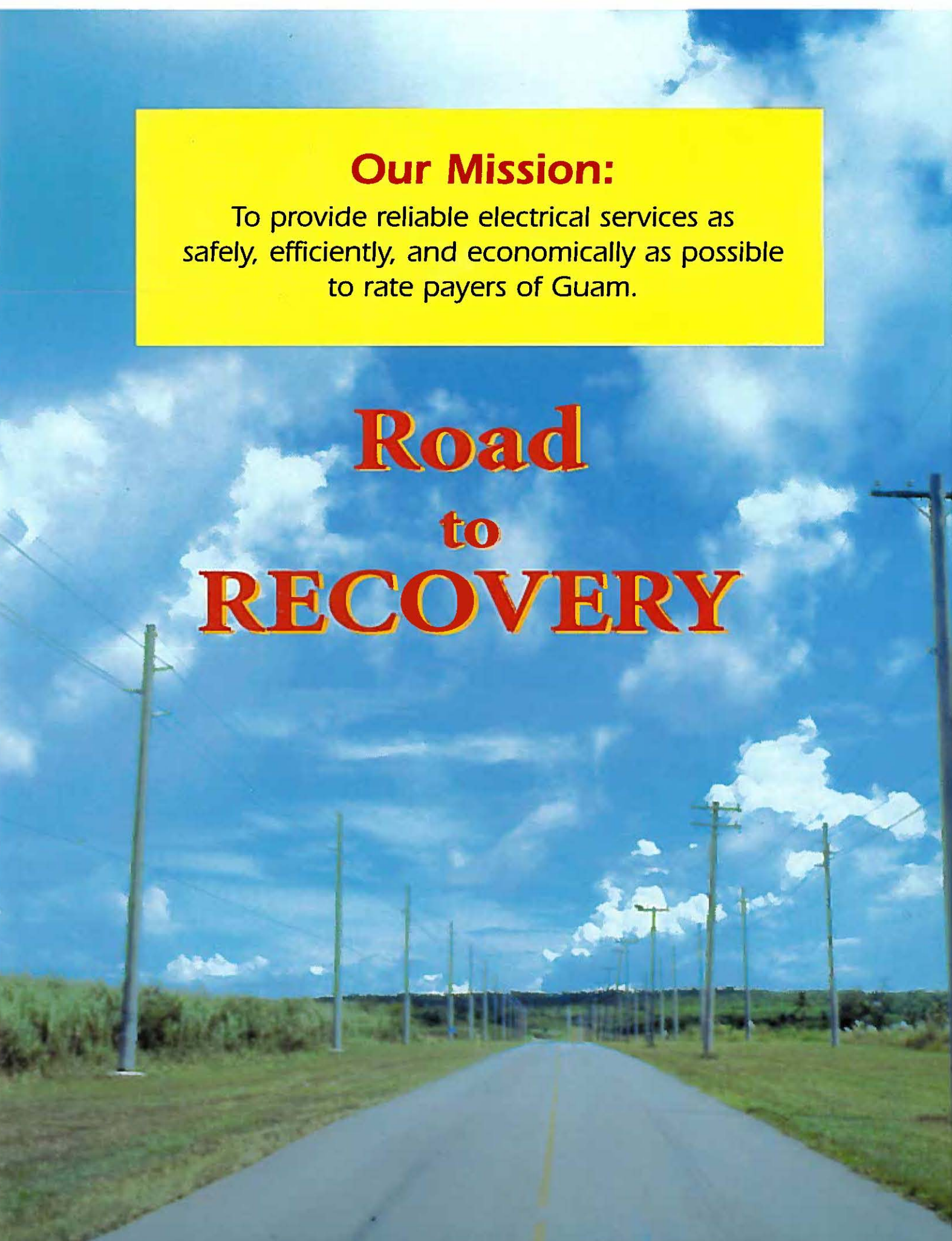


ANNUAL REPORT 1996



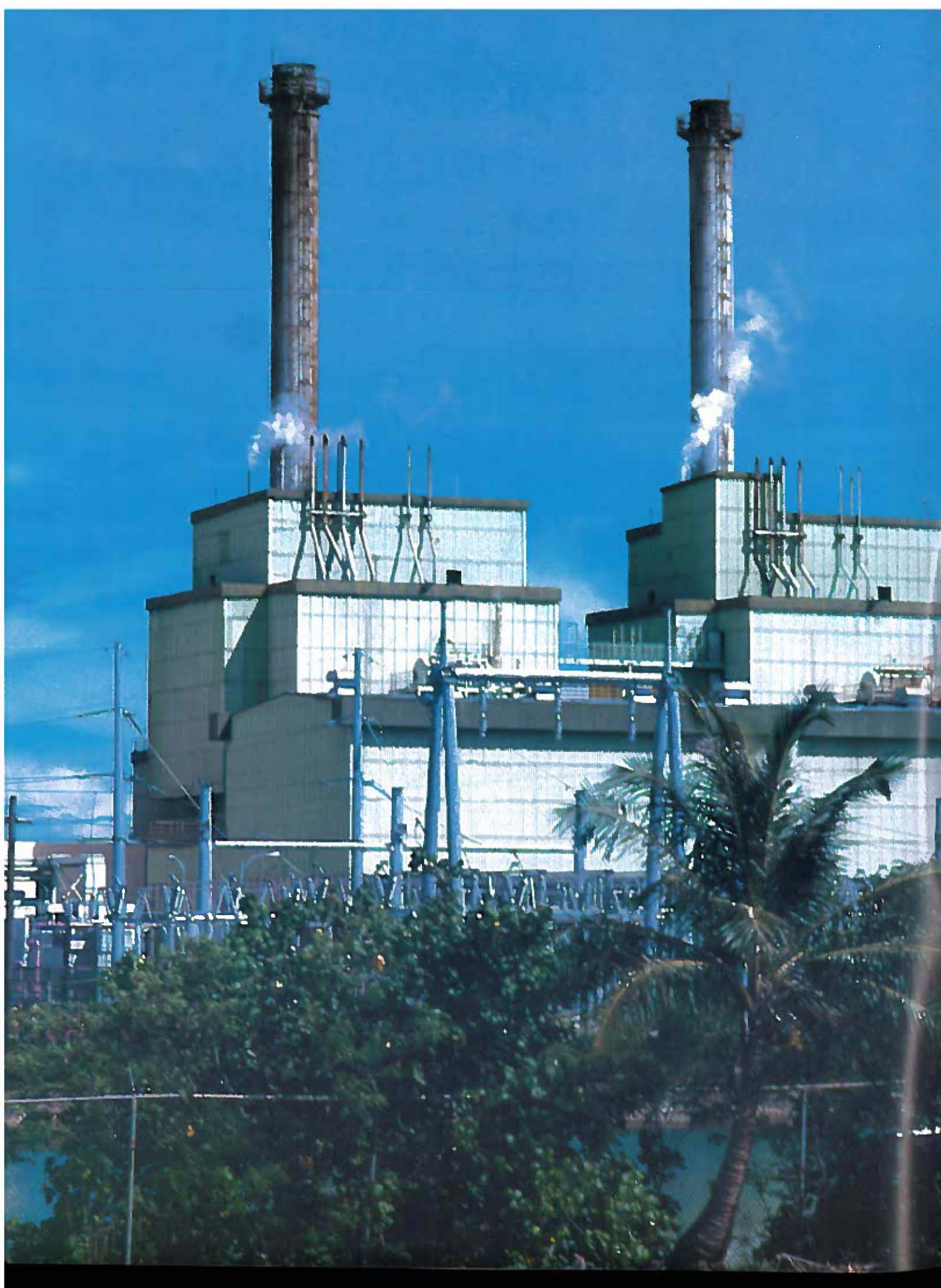
GUAM POWER AUTHORITY



Our Mission:

