



CONSOLIDATED COMMISSION ON UTILITIES

Guam Power Authority • Guam Waterworks Authority
P.O. BOX 2977 • Agana, Guam 96932

GUAM POWER AUTHORITY REGULAR BOARD MEETING & VILLAGE OPEN FORUM

Inarajan Mayor's Office
4:00 p.m., September 23, 2008

Minutes

I. CALL TO ORDER

The Chairman called the meeting to order at 4:30 p.m. He announced that all 5 Commissioners were present and thanked Mayor Taitague for hosting the CCU/GPA. He announced that the regular business meeting will begin and then at 6 p.m. the Village Open Forum will start.

Commissioners:

Simon Sanchez	Chairman
Benigno Palomo	Vice Chair, GPA
Eloy Hara	Vice Chair, GWA
Gloria Nelson	Secretary
J. Margaret Blas	Member

Executive Mgmt:

John Benavente	GMCUS
Kin Flores	GPAGM
Danny Santos	AGMCA
Randy Wiegand	GPA-CFO
Graham Botha	Staff Atty., GPA
Andy Balajadia	AGMO. GPA

Management & Staff:

Paul Kemp	Asst. GM, Compliance & Safety
Ron Okada	T&D Manager
Ariene Sahagon	Internal Auditor (A)
Jennifer Sablan	Engineer, SPORD
Art Perez	Communications Manager / PIO
Bea Davis	Administrative Asst. / Executive Office
Rudy Manibusan	Manager, Computer Service (A) / GPA
Mark Pangelinan	Facilities
Roland Cruz	
Joseph Manibusan	Generation
Herbert Pinaula	Fleet Support Svcs. Mgr. / Transportation
Vivian Quinata	Customer Service
Victor Torres	Computer Service Mgr. / GWA
Melinda Camacho	Manager of Engineering / GPA
Becky Balajadia	Customer Service Supervisor / GWA
Geigy Salayon	RPU Supervisor / GWA
Jamie Pangelinan	Supply Services Manager / Procurement
Jimmy Pangelinan	GPA
John Unpingco	GWA
Jesse Lujan	Asst. GM, Collection & Distribution / GWA

Guests:

Ted Nelson	Resident
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Don Weakley Resident
Sylvia Weakley Resident
Franklin Taitague Inarajan Mayor\

II. **APPROVAL OF MINUTES**

The Minutes of June 3 2008 was presented for approval.

~~Comm. Nelson motioned to approve the Minutes subject to verification and written correction. Comm. Hara seconded. There was no further discussion or objection and the motion carried.~~

The meeting moved to New Business in the Agenda.

III. **GM (CUS) REPORT**

IV. **GM (GPA) REPORT**

Management Audit – GM said negotiations have been completed; scope of work was filed yesterday with PUC who will do review and act by Oct. 3rd. The entire cost is under \$500k for both GPA/GWA (a 1/3-2/3 split Water to Power). It would take 3 months to complete Phase I and recommendations for efficiency improvements, staffing levels and comparable comparisons will be generated.

1. **System Update**

Outages are still high and steps in tree trimming and maintenance in vegetation management is primary focus to cut back on occurrences.

2. **Government Receivables**

The GM reported that all but 3 entities are current

3. **Operations Dept. Reports**

Generation – Cabras 4 is down for emergency maintenance. It is a recurring problem with the bearing and experts are trying to determine the solution.

4. **System Losses – Not discussed**

5. **Fuel Inventory Update – Not discussed**

V. **COMMUNICATIONS**

1. **Public Comments (2 min. per person)**

VI. **LEGAL COUNSEL - None**

VII. **NEW BUSINESS**

1. **Resolution 2008-23: Approval to Petition PUC re GPA's Short/Long Term Renewable Acquisition Approach**

The GM said this resolution is intended to proceed with a 2 prong approach to acquiring renewable energy sources for the island in accordance with GPA's Integrated Resource Plan. He said on Monday GPA will meet with PUC in a workshop that will present the policy action that will be requested of the Commission. Georgetown, PUC's consultant recommended that GPA proceed immediately by acquiring renewable resources and that resources like wind power should be solicited first. GPA does not have any wind data and this is needed before a developer can confirm a good economic return or feasibility. GPA anticipates wind farms to come on board by 2012 but also cited other renewable technology that can perhaps come in sooner i.e. solar, geo-thermal bio-mass etc. He said this resolution is required so that GPA can propose this to PUC in a petition tomorrow.

