

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF GUAM**

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<b>IN THE MATTER OF:</b>	)	<b>GPA DOCKET 12-02</b>
	)	
<b>THE APPLICATION OF THE GUAM</b>	)	
	)	<b>RESPONSE OF GEORGETOWN</b>
<b>POWER AUTHORITY REQUESTING</b>	)	<b>CONSULTING GROUP, INC. TO</b>
	)	<b>GUAM POWER AUTHORITY'S</b>
<b>APPROVAL OF THE BUYOUT OF</b>	)	<b>PETITION TO APPROVE BUY-</b>
	)	<b>OUT OF FORWARD DELIVERY</b>
<b>THE LEHMAN BROTHERS</b>	)	<b>AGREEMENT WITH LEHMAN</b>
	)	<b>BROTHERS</b>
<b>INVESTMENT CONTRACT</b>	)	
	)	

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**GEORGETOWN CONSULTING GROUP, INC.** ("GCG"), independent rate consultants to the Guam Public Utilities Commission ("PUC") hereby submits the following report.

**BACKGROUND**

The Guam Power Authority ("GPA") has filed with the PUC a petition requesting, on an expedited basis, approval of a proposed buyout of a Bond Reserve Fund Forward Delivery Agreement (the "Lehman Agreement") which GPA entered into with Lehman Brothers Special Financing, Inc. ("Lehman") in September 2000. GPA has a nearly identical agreement with Bank of America ("BofA").<sup>1</sup>

Under the terms of the Lehman Agreement, GPA, in exchange for an upfront net cash payment of \$6,365,500, gave Lehman the right to control and retain the proceeds from the investment of \$13.7 million of the Bond Reserve Fund GPA is required to maintain under its 1999 supplemental bond indenture. Essentially, GPA bargained away the income that could be earned from the investment this \$13.7 million for the life of the 1999 bonds, i.e. until 2034, in exchange for up-front payment of \$6,365,500.

Lehman, which is currently in bankruptcy, has offered GPA the opportunity to buyout the Lehman Agreement and, thereby, regain "control" of \$13.7 million of the

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<sup>1</sup> GCG filed a report on the GPA Bond Reserve Fund Forward Delivery Agreements, dated February 11, 2004, in GPA Docket 94-03. This Report described in detail the circumstances surrounding the entering into of these agreements. A copy of the Lehman Agreement is attached as Exhibit A to the GCG February 11, 2004 Report. The total of the Bond Reserve Fund is about \$27 million.

Bond Reserve Fund in exchange for a one-time payment of \$4.48 million.<sup>2</sup> To fund the buyout GPA proposes to use \$3.1 million of the 2010 bond funds<sup>3</sup> which the PUC had previously earmarked for project cost overruns and funds from GPA self insurance reserve fund.

In its Petition, GPA asserts that the existence of the Lehman Agreement (and the companion BofA Agreement) prevented it in 2010 from being able to refinance certain outstanding bonds on terms that would have provided benefits to GPA and its ratepayers. At the time Lehman was demanding a termination fee of more than \$7 million. GPA further asserts that the buyout of the Lehman Agreement would give GPA the flexibility it needs to consider opportunities it might have to refinance or restructure its current bond obligations on more favorable terms.<sup>4</sup>

GCG was asked to review the GPA Petition and provide a report and recommendations to the PUC on whether the approval requested to buyout the Agreement would be reasonable and prudent.

Given the extending short fuse GPA was given by Lehman to act on its proposal, GCG conducted a very abbreviated investigation. GCG has spoken with GPA CFO Randy Wiegand and submitted written requests for information, to GPA. A copy of GCG's requests and GPA's responses are attached hereto as Attachment A for convenient reference.

#### ANALYSIS

GPA has estimated the "value" to GPA of control of the \$13.7 million of the Bond Reserve Fund to be \$4 to \$4.5 million in present value terms. See March 15, 2012 email and analysis attached thereto sent by Mr. Wiegand attached hereto as Attachment B.<sup>5</sup> GCG believes this to be a fair, and possibly conservative, estimate. See GCG's buyout analysis attached hereto as Attachment C.<sup>6</sup> To value the estimated investment income over the balance of the life of the 1999 bonds at present value, GPA used a discount factor of 7.5%, the interest rate it pays on its taxable debt. GCG used the same discount factor in its analysis, but feels that use a lower discount factor based on the

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<sup>2</sup> The balance of the funds in the Bond Reserve Fund are managed and controlled by BofA under its forward delivery agreement.

<sup>3</sup> The PUC should be made aware that both GPA and GCG have discussed in the current base rate case proceeding recommending to the PUC that the same \$3.1 million be "unrestricted" and therefore available to be included in the computation of unrestricted days cash available to GPA, which is a metric that GPA would like to be used in determining the appropriate base rate relief in the current proceeding (and future rate proceedings).

<sup>4</sup> Currently GCG has requested, but GPA has not provided, what the current cash flow and debt service reduction benefits of such a refinancing would be.

<sup>5</sup> GPA's analysis is based upon a (i) Lehman payment of \$6.5 million and not the current Lehman offer of \$4.48 million and (ii) a principal amount of \$13.5 million instead of \$13.7 million.

<sup>6</sup> GCG's analysis is based upon a (i) Lehman payment of \$4.48 million, (ii) a principal amount of \$13.7 million, and (iii) a slightly improved short-term reinvestment rate reflecting current treasury yields.

interest rate for tax free bonds could be reasonably considered (between 5% and 6%) which would increase the present value of the estimated income.

GPA's estimated value of control of \$4-4.5 million is within the range of the proposed buyout amount of \$4.48 million. GPA asserts that this would thus be for "essentially no cost." Of course, there would also be essentially no benefit, unless one takes into consideration the possible savings that could be achieved by a refinancing of GPA's existing bonds. According to GPA's response to a request as to the savings it estimated could have been achieved if it had been able to complete the refinancing portion of the 2010 bonds,<sup>7</sup> a savings of \$200,000 a year could have been achieved on refinancing approximately \$45 million of 1999 bonds. A Morgan Stanley email (RFI #5) indicates a \$1.2M total present value of savings. Thus, assuming no other costs, there would be a potential benefit, albeit small, at an assumed 7.5% discount factor, and a larger savings if one assumes a 5.5% discount rate.