To provide reliable electrical services as safely, efficiently, and economically as possible to rate payers of Guam.

Road to RECOVERY





For most of 1996 the Guam Power Authority had to endure the dreaded "load shedding blues." Pacific Daily News monitored the daily load demands and kept the general public aware of the vulnerabilities for power interruptions. The local economy was screaming for an immediate answer to resuscitate an already drowning economic community. This resulted in the controversial exploration towards the addition of more power generating alternatives.

A lack of maintenance on the Guam Power Authority's generators and equipment during the years and difficulty in hiring and retaining personnel have led to Guam's power problems.



The Guam Power Authority (GPA) provides electric energy to over 40,000 metered customers. GPA owns and operates all transmission, distribution, substations and dispatchable generation facilities. The FY 1996 gross peak demand was a record 275 MW. GPA has a total gross generation capacity of 470 MW. GPA's Transmission and Distribution (T&D) facilities include 136 miles of transmission lines and 450 miles of distribution lines (47 distributions feeders). GPA provides 365 MVA of substation capacity.



In a five year period, from 1991 to 1996, GPA made tremendous infrastructure upgrades and additions to substation, generation and T&D. During this period, GPA added 120 MVA to its total substation capacity: Anigua, Guam Airport Authority, Pulantant and Yigo substations. This constitutes a 49% increase in capacity. Additionally, GPA added 238 MW of gross generation capacity. This represents almost a 100% increase.

Furthermore, GPA added and upgraded 13 miles of transmission lines and added 13 new feeders. These



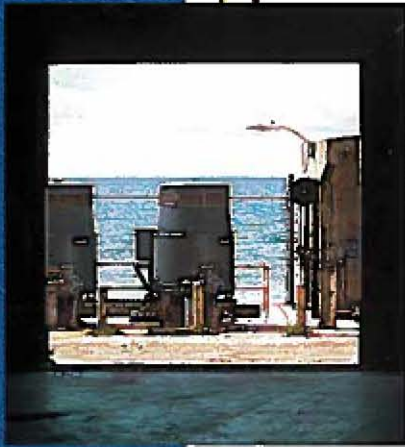




new feeders serve areas in Agana, Agat, Anigua, Barrigada, Santa Rita, Tamuning, Tumon, Yigo and Yona. Finally, GPA provided the Agat to Umatac Primary Line Extension. Additionally, GPA engineered, procured and constructed 120 emergency generators for the Guam Waterworks Authority. Upon loss of island power, an automated transfer to generator power is made. These emergency generators serve over 140 GWA sites which GPA maintains.

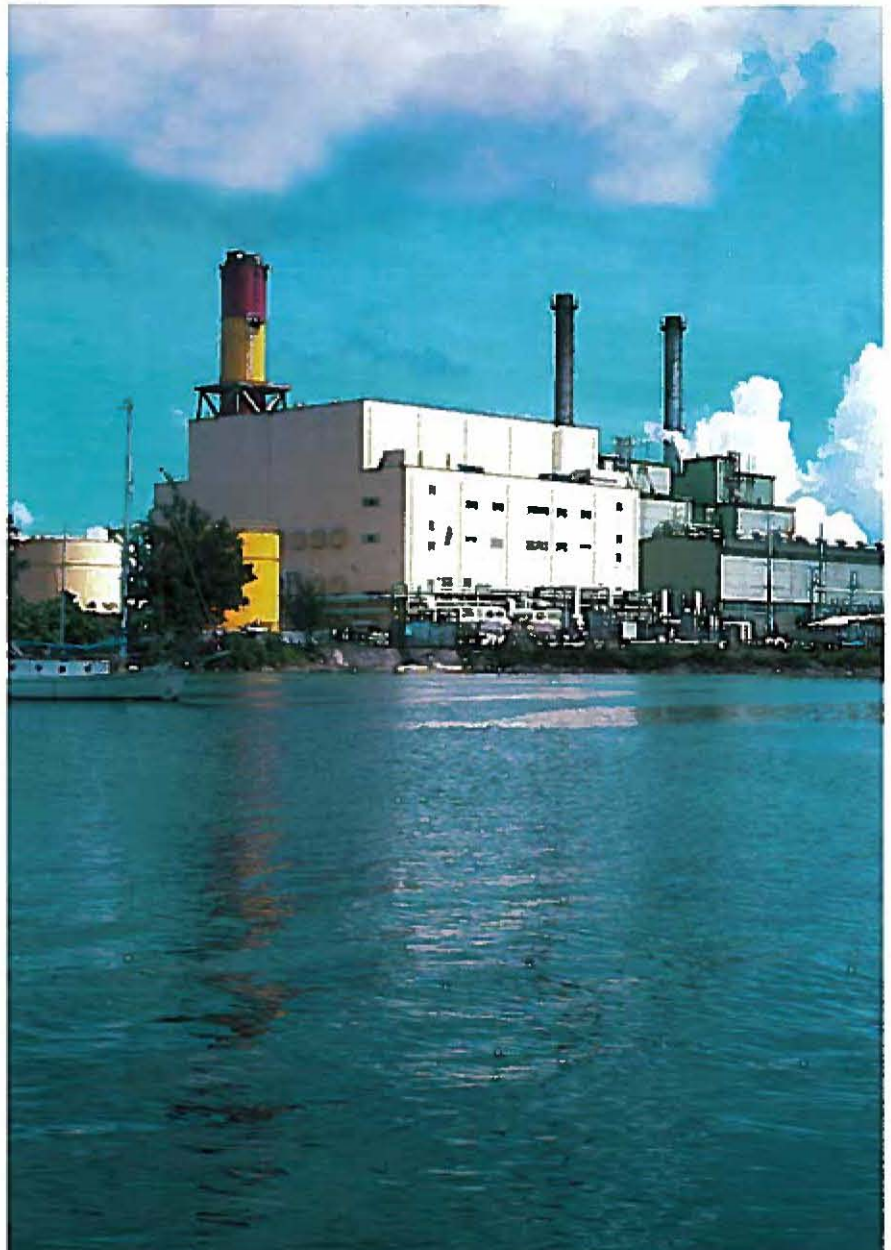
From 1991 to 1996, a total of \$267 million in Capital Improvement Projects (CIPs) were completed. Currently over \$50 million are in progress. Future CIPs are subject to availability of revenues and credit.

