water surcharge which were fully collected during 2011 (see note 4).

During the year ended September 30, 2010, GPA recognized certain on-behalf payments as a transfer to GovGuam of \$1,178,100 pursuant to Public Law 30-101, which mandated the reimbursement of Cost of Living Allowance payments made by GovGuam in fiscal years 2007, 2008 and 2009 to eligible retirees. The amount is included in non-operating other expense in the accompanying statements of revenues, expenses and changes in net assets.

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. As of September 30, 2011, GPA is in the process of obtaining transfer of title and has yet to determine the fee simple value of the land. Accordingly, the land has not been recognized in the accompanying financial statements.

(12) Derivatives

GPA is exposed to market price fluctuations on its purchases of fuel oil. GPA uses derivatives such as commodity swaps to protect itself from increases in market prices.

At September 30, 2011 and 2010, GPA has outstanding commodity swaps of notional amounts of 169,938 and 59,814 metric tons, respectively, of low sulfur and high sulfur fuel oil. Payment is based on current spot prices at the settlement date.

At September 30, 2011 and 2010, the commodity swaps had a net positive fair value of approximately \$486,000 and \$156,000, respectively, which is recorded as a component of deferred fuel costs in accordance with GASB Statement No. 53 as discussed in note 1. At September 30, 2011 and 2010, there are three counterparties, rated as A-1, Aa2, A2 and A-1+ by Moody's and S&P.

The commodity swaps' fair value of \$486,000 and \$156,000 at September 30, 2011 and 2010, respectively, is subject to credit risk.

GUAM POWER AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(13) Restricted Net Assets

At September 30, 2011 and 2010, net assets are restricted for the following purposes:

	<u>2011</u>	<u>2010</u>
Debt Service	\$ 18,264,779	\$ 13,408,408
Capital Projects	<u>15,445,271</u>	<u>16,332,665</u>
	\$ <u>33,710,050</u>	\$ <u>29,741,073</u>

(14) Settlement

In January 2011, GPA received \$5,173,671 in full restitution related to an agreement between Bank of America (BOA) and the Securities and Exchange Commission for BOA's participation in a conspiracy to rig bids in the municipal bond derivatives market that defrauded several federal and state agencies, municipalities, and the Internal Revenue Service. The amount is presented as other non-operating income in the accompanying financial statements.

GUAM POWER AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(15) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2011 and 2010 is as follows:

	Estimated Useful Lives in Years	Beginning Balance October 1, 2010	Transfers and Additions	Transfers and Deletions	Balance September 30, 2011
2011					
<u>Depreciable:</u>					
Intangible plant	30	\$ 4,353,988	\$ -	\$ -	4,353,988
Steam production plant	25 - 50	92,888,589	5,300	(491,386)	92,402,503
Other production plant	25	254,956,123	128,754	(51,496)	255,033,381
Transmission plant	30 - 45	143,607,262	1,764,754	-	145,372,016
Distribution plant	25 - 45	171,666,920	5,755,027	(1,606,699)	175,815,248
General plant	3 - 60	29,935,562	2,123,941	(361,334)	31,698,169
Production plant under capital lease	20 - 40	171,382,727	-	-	171,382,727
		868,791,171	9,777,776	(2,510,915)	876,058,032
Accumulated depreciation		(383,122,491)	(26,121,870)	506,541	(408,737,820)
		485,668,680	(16,344,094)	(2,004,374)	467,320,212
<u>Non-depreciable:</u>					
Construction work in progress		6,873,135	17,489,318	(10,291,895)	14,070,558
		<u>\$ 492,541,815</u>	<u>\$ 1,145,224</u>	<u>\$ (12,296,269)</u>	<u>\$ 481,390,770</u>
2010					
		Beginning Balance October 1, 2009	Transfers and Additions	Transfers and Deletions	Balance September 30, 2010
<u>Depreciable:</u>					
Intangible plant	30	\$ 4,353,988	\$ -	\$ -	4,353,988
Steam production plant	25 - 50	92,703,050	732,786	(547,247)	92,888,589
Other production plant	25	253,686,334	1,715,018	(445,229)	254,956,123
Transmission plant	30 - 45	139,548,593	4,279,746	(221,077)	143,607,262
Distribution plant	25 - 45	165,622,814	6,441,924	(397,818)	171,666,920
General plant	3 - 60	29,606,907	871,297	(542,642)	29,935,562
Production plant under capital lease	20 - 40	171,382,727	-	-	171,382,727
		856,904,413	14,040,771	(2,154,013)	868,791,171
Accumulated depreciation		(355,748,260)	(28,443,290)	1,069,059	(383,122,491)
		501,156,153	(14,402,519)	(1,084,954)	485,668,680
<u>Non-depreciable:</u>					
Construction work in progress		9,950,817	12,986,458	(16,064,140)	6,873,135
		<u>\$ 511,106,970</u>	<u>\$ (1,416,061)</u>	<u>\$ (17,149,094)</u>	<u>\$ 492,541,815</u>

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES

Certain provisions of the Indentures are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indentures.

CERTAIN DEFINITIONS

Unless the context otherwise requires, the terms defined below will for purposes of this Official Statement have the following meanings, to be equally applicable to both the singular and plural forms of any of the terms defined.

Account

“Account” means each account established and given a designation pursuant to the Senior Indenture, the Subordinate Indenture or any Supplemental Indenture.

Accreted Value

“Accreted Value” means, with respect to any particular Bonds as of any given date of calculation, an amount equal to the sum of the principal amount of such Bonds plus accrued and unpaid interest on such Bonds as of such date, but not including interest payable on a current basis at least annually.

Act

“Act” means the Guam Power Authority Act of 1968, constituting Chapter 8, Title 12, Guam Code Annotated, as it may from time to time hereafter be amended or supplemented.