<b>Analysis of Lehman Reserve Fund Buy-back</b>			
<b>Discount Rate-7.5 %</b>	<b>Base Case</b>	<b>High Case</b>	<b>Low Case</b>
Payment to Lehman - Est	\$(4,480,000)	\$(4,480,000)	\$(4,480,000)
NPV-GPA Analysis	\$ 3,985,461	\$ 4,429,024	\$ 3,541,898
NPV-GCG Analysis	\$ 4,210,791	\$ 4,660,925	\$ 3,760,656
Benefit-(Loss)-GPA	\$ (494,539)	\$ (50,976)	\$ (938,102)
Benefit-(Loss)-GCG	\$ (269,209)	\$ 180,925	\$ (719,344)
<b>Discount Rate-5.5 %</b>	<b>Base Case</b>	<b>High Case</b>	<b>Low Case</b>
Payment to Lehman - Est	\$(4,480,000)	\$(4,480,000)	\$(4,480,000)
NPV-GPA Analysis	\$ 4,950,149	\$ 5,511,269	\$ 4,389,029
NPV-GCG Analysis	\$ 5,197,652	\$ 5,767,084	\$ 4,628,219
Benefit-(Loss)-GPA	\$ 470,149	\$ 1,031,269	\$ (90,971)
Benefit-(Loss)-GCG	\$ 717,652	\$ 1,287,084	\$ 148,219

Even if the Lehman Agreement was bought out, however, there would be substantial additional obstacles to GPA being able to realize the refinancing benefit that GPA sees as the primary benefit of the proposed transaction:

1. GPA would still need to deal with the BofA Agreement to acquire control of the remainder of the Bond Reserve Fund. GPA has provided no assurance that BofA would agree to terminate its agreement or authorize its assignment in connection with a refinancing of the 1999 bonds. What terms or payment BofA would seek to exact are unknown.

2. Any new bond issuance would require Legislative and PUC approval which would require a showing of net benefits to GPA and its ratepayers.

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<sup>7</sup> GPA response to RFI #5.

3. Other factors that would affect future refinancing efforts to secure the potential refinancing benefits discussed by GPA: market interest rates, GPA's bond credit rating, and the need for approval of a "meaningful adjustment" (i.e. increase) to base rates.<sup>8</sup>

4. GPA proposes to utilize \$3.1 million of existing bond funds to fund a portion of the buyout. These funds have been identified as a potential source of unrestricted cash (if approval is granted by the PUC to "unrestrict" these funds) to meet GPA's desired target for the days of unrestricted cash, which target is a major metric in the current base rate proceeding. Use of these funds instead to buyout Lehman would put additional upward pressure on future year revenue requirements by requiring these cash balances to be made up. With regard to replenishing these funds GPA states as follows: GPA's intention would be to issue subordinate taxable bonds in order to repay funds taken from a restricted account. If GPA is not able to complete a bond transaction, GPA would make best efforts to replenish the funds as funds collected from base rate revenues as such revenues become available.<sup>9</sup> If replenishment of these funds in the current or future rate cases is considered as a cost of the proposed buyout, and GCG believes that there is a good case that it should be considered such a cost, then the overall cost of the proposed transaction could become uneconomic. In other words, if we assume that the \$3.1 million of currently available cash (from bonds) is used as proposed to fund a portion of the Lehman buyout on the basis that it would produce a small benefit for ratepayers, then an additional \$3.1 million of cash would need to be provided in current rates to achieve the same number of days of unrestricted cash as was previously expected to be achieved before this transaction.

5. GPA also proposes to dip into its self insurance reserve fund for the remaining \$1.38 million needed to buyout Lehman. It would appear that replenishment from this restricted fund would also be covered by the response to RFI #13 and be an added cost to this transaction with a similar consequence as described above. We also remind the PUC that when additional debt is issued the requisite debt service coverage standard as provided for by the PUC must also be provided.

6. GPA's current Working Capital Fund balance has been alarmingly depleted. In response to RFI #12, GPA reported that the current balance was only \$18.6 million. In very recent discussions in the pending base rate case, the balance was said to be over \$28 million. GCG does not know what caused this substantial decrease, but assumes it must have involved payment for a shipment of oil.<sup>10</sup>

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<sup>8</sup> In its response to RFI #8, GPA states: Future refinancing activities are uncertain, and dependent on several factors outside of GPA's control. These factors include market interest rates, termination of the Lehman Brothers Investment Contract, Bank of America's approval, GPA's credit rating, the ability of GPA to obtain a meaningful adjustment to base rates, and other required approvals. GPA's request for approval to terminate the contract is being made because GPA desires to have maximum flexibility to issue bonds if and when it makes sense from an interest rate perspective and utility operations perspective.

<sup>9</sup> GPA response to RFI #13.

<sup>10</sup> GPA did indicate that there would be a drawdown of approximately \$3.6 million to make a fuel payment.

## CONCLUSION

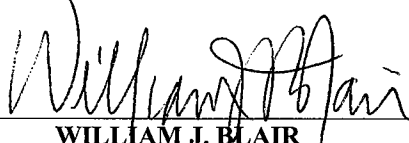
Given GPA's emphasis on its need for liquidity and adequate working capital as the basis of the appropriate determination of rates in the current base rate case pending before the PUC, one must question the prudence of using \$4.48 million of available funds to buy back control of 50% of the Bond Reserve Fund when the benefit is both minimal and speculative, and the realization of the benefit is subject to other substantial costs (such as the probable need to pay BofA a similar amount) and other obstacles. GCG reaches the conclusion that when all of the costs associated with the transaction are properly included in the analysis the proposed transaction is either of marginal benefit or uneconomic. The present value of the benefits of the estimated investment income (\$4 million to \$4.5 million) and the refinancing benefits (50% of \$1.2 million), if accomplished, do not overcome the cost of \$4.48 million for the buyout, the foreseeable impact of the higher rates that will be needed to replenish the \$4.48 million of cash and the potential additional costs for the refinancing for advisory fees, engineering studies and underwriting costs. A similar amount of cash will be required for the BofA portion of the transaction.

GPA should be provided the opportunity to respond to this analysis.<sup>11</sup>

DATED this 21st day of March, 2012.