The drive towards infrastructure additions and improvements stems from a decade of very explosive economic growth. During the 70's to the mid 80's, GPA experienced negative growth in system peak demand. The peak demands of 158 MW in 1975 and 1978 were not reached until 1986. GPA system peak demands grew by 75% between 1987 and 1996.



In 1987, GPA contracted out a twenty-year generation expansion study. The load forecasts provided by that study showed a high load growth scenario peak of 245 MW in 2010. GPA's actual growth surpassed that in 1993. A more accurate load forecast was finalized in 1992 after years of work refining the economic model.

GPA has received assets from the United States Navy including 60 miles of transmission lines, seven substations, Piti Power Plant and its share of Tanguisson Power Plant. GPA Human Resources was at the forefront in facilitating the right of first refusal, pursuant to





the Customer Agreement Article 3.9, of 53 Navy Piti Power Plant employees. Additionally, GPA has entered into Power Purchase Contracts for 170 MW. These assets will be owned and operated by private off island firms. GPA will pay capacity and energy charges to these three firms: HEI Power Corporation Guam, Taiwan Electrical and Mechanical Engineering Service (TEMES) and ENRON Development Piti Corporation. These contracts run for twenty years. After these twenty-year cooperation period, the three firms will turn over the generation assets to GPA.

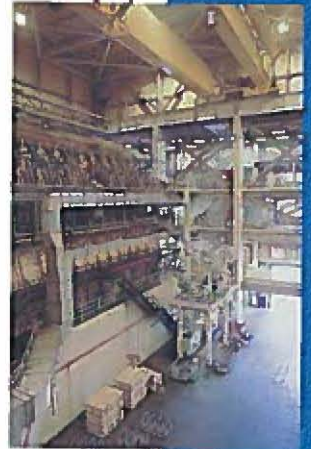
ENRON will provide 100 MW of capacity derated to 80MW. TEMES will provide 40 MW of combustion Turbine Peaking and Reserve Unit Power. TEMES and ENRON units will be constructed at the Piti Power Plant site. HEI will refurbish Tanguisson Power Plant realizing a 50 MW total gross plant capacity. This is a total of 170 MW by mid FY99. Concentration of over 380 MW of gross generation at the Cabras-Piti



Complex and reliability considerations dictate completion of an ambitious \$22 million transmission system upgrade by November 1998.

Tenjo Vista Power Plant will be completed in FY 1997. It will consolidate fast track generation assets now at sites with temporary environmental permits. Tumon and GAA fast track diesels have stipulations on their environmental permits stating removal and transfer of assets to the Tenjo Vista site.

A major completed project is the Power System Control Center at the Cabras Power Plant. This state-of-the-art Energy Management System supports remote telemetry and control of the Island Power System. Additionally, it provides the capability for Contingency Studies, Power System Operator Training and Automatic Generation Control. The infrastructure to extend telemetry and control functions to the distribution switch level is currently in progress as part of the Distribution Automation CIP.





GPA is under going transition towards a Computer Maintenance Management System (CMMS) that will streamline maintenance costs and insure that maintenance is performed in a timely and effective fashion.

As part of infrastructure development, GPA has trained its System Planning and Finance Section to perform Cost of Service Studies, Generation Bid Analyses, Generation Reliability Studies and Integrated Resource Planning on the state-of-the-art Strategic Planning Software, PRO-SCREEN II/PROVIEW. Additionally, it has brought System and Distribution Load Forecasting capabilities in-house.

One of the first fruits of this effort is the Integrated Resource Plan: Phase I report. Other in-house planning capabilities include but are not limited to transmission distribution, system stability analyses. Additionally, all GPA employees have access to training programs to hone their skills in the interest of providing better effective and reliable customer service.

GPA has provided tremendous infrastructure push over the last decade. However, major improvements are still warranted. If financial issues are resolved in an equitable and responsible fashion, GPA and our island's future will be very bright entering the twenty-first century.





Honorable Carl T. C. Gutierrez, Governor of Guam
Honorable Madeleine Z. Bordallo, Lieutenant Governor of Guam

"GUAM POWER AUTHORITY"

1996 BOARD OF DIRECTORS

Frank S.N. Shimizu, Chairman
Edwardo R. Ilao, Vice Chairman
Marilyn P. Megofna, Secretary
Grace C. Low, Director
Vicente A. C. Lujan, Director



1996 EXECUTIVE MANAGEMENT

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Raymond C. Camacho, General Manager
Bruce E. Pecon, Comptroller
Joaquin C. Flores, Manager of Engineering
Lorenzo Q. Iriarte, Manager of Generation
Ricardo C. Unpingco, Manager of Transmission & Distribution
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Josephine C. Cruz, Personnel Service Administrator
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Teresita E. Fabila, Finance/Accounting Supervisor
Joseph R. Taitague, Chief Budget Officer
Phil Toves, Facilities Manager
Ronald Okada, Manager of Power System Control Center



Left to right: GPA 1996 Board of Directors, Fred Horecky (Auditor & Financial Consultant), Frank S.N. Shimizu (Chairman), Marilyn P. Megofna (Secretary), Edwardo R. Ilao (Vice Chairman). Inset: Grace Low (Director). Not pictured: Vicente A.C. Lujan (Director).

ADVISORS AND CONSULTANTS

Law Offices of Horecky & Associates
Deloitte & Touche, Auditors & Financial Consultants
Ernst & Young
R.W. Beck and Associates



AFFILIATIONS

American Public Power Association (APPA)
Pacific Power Association (PPA)
Institute of Electrical & Electric Engineering Incorporated
International Rights of Way Association of Demand-Side Management Professionals
National Safety Council

GUAM POWER AUTHORITY ACKNOWLEDGEMENTS

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Artemio S. Perez, Assistant Public Information Officer
Sherry D. Perez, Administrative Assistant, Public Information Office





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Financial Report 1996



GUAM POWER AUTHORITY



GUAM POWER AUTHORITY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 1996 AND 1995

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Guam Power Authority:

We have audited the accompanying balance sheets of Guam Power Authority, a component unit of the Government of Guam, as of September 30, 1996 and 1995, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam Power Authority as of September 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 24, 1997, on our consideration of the Guam Power Authority's internal control structure and a report dated March 24, 1997, on its compliance with laws and regulations.

