



Office of the Governor of Guam

P.O. Box 2950 Hagåtña, Guam 96932

TEL: (671) 472-8931 • FAX: (671) 477-4826 • EMAIL: governor@mail.gov.gu

Felix Perez Camacho
Governor

Kaleo Scott Moylan
Lieutenant Governor

28 APR 2006

The Honorable Mark Forbes
Speaker
Mina' Bente Ocho Na Liheslaturan Guåhan
155 Hessler Street
Hagåtña, Guam 96910

Dear Mr. Speaker:

Transmitted herewith is Bill No. 252(EC), "AN ACT TO AMEND THE BORROWING LIMITATIONS OF GPA IN 12 GCA §8122(b)," which I signed into law on April 26, 2006, as Public Law 28-116.

Sinseru yan Magåhet,

FELIX P. CAMACHO
I Maga'låhen Guåhan
Governor of Guam

Attachment: copy attached of signed bill

cc: The Honorable Eddie Baza Calvo
Senator and Legislative Secretary

Office of the Speaker

MARK FORBES

Date: 4/26/06

Time: 4:57 PM

Rec'd by: [Signature]

Print Name: [Signature]

28-06-0815



Office of the Governor of Guam

P.O. Box 2950 Hagåtña, Guam 96932

TEL: (671) 472-8931 • FAX: (671) 477-4826 • EMAIL: governor@mail.gov.gu

Felix Perez Camacho
Governor

Kaleo Scott Moylan
Lieutenant Governor

28 APR 2006

The Honorable Mark Forbes
Speaker
Mina' Bente Ocho Na Liheslaturan Guåhan
155 Hessler Street
Hagåtña, Guam 96910

Dear Mr. Speaker:

Transmitted herewith is Bill No. 252(EC), "AN ACT TO AMEND THE BORROWING LIMITATIONS OF GPA IN 12 GCA §8122(b)," which I signed into law on April 26, 2006, as Public Law 28-116.

Sinseru yan Magåhet,

FELIX P. CAMACHO
I Maga'låhen Guåhan
Governor of Guam

Attachment: copy attached of signed bill

cc: The Honorable Eddie Baza Calvo
Senator and Legislative Secretary

Senator Edward J.B. Calvo SECRETARY OF THE LEGISLATURE ACKNOWLEDGEMENT RECEIPT	
Rcv'd by: <u>Nikola</u>	
Print Name & Initial	
Time: <u>9:06</u>	Date: <u>5-11-06</u>

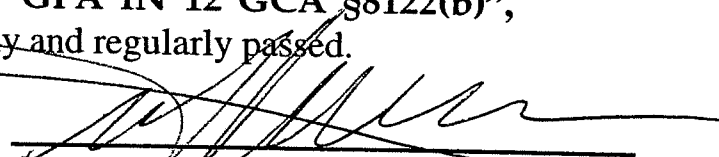
Senator Edward J.B. Calvo SECRETARY OF THE LEGISLATURE ACKNOWLEDGEMENT RECEIPT	
Rcv'd by: <u>[Signature]</u>	
Print Name & Initial	
Time: <u>5:05pm</u>	Date: <u>4/28/06</u>

Office of the Speaker
MARK FORBES
Date: 4/20/06
Time: 4:57 PM
Rec'd by: [Signature]
Print Name: [Signature]
28-06-0815


I MINA'BENTE OCHO NA LIHESLATURAN GUÅHAN
2006 (SECOND) Regular Session

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

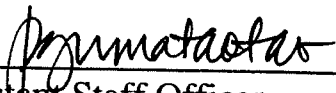
This is to certify that Bill No. 252 (EC) "AN ACT TO AMEND THE BORROWING LIMITATIONS OF GPA IN 12 GCA §8122(b)", was on the 31st day of March, 2006, duly and regularly passed.


Mark Forbes
Speaker


Attested:


Edward J.B. Calvo
Senator and Secretary of the Legislature

This Act was received by *I Maga'lahen Guåhan* this 17 day of April,
2006, at 12:30 o'clock P.M.


Assistant Staff Officer
Maga'lahi's Office

APPROVED:


FELIX P. CAMACHO
I Maga'lahen Guåhan

Date: 26 APR 2006

Public Law No. 28-116

MINA'BENTE OCHO NA LIHESLATURAN GUÅHAN
2006 (SECOND) Regular Session

Bill No. 252 (EC)

As amended by the Committee on
Finance, Taxation, and Commerce
and amended.

Introduced by:

J. M.S. Brown
F. B. Aguon, Jr.
Edward J.B. Calvo
B. J.F. Cruz
Mike Cruz
Mark Forbes
L. F. Kasperbauer
R. Klitzkie
L. A. Leon Guerrero
J. A. Lujan
A. B. Palacios, Sr.
R. J. Respicio
Ray Tenorio
A. R. Unpingco
J. T. Won Pat

**AN ACT TO AMEND THE BORROWING
LIMITATIONS OF GPA IN 12 GCA §8122(b).**

BE IT ENACTED BY THE PEOPLE OF GUAM:

Section 1. Legislative Findings. Due to the increased costs of GPA fuel shipments, GPA requires additional flexibility to handle its outstanding obligations, and requests that *I Liheslaturan Guåhan* increase the borrowing limit contained in 12 GCA, Chapter 8, §8122(b) for Tax Exempt Commercial Paper from Thirty Million Dollars (\$30,000,000) to Fifty Million Dollars (\$50,000,000).

1 **Section 2. 12 GCA, Chapter 8, §8122(b) is amended to read:**

2 “(b) Purposes: Terms of Borrowing. GPA is authorized to incur debt
3 under the Tax Exempt Commercial Paper Program up to a limit of Fifty Million
4 Dollars (\$50,000,000). This amount may be used to replace the existing lines
5 of credit. At no time will the total outstanding balance borrowed from TECP
6 and lines of credit arising from operation and maintenance purposes exceed this
7 amount without approval from the Public Utilities Commission.”