Annual Debt Service

“Annual Debt Service” means, for any Bond Year, the sum of (1) the interest falling due on then Outstanding Bonds (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times of and in amounts provided for by the Mandatory Sinking Account Payments applicable to such Term Bonds), but not including Capitalized Interest, (2) the principal amount of then Outstanding Serial Bonds falling due by their terms, and (3) the aggregate amount of all Mandatory Sinking Account Payments required; all as calculated for said Bond Year. For the purpose of determining the interest payable on Variable Rate Bonds, the interest rate used in the foregoing calculation shall be the actual interest rate for periods prior to the date of calculation and the maximum rate then permitted on such Variable Rate Bonds for periods subsequent to the date of calculation.

Authority

“Authority” means the Guam Power Authority, a public corporation of the Government created and operating pursuant to the Act.

Authorized Officer

“Authorized Officer” of the Trustee or Co-Trustee means and includes the chairman of the board of directors, the president, every vice president, every trust officer and any other officer or assistant officer of the Trustee or Co-Trustee, other than those specifically above mentioned, designated by a certificate of an Authorized Officer of the Trustee or Co-Trustee, as the case may be, as an Authorized Officer for purposes of the applicable Indenture.

Authorized Representative

“Authorized Representative” means the Chairman of the Board, the General Manager of the Authority or the Chief Financial Officer of the Authority, or any other officer or official of the Authority designated in writing by any of such officers whose signature has been certified to the Trustee and the Co-Trustee.

Board

“Board” means the Consolidated Commission on Utilities, acting as Board of Directors of the Authority. “Board” also means any officer or official of the Government whenever any action which the Act or the applicable Indenture or any Supplemental Indenture requires or permits the Board to take can, under the Organic Act of Guam or any provision of the Guam Code Annotated or any other Guam statute, be taken for or on behalf or in lieu of the Board only by such officer or official.

Bond Counsel

“Bond Counsel” means an attorney or firm of attorneys having a national reputation for expertise in matters relating to governmental obligations, the interest on which is excluded from gross income for federal income tax purposes under Section 103 of the Code, and familiar with the laws of Guam and procedures of the Government and the Authority.

Bond Fund

“Bond Fund” means each fund by that name established pursuant to the applicable Indenture.

Bond Year

“Bond Year” means, with respect to the 2012 Senior Bonds, the period of twelve consecutive months ending on October 1 in any year in which 2012 Senior Bonds are or will be Outstanding, and, with respect to any other Series, any other annual 12-month period as may be specified by the Supplemental Indenture authorizing such Series.

Bondholder

“Bondholder” means the person in whose name a Bond is registered.

Bonds, 1999 Series A Bonds, Serial Bonds, Term Bonds, 2010 Subordinate Bonds, 2010 Senior Bonds, 2012 Senior Bonds, Variable Rate Bonds

“Bonds” means, as context requires, the Senior Bonds, the Subordinate Bonds, or both of them.

“1999 Series A Bonds” means the Guam Power Authority Revenue Bonds, 1999 Series A, issued pursuant to the Senior Indenture, as supplemented.

“Serial Bonds” means the Bonds, falling due by their terms on specified dates, for which no Mandatory Sinking Account Payments are provided.

“Term Bonds” means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“2010 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.

“2012 Senior Bonds” means the Guam Power Authority Revenue Bonds, 2012 Series A, issued under the Senior Indenture.

“Variable Rate Bonds” means Bonds which bear interest at a rate which may change from time to time.

Business Day

“Business Day” means any day on which banks in the cities in which the Principal Offices of the Trustee, the Co-Trustee, the Depository, the Paying Agent and each Credit Provider, if applicable, are located are not required or authorized to close and on which the New York Stock Exchange is not closed.

Capitalized Interest

“Capitalized Interest” means interest on Bonds to be paid from the original proceeds of Bonds (including proceeds constituting accrued interest on the Bonds) and from income derived from the investment of such proceeds.

Certificate, Order, Request, Requisition, or Statement of the Authority

“Certificate,” “Order,” “Request,” “Requisition,” and “Statement” mean, respectively, a written certificate, order, request, requisition, or statement, executed on behalf of the Authority by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the applicable Indenture, each such instrument shall include the statements provided for in such Indenture.

Code

“Code” means the Internal Revenue Code of 1986 or any similar or successor federal law, including any applicable regulations thereunder.

Construction Fund

“Construction Fund” means the Revenue Bond Construction Fund established pursuant to the Senior Indenture within the Guam Power Authority Construction Fund created pursuant to Section 8236 of the Act.

Continuing Disclosure Agreement

“Continuing Disclosure Agreement” means, with respect to the 2012 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

“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 Depository, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, Credit Facility fees or premiums, fees and expenses of counsel to any Credit Provider and any other cost, charge or fee in connection with the original issuance of Bonds.

Co-Trustee

“Co-Trustee” means U.S. Bank National Association, acting as an independent co-trustee under the applicable Indenture with the duties and powers therein provided, and any other corporation or association which may at any time be substituted in its place as such co-trustee, as provided therein.

Credit Agreement

“Credit Agreement” means any agreement between the Authority and a Credit Provider pursuant to which such Credit Provider agrees to provide a Credit Facility or pursuant to which the Authority agrees to reimburse a Credit Provider for draws or advances under or claims made against a Credit Facility.

