

I Mina'Trentai Dos Na Liheslaturan Received
Bill Log Sheet

BILL NO.	SPONSOR	TITLE	DATE INTRODUCED	DATE REFERRED	CMTE REFERRED	PUBLIC HEARING DATE	DATE COMMITTEE REPORT FILED	FISCAL NOTES
207-32 (COR), P.L. 32-140	T.C. Ada R.J. Respicio	AN ACT TO ADD §8241.1 OF TITLE 12 OF THE GUAM CODE ANNOTATED AND TO APPROVE THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM.	10/11/2013 4:39 p.m.	Re-Referred 10/15/13 Originally Referred on 10/14/13 to Committee on Public Safety, Infrastructure, & Maritime Transportation	Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation and Land	11/12/13 8 a.m.	4/9/14 9:22 a.m.	Fiscal Note Request 10/14/13 Fiscal Note Received 11/26/13
	DATE PASSED	TITLE	TRANSMITTED		DUE DATE	<small>DATE SIGNED BY I MAGA'LAHEN GUAHAN</small>	PUBLIC LAW NO.	NOTES
	4/15/2014	AN ACT TO ADD NEW §§ 8243, 8244 AND 8245 TO ARTICLE 2 OF CHAPTER 8, TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO APPROVING THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM.	4/16/2014	8:10 p.m.	4/28/2014	4/28/2014	32-140	As substituted by the Committee on Appropriation, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation, and Land; and further substituted and amended in the Committee of the Whole.



EDDIE BAZA CALVO
Governor

RAY TENORIO
Lieutenant Governor

Office of the Governor of Guam.

APR 30 2014

32-14-1611
Date 5.2.14
Time 2:32 PM
Received by [Signature]

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina'trentai Dos Na Liheslaturan Guåhan
155 Hesler Street
Hagåtña, Guam 96910

Dear Madame Speaker:

Transmitted herewith is Bill No. 207-32 (COR) "AN ACT TO ADD NEW ~~SE~~ 8243, 8244 AND 8245 TO ARTICLE 2 OF CHAPTER 8, TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO APPROVING THE TERMS AND ~~Q~~ CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM" which I signed into law on April 28, 2014 as Public Law 32-140.

2014 MAY - 2

Senseramente,

EDDIE BAZA CALVO

1611

I MINA'TRENTAI DOS NA LIHESLATURAN GUÅHAN
2013 (FIRST) Regular Session

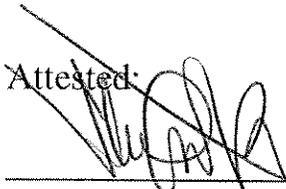
CERTIFICATION OF PASSAGE OF AN ACT TO I MAGA'LAHEN GUÅHAN

This is to certify that Substitute Bill No. 207-32 (COR), "AN ACT TO ADD NEW §§ 8243, 8244 AND 8245 TO ARTICLE 2 OF CHAPTER 8, TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO APPROVING THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM," was on the 15th day of April, 2014, duly and regularly passed.



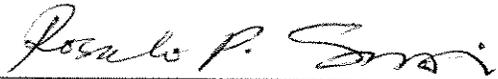
Judith T. Won Pat, Ed.D.
Speaker

Attested:



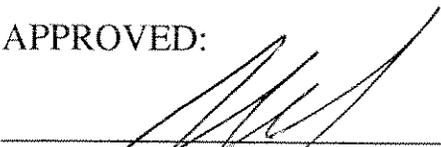
Tina Rose Muña Barnes
Legislative Secretary

This Act was received by *I Maga'lahaen Guåhan* this 16 day of April,
2014, at 1:10 o'clock A.M.



Assistant Staff Officer
Maga'lahaen's Office

APPROVED:



EDWARD J.B. CALVO
I Maga'lahaen Guåhan

Date: APR 28 2014

Public Law No. 32-140

I MINA'TRENTAI DOS NA LIHESLATURAN GUÁHAN
2013 (FIRST) Regular Session

Bill No. 207-32 (COR)

As substituted by the Committee on Appropriations,
Public Debt, Legal Affairs, Retirement, Public Parks,
Recreation, Historic Preservation, and Land;
and further substituted and amended
in the Committee of the Whole.

Introduced by:

T. C. Ada
R. J. Respicio
V. Anthony Ada
FRANK B. AGUON, JR.
B. J.F. Cruz
Chris M. Dueñas
Michael T. Limtiaco
Brant T. McCreadie
Tommy Morrison
T. R. Muña Barnes
Vicente (ben) C. Pangelinan
Dennis G. Rodriguez, Jr.
Judith T. Won Pat, Ed.D.
Aline A. Yamashita, Ph.D.
Michael F. Q. San Nicolas

**AN ACT TO *ADD* NEW §§ 8243, 8244 AND 8245 TO
ARTICLE 2 OF CHAPTER 8, TITLE 12, GUAM CODE
ANNOTATED, RELATIVE TO APPROVING THE
TERMS AND CONDITIONS OF GUAM POWER
AUTHORITY REVENUE BONDS TO FINANCE
CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE
POWER SYSTEM.**

1 **BE IT ENACTED BY THE PEOPLE OF GUAM:**

2 **Section 1.** A new § 8243 is *added* to Article 2 of Chapter 8, Title 12,
3 Guam Code Annotated, to read:

1 “§ 8243. Approval of the Terms and Conditions of Guam
2 Power Authority Revenue Bonds.

3 *I Liheslaturan Guåhan*, pursuant to §50103(k) of Title 12 of the Guam
4 Code Annotated, hereby approves the terms and conditions of the issuance
5 and sale of revenue bonds (the bonds) by the Guam Power Authority (GPA),
6 in one or more series or issues of tax-exempt and/or taxable bonds, as senior
7 revenue bonds in accordance with its existing senior revenue bond indenture
8 (or in the case of projects financed with taxable bonds and/or projects that do
9 not constitute capital improvements to GPA’s system, as subordinate
10 revenue bonds in accordance with its existing subordinate revenue bond
11 indenture), for the purpose of continuing GPA’s investment in the island-
12 wide power system involving generation, transmission, and distribution
13 assets to improve reliability, efficiency and power service, and to comply
14 with environmental regulations; *provided*, that the bonds *shall* have a
15 principal amount *not to exceed* Ninety four Million Dollars (**\$94,000,000**),
16 *shall* have a final maturity date *not later than* thirty-one (31) years from the
17 date of the issuance of the bonds, *shall* accrue interest at rates that *shall not*
18 *exceed* (1) seven percent (7%) with respect to tax-exempt bonds, and (2)
19 with respect to taxable bonds, the limitation set forth in §8214(a) of Title 12
20 of the Guam Code Annotated, and *shall* be sold for such price or prices as
21 *shall* result in a net yield to the bondholders *not exceeding* the rate specified
22 by said §8214(a).

23 The issuance of any and all such bonds *shall* be further subject to the
24 following requirements, limitations, terms and conditions:

- 25 (a) Such bonds *shall* be issued and sold pursuant to GPA’s
26 existing senior bond indenture (including any amendments in
27 accordance with its terms to provide for the issuance of the bonds

1 described herein) and in compliance with the provisions of Article 2
2 of Chapter 8 of Title 12 of the Guam Code Annotated, including
3 approval by the Consolidated Commission on Utilities (CCU) and by *I*
4 *Maga'lahaen Guåhan*, as provided therein; *provided, however*, that
5 such bonds may be issued and sold pursuant to GPA's subordinate
6 bond indenture (including any amendments in accordance with its
7 terms to provide for the issuance of the bonds described herein) for
8 purposes of financing projects with taxable bond proceeds and/or
9 projects that *do not* constitute capital improvements to GPA's system;

10 (b) The sale of the bonds *shall* be approved by the Board of
11 Directors of the Guam Economic Development Authority (GEDA), as
12 provided by §50103(k) of Chapter 50 of Title 12 of the Guam Code
13 Annotated, and the terms and conditions of the issuance of the bonds
14 *shall* be approved by the Guam Public Utilities Commission (GPUC)
15 as provided by Chapter 12 of Title 12 of the Guam Code Annotated;
16 and

17 (c) The proceeds of the bonds *shall* be applied to pay the
18 costs of issuance of the bonds, to pay the cost of any credit
19 enhancement of the bonds, to provide for required reserves, and,
20 subject to approval by the GPUC in accordance with §12004 Article 2
21 Chapter 12 of Title 12 of the Guam Code Annotated, to pay the costs
22 of the projects and items listed in Subsection (d) of this Section.

23 (d) The remaining proceeds of the Bonds *shall* be used *solely*
24 for the following purposes:

25 (1) Up to Fifty Six Million Four Hundred Seventy
26 Seven Thousand Dollars (**\$56,477,000**) for the following
27 Generation Improvements projects:

1 (A) reimbursement of GPA for costs associated
2 with the Environmental Compliance Program (Diesel
3 RICE MACT);

4 (B) Cabras 1 Major Boiler Overhaul;

5 (C) Cabras 2 Turbine & Boiler Overhaul;

6 (D) Cabras 3 & 4 Major Overhaul and
7 Maintenance;

8 (E) Cabras Compound Employee and Visitor
9 Parking Lot;

10 (F) Generator Protection Upgrade with Fault
11 Recorders;

12 (G) Dededo CT Return to Service Phases I and
13 II;

14 (H) Diesel Plan Major Overhaul and
15 Maintenance and Diesel Fuel Oil Tank Repairs;

16 (I) Energy Storage Equipment (Renewable
17 Energy Impact Mitigation); and

18 (J) Liquefied Natural Gas Initial Startup.

19 (2) Up to Five Million Five Hundred Eighty Six
20 Thousand Dollars (**\$5,586,000**) for the following Transmission
21 System Improvements projects:

22 (A) Piti 115 kV GIS Major Maintenance;

23 (B) System Protection Improvement & Cap
24 Bank Controllers Phases I and II;

25 (C) Substation Major Refurbishment (San
26 Vitores T-122, Harmon T500 and T501, Macheche T90);

27 (D) 13.8 kV Breaker Upgrades Phases I and II;

- (E) 34.5 kV Breaker Upgrades Phase I;
- (F) Agat Shoreline Pole Restoration Project;
- (G) Dededo Substation Capacitor Bank;
- (H) Substation Battery Banks/Chargers

Upgrade; and

- (I) Harmon X82 to Yigo X160 Overhead Line Upgrade Phase I.

(3) Up to One Million Five Hundred Eighty Seven Thousand Dollars (**\$1,587,000**) for the following Distribution Improvements projects:

- (A) Distribution Improvements;
- (B) Smart Grid Sub-Projects (not covered by grant); and
- (C) Mobile Workforce Management.

(4) Up to Two Million Nine Hundred Thousand Dollars (**\$2,900,000**) for the following Supervisory Control and Data Acquisition System Upgrades projects:

- (A) Power System Control Center Reliability Improvements; and
- (B) Network Communication – Fiber to Fadian Complex.

(5) Up to Two Million Four Hundred Fifty Thousand Dollars (**\$2,450,000**) for the following Cyber Security and Information Technology Upgrades projects:

- (A) Upgrade of Facilities Physical Security; and
- (B) Information Technology Upgrades.

1 (6) *Not less than* Five Million Dollars (**\$5,000,000**) to
2 be held in reserve by GPA in a fund separate and apart from
3 any other fund for the *sole* purpose of establishing a revolving
4 loan fund to support legislatively authorized demand-side
5 management and/or renewable energy programs for residential
6 and/or commercial purposes.

7 (7) Such amounts as may be needed to capitalize and
8 pay from bond proceeds interest on the bonds due, accruing or
9 required to be set aside for a period ending *not later than*
10 twenty-four (24) months after issuance.

11 Notwithstanding anything herein to the contrary, to the
12 extent that there are excess proceeds of bonds authorized herein
13 that exist for one of the categories of purposes listed in
14 Subsections (d)(1) through (d)(7) above, such excess may be
15 transferred to another such category.”

16 **Section 2.** A new § 8244 is *added* to Article 2 of Chapter 8, Title 12,
17 Guam Code Annotated, to read:

18 “§ 8244. **Self-Insurance Fund Surcharge Reduction.** The GPA
19 *shall* file a petition with the Guam Public Utilities Commission to reduce the
20 GPA’s Self-Insurance Fund surcharge charged to ratepayers by *not less than*
21 seventy percent (70%) of the Self-Insurance Fund surcharge in effect as of
22 the enactment of this Act. GPA *shall* request the GPUC for such reduction
23 *not later than* sixty (60) calendar days after the enactment of this Act, and
24 such filing may be considered by the GPUC through an expedited schedule
25 of review and approval by the GPUC.”

26 **Section 3.** A new § 8245 is *added* to Article 2 of Chapter 8, Title 12,
27 Guam Code Annotated, to read:

1 **“§ 8245. Approval of Financial Agreements or Arrangements.**

2 Any financial agreement or arrangement between GPA and any bank,
3 private banking firm, brokerage firm, bond brokerage firm, or similar
4 financial institutions, which uses, pledges, or arbitrages any GPA revenue,
5 trust funds, debt service payment deposits with trustees, bond proceeds, or
6 interests on any of these, *not* specifically authorized by existing statute
7 authorizing the issuance or refinancing of bonds, *shall* require legislative
8 approval, and any income generated from such financial agreement and
9 arrangement may be directed toward decreasing residential ratepayer rates;
10 *provided, however,* that the pledge of GPA revenue to secure the payment of
11 GPA’s revenue bonds and the direct investment by the bond trustees of GPA
12 moneys in obligations permitted by the GPA’s bond indenture are hereby
13 specifically approved and are *not* subject to further legislative approval.”

14 **Section 4. Effective Date.** This Act *shall* become effective upon
15 enactment.

16 **Section 5. Severability.** *If* any provision of this law or its application to
17 any person or circumstance is found to be invalid or contrary to law, such
18 invalidity *shall not* affect other provisions or applications of this law which can be
19 given effect without the invalid provisions or application, and to this end the
20 provisions of this law are severable.



FILE

I MINA'TRENTAI DOS NA LIHESLATURAN GUÅHAN
THIRTY-SECOND GUAM LEGISLATURE
155 Hesler Place, Hagåtña, Guam 96910

April 16, 2014

The Honorable Edward J.B. Calvo
I Maga'lahren Guåhan
Ufisinan I Maga'lahi
Hagåtña, Guam 96910

Dear *Maga'lahi* Calvo:

Transmitted herewith are Bill and Substitute Bill Nos. 135-32 (COR), 183-32 (COR), 207-32 (COR), 222-32 (COR), 244-32 (COR), 266-32 (COR), 272-32 (COR), 273-32 (COR), 283-32 (COR), 286-32 (COR), 289-32 (COR), 311-32 (LS) and 315-32 (LS) which were passed by *I Mina'Trentai Dos Na Liheslaturan Guåhan* on April 15, 2014.

Sincerely,

TINA ROSE MUÑA BARNES
Legislative Secretary

Enclosure (13)

OFFICE OF THE GOVERNOR
CENTRAL FILES

RECEIVED BY *for*
TIME *1:10* DATE *4/16/14*

I MINA'TRENTAI DOS NA LIHESLATURAN GUÅHAN
2013 (FIRST) Regular Session

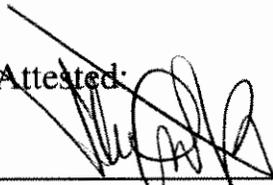
CERTIFICATION OF PASSAGE OF AN ACT TO I MAGA'LAHEN GUÅHAN

This is to certify that **Substitute Bill No. 207-32 (COR), "AN ACT TO ADD NEW §§ 8243, 8244 AND 8245 TO ARTICLE 2 OF CHAPTER 8, TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO APPROVING THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM,"** was on the 15th day of April, 2014, duly and regularly passed.



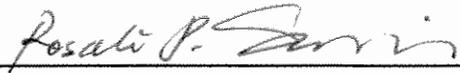
Judith T. Won Pat, Ed.D.
Speaker

Attested:



Tina Rose Muña Barnes
Legislative Secretary

This Act was received by *I Maga'lahaen Guåhan* this 16 day of April,
2014, at 1:10 o'clock P.M.



Assistant Staff Officer
Maga'lahaen's Office

APPROVED:

EDWARD J.B. CALVO
I Maga'lahaen Guåhan

Date: _____

Public Law No. _____

I MINA'TRENTAI DOS NA LIHESLATURAN GUÅHAN
2013 (FIRST) Regular Session

FILE

Bill No. 207-32 (COR)

As substituted by the Committee on Appropriations,
Public Debt, Legal Affairs, Retirement, Public Parks,
Recreation, Historic Preservation, and Land;
and further substituted and amended
in the Committee of the Whole.

Introduced by:

T. C. Ada
R. J. Respicio
V. Anthony Ada
FRANK B. AGUON, JR.
B. J.F. Cruz
Chris M. Dueñas
Michael T. Limtiaco
Brant T. McCreadie
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3 *I Liheslaturan Guåhan*, pursuant to §50103(k) of Title 12 of the Guam
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5 and sale of revenue bonds (the bonds) by the Guam Power Authority (GPA),
6 in one or more series or issues of tax-exempt and/or taxable bonds, as senior
7 revenue bonds in accordance with its existing senior revenue bond indenture
8 (or in the case of projects financed with taxable bonds and/or projects that do
9 not constitute capital improvements to GPA’s system, as subordinate
10 revenue bonds in accordance with its existing subordinate revenue bond
11 indenture), for the purpose of continuing GPA’s investment in the island-
12 wide power system involving generation, transmission, and distribution
13 assets to improve reliability, efficiency and power service, and to comply
14 with environmental regulations; *provided*, that the bonds *shall* have a
15 principal amount *not to exceed* Ninety four Million Dollars (**\$94,000,000**),
16 *shall* have a final maturity date *not later than* thirty-one (31) years from the
17 date of the issuance of the bonds, *shall* accrue interest at rates that *shall not*
18 *exceed* (1) seven percent (7%) with respect to tax-exempt bonds, and (2)
19 with respect to taxable bonds, the limitation set forth in §8214(a) of Title 12
20 of the Guam Code Annotated, and *shall* be sold for such price or prices as
21 *shall* result in a net yield to the bondholders *not exceeding* the rate specified
22 by said §8214(a).

23 The issuance of any and all such bonds *shall* be further subject to the
24 following requirements, limitations, terms and conditions:

- 25 (a) Such bonds *shall* be issued and sold pursuant to GPA’s
26 existing senior bond indenture (including any amendments in
27 accordance with its terms to provide for the issuance of the bonds

1 described herein) and in compliance with the provisions of Article 2
2 of Chapter 8 of Title 12 of the Guam Code Annotated, including
3 approval by the Consolidated Commission on Utilities (CCU) and by *I*
4 *Maga'lahaen Guåhan*, as provided therein; *provided, however*, that
5 such bonds may be issued and sold pursuant to GPA's subordinate
6 bond indenture (including any amendments in accordance with its
7 terms to provide for the issuance of the bonds described herein) for
8 purposes of financing projects with taxable bond proceeds and/or
9 projects that *do not* constitute capital improvements to GPA's system;

10 (b) The sale of the bonds *shall* be approved by the Board of
11 Directors of the Guam Economic Development Authority (GEDA), as
12 provided by §50103(k) of Chapter 50 of Title 12 of the Guam Code
13 Annotated, and the terms and conditions of the issuance of the bonds
14 *shall* be approved by the Guam Public Utilities Commission (GPUC)
15 as provided by Chapter 12 of Title 12 of the Guam Code Annotated;
16 and

17 (c) The proceeds of the bonds *shall* be applied to pay the
18 costs of issuance of the bonds, to pay the cost of any credit
19 enhancement of the bonds, to provide for required reserves, and,
20 subject to approval by the GPUC in accordance with §12004 Article 2
21 Chapter 12 of Title 12 of the Guam Code Annotated, to pay the costs
22 of the projects and items listed in Subsection (d) of this Section.

23 (d) The remaining proceeds of the Bonds *shall* be used *solely*
24 for the following purposes:

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9 Parking Lot;

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11 Recorders;

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13 II;

14 (H) Diesel Plan Major Overhaul and
15 Maintenance and Diesel Fuel Oil Tank Repairs;

16 (I) Energy Storage Equipment (Renewable
17 Energy Impact Mitigation); and

18 (J) Liquefied Natural Gas Initial Startup.

19 (2) Up to Five Million Five Hundred Eighty Six
20 Thousand Dollars (**\$5,586,000**) for the following Transmission
21 System Improvements projects:

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24 Bank Controllers Phases I and II;

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26 Vitores T-122, Harmon T500 and T501, Macheche T90);

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1 (6) *Not less than* Five Million Dollars (**\$5,000,000**) to
2 be held in reserve by GPA in a fund separate and apart from
3 any other fund for the *sole* purpose of establishing a revolving
4 loan fund to support legislatively authorized demand-side
5 management and/or renewable energy programs for residential
6 and/or commercial purposes.

7 (7) Such amounts as may be needed to capitalize and
8 pay from bond proceeds interest on the bonds due, accruing or
9 required to be set aside for a period ending *not later than*
10 twenty-four (24) months after issuance.

11 Notwithstanding anything herein to the contrary, to the
12 extent that there are excess proceeds of bonds authorized herein
13 that exist for one of the categories of purposes listed in
14 Subsections (d)(1) through (d)(7) above, such excess may be
15 transferred to another such category.”

16 **Section 2.** A new § 8244 is *added* to Article 2 of Chapter 8, Title 12,
17 Guam Code Annotated, to read:

18 “**§ 8244. Self-Insurance Fund Surcharge Reduction.** The GPA
19 *shall* file a petition with the Guam Public Utilities Commission to reduce the
20 GPA’s Self-Insurance Fund surcharge charged to ratepayers by *not less than*
21 seventy percent (70%) of the Self-Insurance Fund surcharge in effect as of
22 the enactment of this Act. GPA *shall* request the GPUC for such reduction
23 *not later than* sixty (60) calendar days after the enactment of this Act, and
24 such filing may be considered by the GPUC through an expedited schedule
25 of review and approval by the GPUC.”

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5 trust funds, debt service payment deposits with trustees, bond proceeds, or
6 interests on any of these, *not* specifically authorized by existing statute
7 authorizing the issuance or refinancing of bonds, *shall* require legislative
8 approval, and any income generated from such financial agreement and
9 arrangement may be directed toward decreasing residential ratepayer rates;
10 *provided, however,* that the pledge of GPA revenue to secure the payment of
11 GPA’s revenue bonds and the direct investment by the bond trustees of GPA
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13 specifically approved and are *not* subject to further legislative approval.”

14 **Section 4. Effective Date.** This Act *shall* become effective upon
15 enactment.

16 **Section 5. Severability.** *If* any provision of this law or its application to
17 any person or circumstance is found to be invalid or contrary to law, such
18 invalidity *shall not* affect other provisions or applications of this law which can be
19 given effect without the invalid provisions or application, and to this end the
20 provisions of this law are severable.