6
w/o engrossment

I MINA' BENTE OCHO NA LIHESLATURAN GUAHAN

2005 (FIRST) Regular Session

Date: 3/31/06

VOTING SHEET

Amended

Bill No. 252(EO)

Resolution No. _____

Question: _____

<u>NAME</u>	<u>YEAS</u>	<u>NAYS</u>	<u>NOT VOTING/ ABSTAINED</u>	<u>OUT DURING ROLL CALL</u>	<u>ABSENT</u>
AGUON, Frank B., Jr.	✓				
BROWN, Joanne M.S.	✓				
CALVO, Eddie J.B.	✓				
CRUZ, Benjamin J.F,	✓				
CRUZ, Mike (Dr.)	✓				
FORBES, Mark	✓				
KASPERBAUER, Lawrence F.	✓				
KLITZKIE, Robert	✓				
LEON GUERRERO, Lourdes A.	✓				
LUJAN, Jesse A.	✓				
PALACIOS, Adolpho B.	✓				
RESPICIO, Rory J.					EA
TENORIO, Ray	✓				
UNPINGCO, Antonio R.	✓				
WON PAT, Judith T.					EA

TOTAL

13 0 0 0 2

CERTIFIED TRUE AND CORRECT:

Patricia C. Santos
Clerk of the Legislature

* 3 Passes = No vote
EA = Excused Absence

3/31/06
w/o engross

**MINA'BENTE OCHO NA LIHESLATURAN GUÅHAN
2006 (SECOND) Regular Session**

Bill No. 252 (EC)

*As amended by the Committee on
Finance, Taxation, and Commerce*

Introduced by:

J.M.S. Brown

**AN ACT TO AMEND THE BORROWING
LIMITATIONS OF GPA IN 12 GCA §8122(b).**

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

2 **Section 1. Legislative Findings.** Due to the increased costs of GPA fuel
3 shipments, GPA needs to have additional flexibility to handle its outstanding
4 obligations, and requests that *I Liheslaturan Guåhan* change the borrowing limit
5 contained in 12 GCA, Chapter 8, §8122(b) for Tax Exempt Commercial Paper from
6 its current limit of ~~\$30,000,000~~ Thirty Million Dollars (\$30,000,000) to ~~\$40,000,000~~
7 Fifty Million Dollars (\$50,000,000).

8 **Section 2. 12 GCA, Chapter 8, §8122(b)** is amended to read:

9 (b) Purposes: Terms of Borrowing, GPA is Authorized to Incur Debt
10 Under the Tax Exempt Commercial Paper Program Up to a Limit of ~~Forty~~
11 ~~Million Dollars (\$40,000,000)~~. Fifty Million Dollars (\$50,000,000).

12 This amount may be used to replace the existing lines of credit. At no time will
13 the total outstanding balance borrowed from TCEP and lines of credit arising
14 from operation and maintenance purposes exceed this amount without approval
15 from the Public Utilities Commission.

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



MINA BENTE OCHO NA LIHESLATURAN GUÅHAN
TWENTY-EIGHTH GUAM LEGISLATURE

Senator Edward J.B. Calvo
SECRETARY OF THE LEGISLATURE

Chairman
COMMITTEE ON FINANCE, TAXATION & COMMERCE

OFFICE OF FINANCE AND BUDGET

E-Mail address: senatorcalvo@hotsheet.com
155 Hessler Street Hagåtña, Guam 96910

Telephone: (671) 475-8801
Facsimile: (671) 475-8805

March 16, 2006

The Honorable Mark Forbes
Speaker
Mina Bente Ocho na Liheslaturan Guåhan
155 Hessler Street
Hagåtña, Guam 96910

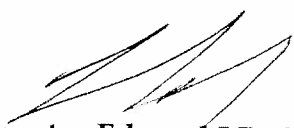
Håfa adai, Mr. Speaker:

The Committee on Finance, Taxation, and Commerce, to which **Bill No. 252 (EC): "An Act To Amend the Borrowing Limitations of GPA in 12 GCA §8122 (b)"**, was referred, wishes to report its findings and recommendations TO PASS Bill No. 252 (EC), *as amended by the Committee.*

The voting record for Bill No. 252 (EC) is as follows:

TO PASS	<u>6</u>
NOT TO PASS	<u>0</u>
TO REPORT OUT	<u>0</u>
ABSTAIN	<u>0</u>
TO PLACE IN INACTIVE FILE	<u>6</u>

Copies of the Committee Report and other pertinent documents are attached. Thank you for your attention in this matter. *Si Yu'os Ma'åse!*


Senator Edward J.B. Calvo
Chairman



MINA'BI TE OCHO NA LIHESLATURAN GUAHAN
TWENTY-EIGHTH GUAM LEGISLATURE

Senator Edward J.B. Calvo
SECRETARY OF THE LEGISLATURE

Chairman
COMMITTEE ON FINANCE, TAXATION & COMMERCE

OFFICE OF FINANCE AND BUDGET

E-Mail address: senatorcalvo@hotsheet.com
155 Hessler Street Hagåtña, Guam 96910

Telephone: (671) 475-8801
Facsimile: (671) 475-8805

March 16, 2006

MEMORANDUM

To: Committee Members

From: Chairman, Committee on Finance, Taxation, and Commerce

Subject: Committee report on Bill 252 (EC) *as amended by the Committee on Finance, Taxation, and Commerce*

This memorandum is accompanied by the following:

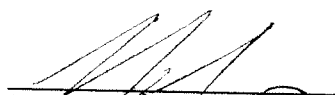
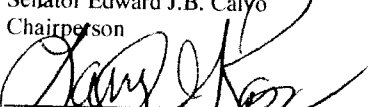
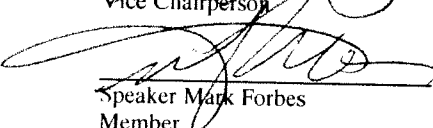
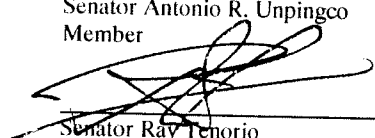
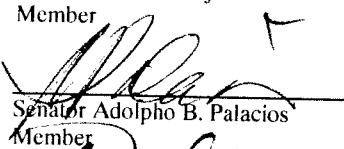
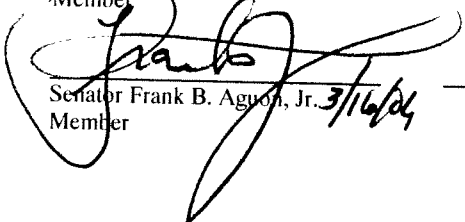
1. Committee voting sheet
2. Public Hearing sign-in sheet
3. Notice of Public Hearing
4. Testimonies submitted

Please take the appropriate action on the attached voting sheet. Your attention and cooperation in this matter is greatly appreciated. Should there be any questions regarding this matter, please feel free to contact my office at 475-8801.

