



GUAM POWER AUTHORITY

ATURIDÁT ILEKTRESEDÁT GUAHAN
P.O. BOX 2977 HAGÁTÑA, GUAM U.S.A. 96932-2977

21 September 2007



Mr. Harry Boertzel, Esq.
Administrative Law Judge
Public Utilities Commission
414 W. Soledad Avenue
GCIC Building, Suite 207
Hagatna, Guam 96910

SUBJECT: Petition for Immediate Drawdown of Additional Proceeds
of Tax Exempt Commercial Paper (TECP) Issuance
Docket No.: 94-04

Dear Mr. Boertzel:

Attached is the Guam Power Authority's Petition for Immediate Drawdown of the planned issuance of the Tax Exempt Commercial Paper.

Please do not hesitate to contact me if you should have any concerns regarding this petition.

Sincerely,

Joaquin C. Flores, P.E.
General Manager

Cc: Mr. Randall V. Wiegand, CFO
CFO 064 07



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Petition for Immediate Drawdown of Additional Proceeds of Tax Exempt Commercial Paper Issuance.

The Guam Power Authority (GPA) has been directed by the Consolidated Commission on Utilities pursuant to Resolution 2007 - 20 (see attached) to petition the Public Utilities Commission (PUC) for immediate drawdown authority related of the additional \$10 million of capacity from the GPA Tax Exempt Commercial Paper Program (TECP).

As you are aware, the Guam Power Authority initiated a Tax Exempt Commercial Paper program in 1997 to reduce the costs of GPA's line/letter of credit facilities. The initial offering of \$65 million was made up of \$45 million for Capital Improvement Projects (which was later replaced by GPA's 1999 Series bond issuance) and \$20 million to replace what were essentially working capital lines of credit. The \$20 million has been outstanding since that time.

GPA's program is supported by a line of credit and bond insurance. If GPA ever fails to make a payment when the commercial paper comes due, the line of credit provider will step in and make the payment and the commercial paper facility automatically converts to a loan. If GPA ever fails to make a payment on the loan, the insurer will step in and make the payment.

In 2003, when GPA's credit rating was downgraded by three rating agencies, GPA was advised that the current credit provider was no longer willing to support the GPA program. GPA issued a Request for Proposals for a new provider. GPA did not receive any formal responses; however, one inquiry was received. GPA began discussions with the bank that made the inquiry which led to a conversion of the program to a taxable commercial paper program.

Earlier this year, GPA petitioned the PUC for authority to seek alternatives for reverting back to a tax exempt program and to increase the capacity from \$20 million to \$30 million. The petition was approved by the PUC with the restriction that PUC approval must be obtained before the additional \$10 million can be drawn.

Shortly after receiving the approval from the PUC for the conversion of the commercial paper program and the increase in capacity, the Consolidated Commission on Utilities expressed concern about the vulnerable position that the Authority is in due to revenue shortfalls. GPA's inventory levels are at the lowest point in the last ten years. GPA has not entertained any new capital projects in Fiscal Year 2007. The U.S. Navy

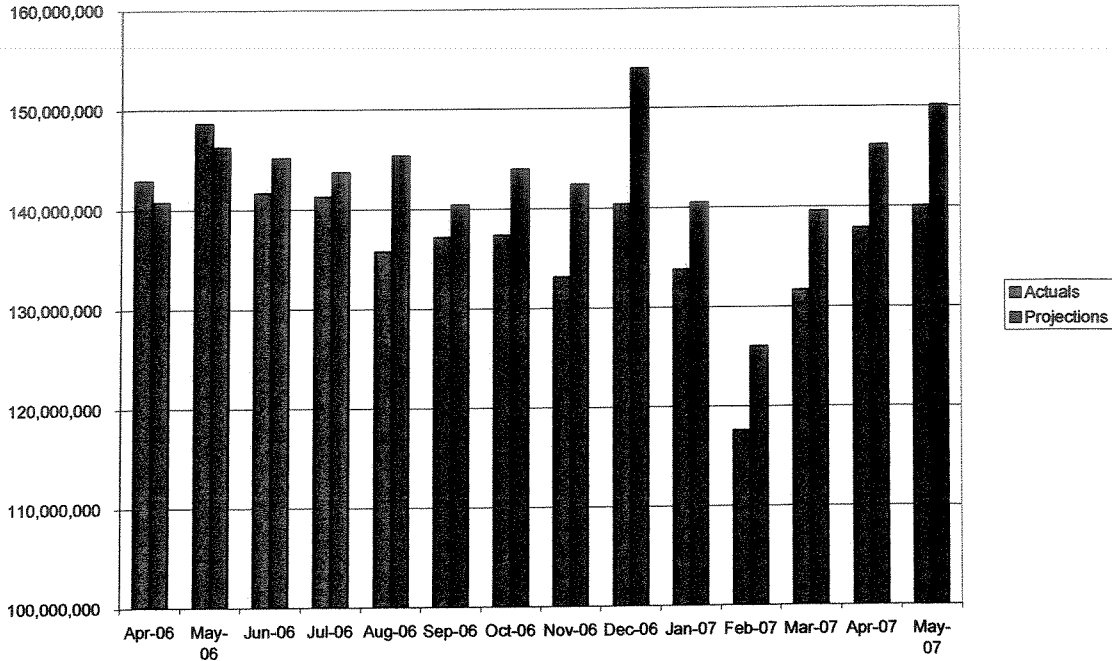
has requested GPA to undertake a major generation project that all parties believe would significantly improve reliability, but GPA has been unable to move forward.¹ GPA has been unable to move forward in its Integrated Resource Planning process (the PUC has recently approved a petition to access GPA's excess bond fund account for this project), GPA was unable to begin its load research study, GPA was unable to conduct a full cost of service study in conjunction with its upcoming rate petition, and balance sheet impacts of the increasing cost of fuel.