March 24, 1997

GUAM POWER AUTHORITY
Balance Sheets
September 30, 1996 and 1995

ASSETS	1996	1995
Utility plant, at cost:		
Electric plant in service	\$ 425,379,588	\$ 290,478,251
Construction work in progress	<u>57,589,084</u>	<u>122,036,054</u>
	482,968,672	412,514,305
Less accumulated depreciation	<u>(81,163,906)</u>	<u>(68,402,026)</u>
Total utility plant	<u>401,804,766</u>	<u>344,112,279</u>
Bond reserve funds (trustee) (note 8)	<u>27,065,801</u>	<u>27,037,223</u>
Current assets:		
Cash and cash equivalents (note 8):		
Held by trustee:		
Interest and principal funds for debt repayment	14,800,365	12,959,763
Bond indenture funds for restricted purposes	<u>63,210,471</u>	<u>115,385,490</u>
	<u>78,010,836</u>	<u>128,345,253</u>
Held by Guam Power Authority:		
Bond indenture funds	5,888,211	7,816,269
Self-insurance fund (note 7)	<u>2,565,657</u>	<u>2,450,546</u>
	<u>8,453,868</u>	<u>10,266,815</u>
Total cash and cash equivalents	<u>86,464,704</u>	<u>138,612,068</u>
Investments included in bond indenture funds (trustee) (note 8)	-	6,358,133
Accounts receivable (notes 2, 4 and 7)	30,462,996	30,733,233
Materials and supplies inventory	17,791,345	13,480,966
Fuel inventory	11,707,800	9,048,222
Prepaid expenses	989,608	2,217,370
Deferred fuel costs	<u>1,447,628</u>	<u>1,154,304</u>
Total current assets	<u>148,864,081</u>	<u>201,604,296</u>
Other assets:		
Unamortized debt issuance costs (note 5)	6,630,006	7,029,890
Cancelled unit, net of amortization	2,100,640	2,212,634
Regulatory assets (note 11)	9,341,239	4,244,063
Other	<u>(55,716)</u>	<u>(86,383)</u>
Total other assets	<u>18,016,169</u>	<u>13,400,204</u>
	<u>\$ 595,750,817</u>	<u>\$ 586,154,002</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
Balance Sheets, Continued
September 30, 1996 and 1995

CAPITALIZATION AND LIABILITIES	1996	1995
Capitalization:		
Contributed capital:		
Grants by Government of Guam	\$27,898,440	\$27,898,440
Grants by U.S. Government	12,866,000	12,866,000
Total contributed capital	40,764,440	40,764,440
Retained earnings	105,958,362	95,925,019
	146,722,802	136,689,459
Long-term debt, less current maturities (note 5)	347,244,959	351,501,374
Total capitalization	493,967,761	488,190,833
Current liabilities:		
Short-term debt (note 4)	24,892,368	16,018,754
Current maturities of long-term debt (note 5)	4,589,784	2,769,784
Accounts payable:		
Operations	22,587,410	21,321,404
Fuel	9,975,497	7,136,975
Navy	3,725,114	3,564,902
Accrued payroll and employees' benefits	1,487,877	1,243,181
Current portion of employees' annual leave	863,086	1,029,977
Interest payable	11,140,593	11,063,827
Customer deposits	3,433,589	2,448,397
Other accrued liabilities (note 7)	3,019,714	3,019,714
Deferred credits (notes 3 and 10)	-	11,750,000
Total current liabilities	85,715,032	81,366,915
Employees' annual leave, less current portion	1,657,965	1,369,224
Retirement fund deferred contributions (note 6)	14,410,059	15,227,030
Total liabilities	101,783,056	97,963,169
Commitments and contingencies (note 7)	\$ 595,750,817	\$ 586,154,002

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
Statements of Operations and Retained Earnings
Years Ended September 30, 1996 and 1995

	1996	1995
Revenues (note 5):		
Sales of electricity (note 9)	\$ 181,794,296	\$ 154,823,631
Miscellaneous (notes 3 and 10)	11,205,313	3,218,555
	<u>192,999,609</u>	<u>158,042,186</u>
Operating and maintenance expenses:		
Production fuel	81,453,902	69,961,470
Other production	25,923,759	21,086,553
	<u>107,377,661</u>	<u>91,048,023</u>
Navy subcontractor costs (note 3)	16,014,644	12,741,602
Administrative and general	14,874,004	14,704,277
Depreciation 14,354,706	10,460,739	
Transmission and distribution	10,757,203	9,944,333
Customer accounting	6,480,020	3,340,556
Total operating and maintenance expenses	<u>169,858,238</u>	<u>142,239,530</u>
Operating earnings	<u>23,141,371</u>	<u>15,802,656</u>
Other income (expense):		
Interest expense	(23,248,108)	(22,457,255)
Allowance for funds used during construction	2,745,544	3,519,959
Interest income	7,506,530	10,378,352
Other income (expense), net	(111,994)	(1,147,874)
	<u>(13,108,028)</u>	<u>(9,706,818)</u>
Net earnings	<u>10,033,343</u>	<u>6,095,838</u>
Retained earnings at beginning of year	<u>95,925,019</u>	<u>89,829,181</u>
Retained earnings at end of year	<u>\$ 105,958,362</u>	<u>\$ 95,925,019</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
Statements of Cash Flows
Years Ended September 30, 1996 and 1995

	1996	1995
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Cash received from customers	\$ 179,043,376	\$ 159,717,373
Cash payments to suppliers for goods and services	(126,804,292)	(93,430,181)
Cash payments to employees for services	<u>(32,186,741)</u>	<u>(33,601,669)</u>
Net cash provided by operating activities	<u>20,052,343</u>	<u>32,685,523</u>
Cash flows from investing activities:		
Increase in bond reserve funds	(28,578)	(8,257,873)
Purchases of investment securities	-	(19,030,903)
Proceeds from sales and maturities of investment securities	6,358,133	18,141,940
Interest and dividends on investments and bank accounts	<u>7,506,530</u>	<u>10,378,352</u>
Net cash provided by investing activities	<u>13,836,085</u>	<u>1,231,516</u>
Cash flows from noncapital financing activities:		
Proceeds from short-term debt	8,873,614	5,018,754
Interest paid on short-term debt and deposits	<u>(1,285,320)</u>	<u>(1,098,268)</u>
Net cash provided by noncapital financing activities	<u>7,588,294</u>	<u>3,920,486</u>
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(69,301,649)	(79,863,236)
Proceeds from long-term debt	-	101,929,913
Principal paid on bonds and other long-term debt	(2,436,413)	(2,804,785)
Interest paid on bonds	(21,886,024)	(18,002,988)
Proceeds from U.S. Government	<u>-</u>	<u>3,066,000</u>
Net cash (used for) provided by capital and related financing activities	<u>(93,624,086)</u>	<u>4,324,904</u>
Net (decrease) increase in cash and cash equivalents	(52,147,364)	42,162,429
Cash and cash equivalents at beginning of year	<u>138,612,068</u>	<u>96,449,639</u>
Cash and cash equivalents at end of year	<u>\$ 86,464,704</u>	<u>\$ 138,612,068</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
Statements of Cash Flows, Continued
Years Ended September 30, 1996 and 1995