Senator Edward J.B. Calvo
Chairman

Committee Voting Sheet
Committee on Finance, Taxation, and Commerce
Office of Finance and Budget
Sinadot Edward J.B. Calvo, Ge'Hilo'

Bill No. 252 (EC): "An Act to Amend the Borrowing Limitations of GPA in 12 GCA §8122 (b)", as amended by the Committee.

Committee Members	To Pass	Not to Pass	Report Out	Abstain	Inactive File
 Senator Edward J.B. Calvo Chairperson	✓	_____	_____	_____	_____
 Senator Lawrence F. Kasperbauer Vice Chairperson	X	_____	_____	_____	_____
 Speaker Mark Forbes Member	✓	_____	_____	_____	_____
_____ Senator Antonio R. Unpingco Member	_____	_____	_____	_____	_____
 Senator Ray Tenorio Member	✓	_____	_____	_____	_____
_____ Senator Jesse A. Lujan Member	_____	_____	_____	_____	_____
 Senator Adolpho B. Palacios Member	✓	_____	_____	_____	_____
 Senator Frank B. Aguon, Jr. 3/16/04 Member	✓	_____	_____	_____	_____

Fuel
3/28/06
Disposal
3/30/06

**MINA'BENTE OCHO NA LIHESLATURAN GUÅHAN
2006 (SECOND) Regular Session**

Bill No. 252 (EC)

As amended by the Committee on Finance, Taxation, and Commerce

Introduced by:

J.M.S. BROWN

**AN ACT TO AMEND THE BORROWING
LIMITATIONS OF GPA IN 12 GCA §8122(b).**

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

2 **Section 1. Legislative Findings.** Due to the increased costs of GPA fuel shipments,
3 GPA needs to have additional flexibility to handle its outstanding obligations, and requests
4 that *I Liheslaturan Guåhan* change the borrowing limit contained in 12 GCA, Chapter 8,
5 §8122(b) for Tax Exempt Commercial Paper from its current limit of ~~\$30,000,000~~ Thirty
6 Million Dollars (\$30,000,000) to ~~\$40,000,000~~ Fifty Million Dollars (\$50,000,000).

7 **Section 2. 12 GCA, Chapter 8, §8122(b)** is amended to read:

8 (b) Purposes: Terms of Borrowing, GPA is Authorized to Incur Debt Under
9 the Tax Exempt Commercial Paper ^(TECP) Program Up to a Limit of ~~Forty Million Dollars~~
10 ~~(\$40,000,000)~~. Fifty Million Dollars (\$50,000,000). ✓

11 This amount may be used to replace the existing lines of credit. At no time will the total
12 outstanding balance borrowed from ^{EA TECP} ~~TECP~~ and lines of credit arising from operation and ✓
13 maintenance purposes exceed this amount without approval from the Public Utilities
14 Commission.

15 **Section 3. Severability.** *If any provisions of this Act or its application to any person*
16 *or circumstance is found to be invalid or contrary to law, such invalidity shall not affect*

1 other provisions or applications of this Act which can be given effect without the invalid
2 provisions or applications, and to this end the provisions of this Act are severable.

**MINA BENTE OCHO NA LIHESLATURAN GUAHAN
2006 (SECOND) Regular Session**

Bill No. 252 (EC)

Introduced by:

J.M.S. BROWN

**AN ACT TO AMEND THE BORROWING LIMITATIONS OF GPA IN 12 GCA
§8122(b).**

BE IT ENACTED BY THE PEOPLE OF GUAM:

Section 1. Legislative Findings. Due to the increased costs of GPA fuel shipments, GPA needs to have additional flexibility to handle its outstanding obligations, and requests that I Liheslaturan Guåhan change the borrowing limit contained in 12 GCA, Chapter 8, §8122(b) for Tax Exempt Commercial Paper from its current limit of \$30,000,000 to \$40,000,000.

Section 2. 12 GCA, Chapter 8, §8122(b) is amended to read:

(b) Purposes: Terms of Borrowing, GPA is Authorized to Incur Debt Under the Tax Exempt Commercial Paper Program Up to a Limit of Forty Million Dollars (\$40,000,000). This amount may be used to replace the existing lines of credit. At no time will the total outstanding balance borrowed from TCEP and lines of credit arising from operation and maintenance purposes exceed this amount without approval from the Public Utilities Commission.

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

Bureau of Budget & Management Research
Fiscal Note of Bill No. 252 (EC)

Bill Title (Preamble): AN ACT TO AMEND THE BORROWING LIMITATIONS OF GPA IN 12 GCA § 8122(b).

Department/Agency Appropriation Information	
Dept./Agency Affected:	Dept./Agency Head:
Department's General Fund (GF) appropriation(s) to date:	
Department's Other Fund (specify): _____ appropriation(s) to date:	\$0
Total Department/Agency Appropriation(s) to date:	\$0

Fund Source Information of Proposed Appropriation			
	General Fund:	Other (specify):	Total:
FY 2006 Adopted Revenues	\$435,092,898	\$0	\$435,092,898
FY Appro. to P.L. 28-68	(\$435,092,898)	\$0	(\$435,092,898)
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 Current FY (if applicable)	Second Year	Third Year	Fourth Year	Fifth Year
General Fund	\$0	\$0	\$0	\$0	\$0	\$0
Other Fund:	\$0	\$0	\$0	\$0	\$0	\$0
Total 1/	\$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?
If no, what is the additional amount required? \$ _____ /x/ N/A / / Yes / / No
- Does the Bill establish a new program/agency?
If yes, will the program duplicate existing programs/agencies? / / Yes /x/ No
Is there a federal mandate to establish the program/agency? /x/ N/A / / Yes / / 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:
/ / Requested agency comments not received by due date / / Yes / / No
/ / Other: _____

Analyst: Evelyn G. Fernandez Date: 2/24/06 Director: Carlos P. Bordallo Date: MAR 06 2006

Footnotes: 1/ Please see attached comments.

Senator Edward J.B. Calvo
ACKNOWLEDGEMENT RECEIPT
 Rcv'd by: Nikolov
 Print Name & Initial
 Time: 9:30 AM
 Date: 3-13-06

Comments on Bill 252 (EC)

The purpose of Bill 252(EC) is to increase the borrowing authority of GPA from \$30,000,000 to \$40,000,000 under the Tax Exempt Commercial Paper Program. The amount may be used to replace the existing line of credit. Possible increase/decrease in expenditure as a result of additional borrowing will have no financial impact on the general fund under this program.