LEGISLATIVE SESSION

I MINA'TRENTAI DOS NA LIHESLATURAN

2014 (SECOND) Regular Session

Voting Sheet

Bill No. 207-32 (COR)

Speaker Antonio R. Unipingco Legislative Session Hall
April 15, 2014

NAME	Yea	Nay	Not Voting/ Abstained	Out During Roll Call	Absent
Senator Thomas "Tom" C. ADA	✓				
Senator V. Anthony "Tony" ADA	✓				
Senator Frank Blas AGUON Jr.	✓				
Vice-Speaker Benjamin J.F. CRUZ		✓			
Senator Christopher M. DUENAS	✓				
Senator Michael LIMTIACO	✓				
Senator Brant McCREADIE	✓				
Senator Thomas "Tommy" MORRISON	✓				
Senator Tina Rose MUÑA BARNES	✓				
Senator Vicente (ben) Cabrera PANGELINAN	✓				
Senator Rory J. RESPICIO	✓				
Senator Dennis G. RODRIGUEZ, Jr.	✓				
Senator Michael F. Q.SAN NICOLAS	✓				
Speaker Judith T. WON PAT, Ed.D.	✓				
Senator Aline A. YAMASHITA, Ph.D.	✓				

TOTAL

14

1

Yea

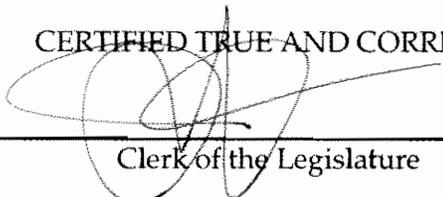
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Not Voting/
Abstained

Out During
Roll Call

Absent

CERTIFIED TRUE AND CORRECT:



Clerk of the Legislature

I = Pass



I Mina'trentai Dos na Liheslaturan Guåhan

Senator Vicente (ben) Cabrera Pangelinan (D)

APR 08 2014

The Honorable Judith T. Won Pat, Ed.D.

Speaker

I Mina'trentai Dos Na Liheslaturan Guåhan

155 Hesler Place

Hagåtña, Guam 96910

VIA: The Honorable Rory J. Respicio

Chairperson, Committee on Rules

RE: Committee Report on Bill No. 207-32 (COR), As Substituted

Dear Speaker Won Pat:

Transmitted herewith is the Committee Report on Bill No. 207-32 (COR), as substituted, "AN ACT TO APPROVE THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM", sponsored by Senator Tom C. Ada, which was referred to the Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation and Land.

Committee votes are as follows:

2 TO PASS

0 NOT TO PASS

3 TO REPORT OUT ONLY

0 TO ABSTAIN

0 TO PLACE IN INACTIVE FILE

Si Yu'os Ma'åse',

Vicente (ben) Cabrera Pangelinan

Chairman

2014 APR -9 AM 9:22

Chairman
Committee on Appropriations,
Public Debt, Legal Affairs,
Retirement, Public Parks,
Recreation, Historic Preservation
and Land

Member
Committee on Education,
Public Libraries
and Women's Affairs

Member
Committee on General
Government Operations and
Cultural Affairs

Member
Committee on Municipal
Affairs, Tourism, Housing and
Hagåtña Restoration and
Development Authority

Member
Committee on Health &
Human Services, Health
Insurance Reform, Economic
Development and Senior
Citizens

Member
Committee on Aviation, Ground
Transportation, Regulatory
Concerns and Future
Generations

**COMMITTEE REPORT
ON**

Bill No. 207-32 (COR), As Substituted

Sponsored by

Senator Tom C. Ada

**AN ACT TO APPROVE THE TERMS
AND CONDITIONS OF GUAM POWER
AUTHORITY REVENUE BONDS TO
FINANCE CAPITAL IMPROVEMENTS
TO THE ISLAND-WIDE POWER
SYSTEM**



I Mina'trentai Dos na Liheslaturan Guåhan

Senator Vicente (ben) Cabrera Pangelinan (D)

APR 08 2014

MEMORANDUM

To: All Members
Committee on Appropriations, Public Debt, Legal Affairs,
Retirement, Public Parks, Recreation, Historic Preservation and
Land.

From: Senator Vicente (ben) Cabrera Pangelinan
Committee Chairperson

Subject: Committee Report on Bill No. 207-32 (COR), As Substituted

Transmitted herewith for your consideration is the Committee Report on Bill No. 207-32 (COR) , as substituted, " **AN ACT TO APPROVE THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM**", sponsored by Senator Tom C. Ada. This report includes the following:

1. Committee Voting Sheet
2. Committee Report Narrative
3. Copy of Bill No. 207-32 (COR), As Introduced
4. Copy of Bill No. 207-32 (COR), As Substituted
5. Public Hearing Sign-in Sheet
6. Copies of Written Testimony
7. Copy of Fiscal Note Request
8. Copy of COR referral Bill No.207-32 (COR)
9. Notices of Public Hearing
10. Copy of the Public Hearing Agenda

Please take the appropriate action on the attached voting sheet. Your attention to this matter is greatly appreciated. Should you have any questions or concerns, please do not hesitate to contact my office.

Si Yu'os Ma'åse',

Vicente (ben) Cabrera Pangelinan
Chairman

324 W. Soledad Ave. Suite 100, Hagåtña, Guam 96910

Tel: (671) 473-(4BEN) 4236 - Fax: (671) 473-4238 - Email: office@senbenp.com

Website: <http://senbenp.com>

Chairman
Committee on Appropriations,
Public Debt, Legal Affairs,
Retirement, Public Parks,
Recreation, Historic Preservation
and Land

Member
Committee on Education,
Public Libraries
and Women's Affairs

Member
Committee on General
Government Operations and
Cultural Affairs

Member
Committee on Municipal
Affairs, Tourism, Housing and
Hagåtña Restoration and
Development Authority

Member
Committee on Health &
Human Services, Health
Insurance Reform, Economic
Development and Senior
Citizens

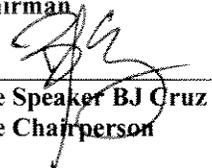
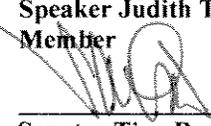
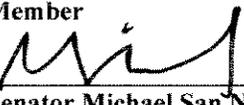
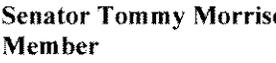
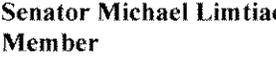
Member
Committee on Aviation, Ground
Transportation, Regulatory
Concerns and Future
Generations

I MINA' TRENTAI DOS NA LIHESLATURAN GUÅHAN

Committee Voting Sheet

Committee on Appropriations, Public Debt, Legal Affairs, Retirement,
Public Parks, Recreation, Historic Preservation and Land

Bill No. 207-32 (COR), As Substituted, "AN ACT TO APPROVE THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM"

Committee Members	To Pass	Not To Pass	Report Out Only	Abstain	Inactive File
 Senator Vicente (ben) Cabrera Pangelinan Chairman	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
 Vice Speaker BJ Cruz Vice Chairperson	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
 Speaker Judith T. Won Pat Member	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
 Senator Tina Rose Muña-Barnes Member	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
 Senator Dennis Rodriguez, Jr. Member	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
 Senator Michael San Nicolas Member	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
 Senator Tommy Morrison Member	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
 Senator Michael Limtiaco Member	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



Office of
the People

I Mina'trentai Dos na Liheslaturan Guåhan

Senator Vicente (ben) Cabrera Pangelinan (D)

Committee Report

Bill No. 207-32 (COR): An Act to add §8241.1 of Title 12 of the Guam Code Annotated and to approve the terms and conditions of Guam Power Authority Revenue Bonds to finance Capital Improvements to the island-wide power system.

I. OVERVIEW

The Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation and Land convened a public hearing on Tuesday, November 12, 2013 at 8:00 am in *I Liheslatura's* public hearing room.

Public Notice Requirements

Notices were disseminated via hand-delivery and e-mail to all senators and all main media broadcasting outlets on November 4, 2013 (5-Day Notice), and again on November 8, 2013 (48 Hour Notice).

(a) Committee Members and Senators Present

Senator Vicente (ben) C. Pangelinan, Chairman
Vice Speaker BJ Cruz, Vice Chairman
Senator Tom Ada
Senator Frank Aguon

(b) Appearing before the Committee

Mr. Joaquin Flores, General Manger of the Guam Power Authority
Mr. Fred Horecky, Legal Counsel, on behalf of the Guam Public Utilities Commission
Mr. Simon Sanchez, Chairman of the Consolidated Commission on Utilities
Ms. Cora Montellano, Assistant Chief Financial Officer of the Guam Power Authority
Mr. Randall Wiegand, Chief Financial Officer of the Guam Power Authority

(c) Written Testimonies Submitted

Mr. Fred Horecky, Legal Counsel on behalf of the Guam Public Utilities Commission
Mr. Joaquin Flores, General Manager of the Guam Power Authority

Chairman
Committee on Appropriations,
Public Debt, Legal Affairs,
Retirement, Public Parks,
Recreation, Historic Preservation
and Land

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Hagåtña Restoration and
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Member
Committee on Health &
Human Services, Health
Insurance Reform, Economic
Development and Senior
Citizens

Member
Committee on Aviation, Ground
Transportation, Regulatory
Concerns and Future
Generations

I. COMMITTEE PROCEEDINGS

Chairman Pangelinan. Thank you very much ladies and gentlemen and welcome this morning to the Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation and Land on the consideration of Bill No. 207, introduced by Senator Tom Ada. Present with me this morning are Vice Speaker BJ Cruz and Senator Tom Ada.

Bill No. 207 will provide some borrowing authority for the Guam Power Authority. This morning we have with us members of the public and members of Authority who may wish to testify. We would like to ask those individuals to come forward. Will recognize the author to give him an opportunity to give us a synopsis of the bill, which he introduced.

Sponsor Summary.

Senator Tom Ada. Thank you, Mr. Chairman and I certainly appreciate you holding this early morning public hearing on Bill No. 207.

Bill No. 207 is an act to authorize the Guam Power Authority to borrow up to \$100M in order to undertake certain capital improvement projects, in particular projects that are mandated by the USEPA. The initial borrowing of that \$100M authorization will be \$35M and then in 2015, the Authority would then borrow the full amount and pay off the initial borrowing; the total debt obligation would be \$100M. Thank you very much, Mr. Chairman.

Chairman Pangelinan. Thank you very much and Si Yu'os Ma'ase, Senator Ada. At this time I would like to recognize Mr. Fred Horecky, the counsel for the Guam Public Utilities Commission and Mr. Joaquin Flores, the General Manager of the Guam Power Authority.

Attorney Fred Horecky. Thank you Senator Pangelinan, Senator Ada and Senator Cruz. I am testifying this morning as the legal counsel on behalf of the Public Utilities Commission. In general, the PUC does support legislation to allow short-term bond borrowing for the Authority that was considered in the recent rate case and in fact rates were given by the Commission that would assist GPA in paying for these bonds. I think there are a number of areas in this legislation that the Legislature needs to look at in a little more detail.

The first is the amount; the \$35M as the aggregate amount. As I understand it, the Consolidated Commission on Utilities approved \$26.1M. So, there is a substantial difference there. During the rate case, GPA had submitted a listing of the projects that were to be included in the \$35M. Some of those did include the EPA mandates of about \$5M or \$6M, which I understand were provided for by the PUC in revenues. I was kind of wondering if they were provided in revenues, why would those two projects – those involved the RICE MACT rules implemented by EPA. Why would they need to be the subject of the short-term bond financing.

An additional amount that is included in that \$35M is what we refer to as capitalized interest. I know the Legislature is far more familiar than I having recently considered this in the GWA bond financing. But of that \$35M, about \$3.5 is capitalized interest. Now, I am not an economist,

I don't pretend to understand these issues in great detail, but as I understand it you are essentially taking interest that you would have to pay on the bond, making it a part of the borrowing. So then the ratepayers end up paying interest on interest. I note here that there's two years of capitalized interest. The PUC doesn't really have any hard and fast rules on this, but in general it has been a little weary about the capitalized interest. I am just asking if the Legislators may wish to look at this in more detail and maybe consider one year instead of two years. Because the problem is when you put this in financing – I can tell what's happened in the past, almost inevitably GPA will have higher debt service costs and that leads to rate increases. So, that is my concern with the capitalized interest in the borrowing.

As I said, we have no concern about the need of GPA to borrow. There are a number of projects, including the Cabras overhaul and others that they really need to do. The only option GPA would have had was to put that in the rate case. So, that is a benefit to the ratepayers.

I noted at looking at this legislation that it doesn't for the short-term or the long-term bond financing include a listing of the projects. Normally in the past when the Legislature has passed bond legislation, there would be a little more of a detailed listing of the projects. I know GPA has that because they supplied that to the PUC during the course of the rate case. Again, the Legislature might want to consider adding a listing specifying what projects are going into the \$35M.

The interest rates on the financing – again, I am not an economist, but just looking at it and trying to understand it. On the short-term financing a fixed two-year interest rate of 4%. That sounds reasonable. That is in accordance with the market rates these days. In the rate case, GPA had presented estimated rates for the short-term financing from between 3%-5%. But I note that the provision for a variable rate after two years is not to exceed 12%. Now, that seems excessive. That is not in accordance with market rates. I know that GPA is apparently setting this up so that the short-term financier can get paid off quickly. In other words, it's an incentive. If the variable rate goes up to 12%, then GPA would be likely to pay this off – the short-term borrowing after two years and I think that's what some of the financiers contemplated. But, what would happen, for example a situation arises where GPA can't get the long-term bond financing - for whatever reason there's some problem moving forward with that, then they are stuck with the 12% interest rate. To me, it seems it's really not in accordance with current market rates that would be available to GPA.

There is a limitation is the current law of 9% on interest; that's 12 GCA §8214. Even that seems kind of high. I think that was enacted a number of years ago. It doesn't seem to be in accord with market rates and I am wondering why the Legislature wouldn't want to at least keep that rate if it doesn't reduce it further. So, that is something to consider – the variable interest rate could have some troublesome issues.

Furthermore, I note in the legislation, there is no provision requiring PUC review of the short-term financing. I am aware that in the law, it requires basically the Governor and the Legislature, but in this case under 12 GCA, §12004, the PUC will need to review all of the projects that are included in the short-term bond financing. Actually, with those there is not even a monetary level for debt borrowing. The PUC has to approve all of these projects. That means that GPA is going

to have to come before the PUC with a cost benefit analysis of each of the projects included in the short-term financing. We are recommending that the Legislature include a provision in this bill that would require the written authorization of the Guam PUC for the short-term bond financing and in my testimony I have supplied some draft testimony to cover that.

We also wonder here we are including both short-term bond financing and long-term bond financing in the same legislation. Again, for the long-term bond financing, the language is very cursory. It basically allows for a \$100M loan and again, we have no listing of what are the projects contemplated, what are the conditions – normally your long-term bond financing legislation would set forth exactly what the limitations are on the borrowing and here we wonder why is this included in the same bill as the short-term financing. There's plenty of time to do a long-term financing legislation with more detail, more protections, more of a listing later on.

We understand there is apparently a concern that the financier will want an assurance that these bonds are going to be taken out by long-term bonds later. For short-term money, there is justification there, but for long-term there is no justification to the \$100M at this point. Exactly all the elements that are going to go into it, the listing of projects, etc.

Further we note that the maximum interest rate allowed on the long-term bonds is 9%. Now, I understand that it's kind of a limitation, but it's very high. Would the Legislature or the ratepayers be satisfied if a loan was taken out at 9% interest? I think you may want to re-address that interest rate in there. It's just not in accordance with the current rates.

In concluding, as I mentioned, the PUC supports the concept of this short-term bond financing, but we think that before you approve it, you should really look at some of these issues in more detail as to the amount, as to the desirability of capitalized interest and to require a listing of projects with the short-term bond financing and finally for approval of that short-term financing by the PUC. Thank you Senators.

Chairman Pangelinan. Thank you and Si Yu'os Ma'ase Mr. Horecky. I would like to also recognize Mr. Simon Sanchez. Thank you very much for joining us.

Mr. Joaquin Flores. Good morning, Senators. Thank you very much for giving us an opportunity to testify on Bill No. 207. For the record, I am Joaquin Flores, the current General Manager of the Guam Power Authority and I am very happy to be here to testify in support of Bill No. 207.

To give you some background, when we were developing our budget for FY14, there were projects that were categorized as once in a lifetime major maintenance and projects that Mr. Horecky had mentioned, the RICE MACT projects for the small diesel plants and when we were formulating the budget, during the process I realized that in trying to fund these projects – these once in a lifetime major maintenance projects – we found that there would have been a significant revenue requirement for that particular year. As an example, some of the projects that we were considering were the postponement of the overhaul for the Cabras 1 and 2 boiler and turbines. Postponed because Cabras 3 was down for repair. That was \$5.6M in itself; a single project for one boiler and major re-work on the components of the boiler to make it safe. To look

at this – and these costs were spikes in our recurring O&M budgets – spikes every five years, every six years. But, because of the extraordinary [inaudible] with Cabras No. 3, I asked our CFO if there was any way we could levelize that and incorporate that in our budget process as a levelized operating expense, i.e. in other words, we capitalize it. So, we searched and requested with the advice from Deloitte, our auditors to say, if it is associated with some form of financing and it can be capitalized over a short term, i.e. five years or so, then the answer is yes, it can be.

Now, why didn't we do it in the past? Well, we are better now, we are smarter now and we realize that these were pressures from the budget that were on top of what we call ordinary routine periodic maintenance – maintenance that we could predict every year. There was one budget of projects that were like that. Another project that I wanted to point out was the stack repair for Cabras No. 4. In repairing the stack, it was about \$3M for the repair. That's because of corrosion, the salt environment. The unit is always running so that we can't take the stack out for a long period of time. There is significant rust on the main structure that holds the stack envelope in addition to components of the stack. That would have been considered an O&M expense; one time hit in the budget that would have been a spike, rather than to levelize it. So, right off the bat, that's an \$8M in O&M expenses on top of the routine requirements for the Authority.

So, in trying to smooth it out, to try to mitigate any rate increases, we said we need to do a better job at trying to find a way to ease the rate impact and the revenue requirement in this. And then the capital projects, the true capital projects, such as the RICE MACT for the ten small diesel units that had to be done by May, 2014.

Chairman Pangelinan. What is the RICE MACT?

Mr. Joaquin Flores. RICE is an acronym used by USEPA. It's a new ruling by EPA that had a deadline on May, 2013 for all Reciprocating Internal Combustion Engines – RICE. The MACT rule in the EPA are that it is Mercury Air Toxic Requirements. For these types of units, they are using carbon monoxide as a proxy to all the metals that are listed – there are about 20 of them listed. Instead of monitoring and measuring all those 20 metals and air toxics out of the reciprocating engine, EPA chose one parameter, carbon monoxide. That is a new parameter that we have to now mitigate in our stacks and the only form to do that – as we know – is the use of a catalyst. In very simple terms, it's a catalytic converter like in your muffler that will convert the carbon monoxide to carbon dioxide before it is emitted into the air. So, it adds significant capital cost and it adds additional operating expenses to purchase the filters, to dispose of the by-products.

Therein lies the crux of our problem was to levelize this issue and stretch out so we can ride over our hump. Our debt profile was piquing and at the same time we were piquing with O&M expenses and we wanted to see how we could levelize that out.

There were many projects in Smart Grid. There were nearly 17 projects that we had petitioned the Department of Energy for funding of which only 6 or 7 were approved. Our AMI, the 50,000 meters will be completed in 3 weeks or so. Most of our infrastructure for Smart Grid will be completed for the automated meter reading. Substation automation, we have 29 substations of which only 7 would be completed because of the funding limitations in the grant. There were

very valuable projects that we wanted to continue to further enhance the value and the investments of Smart Grid for about \$2M.

I mentioned that when we were looking at the budget we calculated a revenue requirement that required a 9% impact. We said no, that's not what we want to do. The CCU did not agree with that either. In fact, the CCU trimmed our budget to the tune of about \$6M. It was a \$17M rate request down to about \$10.9M rate request. And that thankfully was approved by the PUC. So, we said the financing is absolutely necessary, we need to levelize these costs, we need to ride over and carry through our year for pique debt service, whilst we were paying down our subordinate debt that would expire in 2015.

We filed many years ago tax exempt commercial paper. We issue paper, low interest rates, every 120 days the 270, no more than that it would be re-issued, people would purchase the paper to fund our projects; mostly capital projects. When we approached Barclay's and we had bond counsel review whether tax-exempt commercial paper could be utilized, there was a conflict that they saw in our indenture. It could not take second, third position from our bonds and in addition to that it would have triggered significant – the total principal and interest amounts would have been considered for that particular year unlike tax-exempt commercial paper where you just pay down the interest and you pay the principal as you go. Sort of like a credit card. But there was a conflict and we could not do it because of the parity issues with senior bonds. You had to be considered senior and not take second position or third position from a subordinate debt. The answer was no. It was too complicated and it was very unlikely that it would sell. So, what do we do now; we are stuck with this big problem, we need to finance this.

With the help of our underwriters, Barclay's and counsel we came up with a structure that we called – it's not a private purchase of bonds but it's kind of a direct purchase that would allow us like a proxy to or substitute to tax exempt commercial paper and that it would be interest only for two years. A significant incentive to take it out after 26 months. There was no requirement for engineering consultant's review, there was no rating that would be necessary for Moody's Fitch and S&P. We never heard of this private placement financing. But the plan was to look at a 2-year fixed rate, variables afterwards. The interest only borrowing was for the first two years. Like I mentioned, it was \$600,000 to \$800,00 on the amount of \$26M in principal. There was an option after 2 years to ensure that GPA could refund the bonds with 2015 time bonds. So we said, there is \$26M, there is the RICE MACT capital projects, there is the once in a lifetime refurbishment and O&M projects that we are going to levelize and then we brought in some 2015 projects to compliment that project list.

So, there was an incentive that you must take it out - Barclay's or whoever private bank that we prepared for bond. We knew this was going to be an RFP locally; that local banks would participate; that you would purchase the bond, issue the paper or the bonds and then write through for 2 years until we pay it off in 26 months. We can pay it off sooner, but at 26 months there's a spike, an incentive to take it out after 2 years.

Chairman Pangelinan. Incentive on GPA' part, right? Not on the guy who has the bonds.

Mr. Joaquin Flores. Yes, it would be our obligation – in other words, the banks don't want to hang on to this debt for longer than that. Purely for short term.

Mr. Simon Sanchez. In the RFP, we would make it clear that whoever the lender is; local bank, off-island bank – whoever has the best rate. The intent is that we are going to take you out so when you structure your loan to us, our intention is that we are going to take you out in 2 years. You can't put anything in you loan that says that you can't take me out. Just to supplement a little to what Kin said, nobody liked the 9% rate increase to fund these cash CIP needs and we know starting in 2015, our debt profile goes from sixty-some million dollars a year in 2014, which is principal and interest but by 2015 it drops to mid 50's, by 2016 it looks like it drops to \$48-\$50M. So, we start to save because we are paying off the earlier bonds and we're paying off the IPP, the public private partnerships. We re buying back the generators they built for us. That debt is falling off between 2015 and 2019. So, we will take advantage of those savings, but unfortunately they don't come until 2016. Let's borrow some money for your capital needs, we'll live with the 1.9% that the PUC approved, not the 9% originally proposed by management. That gets us basically through 2014, 2015 and 2016. We borrow this short amount of money \$35M or so for these projects Kin is describing and it's interest only for a couple of years and then in 2015, GPA is planning a borrowing.