	1996	1995
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	\$ 23,141,371	\$ 15,802,656
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation	14,354,706	10,460,739
Difference between retirement expense and funding	(816,971)	202,185
Other expense	(111,994)	(1,147,873)
(Increase) decrease in assets:		
Accounts receivable	(4,826,939)	(8,430,207)
Materials and supplies inventory	(4,310,379)	734,597
Fuel inventory	(2,659,578)	(7,986,519)
Prepaid expenses	1,227,762	(1,248,941)
Deferred fuel costs	(293,324)	(970,006)
Other assets	481,211	(1,525,438)
Increase (decrease) in liabilities:		
Accounts payable - fuel	2,838,522	3,410,947
Accounts payable - operations	1,266,006	11,620,305
Accounts payable - Navy	160,212	505,624
Accrued payroll	244,696	193,448
Employees' annual leave	121,850	(190,806)
Customer deposits	985,192	(119,167)
Other accrued liabilities	-	(314,955)
Deferred credits	(11,750,000)	11,750,000
Long-term accounts payable	-	(61,066)
Net cash provided by operating activities	<u>\$ 20,052,343</u>	<u>\$ 32,685,523</u>

See accompanying notes to financial statements.

GUAM POWER AUTHORITY
Notes to Financial Statements
September 30, 1996 and 1995

(1) Summary of Significant Accounting Policies

Organization: The Guam Power Authority (GPA) is a component unit of the Government of Guam (GovGuam). GPA is subject to the regulations of the Public Utility Commission of Guam (PUC), and has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). Because of the rate-making process, certain differences arise in the application of generally accepted accounting principles between regulated and non-regulated businesses. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility Plant: Utility Plant is stated at cost, which, as to certain plant transferred from the power division of the Public Utility Agency of Guam in 1969, is based on estimated cost as determined by an independent appraiser. Cost includes \$4,177,479 representing generation and transmission assets transferred by the United States Navy (Navy) as described in note 3. Cost also includes an allowance on certain projects for funds used during construction of specific power generation plants based on the net cost of borrowed funds used for construction purposes. The cost of utility plant retired or otherwise disposed of, plus removal costs and less salvage, is charged to accumulated depreciation. Contributions in aid of construction are deducted from the cost of the utility plant.

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets (25 - 50 years for plant assets). Depreciation expense for 1996 and 1995 was approximately 3.3% and 3.5%, respectively, of the cost of depreciable properties. Such depreciation includes amortization over 30 years to 1996 of GPA's share of the cost of the Navy plant.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, money market accounts and U.S. treasury bills with original maturities of less than 90 days in the interest and principal funds for debt repayment, the bond indenture funds, and the self-insurance fund. It does not include money market accounts in bond reserve funds held by bond trustees.

Inventories: Materials and supplies inventories are stated at the lower of cost (weighted average) or market. Fuel inventories are stated at cost using the first-in, first-out method of valuation.

Contributed Capital: GPA commenced operations in April, 1969 when assets and liabilities with a net value of \$7,898,400 were transferred to GPA from the power division of the Public Utility Agency of Guam. An additional \$20 million loan from the Government of Guam was converted to contributed capital during the year ended September 30, 1992.

The U.S. Department of the Interior provided GPA with \$9.8 million for rebuilding a portion of the distribution system utilizing concrete poles to better resist typhoon damage. Funds were provided directly to the military construction officer for designing and administering the rebuilding work. Beneficial use of all lines has been given to GPA. The Federal Emergency Management Association (FEMA) provided a \$3,066,000 grant to GPA to subsidize the costs of housing generators to run waterwell pumps.

(1) Summary of Significant Accounting Policies, Continued

Accrued Annual Leave: Employees are credited with vacation leave at rates of 104, 156 or 208 hours per fiscal year, depending upon their service time with GPA. Accumulation of such vacation credits is limited to 480 hours at fiscal year end and is convertible to pay upon termination of employment.

Sales of Electricity: Sales of electricity are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing and the actual cost of fuel.

Fuel Oil Costs: Fuel oil costs increase or decrease billings to customers with price changes in fuel oil purchased by GPA. Under recoveries of fuel oil costs are recorded as deferred fuel cost assets in the accompanying balance sheets, and are recovered in future billings to customers.

Allowance for Funds Used During Construction: The allowance for funds used during construction (AFUDC) is provided only for construction projects of more than \$50,000 which require a minimum of 90 days to complete. AFUDC is computed using the interest expense on directly assignable borrowings to finance the projects less interest income on the related unused borrowings which have been invested. AFUDC is provided only during the period in which such projects are undergoing activities to prepare them for their intended use.

Unamortized Debt Issuance Costs: Unamortized debt issuance costs include costs related to the issuance of the Series 1992, Series 1993 and Series 1994 bonds. These costs are being amortized on the straight line method over the life of the bonds.

Cancelled Unit: The cancelled unit account consists of costs incurred in the refurbishment of the Weber Power Barge. The barge refurbishment project was abandoned during the year ended September 30, 1994. These costs are being amortized on a straight-line basis over the life of the bonds used to finance the refurbishment costs.

Reclassifications: Certain reclassifications have been made to the 1995 financial statements to conform with the 1996 presentation.

(2) Accounts Receivable

Accounts receivable at September 30, 1996 and 1995, are summarized as follows:

	1996	1995
Customers:		
Private	\$ 18,777,044	\$ 14,703,924
Government	<u>4,800,324</u>	<u>6,594,548</u>
	23,577,368	21,298,472
Government subsidies	463,055	463,055
Insurance claims (note 7)	1,221,143	1,494,412
Others	3,695,588	5,325,501
U.S. Navy	3,096,966	2,670,408
Less allowance for doubtful receivables (note 7)	<u>(1,591,124)</u>	<u>(518,615)</u>
	<u>\$ 30,462,996</u>	<u>\$ 30,733,233</u>

Substantially all of GPA's customer accounts receivable are from individuals, companies and government agencies based in Guam.