According to GPA, it has had a \$10 million fuel letter of credit for the last 12 years. For most of that time, the letter has been large enough to cover one fuel shipment and sometimes two fuel shipments. With the dramatic increases in the price of fuel over the last few years the letter of credit is no longer sufficient to handle even a single shipment. The last several shipments that GPA has received have averaged between \$13-18 million each. This means that GPA must come up with up front cash in addition to letter of credit. This additional cash requirement up front has placed a tremendous burden on GPA. GPA believes it may need to increase its letter of credit up to \$20 million or possibly \$30 million.

Furthermore, according to GPA, its current statute limits the amount of lines of credit and letters of credit to \$30 million. \$20 million of this is taken up through its Taxable Commercial Paper program. GPA intends to pay this down as soon as the general obligation bond is issued and GPA is reimbursed for past due power bills. This leaves only \$10 million for the letter of credit. So GPA is barred by statute from increasing its fuel line of credit. As such, GPA supports the intent of this bill.



MINA'BE' TE OCHO NA LIHESLATURAN GUÅHAN
TWENTY-EIGHTH GUAM LEGISLATURE

Senator Edward J.B. Calvo
SECRETARY OF THE LEGISLATURE

Chairman
COMMITTEE ON FINANCE, TAXATION & COMMERCE

OFFICE OF FINANCE AND BUDGET

E-Mail address: senatorcalvo@hotsheet.com
155 Hessler Street Hagåtña, Guam 96910

Telephone: (671) 475-8801
Facsimile: (671) 475-8805

Committee Report on

Bill No. 252 (EC): *"An Act to Amend the Borrowing Limitations of GPA in 12 GCA §8122 (b)", as amended by the Committee on Finance, Taxation, and Commerce.*

I Mina' Bente Ocho Na Liheslaturan Guåhan
Committee on Finance, Taxation, and Commerce
Sinadot Edward J.B. Calvo, Ge' hilo

I. OVERVIEW

The Committee on Finance, Taxation, and Commerce held a Public Hearing on Friday, March 10, 2006, 9:30 a.m. at *I Liheslaturan Guåhan's* Public Hearing Room on Bill No. 252 (EC), "*An Act To Amend The Borrowing Limitations Of GPA In 12 GCA §8122(B)*". Notices of this public hearing were disseminated throughout all local media via facsimile and are attached herein.

a. Senators present:

Senator Edward J.B. Calvo, Chairman
Vice-Speaker Joanne M.S. Brown
Senator Adolpho B. Palacios, Member
Senator Robert Klitzkie
Senator Benjamin J.F. Cruz
Senator Judith T. Won Pat

b. Appearing before the Committee:

Mr. Simon Sanchez, Chairman, Consolidated Commission on Utilities
Mr. Joaquin Flores, General Manager, Guam Power Authority
Mr. John Benavente, General Manager, Consolidated Utility Services

II. SUMMARY OF VERBAL AND WRITTEN TESTIMONIES:

Following introductory remarks by Chairman Edward J.B. Calvo, Mr. Simon Sanchez, Chairman of the Consolidated Commission on Utilities, provided testimony in support of Bill No. 252 (EC). Mr. Sanchez cited the rising cost of fuel as the bases for the Guam Power Authority's (GPA) request for an increase in the agency's Letter of Credit (LC), which is currently limited to \$30 million. This amount, according to Mr. Sanchez,

is insufficient when the cost of a single shipment of fuel is approximately between \$15 and \$20 million per month. Mr. Sanchez further explained that the cost of fuel has significantly increased within the past several years from \$20 to \$50 dollars per barrel. Mr. Sanchez concluded his remarks by encouraging members of the Committee to extend the flexibility of GPA's Letter of Credit and allow the agency to meet the rising cost of fuel, while ensuring that operational requirements are not jeopardized.

Following comments made by Mr. Simon Sanchez, Mr. Joaquin Flores, General Manager of the Guam Power Authority, also testified in support of Bill No. 252 (EC). Mr. Flores explained that prior to 1995, GPA purchased fuel from *PEDCO* on an as-needed basis. In 1995, however, GPA changed its fuel contract that required the agency to arrange its fuel shipment schedule and to provide payment to its vendor immediately. Subsequently, GPA initiated a Letter of Credit (LC) in order to meet the new method of payment. The LC has provided flexibility to GPA in making upfront payments to vendors as revenues for services to its customers are collected. The dramatic increases in fuel prices over the past several years, however, have made it extremely difficult for GPA to use its LC to cover payment for even a single shipment of fuel.

Mr. Flores mentioned that because of the pressure being placed on GPA's working capital, the agency has dropped below its 30-day fuel reserve level three times within the last few months. Additionally, the United States Air Force has encouraged the agency to consider implementing a higher fuel reserve level in order to be consistent with the military's contingency plans. If passed, Bill No. 252 (EC) will allow GPA to increase its LC limit and will also enable the agency to restore, at the very least, its 30-day fuel reserve level. Mr. Flores concluded his remarks by recognizing the need for GPA to extend its LC limit in order to meet the demands of a growing population and the possibility of military expansion on Guam in the immediate future.

Following comments made by members of the public, Vice-Speaker Joanne M.S. Brown, author of Bill No. 252 (EC), acknowledged that the testimony presented by the previous speakers illustrates the seriousness of the financial challenges confronting the Guam Power Authority. In recognizing the agency's ability to reduce personnel and operational costs within the past few years, Vice-Speaker Brown reiterated to those in attendance that the financial dilemma faced by GPA is directly attributed to a global economy that commands the direction of where fuel prices will go. In light of this reality, the Vice-Speaker encouraged her colleagues to support the passage of Bill No. 252 (EC).

Chairman Edward J.B. Calvo followed with an inquiry on how many days does one shipment of fuel last, to which Mr. Flores responded forty-five (45) days. The Chairman continued with questions about the fuel reserve capacity of GPA as well as any current efforts to research and implement alternative renewable energy systems.

Mr. John Benavente, General Manager of the Consolidated Utility Services, informed the Committee that GPA has a three to four month reserve capacity. Mr. Flores added that GPA has the capacity to store fuel, but lacks the financial ability to purchase such fuel. Both Mr. Benavente and Mr. Flores also mentioned that GPA has a planning committee that is currently researching alternatives to the agency's fuel-based system and that such group will be forwarding a draft of its *Fuel Diversity Plan* by the end of this year.