In discussion it was mentioned that the funding from renewable would be based on a wholesale purchase into the grid. A developer would come in with his own funding to develop the resource and compute his investment costs & operating expenses and convert it to a cost per kWh and sell it back to the grid. GPA will evaluate that cost and make sure that it is cheaper than what it costs with fuel oil (18-cents per kWh) in order to benefit everyone. Later on, GPA can issue bonds to buy-out the capital portion of their investment and this will reduce the cost of kWh back into the grid. RW Beck, GPA's consultants are standing ready to prepare the bid documents and we expect to announce by November for bid announcements. There are only a few companies that do this type of thing and RW Beck will help get the word out that Guam is ready to receive

It was mentioned that GPA's wind study was funded by excess bond funds which was approved by PUC; this would be reimbursed thru the LEAC. Comm. Palomo recommended that the "resolved" section of the resolution be amended to specify the funding source as mentioned in the 4th Whereas.

Comm. Nelson motioned to approve Resolution 2008-23; Comm. Blas seconded. There was no further discussion or objection and the motion passed.

2. Resolution 2008-24: Approval to Petition PUC for Additional Excess Bond Funds for GPA's IRP Consultant Support

The GPAGM said that PUC authorized GPA to use \$250k to develop the IRP. These funds have been exhausted and there are some items that were not addressed or considered. PUC also wanted GPA to indicate a rate impact which is complex. The mechanics are very technical and requires extensive studies. GPA is requesting an additional \$250k which would be reimbursed again thru LEAC.

In discussion it was clarified that the additional \$50k for Winzler and Kelly was already part of the contract.

Comm. Nelson motioned to approve Resolution 2008-24; Comm. Blas seconded. There were no further questions or objection and the motion passed.

3. Resolution 2008-25: Authorizing Amendment No.2 to GPA's FY08 Budget

The GPAGM said the cost of fuel is over \$140 per barrel right now. The crux of the matter is that the CCU approved a fuel budget of \$190Million for FY08 and GPA is way over that. The first amendment was to bring this number up to \$250Million and now management is asking for amendment no. 2 which will bring this figure up to \$280Million. It was mentioned that GPA pays \$28Million per month for 1 month worth of fuel. The market continues to be very volatile and poses difficulty for everyone.

In discussion it was clarified that this increase in price will come from the LEAC. The Chairman said that this is just a budgetary adjustment and the LEAC will provide the cash flow for management to cover the check. Management wanted to use these funds for CIP improvements. Comm. Palomo recommended amending the resolve section of the resolution to specify that the additional budgetary increase will be paid for through the LEAC adjustment made this past March.

Comm. Hara motioned to approve Resolution 2008-25 as amended; Comm. Palomo seconded. There was no further discussion or objection and the motion carried.

4. Resolution 2008-26: Authorizing Extension of TCP with Cathay Bank

Management presented Resolution 2008-26 for approval. The resolution is related to an existing \$20M Taxable Commercial Paper Program with Cathay Bank. The TCP has been in effect for the last 10 years and supported by a letter of Credit. A year ago, Cathay Bank requested that GPA immediately find an alternate LC provider and GPA's efforts to do so have failed. In 2007, GEDCA released an RFP in an effort to fill the need – there was only 1 respondent and before they withdrew their transaction prior to completion.

GPA officials traveled to California to speak with Cathay officials and negotiated an agreement – Cathay agreed to extend the LC for an additional year, the parties agreed that there would be no further extensions and if GPA fails to identify a new bank to provide the LC service, the TCP agreement will be rolled over to a 3-year repayment plan which translates to \$7M per year. Lastly, GPA agreed to make their best effort to maintain a \$5Million balance to be held by Cathay Bank for the next 12 month period.

In discussion the Chairman explained the origin of this \$20M loan – a loan initiated by the previous administration due to uncollected government accounts. It was mentioned that the repayment of this loan should come from the promissory notes from GWA and DOE. Of the \$50M that was originally owed GPA by the Government of Guam, \$30M was already paid back. It was the Chairman's opinion that the \$20M balance should be used to pay down this loan – as GWA / DOE pays down, the \$20M loan should be credited. The GM said that management has showed the Commission how the revenues are prioritized and to which funds they are allocated as they are received; it is the GM's opinion that only \$3.5M will be allocated to this obligation annually. The Chairman said that perhaps management needs to revisit this to address the repayment issue more effectively and perhaps allocate an additional \$1.5Million to this obligation yearly. The Chairman said the poor decision of the previous administration to force everyone else except GovGuam to pay their bills - continues to haunt us today. This resolution will help GPA buy an additional year to resolve this matter in the most equitable and painless way possible. This matter is a sign that even the lending institutions are tired of this 10 year obligation and want it resolved once and for all. It was also mentioned that the additional \$5Million that Cathay Bank is asking GPA will be used as collateral toward the obligation and the interest will be GPA's.