**GEORGETOWN CONSULTING GROUP, INC.**

BY: **BLAIR STERLING JOHNSON & MARTINEZ**  
A PROFESSIONAL CORPORATION

BY:   
**WILLIAM J. BLAIR**  
*Attorneys for Georgetown Consulting Group, Inc.*

## ATTACHMENTS: "A" AND "B"

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G:\GCG\PLD\178-GCG'S RESPONSE TO GPA'S PETITION TO APPROVE  
BUY-OUT RE GPA DOCKET 12-02.DOC

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<sup>11</sup> In its responses to GCG's RFIs, GPA did not provide data on the quantification of various benefits associated with this transaction. See responses to RFI #s: 16(c), 16 (e) and 17 (c).

# ATTACHMENT

A

RE: EMERGENCY PETITION FOR AUTHORIZATION TO TERMINATE THE  
GUAM POWER AUTHORITY INVESTMENT AGREEMENT WITH LEHMAN BROTHERS

GPA'S RESPONSE TO GCG REQUEST FOR INFORMATION

MARCH 14, 2012

1. Provide a copy of the February 28, 2011 (sic) correspondence describing the one time limited offer extended by Lehman Brothers to GPA to terminate the investment contract for a cost of \$4.48 million.

GPA Response: The offer from Lehman Brothers was made verbally via teleconference to GPA.

2. Has Lehman Brothers provided a good faith determination of the Termination Amount, as contemplated in the February 28, 2000 Bond Reserve Forward Delivery Agreement? If not, how has Lehman Brothers attempted to justify the \$4.48 million Termination Amount it has offered to GPA? Provide any relevant correspondence.

GPA Response: The amount of \$7.73 million was provided as their calculation of the baseline termination value for terminating the contract during the telephone call. GPA does not know all that is going on with Lehman Brothers bankruptcy proceedings, the person whom contacted GPA represented to GPA that he was speaking on behalf of the Creditors Committee. It appears this Creditor's Committee is motivated to liquidate as much of Lehman's holdings as possible to provide some immediate payments to Lehman's creditors and therefore is willing to accept \$4.48 million.

3. Please describe and, if possible, provide a copy of the investment agreement of the Government of Guam to which GPA refers in its letter to PUC Counsel Horecky. Also, describe its relevance to the current GPA request and petition.

GPA Response: We do not have a copy of the government's contract. The verbal offer was made as an all or nothing proposal meaning that GPA and the Government would both have to agree to the terminations in order for them to be accepted by Lehman Brothers. Based on our discussions with the Guam Economic Development Authority, the government intends to terminate their agreement as well. Therefore, we do not believe there is any further relevance to the current GPA request and petition.

4. Provide a copy of GPA bond counsel's advice that it was not likely that GPA would be able to secure a more beneficial agreement through other means.

GPA Response: Please refer to PDF Exhibit RFI#4 referencing Lehman's offer Re: Discounting the FDA termination values.

5. What were the savings that GPA has estimated it would have achieved if it had been able to complete the refinancing portion of the 2010 bond transaction?

GPA Response: GPA contacted Morgan Stanley to determine the exact annual debt service savings available from the 2010 Bond issuance. The numbers moved around leading up to the bond issuance as a result of interest rate fluctuations. Please see email from Morgan Stanley shown on PDF: Exhibit RFI#5.

6. Provide the computation and assumptions used for GPA's estimate that control of the fund for the next 22 years would result in a value to GPA of between \$4 million and \$4.5 million. If this is not a present value amount, what would GPA consider to be the present value of this amount? Provide this calculation and assumptions.

GPA Response: The response to this request was forwarded to GCG via email from Mr. Randall V. Wiegand, CFO dated: 15 March 2012 at 1:43P.M.

7. Please explain why GPA believes that the contract is "onerous" and describe the basis on which GPA concludes that the buyout of the Lehman Brothers Investment Contract is necessary, reasonable and prudent from the perspective of GPA ratepayers at this time.

GPA Response: The requirements of this contract have limited GPA's ability to consider bond re-financings of any type. It is in the interests of GPA ratepayers that GPA has as much flexibility as possible when it comes to bond re-financings. The most problematic contract provisions are follows:

- Lehman Brothers must approve changes in GPA's debt obligations if GPA debt is no longer considered investment grade. In (insert date) GPA, debt was downgraded by Moody's to below investment grade.
- Lehman Brothers is in bankruptcy, and no longer has direct authority to approve changes in GPA bond obligations (i.e., without Bankruptcy Court approval).
- The Judge for the Lehman Brothers Bankruptcy must approve all changes in GPA's debt obligations. Rulings of this type by the Judge are necessarily uncertain and not always timely.

As a result of these facts, Lehman did not approve GPA's bid to refinance in 2010 at an opportunity cost to GPA ratepayers of \$200,000 per year. GPA was told that it would take approximately 12 weeks to get an answer from the bankruptcy Judge on such a request. Thus, GPA decided to move on with the bond issuance without the refunding portion. The presence of this contract has limited GPA's ability to consider bond re-financings of any type.

8. Please explain in detail the opportunities to refinance or restructure GPA's current bond obligations to reduce the impact of future rate increases. In addition to removing the Lehman Brothers and Bank of America contracts, please describe and explain any other obstacles or hurdles currently preventing GPA from being able to consider these opportunities?



GPA Response: Future refinancing activities are uncertain, and dependent on several factors outside of GPA's control. These factors include market interest rates, termination of the Lehman Brothers Investment Contract, Bank of America's approval, GPA's credit rating, the ability of GPA to obtain a meaningful adjustment to base rates, and other required approvals. GPA's request for approval to terminate the contract is being made because GPA desires to have maximum flexibility to issue bonds if and when it makes sense from an interest rate perspective and utility operations perspective.

GPA cannot issue bonds until both bond forward contracts are addressed. GPA requires authorization from the Guam Legislature, the Public Utilities Commission, and the Consolidated Commission on Utilities in order to issue debt. GPA needs to have an engineering consulting report completed before an official statement can be marketed. GPA also needs to meet with rating agencies for the purpose of obtaining an updated rating and to ensure that any action proposed by GPA would not diminish our long term ability to access capital markets.

