

BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF:)
) GPA DOCKET 24-19
)
 Application of the Guam Power)
 Authority to Approve a Bond Issuance to) ALJ REPORT
 Refinance a Portion of the Outstanding)
 Revenue Bonds.)

INTRODUCTION

This matter comes before the Guam Public Utilities Commission [“PUC”] pursuant to the Petition of the Guam Power Authority [“GPA”] for PUC Approval of a Bond Issuance to Refinance a Portion of the Outstanding 2014 Series A Revenue Bonds.¹

DISCUSSION

A. Bond Review Authority

Pursuant to 12 G.C.A. §12105, GPA cannot enter into any contractual agreements or obligations which could increase rates and charges without the PUC’s express approval. Additionally, pursuant to GPA’s Contract Review Protocol, all externally funded loan obligations and other financial obligations, such as lines of credit, **bonds**, etc., in excess of \$1,500,000, and any use of such funds, must be approved by the PUC.²

B. Petition for Approval of Bond Issuance to Refund the Outstanding 2014 Series A Revenue Bonds.

¹ GPA Petition to Approve a Bond Issuance to Refinance a Portion of the Outstanding 2014 Series A Revenue Bonds, GPA Docket 24-19, dated May 15, 2023.
² See Contract Review Protocol for Guam Power Authority, Administrative Docket, p. 1 (February 15, 2008).

In its Petition, GPA indicates that it has been working with its bank (Bank of America/Wells Fargo), GPA Bond Counsel Orrick, and the Guam Economic Development Authority [“GEDA”] to pursue strategies for reducing debt service payments.³ GPA believes that it may be able to refund a portion of GPA’s 2014 Series A Revenue Bonds “for interest rate savings.”⁴ Debt service savings from this issuance are “expected to result in potential savings to ratepayers.”⁵ GPA submits that “[T]he bond refinancing, which will lower debt service costs and provide a net present value savings to the ratepayers, is reasonable, prudent, and necessary.”⁶

C. CCU GPA Resolution No. FY2024-18

On February 27, 2024, the CCU approved and adopted GPA Resolution No. FY2024-18. Pursuant to Resolution No. FY2024-18, the Guam Consolidated Commission on Utilities [“CCU”] indicated that GPA “has been pursuing strategies for reducing debt service payments, which would be of significant assistance in paying for capacity payment of the new power plant...”⁷ A part of GPA’s strategy is that “as a result of low interest rates “refunding all or a portion of GPA’s outstanding 2014 Series A Revenue Bonds” has been conceived as a strategy to produce “interest rate savings.”⁸ The CCU further contends that “the current scenario of low interest rates” warrants

³ Id. at p. 1.

⁴ Id.

⁵ Id.

⁶ Id. at p. 2.

⁷ Guam Consolidated Commission on Utilities Resolution No. FY2024-18, Resolution Authorizing the Approval of a Bond Issuance to Refund Outstanding Revenue Bonds, adopted and approved on the 27th day of February, 2024.

⁸ Id. at p. 1.

action from the CCU...”⁹ The goal of this strategy is “to provide a net present value savings to ratepayers...”¹⁰ The CCU authorized the GPA General Manager and the CCU Chairman “to petition the PUC for authorization to complete the bond refunding initiative.”¹¹

D. CCU GPA Resolution No. FY2024-23

On May 23, 2024, GPA forwarded a second resolution on this matter, a “draft” Resolution, No. FY2024-23, to the ALJ, Relative to Authorizing the Issuance and Sale of Guam Power Authority Revenue Refunding Bonds, Approving Forms of Related Documents, Agreements and Actions, and Authorizing the Execution and Delivery Thereof. The Resolution will not be addressed or have action taken by the CCU until its meeting on May 28, 2024. In accordance with established procedure, GPA must approve the appropriate bond documents before the bond issuance can be approved. Unless GPA submits a fully executed GPA Resolution No. FY2024-23 to the PUC before its Meeting on May 30, 2024, the PUC will be unable to entertain this docket.