We are really here to ask you for an authorization for total borrowing like you just granted to GWA that says in 2015 we want to borrow a \$100M, but in the \$100M it's the payoff of this \$35M. So, we borrow \$35M for the next 26 months, interest only. In 2015 we pay off the \$35M and borrow another \$65M for the capital needs of the utility. We take advantage of saving the \$10M-\$12M a year in debt service that starts to occur in 2015, 2016 and 2017. That's the debt service on the new \$100M. It pays off the \$36M. We don't have to change the base rate because that is what we are insisting upon with management. Share those debt service savings with ratepayers. If you need to borrow money, use the debt service that you're saving to borrow the money without another rate increase. We're trying to not have any base rate increases until the end of the decade. That's because our debt service is falling between 2015 to 2020. Let's take advantage of that. Unfortunately we have to wait another 2 years to enjoy the full debt service savings. That's a good time to go back to the market; we're now saving \$12M a year in debt service. More than enough to fund the \$100M borrowing in 2015 that would also pay off this \$35M.

That's the policy behind management's filing for rate adjustment, filing this bill with Senator Ada and the body as to allowing GPA to borrow basically a \$100M between now and 2015 - \$36M would be executed in the short term note for 26 months, then it would be paid off in 2015 with a long-term typically bond financing and we'll take out that short-term note and roll of that into this borrowing.

Mr. Joaquin Flores. Not to repeat my Chairman's presentation on the debt profile, Senators. There's a huge peak that we see, that we need to ride through within a year or two. 2014 is the \$63M, then it drops off slightly, and then all the subordinate debt will disappear in 2015. IPP payments will continue for another two and a half years, and that's another \$28M-\$29M in debt service payments a year. But we didn't see that we could raise rates now at 9% and then drop it after debt service occurs. But I want to mention that the projects for \$26M or so were shovel-ready; they're projects that are going to be ongoing,

if not this year, they're starting from the next term over, hopefully next year. They are O&M projects that need to go; they need to be out of those gates right away.

The urgency for the stacks with Cabras No. 3 is serious and critical. That needs to go right away. For all intense and purposes, this two years will take us through the peak of debt service; it would give us financing for these projects, which would normally have been funded \$13M-\$14M a year on either O&M or capital revenue requirements, and then we're now levelizing it to about \$700,000 in interest payments for the next two years, instead of \$13M a year in revenue requirements. So you can see that there's a significant reduction in cash revenue requirements over the next two years.

The other thing is that we also looked at our capital program with the same concept of financing these one off projects or staff calls it MOM projects, Major O&M projects that could be capitalized and levelized, projects that have short lives and thirty-year amortization service lives. We looked at a five to six year period, and said there's about \$100M there, instead of \$100M over the next five years, \$20M on or about, revenue requirements. We said let's finance that and \$100M in project costs financed at 5% interest is about \$6M; \$5M principle and interest over the long term. So we brought forward these projects to improve reliability, nearly \$100M in five years, \$26M in the first two years, and levelize that to a cost starting at \$600,000-\$700,000 in interest and then levelizing that at \$6M a year as opposed to \$20M over the next five years. This is an avenue, this is an instrument that will help mitigate. In fact, we foresee, even at very, very conservative estimates with our forecasts, it's less than a half a percent in growth a year. It's very, very slow. It's very flat. We're worried about that, but we don't see another rate increase at least past 2018-2019. That was in a package, that's why it made so much sense to do this financing.

We apologize; some of the projects are listed. We do have a thorough list. These are the immediate projects for the first two years. I believe we've filed with the PUC, under a tax-exempt commercial paper petition, and that the projects themselves would have to be vetted out by the PUC consultants, nonetheless. We are fully aware of that. And then the bond issue in 2015 allows us time between now and then to scrutinize the projects, finalize what is called benefits-cost analysis for the PUC so that these projects show an economic return to the ratepayer. That allows time in preparing for the 2015 bond issue of \$100M.

Chairman Pangelinan. But we would have approved that already if we passed this bill.

Mr. Simon Sanchez. Yes, like GWA, we're saying over the next five years, you'll let us borrow \$450M. Basically, what we're saying, in the next two years, will you let us borrow \$100M?

Mr. Joaquin Flores. The \$35M that Atty Horecky mentioned was also taken out of the statute because in the statute there is a provision that allows for tax-exempt commercial paper. We utilize that provision in the statute and that limit was the number referenced by Atty Horecky. Now, please note, I want to be very clear for the record, none of this capital plan includes the conversion or the switch to LNG. That's forthcoming. We are preparing a Resource Implementation Plan, a filing that's due to the PUC on the 27th of November. It will lay out the requirements on how we are going to prepare the execution and the implementation from switching to heavy oil to natural gas, and that's forthcoming. And that's good for everybody, I think. It would stabilize rates; in fact, there's a potential to reduce rates with LNG.

Number one, first and foremost, it's a cheaper fuel; it's well behaved over the long term. Number two, it's a much cleaner fuel. It's what the USEPA wants in the first place. It allows us now an opportunity to negotiate a consent decree for Cabras No. 3 and 4, and MEC 8 and 9 that are not being converted with the RICE MACT projects because they're so large. We don't know what technologies to use to control carbon monoxide for those giant units. But the small ten units will be completed by May 2014, under a one-year extension by USEPA. So we have a problem with the slow speed diesel engines, the big ones.

We're going to fold in an LNG component to that, to negotiate a consent decree to ride us through past the deadline for emission rules, when gas is available then we'll retrofit those plants. The steam units are being proposed for retirement, Tanguisson and Cabras 1 and 2, so when gas is available, we will also fold in their MACT rule requirements EGU MACT by 2015, with an extension under the consent decree to take us through 2021.

None of the conversion of those projects, none of the building of the infrastructure, the pier, and the pipelines are folded into this. That's going to come at a later time and we will be presenting to the Legislature and the PUC for what that plan is, and my team is very excited about this. This is a paradigm shift for the entire island. It will benefit the entire Micronesian Pacific region because it allows an opportunity for moving off of oil, and the sacrifices and pain associated with rates under oil. It's nearly a \$600M investment. This would be the largest economic project for the entire island for the last several decades, paired to the military build-up.

Mr. Simon Sanchez. Senator, from the policy point of view, which we find is very common with the way you are forced to look at it from the legislative point of view. The short-term loan is to get the diesel generators that will be part of our system for a long time, we need to get those to comply with RICE MACT. It was supposed to have been done by this year, they have granted us an extension till next year. If the borrowing is authorized....

Chairman Pangelinan. Are these the IPP generators?

Mr. Joaquin Flores. No, these are the small diesel generators Tenjo, Talofoto, Manenggon Hills, the fast track ones.

Mr. Simon Sanchez. In order to keep the fast track generators alive, we have to comply with the Clean Air Act. To comply with the Clean Air Act, RICE MACT is basically a spin off of the Clean Air Act, for those types of generators, the fast trackers. The money we would borrow in the short-term borrowing would give Kin the money to do that. So that we would be able to show EPA we have the money to bring the fast track generators that are going to remain part of our system into compliance with the Clean Air Act and the RICE MACT compliance requirements that was supposed to occur in May.

We started negotiating with them, and they said we'll give you another year to go get the money and build it. So that is what you're helping us with, what we're asking you to help us with is the short-term money. It gives him the money to begin to get those into compliance. All the big base loads, the ones we own and the IPPs we are buying back. We needed a plan to get them into the Clean Air Act compliance. LNG is the way we will get them to the Clean Air Act compliance. What we're showing EPA is that in the next two years, we'll get the diesels there. We're going to retire some diesels that we're not going to put any money into. But for the ones that we're going to keep, we need this \$5.5M. They can fix it; it's not a three-year construction project. If we get the \$5.5M in the next 30-60 days, they can finish it in time. So now your diesels are in compliance. Then, we're saying, ok EPA, how are we going to get the rest of the system in compliance with the Clean Air Act. We're going to move to LNG by 2021 and we're going to negotiate a kind of court order with them, a stipulated agreement with them that says that if GPA does all these things by 2021 and comes into compliance, then everyone is happy.

USEPA is happy, they like LNG. They're glad we're moving away from heavy oil. We think the LNG checks off their box to comply with the Clean Air Act. And what you'll see when we bring it to the community, and we start tonight with the first approvals. We'll show it to PUC, to the Legislature, to the governor. We're going to be able to finance all of the LNG through the LEAC savings. The Capex, the lower fuel cost will produce enough money to fund...the LEAC, we'll spend about \$350M a year with Singapore.

Chairman Pangelinan. Can we go back to this bill?

Mr. Simon Sanchez. This bill is the beginning of complying with the Clean Air Act. We need the money now, in this bill, to do the diesels. The rest of the system we'll deal with as the conversion to LNG occurs. But we need to show EPA that we have a plan, diesels into compliance by May of next year, we need \$5.5M and this financing is a small amount is the \$26M, or (asks Mr. Flores) is it \$36M?

Mr. Joaquin Flores. \$26M, but the cost of issuance is \$28M.

Mr. Simon Sanchez. Basically you're authorizing us to borrow just short of \$30M, which is part of allowing us to borrow \$100M. \$30M now, the balance, then in 2015 we'll borrow \$100M, pay off the \$30M and borrow another \$70M. And as the presentation will show you, by 2015, debt service is now \$42M a year, not \$62M a year. So the \$100M borrowing we can finance from the debt service savings, no base rate adjustment. There's also a slide here, you'll see, although they don't label the years going forward, it shows there would be no base rate required increase from 2014-2018. So that's our plan of attack. With your help, if you allow us to borrow the \$100M, starting with \$30M now, and a re-fi in 2015, we can fund all of this borrowing without any base rate adjustments, and we can take advantage of the debt service savings that really begins to kick in 2015 and 2016.

We're sort of buying it forward by using financing to let us access cash we need as opposed to a 9% rate increase. We now can live with a smaller rate increase. You let us borrow this money we'll borrow the money, and we'll borrow the rest of the money in 2015 and the repayment of all that money, we'll use base rates to do so, we won't require a rate increase and we'll take advantage of the debt service savings from the retiring loans to pay for the new \$100M loan. That's the big picture.

Mr. Joaquin Flores. I just want to talk about procurement - what we call a direct sale of bonds. I wish bond counsel was here to describe how that tactical process would go. The sale is limited to sophisticated purchases only. There's really only a few banks and investment firms can actually do this deal.

Chairman Pangelinan. On the \$30M?

Mr. Joaquin Flores. Yes, what we call the short-term financing.

Chairman Pangelinan. Basically, what you're doing is the private placement.

Mr. Joaquin Flores. Yes. And GEDA will issue the RFP for Guam banks as well as GP Underwriters to participate. So, it's not going to be just a sale to Barclay's or Citibank or whoever. It's going to be local banks and a low rate provider will be awarded, so there's going to be criteria where in the lowest interest prevails for that period of time, with the constraint that there has to be an interest only component, no principal. That's the whole idea. It takes us through 26 months with an incentive to take it out with long-term financing with those bonds incorporated. The projects that were funded into 2015, the 2015 bonds and other projects, that's the procurement side of that. I just want to make sure I'm clear about that.

No one's precluded from participating in this interim financing. So the financing was created to minimize rate impact, I'm just concluding, the plan was taken into consideration in the most recent rate case. In our filing for the rate increase, we have a revenue requirement to fund the interest-only component in FY14, no principal. We also had a separate filing with our rate case for tax-exempt commercial paper and subsequent to that, we amended that filing with the PUC to indicate that tax-exempt commercial paper was difficult if not impossible because of conflicts with existing indenture and this parody issue, with

regard to an existing subordinate bond. I ask the question, why don't we take out the existing bond and remove it, and allow the tax-exempt commercial paper legislation to prevail? The answer was that there were significant penalties with maturities on that subordinate debt, but it didn't make any sense to do that. Off the top of my head, I don't know those amounts. But we did evaluate that. I asked to seriously look at taking out subordinate debt, that way we can move in tax-exempt commercial paper, but the numbers do not pan out. It was not economical.

And again, this whole purpose is to get us over that peak. Try to move projects in, levelize those costs, which these major O&M projects, once-in-a-lifetime projects, causing these spikes in our routine periodic maintenance, and levelize that to the extent that we can take out a bond and now have a better debt profile, better cash position or revenue stream coming in from our forecast—it's flat, really stale right now. So we need to ride through that, see if the economy picks up, then there's opportunities to do better than what we have here. Again, thank you very much for allowing us to explain this bill.

Chairman Pangelinan. Ok, thank you very much. Senator Ada? Also, I'd like to recognize Senator Aguon for joining us this morning.

Senator Tom Ada. Thank you, Mr. Chairman. Kin, can you just clarify on this short-term borrowing? The bill calls for authorization of \$35M, but you just mentioned here that it was \$30M that you need, the \$26M for the projects, and the \$4M for the cost of issuance. Is it \$5M?

Mr. Joaquin Flores. I guess the confusion there was that the \$35M was right out of the statute with regard to the TCP, and so we utilize that figure for this interim financing. It may come in at \$28M. The calculations are showing it's \$26.1M in project costs to the best of our estimates. \$28M with the cost of issuance.

Senator Tom Ada. \$2M for the cost of issuance. So what we need to better clarify here is how are you asking for immediate issuance and the amount you are going to take out in 2015. Is it \$30M or \$35M? The bill is saying an aggregate principal amount not to exceed \$35M.

Mr. Joaquin Flores. That's correct. The project list from my approval, submitted to the CCU, submitted to the PUC is \$26.1M in general category, generation transmission. We understand on or about the issuance cost would be about \$2M. \$28M-\$29M, we don't know exactly. And I'm trying to explain that the \$35M was the not-to-exceed limit in the TCP legislation. It's going to be on or about \$28M-\$29M, I think maybe not to exceed \$30M, not to exceed \$29M.

Mr. Simon Sanchez. If we go to \$30M, that just means another \$2M can be funded but we'd get the essential \$26M covered, particularly the ones that would make USEPA happy on the diesels. That's really the ones we'd got to have now because we have to tell EPA we'll be in compliance with those diesels by May.

Senator Tom Ada. When the \$100M is issued in 2015, is there going to be a capitalized interest scenario to that?

Mr. Simon Sanchez. What we can do, our thinking today is that capitalized interest is the way to go with CIP, but it was a very good exercise with the GWA borrowing. We'll run scenarios with no capitalized interest one year and two year, and take a look at it and share that information. The challenge will be the sooner you pay P&I, the sooner you need rates, but we do believe the rates we have now and the debt service savings starting FY15, where we start to save almost \$20 million a year. That's going to be more than enough to pay a \$100M loan. We won't need any rate increase, and we might even be able to drop the base rate a little bit more, taking advantage of the debt savings. We can run that exercise. Obviously,

the law allows it to be at least, initially, an executive branch exercise, where GPA and CCU would say how do you want to borrow this money. Let's look at 0, 1, and 2. My hope is that no matter what we use maybe in this case we can avoid capitalized interest, because we have debt service savings already available to us from the drop-off of the debt starting in 15, 16 and 17. It's just a policy call. I don't want to charge Tan Maria for principal when she's not using the asset yet.

Mr. Joaquin Flores. Senator, just to further answer that question, a lot of these projects, let's say it's an underground hardening project, they are not completed in just a year's time. Sometimes they're two-year projects. So, like what the chairman was saying is that you're not actually enjoying the benefit of the asset for at least a year, until the project is fully completed. There might be at a very minimum some Cap-I, but we'll prepare the analytics, and then in the end it becomes a policy call.

Senator Tom Ada. Thank you very much.

Chairman Pangelinan. Kin, you have issued bonds in 1999 and 2010, those are the last two issues. Can you tell me what your balance is on any of those bonds?

Mr. Joaquin Flores. I know that for the 1999 we rolled that into the 2012 financing. Most of those projects have already been obligated. There's very little left in the 1999 series. Now the 2012 series – the 2010 series were nearly in excess of 75% obligated, so we're well underway to utilize those funds. There's going to be very little left.

Chairman Pangelinan. What is that number?

Ms. Corazon Montellano. My name is Corazon Montellano. I am the Assistant Chief Financial Officer for GPA. To answer your question, Senator, the 1993 and 1999 bonds were taken out by the 2012 bond.

Chairman Pangelinan. When we took that out, how much did we take out?

Ms. Corazon Montellano. I think \$200-some million, if I'm not mistaken.

Mr. Joaquin Flores. There was a refinancing and restructuring at the same time.

Chairman Pangelinan. So how much of the 1999 bonds were unexpended at that time when you refinanced them?

Ms. Corazon Montellano. From the 1993...

Chairman Pangelinan. 1993 and 1999?

Ms. Corazon Montellano. 1993 was approximately \$60M...

Chairman Pangelinan. \$60M was unexpended when you refinanced?

Ms. Corazon Montellano. Yes. That was the outstanding principal.

Chairman Pangelinan. No, I meant...

Ms. Corazon Montellano. Oh, you're talking about the construction fund?

Chairman Pangelinan. Yes.

Ms. Corazon Montellano. Oh, the 1993 has been spent. The 1999 there was remaining \$10M at the time...

Chairman Pangelinan. So when you refinanced in 2012, there was \$10M left?

Ms. Corazon Montellano [nods yes] On the construction fund from the 1999.

Chairman Pangelinan. Right. What was the total 1999 bond?

Ms. Corazon Montellano. If I remember the total principal is \$300M, if I'm not mistaken, at the time of issuance.

Chairman Pangelinan. Then the 2010 bonds?

Ms. Corazon Montellano. On the 2010 bonds, we have two—the subordinate bonds—which is around \$56M. \$56M for the subordinate, and then we have the senior lien bond which is another \$200M, if I'm not mistaken. Because right now, what is outstanding is around \$500M.

Chairman Pangelinan. Ok, so of the \$56M and \$200M, in your construction, how much is left in the 2010?

Ms. Corazon Montellano. Approximately, we have around \$60M-\$65M we haven't spent.

Chairman Pangelinan. So you still have \$60M left?

Ms. Corazon Montellano. Right.

Chairman Pangelinan Ok, and the 2012?

Ms. Corazon Montellano. That one is to pay off the 1993 and 1999, so I don't think we have any...

Ms. Simon Sanchez. That was just a re-fi. Remember? We got the investment grade that dropped the investment rate and roll back...

Ms. Corazon Montellano. No construction fund there.

Ms. Simon Sanchez. [asks Corazon] Is the \$65M balanced? That's already obligated to projects?

Ms. Corazon Montellano. Yes. Most of them have been obligated.

Mr. Simon Sanchez. We're just in the process of spending.

Ms. Corazon Montellano. Yes, 1993 is all spent already. 1999 are all obligated already.

Chairman Pangelinan. When you say obligated, what do you mean? Bidded out? Contracts?

Ms. Corazon Montellano. Yes. All of the 1999, the \$10M. But the \$60-some million, there's probably \$1M-\$2M that hasn't been committed yet.

Chairman Pangelinan. Mr. Horecky mentioned that in the last rate case, you did get rate financing for about \$5.6M of your capital projects that you requested.

Mr. Joaquin Flores. Can I clarify that, Sir? We, under pressure of a deadline with USEPA, the deadline for the RICE MACT, these are the small diesel units mentioned earlier, it was a \$5.5M project to install these oxygen catalysts on the stacks. In 2013, we had to certify issuing the design and purchasing the equipment, and now we have contracted for a contractor to install and remove the stacks, replace it with a brand new stack and insert these new catalysts. So in 2013, we had to certify against our working capital fund. Now the working capital fund, yes, was at a level that had to be financed by the indenture requirements, which is a 30-day O&M equivalent that had to be fully funded, in accordance with the indenture, and that we had petitioned rates to have or maintain the working capital fund funded. That's inclusive of fuel. In taking money out of the working capital fund, it would have left the working capital fund deficient to the tune of \$5.5M. But we indicated that the interim financing that would replenish the working capital as a - you take it out now and get it from rates, or you take it out and you get it replenished by the interim financing. So we chose...

Chairman Pangelinan. But the rates are there? The rate relief is there?

Mr. Joaquin Flores The rate relief was not there to make whole the working capital fund. The rate relief was in the 2014 financing plan to reimburse us for the interest incurred under the interim financing. So we chose one mechanism or the other, we would have been double counting in rates, basically, so we chose or the other, not both.

Mr. Simon Sanchez. Let me try to simplify. This is how I understand it. We can draw down from the working capital fund and to replenish it we ask for a rate relief. It was in that 9% but we said that was too much. Now we are saying that we are replenishing the working capital fund with the short term financing so we don't need a 9%, we can drop it down to the 2.2% and the PUC has now said 1.9%. The \$5.5 million needs to be put back and the way to put it back is in two choices, (1) the short-term loan or (2) a rate increase. We want to do it with the short-term loan because we know we can avoid all future rate increases after the one we just got if we can just borrow this money for two years, take it out of the bond, and in two years our debt services are down \$20 million a year and we can pay the \$100 million, no rate increase.

Chairman Pangelinan. That is not what I understand. I may be mistaken but we would just have to take a look at that.

Atty Fred Horecky. I had to ask Georgetown to take a look at this because I had questions about the \$35 million and now it appears to be \$30 million. They refer to the two O&M projects that were funded through rates. What they say is an allowance on the rates, these projects I believe are the RICE MACT projects. It is my understanding that the RICE MACT projects were \$5.5 million each and now I am told they are \$4.2 million, that the cost had been reduced.

Mr. Joaquin Flores. There were estimates and now that the bids are coming in, it's to our advantage.

Mr. Simon Sanchez. Can you give your understanding on the PUC and how it does not need the 9% if we can access this \$4-5 million for RICE MACT through financing? We're not assuming that PUC will automatically approve the financing; we are here at the Legislature asking if they

would allow the financing. We would come up with this \$4M-\$5M for this RICE MACT so we wouldn't need to replenish the working capital fund from a rate increase. We can replenish it from borrowing proceeds of the short-term note, which ultimately will be rolled into a long-term note in 2015. That's the way I understand it. Is that similar to the way you understand it?

Atty Fred Horecky. Yes, and I think the PUC supports that.

Vice Speaker Cruz. Whether it's \$4.2M or \$5.5M, it doesn't matter if its \$26M, \$29M or \$35M because the intent in section 2 is to authorize you to go to the market for a \$100M in two years.

Mr. Simon Sanchez. Over two years. Some now, some in 2015.

Vice Speaker Cruz. But that's what is being proposed in this bill. It's not just this \$4.2M, \$26M, \$29M, \$35M, in section 2. It is "hereby approves of the issuance of the sale of revenue bonds by GPA in one or more series in senior revenue bonds...not to exceed \$100 million." and that's what we are really doing here.