9. If the Lehman Brothers contract was bought out, how would GPA propose to control the investment of the funds in the Bond Reserve Fund in order to comply with the requirements of its bond indenture? Would GPA, for example, need to retain a new investment adviser? If so, what are the estimated costs that would be involved in retaining a new investment adviser? What would be the steps that would need to be taken and what would be the timeline? Would GEDA need to be involved?

GPA Response: GPA would most likely place the funds in a new Guaranteed Investment Contract. We would need to retain someone to assist in conducting the transaction. The last time that GPA issued Guaranteed Investment Contracts a fee of \$35,000 was paid by the winning bidder. The amount was built into the interest rate formula. GPA believes this could be completed in two to three months. GPA believes the Guam Economic Development Authority would need to be involved.

10. Assuming the Lehman Brothers contract was bought out, as GPA has proposed, what assurances does GPA have that it would also be able to buy out or modify the identical Bank of America contract? Has GPA estimated what it would cost to buy out or modify the Bank of America contract? If so, what is that estimate, and describe GPA's assumptions and bases for them.

GPA Response: We have no assurances that Bank of America would cooperate with GPA. When we contacted Bank of America in 2010 to discuss the issue, they indicated that they wanted to see what happened with our discussions with Lehman Brothers. We believe they will be much easier to work with than Lehman Brothers since there is not a bankruptcy Judge involved with Bank of America. GPA approached Bank of America regarding this matter last fall; however, it did not respond to our inquiry.

11. If GPA was not able to amend or terminate the Bank of America contract on reasonable terms, how would the obstacles to refinancing the 1999 bonds be overcome?

GPA Response: GPA would not be able to perform a bond refinancing; if GPA was not able to amend or terminate the Bank of America contract on terms that would be beneficial to GPA ratepayers.

12. Please provide the current balance in the Working Capital Fund?

GPA Response: The current balance of the Working Capital Fund is \$18,629,637.81. GPA has concluded, however, that paying for the termination of an investment agreement is not an allowable use of funds from the Working Capital Fund.

13. In connection with GPA's pledge to the PUC to make best efforts to restore, consistent with its bond covenants, any amounts used from the Self Insurance Fund and the funds reserved for bond project cost overruns to provide funding for the Lehman Brother termination fee, please explain the efforts that GPA would intend to undertake to meet this pledge.

GPA Response: GPA's intention would be to issue subordinate taxable bonds in order to repay funds taken from a restricted account. If GPA is not able to complete a bond transaction, GPA would make best efforts to replenish the funds as funds collected from base rate revenues as such revenues become available.

14. Does GPA believe that this issue has any impact on the end result of the current rate proceeding and if so why this was not brought up in the context of the rate proceeding and the multitude of meetings held during the period March 1-March 7?

GPA Response: Yes, but only to the extent that GPA's is able to achieve meaningful rate relief in the current rate proceeding. The base rate adjustment will heavily influence our creditor's decisions when weighing GPA's current and future debt obligations. GCG historically has protested when GPA brings up new information into a rate proceeding. GPA fixed its data in June 2011 when it filed its Ratepayer's Bill of Rights Notice. The only new information we have raised as a background issue has been the nearly \$7 million shortfall in the sales forecast. This offer was made on a conference call on February 28. GPA was evaluating the matter up until the time of its filing. GPA does not believe this issue has any impact on the current rate proceeding because of the speculative nature of any future bond financings. It is important to note, however, that the basis of the current rate proceeding has been to ensure GPA has a strong credit profile to ensure it has access to capital markets to address issues such as this. This is another example of why GPA is seeking to obtain and maintain a strong credit profile.

15. Are we correct in our understanding that even if GPA currently had in place at least a BBB- credit rating from Moody's, Lehman Brothers would still need, under Section 3.2(c) of its agreement, to approve the assignment of the Lehman Brothers contract to the trustee or fiscal agent for any new bonds that would refund the 1999 GPA bonds? If we are not correct, explain why we are not correct.

GPA Response: It is correct that approval of Lehman Brothers would be required; however, the approval process would be ministerial because Lehman Brothers cannot unreasonably withhold such approval once GPA has an investment grade rating.

16. Provide the details and computations, in Excel format, of the scenario described in the General Manager's memo to the CCU for a restructuring and refinancing to the ratepayers' benefit:

- a. Control of \$13.7 million of the Bond Reserve Fund currently controlled by Lehman Brothers.

GPA Response: The Bond Reserve Fund which is the subject of the \$13.7 million in funds held by Lehman Brothers is a restricted fund, but GPA controls the investment of the funds.

- b. Determination of the value of investing these funds over 22 years at \$4 million to \$4.5 million.

GPA Response: This was provided in an earlier email from Mr. Randall V. Wiegand- Dated: March 15, 2012 at 1:43 P.M.

- c. Restructuring that allows GPA to move \$5 million in cash flow requirements. Please describe in detail.

GPA Response: GPA does not have detailed computations for this.

- d. \$500,000 in interest savings. Please describe in detail.

GPA Response: Please refer to the response shown on RFI#5 and correlating exhibit.

- e. Detailed spreadsheet (Excel) showing ratepayer savings.

GPA Response: GPA does not have detailed computations for this.

17. Provide a time line for GPA to accomplish the scenario that it lays out in the petition to accomplish the refinancing and restructuring.

GPA Response: If GPA can complete the termination of the Lehman agreement, it would revisit discussions with Bank of America. GPA would direct its engineering consultant to complete an engineering consultant report for the Authority. GPA would need to submit legislation to the Guam Legislature. GPA would submit a petition to the PUC for approval of a bond issuance. GPA would bring a request before the Consolidated Commission on Utilities to begin the process of a bond issuance. GPA would schedule meetings with rating agencies to discuss a potential financing and to get an updated credit rating. GPA believes it would take 90-120 days to secure the necessary approvals. Any bond financing would be dependent on a number of factors that cannot be quantified at this time, including interest rates at the time the necessary approvals were secured and GPA's then-current and forecasted financial position.

- a. Does GPA see a more favorable interest rate environment than the current time?

GPA Response: There was a period in the last couple of months where rates were near all time lows. It is our understanding there has been a recovery of interest rates in the last few weeks. We believe we are still in a low interest rate environment but are concerned that rates have been moving forward.

- b. Will GPA wait to get an investment grade rating from Moody's? If so, please explain why.