Credit Facility

“Credit Facility” means, with respect to the Senior Bonds, the municipal bond insurance policy issued by Ambac Assurance Corporation as Credit Provider for certain of the 1999 Series A Bonds maturing on October 1 in the years 2005 through 2015, 2018, 2020 and 2024 (collectively, the “1999 Series A Insured Bonds”); the insurance policy issued by the 2010 Credit Provider guaranteeing the scheduled principal of and interest on the 2010 Senior Bonds maturing on October 1, 2037 (collectively, the “2010 Insured Bonds”) when due; the 2012 Credit Facility with respect to the 2012 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

“Credit Provider” means any person, firm or entity designated in a Supplemental Indenture as providing supplemental credit support for a Series of Bonds.

Depository

“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

“Director of Administration” means the Director of Administration, head of the Department of Administration within the executive branch of the Government.

DTC

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

Event of Default

“Event of Default” means any of the events specified in the applicable Indenture.

Federal Securities

“Federal Securities” means, 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

“Fiduciaries” means the Trustee, the Co-Trustee, each Depository and each Paying Agent.

Fiscal Year

“Fiscal Year” means the period beginning on October 1 of each year and ending on the next succeeding September 30, or any other twelve-month period selected and designated as the official fiscal year period of the Authority.

Fund

“Fund” means each fund established and given a designation pursuant to the Senior Indenture, the Subordinate Indenture or any Supplemental Indenture.

Government

“Government” means the Government of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

Governor

“Governor” means the Governor of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

Indenture

“Indenture” means, as context requires, either the Senior Indenture, the Subordinate Indenture, or both of them.

Independent

“Independent” means, when used with respect to any given Person, that such Person (who may be selected and paid by the Authority) is acceptable to the Trustee and (1) is in fact independent and, not under domination of the Authority; (2) does not have any substantial interest, direct or indirect, with the Authority; and (3) is not connected with the Authority as an officer or employee of the Authority, but who may be regularly retained to provide services to the Authority.

Independent Consultant

“Independent Consultant” means any Independent certified public accountant, Independent engineer or other Independent consultant, who is in any case nationally recognized as being experienced in the preparation of feasibility studies for use in connection with the financing of power facilities.

Interest Accrual Period

“Interest Accrual Period” means, for any particular Bond, each period between successive Interest Payment Dates for such Bond, including in each case in such period the concluding Interest Payment Date but not the beginning Interest Payment Date, and treating the date of original issuance of such Bond as if it were an Interest Payment Date for such Bond for this purpose.

Interest Payment Date

“Interest Payment Date” means, for any particular Bond, each date specified as an Interest Payment Date for such Bond or Bonds by the applicable Indenture or by the Supplemental Indenture authorizing the issuance of such Bond or Bonds and, for all Bonds, all such dates.

Investment Securities

“Investment Securities” means, 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 hereunder and then proposed to be invested therein:

(i) any obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including any such obligations of the Export-Import Bank, the Farmers Home Administration, the General Services Administration, the U.S. Maritime Administration, the Small Business Administration, the Government National Mortgage Association, the U.S. Department of Housing and Urban Development and the Federal Housing Administration;

(ii) bonds, notes or other evidences of indebtedness rated in the highest rating category by Moody’s Investors Service and Standard & Poor’s Corporation, issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, with remaining maturities not to exceed three years;

(iii) any bonds or other obligations of any state of the United States of America or any agency, instrumentality or local government unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, and (b) which are rated in the highest rating category of either Moody’s Investors Service or Standard & Poor’s Corporation;

(iv) U.S. Dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks (without consideration of rating of any such bank’s holding company) which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by Standard & Poor’s Corporation and “P-1” by Moody’s Investors Service and maturing no more than 360 days after the date of purchase;

(v) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by Standard & Poor’s Corporation and “P-1” by Moody’s Investors Service and which matures not more than 270 days after the date of purchase;

(vi) investments in a money market fund rated “AAAm” or “AAAm-G” or better by Standard & Poor’s Corporation; and

(vii) investment agreements or other forms of investments selected by the Authority, approved in writing by the Credit Provider for such Bonds, and having no adverse impact on the rating of any Bonds after notice to each Rating Agency.

Legislature

“Legislature” means the Legislature of Guam or any successor to the rights, powers and obligations thereof under the Act with respect to the Bonds.

Maintenance and Operation Expenses

“Maintenance and Operation Expenses” means (i) the fees and expenses of the Fiduciaries and any Credit Providers, (ii) any amounts required to be deposited in the Rebate Fund, and

(iii) all reasonable costs of operating and maintaining the System, including refunds of rates and charges that are collected in error, as authorized by Section 8204 of the Act, and all reasonable repairs, renewals, replacements, System insurance costs and costs of insurance or other provision for retirement of officers and employees of the Authority (all of which said charges are to be made in conformity with generally accepted accounting principles) exclusive in all cases of depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, and also exclusive of all interest charges and charges for the payment of principal or amortization of bonded or other indebtedness of the Authority, and also exclusive of all in-lieu tax payments required to be made by the Authority to the Government pursuant to Section 8115 of the Act.

Such Maintenance and Operation Expenses of the System include, generally, but without limitation, fuel, purchased power, salaries and wages, fees for services, materials and supplies, rents, office supplies, and all other costs that are charged directly or apportioned to the maintenance and operation of the production, transmission and distribution facilities of the System, customer accounts, sales and administrative functions, or to the general operation of the Authority.

Said term also includes all Revenues required by any Supplemental Indenture and by the Act to be deposited in any one or more reserve funds or accounts in lieu of insurance.

Said term does not include costs, or charges made therefor, for additions, betterments, extensions or improvements to or retirements from the System, which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and does not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Authority.

Mandatory Sinking Account Payment

“Mandatory Sinking Account Payment” means, as of any date of calculation with respect to any Series of Bonds, the amount required by the applicable Indenture or any Supplemental Indenture to be paid by the Authority on a given date for the retirement of Term Bonds of such Series.