Senator Benjamin J.F. Cruz then asked a response from both administrators regarding the timeline in which the proposed alternatives would be initiated. Mr. Benavente advised the Committee that any alternative system would require a length of time sufficient for existing facilities to be properly retrofitted and equipped. Mr. Benavente

also reminded panel members that any immediate implementation of alternative energy programs will only supplement the agency's existing capacity to provide electricity for consumers. Additionally, the agency also discussed plans for re-implementing its rebate program during the next fiscal year.

Senator Judith Won Pat asked representatives from GPA to clarify what was meant by the acronym, *LEAC*. Mr. Flores explained that the acronym stands for *Levelized Energy Adjustment Clause*, which allows the power agency to stabilize the cost of fuel paid by consumers for at least a period of six months. This system allows for GPA to prevent the under or over charging of such consumers as the price of fuel decreases or increases throughout the year.

Senator Robert Klitzkie briefly commented on this unusual case of a government entity requesting the legislature to extend its credit limit not because of poor management practices or expenditures exceeding an approved annual budget, but because of external influences that are beyond the control of management. Senator Klitzkie echoed similar sentiments made by previous speakers relative to the global economy and its control of changes in fuel prices, and the ultimate impact this reality has on communities, such as Guam, which depend on fuel as the primary source of energy.

Following comments made by his colleagues and representatives from the Guam Power Authority, Chairman Edward J.B. Calvo extended his appreciation to those in attendance for presenting testimony on Bill No. 252 (EC). The Chairman informed the public that an additional ten (10) working days is provided for individuals wanting to submit written testimony on said legislation, which concluded this section of the public hearing at 11:38 a.m.

III. COMMITTEE FINDINGS AND RECOMMENDATIONS:

The Committee on Finance, Taxation, and Commerce finds that there is a justifiable need to increase the Guam Power Authority's (GPA) *Letter of Credit* (LC) and to allow the agency necessary flexibility to purchase fuel with a credit limit of up to \$50 million dollars. The Committee recognizes the financial challenges confronting GPA in its effort to secure adequate funds for purchasing shipment(s) of fuel on a monthly basis. The Guam Power Authority, through its comprehensive presentation of information before the Committee, provided clear and convincing data illustrating the need to increase its LC and to reflect the direction of fuel prices determined primarily by a global economy, while providing GPA with the ability to continue operating the island's primary source of electricity without jeopardizing the health, safety, and welfare of our community.

The Committee on Finance, Taxation, and Commerce, to which Bill No. 252 (EC) "*An Act To Amend The Borrowing Limitations Of GPA In 12 GCA §8122(B)*", was referred, does hereby submit its findings and recommendations to *I Mina' Bente Ocho Na Liheslaturan Guåhan* **TO PASS** Bill No. 252 (EC), as amended by the Committee.



MINA BENTE OCHO NA LIHESLATURAN GUÅHAN
TWENTY-EIGHTH GUAM LEGISLATURE

Senator Edward J.B. Calvo
SECRETARY OF THE LEGISLATURE

Chairman
COMMITTEE ON FINANCE, TAXATION & COMMERCE

OFFICE OF FINANCE AND BUDGET

E-Mail address: sencalvo@ecommm.com
155 Hesler Street Hagåtña, Guam 96910

Telephone: (671) 475-8801
Facsimile: (671) 475-8805

Legislative Confirmation and Public Hearing
Friday, March 10, 2006, 9:30 a.m.

Agenda:

- **Governor's appointment of Mr. Francisco A. Florig to serve as a member of the Guam Alcohol Beverage Control Board**
- **Governor's appointment of Ms. Lilia D. Kunt to serve as a member of the Guam Alcohol Beverage Control Board**
- **Governor's appointment of Mr. Pelagio S. Sardoma to serve as a member of the Board of Equalization**
- **Bill No. 200 (LS): An Act To appropriate The Sum Of One Million Four Hundred Sixty Thousand Dollars (\$1,460,000.00) To The Government Of Guam Retirement Fund For Outstanding Retirement Contributions Owed By The Guam Memorial Hospital Authority.**
- **Bill No. 201 (EC): An Act To authorize A Loan Of Up To \$15 Million For Payments For Medicare For Current Retirees In Order To Secure Their Eligibility For Part A And Part B Coverage And To Pledge For Repayment Of The Loan, The Fees For Wholesalers License, Retailers License, Manufacturers License, And Temporary Commercial Licenses As Authorized By §72107 §72108, §72110, And §72111 Respectively Of Chapter 72 Of 11GCA And Service Licenses As Authorized In §76101 Of Chapter 76 Of 11GCA.**
- **Bill No. 252 (EC): An Act To Amend The Borrowing Limitations Of GPA In 12 GCA §8122(B).**

Individuals wishing to provide verbal/written testimony, please sign your name on the roster sheet available at the legislative staff table.

GUAM POWER AUTHORITY
POSITION PAPER ON
BILL 252 - TO AMEND BORROWING LIMITATIONS

The short-term borrowing limits for Guam Power Authority under the Tax Exempt Commercial Paper program is currently set at \$30,000,000. Guam Power Authority requests that the legislature expand the current limits from \$30,000,000 to \$40,000,000, based on the increased costs of GPA fuel shipments, and to give GPA additional flexibility to handle its outstanding obligations. The change proposed in Bill 252 will improve the Authority's cash flow, and will enable the payment of GPA's fuel purchases to be tied to the collection of revenues for the sale of fuel.

Before 1995, GPA purchased fuel directly from PEDCO, its fuel supplier, as needed for plant operations. The GPA fuel contract was changed so that GPA was responsible for arranging fuel shipments which required immediate cash payment. The fuel line of credit was initiated to alleviate the need for an up front payment for fuel. The use of the fuel line of credit has provided flexibility to GPA as fuel revenues are collected. While fuel costs are required to be paid up front, there is a lag between when GPA customers are billed and revenues are received from customers which are in turn allocated to pay for prior fuel shipments. With the dramatic increases in fuel prices over the last few years, the existing line of credit is no longer sufficient to cover a single fuel shipment.

Instead, GPA has been forced to dip into working capital reserves to pay for part of the fuel shipments. In addition, because of the pressure on working capital, GPA has dropped below its 30 day fuel reserve levels. The military has recommended that GPA establish 60 day fuel reserve requirements, to be able to sustain operations to be consistent with their contingency

planning. The working capital fund balance should be maintained at \$17,000,000 as recommended by GPA's financial advisors. Due to the pressures on the fund, the fund balance has ranged from \$8,000,000 to \$17,000,000 over the past eighteen (18) months.