Pursuant to Resolution No. FY2024-23, the CCU would determine that “it is necessary and desirable to issue one or more additional series of Guam Power Authority Revenue Bonds to refinance all or a portion of the remaining outstanding Guam Power Authority Revenue Bonds, 2014 Series A...”¹² The Resolution, if adopted, would note that *I Liheslaturan Guåhan* has approved the issuance of the

⁹ Id.

¹⁰ Id. at p. 2.

¹¹ Id.

¹² Guam Consolidated Commission on Utilities GPA Resolution No. FY2024-23, Resolution Relative to Authorizing the Issuance and Sale of Guam Power Authority Revenue Refunding Bonds, Approving Forms of Related Documents, Agreements and Actions, scheduled to be adopted and approved on the 28th day of May, 2024.

refunding bonds in Public Law 37-95, which was signed by the Governor on May 8, 2024.¹³

If the Resolution is adopted, the CCU would approve the issuance and sale of the Refunding Bonds for the purpose of refunding the Prior Bonds, to pay cost of issuance and of such refunding, to pay for credit enhancement, if any, and to fund all or a portion of a deposit to the debt service reserve fund, if any.¹⁴ The Refunding Bonds would be issued in an aggregate principal amount sufficient to provide funds for the payment of the Prior Bonds and for the payment of all expenses incident to such issuance and refunding.¹⁵

Furthermore, the “Designated Officers” would be authorized to execute and countersign the Refunding Bonds “in an aggregate principal amount determined as set forth herein and in the Act, in accordance with the Ninth Supplemental Indenture.”¹⁶ Pursuant to the Resolution, the CCU also approved the Bond Documents, which include the Ninth Supplemental Indenture, the Supplemental Continuing Disclosure Agreement, the Bond Purchase Agreement, the Escrow Agreement, the Preliminary Official Statement, and authorized GPA to issue the Refunding Bonds subject to the approval of the Legislature, GEDA, and the PUC.¹⁷

E. Public Law No. 37-95

¹³ Id., at p. 2.

¹⁴ Id., at p. 3.

¹⁵ Id.

¹⁶ Id.

¹⁷ Id., at pgs. 2-4.

In P.L. 37-95, the Guam Legislature found that, pursuant to 12 GCA §8203, GPA is authorized to incur indebtedness by the issuance of revenue bonds with the approval of the Governor of Guam to raise funds for the purpose of establishing the electric power system.¹⁸ The Legislature also recognized that, pursuant to 12 GCA §12105, GPA may not enter into any contractual agreements or obligations, including bonds, which could increase rates or charges, prior to the written approval of the PUC.¹⁹

In accordance with 12 GCA §5013, GPA is only authorized to issue bonds “through the agency of the Guam Economic Development Authority (GEDA)”..²⁰ “The sale of the bonds must be approved by the Board of Directors of GEDA as provided in Chapter 50 of Title 12.”²¹ The Legislature further found that “based on low interest rates and current market conditions, the Authority expects to be able to refund certain maturities of its outstanding 2014 Series A Revenue Bonds for debt savings.”²² The Legislature expressly approved “the terms and conditions of the issuance of senior revenue bonds by the Guam Power Authority from time to time, including but not limited to, on a forward basis, for the purpose of refunding all or a portion of its currently outstanding 2014 Series A Revenue Bonds....”²³

The Legislature further provided certain “requirements, limitations, terms and conditions” upon the issuance. Those include, but are not limited to, the following:

¹⁸ Id. at Section 1, p. 1.

¹⁹ Id. at Section 1, p. 2.

²⁰ Id. at Section 1, p. 2.

²¹ Id. at Section 2, p. 3.

²² Id. at Section 1, p. 2.

²³ Id. at Section 2, p. 2.