Comm. Hara motioned to approve the Resolution as written; Comm. Nelson seconded. On the motion, there was no further discussion or objection and the motion carried.

5. July 2008 Financials

The CFO gave some highlights on the July 2008 Financials. Several months ago GPA's auditors wrote off the \$13M streetlight receivables. In July GPA received the actual payment for this and now has recovered; on paper it shows as a gain. Relative to sales GPA is 2% ahead of prior year. This month is the first month that sales are slightly less than last year. Conservation effort by ratepayers continues to be evident; even if GPA sees growth in the number of new customers, the revenues remain flat.

There was discussion relative to the Streetlight Budget Appropriation by the Legislature. The FY09 appropriation was reduced to \$3.2M (about what is being generated by the current SL Fund); this is only 60% of the funds needed. The full funding needed is \$5.9M. The Chairman said that management will go to the mayors once again with this issue and ask them for their support.

6. Hedging Letter of Credit

The CFO said a hedge emergency occurred a week ago. GPA uses Options Contracts for its hedges and has been given a fair amount of credits by 2 of the banks that it trades with. The volatility of the market has been narrow and GPA never exceeds the amount of credit given. The program is 7 years long and savings to ratepayers in net savings has been \$19Million. The CFO presented a slideshow to better explain how the procedure happens and the mechanics involved with resulting varied impact/s. GPA does 2 hedges a quarter. While GPA has been very successful in the past, the past 2 weeks has been dismal. GPA has had to pay a loss and bankers are asking for cash or letter of credit to make up the difference. They want comfort that they will get paid when these obligations come due. This is the first time that GPA experienced a large hedge loss. He said that the market is so volatile that perhaps by the time these hedges come due it may be that there may not be a loss at all or very small but because of the recent volatility a serious margin call has been placed on GPA. The banks have advised that if they are not happy with the progress that GPA is making towards addressing this issue, they will just cancel the contracts and any shortfalls would immediately become due. GPA wants to work with them to avoid this from happening. Some money has been put into escrow to show good faith. GPA would also like to get a new letter of credit. The CFO also explained that the LEAC has a mechanism that will cover for hedge losses but GPA does not have these funds right now. The GM added that one issue is that the exposure is so high and the amount of credit GPA has is inadequate for their bankers / traders / credit committee's to be comfortable. GPA needs to remove the margin call that is being requested by these traders and it needs to shore up the credit deficiency whether it is with cash, letter of credit.

Management is trying to work to take this factor out of the picture by either transferring the credit risk to be imbedded into the physical contract with fuel oil or set up an ongoing LC that can be increased or minimized as needed. The GMCUS added that perhaps one of the contributing factors to this dilemma is that GPA is not investment grade. The GM agreed adding that at GPA's credit rating meeting with Fitch GPA did not meet a Triple B rating because it did not have enough cash. If GPA had AA, AAA or BBB then this would be a sign that GPA is actually healthy with cash or cash flow.

The CFO said that a draft resolution has been prepared to authorize the GM to enter into an emergency standby letter of credit, if needed. The Chairman said he is comfortable for the GM to pursue an LC but to come back to the Commission before execution. There was discussion that this matter also needs to go before the PUC for their approval. The Chairman said for the record, the hedge has saved GPA \$19Million. He also recommended to table the resolution and authorized management to talk to PUC / banks about this request and come back to the Commission.

VIII. OLD BUSINESS - None

IX. ANNOUNCEMENTS

1. Next CCU Meeting

The Chairman confirmed that the next meeting for GWA would be on October 7th in Tamuning and October 21st in Yigo.

He also announced that there will be Public outreach next week on LEAC - a press conference is planned to explain LEAC concept and why it is important and related savings in avoided fuel expenses.

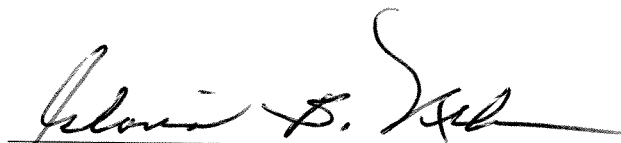
X. ADJOURNMENT

With no the other business to bring before the Commission the meeting was adjourned at 6 p.m.

llsl
bls

Attested:


SIMON A. SANCHEZ II, Chairman


GLORIA B. NELSON, Secretary