When the Consolidated Commission on Utilities first took office, the economy was recessing and recovering from Typhoon Pongsona. GPA's financial position was not very strong at the time, but GPA determined it would be best not to seek an immediate rate increase, but rather to try and allow the utility to grow its way out of its tight financial condition. This position was bolstered by continued talk of a coming military build up on the island. However, this strategy proved to be increasingly challenging as fuel prices continued to rise over the period. These cost increases were placing a significant strain on GPA's already weakened cash flow.

When GPA's first two months of financial statements became available for Fiscal Year 2007, the Authority realized that rather than the 3% increase in kWh sales that GPA had forecast in its budget, kWh sales were coming in about 2% behind the prior year figures. GPA sales were reflecting an elasticity that GPA had not witnessed at any time in the last decade. (See chart below showing the sudden reduction in kWh sales faced by the Authority) The GPA General Manager immediately recalled the budget documents and began to revise costs to ensure that GPA did not spend more cash than GPA was collecting. This led to what GPA acknowledges were some severe cuts. GPA also began to put together a plan to seek the rate increase it had tried very hard to avoid.

¹ In meetings between GPA and the Navy the issue has been brought forward that reliability could be improved if GPA were to install governor controls at its power plants especially the Cabras #3 & #4 plants. The Navy has raised this issue to the CCU. GPA has not been able to act on this request due to lack of funding availability. GPA does not consider this to be a special request that should be charged only to the Navy but is a project that GPA should complete in the normal course of operations.

kWh Sales Shortfall



As you are aware, the PUC was also raising concerns that GPA should be preparing for a rate increase. On February 2, 2007, the PUC issued an order for the Georgetown Consulting Group to investigate why GPA has not filed a petition for a rate increase. The Georgetown Consulting Group issued a preliminary report concluding that “there would appear to be a prima facie case for an upward base rate adjustment to improve coverage ratios, net income and cash flow.”

In its August 14, 2007 meeting, CCU Commissioners were expressing concern that it might be too risky for GPA to wait for the base rate petition to play out before addressing some of the critical conditions facing the Authority. The Commissioners suggested that GPA should immediately petition the PUC for authorization to draw the additional \$10 million of TECP capacity as soon as it becomes available for purposes of certifying funding availability for items included in GPA’s budget but which have not been completed due to the tight financial condition. This includes immediately implementing governor controls in Cabras #3 & #4, Cabras #1 & #2 boiler efficiency and control project, installation of automated generator controls at various plants including Cabras #1 & #2, proceeding with performance management contract for GPA substations (this may require additional PUC authorization), backup billing server, AS/400 upgrade (current system is running out of disk space), certifying purchase orders to increase inventory for low to no stock items, funding the GPA portion of projects that are being largely funded by funds from the Federal Emergency Management Agency, restoring security guard services to the Cabras compound, etc. GPA is seeking general authority to draw down the commercial paper for purposes approved in the GPA Budget adopted by the CCU but do not require PUC approval through the contract review protocol.

Therefore, the CCU directed GPA to immediately draft a resolution for the Commission to adopt stressing the urgent need for GPA to have immediate access to these additional commercial paper funds in order to enable GPA to restore mission critical operating contracts and capital projects.

During the meeting of August 21, 2007 the CCU adopted Resolution 2007 – 20 directing the GPA General Manager to immediately pursue the lifting of the drawdown restriction on the Guam Power Authority's planned commercial paper conversion.

GPA now requests the Public Utilities Commission to consider this petition at its October meeting.