Maximum Annual Debt Service

“Maximum Annual Debt Service” means, for any particular Bonds as of any date of calculation, Annual Debt Service on such Bonds for the Bond Year commencing on or after such date for which such sum shall be largest.

MSRB

“MSRB” means the Municipal Securities Rulemaking Board, and its successors and assigns. Until otherwise designated by the MSRB, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB located at <http://emma.msrb.org>.

Net Revenues

“Net Revenues” means, for any particular period, all of the Revenues received during such period less all Maintenance and Operation Expenses incurred during such period.

1993 Supplemental Indenture

“1993 Supplemental Indenture” means the Supplemental Indenture, dated as of October 1, 1993, among the Authority, the Trustee and the Co-Trustee, relating to the 1993 Series A Bonds.

1994 Supplemental Indenture

“1994 Supplemental Indenture” means the Supplemental Indenture, dated as of October 1, 1994, among the Authority, the Trustee and the Co-Trustee, relating to the 1994 Series A Bonds.

1999 Series A Credit Facility

“1999 Series A Credit Facility” means the municipal bond insurance policy issued with respect to the 1999 Series A Insured Bonds.

1999 Series A Insured Bonds

“1999 Series A Insured Bonds” means the 1999 Series A Serial Bonds maturing on October 1 in the years 2005 through 2015 and the 1999 Series A Term Bonds maturing on October 1, 2018, October 1, 2020 and October 1, 2024.

1999 Series A Credit Provider

“1999 Series A Credit Provider” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, and its successors.

1999 Supplemental Indenture

“1999 Supplemental Indenture” means the Supplemental Indenture, dated as of May 1, 1999, among the Authority, the Trustee and the Co-Trustee, relating to the 1999 Series A Bonds.

Opinion of Counsel

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority. 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

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the applicable Indenture with respect to disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Co-Trustee under the applicable Indenture except (1) Bonds theretofore cancelled by the Co-Trustee or surrendered to the Co-Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the applicable Indenture, including Bonds (or portions of Bonds) referred to in the applicable Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds of the same Series, maturity and tenor shall have been authenticated and delivered by the Co-Trustee pursuant to the applicable Indenture.

Participants

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as a securities depository.

Paying Agent

“Paying Agent” means, with respect to the 2012 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

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Principal Office

“Principal Office” means, with respect to the Trustee and with respect to the 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 2012 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

“Principal Payment Period means the twelve calendar months next preceding each maturity date or Mandatory Sinking Account Payment date for the 1993 Series A Bonds, the 1999 Series A Bonds, the 2010 Senior Bonds and the 2012 Senior Bonds, 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

“Proceeds Fund” means the Subordinate Revenue Bond Proceeds Fund established pursuant to the Subordinate Indenture.

Project

“Project” means any addition, extension, betterment or other improvement to the System, including without limitation any equipment or furnishings and any land therefor or the payment of any claims or judgments relating thereto, as specified and described by the Supplemental Indenture authorizing issuance of any Bonds for any such Project, and as such specifications and description may be modified in accordance with the applicable Indenture.

Project Costs

“Project Costs” means, with respect to any given Project, all costs thereof, including (i) Costs of Issuance of any Bonds issued to finance such Project; (ii) Capitalized Interest; (iii) any costs or

expenses of the acquisition, construction or completion of such Project or any part thereof or any costs or expenses incidental thereto, including payment to the United States or any other public body for the portion to be borne by the Board of the cost of any work done by the United States or such public body for or jointly or in conjunction with the Board; and (iv) any engineering, inspection, legal, consultants' or paying agents' fees relating or incidental to the acquisition, construction or completion of the System or any part thereof; or the authorization, issue or sale of Bonds.

PUC

"PUC" means the Public Utilities Commission of Guam, established and existing pursuant to Chapter 12, Title 12, Guam Code Annotated, and any successor to its rights, duties and powers.

Rating Agency

"Rating Agency" means, at any time with respect to any Bonds, any rating agency then rating such Bonds at the request of the Board.

Rebate Fund

"Rebate Fund" means the Fund by that name established pursuant to the applicable Indenture.

Record Date

"Record Date" means, for any particular payment of principal of or interest or premium on particular Bonds, each date specified as a Record Date for such Bonds by the applicable Indenture or by the Supplemental Indenture authorizing the issuance of such Bonds. The Record Date for the 2012 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

"Redemption Price" means, with respect to any Bond (or portion thereof if less than all of a Bond is to be redeemed) the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the applicable Indenture.

Representation Letter

"Representation Letter" means the Letter of Representations to DTC from the Authority and the Trustee, and any similar letter to which the provisions of the applicable Indenture are made applicable.

Revenues

"Revenues" means and includes: (i) any and all rates and charges received or receivable in connection with, and any and all other income and receipts of whatever kind and character derived by the Authority from the operation of or arising from the System, but not including refundable deposits made by customers of the System to establish the creditworthiness of such customers, customer advances for construction or contributions in aid of construction; (ii) any moneys received or receivable by the

Authority pursuant to any contract between the Authority and any person, which moneys are designated as Revenues in such contract; and (iii) all earnings on any investment of any Revenues.

Securities Depository

“Securities Depository” means DTC, or such other securities depository, or no such depository, as the Authority may designate in a Certificate delivered to the Co-Trustee.

Senior Bond Reserve Fund

“Senior Bond Reserve Fund” means the fund by that name established pursuant to the Senior Indenture.

Senior Bond Reserve Fund Requirement

“Senior Bond Reserve Fund Requirement” means, on any date of calculation, an amount equal to Maximum Annual Debt Service on all then Outstanding Senior Bonds or such higher amount as may be specified by Supplemental Indenture. For purposes of this definition, the interest rate on each Variable Rate Bond shall be assumed to be the maximum rate then permitted on such Senior Bond.