- (a) Limitations upon the aggregate principal amount of the refunding bonds in accordance with 12 GCA §8229;
- (b) The discharge of all obligations of GPA to pay debt service on the prior bonds concurrently with issuance of the refunding bonds.
- (c) The final maturity of the refunding bonds shall not exceed the final maturity of the latest maturing then outstanding revenue bonds.
- (d) Present value on debt service of the refunding bonds shall be at least two percent (2%) less than the present value of debt service on the prior bonds, using the yield on the refunding bonds as the discount rate;
- (e) Such refunding bonds shall have a principal amount or principal amounts sufficient to provide funds for the payment of all or a portion of the prior bonds refunded and all expenses regarding the prior bonds and the issuance of such refunding bonds; and
- (f) Savings and annual debt service payments from refunding shall be utilized specifically for the direct benefit of the ratepayers. Within ninety (90) days of the completion of the refinancing, the Guam Power Authority and the Guam Public Utilities Commission shall notify *I Liheslaturan Guahan* of their intent and plan regarding the annual debt service payment savings achieved from the refinancing.”²⁴

F. GEDA Authorization

²⁴ Id., at Section 2, p. 4.

To date, GPA has not submitted a Resolution of the GEDA's Board of Directors approving the refinancing of the 2014 Series A Revenue Bonds. In its Petition, GPA states as follows: "GEDA is familiar with this project and has been working closely with GPA on it. GPA in good faith holds the belief that GEDA will voice its support for the project at GEDA's next regular meeting on May 30, 2024, at 1:00pm, shortly before the PUC meeting of the same date. If GEDA approves the initiative, GPA notify (sic) the PUC of that approval and will file documentation with the PUC for its review and consideration of this petition."²⁵

The GEDA Resolution is crucial and must be received by the PUC before it acts on approving this Bond Issuance. Unless the PUC receives the GEDA Resolution prior to its meeting on May 30, 2024, with adequate time to review the Resolution, it should take no action upon this Petition.

G. Analysis of the Current Bond Refunding Proposal

The basic approach of GPA to this bond refunding is set forth in Exhibit "1" attached hereto, the "Refunding Savings Update" by Wells Fargo, dated May 21, 2024.²⁶ The Refunding Par on the 2014 Series A Revenue Bonds is \$63,950,000. The Par on the Revenue Refunding Bonds 2024 Series A is \$61,465,844, a savings of \$3,136,006.²⁷ The total gross cash flow savings is \$5,346,000, and an average cash flow savings of \$267,300. As of May 21, 2024 Wells Fargo has indicated that "in the current market, a

²⁵ GPA Petition to Approve a Bond Issuance to Refinance a Portion of the Outstanding 2014 Series A Revenue Bonds, GPA Docket 24-19, dated May 15, 2023, at p. 2.

²⁶ Guam Power Authority, Revenue Refunding Bonds, Series 2024 Refunding Savings Update, dated May 21, 2024.

²⁷ Id. at p. 7.

tax-exempt current refunding of all outstanding bonds except the 4% 2044 term bond **generates positive Net Present Value debt service savings of approximately \$3.37 million, or 5.71% as a percentage of refunded par (assuming a uniform saving structure)**²⁸ (emphasis added). The net savings estimated by Wells Fargo on May 21, 2024, 5.71%, are higher than those estimated on May 8, 2024, 5.46%, and on April 15, 2024, at 3.22%.²⁹

1. Estimated Costs and Savings

No final figures have yet been provided by GPA for the estimated costs of the bond refunding. GPA CFO John Kim has estimated transaction fees at about \$1M and GEDA fees of around \$150,000 as indicated in the public hearing on Bill No. 262-37, which became P.L. 37-95.³⁰ The estimated savings are set forth in Section G above.

At the CCU GPA Work Session on May 23, 2024, Commissioner Simon Sanchez raised the issue of whether the net present value of estimated savings on this issuance was sufficient to justify the bond refunding.³¹ He pointed out that with a recent GWA bond refinancing, GWA achieved \$14M in NPV savings, whereas GPA's NPV savings were only \$2.6M. While recognizing that GPA had met the 2% standard for reduction in debt service, he wondered why the NPV in this refinance was "so low." He found it "disappointing."³² GPA CFO John Kim indicated that the revised savings from the GPA refinance was \$3.3M. Also, the amount of savings from this GPA refunding was lower

²⁸ Id. at p. 8.

²⁹ Id.

³⁰ Email from John Kim, GPA CFO, to Fred Horecky, PUC ALJ, dated May 24, 2024, Re: Wells Fargo Analysis of 2014 Refunding Savings.

