



GUAM POWER AUTHORITY
ATURIDAT ILEKTRESEDAT GUAHAN
P O BOX 2977, AGANA, GUAM 96932-2977

July 19, 2010

Mr. Frederick J. Horecky
Legal Counsel
Public Utilities Commission
643 Chalan San Antonio, Suite 102B
Tamuning, Guam 96913

SUBJECT: DOCKET 10-01 – Bond Financing
RE: PETITION TO USE BOND FUNDS

Dear Mr. Horecky:

The Guam Power Authority desires to petition the Public Utilities Commission for two actions as follows:

- 1) GPA is seeking authorization to draw down the approximately \$6 million that represents the difference between the original loan amount of the commercial paper loan and the balance of the loan at the time of payoff. The amount represents a reimbursement to GPA for the payments made on the loan, and
- 2) GPA is seeking authorization to begin drawing down funds in conjunction with the Smart Grid Project.

\$6 MILLION DRAWDOWN

The Public Utilities Commission (PUC) adjudicated a rate petition from the Guam Power Authority in February 2008. One of the issues raised by the Authority in the petition was the need to begin paying down its \$20 million commercial paper loan with Cathay Bank. During the proceedings the issue was deferred and GPA did not receive a source of revenues with which to make principal payments on the loan. A few months after the PUC decision was made, GPA learned that it would be forced by Cathay Bank to begin making principal payment. In April 2009, GPA entered into a revised loan agreement with Cathay Bank wherein GPA was required to begin making principal payments toward the loan. Because GPA did not have a funding source from which to make these payments, GPA was forced to defer maintenance and capital projects. GPA is attaching documents reflecting the principal payments that were made on the loan during this period.

When GPA received authorization from the Consolidated Commission on Utilities to submit a petition for phase II of the rate relief for the aforementioned petition in August 2009, GPA believed the completion of a loan to refinance the Cathay Bank loan was imminent. In order to minimize the impact of the rate increase on customer billings and to balance the request for rate relief with GPA's 2010 budget, GPA assumed that it would receive a full \$20 million for the repayment of the Cathay Bank loan, it would use \$17.083 million to pay off the Cathay bank loan, and the remaining \$2.917 million would be used as an additional source of cash to minimize the impact of the rate increase sought by the Authority. Please see **Exhibit A** attached which represents the revenue requirement schedule upon which GPA's base rate petition was built.

Unfortunately, GPA was not able to close the commercial paper loan as planned and was forced to continue to absorb principal payments made on the loan without any offsetting source of revenues from which to make the loan payments. By the time the GPA bond issuance was completed, the principal balance of the loan had been paid down to \$13,749,999.95. Thus, GPA was forced to absorb principal payments of \$6,250,000.05 during the period when GPA was first required to make principal payments on the loan and the time the principal balance was paid off by the proceeds of the bond issuance. Therefore, GPA is requesting authorization to make a drawdown from the proceeds of the bond issuance to reimburse the

Authority for these principal payments which were absorbed by GPA. Please see **Exhibit B** attached which details the principal payments made to Cathay Bank against the outstanding commercial paper loan.

Because the recently adjudicated rate case was accepted by the PUC, and because the assumption of \$20 million in proceeds being received by the Authority for the commercial paper loan takeout was a central factor in the rate case, GPA believes that if the PUC acts now to preclude the Authority from receiving the full \$20 million in bond proceeds, the Authority should be entitled to revisit the rate case to examine this one line item only. Of course, this is not the preferred course of action, but GPA believes generally accepted ratemaking principles would be in the Authority's favor should it take this position.

GPA believes these funds should be made available to the Authority for purposes of providing working funds for the Authority. The Working Capital Fund has been a major topic of discussion between GPA and the PUC for the last 15 years or more. The Working Capital Fund was designed to be a type of rainy day fund for the Authority. The intent of the bond covenants was that the funds would be set aside and the Authority would operate with funds apart from the monies in the Working Capital Fund. Because GPA has been perpetually underfunded, GPA has never been able to maintain the balance of funds in the Working Capital Fund. Each time an event occurs such as the increase in the price of fuel, GPA has been forced to dip into the Working Capital Fund and has not been able to keep the fund fully funded.

GPA is grateful for the PUC actions which have allowed for the funding of the Working Capital Fund, but the Authority also requires a buffer of cash for working capital purposes to ensure that the Authority can get through a normal month without tapping into the Working Capital Fund. Liquidity was a very important issue raised in the last rate case and GPA believes this action would be one step in a long series of actions required to place the Authority in a solid financial position. We should also point out that when GPA's underwriters – Morgan Stanley – queried Moody's Investor's Service as to why they did not move GPA to an investment grade rating, one of their comments was related to the ability of GPA to maintain a fully funded Working Capital Fund. The indication was that with all the financial pressures facing GPA they didn't believe that the Authority would be able maintain a fully funded Working Capital Fund. Providing this buffer to the Authority would help GPA avoid any draws on the Working Capital Fund in the near future.

RW Beck, Inc. made a presentation to the Public Utilities Commission last December in which they previewed their findings from a liquidity study they performed on behalf of GPA. One of their findings was that GPA should plan to maintain a minimum liquidity target of 60 days of cash on hand. GPA intends to file this liquidity study with the Public Utilities Commission in the very near future with a petition for the Commission to adopt many of the recommendations made in the study. Because the PUC has already been briefed on this issue, GPA believes this provides a basis for the Commission to allow the Authority some cash buffer in excess of meeting the Working Capital Fund requirement described in GPA's bond indenture agreement.

As you can see, GPA strongly believes the \$6 million should be restored to the Authority and that there are many strong arguments to support this action. However, if the Commission continues to desire the funds be set aside for capital improvement projects, GPA would be willing to discuss a plan to release the funds to the Authority subject to restrictions established by the PUC. GPA wishes to remind the PUC that the reason why capital improvement projects have been curtailed in the past is that GPA has not had sufficient funds to weather changing cash needs caused by changes in fuel prices, changes in sales levels, etc. GPA asserts that by allowing the Authority to retain the \$6 million to be used as a cash buffer for such situations, the PUC action would help to ensure that revenue funded CIP projects take place as scheduled.

SMART GRID

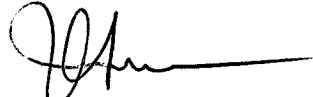
GPA has supplied a considerable amount of documentation for the Authority's Smart Grid project. The Georgetown Consulting Group has reviewed the materials and submitted a report to the PUC recommending approval of the project. GPA now seeks authorization from the PUC to begin making drawdowns from the 2010A Construction Fund for the purpose of paying approximately \$17 million in costs related to the Smart Grid project. We believe a sufficient record exists for the PUC to provide this authorization.

SUMMARY

For these reasons, we request the PUC to authorize GPA to reimburse itself for the \$6 million in principal payments made on the commercial paper loan and to begin making drawdowns from the 2010A Construction Fund for the Authority's Smart Grid Project in the amount of approximately \$17 million.

Please don't hesitate to contact me should you have any questions or comments regarding this filing.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Flores', with a long horizontal flourish extending to the right.

JOAQUIN C. FLORES, P.E.
General Manager