GPA Response: GPA would need to meet with rating agencies prior to any bond issuance. GPA is concerned on the impact a rating downgrade would have on a potential bond issuance. When GPA approached the rating agencies in 2010, GPA has a very rosy forecast driven by the military buildup. Now the military buildup appears to be in question. GPA's sales have declined in each of the last two years. And the issue of distribution generation on Guam came to the forefront following GPA's meetings with rating agencies. Thus, GPA is expecting the rating agency meetings to pose a challenge for the Authority.

- c. What is GPA's current estimate of the differential between interest rates with and without an investment grade rating? Provide backup for the response.

GPA Response: We have requested this from Morgan Stanley and will provide as soon as it is available.

- d. How would GPA "test the waters to see if there is a favorable market" for a GPA bond offering.

GPA Response: GPA would bring an issue to the market and see if there are buyers willing to purchase bonds at interest rates that would be beneficial for GPA's ratepayers.

18. If GPA receives the approval that it seeks to use the PUC restricted \$3.1 million and remaining requirement from the self insurance fund, will the revenue requirement for the rate case change in GPA's position with the use of the \$3.1 million?

GPA Response: GPA believes this is an issue that arose after the facts of the rate case were established.

19. Please provide a copy of Exhibit A containing CCU Resolution No. 2012-14 as well as referenced exhibits.

GPA Response: The Exhibit "A" is mentioned in Mr. J.C. Flores, P.E. General Manager's correspondence to CCU Commissioners – Subject: Termination of Bond Forward Agreement, dated: March 05, 2012. Please refer to PDF: RFI#19\_Exhibit A. Also included is CCU Resolution 2012-14 – Please refer to PDF: RFI#19\_Exhibit B.

**Randall V Wiegand**

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**From:** Dirks, Stanley J. [sdirks@orrick.com]  
**Sent:** Tuesday, March 06, 2012 7:32 AM  
**To:** Randall V Wiegand; cgarcia@investguam.com; Bernadette Artero  
**Cc:** Joaquin C Flores  
**Subject:** RE: Lehman's offer re discounting the FDA termination values

You may say that Orrick shares that view. We were surprised at the level of discount. Please note that there is much, however, that we do not know concerning Lehman's and the creditor's position with respect to this. Note also that it is not Lehman making the decision, but the committee of Lehman's creditors in the bankruptcy.

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**From:** Randall V Wiegand [mailto:rwiegand@gpagwa.com]  
**Sent:** Monday, March 05, 2012 1:25 PM  
**To:** Dirks, Stanley J.; cgarcia@investguam.com; Bernadette Artero  
**Cc:** Joaquin C Flores  
**Subject:** RE: Lehman's offer re discounting the FDA termination values

Stan,

I was just about to email you on this. We are finalizing a request to the CCU and we will then take the issue to the PUC. I'm hoping that we can show enough progress to get that additional week that was included in the discussion. We might even need a little more time. Georgetown has been here for the last 10 days so we have been tied up in rate negotiations making it very difficult to get anything else done. We were in negotiations Saturday and Sunday as well so this really came at a bad time for us. Nonetheless, I'm pushing hard to get this done. It is just too big of an opportunity for GPA.

One issue has come up. A couple of people have raised the issue that we should bargain harder for a deeper discount and that Lehman is coming to us from a position of weakness. It is my read that would not be a good play. I think we got a better deal than we ever thought we would get and it is doubtful we could do any better. However, it would be of value if I could say that Orrick shares that view.

Tina - should we be sending Simon down to meet with Eddie, Ray, or Frank? He offered to do that if we need him.

Thanks,

Randy

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**From:** Dirks, Stanley J. [mailto:sdirks@orrick.com]  
**Sent:** Tue 3/6/2012 4:09 AM  
**To:** cgarcia@investguam.com; Bernadette Artero; Randall V Wiegand  
**Subject:** Lehman's offer re discounting the FDA termination values

Any further news on this front? Will GPA and the Government be interested in terminating the forward delivery agreements and taking advantage of the proposed discounted termination amounts? The two week deadline is soon to pass.

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IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication, unless expressly stated otherwise, was not intended or

3/15/2012

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**From:** Wynne, Tom [mailto:Tom.Wynne@morganstanley.com]  
**Sent:** Fri 3/16/2012 3:15 AM  
**To:** Randall V Wiegand; Dawley, Gregory  
**Subject:** RE: Question

