

Moody's Investors Services**Global Credit Research****Rating Update**

20 APR 2004

Rating Update: Guam Power Authority**GUAM POWER AUTHORITY CREDIT RATING CONFIRMED AT Ba1****REMOVED FROM WATCHLIST AND STABLE CREDIT OUTLOOK
ASSIGNED**Electric Utilities
GU**Opinion**

NEW YORK, Apr 20, 2004 -- Moody's Investors Service has removed from Watch List and confirmed the Ba 1 credit rating on Guam Power Authority's (GPA) \$ 395,461,000 outstanding revenue bonds. Moody's has also changed the credit outlook to stable from negative.

GPA has begun to recover from the financial deterioration it experienced during 2002-2003 resulting from an extended economic downturn and from the impact of a major typhoon. Several positive developments have improved financial margins over the past year. New GPA financial management has also identified changes to GPA operations that can be expected to further improve GPA's financial position.

Already facing financial pressures resulting from a multi-year economic downturn, GPA was not prepared to handle the damage to revenue flows caused by a major typhoon that hit Guam in late 2002. Other factors that caused a precarious financial position included management turnover at GPA, the Guam government's slow payment of power bills, and the later than expected receipt of Federal Emergency Management Agency (FEMA) disaster aid.

Fiscal year 2003 ended with debt service coverage falling to 1.03 times. Much of this financial weakness was due to lost revenues resulting from less demand caused by the typhoon damage. Fuel costs were under-recovered by \$13 million. The GPA debt service coverage covenant was not met.

Some of the major changes to GPA operations that have resulted in a more stable credit outlook include:

*GPA is now governed by an elected board which provides it some independence from the Government of Guam. GPA still reports to the Government as a public corporation and its rates are regulated by the Public Utility Commission (PUC) but its decision-making can now be more focused on utility operations.

*The new board has hired a new management team with strong utility experience

which has been actively responding to the financial and operational issues.

*The board successfully petitioned the PUC to adjust fuel cost recovery (LEAC) to recover \$6 million/year of unrecovered fuel costs.

*There has been improved availability and capacity factors for the generation fleet which has contributed to better earnings. A major factor in the improvement in generation performance ratios has been the settlement of a dispute that brought an important 66 MW baseload unit back on-line.

*The board established a program to better hedge fuel prices through contract authority which has helped in lowering the LEAC (fuel cost adjustment charge).

*Established the economic dispatch of generation units and fuel-cost monitoring.

*Implemented a firmer policy to disconnect unpaid power accounts, including governmental accounts.

*GPA has also obtained a commitment from the Government of Guam to reimburse GPA for \$30 million of receivables that were built up during the recent economic downturn. While the Governor and Legislature approved a \$30 million bond issue to repay the GPA, that issue remains unresolved due to pending litigation.

GPA has several major challenges ahead, in addition to the continued improvement to financial performance. Guam has begun to experience economic growth (including expanding military presence) and resulting new electrical load which GPA must serve. A major priority of GPA is to underground as much of the distribution and transmission system as possible which will be a capital intensive project. GPA initially expects to internally fund its capital improvement program and expects to issue long-term financing over the next several years to complete the project.

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