The pressures on the working capital fund balance are primarily related to the rising costs of fuel shipments. In the past three (3) years the prices per barrel have gone from approximately \$25 per barrel to over \$50 per barrel, a doubling of prices. While the LEAC has been adjusted to meet some of these fuel price increases, the line of credit is insufficient to cover the entire cost of the fuel shipment. The average price of a fuel shipment was approximately \$7,000,000 to \$9,000,000 for the last three (3) years, only exceeding \$10,000,000 per shipment since July 2005.

Since the recent fuel increases the February 2006 fuel shipment required a total payment in excess of \$19,000,000. With the additional costs and contingency allowances as part of the fuel shipment, a \$20,000,000 line of credit [expanded from the current \$10,000,000 line of credit] would not have been sufficient to cover the total costs of the fuel shipment. Therefore, GPA believes that with the projected fuel increases, that it would be prudent to allow for an additional \$20,000,000 for a line of credit, and to increase the borrowing cap from \$30,000,000 to \$50,000,000, instead of the \$40,000,000 previously requested.

The Guam Power Authority requests that the legislature approve Bill 252, and increase the borrowing limits of GPA from \$30,000,000 to \$50,000,000.

Guam Power Authority

Presentation to Support Bill No.
252

Purpose of Adjustment

GPA supports Bill 252 because it will improve the Authority's cash flow and will enable the payment of GPA's fuel purchases to be tied to the collection of revenues for the sale of the fuel.

Historical View

Prior to 1995, GPA purchased fuel from PEDCO. GPA purchased fuel as it was needed in the plants. In 1995, GPA changed its fuel contract where GPA is responsible for arranging fuel shipments and immediate payment. GPA initiated a fuel letter of credit to alleviate the need for an upfront payment for fuel.

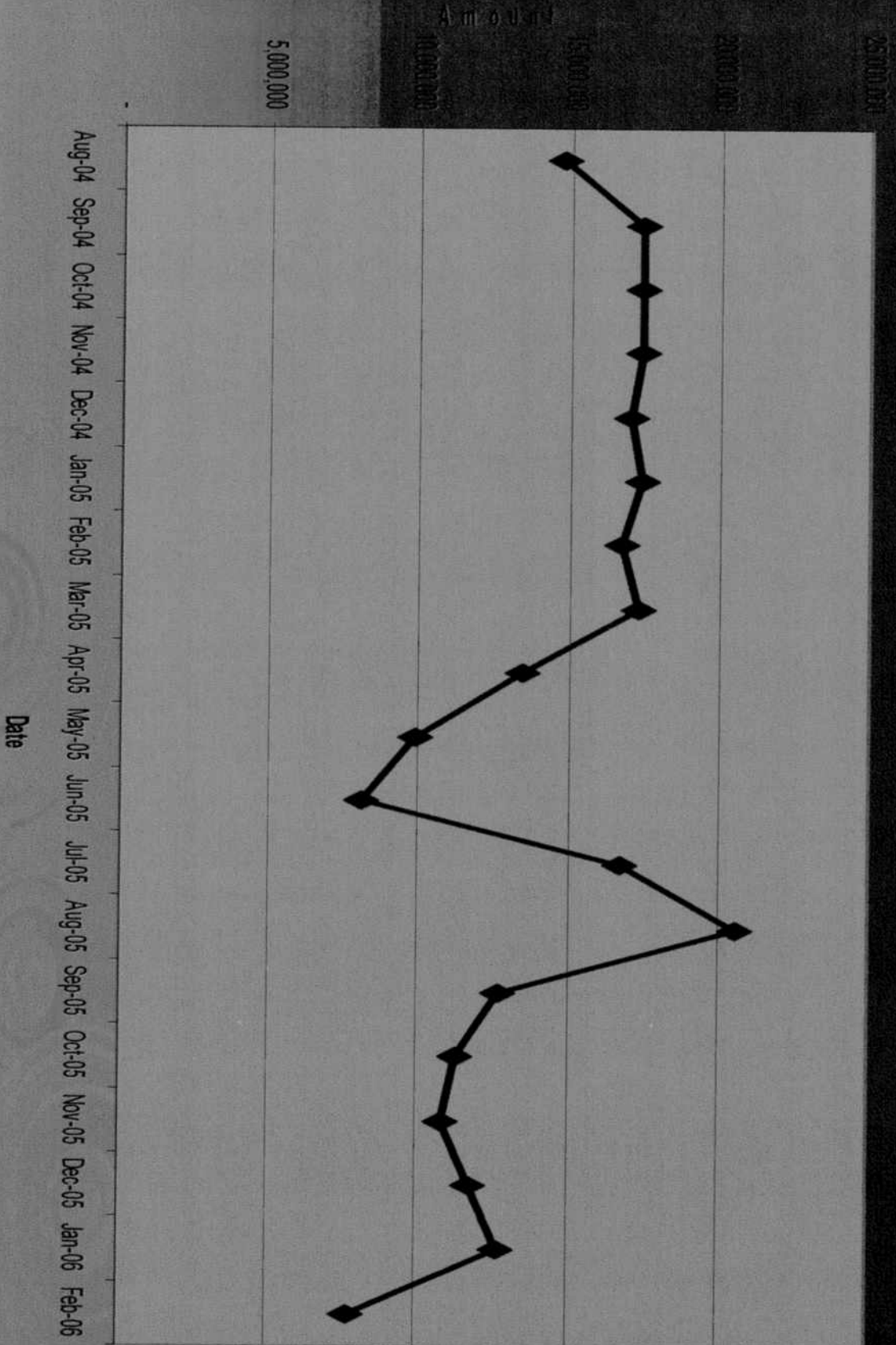
The Problem

The fuel LC has provided flexibility to GPA to pay as fuel revenues are collected. In months where collections have been slow, GPA has been able to put a second fuel shipment on the LC. With the dramatic increases in fuel prices over the last few years, the LC is no longer sufficient to cover a single shipment.

Fuel Reserve Levels

Because of the pressure being placed on GPA working capital, GPA has dropped below its 30 day fuel reserve level three times in the last few months. Additionally, the Air Force has been encouraging GPA to consider a higher fuel reserve level in order to be consistent with its contingency planning. The increase in borrowing capacity will enable GPA to restore its 30 day reserve level.