³¹ <https://www.youtube.com/watch?v=dZHQUd9YT6g>

³² Id.

because the amount refinanced is only \$58M. He also stated that GPA and the Underwriters hoped to issue the bonds in early July, 2024.³³

The issue of whether the net present value of estimated savings on this issuance is sufficient to justify the bond refunding should be addressed by the PUC Commissioners.

2. Allocation of Savings

Section 2(h) of P.L. No. 37-95 provides as follows:

“Pursuant to 12 G.C.A. §12105, GPA cannot enter into any contractual agreements or obligations which could increase rates and charges without the PUC’s express approval. Additionally, pursuant to GPA’s Contract Review Protocol, all externally funded loan obligations and other financial obligations, such as lines of credit, bonds, etc., in excess of \$1,500,000, and any use of such funds, must be approved by the PUC.”

Just as the PUC did in GPA Dockets 18-11 and 22-10, after the full results and the amount of savings anticipated from this bond refunding are fully known, the PUC will initiate a subsequent docket in which GPA’s intended uses of the savings for refunding will be reviewed and analyzed by PUC. PUC must determine whether the savings and annual debt service payments are being utilized “specifically for the direct benefit of the ratepayers.” After the docket is completed, the PUC will report its findings and any order issued to *I liheslaturan Guãhan*.

3. Review of Bond Documents

³³ Id.

The ALJ has reviewed the drafts of the NINTH SUPPLEMENTAL INDENTURE and the Bond Purchase Agreement. Based upon his review of the applicable Bond Documents for this Refunding, the ALJ has determined that the Bond Documents are within the allowed authority of GPA and comply with the requirements of Public Law 37-95. They are also consistent with bond documents previously issued by GPA.

4. True Interest Cost

In its May 21, 2024 Refunding Update, Wells Fargo has estimated that the All-in True Interest Cost for the proposed refunding of the 2014 Revenue Bonds will be 4.38%. This is an improvement from 4.41% in the May 8 update. For comparison purposes, this is more than the estimated true interest cost for the refinancing of the 2010 Revenue Bonds, which was 4.14%, and the 4.05% All-in True Interest Cost for the refunding of the 2012 Revenue Bonds. The precise All-inclusive True Interest Cost will not be known until the bonds are issued.

5. Compliance with Requirements in P.L. 37-95

The final maturity of the refunding bonds does not exceed the final maturity of the latest maturing then outstanding revenue bonds.³⁴ The present value of debt service on the refunding bonds is at least two percent (2%) less than the present value of debt service on the prior bonds.³⁵ In addition, the principal amount refinanced is sufficient to provide payment of the prior bonds, including the costs of issuance.³⁶ The Refunding appears to meet all requirements of Public Law 37-95.

³⁴ Public Law 37-95, Section 2(c), at p. 3.

³⁵ Public Law 37-95, Section 2(f), at p. 3.

³⁶ Public Law 37-95, Section 2(g).

RECOMMENDATION

H. Approval of Bond Issuance

In addition to issues about the low amount of savings resulting from this issuance, there may also be an issue concerning the timing of the bond issuance. GPA has recommended an issuance of the refunding bonds around July 5, 2024. Contrary to speculation in GPA's Petition about U.S. Federal Reserve rate cuts, to date the Federal Reserve has not yet cut rates this year based upon considerations of the present levels of inflation. If the Federal Reserve did cut rates, that would potentially reduce the total interest cost of the bond issuance. But admittedly, it is speculative as to if and when the Federal Reserve might cut interest rates.

CFO John Kim has stated that Federal Reserve Interest rate cuts are not the only factor considered in determining when to issue bonds. Other considerations are the current trends in the Municipal Bond Market and when investors may be particularly apt to invest in the GPA Bonds. He and GPA's investment banker Wells Fargo conclude that investors may have an appetite to purchase GPA's bonds in early July based upon a desire to purchase such bonds prior to the upcoming Presidential election.³⁷

If the PUC does not address whether to approve this bond refunding at its May meeting, it would not be able to do so until July 25, since the PUC will not be meeting in June. The ALJ concludes that the PUC should address the issue of whether to approve the bond refinancing at its May 30 meeting, assuming GPA has submitted the GEDA

³⁷ Phone conversation between GPA CFO John Kim and PUC ALJ Fred Horecky on May 24, 2024.