Mr. Simon Sanchez. What we are explaining to you is the \$100M is structured in a way that we would access \$20M to \$30M now and then access the balance in 2015 and pay off the \$30M. So, the way we think about it, if this is helpful to you is we are borrowing \$100M, \$30M now and \$7M in 2015 or \$100M in 2015 and you pay off the \$30M.

Vice Speaker Cruz. The thing I don't understand is that there was a GWA bond bill that was so urgent that we got the Chairman's permission to allow me, the Vice Chairman, to conduct the hearing. We had the hearing last week, we completed the discussion on the bill and it was so urgent that we had to go to the market – that day – because rates were going to be going up. We had to suspend everything to pass the bill immediately. But in this one we're saying "nyeh"....

Mr. Simon Sanchez. There's a huge difference, Senator. This one doesn't have a USEPA court order time line like GWA does.

Vice Speaker Cruz. I understand, but we are going to be sticking the ratepayers, at some point, with an additional \$100M. At the same time, at the end of this month, you are about to be rolling out your \$650M plan.

Mr. Joaquin Flores. At the end of this month we will be laying out the plan with what will be needed to execute the implementation. Now, the PUC approved the integrated resource plan to implement LNG but they approved it with caution.

Vice Speaker Cruz. I understand, but we are saying we are spending \$100M now. Fred, I'm not happy with what they did with one of the other authorities where we are spending a huge amount of money in maintenance costs and we are going to have to buy brand new things very soon because everything is falling apart. In this one, we are planning \$650M in improvements, already, you have the plans written and you are asking us to let you get \$100M today.

Mr. Joaquin Flores. Yes. Yes sir.

Mr. Simon Sanchez. That \$100M has nothing to do with the LNG project.

Vice Speaker Cruz. I fully understand that, but what I am saying is, we are approving \$100M today, we are not even going to go into the Committee on the Whole like we did the last time to discuss and figure how much is this going to cost us in the long run. We're paying interest only on this \$20M and we're still going to pay the \$35M. I like this but instead of refinance - you use this other term that means it doesn't go away. It is restructured into a refinancing.

Chairman Pangelinan. Take out.

Vice Speaker Cruz. Take out, that's it. I like that. It's like it wasn't there anymore but it is; it's still there. We still owe \$30M. To use the word take out is very cute. As if it wasn't even going to be repaid. We're paying it and we're going to be paying even more interest. And the possibility of the interest rate being different in three years really scares me. Right now the rush is, as well as you guys are doing, the fact is we're letting you do whatever you want. It would seem now would be the time to go to the bond market for this \$100M since you're going to do it at some point anyway and get it at the 4% as opposed to the 9% or the 12% that you are proposing in this legislation.

Mr. Simon Sanchez. The challenge, Senator, is we don't have a rate case in front of the PUC that would show them how we would borrow \$100M and pay it back. Unlike GWA, when we do these large borrowings we put a 5-year rate plan we decide its \$490M - now it's \$450M and here's the rate plan. This is the reason why GPA is taking a different approach, which was we need short-term money now, the \$100M we don't need for a couple of years. Yeah, we can borrow it now but we're saying we don't need to borrow it now.

Vice Speaker Cruz. But we are approving it today.

Mr. Simon Sanchez. That's no different than you approving GWA for \$450M.

Vice Speaker Cruz. What I am saying is right now we don't need to come back in two years just to pass legislation for \$100M.

Mr. Simon Sanchez. Correct. Right now the only rate plan we have in place, approved by the PUC is to fund this \$20M to \$30M now. The 1.9% has been approved. We have no further petition for rate relief before the PUC. We have advised them that we are going to approach the Legislature about permission to borrow \$100M, \$30M now and \$70M later. Our expectation is with the PUC. We're not going to need a rate increase with this \$100M because of all the savings that our ratepayers are about to enjoy beginning in 2015. The good news is, think of it as if you pay off a loan, you have extra cash or you can go borrow some more money.

Chairman Pangelinan. You could be internally financing some of the projects.

Mr. Simon Sanchez. You could or you could do rate relief. Now we're on the same page. That \$20M savings - say we borrow \$100M and debt service is \$7M-\$8M, there is still \$12M-13M.

We can do internal CIP's, we can lower the base rate or do a little of a combination. The good news for ratepayers is we aren't saying there is going to be any more need of base rate adjustments at least through 2018, if not longer. Or we can do what you suggested Senator, and internalize it, but we won't have to cross that bridge until 2015/2016. This bridge is until 2015 and it gives us the money we need for the RICE MACT in reimbursing the working capital fund so he can tell EPA next May, "I'm done." The \$5.5M wouldn't need the PUC to reimburse the \$5.5M working capital.

Chairman Pangelinan. We already reimbursed the working capital fund, right? We already did that. We're going to do it again?

Mr. Simon Sanchez. True, but we have to keep it filled so if there is a deficiency we are allowed, correct me if I am wrong Fred, if there is a deficiency in the working capital fund we can go to the PUC and we can tell them there is a deficiency, give us a surplus to replenish. We don't want to do that.

Atty Fred Horecky. Of course, it's self-insurance.

Mr. Simon Sanchez. Correct me if I'm wrong Fred, the PUC would like a level that is in the working fund that is maintained and there is an amount in the self-insurance fund that is maintained and if it drops we can petition the PUC to recover those. We're trying to avoid petitioning the PUC for anything when it comes to replacing the working capital fund and the self-insurance fund. This financing gives us this money and there is no rate increases required.

Chairman Pangelinan. If you took some of that for the next two years and with the spike in the self-insurance fund and fund that, then you get a huge drop off in your debt service in 2015, then you don't have to go back and replenish it. With your rate increase you just replenish it with the drop off on the interest.

Mr. Simon Sanchez. You can't have those two funds wait two years to be reimbursed. You have to keep those constantly funded, especially the working capital fund. That's 30-days O&M, that's an indentured requirement. We must all be able to certify that we have kept that fund filled. We made a plan to replenish it now because we borrowed the money so he [Kin Flores] can meet the May 2014 deadline. The \$30M puts the money back so we don't have to petition the PUC for a rate adjustment to replenish the working capital.

Vice Speaker Cruz. When was the last time you submitted a 5-year plan to PUC?

Mr. Joaquin Flores. We file our capital budget every year but the rate plan was 2010.

Vice Speaker Cruz. Do they refuse to accept a new rate plan when you have changed circumstances?

Mr. Simon Sanchez. No, but what we are trying to share with you today is that we don't need a rate increase. There is no rate plan to file for them. If you let us do this borrowing we don't need to petition the PUC for a rate increase.

Vice Speaker Cruz. I understand, but you are planning a \$100M bond...

Mr. Simon Sanchez. Yes, and we don't need a rate increase to pay for it.

Vice Speaker Cruz. Have you filed a rate plan with the PUC?

Mr. Simon Sanchez. No, because no rate increase is required to fund it. We will fund it as Senator Pangelinan describes, the savings and debt service from 2015 which is already in our rates, that debt service savings will allow us to fund...

Vice Speaker Cruz. You can file that with PUC right now, right? You can say to them, I have the plan for 5-years starting 2014 and because of the savings that I am going to get in 2015, I'm not going to have a rate increase and I can borrow \$100M. This is our rate plan going forward for the next 5-years.

Mr. Simon Sanchez. I think you are confusing two tools. Under the PUC rules, no matter what they decide to do, any specific borrowing projects have to be approved by the PUC. That's what we will be submitting to the PUC - here is \$100M worth of projects between 2013 and 2015, is it ok? That is the CIP approval of the PUC. On the rate tool that the PUC uses, we won't be filing a petition for a rate increase for 2015, 2016, 2017 and 2018. We won't be filing a rate plan because we don't see a need for a rate increase. You only file with the PUC when you want to raise rates. What we are sharing with you today is if you give us the \$100M authorization, we are going to spend \$30M now and \$70M later and none of it will require a rate increase. We just need permission to borrow the \$100M.

Vice Speaker Cruz. It would make me feel much better if you had a 5-year plan that in 2015 rates will not be increasing with this \$100M and in fact might be going down.

Mr. Joaquin Flores. As far as our filing Senator, we would owe the PUC those analysis anyway. The financial management plan, the 5-year plan, the revenue requirements, we need to show that we can meet our legal obligations under this new bond to PUC. That would be available as well.

Chairman Pangelinan. I think what we are trying to say here is, you need that for us as well. For me to positively consider this borrowing I would need to see this as well for both the \$30M and the \$70M.

Mr. Joaquin Flores. We can provide that. In our development of this plan is the revenue requirement, the revenue stream, the operating expenses, the capital plan and the debt plan.

Chairman Pangelinan. Another thing, one quick question. We seem to be sinking \$5.6M into Cabras and you're saying that it is completely separate from LNG but when do you anticipate the LNG coming on board and why are we making improvements on these things when they are going to be retired when LNG comes on board? That's my first question. My second question is that a large portion of this \$30M is for the Fast Track units. I thought that when we went to the

IPP's that these Fast Tracks were retired and on standby and now we are sinking money into these things? Don't we have reliability things with the IPP's and therefore when the power goes out we charge them?

Mr. Joaquin Flores. To answer the first question; with Tanguisson Power Plant, we do not pour capital improvement because of the IPP contract, so there is no capital investments. It is scheduled for retirement once gas is available. Gas will not be available until after 2021 because of the permitting and the infrastructure. We still have 7, maybe even 8 years, to make prudent investments to ensure liability in the grid is assured. If we do not have Cabras 1 and 2 and another unit comes down for an overhaul, then we will be pulling in Fast Tracks at much more production costs. Yes, there are investments into Cabras; some are critical components, the broiler itself have critical components, such as high pressure/high temperature components that we don't want to risk the safety or the reliability of the broiler. The turbine has to be overhauled for it to run another 7 years, and it's already past due. It's not prudent for us to force it to go to the extent past 2021 without investing into that turbine. A catastrophic failure in the turbine can result in -- who knows what? Much less, much higher fuel production cost or expenses. Our plan was - they aren't retired until 2021 so we have to make prudent investments knowing retirements are imminent.

The Fast Tracks, the Talofoto, the Tenjo - they run all the time when Cabras 3 is not out of service, but they run less than 2% of the year. We are burning less than 2% diesel to the extent possible. If you go beyond that, somebody has to see me about why your running diesel as opposed to No. 6 oil.

Mr. Simon Sanchez. Prior to us getting the IPP's, we used to rely on them for 20% of our power and now we only use them for 2% of our power. The base load are doing what you described Senator, they are providing us with 98% of our power. But as you know you have to take down your base loads from time to time and you supplement that with your Fast Trackers. Historically the utilization of those Fast Trackers in the last 7/8 years is 2%. We have made the move to having the base loads do the work. Unlike when we took office, the base load was only doing 80% of the load.

We are now transitioning towards LNG and we are going to get rid of a couple of Fast Trackers now, no more money. We are going to keep Cabras 1-4 running until 2021 because we need them until 2021. Then we will retire them or convert them and that is some of the stuff we will share with the community now. The game plan is you got to keep them running until 2021 because you still have to live in the old house until you move into the new house. The new house won't be ready until 2021 so you have to keep fixing Cabras 1-4; you at least keep them running, no more money in the Tango, no more money in the Fast Trackers and we are only going to put the money in the RICE MACT. We want to keep for the long haul but our hope is when we are in LNG that we aren't using them for 1% or 2% either. You still have to have some Fast Trackers for reliability purposes and for back up when you take down a base load.

Senator Frank Aguon. The procurement aspect, the direct sales of these projected bonds. One of the statements that was injected into the conversation; you are looking at an arrangement for no more than five years in which interest only payments will be required, then you would go out

to the bond market acquiring hopefully \$100M at a much cheaper rate. My question: Would it be possible to confine, if it's acceptable to your proposed rate structure, to confine it to a local bank? I know that it allows for local bank participation, but you would go with the best offer. Let's say 500% point, a variation between the best offer and a local banking institution. Would it be possible to lean toward the direction of taking the offer from our local banking institution? Your arrangement will be interest only for two to three years, you will get proposals from local banks, but my question is 5% interest – let's say the best offer is the local banking financial. Can we take the option?

Mr. Simon Sanchez. My concern is if we get a lower interest rate from an off island bank, why would you want to charge ratepayers a higher rate just because it's a local bank? Our goal, from a policy side, is there are no restrictions on our borrowing that says you got to borrow from our local banks. We want competition for this. We want our off-island banks to compete and our local banks to compete; we owe it to the ratepayers to pick the bank with the lowest rate. If you're going to restrict to local banks they will compete with each other, but there would be no competition with off-island banks. They are not going to have competition from the big guys. They charge half percentage for the next two years, you're making rate payers pay more than they needed to. If these are valid banks on or off island, the lowest interest rate wins. That is procurement 101.

Senator Frank Aguon. I understand your perspective, but I am looking at - if it is 500 percentage point variation or one percentage point variation, would it more prudent - because your arrangement is interest only payments and the existing rate structure would be able to absorb that temporary payment scheme. The question is: the money stays in Guam, circling within our local economy. So you and I, economically, don't need to go down that road to decipher the impact and benefit would be for our local financial institution. If in fact the variations would be point five percentage points or even less, then it should go to the local banking institutions in the interim so that our local banks would ultimately benefit and our people would also benefit because it circles our economy.

I understand the nature of competition and being able to allow the big boys and girls top come in and play in the market in terms of offering financing, but if we are talking about long term bond financing - we understand what the market would allow and the direction GPA should go. I am just asking or inquiring your perspective if in fact we are going two years, three years, you are eventually going out to the bond market if the rates are not comparable, but if the rates are not too skewed to the extent we would not allow a local bank to participate, I would personally move in that direction because the money stays on Guam.

Mr. Simon Sanchez. I guess our only concern would be what is the preferential treatment you would give to the local banks? One percent savings? Two percent savings? What if they are one percent more than the off island bank? Is that the number or is it a half percent?

Senator Frank Aguon. Even if you go 500 percentage points, half of a percent.

Mr. Simon Sanchez. A half of a percent of \$30M is \$1.5M a year. Over two years, that's \$3M you are charging to ratepayers so you benefit a local bank. Why should ratepayers subsidize a local bank? Banks make money, but they need to make money by being competitive. If I did the

math right a half of a percent is \$150,000 a year. Over two years it is \$300,000 in additional interest that we would have to charge ratepayers to pay a local bank. Why charge them that?

Senator Frank Aguon. So, an additional \$300,000 in interest over a short-term of 2-3 years remaining in our local economy inclusive of the other additional components of that payment would not be an arrangement that would be acceptable to GPA when in fact all the resources and all the payments can on Guam within the 2-3 years?

Mr. Kin Flores. There is another component here - that train has left the station when we filed our FY14 petition. In our petition we asked for rate relief to service this interest only component for the next two years and that number was right around 4% to the tune of maybe \$700,000 a year. So if you make it a local vendor preference then that's the ceiling, not the floor. We won't have sufficient revenue requirement to support that debt over time. That is a very tough bar to achieve, even with local banks, even with investment banks. We purposely use that number to keep within the revenue requirement that was already approved by the PUC to fund and service this interest only component. I just take caution - those market rates are going to prevail whatever they are, knowing they are going to be competing they will do the best to sharpen their pencils to become more competitive. In other words, we cannot service that debt if we have 500 basis points local vendor preference. There is a limit to what we have to service this debt.

Senator Frank Aguon: If we stay with your limit and we get a local bank to participate within that restriction, then that would give them local preference. I understand about the investments and like I said, if it is a .25 percentage point or a half a percentage point, the money stays in Guam, the payment is remitted on Guam during that duration I think that would be a wise investment and keeping it here rather than sending it off -island. But we understand the overall scenarios that's being presented and it's ultimately up to the Speaker and the Chairman of the Committee to formulate the policies. Thank you very much.

Chairman Pangelinan. Kin, you keep mentioning that this whole scheme has been structured by Barkley's. Under what RFP is Barkley's working on structuring this scheme?

Mr. Simon Sanchez. GEDA selected Citibank and Barkley's to be the underwriters for GPA. Barkley's is the lead for GPA.

Chairman Pangelinan. This \$100M is not approved yet?

Mr. Simon Sanchez. Well, for any financing we would pursue over the next three years - it is a three year award - whenever GPA or GWA wants to explore financing we talk to two underwriters that have been selected through GEDA procurement.

Chairman Pangelinan. So GEDA basically awarded a three-year blanket purchase order to Barkley's and Citibank? Not knowing that the next guy is going to bid on?

Mr. Simon Sanchez: There were bidders and the winning bidder for the next three years were these two banks.

Chairman Pangelinan. Usually we bid every single issue independent.

Mr. Simon Sanchez. No. We don't do that. It hasn't been done. The last borrowing Morgan Stanley was the underwriter for multiple year underwriters for GPA and Citibank was...

Chairman Pangelinan. But it was on approval?

Mr. Simon Sanchez. GEDA approves underwriters to support an agency under a procurement that awards them a three-year contract with options with for a fourth and fifth year. Then, underwriters compete, in fact both GPA and GWA had to re-bid for their underwriter's services earlier this year because the old contracts with previous underwriters had completed. Now, they go back out and say these government agencies need an underwriter for the next three years with the option for two. Let's put out a procurement: who wants to be GPA or GWA underwriters? The winning bidders that were selected by GEDA were Barkley's and Citibank for both utilities. Barkley's is the lead for GPA. Citibank is the lead for GWA. They were selected under a valid underwriter procurement that GEDA issued and awarded and GEDA has always issued and awarded procurement for underwriters and it's not just for one issuance. It's for multiple years because you are trying to develop a finance strategy for the next two, three four years, you want to talk about it, you don't just say "you want to borrow – you put out a bid". We want someone to help us think through these financings for the four fifty or three hundred.

Chairman Pangelinan. When did always start? Always wasn't always for the last twenty years.

Mr. Simon Sanchez: In the eleven years that I have been at the CCU, GPA and GWA have always had underwriters selected through GEDA's procurement for multiple years with options to extend. So, at least in the 11 years I have done the utilities. In 1993 and 1999, BofA was selected and they were the underwriters during the Gutierrez Administration for six years.

Chairman Pangelinan. They were the financial advisor not the underwriter. That was a completely different contract. It wasn't for underwriting services for financial advisor.

Mr. Simon Sanchez. But, there was a procurement process.....

Chairman Pangelinan: I understand that, but it wasn't for underwriting services.

Mr. Simon Sanchez. BofA is a wrong example. The underwriters that were selected for the 1993, 1999 issuance were selected via a GEDA administered procurement for underwriters services, that a law created by

Chairman Pangelinan. No, I understand that. Every single bond is issued a request for underwriting services by GEDA, I am just saying that I don't remember that being always that they would be the lead underwriter for bond issues without the need an RFP for those bond issues.

Mr. Simon Sanchez. For the last eleven years there has been multiple year awards for underwriters for the next three years the underwriters selected by GEDA procurement for GPA

and GWA are Barkley's and Citibank. So we sat with Barkley's to figure out to borrow a \$100M and that is where this strategy emerged.

Chairman Pangelinan. And Barkley's having structured this deal, structuring the 4%, 2% take out interest only, they get to go ahead and participate in buying those bonds or placing those bonds in private placement and get a fee for both?

Mr. Simon Sanchez. If they are the lowest bidder.

Chairman Pangelinan. And get a fee for both?

Mr. Simon Sanchez. If they are the lowest bidder.

Chairman Pangelinan: So, they get a fee for placing the bond, structuring the bond, and get a fee for buying the bonds? I just think that is triple incestuous almost.

Mr. Randall Wiegand. They will get a fee - they have not gotten a fee for anything they have done up to this point. I want to clarify on point....

Chairman Pangelinan. Well, they would only get a fee when they sell the bonds. We understand that.

Mr. Simon Sanchez. They might not win the bid. Someone else will get the cost of issuance.

Chairman Pangelinan. The thing is if they are structuring this takeout of the commercial paper placement, it makes me think, they also get to participate in buying those bonds and making the interest rates on those bonds? I think that is incestuous and that is conflict if not incestuous.

Mr. Simon Sanchez. Well, they haven't been paid for structuring this approach?

Chairman Pangelinan: They won't be when you issue the bond.

Mr. Simon Sanchez: Only if they are the winning issuer.

Chairman Pangelinan. I understand that. But whether or not they buy the paper as the winning bidder, they are going to get a fee, a commission on the issuance on the \$35M bond and the \$100M bond.

Mr. Randall Wiegand. We were initially looking at this this tax-exempt commercial paper program.

Chairman Pangelinan. Please identify yourself for the record.

Mr. Randall Wiegand. Randy Wiegand, Chief Financial Officer for GPA. We were looking at tax-exempt commercial paper and that fell through. Barkley said they could do something very similar to commercial paper. Then they said we could something like this and they had proposed

if you guys needed help to get you through the next two years, before you do the \$100M financing, we could do this.

Chairman Pangelinan. We could help you structure the \$35M bond issuance. We would get a fee for because they are the underwriter. Once you sell that \$35M, they are the underwriter; they get a fee, a commission.

Simon Sanchez. Help me understand it, Rand. If the Bank of Guam wins the bid, does Barkley's get paid anything?

Mr. Randall Wiegand. No.

Simon Sanchez: Only Bank of Guam gets paid.

Chairman Pangelinan. On the \$35M bond issue, you are telling me Barkley's will not get a commission on the issuance? Then, what's \$2M cost of issuance? Who gets paid for that \$2M cost of issuance?

Simon Sanchez. The winning bank. The Bank of Guam has legal fees, structuring fee – Bank of Guam gets a check. All lenders charge a cost of issuance. So if Bank of Guam wins, they charge us for cost of issuance, including legal and other - they get a percentage of commitment fee, you know, you have seen it. So, the winning bank is the only one that gets paid the cost of issuance. Barkley's doesn't get paid for this.

Chairman Pangelinan. Are you positive?

Mr. Randall Wiegand. Barkley's is the 2015 underwriter for the bond issuance; they are doing all this in anticipation of getting paid when we do the \$100M.

Chairman Pangelinan. Which the cost of issuance of this \$35M is going to be built into the cost of issuance of the \$100M. Who is going to pay the cost of issuance on this \$30M?

Mr. Randall Wiegand. The proceeds of the winning banker.

Chairman Pangelinan. When you issued the \$100M, you are not going to recoup that \$2M in the cost of issuance?

Mr. Simon Sanchez. Senator, think of it this way, whenever you, GovGuam, or a utility refinances a note, whatever was in the original cost of issuance of the original note – sure, that was added on to the principal and you are refinancing, so you are correct. There is cost of issuance in the \$35M that will be paid in the \$100M. That happens in all refinancing. You can't go back and say I paid you twenty years ago from Bank of X and you charged me \$500,000 for the cost of issuance and now I am going to take out your loan but I am not going to cover the \$500,000 I paid you. That gets thrown into the principal balance anyway.

Chairman Pangelinan. So, there will be no underwriter fees paid for the \$35M. Right?