Working Capital Fund Balance



Cost Comparison

Cost of Increasing LC

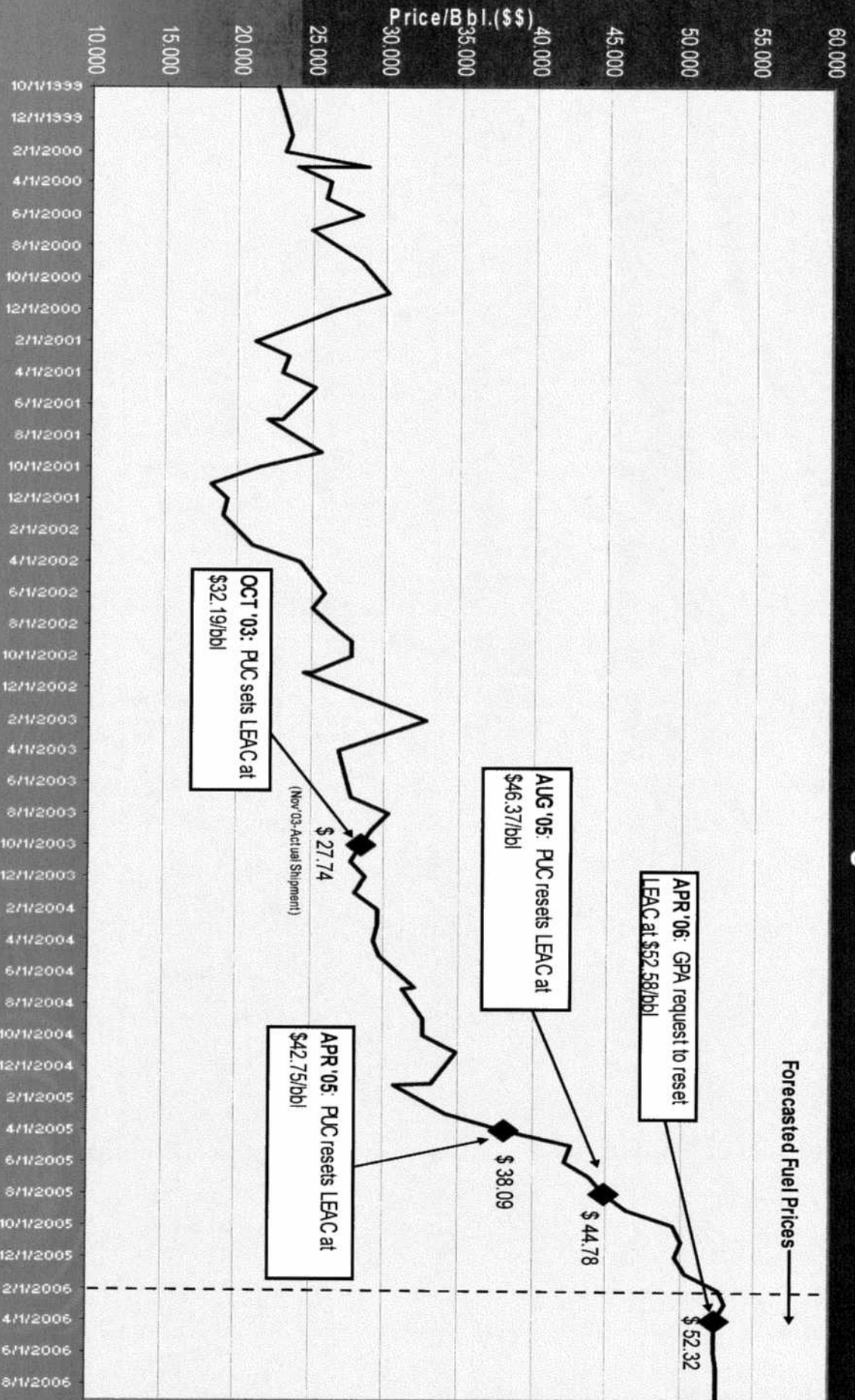
- \$150k per annum

Savings of Increasing LC

- Interest earning by retaining cash - \$195,500 per annum

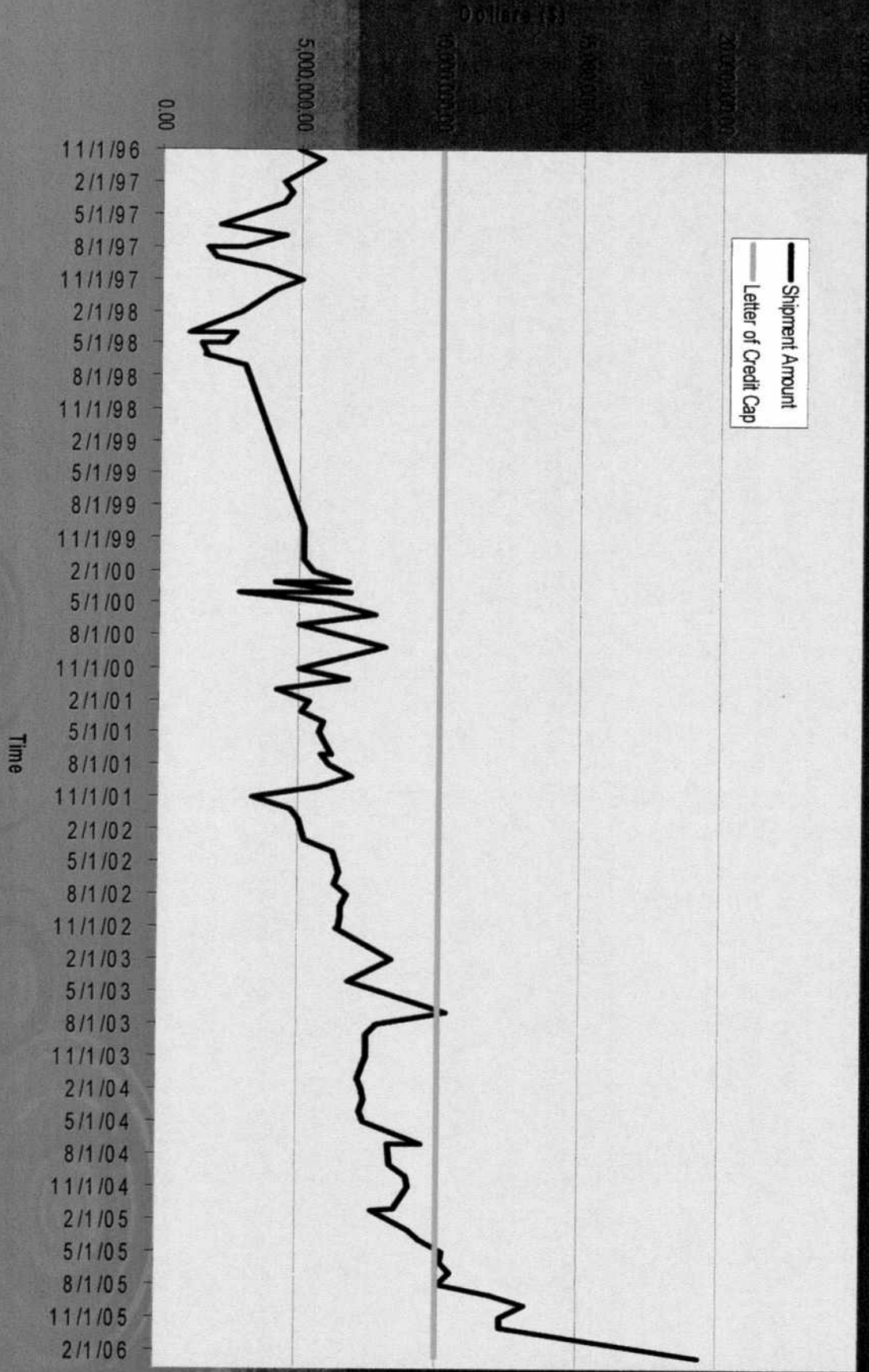
Increasing Letter of Credit would not have any substantial net cost impact. The benefits of improved cash flow outweigh the additional costs.