Resolution and the CCU Resolution to the PUC prior to its May 30 meeting. Also, the issue of timing of the bond refinancing should be left to GPA and its banker.

Another factor in support of approval of the bond refunding is that NPV savings for GPA have increased in the last three Updates by Wells Fargo and the interest rates for the Total Interest Cost are declining.

Based on the record before this Commission, and assuming that GPA submits the GEDA Resolution and the CCU Resolution to the PUC prior to its meeting, the Administrative Law Judge (the "ALJ") recommends that the PUC approve GPA's Petition for the refunding of the 2014 Series A Revenue Bonds. The Bond Refunding will likely result in some savings for ratepayers.

I. Approval of Bond Indenture


The PUC previously approved the Senior Indenture in 1992, and certain Supplemental Indentures thereafter. Only minor, and "cosmetic" revisions, have been made to the current Eighth Supplemental Indenture. Accordingly, the ALJ recommends that the Commission approve the issuance, as well as the form of the terms, and conditions contained in the Bond Documents of the Revenue Refunding Bonds. The Ninth Supplemental Indenture should be specifically approved.

J. Limitations, Restrictions, and Conditions upon the Revenue Refunding Bonds 2024 Series A

The PUC should impose certain limitations, restrictions, and conditions upon its approval of the Revenue Refunding Bonds, 2024 Series A. These should be included in the Orders in this Docket.

The proposed Order and Order Approving Long Term Debt are submitted
herewith for the Commissioners' consideration.

Respectfully submitted this 27th day of May, 2024.


FREDERICK J. HORECKY
Chief Administrative Law Judge

Corporate &
Investment Banking



Guam Power Authority

Revenue Refunding Bonds, Series 2024
Municipal Market and Refunding Savings Update

May 21, 2024

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EXHIBIT "1"

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See additional important disclosures at the end of the Materials.

 Corporate &
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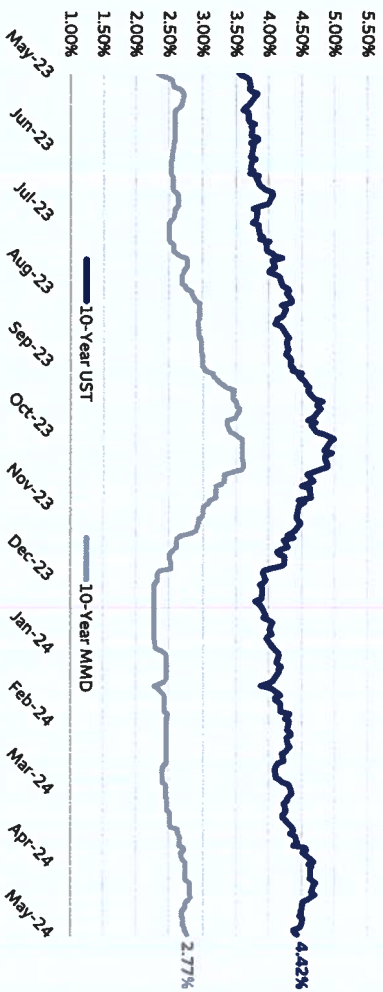
Market Update

Market Update

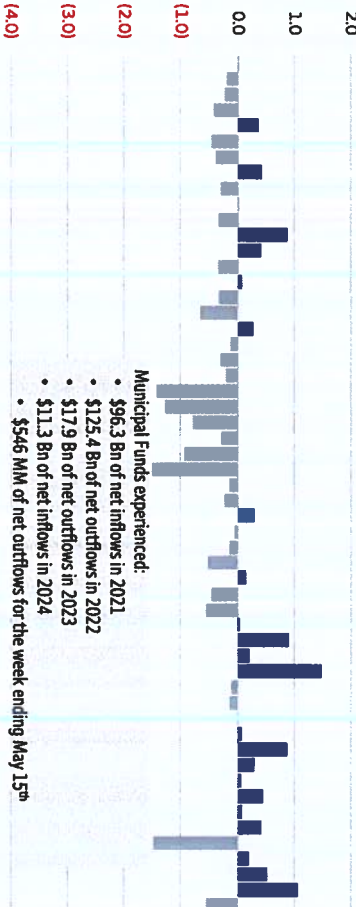
Tax-Exempt and Taxable Interest Rate Movements¹