(3) Agreements With The United States Navy

Prior to August 1, 1992, the Island-Wide Power System (IWPS) for Guam consisted (with minor exceptions) of production and transmission facilities owned or operated by the U.S. Navy (Navy) and GPA. From October 1972 to July 31, 1992, costs of operating and maintaining the IWPS together with a return on the Navy's investments therein were shared, based on power delivered to the parties as provided in a "Power Pool Agreement," and on payment by the Navy of its share of GPA's debt service commensurate with GPA's debt service coverage obtained for its customers, but subject to a minimum level of coverage. Effective August 1, 1992, the Power Pool Agreement was terminated. In May, 1995, all outstanding claims between the Navy and GPA associated with the Power Pool Agreement were settled. GPA received \$3.75 million from the Navy as a result of the settlement. The \$3.75 million was recorded as a deferred credit at September 30, 1995 and was recognized as miscellaneous revenue in 1996 in accordance with a PUC stipulation.

Upon termination of the Power Pool Agreement, a customer supplier agreement (CSA) between GPA and the Navy was created. Under the CSA, the Navy has become a transmission level customer of GPA. The Navy made available to GPA certain of its generation, transmission and other assets. Navy personnel continue to operate these assets on a subcontract basis and Navy charges GPA for the operating costs as well as certain fuel costs. The CSA is effective for five years. At the end of this five-year period, the Navy has the option of separating from the system or transferring its facilities to GPA. On September 15, 1996, a lease agreement was entered into between GPA and the Navy to transfer to GPA the operations, maintenance and custody of certain Navy-owned joint use electrical transmission and distribution lines, electric power generation facilities, related structures and equipment, together with associated land interest. The facilities are leased to GPA at no cost for a period of fifty years.

(4) Short-Term Debt

Short-term debt includes several thirty-day notes drawn on a \$15 million bank line of credit with interest rates between 6.375% and 6.875% at September 30, 1996, and 6.79% and 6.875% at September 30, 1995. Interest is paid upon maturity. The notes are collateralized by a financing statement against receivables with the bank as lienholder subordinate to the bondholders under GPA's bond issues. Balances outstanding against this credit facility were \$15 million and \$11 million as of September 30, 1996 and 1995, respectively.

During the year ended September 30, 1996, GPA obtained an additional credit line of \$15 million for fuel purchases with interest rates between 6.8125% and 6.875%. The balance outstanding against this line was \$9,892,368 as of September 30, 1996.

(5) Long-Term Debt

Long-term debt at September 30, 1996 and 1995, is as follows:

Bonds:

1992 Series, interest at varying rates from 2.65% to 6.3% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments with a payment of \$2,305,000 in October, 1994, and increasing to \$11,040,000 in October, 2022.

	1996	1995
	\$ 151,430,000	\$ 153,815,000

1993 Series, interest at varying rates from 3.90% to 5.25% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,725,000 in October, 1996, and increasing to \$6,535,000 in October, 2023.

100,000,000	100,000,000
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(5) Long-Term Debt, Continued

1994 Series, interest at varying rates from 5.20% to 6.20% payable semiannually in October and April, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$1,500,000 in October, 1997, and increasing to \$7,630,000 in October, 2024.

102,900,000	102,900,000
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354,330,000	356,715,000
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Note:

MDI Guam non-interest bearing note payable in exchange for funds received for the construction of Manenggon Hills substation. The note is being repaid by deducting 80% of MDI's non-fuel charges from future power billings.

3,905,619	4,341,345
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	358,235,619	361,056,345
Less current maturities	<u>(4,589,784)</u>	<u>(2,769,784)</u>
	353,645,835	358,286,561
Less discount on bonds	<u>(6,400,876)</u>	<u>(6,785,187)</u>
	<u>\$ 347,244,959</u>	<u>\$ 351,501,374</u>

At September 30, 1996, estimated maturities of long-term debt through 2001 and subsequent years are as follows:

1997	\$ 4,589,784
1998	6,259,784
1999	6,534,784
2000	6,834,784
2001	7,159,784
Subsequent years	<u>326,856,699</u>
	<u>\$ 358,235,619</u>

The proceeds of the 1992 series bonds, face value of \$158 million, were used to construct and acquire additional generating capacity, to build additional transmission facilities, and to refund existing long-term debt at the time of issuance. Bond proceeds of approximately \$19,700,000 were also used to establish escrow funds for the purpose of defeasing several existing series of bonds over their scheduled maturities.

The proceeds of the 1993 series bonds, face value of \$100 million, are being used to finance certain acquisitions of additional generating capacity, the construction of additional transmission facilities, and also to upgrade and refurbish certain existing equipment.

Proceeds of the 1994 series bonds, face value of \$102.9 million, are being used to finance the construction of an additional baseload generating unit and the construction of four new substations.

All gross revenues of GPA have been pledged to repay the 1992, 1993 and 1994 series bond principal and interest.

Principal and interest due on the defeased bonds amounted to approximately \$19,200,000 at the date of the 1992 advanced refunding. The net difference between funds deposited with escrow agent and the bonds refunded of \$500,000 has been recorded in unamortized debt issuance costs and is being amortized on a straight-line basis over the lives of the 1992 series bonds.

Discounts associated with the 1992, 1993 and 1994 bond series are being amortized using the interest method over the lives of the bonds.

(6) Employees' Retirement Plan

The Government of Guam Employees' Retirement System is administered by the Government of Guam Retirement Fund. As of September 30, 1996, substantially all of the employees of GPA were members of the Government of Guam defined benefit contributory (DB) plan wherein GPA contributes based upon a fixed percentage of qualifying employees' payroll.

All employees hired after September 30, 1995 are participants in the Government of Guam Defined Contribution (DC) Plan which was established on that date. The Government of Guam Retirement Fund DB plan will become a closed group.

Participants of the DB plan with less than twenty years of service at September 30, 1995 have the option of transferring to the DC plan. Participants with over twenty years of service will not have an option to transfer. Transferring employees will have their employee contribution balances with interest transferred to the DC plan. Once participants have elected to transfer, they are no longer eligible for DB plan benefits nor are they allowed to transfer back to the DB plan.

According to the latest actuarial valuation performed as of September 30, 1995, it has been determined that for the fiscal year ended September 30, 1996, a minimum employer contribution rate of 18.6% of covered payroll, plus the statutory employee contribution rate of 9.5% of DB covered payroll is necessary to fund current retirement costs, to amortize the unfunded liability over 22 years, and to provide for interest on the unfunded accrued liability. Fiscal year 1996 statutory employer contribution rates for the Government of Guam Retirement Fund are 19.675% of total DB and DC plan payroll. Employee contribution rates for the DC plan are 5% of DC plan payroll.

The effect of GPA's prior year accruals for its share of pension underfunding reduces the minimum employer contribution rate by 2.895% to an effective rate of 15.785%. In recognition of the above, a reduction in accrual of 3.89% of covered payroll is necessary to provide for the difference between the effective valuation rate of 15.785% and the employer's statutory rate of 19.675%.