Senior Bonds

“Senior Bonds” means the Guam Power Authority Revenue Bonds authorized by, and at any time outstanding pursuant to, the Senior Indenture.

Senior Indenture

“Senior Indenture” means the Indenture, dated as of December 1, 1992, by and among the Authority, the Trustee and the Co-Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture, including the 1993 Supplemental Indenture, the 1994 Supplemental Indenture, the 1999 Supplemental Indenture, the 2010 Supplemental Indenture and the 2012 Supplemental Indenture.

Series

“Series” or “Series of Bonds” means and refers to all Bonds of like designation authenticated and delivered on original issuance at the same time pursuant to the Senior Indenture or the Subordinate Indenture, as applicable, and any Bonds thereafter delivered in lieu of or substitution for any of such Bonds pursuant to such Indenture.

Sinking Accounts

“Sinking Accounts” means any special account or accounts established in either Bond Fund for the payment of Term Bonds.

Subordinate Bond Reserve Fund

“Subordinate Bond Reserve Fund” means the fund by that name established pursuant to the Subordinate Indenture.

Subordinate Bond Reserve Fund Requirement

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

Subordinate Bonds

“Subordinate Bonds” means the Guam Power Authority Subordinate Revenue Bonds authorized by, and at any time outstanding pursuant to, the Subordinate Indenture.

Subordinate Indenture

“Subordinate Indenture” means the Indenture, dated as of June 1, 2010, by and among the Authority, the Trustee and the Co-Trustee, as amended or supplemented.

Subordinate Revenue Fund

“Subordinate Revenue Fund” means the Subordinate Revenue Bond Revenue Fund established pursuant to the Subordinate Indenture.

Supplemental Indenture

“Supplemental Indenture” means any indenture duly executed and delivered, supplementing, modifying or amending the Senior Indenture or the Subordinate Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized thereby.

Surplus Fund

“Surplus Fund” means the fund by that name established pursuant to the Senior Indenture.

System

“System” means the entire electric power system of the Authority, including the existing electric production, transmission, distribution and general plant facilities and all the electric production, transmission, distribution and general plant facilities hereafter acquired by lease, contract, purchase or otherwise or constructed by the Authority, including the facilities of the Projects, together with all additions, betterments, extensions and improvements to said electric power system or any part thereof subsequently made, and including any electric power system facilities acquired by lease, contract, purchase or otherwise from any Person, together with all administration buildings, furniture, facilities, machinery and equipment of the Authority and all lands, easements and rights of way of the Authority and all other works, property or structures of the Authority used or useful in connection with or related to said electric power system.

Tax Certificate

“Tax Certificate” means, with respect to any one or more Series of Bonds, a Certificate or Certificates of the Authority concerning the calculation of any amount to be paid to the United States of America pursuant to Section 148(f) of the Code and any other matters relating to the exclusion of interest on such Bonds from gross income for federal income tax purposes or other federal tax law matters relating to such Bonds.

Trustee

“Trustee” means Bank of Guam, and any other corporation or association which may at any time be substituted in its place as trustee, as provided in the applicable Indenture.

2010 Credit Provider

“2010 Credit Provider” means Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), a New York stock insurance company, or any successor thereto or assignee thereof.

2010 Insured Bonds

“2010 Insured Bonds” means the 2010 Senior Bonds maturing on October 1, 2037.

2010 Supplemental Indenture

“2010 Supplemental Indenture” means the Fourth Supplemental Indenture, dated as of June 1, 2010, among the Authority, the Trustee and the Co-Trustee, relating to the 2010 Senior Bonds.

2012 Credit Facility

“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

“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

“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 Supplemental 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.

Working Capital Fund

“Working Capital Fund” means the Fund by that name established pursuant to the Senior Indenture.

Working Capital Requirement

“Working Capital Requirement” means, on any date of calculation, an amount equal to one-twelfth of the aggregate amount of Maintenance and Operation Expenses budgeted, pursuant to the budget filed by the Authority pursuant to the Senior Indenture, to be paid from Revenues during the then current Fiscal Year.

THE SENIOR INDENTURE

Funds

The following funds are established under the Senior Indenture:

Construction Fund - Moneys on deposit in the Construction Fund will be disbursed by the Depositary for the payment or reimbursement of the costs of each Project for which a Series of Senior Bonds is issued, including the costs associated with the issuance of such Series of Senior Bonds and Capitalized Interest, and, to the extent necessary, to fund any deficiency in the Senior Bond Fund for the payment of principal of and interest on the Senior Bonds or redemption price thereof.

Revenue Fund - The Authority shall pay all Revenues, upon receipt, to the Depositary for deposit in the Revenue Fund. Moneys on deposit in this Fund shall be applied in the manner described under “Sources of Payment; Rate Covenant; 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, shall be paid by the Depositary to the Authority, free and clear of the pledge and lien of the Senior Indenture.

Sources of Payment; Rate Covenant; 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 will be used to pay budgeted Maintenance and Operation Expenses as such expenses become due and payable. Amounts in the Revenue Fund will also be transferred to the Rebate Fund as required by the Senior Indenture and to the Senior Bond Fund to satisfy any deficiency in such Fund.

On or before the fifth day of each month, the Depositary shall transfer moneys in the Revenue Fund for deposit in the following funds, in the amounts and in the following priority: (1) into the Senior Bond Fund held by the Co-Trustee, an amount, for each Series of Senior Bonds, which if paid in equal monthly installments will be sufficient to pay interest becoming due on the next Interest Payment Date plus, during the Principal Payment Period for each Senior Bond, an amount which, if paid in equal monthly installments in each month during such Principal Payment Period, would yield moneys sufficient to pay the principal or Mandatory Sinking Account Payment due and payable on the interest payment date next succeeding such Principal Payment Period for such Senior Bond; (2) into the Senior Bond Reserve Fund held by the Co-Trustee, the amount, if any, necessary to increase the balance in such Fund to the Senior Bond Reserve Fund Requirement; (3) into the Working Capital Fund, the lesser of (a) the amount,

if any, needed to increase the amount in the Working Capital Fund to the Working Capital Requirement, or (b) an amount equal to one-sixth of the Working Capital Requirement; and (4) into the Surplus Fund, the balance remaining in the Revenue Fund after the foregoing deposits have been made.