	Current	1-Week Ago	1-Month Ago	5-Year Average	YTD Change
MMD					
2YR	3.09%	3.07%	3.15%	1.40%	65 bps
5YR	2.78%	2.72%	2.78%	1.46%	53 bps
10YR	2.77%	2.71%	2.74%	1.76%	49 bps
30YR	3.76%	3.77%	3.90%	2.48%	33 bps
UST					
2YR	4.83%	4.87%	4.97%	2.12%	50 bps
5YR	4.44%	4.52%	4.66%	2.15%	51 bps
10YR	4.42%	4.50%	4.62%	2.34%	47 bps
30YR	4.56%	4.64%	4.72%	2.74%	48 bps
Ratios					
10YR (MMD/UST)	62.67%	60.22%	59.31%	75.26%	-
30YR (MMD/UST)	82.46%	81.25%	82.63%	90.66%	-

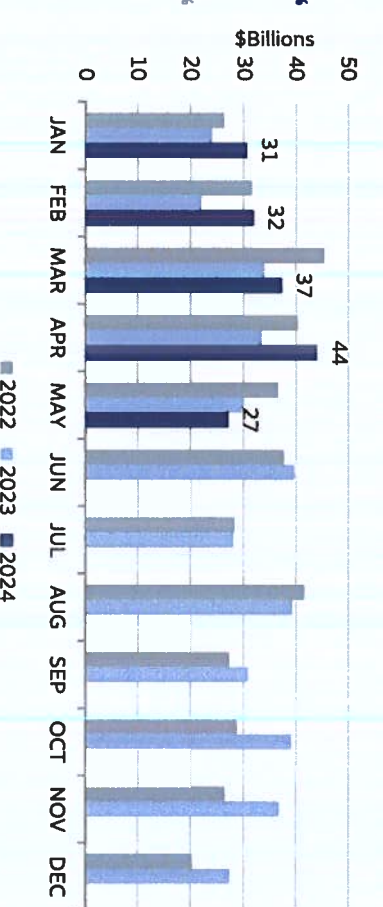
10-Year Tax-Exempt & Taxable Interest Rates³



Fund Flows²




Monthly Issuance⁴



Sources: ¹Thomson Reuters TM3 and US Treasury as of 5/17/2024; ²IS66 Lipper Global Fund Flows, as of 5/15/2024; Note: Only represents data for funds that report weekly; ³Thomson Reuters TM3 and US Treasury as of 5/17/2024; ⁴Thomson Reuters TM3 as of 5/17/2024





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Financing Update

Current Refunding Monitor | 2014 Series A

- The 2014 Series A Bonds will become currently refundable on July 4, 2024, or 90 days before the October 1, 2024 call date
- Below is a refunding monitor detailing maturity-by-maturity savings results for the 2014 Series A Bonds, assuming market conditions as of May 17, 2024, and a scale comprised of all 5% coupons
- The 2025 maturity shows modest dissavings, while the 4% coupon 2044 term bond shows significant losses