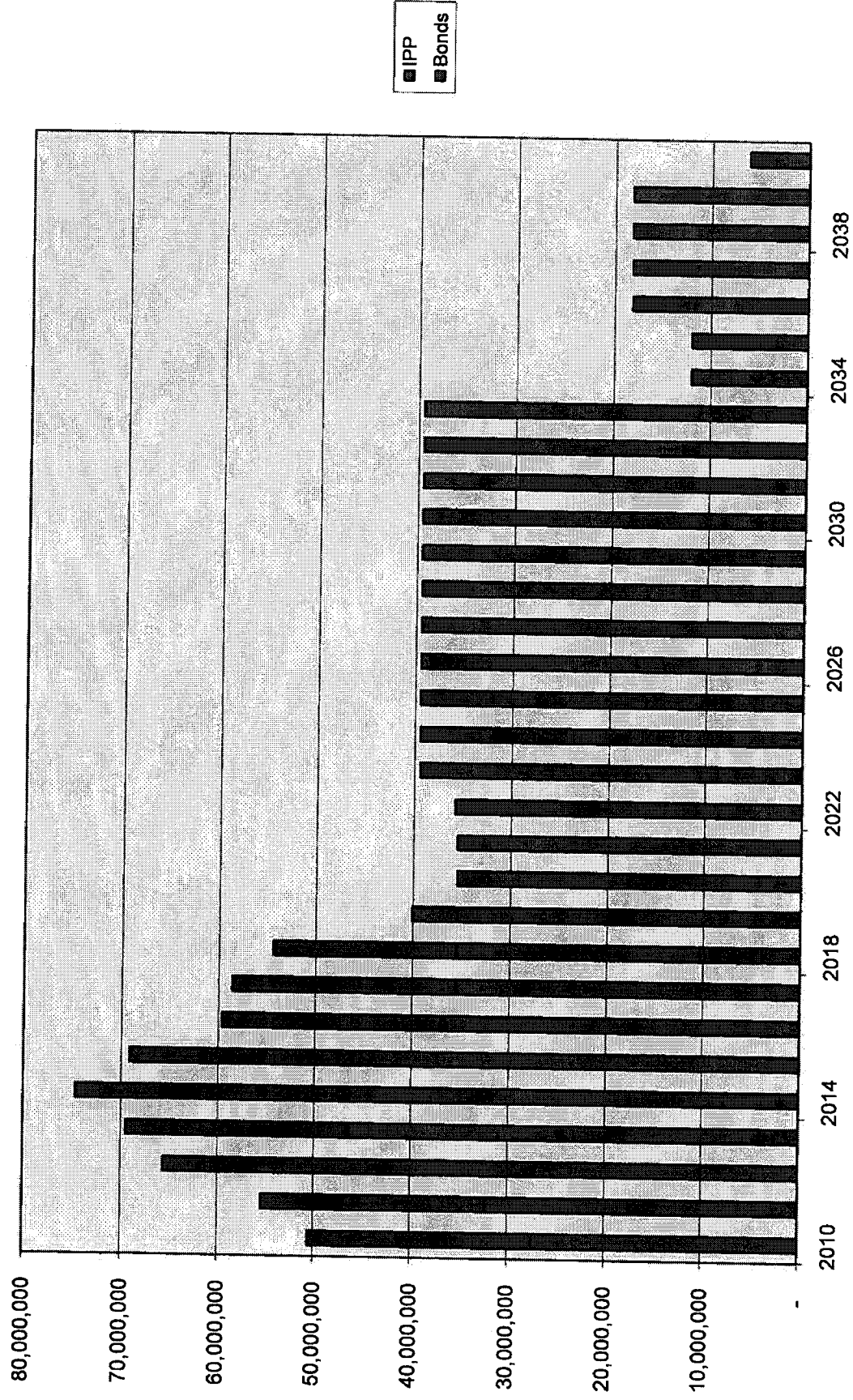
Hi Randy,

In looking at a set of numbers from June 2, 2010, it looks like we estimated GPA could have saved approximately \$1.2 million (about \$200,000 annually) by refunding approximately \$45 million of bonds. This assumed Lehman and BofA consented (i.e., no termination payments).

I hope this is helpful. I am still working on the scale.

Thanks,  
Tom

## GPA Debt Service Forecast - Current State





**CONSOLIDATED COMMISSION ON UTILITIES****RESOLUTION TO AUTHORIZE THE GUAM POWER AUTHORITY TO PETITION  
THE PUBLIC UTILITIES COMMISSION TO ACCESS RESTRICTED FUNDS AND TO  
TERMINATE AN INVESTMENT AGREEMENT WITH LEHMAN BROTHERS****RESOLUTION NO.: 2012 - 14**

**WHEREAS**, the Consolidated Commission on Utilities is governing board of the Guam Power Authority; and

**WHEREAS**, the Guam Power Authority (GPA) entered into Guaranteed Investment Contracts (GIC) with Bank of America and Lehman Brothers in September, 2000 wherein the right to invest GPA's Bond Reserve Fund was given to the investment firms in return for upfront payments of interest earnings; and

**WHEREAS**, the agreements contain provisions that preclude GPA from refinancing any of its 1999 Bonds unless GPA has investment grade credit ratings from Standard and Poor's Rating Agency and Moody's Investors Service; and

**WHEREAS**, GPA currently holds investment grade ratings from Standard & Poor's and Fitch Ratings Service, but continues to carry a non-investment grade rating with Moody's; and

**WHEREAS**, GPA was unable to complete a bond refinancing plan in 2010 as a result of this preclusion and believes there may be further opportunities to achieve cost savings and cash flow savings in the future through a bond restructuring/ refinancing plan; and

**WHEREAS**, GPA believes the requirements for future rate increases could be reduced if a bond restructuring/refinancing plan could be achieved and therefore, it is in the best interests of

1 GPA's ratepayers to extricate itself from the Lehman Brothers Contract; and

2  
3 **WHEREAS**, the investment agreements contain buyout provisions that would require a  
4 minimum payment from the Authority of nearly \$8 million; and

5  
6 **WHEREAS**, GPA received a limited time offer from Lehman Brothers during a February  
7 28, 2012 conference call wherein they offered GPA a two week window with which to terminate  
8 the contract at a deep discount – an upfront payment of approximately \$4.48 million.

9  
10 **WHEREAS**, GPA has discussed the offer with its bond counsel and believes it is likely  
11 the best offer that could be obtained; and

12  
13 **WHEREAS**, GPA's current cash position is not adequate to allow for the payment of this  
14 amount and GPA seeks to access restricted funds in order to accomplish this termination; and

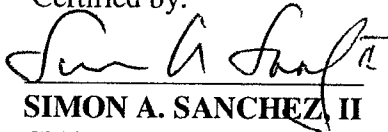
15  
16 **WHEREAS**, GPA now seeks authorization to terminate the contract and petition the  
17 Public Utilities Commission for the same via poll vote to be ratified by the Commission at a later  
18 meeting.

19  
20 **NOW, THEREFORE, BE IT RESOLVED**, the following policy is adopted by the  
21 Commission:

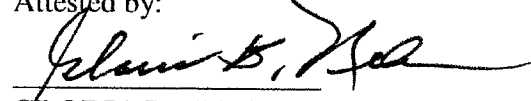
- 22
- 23 1. The GPA General Manager is authorized to take whatever steps are necessary to  
24 terminate its investment agreement with Lehman Brothers at an approximate cost of  
25 \$4.48 million; and
  - 26 2. The GPA General Manager is authorized to petition the Public Utilities Commission for  
27 authorization to terminate the investment agreement; and
  - 28 3. The GPA General Manager is authorized to petition the Public Utilities Commission for  
29 authorization to access \$3.1 million in restricted funds and/or GPA's Self Insurance Fund  
30 as needed to complete this termination. Any such drawdown will be re-paid and  
31 replenished through taxable bond proceeds if and when GPA is able to execute a

1 restructuring/ refinancing bond issuance. If GPA is not able to execute a bond issuance  
2 within the next 18 months, GPA will reimburse the funds from its Surplus Fund. GPA is  
3 encouraged to replenish any funds drawn from restricted funds as soon as cash is  
4 available.