GPA's Predicament of Rising Fuel Costs



Forecasted Fuel Prices →

Fuel Shipment Increases



History of Increases

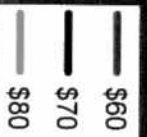
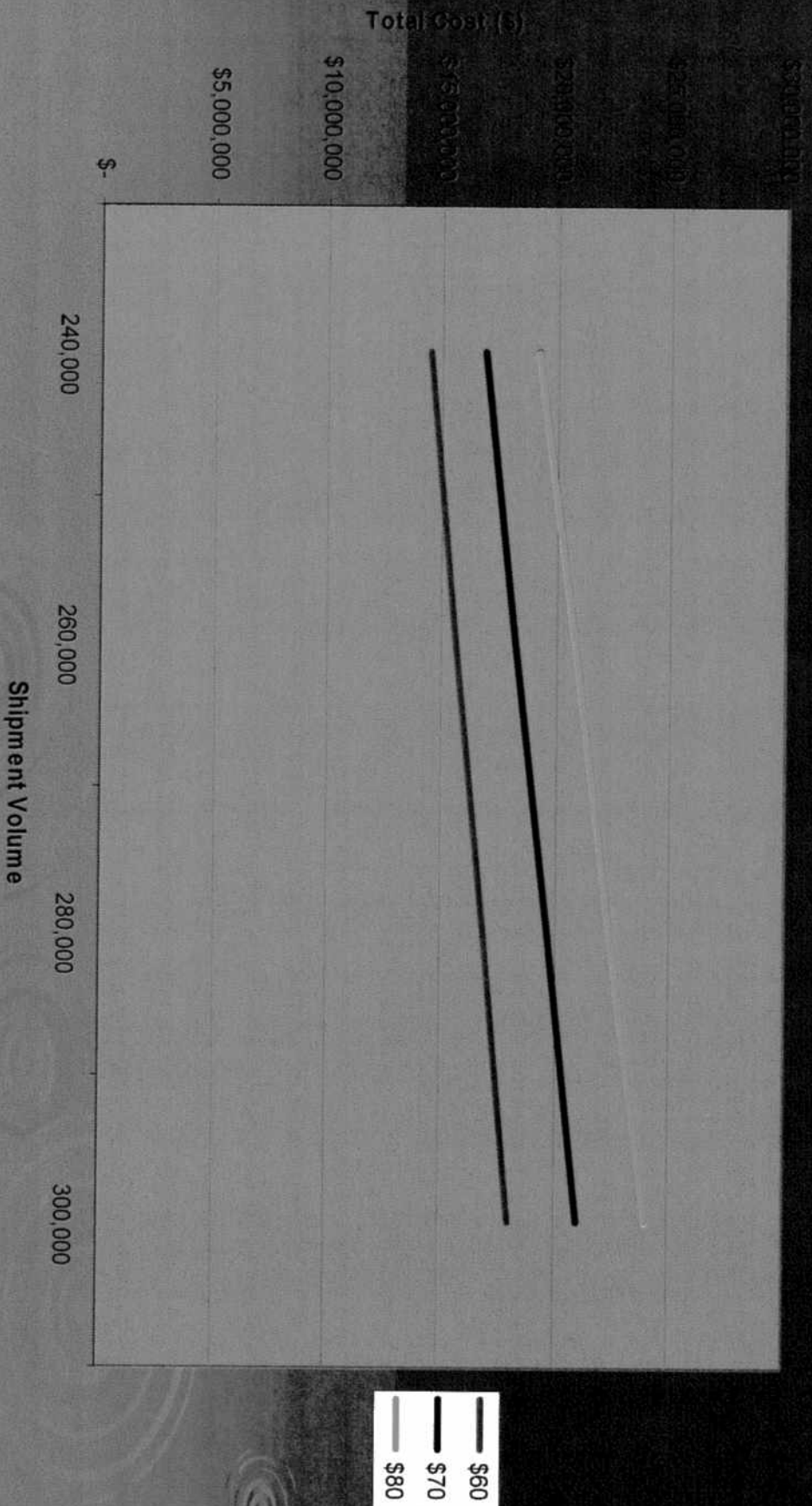
- April 2002 – Fuel Price \$24.21/bbl
- October 2003 - Fuel Price \$29/bbl
- April 2005 – Fuel Price \$39.56/bbl
- August 2005 – Fuel Price \$43.18/bbl
- April 2006 – Fuel Price \$56/bbl

Short Term Borrowing Cap

GPA's ability to borrow for a period of less than one year is capped by law at \$30 million.

Scenarios at Varying Prices

Sensitivity of Price Increases



New Information

- The Fuel shipment GPA received in February required a total payment in excess of \$19 million. Because GPA's fuel contract requires a plus/minus 10% contingency allowance, a \$20 million fuel LC would not have covered GPA's needs. GPA believes the total short term borrowing cap be increased to \$50 million.

Benefits of Good Maintenance Management

Maximizing Baseloads Minimizes
Fuel Costs

Potential Additional Fuel Costs at 80% Baseload Production