Mr. Simon Sanchez. To the winning lender. There is no underwriting fee to Barkley's unless they win the bid. You got it right. Underwriters only make money if they make the loan.

Chairman Pangelinan: They get paid when they sell the bonds.

Mr. Simon Sanchez. Selling the bond is making the loan. So, whoever wins the \$30M bond issuance if we are allowed to do this...

Chairman Pangelinan. So I thought you already said you awarded that to Barkley's and Citibank and those are your two leads?

Mr. Simon Sanchez. But, they don't get paid for just coming up with borrowing structures.

Chairman Pangelinan. I understand that. They get paid when they sell the bonds.

Mr. Simon Sanchez. Up until that point ... when you approach a bank now, you can negotiate with them for 2-3 months, they say here's my commitment letter, you can still walk away.

Chairman Pangelinan. Who is going to sell the \$35M bond issuance?

Mr. Randall Wiegand. It's a direct sale, so whoever wins it is going to buy all the bonds.

Mr. Simon Sanchez. So, the bid will be who wants to buy \$28M-\$30M of these bonds. If Bank of Guam wins, Bankpacific wins, Bank of America wins, in their \$30M, there is the cost of issuance, they loan us the money plus take out their cost of issuance and that is the only person that gets paid from this interim financing.

Mr. Randall Wiegand. Can I clarify the one point on the restructuring. Barkley's originally said you could do this, since you can't do commercial paper you can do a two year bond issuance and that's when this basic structure came about. But, since that GEDA has gone over the details, Oreck wrote the law, try to fit in to make sure that Barkley's proposal would fit but also opening it up for a variety of different structures. So, the Barkley's proposal was two years, which in the law is five years, so there has been a lot of input and changes since Barkley's came up with the initial idea, so there is separation from the ideas they had and their participating in the bid because the law is quite a bit different from what they initially proposed.

Chairman Pangelinan. And where is that law? Just this? Bill 207?

Mr. Simon Sanchez. The body of the law that allows GPA to borrow money and the existing indentures that have emerged from that authority to borrow money. We are bound by both the law and the indentures.

Chairman Pangelinan. Just trying to get some history cemented in my mind, wasn't the original commercial paper for the purpose of funding oil purchases?

Mr. Randall Wiegand. Back in 1998, there was an initial \$75M; \$45M was for capital projects; \$15M was to replace our fuel line of credit and \$15M was to replace working capital line of credit. The \$15M of the original \$75M was fuel related.

Chairman Pangelinan. Authorization for this in 1998?

Mr. Simon Sanchez. Randy, Did we pay those off?

Mr. Randall Wiegand. Totally refunded with the 2010 bond issuance.

Chairman Pangelinan. Senator Ada?

Senator Tom Ada. I have a question on these interest rates. On the short term loan there is the 4% interest - the RFP will go out who can lend us \$30M at 4% to be bought out in five years and if you don't then you have to continue servicing that debt at 12%. Is that correct? Is that how the 12% comes into play?

Mr. Randall Wiegand. No. We always have a maximum borrowing cap on any....

Senator Tom Ada. No. My understanding of the \$30M loan is that you can borrow it - I'll lend it to you at 4% with the understanding that you're going to take it out by 2015 and if you don't take it out then you will continue servicing this loan at a rate of 12%.

Mr. Joaquin Flores. No. Not to exceed 12%.

Senator Tom Ada: Not to exceed 12%. So then that will be the incentive to take out that \$30M loan. In 2015 when you go off to borrow the \$100M from which you will take out money from that to take out the earlier loan - the short term loan - are you put in here a ceiling of 9%. I know that in the GWA borrowing the ceiling was 7.5%. I think in the earlier borrowing several years ago its always been 7%. I know I sponsored the bill but now I am taking a look at why are we setting it 9%.

Mr. Simon Sanchez. Frankly, Senator listening to Mr. Horecky's testimony and your feedback, I think you can lower it. That's not unreasonable. I think it is very clear for the record our intention - short term now, take out in 2015. What is a reasonable rate for a long-term loan and Mr. Horecky raised good points and you raised a good point if you lowered it. GWA was okay with 7.5%. I can't think of a reason why we couldn't go to 7.5% on the permanent. If you authorize a \$100M, the permanent can't exceed 7.5%. I think that is reasonable.

Senator Tom Ada. Going back to the 12%, is there any reason why we couldn't set that at 7.5%?

Mr. Randall Wiegand. That's a market driven rate for these types of deals. In our old commercial paper program, in the note it said if for some reason this isn't paid then it can be accelerated at a higher rate at 12%. That's a market demand.

Senator Tom Ada. So, I doesn't have that discretion the way you would have on the \$100M?

Mr. Randall Wiegand. That's correct.

Mr. Simon Sanchez. In order to get that low 4%, you're saying to lenders, loan it to us short term money, which usually is a higher rate – we're only asking it for two years, give us a really good interest rate and if we fail you can charge up to - the market is saying – 12%. It is a dual incentive. It says to GPA, you better take this baby out or get slapped with a higher rate. It says to a lender, can I do the 4% if I am guarantee that if they fail I am guaranteed a much higher interest rate. This would help attract local banks or the off island banks that are saying this is a good deal, if they fail we'll get 12%. At least that is what our underwriters are recommending – that's a rate that would attract lender. If we were to lower the 12%, my question is would it discourage a local or off-island bank from participating knowing that they got to lock it in at 4%.

Chairman Pangelinan. Thank you very much. There being no further questions, we want to thank you very much for your presentation this morning. Si Yu'os Ma'ase.

This concludes the testimony on Bill No. 207-32. There being no additional individuals to present any additional testimony, this Committee will continue to remain open for the acceptance of any additional information or public testimony on the bill discussed. You can submit those testimonies to my office directly on Soledad Avenue, as well as the Guam Legislature or through any of the electronic processes either email at office@senbenp.com or through our website at senbenp.com

This hearing is adjourned.

FINDINGS & RECOMMENDATIONS.

The Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation and Land, hereby reports Bill No. 207-32 (COR), as substituted with the recommendation TO REPORT OUT. ONLY

I MINA TRENTAI DOS LIHESLATURAN GUÁHAN
2013 (First) Regular Session

Bill No. 207-32(COR)

Introduced by:

T.C. Ada 
R.J. Respicio 

**AN ACT TO ADD §8241.1 OF TITLE 12 OF THE GUAM
CODE ANNOTATED AND TO APPROVE THE TERMS
AND CONDITIONS OF GUAM POWER AUTHORITY
REVENUE BONDS TO FINANCE CAPITAL
IMPROVEMENTS TO THE ISLAND-WIDE POWER
SYSTEM.**

1 **BE IT ENACTED BY THE PEOPLE OF GUAM:**

2 **Section 1. Addition of §8241.1 to Title 12 of the Guam Code Annotated.** A
3 new §8241.1 is added to Title 12 of the Guam Code Annotated to read as follows:

4 **“§8241.1. Authorization for Interim Financing.**

5 a) Authorization for Interim Financing. The Authority is authorized to issue and sell
6 short-term revenue bonds (the “Interim Bonds”) using a direct sale of such bonds
7 to a bank or financial institution licensed to do business in Guam or the United
8 States selected pursuant to a competitive procurement process conducted by
9 GEDA on behalf of the Authority; *provided* that such Interim Bonds shall be
10 issued in a single issue as senior revenue bonds in accordance with the
11 Authority’s existing senior revenue bond indenture.

12 b) Purpose of Interim Bonds. The proceeds of the Interim Bonds shall be used solely
13 for the following purposes:

14 1. Paying the costs of constructing System improvements to bring the Authority
15 into compliance with recently enacted United States Environmental Protection
16 Agency (USEPA) regulations;

17 2. Paying the costs of providing general improvements to the Authority’s power
18 generation, transmission, distribution, SCADA and Information Technology
19 systems;

20 3. Paying the costs of implementing the Authority’s Cyber Security Plan,

21 4. Funding the required reserves under the senior bond indenture; and,

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- 1 5. Paying the costs of issuance of the Interim Bonds.
- 2 c) Interim Bond Terms and Conditions. The Interim Bonds shall have:
- 3 1. An aggregate principal amount not to exceed Thirty-Five Million Dollars
- 4 (\$35,000,000);
- 5 2. A final maturity not later than five years from the date of issuance of the
- 6 Interim Bonds;
- 7 3. Principal payments due no sooner than two years after the date of issuance of
- 8 the Interim Bonds;
- 9 4. Prepayment options by the Authority without penalty starting no later than
- 10 two years after the date of issuance of the Interim Bonds;
- 11 5. A fixed interest rate, a variable interest rate, or an initial fixed rate period
- 12 followed by a variable rate, *provided* that any fixed rate, whether for an initial
- 13 fixed rate period or for the full term of the bonds, shall not exceed four
- 14 percent (4.0%) per annum, and any variable rate shall not exceed twelve
- 15 percent (12.0%) per annum, notwithstanding §8214 of Title 12 of the Guam
- 16 Code Annotated; and,
- 17 6. A covenant that the Authority shall not issue long term senior revenue bonds
- 18 for any purpose other than refinancing the Interim Bonds so long as the
- 19 Interim Bonds remain outstanding.
- 20 d) Pursuant to §50103(k) of Title 12 of the Guam Code Annotated, *I Liheslaturan*
- 21 *Guåhan* hereby approves the terms and conditions of Interim Bonds issued in
- 22 accordance with this Section.”

23

24 **Section 2. Approval of the Terms and Conditions of Guam Power Authority**

25 **Long Term Revenue Bonds.**

26 *I Liheslaturan Guåhan*, pursuant to §50103(k) of Title 12 of the Guam Code

27 Annotated, hereby approves the terms and conditions of the issuance and sale of revenue

28 bonds by GPA, in one or more series or issues, as senior revenue bonds in accordance

29 with its existing senior revenue bond indenture, for the purpose of refinancing all Interim

30 Bonds issued pursuant to §8241.1 of Title 12 of the Guam Code Annotated and to

31 continue the Authority’s investment in the island wide power system involving

1 generation, transmission, and distribution assets to improve reliability, efficiency and
2 power service and to comply with environmental regulations (the “Long Term Bonds”);
3 *provided* that the Long Term Bonds shall have a principal amount not to exceed One
4 Hundred Million Dollars (\$100,000,000), shall have a final maturity not later than 2050,
5 shall accrue interest at rates that shall not exceed the limitation of 9% set forth in
6 §8214(a) of Title 12 of the Guam Code Annotated, and shall be sold for such price or
7 prices as shall result in a net yield to the bondholders not exceeding the rate specified by
8 said §8214(a).

9 The issuance of any and all such Long Term Bonds shall be further subject to the
10 following requirements, limitations, terms and conditions:

- 11 a) Such bonds shall be issued and sold pursuant to GPA’s existing senior bond
12 indenture (including any amendments in accordance with its terms to provide
13 for the issuance of the bonds described herein) and in compliance with the
14 provisions of Article 2 of Chapter 8 of Title 12 of the Guam Code Annotated,
15 including approval by the CCU and by *I Maga’lahen Guåhan* as provided
16 therein;
- 17 b) The sale of the bonds shall be approved by the Board of Directors of GEDA
18 as provided by §50103(k) of Chapter 50 of Title 12 of the Guam Code
19 Annotated and the terms and conditions of the issuance of the bonds shall be
20 approved by the GPUC as provided by Chapter 12 of Title 12 of the Guam
21 Code Annotated; and,
- 22 c) The proceeds of the bonds shall be applied as a first priority to pay or provide
23 for the payment of all outstanding Interim Bonds issued pursuant to §8241.1
24 of Title 12 of the Guam Code Annotated and thereafter shall be applied to pay
25 the costs of issuance of the bonds, to pay the cost of any credit enhancement
26 of the bonds, to provide for required reserves, and, subject to approval by the
27 GPUC in accordance with §12004 Article 2 Chapter 12 of Title 12 of the
28 Guam Code Annotated, to pay the costs of the projects described above,
29 including the projects authorized to be financed by the Interim Bonds.

30

1 **Section 3. Severability.** *If* any provision of this law or its application to any person
2 or circumstance is found to be invalid or contrary to law, such invalidity *shall not* affect
3 other provisions or applications of this law which can be given effect without the invalid
4 provisions or application, and to this end the provisions of this law are severable.

I MINA'TRENTAI DOS LIHESLATURAN GUÅHAN
2013(Second) Regular Session

Bill No. **207-32 (COR)**

*As Substituted by the Committee on Appropriations,
Public Debt, Legal Affairs, Retirement, Public Parks,
Recreation, Historic Preservation, and Land

Introduced by:

T.C. Ada
R.J. Respicio

**AN ACT TO APPROVE THE TERMS AND
CONDITIONS OF GUAM POWER AUTHORITY
REVENUE BONDS TO FINANCE CAPITAL
IMPROVEMENTS TO THE ISLAND-WIDE POWER
SYSTEM**

1 **BE IT ENACTED BY THE PEOPLE OF GUAM:**

2 **Section 1. Approval of the Terms and Conditions of Guam Power**
3 **Authority Long Term Revenue Bonds.**

4 *I Liheslaturan Guåhan*, pursuant to §50103(k) of Title 12 of the Guam
5 Code Annotated, hereby approves the terms and conditions of the issuance
6 and sale of revenue bonds by GPA, in one or more series or issues, as senior
7 revenue bonds in accordance with its existing senior revenue bond indenture,
8 for the purpose of continuing the Authority's investment in the island wide
9 power system involving generation, transmission, and distribution assets to
10 improve reliability, efficiency and power service and to comply with
11 environmental regulations (the "Long Term Bonds"); *provided* that the Long
12 Term Bonds *shall* have a principal amount not to exceed SixtyTwoMillion
13 Dollars (**\$62,000,000**), *shall* have a final maturity not later than thirty (30)
14 years from the date of the issuance of the Long Term Bonds, *shall* accrue
15 interest at rates that *shall* not exceed the limitation of seven percent (7%) set
16 forth in §8214(a) of Title 12 of the Guam Code Annotated, and *shall* be sold

1 forth in §8214(a) of Title 12 of the Guam Code Annotated, and *shall* be sold
2 for such price or prices as *shall* result in a net yield to the bondholders not
3 exceeding the rate specified by said §8214(a).

4 The issuance of any and all such Long Term Bonds *shall* be further
5 subject to the following requirements, limitations, terms and conditions:

6 (a) Such bonds *shall* be issued and sold pursuant to GPA's existing
7 senior bond indenture (including any amendments in accordance with its
8 terms to provide for the issuance of the bonds described herein) and in
9 compliance with the provisions of Article 2 of Chapter 8 of Title 12 of the
10 Guam Code Annotated, including approval by the CCU and by *I*
11 *Maga'lahaen Guåhan* as provided therein;

12 (b) The sale of the bonds *shall* be approved by the Board of Directors
13 of GEDA as provided by §50103(k) of Chapter 50 of Title 12 of the Guam
14 Code Annotated and the terms and conditions of the issuance of the bonds
15 *shall* be approved by the GPUC as provided by Chapter 12 of Title 12 of the
16 Guam Code Annotated; and,

17 (c) The proceeds of the bonds *shall* be applied to pay the costs of
18 issuance of the bonds, to pay the cost of any credit enhancement of the
19 bonds, to provide for required reserves, and, subject to approval by the
20 GPUC in accordance with §12004 Article 2 Chapter 12 of Title 12 of the
21 Guam Code Annotated, and to pay the costs of the projects and items listed
22 in part (d) of this Section.

23 (d) The remaining proceeds of the Long-Term Bonds *shall* be used
24 solely for the following purposes:

25 (1) Up to Twenty Four Million Nine Hundred Seventeen
26 Thousand Dollars (**\$24,917,000**) for the following Generation
27 Improvements projects in the following order of priority:

1 (A) reimbursement of costs of the Guam Power
2 Authority for cost associated with the Environmental
3 Compliance Program (Diesel RICE MACT);

4 (B) Cabras 2 Turbine & Boiler Overhaul;

5 (C) Cabras Compound Employee and Visitor Parking
6 Lot;

7 (D) Generator Protection Upgrade with Fault
8 Recorders;

9 (E) Dededo CT Return to Service Phases I and II;

10 (F) Diesel Plan Major Overhaul and Maintenance and
11 Diesel Fuel Oil Tank Repairs;

12 (G) Energy Storage Equipment (Renewable Energy
13 Impact Mitigation).

14 (2) Up to Five Million Five Hundred Eighty Six Thousand
15 Dollars (**\$5,586,000**) for the following Transmission System
16 Improvement projects:

17 (A) Piti 115 kV GIS Major Maintenance;

18 (B) System Protection Improvement & Cap Bank
19 Controllers – Phases I and II;

20 (C) Substation Major Refurbishment (San Vitores T-
21 122, Harmon T500 and T501, Macheche T90);

22 (D) 13.8 kV Breaker Upgrades Phases I and II;

23 (E) 34.5 kV Breaker Upgrades Phase I;

24 (F) Agat Shoreline Pole Restoration Project;

25 (G) Dededo Substation Capacitor Bank;

26 (H) Substation Battery Banks/Chargers Upgrade; and

1 (I) Harmon X82 to Yigo X160 Overhead Line
2 Upgrade Phase I.

3 (3) Up to One Million Five Hundred Eighty Seven Thousand
4 Dollars (**\$1,587,000**) for the following Distribution Improvements
5 projects:

6 (A) Distribution Improvements;

7 (B) Smart Grid Sub-Projects (not covered by grant);

8 and

9 (C) Mobile Workforce Management.

10 (4) Up to Two Million Nine Hundred Thousand Dollars
11 (**\$2,900,000**) for the following Supervisory Control and Data
12 Acquisition System Upgrades projects:

13 (A) Power System Control Center Reliability
14 Improvements; and

15 (B) Network Communication – Fiber to Fadian
16 Complex.

17 (5) Up to Two Million Four Hundred Fifty Thousand Dollars
18 (**\$2,450,000**) for the following Cyber Security and Information
19 Technology Upgrades projects:

20 (A) Upgrade of Facilities Physical Security; and

21 (B) Information Technology Upgrades.

22 (6) *Not less than* Five Million Dollars (**\$5,000,000**) to be
23 deposited into the GPA Self-Insurance Fund;

24 (7) *Not less than* Five Million Dollars (**\$5,000,000**) to be
25 held in reserve by the Guam Power Authority in a fund separate and
26 apart from any other fund for the sole purpose of legislatively

1 authorized renewable energy funding programs for residential and/or
2 commercial purposes; and

3 (8) such amounts as may be needed to capitalize and pay
4 from bond proceeds interest on the bonds due, accruing or required to
5 be set aside for a period ending *not later than* twenty four (24) months
6 after issuance.

7 **Section 3. Self-Insurance Fund Surcharge Moratorium.** The
8 issuance of any and all such Long Term Bonds in this Act *shall* be further
9 subject to application filed for a moratorium on the GPA's Self-Insurance
10 Fund surcharge charged to ratepayers for a period *not less than* twenty four
11 (24) consecutive months following the enactment of this Act by the Guam
12 Power Authority (GPA) with the Public Utilities Commission (PUC) and
13 administered and carried out by the GPA. The Guam Power Authority *shall*
14 request the PUC for such moratorium *not later than* ten (10) calendar days
15 after the enactment of this Act and such filing *shall* be considered by the
16 PUC through an expedited schedule of review and approval by the PUC.

17 **Section 4. Approval of Financial Agreements or Arrangements.**
18 Any financial agreement or arrangement between the Guam Power
19 Authority (GPA) with any bank, private banking firm, brokerage firm, bond
20 brokerage firm, or similar financial institutions which uses, pledges, or
21 arbitrages any GPA revenue, trust funds, debt service payment deposits with
22 trustees, bond proceeds, or interests on any of these, not specifically
23 authorized by existing statute authorizing the issuance or refinancing of
24 bonds, *shall* require legislative approval and any income generated from
25 such financial agreement and arrangement *shall* be directed toward
26 decreasing residential ratepayer rates.

1 The Guam Compiler of Laws *shall* codify this section in the
2 appropriate sections of the Guam Code Annotated.

3 **Section 5. Effective Date.** This Act *shall* become effective upon
4 enactment.

5 **Section 6. Severability.** *If* any provision of this law or its application
6 to any person or circumstance is found to be invalid or contrary to law, such
7 invalidity *shall not* affect other provisions or applications of this law which
8 can be given effect without the invalid provisions or application, and to this
9 end the provisions of this law are severable.



Mina'trentai Dos na Liheslaturan Guahan
32ND GUAM LEGISLATURE

Senator Vicente "ben" Cabrera Pangelinan

COMMITTEE ON APPROPRIATIONS, PUBLIC DEBT, LEGAL AFFAIRS, RETIREMENT,
PUBLIC PARKS, RECREATION, HISTORIC PRESERVATION AND LAND

Tuesday, November 12, 2013

Bill No. 207

SIGN UP SHEET

NAME	ADDRESS	PHONE	EMAIL	WRITTEN	ORAL	SUPPORT	
						Yes	No
Fred Horecky	PUC	646-8275	horecky@ite.net	✓	✓		In general
KIW Flores	GPA	648 3225	iflores@gaguar.com		✓		Yes
Simon Sanchez							
Randall Wiegand	GPA						
Caro Montaleno	GPA						

324 W. Soledad Ave. Hagatna, Guam 96910
Ph. 473-4236 Fax. 473-4238
Email: senbenp@guam.net

Before the
MINA'TRENTAI DOS NA LIHESLATURAN GUAHAN
THIRTY SECOND GUAM LEGISLATURE

In the Matter of:)	
)	
Bill No. 207-32 (COR))	WRITTEN TESTIMONY OF
)	FREDERICK J. HORECKY,
An Act to Add §8241.1 of Title 12 of the)	PUC COUNSEL, ON BEHALF OF
Guam Code Annotated to Approve the)	THE GUAM PUBLIC UTILITIES
Terms and Conditions of Guam Power)	COMMISSION
Authority Revenue Bonds to Finance)	
Capital Improvements to the Island-)	
Wide Power System.)	
)	
)	
)	
)	

The Guam Public Utilities Commission [PUC] is pleased to have been afforded an opportunity to comment on Bill No. 207-32 (COR).

The PUC does not oppose the enactment of said bill, but requests that GPA clarify certain aspects of the Legislation as set forth herein. Furthermore, PUC requests certain amendments to the Legislation.

(1) GPA should explain why it seeks the amount of \$35M as the aggregate amount of the "Interim" Bonds. The amount approved by the Consolidated Commission on Utilities was \$26.1M. What is the additional \$9M for? GPA should provide a breakdown of the cost of issuance, underwriters discount, capitalized interest, debt service reserve, etc. At this point it is not clear as to what constitutes the difference between the \$26.1M approved by the CCU and the \$35M sought by GPA in this Legislation.

(2) GPA has once again added two years of "capitalized interest" to the amount financed. This means that, instead of beginning to pay back interest after the

funds are borrowed, the first two years of interest is included in the \$35M that is borrowed. Borrowing for capital improvement projects is understandable; but the borrowing of interest merely increases the amount that the ratepayers have to pay back. The Legislature recently confronted this issue with regard to the Guam Waterworks Authority bond financing and reduced the amount of capitalized interest which GWA included in its loan. In some instances, the utilities have come back to the PUC to seek rate increases to pay the increase in debt service caused by the capitalized interest. The Legislature should consider whether it is in the ratepayers' interests to delay interest payments, which can lead to later rate increases.