MATURITY-BY-MATURITY SAVINGS MONITOR

Series	Maturity	Coupon	Refunded Par	Call Date	Escrow Rate	New Yield	Refunding Par	Savings (\$)	Savings (%)	Improvement / Decline (\$)	Improvement / Decline (%)
2014	10/1/2025	5.000%	1,935,000	10/1/2024	3.833%	3.833%	1,967,231	-882	(0.046%)	1,048	0.054%
2014	10/1/2026	5.000%	2,035,000	10/1/2024	3.717%	3.717%	2,042,421	25,806	1.268%	2,291	0.113%
2014	10/1/2027	5.000%	2,135,000	10/1/2024	3.655%	3.655%	2,115,187	55,676	2.608%	595	0.028%
2014	10/1/2028	5.000%	2,245,000	10/1/2024	3.614%	3.614%	2,196,012	88,478	3.941%	-851	(0.038%)
2014	10/1/2029	5.000%	2,355,000	10/1/2024	3.623%	3.623%	2,279,122	119,455	5.072%	-3,275	(0.139%)
2014	10/1/2030	5.000%	2,470,000	10/1/2024	3.632%	3.632%	2,366,601	151,732	6.143%	-4,107	(0.166%)
2014	10/1/2031	5.000%	2,595,000	10/1/2024	3.652%	3.652%	2,464,555	184,082	7.094%	-8,299	(0.320%)
2014	10/1/2032	5.000%	2,725,000	10/1/2024	3.682%	3.682%	2,568,864	215,313	7.901%	-7,846	(0.288%)
2014	10/1/2033	5.000%	2,860,000	10/1/2024	3.712%	3.712%	2,678,404	246,625	8.623%	-9,156	(0.320%)
2014	10/1/2034	5.000%	3,005,000	10/1/2024	3.721%	3.721%	2,793,426	283,671	9.440%	-2,625	(0.087%)
2014	10/1/2039	5.000%	17,440,000	10/1/2024	3.916%	3.917%	16,462,763	1,371,819	7.866%	89,541	0.513%
2014	10/1/2044	4.000%	5,000,000	10/1/2024	4.305%	4.305%	4,838,793	-385,156	(7.703%)	22,824	0.456%
2014	10/1/2044	5.000%	17,150,000	10/1/2024	4.306%	4.306%	16,692,465	779,387	4.545%	88,346	0.515%
Total			\$63,950,000				\$61,465,844	\$3,136,006	4.904%	\$168,486	

CHANGE FROM LAST UPDATE (4/15)

Source: Based on interpolated MMD rates as of 5/17/2024; Delivery date of July 31, 2024; Per call option on 10/1/2034; Ratings of Ba2 / Baa2 / Baa1 by Moody's, S&P, and Fitch for Revenue Bonds, matched maturity refunding; Costs of Issuance of \$750,000 and Underwriter's Discount of \$5/bond.



Current Refunding Opportunity | 2014 Series A | Select Maturities

- The 2014 Series A Bonds will become currently refundable on July 4, 2024, or 90 days before the October 1, 2024 call date
- In the current market, a tax-exempt current refunding of all outstanding bonds except the 4% 2044 term bond **generates positive Net Present Value debt service savings of roughly \$3.37 million, or 5.71% as a percentage of refunded par (assuming a uniform savings structure)**
- Additionally, given current market dynamics, the Authority is able to earn positive arbitrage on a 90-day escrow

SUMMARY FINANCING RESULTS

	Uniform Savings
Refunded Bonds	
Refunded Par	\$58,950,000
Maturities	2025 - 2044
Average Life (years)	11.75
Average Coupon	5.00%
Call Date	10/1/2024
Refunding Bonds	
Delivery Date	7/31/2024
Par Amount	\$55,620,000
Average Life (years)	11.72
All in TIC	4.38%
Arbitrage Yield	3.97%
Escrow Yield	5.48%
Positive Arbitrage	\$217,124
Gross Savings	\$5,346,000
NPV Savings (\$)	\$3,366,490
NPV Savings (%)	5.71%
5/6 Results (\$)	\$3,219,306
5/6 Results (%)	5.46%

GROSS CASHFLOW SAVINGS

(10/1)	Uniform Savings
2024	\$20,025
2025	266,500
2026	266,500
2027	266,250
2028	265,750
2029	270,000
2030	268,750
2031	267,250
2032	265,500
2033	268,500
2034	266,000
2035	268,250
2036	265,000
2037	266,500
2038	267,500
2039	268,000
2040	268,000
2041	267,500
2042	266,500
2043	270,000
2044	267,750
Total	\$5,346,000

Source: Based on interpolated MMD rates as of 5/17/2024; Delivery date of July 31, 2024; Per call option on 10/1/2034; Ratings of Baz2 / BBB / BBB by Moody's, S&P, and Fitch for Revenue Bonds; matched maturity refunding; costs of issuance of \$750,000 and underwriter's discount of \$5/bond.
 Note: These materials do not make any assumptions with respect to set aside deposits or a reserve fund release



Disclosures (continued)

Disclosures (Continued):

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Disclosures (continued)

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