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GUAM CONSOLIDATED COMMISSION ON UTILITIES
RESOLUTION NO. 2007 - 20

afg. emailed 8/24

**RELATIVE TO THE PETITION OF THE GUAM POWER AUTHORITY TO THE
PUBLIC UTILITIES COMMISSION FOR THE USE OF TAX EXEMPT
COMMERCIAL PAPER PROCEEDS IMMEDIATELY FOR OPERATION AND
MAINTENANCE NEEDS**

WHEREAS, in 1998, the Guam Power Authority established a commercial paper program of which \$20 million was dedicated to short term/working capital borrowing; and

WHEREAS, the Guam Power Authority has requested the Guam Economic Development and Commerce Authority to issue a Request For Proposals to identify a letter of credit provider for the program which would enable the Authority to obtain funds on a tax exempt basis upon the completion of the one (1) year term of the existing letter of credit on November 7, 2007.

WHEREAS, the Consolidated Commission on Utilities (CCU) in Resolution No. 2007 - 19 authorized the Guam Power Authority (GPA) to increase its commercial paper borrowing capacity from \$20 million to \$30 million as it attempts to convert its taxable commercial paper program to a tax exempt commercial paper program; and

WHEREAS, the Liheslaturan Guåhan has authorized the Guam Power Authority to increase its short term (less than 1 year borrowing capacity) to \$50 million in Public Law 28-116¹; and

WHEREAS, GPA has petitioned and received authorization from the Public Utilities Commission to increase the commercial paper borrowing capacity from \$20 million to \$30 million; and

¹ Because GPA has credit facilities for its fuel purchases totaling \$20 million, PL 28-116 allows GPA to increase its commercial paper limit to \$30 million (\$50 million minus \$20 million = \$30 million).

1 **WHEREAS**, the Public Utilities Commission requires GPA to obtain PUC approval
2 before any of the \$10 million excess capacity can be drawn down from the commercial paper
3 program; and

4
5 **WHEREAS**, the CCU recognizes that the Authority has been operating under
6 considerable financial pressure for the last two years and this problem has been exacerbated by
7 the decrease in kWh sales which has taken place since October 1, 2006;

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9 **WHEREAS**, as a result of these revenue shortfalls, GPA has been unable to invest funds
10 in its system in accordance with the budget which was approved for Fiscal Year 2007 or the
11 budget which will be approved for Fiscal Year 2008;

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13 **WHEREAS**, the CCU has expressed concern about the ability of the Authority to
14 function and maintain its systems in a manner consistent with best practices; and

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16 **WHEREAS**, the CCU has recognized that recruiting difficulties and the continued
17 departure of highly skilled employees from the Authority has contributed to the significant
18 challenges facing the Authority; and

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20 **WHEREAS**, the CCU has determined that the cash shortages can only be addressed
21 through the imposition of a base rate increase and has authorized the Authority to petition the
22 PUC for said increase; and

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24 **WHEREAS**, the CCU has determined that it is critical for the Authority to have
25 immediate access to additional cash to address critical needs within the Authority;

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27 **WHEREAS**, repayment of the proceeds from the drawdown will be made from the
28 proceeds of GPA's base rate increase over a five year period;

29
30 **NOW, THEREFORE BE IT RESOLVED**, the following policy is adopted by the
31 Consolidated Commission on Utilities:

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1. The General Manager of the Guam Power Authority is directed to immediately petition the Public Utilities Commission for immediate access to the \$10 million of additional

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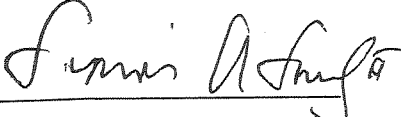
commercial paper capacity as soon as the new program is established.

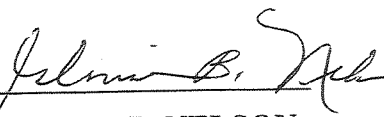
RESOLVED, that the Chairman certifies and the Board Secretary attests to the adoption of this Resolution.

DULY AND REGULARLY ADOPTED AND APPROVED THIS 21ST DAY OF AUGUST, 2007.

Certified by:

Attested by:


SIMON A. SANCHEZ, II
Chairperson


GLORIA B. NELSON
CCU Board Secretary

I, **Gloria B. Nelson**, Secretary for the Consolidated Commission on Utilities do hereby certify that the foregoing is a full, true, and correct copy of the resolution duly adopted at a regular meeting of the members of Guam's Consolidated Commission on Utilities, duly and legally held at the meeting place thereof on August 21, 2007, at which meeting of all said members had due notice and at which at least a majority thereof were present, and

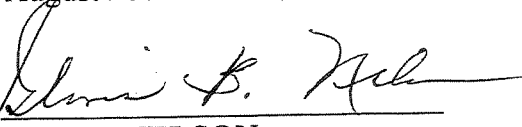
At said meeting said resolution was adopted by the following vote:

Ayes: 4
Nays: 0
Absent: 0
Abstain: 0

As of the date of this certification, said original resolution has not been amended, modified, or rescinded since the date of its adoption, and the same is now in full force and effect.

SO CERTIFIED this 21st day of August 2007.




GLORIA B. NELSON
Secretary
Consolidated Commission on Utilities