The cost to GPA for retirement contributions for the years ended September 30, 1996 and 1995, is as follows:

	1996	1995
Cash contributions	\$ 4,432,615	\$ 4,101,135
Accruals	<u>(816,971)</u>	<u>202,185</u>
	<u>\$ 3,615,644</u>	<u>\$ 4,303,320</u>

The plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 7% per annum. The most recent actuarial valuation performed as of September 30, 1995, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

(7) Commitments and Contingencies

Commitments:

Capital Commitments

The 1997 capital improvement project budget is approximately \$32 million. The five-year capital improvement project budget proposed by management for 1997 through 2001 is estimated to be \$137 million. These budgets are subject to change by the Board of Directors.

GPA entered into agreements with Korea Heavy Industries & Construction Company, Ltd., to design and construct two 39.5 megawatt baseload generating units for the Cabras station plants. The combined contract price for the units was approximately \$107 million, of which approximately \$5 million has not been expended at September 30, 1996. Both units began operating during the year ended September 30, 1996.

GPA has approximately \$69 million in purchase commitments as of September 30, 1996.

GPA has also entered into agreements to purchase fuel from certain suppliers at prices yet to be determined.

(7) Commitments and Contingencies, Continued

Leases

GPA presently leases space for operations from several locations under non-cancellable operating leases with remaining lease terms at September 30, 1996, varying between one and four years.

During the year ended September 30, 1993, GPA entered into a three-year operating lease for a turnkey gas turbine power plant. The lease calls for fixed monthly payments of \$66,666 plus a variable payment based on the LIBOR rate. In March 1996, this lease was renewed for an additional three years. At the end of the lease term, GPA has the option of purchasing the equipment for \$11.2 million or returning the equipment to the bank. If GPA returns the equipment to the bank and the bank sells the equipment to a third party, GPA is obligated to pay the difference between the sale price and the principal balance due on the bank's debt to finance the acquisition of the turbine. Management has not determined if the equipment will be purchased at the expiration of the lease term.

Minimum future lease payments under operating leases through 1999 are as follows:

1997	\$ 1,822,109
1998	1,616,496
1999	799,999
	<u>\$ 4,238,604</u>

Energy Conversion Agreements

In June 1996, Public Law 23-103 was enacted to address the need for additional power plant capacity to meet GPA's power supply deficiencies. The public law authorized GPA to procure power generation, substation and transmission services.

In September 1996, GPA entered into agreements to purchase electricity produced by plants constructed or refurbished and operated by three companies, based on energy conversion fees which start at a rate of \$.001 per kilowatt hour delivered to GPA. The major terms of the three agreements are as follows:

HEI Corporation (Guam) (HEI) - HEI has agreed to refurbish, operate and maintain an existing power generating plant at the Tanguisson Power Station. At the completion of the refurbishment of the plant, presently targeted to be June 30, 1997, HEI will assume operational control of the plant for a period of twenty years. GPA shall provide as of the commencement date all inventory, parts, tools and equipment on hand or on order, for the refurbishment, operation, and maintenance of the power station. HEI will be responsible for the replacement of inventory, parts, tools and equipment during the operating term of the agreement. All inventory, parts, tools and equipment will be transferred by HEI to GPA at the termination date. GPA will retain ownership of the power station during the operating term and will supply the fuel necessary to generate electricity for dispatch to customers.

Taiwan Electrical and Mechanical Engineering Services, Inc. (TEMES) - TEMES has agreed to construct, operate, and maintain a 40 MW capacity peakload power plant. TEMES will be responsible for all financing and construction costs of the power plant. The target completion date is December 5, 1997. Until the termination date, which is twenty years from the completion date, GPA will supply and deliver all fuel required by the Power Station and shall take electricity generated by the Power Station as determined by GPA's economic dispatch requirements. GPA guarantees to take and purchase annually 87,600 Mwh from TEMES. From the date of the contract until the termination date, TEMES shall own the Power Station and all the fixtures, fittings, machinery and equipment on the site or used in connection with the Power Station. TEMES shall be responsible for the management, operation, maintenance and repair of the Power Station during the twenty year period. Each month after the completion date, TEMES will charge GPA capacity fees and fixed O&M fees.

Enron Development Piti Corporation (Enron) - Enron has agreed to construct, operate and maintain slow speed diesel engine generation Power Station. The target completion date is December 31, 1998. From the date of the contract until the transfer date which is twenty years from the completion date, Enron shall own the Power Station and all the fixtures, fittings, machinery and equipment on the site which have been supplied by it. During this period, Enron shall be responsible for the management, operations and maintenance of the Power Station. GPA

(7) Commitments and Contingencies, Continued

will supply fuel and start-up electricity required for the construction, testing and commissioning of the Power Station. Additionally, GPA shall construct, install and connect the necessary transmission lines. GPA shall take all electricity generated during testing and commissioning of the Power Station. Until the transfer date, GPA shall supply and deliver all fuel required by the Power Station. Each month after the completion date, Enron will charge GPA capacity fees, fixed O&M fees and variable O&M fees.

The term of the TEMES and Enron agreements will end on the last day of the cooperation period of twenty years from the completion date. On termination, the Power Stations constructed will be transferred to GPA, free from any lien or encumbrance, provided all terms of the agreements have been met. The Power Station site is presently leased to GPA by the Navy. Subject to the prior written consent of the Navy, GPA will sublease the site to the above companies for a term at least as long as the term of the agreements, at an annual rent of \$100.

Letters of Credit

As of September 30, 1996, GPA has available a \$700,000 bank line of credit for purchases of parts and supplies, in addition to the two \$15 million lines of credit referred to in note 4. The \$700,000 line of credit is 100% collateralized by deposits in a savings account maintained by GPA.

As of September 30, 1996, GPA has outstanding letters of credit against all credit lines totalling \$694,135.

Contingencies: Environmental Protection Agency

The administrator of the Environmental Protection Agency (EPA), on May 24, 1986, granted a continuing exemption to GPA under the provisions of Section 325(b) of the Clean Air Act, as amended. The terms of the exemption require monitoring by EPA, certain commitments by GPA regarding fuel stocks and reporting and delineation of grounds for revocation of the exemption.

In October 1996, EPA initiated a civil action against GPA for operating the Cabras-Piti generating facilities in violation of the Clean Air Act. A civil penalty of \$170,000 is to be assessed. Additionally, GPA is to be directed to install a fuel-switching device that would automate the fuel switching from high-sulfur fuel oil to low-sulfur fuel oil. The cost of this project is approximately \$1 million. No provision has been made in the financial statements to recognize this potential liability.

Insurance Claims Receivable

As of September 30, 1996, GPA has approximately \$1.2 million in insurance and FEMA claims for typhoon and boiler damages included in accounts receivable. The amount ultimately to be collected against these claims is uncertain. Approximately \$273,000 of the allowance for doubtful receivables balance has been recorded for these claims.

Litigation

GPA has certain asserted and unasserted claims outstanding as of September 30, 1996. It is not possible to estimate the ultimate resolution of these matters and therefore, no provision for any liability that may result from these claims has been made in the financial statements.