(3) What is unusual about this short-term financing is that the Legislation does not include any listing of the projects which GPA seeks to fund. Ordinarily, with Legislation approving bond financing, there is a detailed listing of the specific projects which the bond issuance will pay for. PUC suggests that a listing of the projects for which GPA seeks short-term financing be included in the Legislation, or attached as an Exhibit.

(4) The interest rates provided on the short-term bonds need further explanation and perhaps even revision. There is a two year fixed interest of 4% on the short-term bonds. That would appear to be reasonable. In its previous estimates for this short-term financing, GPA presented estimated rates between 3% and 5%. However, the provision for a variable interest rate after two years on the short-term

bonds “not to exceed 12%” seems excessive. It is understood that the variable rate is an incentive for GPA to pay off the loan quickly. However, if GPA were unable to pay off the bond after two years due to inability to obtain financing or for some other reason, GPA could be stuck with a 12% interest rate after two years. It would not be in the rate payers’ interest.

Present law (12 GCA §8214) provides a 9% limitation on interest. Even that interest rate seems extremely high in terms of current market conditions, which would provide interest rates in the 3% to 6% range. GPA, through the Guam Economic Development Authority and the Financial Advisors, should be required to provide estimates of interest rates for the first two years and the next three years, and also an estimate for the entire five years with recommendations as to which one is more cost effective. These analyses should be provided to the PUC prior to the offering.

(5) There is no provision in the Legislation requiring PUC approval of the short-term bond financing. There is no dispute that GPA is required, under its Contract Review Protocol with PUC, and pursuant to 12 GCA §12004, to obtain PUC approval prior to seeking short-term bond financing. The PUC requests that the Guam Legislature amend this Legislation to require PUC approval for the short-term bond financing. The following language should be added to §8241.1, Authorization for Interim Financing:

e) The Authority is not authorized to issue and sell short-term revenue bonds without the prior written authorization of the Guam Public Utilities Commission.

(6) The PUC has some concern that GPA has included authorization for long-term bond financing in this Legislation. Normally, in the past, such Legislation has clearly delineated the purposes for which long-term bond financing may be undertaken, the conditions, restrictions, and limitations, etc. The list of the projects for which such bond financing is sought is also included. There is nothing in this legislation which justifies the issuance of long-term bonds. Perhaps the long-term bond financing could be separated or severed from this Bill and done at a later time when there is more information and more specifics about the purposes for such financing.

PUC understands that the financier of the short-term bond financing may want to see the long-term bond financing in place before it provides the short-term money. However, the present Legislation really provides no justification or information pursuant to which the Legislature should authorize the issuance of \$100M in long-term bonds. As an alternative perhaps the Legislation could include provisions requiring a process and protocol by which the PUC would review and approve the financing and projects for the Long-Term Bonds.

(7) The present maximum interest rate currently allowed on long-term bonds is 9% pursuant to 12 GCA §8214(a). That rate appears extremely high and is not in

accordance with current market rates. The Legislature may wish to consider reducing the maximum allowable interest rate on long-term bonds, given today's market rates.

CONCLUSION

The PUC does understand that GPA needs the short-term financing requested in order to fund certain projects. However, before the short-term financing can be approved, GPA must obtain approval under the PUC Contract Review Protocol for all the projects it seeks to fund with the short-term bond financing. At present those projects have not yet been approved by the PUC.

In principle, PUC supports authorization for GPA to issue short-term bond financing. However, the PUC requests that the Legislature implement the amendments and concerns set forth herein in the Legislation.

Thank you for your consideration of this testimony.

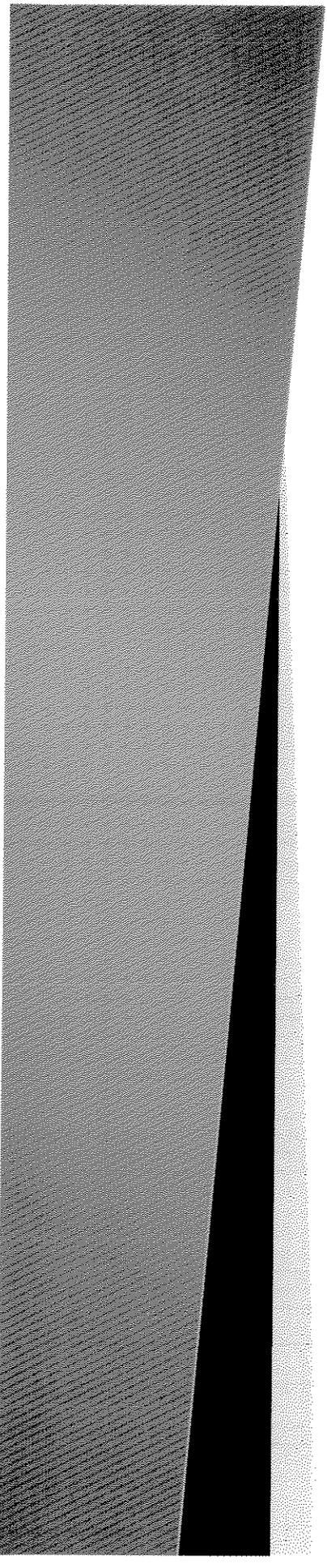
Sincerely,

Frederick J. Horecky
Legal Counsel
Guam Public Utilities Commission

Short Term Borrowing Legislation

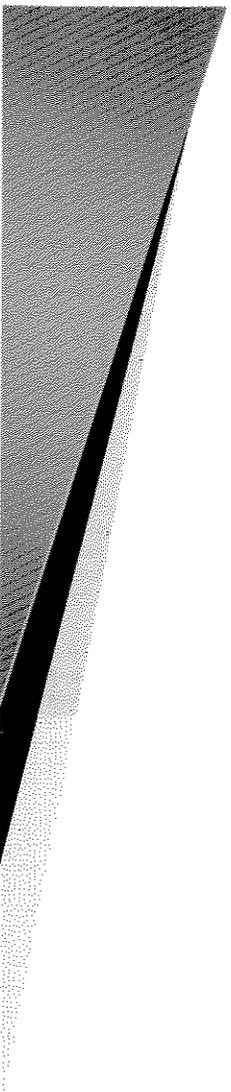
Bill No. 207-32

Guam Power Authority



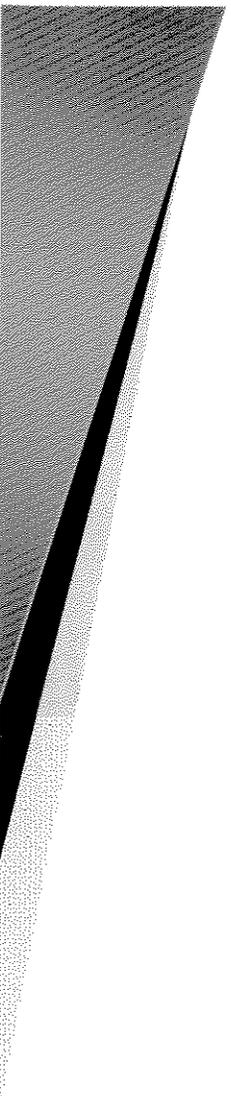
Budget Review Process

- ▶ During the GPA budget review process, the General Manager determined that the FY14 budget request contained an accumulation of items that are not conducive to normal budgeting procedures. They are critical to the needs of GPA but are very difficult to predict.



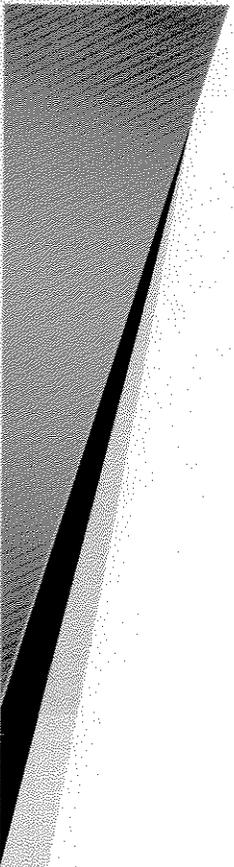
Extraordinary Costs

- ▶ GPA performs daily maintenance on generators which is very easy to predict
- ▶ GPA also performs periodic overhauls and other maintenance which takes more care to predict
- ▶ Many of the items in the FY14 budget are extraordinary costs that are very difficult to predict



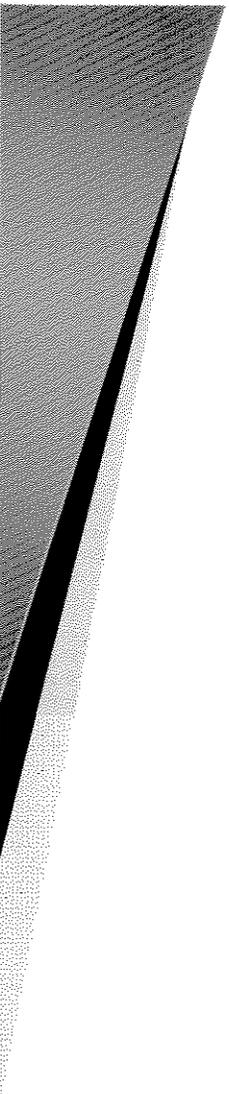
Examples of Projects

- ▶ RICE MACT Compliance Costs – \$5.5 million
- ▶ Cabras 3 Smokestack Refurbishment – \$3 million
- ▶ Cabras 2 Deferred Turbine and Boiler Overhauls – \$4.5 million
- ▶ Smart Grid Phase 2 – \$2 million



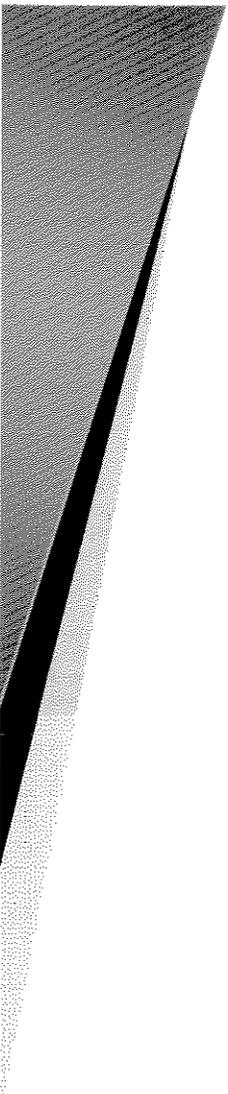
Rate Impact

- ▶ GPA determined that 9% rate increase would have been required for its recently completed rate case if the projects were to be funded out of rates.
- ▶ GPA determined that the rate increase could be reduced to 2.2% if a financing plan was developed to fund the projects.



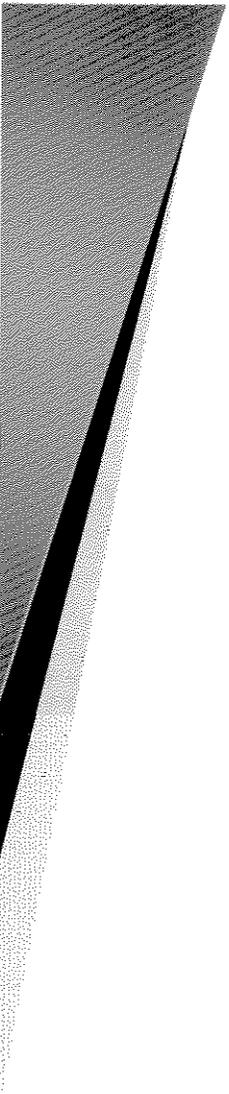
Tax Exempt Commercial Paper

- ▶ GPA explored revisiting its tax exempt commercial paper program but it was determined infeasible due to conflicts with its bond indenture agreements
- ▶ GPA's underwriter – Barclay's – proposed an alternative funding mechanism that would simulate tax exempt commercial paper.



Why not issue bonds?

- ▶ Many of the projects are too short for a stand alone bond issuance.
- ▶ GPA was planning an FY15 bond issuance before this issue arose.
- ▶ The most cost effective method for moving forward was determined to be short term borrowing rolled into an FY15 bond issuance.

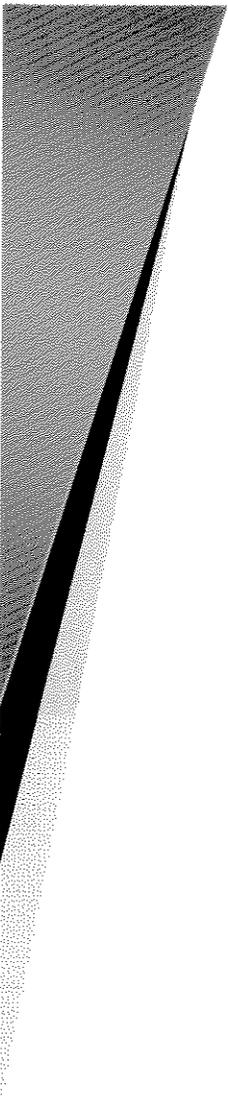
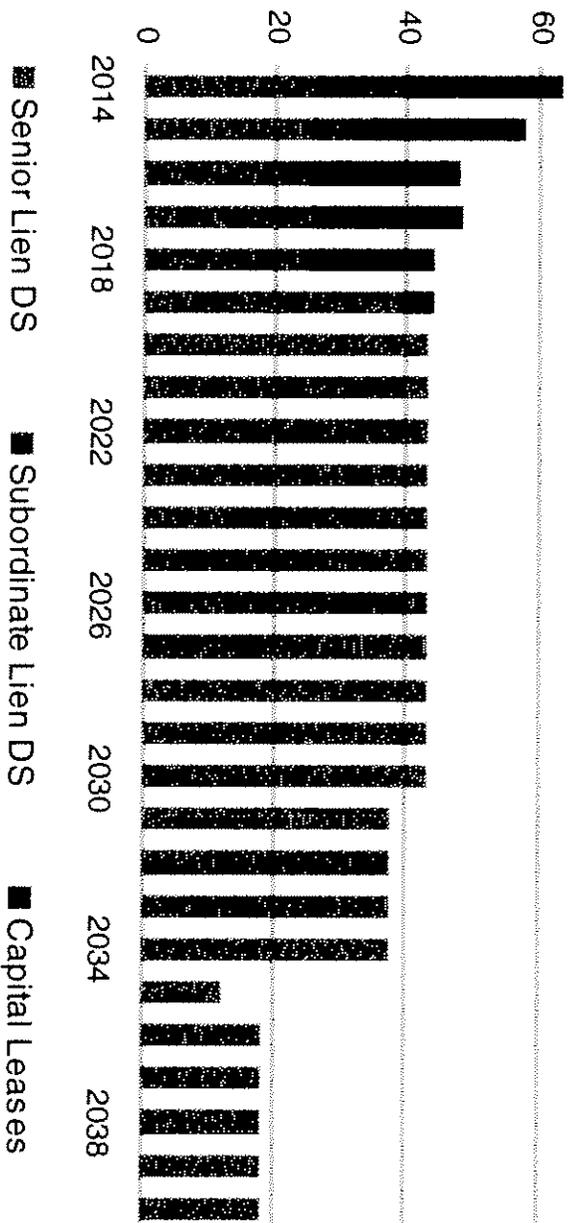


The Plan

- ▶ Issue Senior lien bonds
- ▶ Minimum 2 year fixed interest rate; variable afterwards
- ▶ Interest only borrowing for first two years.
- ▶ Put option after two years to ensure GPA can refund the bonds with the FY15 planned bond issuance.
- ▶ Incentive to roll into bonds at the end of two year period – principal required + interest rate rise.
- ▶ Principal payments begin when GPA debt service requirements are declining.
- ▶ Authorization for take out bond improves ability of GPA to attract interest in transaction.

GPA Current Debt Profile

80



Projects to be Financed

Project Description	Cost
Cabras 1 - Major Boiler Overhaul	\$ 1,460
Cabras 3&4 Major O&M	2,100
Upgrade Peaking Units Control for Remote Start Operation - Ph I	400
Energy Storage/Fly Wheel Study	250
Cabras 2 - Turbine and Boiler Overhauls	4,500
Dededo CT Return to Service - Phase I	600
Cabras Compound Employee and Visitor Parking Lot	400
Diesel Plant MOMs	780
Diesel Plants - Diesel Fuel Oil Tank Repairs	311
Generator Protection Upgrade with Fault Recorders	580
Pit 115 kV GIS Major Maintenance	700
Agat Shoreline Pole Restoration Project - 34.5 kV	384
System Protection Imprvmt & Cap Bank Controllers - Phase I	550
Substation Major Refurbishment - San Vitores T-122, Harmon T500 and T501, Macheche T90	540
34.5 kV Breaker Upgrades - Phase I	355
13.8 kV Breaker Upgrades - Phase I	200
Substation Battery Banks/Chargers Upgrade	400
Mobile Workforce Management	500
Distribution Improvements	240
Facilities Physical Security	1,350
Environmental Compliance Program (Diesel Rice MACT)	5,500
Power System Control Center Reliability Improvements	1,800
Network Communication - Fiber to Main Office	1,100
Information Technology (IT) Upgrades	1,100
	\$
	26,100

GPA Financing Plan*

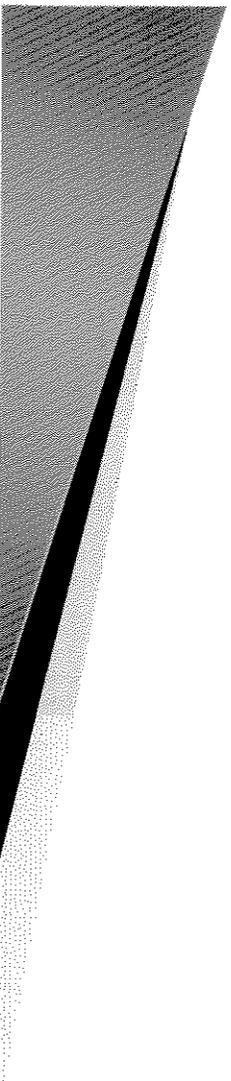
Revenues	\$495,950	\$508,731	\$512,990	\$522,452	\$531,194
Operating Expenses Less Depreciation	\$418,538	\$430,845	\$441,772	\$452,582	\$462,878
Available for Debt Service	\$77,411	\$77,885	\$71,218	\$69,870	\$68,316
Debt Service	\$63,731	\$57,785	\$48,182	\$55,041	\$50,478
Capital Improvement Projects	\$12,416	\$14,894	\$15,340	\$15,801	\$20,150
Other	\$1,265	\$5,207	\$7,696	\$(972)	\$(2,311)
Required Rate Increase	\$ -	\$ -	\$ -	\$ -	\$ -

With Financing Plan GPA is financing urgent needs such as RICE/MACT Compliance, Cabras 3&4 Stack Repairs, and deferred overhauls and pushing to impact to the period where IPP debt service terminates. All future debt will be offset by fuel cost savings.

* GPA is working hard to achieve this result but cannot make guarantees

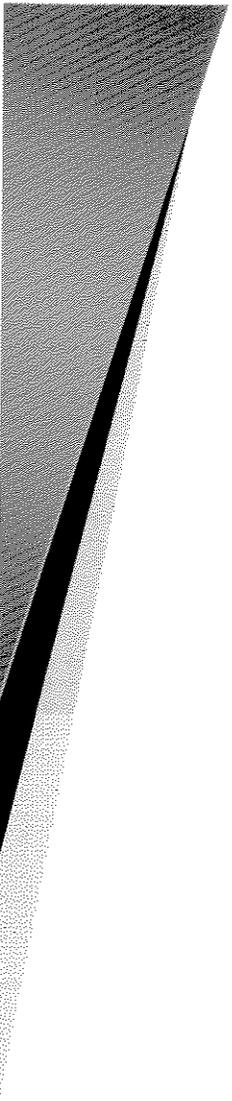
Procurement

- ▶ This will be a direct sale of bonds
- ▶ Sale is limited to sophisticated purchasers
- ▶ GEDA will issue an RFP for Guam Banks and GPA underwriters to participate
- ▶ Low rate provider will be awarded the contract



Conclusion

- ▶ This financing plan was created to minimize rate impact on GPA customers. This plan was taken into consideration by the PUC in the most recent rate case and the decision of the PUC presumed GPA would receive authorization for this borrowing.
- ▶ GPA is doing everything it can to make the last rate case, the last rate case in which GPA asks ratepayers for additional funds in the foreseeable future.





BUREAU OF BUDGET & MANAGEMENT RESEARCH

OFFICE OF THE GOVERNOR

Post Office Box 2950, Hagåtña Guam 96932

EDDIE BAZA CALVO
GOVERNOR

JOHN A. RIOS
DIRECTOR

RAY TENORIO
LIEUTENANT GOVERNOR

NOV 15 2013

Senator Rory J. Respicio
Chairperson, Committee on Rules
I Mina'trentai ^{DOC} ~~Una~~ na Liheslaturan Guåhan
The 32nd Guam Legislature
155 Hesler Place
Hagåtña, Guam 96932

Hafa Adai Senator Respicio:

Transmitted herewith is Fiscal Note on the following Bill Nos.: 91-32(COR), 171-32(LS), 181-32(COR), 202-32(COR), 206-32(COR), 207-32(COR), 209-32(COR), 211-32(COR) and Fiscal Note Waiver on the following Bill Nos.: 170-32(COR).

If you have any question(s), please do not hesitate to call the office at 475-9412/9106.


JOHN A. RIOS
Director

Enclosures
cc: Senator Vicente (ben) Pangelinan

**Bureau of Budget & Management Research
Fiscal Note for Bill No. 207-32 (COR)**

AN ACT TO ADD §8241.1 OF TITLE 12 OF THE GUAM CODE ANNOTATED AND TO APPROVE THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM.

Department/Agency Appropriation Information	
Dept./Agency Affected: Guam Power Authority	Dept./Agency Head: Joaquin Flores
Department's General Fund (GF) appropriation(s) to date:	-
Department's Other Fund (Specify) appropriation(s) to date:	-
Total Department/Agency Appropriation(s) to date:	\$0

Fund Source Information of Proposed Appropriation			
	General Fund:	(Specify Special Fund):	Total:
FY 2012 Unreserved Fund Balance ¹			
FY 2013 Adopted Revenues	\$0	\$0	\$0
FY 2013 Appro. (P.L. 31-233)	\$0	\$0	\$0
Sub-total:	\$0	\$0	\$0
Less appropriation in Bill	\$0	\$0	\$0
Total:	\$0	\$0	\$0

Estimated Fiscal Impact of Bill						
	One Full Fiscal Year	For Remainder of FY 2014 (if applicable)	FY 2015	FY 2016	FY 2017	FY 2018
General Fund	\$0	\$0	\$0	\$0	\$0	\$0
(Specify Special Fund)	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0	\$0	\$0

1. Does the bill contain "revenue generating" provisions? // Yes /x/ No
If Yes, see attachment
2. Is amount appropriated adequate to fund the intent of the appropriation? /x/ N/A // Yes // No
If no, what is the additional amount required? \$ _____ /x/ N/A
3. Does the Bill establish a new program/agency? // Yes /x/ No
If yes, will the program duplicate existing programs/agencies? // N/A // Yes /x/ No
Is there a federal mandate to establish the program/agency? // Yes /x/ No
4. Will the enactment of this Bill require new physical facilities? // Yes /x/ No
5. Was Fiscal Note coordinated with the affected dept/agency? If no, indicate reason: /x/ Yes // No
// Requested agency comments not received by due date // Other: _____

Analyst: 	Date: 11-14-13	Director: 	Date: NOV 15 2013
John AB Pangelinan, Supervisor		John A. Rios, BMMR Director	

See attached comment sheet.