Redemption of Senior Bonds

The 2012 Senior Bonds are subject to redemption prior to their respective stated maturities as explained in the Official Statement under the captions “THE 2012 BONDS —Redemption of the 2012 Senior Bonds.” Any Series of Senior Bonds other than the 2012 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 2012 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 2012 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 2012 BONDS —Redemption of the 2012 Senior Bonds —2012 Senior Bonds” in the body of this Official Statement for additional provisions relating to the redemption of the 2012 Senior Bonds.

Upon the redemption in part of 2012 Insured Bonds or the 2010 Insured 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 investment; provided that so long as the 1992 Series A Serial Senior Bonds are Outstanding, amounts in the Senior Bond Reserve Fund shall not be invested in Investment Securities maturing in more than five years without the prior written consent of the Credit Provider with respect to such Senior Bonds. All Investment Securities and other investments are subject to the limitations set forth in the Senior Indenture.

All interest and other profit derived from such investments are required to be deposited at least monthly in the Revenue Fund, except that interest and other profit derived from the investment of monies in the Construction Fund or the Rebate Fund shall be retained in each such respective fund.

Investment Securities acquired as an investment of moneys in any fund or account established under the Senior Indenture are required to be credited to such fund or account. Investment Securities in the Senior Bond Reserve Fund and the Senior Bond Fund shall be valued on each Interest Payment Date at the lesser of amortized value or market value as of such date.

If and to the extent provided by a Supplemental Indenture authorizing the issuance of an additional Series of Senior Bonds, the portion of the Senior Bond Reserve Fund Requirement allocable to such Series may be wholly or partially satisfied by a Credit Facility, provided that such Credit Facility is provided by a Credit Provider rated, at the time of deposit of such Credit Facility, in the highest rating category by Moody's Investors Service and Standard & Poor's Corporation. Such Supplemental Indenture may also provide that if a drawing on such Credit Facility is honored, amounts available under the Senior Indenture for deposit in the Senior Bond Reserve Fund shall be applied by the Co-Trustee to reimburse, as soon as practicable, the amount of each payment honoring such drawing and the Co-Trustee shall give notice of such reimbursement required by the applicable Credit Agreement. The prior written consent of the 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 2012 Senior Bonds be excluded from gross income for federal income tax purposes. The Authority reserves the right to determine the desired tax status of any additional Series of Senior Bonds.

(B) The Authority shall not use or permit the use of any proceeds of the 2012 Senior Bonds or any other funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not use or permit the use of any amounts received by the Authority in any manner, and shall not take or permit to be taken any other action or actions, which would cause any such Senior Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code or to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(C) The Authority shall at all times do and perform all acts and things permitted by law and the Senior Indenture which are necessary or desirable in order to assure that interest paid on the 2012 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

Depository 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.

Amendment of Senior Indenture by Fifth Supplemental Indenture

In accordance with the provisions of the Senior Indenture permitting certain amendments, the 2012 Supplemental Indenture amends the Senior Indenture to permit amounts in the Senior Bond Reserve Fund to be used and withdrawn by the Co-Trustee upon the closing of the 2012 Senior Bonds for the purpose of making a one-time payment to the Authority in reimbursement of its payment to Lehman Brothers Special Financing Inc. ("LBSF") of a termination payment in connection with the termination of a Bond Reserve Fund Forward Delivery Agreement, dated as of September 28, 2000, by and among the Co-Trustee, the Authority and LBSF, provided that on the closing date of the 2012 Senior Bonds the Co-Trustee also shall have received the net proceeds of the 2012 Senior Bonds, together with instructions from the Authority to deposit such proceeds in the amount necessary to increase the amount on deposit in the Bond Reserve Fund to the Bond Reserve Fund Requirement, calculated taking into account such withdrawal and the issuance of the 2012 Senior Bonds, and shall have made such deposit of proceeds on such closing date. This amendment shall take effect immediately upon the effectiveness of the 2012 Supplemental Indenture.

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 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 ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the 2010 Credit Provider, pre-refunded municipal obligations rated "AAA" and "Aaa" by Standard & Poor's Corporation Moody's Investors Service, respectively, or (5) subject to the prior written consent of the 2010 Credit Provider, securities eligible for "AAA" defeasance under then existing criteria of Standard & Poor's Corporation, or any combination thereof, shall be used to effect defeasance of the 2010 Insured Bonds unless the 2010 Credit Provider otherwise approves.

To accomplish defeasance of the 2010 Insured Bonds, the Authority shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the 2010 Credit Provider ("Accountant") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the 2010 Credit Provider), (iii) an opinion of nationally recognized bond counsel to the effect that the 2010 Insured Bonds are no longer "Outstanding" under the Senior Indenture and (iv) a certificate of discharge of the Trustee with respect to the 2010 Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Authority, the Trustee or Co-Trustee, as appropriate, and the 2010 Credit Provider. The 2010 Insured Bonds shall be deemed "Outstanding" under the Senior Indenture unless and until they are in fact paid and retired or the above criteria are met.

Notwithstanding anything in the Senior Indenture to the contrary, any adjustments to the calculation of Revenue made in anticipation of the receipt of Build America Bond subsidy payments with respect to the 2010 Insured Bonds shall be disregarded in the event the Authority does not, or will not, receive such subsidy payments.