Self-Insurance

GPA has adopted a policy of self-insuring its transmission and distribution plant.

As the result of a PUC Decision and Order, GPA added an insurance charge of \$.00145 per kilowatt hour to customer billings effective January 1, 1993 until a self-insurance fund balance of \$2.5 million is established. As required by the Decision and Order, GPA records the insurance charge as sales revenue and records self-insurance expense in the same amount. Insurance charge revenue is accumulated in the restricted self-insur-

(7) Commitments and Contingencies, Continued

ance fund to be used to cover uninsured or self-insured damages in the event of a natural catastrophe. There was no insurance charge revenue recognized for the years ended September 30, 1996 and 1995, as the self-insurance fund is considered fully funded.

Medicare

The Government of Guam does not withhold or remit funds to the U.S. Social Security System for the health insurance component of its salaries and wages. If the Government is found to be liable for such amounts, an indeterminate liability could result. It has been the practice of GPA and all other component units of the Government of Guam that Guam is excluded from the requirements of this health insurance component. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Hazardous Waste Assessment

Guam Public Law 20-110 requires certain entities to remit payments to a hazardous substance expense fund. There are questions as to the enforceability of the law and; accordingly, no provision has been made in the accompanying financial statements for payments to be made under this law.

Earthquake Damages

As the result of a major earthquake in August, 1993, GPA suffered an estimated \$2 million in damages to its facilities. This amount was less than the deductible on GPA's earthquake insurance policy. GPA has expended approximately \$1,100,000 on earthquake repairs and \$900,000 remains in other accrued liabilities at September 30, 1996. The ultimate cost of earthquake repairs has not been determined.

Government of Guam General Fund

On March 21, 1997, legislation was enacted which requires GPA and three other component units of the Government of Guam to pay the Government of Guam General Fund, a combined amount of \$23 million as in lieu of tax payment for fiscal years 1986 to 1997. The law also requires that these component units be assessed a total of \$3.5 million annually starting in fiscal 1998. The \$23 million may be paid immediately or over a five to ten year period with financing terms to be negotiated. GPA's share of the \$23 million has not yet been determined; accordingly, no liability for this contingency has been recorded as of September 30, 1996

(8) Cash and Investments

The indentures for the 1992, 1993 and 1994 series revenue bonds (note 5) require the establishment of special funds to be held and administered by trustees and by GPA. In addition, proceeds from borrowings to finance generation and transmission facility construction are maintained by GPA in construction accounts. Funds in these accounts are required by loan agreement or public law to be used for generation and transmission facility construction. At September 30, 1996 and 1995, investments and cash held by trustees and by GPA in these funds and accounts are as follows:

	1996	1995
Construction funds	\$ 49,483,477	\$ 107,798,742
Bond reserve funds	27,065,801	27,037,223
Principal and interest funds	14,800,365	12,959,763
Working capital fund	10,864,670	4,507,445
Operating funds	5,888,211	7,816,269
Revenue fund	2,862,115	2,600,162
Self-insurance fund	2,565,657	2,450,546
Surplus fund	209	10,190
Capitalized interest funds	-	6,827,084
	<u>\$ 113,530,505</u>	<u>\$ 172,007,424</u>

Investments in debt securities are carried at cost or amortized cost in the accompanying financial statements. Market values shown below implicitly include accrued interest for debt securities.

	Carrying Value	Market Value
1996:		
Cash on hand, in demand and time deposits and money market accounts	\$ 59,610,954	\$ 59,610,954
U.S. treasury notes	19,771,751	20,142,927
Repurchase agreements	27,301,492	27,301,492
Municipal bonds	6,846,308	6,794,621
	<u>\$ 113,530,505</u>	<u>\$ 113,849,994</u>
1995:		
Cash on hand, in demand and time deposits and money market accounts	\$ 68,011,559	\$ 68,011,559
U.S. treasury notes	26,283,557	26,702,918
Repurchase agreements	70,866,000	70,866,000
Municipal bonds	6,846,308	6,846,308
	<u>\$ 172,007,424</u>	<u>\$ 172,426,785</u>

Credit risk associated with investments is categorized into three levels generally described as follows:

Category 1 - Insured or registered, or securities held by GPA or its agent in GPA's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than GPA or its agent, but in GPA's name.

Category 3 - Uninsured and unregistered, with securities held by a party other than GPA and not in GPA's name.

Demand and time deposits and money market accounts held in GPA's name are non-categorized investments in accordance with Governmental Accounting Standards Board (GASB) Statement #3. As of September 30, 1996 and 1995, substantially all of GPA's money market accounts and treasury notes held by trustees are classified as Category 2 investments in accordance with GASB #3.

(8) Cash and Investments, Continued

Bank balances of demand and time deposits and money market accounts held in the name of GPA totaled \$10,510,247 as of September 30, 1996. Of this amount, \$484,136 was covered by federal depository insurance and the remaining \$10,026,111 was uninsured and uncollateralized.

(9) Significant Customer

During the years ended September 30, 1996 and 1995, GPA billed the U.S. Navy \$36,000,000 and \$30,300,000, respectively, for sales of electricity under the customer/supplier agreement.

(10) Fuel Cost Recovery

During the year ended September 30, 1995, GPA recovered \$8 million from a fuel supplier for over-billings which occurred over several previous years. The recovery was recorded as a deferred credit at September 30, 1995 as required by the PUC.

Approximately \$3 million of this recovery was recognized as miscellaneous revenue during fiscal year 1996. The balance of \$5 million was determined to belong to the Government of Guam General Fund. These funds were credited against receivable accounts of various government agencies by GPA in fiscal year 1996.

(11) Regulatory Assets

Regulatory assets consist of the following at September 30, 1996 and 1995:

	1996	1995
Deferral of expense associated with an uncollectible receivable from a Government of Guam agency. This cost is being recovered through a water well surcharge approved by the PUC in May 1996, to be collected from GPA's civilian customers beginning June 1, 1996 through September 30, 1997.		
	\$ 5,279,448	\$ 4,244,063
Deferral of maintenance and repair costs being recovered through maintenance surcharges approved by the PUC in May 1996 and again in February 1997, to be collected from GPA's civilian customers and the Navy subject to the provisions of the CSA. The surcharge is effective June 1, 1996 and has been approved for the period through September 30, 1997.		
	4,061,791	-
	\$ 9,341,239	\$ 4,244,063

(12) Related Party Transactions

A board member of GPA is the principal owner of a supplier who has been doing business with GPA in the past years. Transactions with this vendor during the years ended September 30, 1996 and 1995 approximate \$1.6 million and \$100,000, respectively.

(13) Subsequent Events

In February 1997, the PUC approved a 7% increase in electrical rates effective March 1, 1997.