Comments on Bill No. 207-32

The intent of this bill is to assist in keeping power rates low with short term financing according to the Guam Power Authority (GPA) by lowering power rate increases. This lowering in the power rate increase is based on investing in the power system which would improve the reliability and efficiency of the power services that will be provided. Secondly, such improvement in the core and distribution system of the power system would comply with the U.S. Environmental Protection Agency's recently enacted legislations for improve and cleaner systems.

There is no fiscal impact to the General Fund and the integrity of the Government of Guam debt ceiling would remain the same since such proposed interim financing would be funded through the issuance of long term senior bonds, pledging operation revenues generated by the power agency.

The proposed legislation is seeking to authorize GPA to enter into a subordinated debt with existing bond indentures as means to access cash funds quickly for badly needed capital improvement requirements. The Guam Economic Development Authority (GEDA) will issue the Request for Proposal for the Interim Financing in the amount of \$35 Million. Because of the expectation that the principal payments of the loan under the Interim Financing is to start no later than two years after the issuance of such Interim Bonds, GPA is further authorized to issue new bond indentures (Long Term Financing) as a vehicle to payoff these proposed Interim Bonds (loans). Furthermore the maturity dates for such Interim Bonds are to take place no later than 5 years from dates of issuance. Lastly as part of the covenant for the issuance of such Interim Bonds, any long term financing must be limited to only the refinancing of these proposed Interim Bonds.

Given these parameters noted above, the following assumptions are used to illustrate the fiscal impact of such proposed long term indenture to GPA:

- Payments of the principal amount will start in FY 2014.
- The bond indenture for long term financing would be for the principal amount of \$35 Million, issued in a one time basis.
- The term of the bond indenture is for 40 years.
- The interest rate is at a fixed rate of 4%.
- The projected principal amount and interest for 40 years is \$91 Million.
- The annual projected payment for both principal and interest is \$2,275,000.
- The annual projected principal payment amount is \$875,000
- The annual projected interest payment is \$1,400,000.
- The FY 2012 Audited Financial Statements for GPA is assumed to be the same for FY 2014 Financial Statements with appropriate adjustments.

Applying the above assumptions, it appears that the fiscal impact in terms of rate increases in kilowatt hours would be negligible or none, given the working capital that appears available as reflected in the GP Audited FY 2012 Financial Statements, adjusted for depreciation add-back and the deletion of federal grant contributions. Based on these adjustments, a revised Change in Net Assets is estimated at a positive \$19,404,842 which is more than sufficient to cover the annual debt service for such bond proposal, assuming operational expenses remain relatively the same.

**Guam Power Authority
Statement of Revenues, Expenses and Changes in Net
Assets**

Year Ended September 30, 2012 (2015)

	FY 2012
Operating and Miscellaneous Revenues	\$438,672,429.00
Operating and Maintenance Expenses	\$410,255,321.00
Operating Earnings (Losses)	\$28,417,108.00
Non Operating Revenues (Expenses):	
Allowances for	
Construction Funds	\$4,987,676.00
Interest Income	\$2,775,819.00
Other Expenses	-\$299,204.00
Interest Expenses	-\$45,431,311.00
Total Non-Operating Revenues and Expenses	-\$37,967,020.00
Loss before Capital Contribution	-\$9,549,912.00
Grants Contribution	\$7,208,246.00
Change in Net Assets	-\$2,341,666.00
Adjustments	
Add Back Depreciation	\$28,954,754.00
Delete Federal Grants	-\$7,208,246.00
Adjusted Change in Net Assets	\$19,404,842.00

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

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Sales of electricity	\$ 438,111,537	\$ 391,874,987
Miscellaneous	1,915,786	2,605,775
	<u>440,027,323</u>	<u>394,480,762</u>
Bad debt expense	(1,354,894)	(942,669)
Total revenues	<u>438,672,429</u>	<u>393,538,093</u>
Operating and maintenance expenses:		
Production fuel	288,602,256	243,711,339
Other production	24,990,683	20,839,638
	<u>313,592,939</u>	<u>264,550,977</u>
Administrative and general	31,377,717	30,431,797
Depreciation and amortization	28,954,754	26,121,870
Energy conversion costs	19,937,105	19,704,755
Transmission and distribution	12,716,911	12,240,510
Customer accounting	3,675,895	3,511,033
Total operating and maintenance expenses	<u>410,255,321</u>	<u>356,560,942</u>
Operating earnings	<u>28,417,108</u>	<u>36,977,151</u>
Non-operating revenues (expense):		
Allowance for funds used during construction	4,987,676	1,779,789
Interest revenue	2,775,819	1,779,178
Other income	-	5,173,671
Cost of GovGuam related projects funded by grants from the United States (U.S.) Government	(8,425,572)	-
Grants from the U.S. Government for GovGuam related projects	8,425,572	-
Other expense	(299,204)	(299,204)
Interest expense	(45,431,311)	(47,767,482)
Total non-operating revenues (expense), net	<u>(37,967,020)</u>	<u>(39,334,048)</u>
Loss before capital contributions	(9,549,912)	(2,356,897)
Capital contributions:		
Grants from the U.S. Government	7,208,246	1,319,064
Change in net assets	(2,341,666)	(1,037,833)
Net assets at beginning of year	<u>139,599,884</u>	<u>140,637,717</u>
Net assets at end of year	<u>\$ 137,258,218</u>	<u>\$ 139,599,884</u>

See accompanying notes to financial statements.



COMMITTEE ON RULES

I Mina'trentai Dos na Liheslaturan Guåhan • The 32nd Guam Legislature
155 Hesler Place, Hagåtña, Guam 96910 • www.guamlegislature.com
E-mail: roryforguam@gmail.com • Tel: (671)472-7679 • Fax: (671)472-3547

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CHAIRPERSON
MAJORITY LEADER

Senator
Thomas C. Ada
VICE CHAIRPERSON
ASSISTANT MAJORITY LEADER

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Michael E.Q. San Nicolas
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Senator
V. Anthony Ada
Member
MINORITY LEADER

Senator
Aline Yamashita
Member

October 14, 2013

VIA E-MAIL
john.rios@bbmr.guam.gov

John A. Rios
Director
Bureau of Budget & Management Research
P.O. Box 2950
Hagåtña, Guam 96910

RE: Request for Fiscal Notes– Bill Nos. 204-32 (COR) through 208-32 (COR)

Hafa Adai Mr. Rios:

Transmitted herewith is a listing of *I Mina'trentai Dos na Liheslaturan Guåhan's* most recently introduced bills. Pursuant to 2 GCA §9103, I respectfully request the preparation of fiscal notes for the referenced bills.

Si Yu'os ma'ase' for your attention to this matter.

Very Truly Yours,

Senator Rory J. Respicio
Chairperson, Committee on Rules

Attachments (1)

Cc: Clerk of the Legislature

2013 OCT 14 PM 4:45

Bill Nos.	Sponsor	Title
204-32 (COR)	Michael T. Limitiaco, Aline A. Yamashita, Ph.D., Tommy Morrison, Chris M. Duenas, V. Anthony Ada	AN ACT TO AMEND §§7105-7108 OF 17 GCA, RELATIVE TO THE AUTHORIZATION OF COMMERCIAL ADVERTISING LEASES; TO AUTHORIZE THE DEPARTMENT OF PUBLIC WORKS TO ESTABLISH A COMMERCIAL ADVERTISING SPACE PROGRAM ON SCHOOL BUSES; AND, TO ESTABLISH THE DPW BUS MAINTENANCE FUND.
205-32 (COR)	Dennis G. Rodriguez, Jr. Brant T. McCreadie R. J. Respicio	AN ACT TO PROMOTE ECONOMIC DEVELOPMENT BY AUTHORIZING THE ISSUANCE OF TAX CREDITS TO ENTITIES WHO ASSIST WITH THE DEVELOPMENT OF GUAM'S AGRICULTURAL AND "GUAM PRODUCT SEAL" PRODUCTS EXPORT INITIATIVE THROUGH CONTRIBUTIONS TO OFFSET SHIPPING COSTS, BY ADDING A NEW ARTICLE 6 TO CHAPTER 77, DIVISION 2 OF TITLE 12, GUAM CODE ANNOTATED.
206-32 (COR)	B. J.F. Cruz	AN ACT TO AMEND SUBSECTION (C) OF §26603, OFARTICLE 6, CHAPTER 26, OF TITLE 11, GUAM CODE ANNOTATED, RELATIVE TO ESTABLISHING TAX PARITY BETWEEN CIGARETTES AND CHEWING TOBACCO.
207-32 (COR)	T.C. Ada R.J. Respicio	AN ACT TO ADD §8241.1 OF TITLE 12 OF THE GUAM CODE ANNOTATED AND TO APPROVE THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM.
208-32 (COR)	T. R. Muña Barnes	AN ACT TO ADD § 51112 OF CHAPTER 51, TITLE 18 GUAM CODE ANNOTATED RELATIVE TO PROVIDING AN ADDITIONAL SOURCE OF FUNDING TO THE GUAM HOUSING CORPORATION'S HOUSING TRUST FUND BY AUTHORIZING THE TRANSFER TO THE SAME OF INTEREST ON SECURITY DEPOSITS ARISING FROM LANDLORD TENANT RENTAL AGREEMENTS.



COMMITTEE ON RULES

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155 Hesler Place, Hagåtña, Guam 96910 • www.guamlegislature.com
E-mail: roryforguam@gmail.com • Tel: (671)472-7679 • Fax: (671)472-3547

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Member

October 15, 2013

MEMORANDUM

To: **Rennae Meno**
Clerk of the Legislature

Attorney Therese M. Terlaje
Legislative Legal Counsel

From: **Senator Rory J. Respicio**
Majority Leader & Rules Chair

Subject: Re-Referral of Bill No. 207-32(OR)

As the Chairperson of the Committee on Rules, I am forwarding my re-referral of **Bill No. 207-32(COR)**.

Please ensure that the subject bill is re-referred, in my name, to the respective committee, as shown on the attachment. I also request that the same be forwarded to all members of *I Mina'trentai Dos na Liheslaturan Guåhan*.

Should you have any questions, please feel free to contact our office at 472-7679.

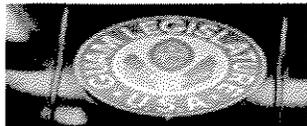
Si Yu'os Ma'åse!

Attachment

I Mina'Trentai Dos Na Liheslaturan Guahan

Bill Log Sheet

BILL NO.	SPONSOR	TITLE	DATE INTRODUCED	DATE REFERRED	CMTE REFERRED	PUBLIC HEARING DATE	DATE COMMITTEE REPORT FILED	FISCAL NOTES
207-32 (COR)	T.C. Ada R.J. Respicio	AN ACT TO ADD §8241.1 OF TITLE 12 OF THE GUAM CODE ANNOTATED AND TO APPROVE THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM.	10/11/2013 4:39 p.m.	10/14/13	Committee on Public Safety, Infrastructure, & Maritime Transportation			



Lisa Dames <cipo@guamlegislature.org>

Public Hearing - FIRST Notice

Lisa Dames <cipo@guamlegislature.org>

Mon, Nov 4, 2013 at 10:36 AM

To: PHrg Notice <phnotice@guamlegislature.org>, phmaterials@guamlegislature.org

Hafa Adai,

The Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation, and Land will conduct a public hearing beginning at **8:00am on Tuesday, November 12, 2013** at the Guam Legislature’s Public Hearing Room.

The following is the agenda:

Bill No. 207-32 (COR) – Introduced by Senator Tom Ada: An Act to add §8241.1 of Title 12 of the Guam Code Annotated and to approve the terms and conditions of Guam Power Authority Revenue Bonds to finance Capital Improvements to the Island-wide power system.

Testimonies can delivered to our office at 324 West Soledad Avenue in Hagåtña or at the Mail Room of the Guam Legislature, via fax at 473-4238, or via email at office@senbenp.com prior to the public hearing. For a copy of the bill, log on to: <http://guamlegislature.com> or www.senbenp.com

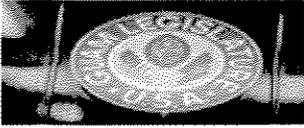
Si Yu'os Ma'ase,

Lisa Dames
Chief of Staff
I MINA'TRENTAI DOS NA LIHESLATURAN GUAHAN
Senator Vicente (ben) Cabrera Pangelinan
Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation, and Land.
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2 attachments

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Bill No. 207.pdf



Lisa Dames <cipo@guamlegislature.org>

Public Hearing - FIRST Notice

Lisa Dames <cipo@guamlegislature.org>

Mon, Nov 4, 2013 at 10:33 AM

To: news@k57.com, news@guampdn.com, Sabrina Salas <sabrina@kuam.com>, Jason Salas <jason@kuam.com>, Mindy Aguon <mindy@kuam.com>, Krystal Paco <krystal@kuam.com>, Josh Tyquiengco <jtyquiengco@k57.com>, clynt@k57.com, Betsy Brown <betsy@k57.com>, Kevin Kerrigan <kevin@k57.com>, Jon Anderson <jontalk@gmail.com>, Jon Anderson <editor@mvguam.com>, gerry@mvguam.com, marvic@mvguam.com, louella@mvguam.com, Frank Whitman <frank@mvguam.com>, rgibson@k57.com, ALICIA PEREZ <aliciaperez69@hotmail.com>, Alicia Perez <perezksto@gmail.com>, Gaynor Daleno <gdumat-ol@guampdn.com>, sliintiaco@guampdn.com, Oyaol Ngirairiki <odngirairiki@guampdn.com>, Jerick Sablan <jpsablan@guampdn.com>, life@guampdn.com

The Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation and Land will hold a public hearing on Tuesday, November 12, 2013 beginning at 8:00 am in the Guam Legislature Public Hearing Room. The following is on the agenda:

INEKUNGOK PUPBLEKO

(PUBLIC HEARING)

gi Måttes, gi diha 12 gi Nubembre, 2013

Monday, November 12, 2013

Kuåtton Inekungok Pupbleko gi I Liheslaturan Guáhan

(Guam Legislature Public Hearing Room)

alas ocho gi egga'an

(8:00 AM)

TAREHA

(AGENDA)

Priniponi Siha:

(Bills)

Bill No. 207-32 (COR) – Introduced by Senator Tom Ada: An Act to add §8241.1 of Title 12 of the Guam Code Annotated and to approve the terms and conditions of Guam Power Authority Revenue Bonds to finance Capital Improvements to the island-wide power system.

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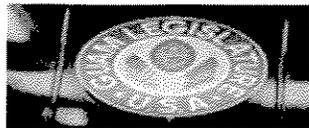
If you require any special accommodations, auxiliary aids or other special services or for further information, please call the Office of Senator Vicente (ben) Cabrera Pangelinan at 473-4236/7. For copies of any of the Bills listed on this agenda, you may log on to the Guam Legislature's website at www.guamlegislature.com Testimonies may be submitted directly to our office at 324 West Soledad Avenue in Hagátña or at the Mail Room of the Guam Legislature, via fax at 473-4238, or via email at office@senbenp.com

Lisa Dames
Chief of Staff
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Lisa Dames <cipo@guamlegislature.org>

Public Hearing - SECOND NOTICE

Lisa Dames <cipo@guamlegislature.org>

Fri, Nov 8, 2013 at 11:05 AM

To: PHrg Notice <phnotice@guamlegislature.org>, phmaterials@guamlegislature.org

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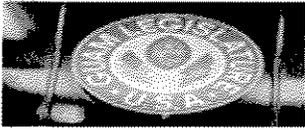
 Lisa Dames
 Chief of Staff
 I MINA'TRENTAI DOS NA LIHESLATURAN GUAHAN
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Public Hearing - SECOND NOTICE

Lisa Dames <cipo@guamlegislature.org>

Fri, Nov 8, 2013 at 11:09 AM

To: news@k57.com, Sabrina Salas <sabrina@kuam.com>, Jason Salas <jason@kuam.com>, Mindy Aguon <mindy@kuam.com>, Krystal Paco <krystal@kuam.com>, Josh Tyquiengco <jtyquiengco@k57.com>, clynt@k57.com, Betsy Brown <betsy@k57.com>, Kevin Kerrigan <kevin@k57.com>, Jon Anderson <jontalk@gmail.com>, Jon Anderson <editor@mvguam.com>, gerry@mvguam.com, marvic@mvguam.com, louella@mvguam.com, Frank Whitman <frank@mvguam.com>, rgibson@k57.com, ALICIA PEREZ <aliciaperez69@hotmail.com>, Alicia Perez <perezksto@gmail.com>, Gaynor Daleno <gdumat-ol@guampdn.com>, slimtiaco@guampdn.com, Oyaol Ngirairikl <odngirairikl@guampdn.com>, Jerick Sablan <jpsablan@guampdn.com>, life@guampdn.com

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admin@leapguam.com
admin@weareguahan.com
aguon4guam@gmail.com
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breanna.lai@mail.house.gov
bruce.lloyd.media@gmail.com
carlos.pangelinan@senatorbjcruz.com
carlsonc@pstripes.osd.mil
ccastro@guamchamber.com.gu
ccharfauros@guamag.org
charissa.tenorio@senatorbjcruz.com
chechsantos@gmail.com
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chris.budasi@guamlegislature.org
cipo@guamlegislature.org
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duenasenator@gmail.com
ed@tonyada.com
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editor@mvguam.com
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john.calvo@noaa.gov
john@kuam.com
jpmanuel@gmail.com
jtenorio@guamcourts.org
jtyquiengco@spbguam.com
julian.c.janssen@gmail.com
juliette@senatorada.org
kai@spbguam.com
kcn.kelly@gmail.com
kelly.toves@mail.house.gov
kenq@kuam.com
kevin@spbguam.com
khmg@hbcguam.net
koreannews@guam.net
koreatv@kuentos.guam.net

**Listserv: phnotice@guamlegislature.org
As of August 27, 2013**

kstokish@gmail.com
kstone@ite.net
law@guamag.org
life@guampdn.com
llmatthews@guampdn.com
lou4families@gmail.com
louella@mvguam.com
louise@tonyada.com
m.salaila@yahoo.com
mabuhaynews@yahoo.com
mahoquinene@guam.net
malainse@gmail.com
maria.pangelinan@gec.guam.gov
maryfejeran@gmail.com
mary@roryforguam.com
mcarlson@guamlegislature.org
mcperson.kathryn@abc.net.au
menchu@toduguam.com
mike.lidia@senatorbjcruz.com
mike@mikelimtiaco.com
mindy@kuam.com
mis@guamlegislature.org
miseke@mcvguam.com
mlwheeler2000@yahoo.com
mmafnas@guamlegislature.org
monty.mcdowell@amiguam.com
mspeps4873@gmail.com
mvariety@pticom.com
mwatanabe@guampdn.com
news@guampdn.com
news@spbgum.com
nick@kuam.com
norman.aguilar@guamcc.edu
nsantos@guamlegislature.org
odngirairikl@guampdn.com
office@senatorada.org
oliviampalacios@gmail.com
onlyonguam@acubedink.com
pacificjournalist@gmail.com
parroyo@k57.com
pdkprg@gmail.com
pete@tonyada.com
phillipsguam@gmail.com
publisher@glimpsesofofguam.com
qduenas_8@yahoo.com
rennae@guamlegislature.org
responsibleguam@gmail.com
rfteehan@yahoo.com
rgibson@k57.com

richdevera@gmail.com
ricknauta@hitradio100.com
rlimtiaco@guampdn.com
rob@judiwonpat.com
rolly@kktb.com
roryforguam@gmail.com
ryanjames@senatormorrison.com
santos.duenas@gmail.com
senator@senatorbjcruz.com
senatorbrantmccreadie@gmail.com
senator@tinamunabarnes.com
senatordrodriguez@gmail.com
senatorsannicolas@gmail.com
senatortonyada@guamlegislature.org
senbenp@guam.net
sgflores@tinamunabarnes.com
sgtarms@guamlegislature.org
sitarose2@yahoo.com
slimtiaco@guampdn.com
sonedera-salas@guamlegislature.org
speaker@judiwonpat.com
tanya4families@gmail.com
tasigirl@gmail.com
tcastro@guam.net
telo.taitague@guam.gov
tessa@senatorbjcruz.com
thebigshow@guamcell.net
thebigshow@k57.com
therese.hart.writer@gmail.com
therese@judiwonpat.com
tinamunabarnes@gmail.com
tjtaitano@cs.com
tom@senatorada.org
tommy@senatormorrison.com
tony@tonyada.com
trittent@pstripes.osd.mil
tterlaje@guam.net
val@tonyada.com
vincent@tinamunabarnes.com
wil@judiwonpat.com
will@senatorada.org
xiosormd@gmail.com
xiosormd@yahoo.com
ylee2@guam.gannett.com
zita@mvguam.com
zpalomo@guamag.org



Mina'trentai Dos na Liheslaturan Guahan
32nd GUAM LEGISLATURE
Senator Vicente (ben) Cabrera Pangelinan
Committee on Appropriations, Public Debt,
Legal Affairs, Retirement, Public Parks, Recreation,
Historic Preservation, and Land

**INEKUNGOK PUPBLEKO
(PUBLIC HEARING)**

gi Máttes, gi diha 12 gi Nubembre, 2013
Tuesday, November 12, 2013

**Kuátton Inekungok Pupbleko gi Lihseslaturan Guahan
(Guam Legislature Public Hearing Room)**

alas ocho gi egga an
(8:00 AM)

**TAREHA
(AGENDA)**

**Priniponi Siha:
(Bills)**

Bill No. 207-32 (COR) – Introduced by Senator Tom Ada: An Act to add §8241.1 of Title 12 of the Guam Code Annotated and to approve the terms and conditions of Guam Power Authority Revenue Bonds to finance Capital Improvements to the island-wide power system.

Yanggen un nisisita espesial na setbisio put fabot agang i lihsinan Senado ben pangelinan gi 473-4236/7. Yanggen un nisisita kopian i priniponi siha ginen este na tareha, halom gi i websait Lihseslaturan Guahan gi www.guamlegislature.com. Yanggen para un na halom testigu-mu, chule para i lihsinan manni gi 124 West Soledad Avenue gi iya Hagåtña, pat quatto gi i Kuátton Katta gi i Lihseslatura, pat faks gi 473-4238, patsuo imel gi office@senbenp.com. Este na nisisita mapasi nu i hondon gubetnamento.