Provisions Relating to the 1999 Series A Credit Provider*

So long as the Credit Facility with respect to the 1999 Series A Insured Bonds remains in effect and the 1999 Series A Credit Provider is not in default with respect thereto, the provisions summarized under this heading shall apply. For purposes of the provisions summarized below, the term “Credit Facility” shall mean the Credit Facility issued by the 1999 Series A Credit Provider for the 1999 Series A Insured Bonds.

Any provision of the Senior Indenture expressly recognizing or granting rights in or to the 1999 Series A Credit Provider may not be amended in any manner which affects the rights of the 1999 Series A Credit Provider hereunder without the prior written consent of the 1999 Series A Credit Provider.

Unless otherwise provided in the section of the Senior Indenture summarized under this heading, the 1999 Series A Credit Provider’s consent shall be required in addition to 1999 Series A Insured Bondholder consent, when required, for the following purposes: (i) execution and delivery of any Supplemental Indenture; (ii) removal of any Fiduciary and selection and appointment of any successor; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires 1999 Series A Insured Bondholder consent.

Anything in the Senior Indenture to the contrary notwithstanding, upon the occurrence and the continuance of an Event of Default as defined in the Senior Indenture, the 1999 Series A Credit Provider shall be entitled to control and direct the enforcement of all rights and remedies granted to the 1999 Series A Insured Bondholders or the Trustee for the benefit of the 1999 Series A Insured Bondholders under the Senior Indenture to the same extent as if it were the holder of the 1999 Series A Insured Bonds insured by it, including, without limitation the right to participate in any direction to accelerate the principal of the 1999 Series A Insured Bonds as described in the Senior Indenture, to annul any such declaration of acceleration, and to approve all waivers of events of default. In order to be effective, any consent from the 1999 Series A Credit Provider to any such acceleration, annulment or waiver must, as applicable, include or be accompanied by an agreement either to pay the 1999 Series A Insured Bonds insured or otherwise secured by such Credit Facility as accelerated or to pay such 1999 Series A Insured Bonds and the interest thereon on the dates originally scheduled for such payment without regard to such acceleration.

Notwithstanding any other provision of the Senior Indenture, the Trustee or the Authority, as appropriate, shall immediately notify the 1999 Series A Credit Provider if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default under the Senior Indenture and of the declaration of acceleration of the 1999 Series A Insured Bonds.

The consent or direction of the 1999 Series A Credit Provider shall be treated as the consent or direction of the holders of the 1999 Series A Insured Bonds insured by it for purposes of any removal or replacement of a Fiduciary or any change in the qualifications applicable to any Fiduciary, as set forth in the Senior Indenture. Notwithstanding any other provision of the Senior Indenture, no removal, resignation or termination of any Fiduciary shall take effect until a successor, acceptable to the 1999 Series A Credit Provider, shall be appointed.

* The provisions relating to the 1999 Credit Provider will terminate in connection with the defeasance of the 1999 Series A Bonds. The remaining outstanding 1999 Series A Bonds are expected to be redeemed in full on November 19, 2012 with proceeds of the 2012 Senior Bonds.

Notwithstanding any other provision of the Senior Indenture, in determining whether the rights of the 1999 Series A Insured Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Senior Indenture, the Trustee or Co-Trustee shall consider the effect on the 1999 Series A Insured Bondholders as if there were no Credit Facility.

Notwithstanding anything in the Senior Indenture to the contrary, in the event that the principal and/or interest due on any 1999 Series A Insured Bonds shall be paid by the 1999 Series A Credit Provider pursuant to the Credit Facility with respect thereto, such 1999 Series A Insured Bonds shall remain Outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Authority, and the assignment and pledge of the Revenues and other assets pledged under the Senior Indenture and all covenants, agreements and other obligations of the Authority to the registered owners of such 1999 Series A Insured Bonds shall continue to exist and shall run to the benefit of the 1999 Series A Credit Provider, and the 1999 Series A Credit Provider shall be subrogated to the rights of such registered owners.

Waiver of Personal Liability

No legislator, officer, agent or employee of the Authority will be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Senior Bonds; but nothing contained in the Senior Indenture will relieve any such legislator, officer, agent or employee from the performance of any official duty provided by law.

THE SUBORDINATE INDENTURE

Funds

The following funds are established under the Subordinate Indenture:

Proceeds Fund – Amounts in the Proceeds Fund shall be used and withdrawn, as provided in the Subordinate Indenture, solely for (1) the purpose of paying, or reimbursing the Authority for the payment of, or refinancing, the Project Costs and Maintenance and Operation expenses for which a Series of Subordinate Bonds is issued pursuant to the Act, including the payment of Costs of Issuance of such Series and Capitalized Interest, and (2) the payment of principal of and interest on the Subordinate Bonds in the manner and to the extent provided in the Subordinate Indenture. The Depositary shall disburse moneys in the Proceeds Fund only upon Requisition of the Authority. Upon receipt of a Certificate of the Authority that amounts in said fund are no longer required for the purpose of said fund, said amounts shall be transferred to the Subordinate Revenue Fund.

Subordinate Revenue Fund – All Revenues deposited in the Surplus Fund and available for transfer to the Authority free and clear of the lien of the Senior Indenture shall be promptly paid over to the Trustee and deposited by the Trustee to the credit of the Subordinate Revenue Fund. Moneys on deposit in this Fund shall be applied in the manner described under “Sources of Payment; Rate Covenant” below.