5  
6  
7  
8  
9  
10 Certified by:

11   
12  
13 **SIMON A. SANCHEZ II**  
14 Chairperson

15 Attested by:

16   
17 **GLORIA B. NELSON**  
18 CCU Board Secretary

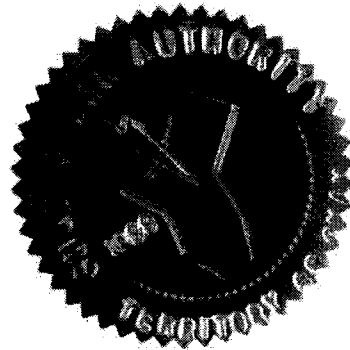
19  
20 I, Gloria B. Nelson, Board Secretary for the Consolidated Commission on Utilities, as  
21 evidenced by my signature above do hereby certify as follows:

22 The foregoing is a full, true and accurate copy of the resolution duly adopted at a regular  
23 meeting of the members of the Guam Consolidated Commission on Utilities, duly and  
24 legally held at a place properly noticed and advertised on March 13, 2012 at which  
25 meeting a quorum was present and the members who were present voted as follows:

26 AYES: \_\_\_\_\_ 5 \_\_\_\_\_

27 NAYS: \_\_\_\_\_ 0 \_\_\_\_\_

28 ABSTENTIONS: \_\_\_\_\_ 0 \_\_\_\_\_  
29  
30  
31



ATTACHMENT

B

**William J. Blair**

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**From:** Randall V Wiegand [rwiegand@gpagwa.com]  
**Sent:** Thursday, March 15, 2012 1:44 PM  
**To:** jammadan@gmail.com  
**Cc:** Larry Gawlik; William J. Blair; Cora R Montellano  
**Subject:** Lehman Interest Analysis

Jim,

Here is a spreadsheet we did to come up with an estimate of the value of having the \$13.4 million on hand to invest. We asked Morgan Stanley to do some analysis also. They didn't give us their detailed analysis but they told us their estimate is between 4 and 4.5 million. Thus, we are fairly confident that is a safe range.

Randy

**RANDALL V. WIEGAND**  
**CHIEF FINANCIAL OFFICER**  
**GUAM POWER AUTHORITY**  
**(671) 648-3066**

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3/21/2012

## Guam Power Authority

### Lehman Brother Investment Contract Buyout Analysis

#### Sensitivity Analysis

Assumptions: We recently completed a Guaranteed Investment Contract procurement to improve the investment return from GPA's Construction Fund. The interest rate for the contract was approximately .8% for a 30 month term. Therefore, for this analysis, I assumed that the interest rate would be .8% for the first sixty months of the term and 4% after interest rates have normalized. These assumptions were intended to be conservative in nature.

	Base Case	High Case	Low Case
Interest Rate - First 5 Years	0.80%	0.80%	0.80%
Interest Rate - Thereafter	4.00%	4.50%	3.50%
NPV	<b>\$ 3,985,461</b>	<b>\$ 4,429,024</b>	<b>\$ 3,541,898</b>
Payment to Lehman - Est	\$ (6,500,000)	\$ (6,500,000)	\$ (6,500,000)
Net Loss	<b>\$ (2,514,539)</b>	<b>\$ (2,070,976)</b>	<b>\$ (2,958,102)</b>

**Guam Power Authority**

## NPV Analysis for Breaking Lehman Contract

[illegible][illegible][illegible]

Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22
\$ 540,000	\$ 540,000	\$ 540,000	\$ 540,000	\$ 540,000	\$ 540,000	\$ 540,000	\$ 540,000	\$ 540,000
\$ 196,189	\$ 182,502	\$ 169,769	\$ 157,925	\$ 146,907	\$ 136,657	\$ 127,123	\$ 118,254	\$ 110,004

Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22
\$ 607,500	\$ 607,500	\$ 607,500	\$ 607,500	\$ 607,500	\$ 607,500	\$ 607,500	\$ 607,500	\$ 607,500
\$ 220,713	\$ 205,314	\$ 190,990	\$ 177,665	\$ 165,270	\$ 153,739	\$ 143,013	\$ 133,036	\$ 123,754

Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22
\$ 472,500	\$ 472,500	\$ 472,500	\$ 472,500	\$ 472,500	\$ 472,500	\$ 472,500	\$ 472,500	\$ 472,500
\$ 171,666	\$ 159,689	\$ 148,548	\$ 138,184	\$ 128,543	\$ 119,575	\$ 111,233	\$ 103,472	\$ 96,253



ATTACHMENT

C

## NPV Analysis for Breaking Lehman Contract

[illegible][illegible]

Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22
\$ 548,000	\$ 548,000	\$ 548,000	\$ 548,000	\$ 548,000	\$ 548,000	\$ 548,000	\$ 548,000
\$ 185,205	\$ 172,284	\$ 160,264	\$ 149,083	\$ 138,682	\$ 129,006	\$ 120,006	\$ 111,633
\$ 245,467	\$ 232,670	\$ 220,541	\$ 209,043	\$ 198,145	\$ 187,815	\$ 178,024	\$ 168,743

Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22
\$ 616,500	\$ 616,500	\$ 616,500	\$ 616,500	\$ 616,500	\$ 616,500	\$ 616,500	\$ 616,500
\$ 208,356	\$ 193,820	\$ 180,297	\$ 167,718	\$ 156,017	\$ 145,132	\$ 135,007	\$ 125,588
\$ 276,151	\$ 261,754	\$ 248,108	\$ 235,174	\$ 222,913	\$ 211,292	\$ 200,277	\$ 189,836

Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22
\$ 479,500	\$ 479,500	\$ 479,500	\$ 479,500	\$ 479,500	\$ 479,500	\$ 479,500	\$ 479,500
\$ 162,055	\$ 150,749	\$ 140,231	\$ 130,448	\$ 121,347	\$ 112,881	\$ 105,005	\$ 97,679
\$ 214,784	\$ 203,587	\$ 192,973	\$ 182,913	\$ 173,377	\$ 164,339	\$ 155,771	\$ 147,650