If you require any special accommodations, auxiliary aids, or other special services or for further information, please call the Office of Senator Vicente (ben) Cabrera Pangelinan at 473-4236/7. For copies of any of the Bills listed on this agenda, you may log on to the Guam Legislature's website at www.guamlegislature.com. Testimonies may be submitted directly to our office at 124 West Soledad Avenue in Hagåtña or at the Mail Room of the Guam Legislature, via fax at 473-4238, or via email at office@senbenp.com.

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1 Mina' trenta Dos na Liheslaturan Guåhan
32nd GUAM LEGISLATURE
Senator Vicente (ben) Cabrera Pangelinan
Committee on Appropriations, Public Debt, Legal Affairs,
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Yanggen un nisisita espesiát na sethbisio put fabot ágang i Ifisinan Sonadot ben pangelinan gi 473- Yanggen un nisisita espesiát na sethbisio, put fabot ágang i Ifisinan Sinadot Vicente (ben) Cabrera Pangelinan gi 473-4236/7. Yanggen un nisisita kopian i priniponi siha ginen este na tareha, hálom gi i uepsait i Liheslaturan Guåhan gi www.guamlegislature.com Yanggen para un na hálom testigu-mu, chule para i ifisinan-mami gi 324 West Soledad Avenue gi Iya Hagåtña, pat guatto gi i Kuåtton Katta gi i Liheslatura, pat faks gi 473-4238, patsino imel gi office@senbenp.com Este na nutisiu inapasi nu i fendon gubetnamento.

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I Mina'trentai Dos na Liheslaturan Guåhan

32nd GUAM LEGISLATURE

Senator Vicente (ben) Cabrera Pangelinan

Committee on Appropriations, Public Debt, Legal Affairs, Retirement, Public Parks, Recreation, Historic Preservation, and Land

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COMMITTEE ON RULES

I Mina'trentai Dos na Liheslaturan Guåhan • The 32nd Guam Legislature

155 Hesler Place, Hagåtña, Guam 96910 • www.guamlegislature.com

E-mail: roryforguam@gmail.com • Tel: (671)472-7679 • Fax: (671)472-3547

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MINORITY LEADER

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Aline Yamashita
Member

November 26, 2013

Memorandum

To: **Rennae Meno**
Clerk of the Legislature

From: **Senator Thomas C. Ada**
Acting Chairperson of the Committee on Rules

Subject: **Fiscal Notes /Waivers**

Hafa Adai!

Please see attached find the fiscal notes, or waivers for the bill numbers listed below. Please note that the fiscal notes, or waivers, are issued on the bills as introduced.

FISCAL NOTES:

Bill Nos. ~~91~~-32(COR), ~~98~~-32(LS), ~~116~~-32(COR), ~~153~~-32(COR),
~~171~~-32(COR), ~~176~~-32(COR), ~~181~~-32(COR), ~~182~~-32(COR), ~~183~~-32(COR),
~~194~~-32(COR), ~~195~~-32(COR), ~~202~~-32(COR), ~~203~~-32(COR), ~~206~~-32(COR),
~~207~~-32(COR), ~~209~~-32(COR), and ~~211~~-32(COR)

WAIVERS:

Bill No. ~~84~~-32(COR), ~~165~~-32(COR), ~~170~~-32(COR), ~~189~~-32(COR),
~~193~~-32(COR), ~~199~~-32(COR), ~~210~~-32(COR), and ~~214~~-32(COR)

Please forward the same to MIS for posting on our website. Please contact our office should you have any questions regarding this matter.

Si Yu'os ma'åse'!

2013 NOV 26 PM 3:18

**Bureau of Budget & Management Research
Fiscal Note for Bill No. 207-32 (COR)**

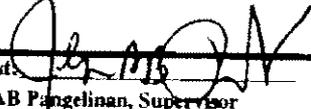
AN ACT TO ADD §8241.1 OF TITLE 12 OF THE GUAM CODE ANNOTATED AND TO APPROVE THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM.

Department/Agency Appropriation Information	
Dept./Agency Affected: Guam Power Authority	Dept./Agency Head: Joaquin Flores
Department's General Fund (GF) appropriation(s) to date:	-
Department's Other Fund (Specify) appropriation(s) to date:	-
Total Department/Agency Appropriation(s) to date:	\$0

Fund Source Information of Proposed Appropriation			
	General Fund:	(Specify Special Fund):	Total:
FY 2012 Unreserved Fund Balance ¹			
FY 2013 Adopted Revenues	\$0	\$0	\$0
FY 2013 Appro. (P.L. 31-233)	\$0	\$0	\$0
Sub-total:	\$0	\$0	\$0
Less appropriation in Bill	\$0	\$0	\$0
Total:	\$0	\$0	\$0

Estimated Fiscal Impact of Bill						
	One Full Fiscal Year	For Remainder of FY 2014 (if applicable)	FY 2015	FY 2016	FY 2017	FY 2018
General Fund	\$0	\$0	\$0	\$0	\$0	\$0
(Specify Special Fund)	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0	\$0	\$0

- Does the bill contain "revenue generating" provisions?
If Yes, see attachment // Yes /x/ No
- Is amount appropriated adequate to fund the intent of the appropriation? /x/ N/A // Yes // No
If no, what is the additional amount required? \$ _____ /x/ N/A
- Does the Bill establish a new program/agency?
If yes, will the program duplicate existing programs/agencies? // N/A // Yes /x/ No
Is there a federal mandate to establish the program/agency? // Yes /x/ No
- Will the enactment of this Bill require new physical facilities? // Yes /x/ No
- Was Fiscal Note coordinated with the affected dept/agency? If no, indicate reason:
/x/ Yes // No
// Requested agency comments not received by due date // Other: _____

Analyst: 	Date: 11-14-13	Director: 	Date: NOV 15 2013
John AB Pangelinan, Supervisor		John A. Rios, BBMR Director	

See attached comment sheet.

Comments on Bill No. 207-32

The intent of this bill is to assist in keeping power rates low with short term financing according to the Guam Power Authority (GPA) by lowering power rate increases. This lowering in the power rate increase is based on investing in the power system which would improve the reliability and efficiency of the power services that will be provided. Secondly, such improvement in the core and distribution system of the power system would comply with the U.S. Environmental Protection Agency's recently enacted legislations for improve and cleaner systems.

There is no fiscal impact to the General Fund and the integrity of the Government of Guam debt ceiling would remain the same since such proposed interim financing would be funded through the issuance of long term senior bonds, pledging operation revenues generated by the power agency.

The proposed legislation is seeking to authorize GPA to enter into a subordinated debt with existing bond indentures as means to access cash funds quickly for badly needed capital improvement requirements. The Guam Economic Development Authority (GEDA) will issue the Request for Proposal for the Interim Financing in the amount of \$35 Million. Because of the expectation that the principal payments of the loan under the Interim Financing is to start no later than two years after the issuance of such Interim Bonds, GPA is further authorized to issue new bond indentures (Long Term Financing) as a vehicle to payoff these proposed Interim Bonds (loans). Furthermore the maturity dates for such Interim Bonds are to take place no later than 5 years from dates of issuance. Lastly as part of the covenant for the issuance of such Interim Bonds, any long term financing must be limited to only the refinancing of these proposed Interim Bonds.

Given these parameters noted above, the following assumptions are used to illustrate the fiscal impact of such proposed long term indenture to GPA:

- Payments of the principal amount will start in FY 2014.
- The bond indenture for long term financing would be for the principal amount of \$35 Million, issued in a one time basis.
- The term of the bond indenture is for 40 years.
- The interest rate is at a fixed rate of 4%.
- The projected principal amount and interest for 40 years is \$91 Million.
- The annual projected payment for both principal and interest is \$2,275,000.
- The annual projected principal payment amount is \$875,000
- The annual projected interest payment is \$1,400,000.
- The FY 2012 Audited Financial Statements for GPA is assumed to be the same for FY 2014 Financial Statements with appropriate adjustments.

Applying the above assumptions, it appears that the fiscal impact in terms of rate increases in kilowatt hours would be negligible or none, given the working capital that appears available as reflected in the GP Audited FY 2012 Financial Statements, adjusted for depreciation add-back and the deletion of federal grant contributions. Based on these adjustments, a revised Change in Net Assets is estimated at a positive \$19,404,842 which is more than sufficient to cover the annual debt service for such bond proposal, assuming operational expenses remain relatively the same.

**Guam Power Authority
Statement of Revenues, Expenses and Changes in Net
Assets**

Year Ended September 30, 2012 (2015)

	FY 2012
Operating and Miscellaneous Revenues	\$438,672,429.00
Operating and Maintenance Expenses	\$410,255,321.00
Operating Earnings (Losses)	\$28,417,108.00
Non Operating Revenues (Expenses):	
Allowances for	
Construction Funds	\$4,987,676.00
Interest Income	\$2,775,819.00
Other Expenses	-\$299,204.00
Interest Expenses	-\$45,431,311.00
Total Non-Operating Revenues and Expenses	-\$37,967,020.00
Loss before Capital Contribution	-\$9,549,912.00
Grants Contribution	\$7,208,246.00
Change in Net Assets	-\$2,341,666.00
Adjustments	
Add Back Depreciation	\$28,954,754.00
Delete Federal Grants	-\$7,208,246.00
Adjusted Change in Net Assets	\$19,404,842.00

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

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Sales of electricity	\$ 438,111,537	\$ 391,874,987
Miscellaneous	1,915,786	2,605,775
	<u>440,027,323</u>	<u>394,480,762</u>
Bad debt expense	(1,354,894)	(942,669)
Total revenues	<u>438,672,429</u>	<u>393,538,093</u>
Operating and maintenance expenses:		
Production fuel	288,602,256	243,711,339
Other production	24,990,683	20,839,638
	<u>313,592,939</u>	<u>264,550,977</u>
Administrative and general	31,377,717	30,431,797
Depreciation and amortization	28,954,754	26,121,870
Energy conversion costs	19,937,105	19,704,755
Transmission and distribution	12,716,911	12,240,510
Customer accounting	3,675,895	3,511,033
Total operating and maintenance expenses	<u>410,255,321</u>	<u>356,560,942</u>
Operating earnings	<u>28,417,108</u>	<u>36,977,151</u>
Non-operating revenues (expense):		
Allowance for funds used during construction	4,987,676	1,779,789
Interest revenue	2,775,819	1,779,178
Other income	-	5,173,671
Cost of GovGuam related projects funded by grants from the United States (U.S.) Government	(8,425,572)	-
Grants from the U.S. Government for GovGuam related projects	8,425,572	-
Other expense	(299,204)	(299,204)
Interest expense	(45,431,311)	(47,767,482)
Total non-operating revenues (expense), net	<u>(37,967,020)</u>	<u>(39,334,048)</u>
Loss before capital contributions	(9,549,912)	(2,356,897)
Capital contributions:		
Grants from the U.S. Government	7,208,246	1,319,064
Change in net assets	(2,341,666)	(1,037,833)
Net assets at beginning of year	<u>139,599,884</u>	<u>140,637,717</u>
Net assets at end of year	<u>\$ 137,258,218</u>	<u>\$ 139,599,884</u>

See accompanying notes to financial statements.



COMMITTEE ON RULES

I Mina'trentai Dos na Liheslaturan Guåhan • The 32nd Guam Legislature
155 Hesler Place, Hagåtña, Guam 96910 • www.guamlegislature.com
E-mail: roryforguam@gmail.com • Tel: (671)472-7679 • Fax: (671)472-3547

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V. Anthony Ada
Member
MINORITY LEADER

Senator
Aline Yamashita
Member

October 15, 2013

MEMORANDUM

To: **Rennae Meno**
Clerk of the Legislature

Attorney Therese M. Terlaje
Legislative Legal Counsel

From: **Senator Rory J. Respicio**
Majority Leader & Rules Chair

Subject: **Re-Referral of Bill No. 207-32(COR)**

As the Chairperson of the Committee on Rules, I am forwarding my re-referral of **Bill No. 207-32(COR)**.

Please ensure that the subject bill is re-referred, in my name, to the respective committee, as shown on the attachment. I also request that the same be forwarded to all members of *I Mina'trentai Dos na Liheslaturan Guåhan*.

Should you have any questions, please feel free to contact our office at 472-7679.

Si Yu'os Ma'åse!

Attachment



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October 14, 2013

VIA E-MAIL
john.rios@bbmr.guam.gov

John A. Rios
Director
Bureau of Budget & Management Research
P.O. Box 2950
Hagåtña, Guam 96910

RE: Request for Fiscal Notes– Bill Nos. 204-32 (COR) through 208-32 (COR)

Hafa Adai Mr. Rios:

Transmitted herewith is a listing of *I Mina'trentai Dos na Liheslaturan Guåhan's* most recently introduced bills. Pursuant to 2 GCA §9103, I respectfully request the preparation of fiscal notes for the referenced bills.

Si Yu'os ma'åse' for your attention to this matter.

Very Truly Yours,

Senator Rory J. Respicio
Chairperson, Committee on Rules

Attachments (1)

Cc: Clerk of the Legislature

2013 OCT 14 PM 4:43

Bill Nos.	Sponsor	Title
204-32 (COR)	Michael T. Limitiaco, Aline A. Yamashita, Ph.D., Tommy Morrison, Chris M. Duenas, V. Anthony Ada	AN ACT TO AMEND §§7105-7108 OF 17 GCA, RELATIVE TO THE AUTHORIZATION OF COMMERCIAL ADVERTISING LEASES; TO AUTHORIZE THE DEPARTMENT OF PUBLIC WORKS TO ESTABLISH A COMMERCIAL ADVERTISING SPACE PROGRAM ON SCHOOL BUSES; AND, TO ESTABLISH THE DPW BUS MAINTENANCE FUND.
205-32 (COR)	Dennis G. Rodriguez, Jr. Brant T. McCreadie R. J. Respicio	AN ACT TO PROMOTE ECONOMIC DEVELOPMENT BY AUTHORIZING THE ISSUANCE OF TAX CREDITS TO ENTITIES WHO ASSIST WITH THE DEVELOPMENT OF GUAM'S AGRICULTURAL AND "GUAM PRODUCT SEAL" PRODUCTS EXPORT INITIATIVE THROUGH CONTRIBUTIONS TO OFFSET SHIPPING COSTS, BY ADDING A NEW ARTICLE 6 TO CHAPTER 77, DIVISION 2 OF TITLE 12, GUAM CODE ANNOTATED.
206-32 (COR)	B. J.F. Cruz	AN ACT TO AMEND SUBSECTION (C) OF §26603, OFARTICLE 6, CHAPTER 26, OF TITLE 11, GUAM CODE ANNOTATED, RELATIVE TO ESTABLISHING TAX PARITY BETWEEN CIGARETTES AND CHEWING TOBACCO.
207-32 (COR)	T.C. Ada R.J. Respicio	AN ACT TO ADD §8241.1 OF TITLE 12 OF THE GUAM CODE ANNOTATED AND TO APPROVE THE TERMS AND CONDITIONS OF GUAM POWER AUTHORITY REVENUE BONDS TO FINANCE CAPITAL IMPROVEMENTS TO THE ISLAND-WIDE POWER SYSTEM.
208-32 (COR)	T. R. Muña Barnes	AN ACT TO ADD § 51112 OF CHAPTER 51, TITLE 18 GUAM CODE ANNOTATED RELATIVE TO PROVIDING AN ADDITIONAL SOURCE OF FUNDING TO THE GUAM HOUSING CORPORATION'S HOUSING TRUST FUND BY AUTHORIZING THE TRANSFER TO THE SAME OF INTEREST ON SECURITY DEPOSITS ARISING FROM LANDLORD TENANT RENTAL AGREEMENTS.



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Senator
Thomas C. Ada
VICE CHAIRPERSON
ASSISTANT MAJORITY LEADER

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Member

Vice-Speaker
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Legislative Secretary
Tina Rose Muña Barnes
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Senator
Frank Blas Aguon, Jr.
Member

Senator
Michael F.Q. San Nicolas
Member

Senator
V. Anthony Ada
Member
MINORITY LEADER

Senator
Aline Yamashita
Member

October 14, 2013

MEMORANDUM

To: **Rennae Meno**
Clerk of the Legislature

Attorney Therese M. Terlaje
Legislative Legal Counsel

From: **Senator Rory J. Respicio** 
Majority Leader & Rules Chair

Subject: **Referral of Bill No. 207-32(COR)**

As the Chairperson of the Committee on Rules, I am forwarding my referral of **Bill No. 207-32(COR)**.

Please ensure that the subject bill is referred, in my name, to the respective committee, as shown on the attachment. I also request that the same be forwarded to all members of *I Mina'trentai Dos na Liheslaturan Guåhan*.

Should you have any questions, please feel free to contact our office at 472-7679.

Si Yu'os Ma'åse!

Attachment

I MINA TRENTAI DOS LIHESLATURAN GUÁHAN
2013 (First) Regular Session

Bill No. 207-32(COR)

Introduced by:

T.C. Ada 
R.J. Respicio 

**AN ACT TO ADD §8241.1 OF TITLE 12 OF THE GUAM
CODE ANNOTATED AND TO APPROVE THE TERMS
AND CONDITIONS OF GUAM POWER AUTHORITY
REVENUE BONDS TO FINANCE CAPITAL
IMPROVEMENTS TO THE ISLAND-WIDE POWER
SYSTEM.**

2013 OCT 11 PM 4:39 

1 **BE IT ENACTED BY THE PEOPLE OF GUAM:**

2 **Section 1. Addition of §8241.1 to Title 12 of the Guam Code Annotated.** A
3 new §8241.1 is added to Title 12 of the Guam Code Annotated to read as follows:

4 **“§8241.1. Authorization for Interim Financing.**

5 a) Authorization for Interim Financing. The Authority is authorized to issue and sell
6 short-term revenue bonds (the “Interim Bonds”) using a direct sale of such bonds
7 to a bank or financial institution licensed to do business in Guam or the United
8 States selected pursuant to a competitive procurement process conducted by
9 GEDA on behalf of the Authority; *provided* that such Interim Bonds shall be
10 issued in a single issue as senior revenue bonds in accordance with the
11 Authority’s existing senior revenue bond indenture.

12 b) Purpose of Interim Bonds. The proceeds of the Interim Bonds shall be used solely
13 for the following purposes:

- 14 1. Paying the costs of constructing System improvements to bring the Authority
15 into compliance with recently enacted United States Environmental Protection
16 Agency (USEPA) regulations;
- 17 2. Paying the costs of providing general improvements to the Authority’s power
18 generation, transmission, distribution, SCADA and Information Technology
19 systems;
- 20 3. Paying the costs of implementing the Authority’s Cyber Security Plan,
- 21 4. Funding the required reserves under the senior bond indenture; and,

1 5. Paying the costs of issuance of the Interim Bonds.

2 c) Interim Bond Terms and Conditions. The Interim Bonds shall have:

3 1. An aggregate principal amount not to exceed Thirty-Five Million Dollars
4 (\$35,000,000);

5 2. A final maturity not later than five years from the date of issuance of the
6 Interim Bonds;

7 3. Principal payments due no sooner than two years after the date of issuance of
8 the Interim Bonds;

9 4. Prepayment options by the Authority without penalty starting no later than
10 two years after the date of issuance of the Interim Bonds;

11 5. A fixed interest rate, a variable interest rate, or an initial fixed rate period
12 followed by a variable rate, *provided* that any fixed rate, whether for an initial
13 fixed rate period or for the full term of the bonds, shall not exceed four
14 percent (4.0%) per annum, and any variable rate shall not exceed twelve
15 percent (12.0%) per annum, notwithstanding §8214 of Title 12 of the Guam
16 Code Annotated; and,

17 6. A covenant that the Authority shall not issue long term senior revenue bonds
18 for any purpose other than refinancing the Interim Bonds so long as the
19 Interim Bonds remain outstanding.

20 d) Pursuant to §50103(k) of Title 12 of the Guam Code Annotated, *I Liheslaturan*
21 *Guåhan* hereby approves the terms and conditions of Interim Bonds issued in
22 accordance with this Section.”

23
24 **Section 2. Approval of the Terms and Conditions of Guam Power Authority**
25 **Long Term Revenue Bonds.**

26 *I Liheslaturan Guåhan*, pursuant to §50103(k) of Title 12 of the Guam Code
27 Annotated, hereby approves the terms and conditions of the issuance and sale of revenue
28 bonds by GPA, in one or more series or issues, as senior revenue bonds in accordance
29 with its existing senior revenue bond indenture, for the purpose of refinancing all Interim
30 Bonds issued pursuant to §8241.1 of Title 12 of the Guam Code Annotated and to
31 continue the Authority’s investment in the island wide power system involving

1 generation, transmission, and distribution assets to improve reliability, efficiency and
2 power service and to comply with environmental regulations (the “Long Term Bonds”);
3 *provided* that the Long Term Bonds shall have a principal amount not to exceed One
4 Hundred Million Dollars (\$100,000,000), shall have a final maturity not later than 2050,
5 shall accrue interest at rates that shall not exceed the limitation of 9% set forth in
6 §8214(a) of Title 12 of the Guam Code Annotated, and shall be sold for such price or
7 prices as shall result in a net yield to the bondholders not exceeding the rate specified by
8 said §8214(a).

9 The issuance of any and all such Long Term Bonds shall be further subject to the
10 following requirements, limitations, terms and conditions:

- 11 a) Such bonds shall be issued and sold pursuant to GPA’s existing senior bond
12 indenture (including any amendments in accordance with its terms to provide
13 for the issuance of the bonds described herein) and in compliance with the
14 provisions of Article 2 of Chapter 8 of Title 12 of the Guam Code Annotated,
15 including approval by the CCU and by *I Maga’lahen Guåhan* as provided
16 therein;
- 17 b) The sale of the bonds shall be approved by the Board of Directors of GEDA
18 as provided by §50103(k) of Chapter 50 of Title 12 of the Guam Code
19 Annotated and the terms and conditions of the issuance of the bonds shall be
20 approved by the GPUC as provided by Chapter 12 of Title 12 of the Guam
21 Code Annotated; and,
- 22 c) The proceeds of the bonds shall be applied as a first priority to pay or provide
23 for the payment of all outstanding Interim Bonds issued pursuant to §8241.1
24 of Title 12 of the Guam Code Annotated and thereafter shall be applied to pay
25 the costs of issuance of the bonds, to pay the cost of any credit enhancement
26 of the bonds, to provide for required reserves, and, subject to approval by the
27 GPUC in accordance with §12004 Article 2 Chapter 12 of Title 12 of the
28 Guam Code Annotated, to pay the costs of the projects described above,
29 including the projects authorized to be financed by the Interim Bonds.

30

1 **Section 3. Severability.** *If* any provision of this law or its application to any person
2 or circumstance is found to be invalid or contrary to law, such invalidity *shall not* affect
3 other provisions or applications of this law which can be given effect without the invalid
4 provisions or application, and to this end the provisions of this law are severable.