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

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

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

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[Closing Date]

Guam Power Authority
Harmon, Guam

Guam Power Authority
Revenue Bonds, 2012 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 \$340,620,000 aggregate principal amount of Guam Power Authority Revenue Bonds, 2012 Series A (the “2012 Bonds”). The issuance of the 2012 Bonds is authorized pursuant to Chapter 8, Title 12, Guam Code Annotated, as amended (the “Act”), Public Law No. 31-233, approved by the 31st Guam Legislature on August 28, 2012, and signed by the Governor of Guam on September 7, 2012 (the “Law”), and Resolution No. 2012-61 of the Consolidated Commission on Utilities, adopted on September 25, 2012, and Resolution No. 12-050 of the Guam Economic Development Authority, adopted on September 20, 2012 (collectively, the “Resolutions”). The 2012 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 Fifth Supplemental Indenture, dated as of October 1, 2012 (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 2012 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 12-03, each dated September 25, 2012, 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 2012 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 2012 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 2012 Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the 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 2012 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 2012 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 2012 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 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2012 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under 48 U.S.C.A. Section 1423a, interest on the 2012 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 accrual or receipt of interest on, the 2012 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

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: /s/ Frank S. N. Shimizu
Chairperson

BANK OF GUAM, as Trustee

By: /s/ Glenn Cook
Vice President and Trust Officer

U.S. BANK TRUST NATIONAL ASSOCIATION,
as Co-Trustee

By: /s/ Gonzalo Urey
Trust Officer

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**

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EXHIBIT B

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of April, 1999:

Bloomberg Municipal Repository

P.O. Box 840

Princeton, NJ 08542-0840

(609) 279-3200/(609) 279-3204 to order documents

(609) 279-5962 or (609) 279-5963 [FAX]

Internet address: MUNIS@bloomberg.com

Contact: Lena Panich

JJ Kenny Information Services

The Repository

65 Broadway, 16th Floor

New York, NY 10006

(212) 770-4568

(212) 797-7994 [FAX]

e-mail address: joan_horai@mcgrawhill.com

Contact: Ms. Joan Horai, Repository

Thomson NRMSIR

Secondary Market Disclosure

395 Hudson Street, 3rd Floor

New York, NY 10014

(212) 807-5001

(212) 989-2078 [FAX]

Contact: Carolyn Chin

e-mail address: Disclosure@muller.com

DPC Data, Inc.

One Executive Drive

Fort Lee, N.J. 07024

(201) 346-0701

(201) 947-0107 [FAX]

Contact: NRMSIR

Internet address: nrmsir@dpdata.com

**GUAM POWER AUTHORITY
REVENUE BONDS, 2012 SERIES A**

SUPPLEMENTAL CONTINUING DISCLOSURE AGREEMENT

This Supplemental Continuing Disclosure Agreement (this “Supplemental Disclosure Agreement”), dated as of October 1, 2012, supplementing the Master Continuing Disclosure Agreement, dated as of May 1, 1999 (the “Master Agreement” 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 \$340,620,000 Guam Power Authority Revenue Bonds, 2012 Series A (the “2012 Senior Bonds”). The 2012 Senior Bonds are being issued pursuant to the Indenture, dated as of December 1, 1992, as heretofore supplemented and amended, including as supplemented and amended by the Fifth Supplemental Indenture executed in connection with the issuance of the 2012 Senior Bonds, dated as of October 1, 2012, 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 2012 Senior Bonds. Except as expressly otherwise set forth herein, the terms and provisions of the Master Agreement are hereby made applicable to the 2012 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 2012 Senior Bonds. The following provisions shall apply solely to the 2012 Senior Bonds and shall supersede the provisions of the Master Agreement for purposes of the 2012 Senior Bonds.

(a) Solely with respect to the 2012 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.

“Official Statement” shall mean the Official Statement, dated October 4, 2012, relating to the 2012 Senior Bonds.

“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.

“Repository” shall mean the MSRB.

(b) With respect to the 2012 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;

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 — Customer Agreement”;

(e) an update to Table 1 (Largest Customers Fiscal Year 2011);

- (f) the balance in the self-insurance fund under the caption “THE GUAM ELECTRIC POWER SYSTEM – Insurance”, as of the end of such Fiscal Year;
- (g) an update to the historical information in Table 3 (Historical and Projected Customers, Energy Sale, Peak Demand and Revenues) for such Fiscal Year;
- (h) an update to the historical information in Table 4 (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 in the first paragraph under “FINANCIAL MATTERS — Outstanding Indebtedness” as of the end of such Fiscal Year;
- (j) the balance in the Working Capital Fund set forth under “FINANCIAL MATTERS — Working Capital and Liquidity” 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 5 (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 2012 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 2012 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 2012 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 2012 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 2012 Senior Bonds or other material events affecting the tax status of the 2012 Senior Bonds;

(2) Modifications to rights of 2012 Senior Bond holders;

(3) Optional, unscheduled or contingent 2012 Senior Bond calls;

(4) Release, substitution, or sale of property securing repayment of the 2012 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) Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2012 Senior Bonds pursuant to the Indenture.

(d) 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 (e) and (f) hereof.

(e) 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 (d) 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(f) hereof. If in response to a request under subsection 5(d), 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(d), 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.

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence of such event with the MSRB.”

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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 Senior Bonds (the “2012 Senior Bonds”). The 2012 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 2012 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 and www.dtc.org.

3. Purchases of 2012 Senior Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Senior Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2012 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 2012 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 2012 Senior Bonds, except in the event that use of the book-entry system for the 2012 Senior Bonds is discontinued.

4. To facilitate subsequent transfers, all 2012 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 2012 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 2012 Senior Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012 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 2012 Senior Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2012 Senior Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2012 Senior Bond documents, including the Indentures. For example, Beneficial Owners of 2012 Senior Bonds may wish to ascertain that the nominee holding the 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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:

Policy No: -N

BONDS: \$ in aggregate principal amount of

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