## U.S. DEPARTMENT OF THE TREASURY

### Select type of Interest Rate Data

Select type of Interest Rate Data

Daily Treasury Yield Curve Rates

### Select Time Period

Select Time Period

Current Month

Date	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	20 yr	30 yr
3/1/2012	0.07	0.08	0.13	0.18	0.3	0.43	0.89	1.44	2.03	2.8	3.15
3/2/2012	0.06	0.07	0.12	0.17	0.28	0.41	0.84	1.38	1.99	2.77	3.11
3/5/2012	0.07	0.08	0.14	0.17	0.31	0.43	0.87	1.4	2	2.78	3.13
3/6/2012	0.06	0.08	0.13	0.17	0.3	0.4	0.83	1.35	1.96	2.73	3.08
3/7/2012	0.06	0.08	0.14	0.18	0.3	0.42	0.85	1.37	1.98	2.76	3.12
3/8/2012	0.07	0.08	0.14	0.18	0.32	0.44	0.89	1.41	2.03	2.82	3.18
3/9/2012	0.06	0.09	0.13	0.18	0.33	0.46	0.9	1.43	2.04	2.83	3.19
3/12/2012	0.05	0.09	0.15	0.18	0.33	0.47	0.92	1.43	2.04	2.82	3.17
3/13/2012	0.06	0.08	0.15	0.2	0.35	0.51	0.99	1.52	2.14	2.92	3.26
3/14/2012	0.08	0.09	0.15	0.21	0.4	0.6	1.13	1.69	2.29	3.08	3.43
3/15/2012	0.08	0.08	0.15	0.21	0.37	0.56	1.11	1.67	2.29	3.08	3.41

Thursday Mar 15, 2012

\* 30-year Treasury constant maturity series was discontinued on February 18, 2002 and reintroduced on February 9, 2006. From February 18, 2002 to February 8, 2006, Treasury published alternatives to a 30-year rate. See Long-Term Average Rate for more information.

Treasury discontinued the 20-year constant maturity series at the end of calendar year 1986 and reinstated that series on October 1, 1993. As a result, there are no 20-year rates available for the time period January 1, 1987 through September 30, 1993.

**Treasury Yield Curve Rates.** These rates are commonly referred to as "Constant Maturity Treasury" rates, or CMTs. Yields are interpolated by the Treasury from the daily yield curve. This curve, which relates the yield on a security to its time to maturity is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York. The yield values are read from the yield curve at fixed maturities, currently 1, 3 and 6 months and 1, 2, 3, 5, 7, 10, 20, and 30 years. This method provides a yield for a 10 year maturity, for example, even if no outstanding security has exactly 10 years remaining to maturity.

**Treasury Yield Curve Methodology.** The Treasury yield curve is estimated daily using a cubic spline model. Inputs to the model are primarily bid-side yields for on-the-run Treasury securities. See our Treasury Yield Curve Methodology page for details.

**Negative Yields and Nominal Constant Maturity Treasury Series Rates (CMTs).** Current financial market conditions, in conjunction with extraordinary low levels of interest rates, have resulted in negative yields for some Treasury securities trading in the secondary market. Negative yields for Treasury securities most often reflect highly technical factors in Treasury markets related to the cash and repurchase agreement markets, and are at times unrelated to the time value of money.

As such, Treasury will restrict the use of negative input yields for securities used in deriving interest rates for the Treasury nominal Constant Maturity Treasury series (CMTs). Any CMT input points with negative yields will be reset to zero percent prior to use as inputs in the CMT derivation. This decision is consistent with Treasury not accepting negative yields in Treasury nominal security auctions.

In addition, given that CMTs are used in many statutorily and regulatory determined loan and credit programs as well as for setting interest rates on non-marketable government securities, establishing a floor of zero more accurately reflects borrowing costs related to various programs.

For more information regarding these statistics contact the Office of Debt Management by email at [debt.management@do.treas.gov](mailto:debt.management@do.treas.gov).

For other Public Debt information contact (202) 504-3550

	Base Case	High Case	Low Case
Interest Rate - First 5 Years	1.10%	1.10%	1.10%
Interest Rate - Thereafter	4.00%	4.50%	3.50%
NPV	\$ 4,210,791	\$ 4,660,925	\$ 3,760,656
Payment to Lehman - Est	\$ (4,480,000)	\$ (4,480,000)	\$ (4,480,000)
Net Loss	\$ (269,209)	\$ 180,925	\$ (719,344)
Other Costs-Guess??	\$ (150,000)	\$ (150,000)	\$ (150,000)
Total Transaction Impact	\$ (419,209)	\$ 30,925	\$ (869,344)

	Base Case	High Case	Low Case
Interest Rate - First 5 Years	0.80%	0.80%	0.80%
Interest Rate - Thereafter	4.00%	4.50%	3.50%
NPV	\$ 3,985,461	\$ 4,429,024	\$ 3,541,898
Payment to Lehman - Est	\$ (6,500,000)	\$ (6,500,000)	\$ (6,500,000)
Net Loss	\$ (2,514,539)	\$ (2,070,976)	\$ (2,958,102)

#### Analysis of Lehman Reserve Fund Buy-back

Discount Rate-7.5 %	Base Case	High Case	Low Case
Payment to Lehman - Est	\$ (4,480,000)	\$ (4,480,000)	\$ (4,480,000)
NPV--GPA Analysis	\$ 3,985,461	\$ 4,429,024	\$ 3,541,898
NPV--GCG Analysis	\$ 4,210,791	\$ 4,660,925	\$ 3,760,656
Benefit-(Loss)--GPA	\$ (494,539)	\$ (50,976)	\$ (938,102)
Benefit-(Loss)--GCG	\$ (269,209)	\$ 180,925	\$ (719,344)

Discount Rate-5.5 %	Base Case	High Case	Low Case
Payment to Lehman - Est	\$ (4,480,000)	\$ (4,480,000)	\$ (4,480,000)
NPV--GPA Analysis	\$ 4,950,149	\$ 5,511,269	\$ 4,389,029
NPV--GCG Analysis	\$ 5,197,652	\$ 5,767,084	\$ 4,628,219
Benefit-(Loss)--GPA	\$ 470,149	\$ 1,031,269	\$ (90,971)
Benefit-(Loss)--GCG	\$ 717,652	\$ 1,287,084	\$ 148,219