MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on Guam Power Authority's Baa2 senior lien revenue bonds rating to stable

11 Jan 2019

Around $562 million of rated debt

New York, January 11, 2019 -- Moody's Investors Service has affirmed the Baa2 rating on the Guam Power Authority's (GPA) senior lien revenue bonds and has changed the outlook to stable from negative.

This rating action follows Moody's recent outlook change on the Ba1 Issuer Rating for the Government of Guam to stable from negative on January 10, 2019. For full details, please refer to the Government of Guam press release (https://www.moodys.com/research/Moodys-affirms-Guams-Ba1-issuer-rating-changes-outlook-to-stable--PR_905673756).

RATINGS RATIONALE

The change in the outlook to stable reflects Moody's assessment of the linkage between GPA and the financial health and stability of the Government of Guam. GPA operates fairly independently from the government, reports no outstanding overdue government receivables and makes no transfers to the general fund of the government. Nevertheless, we do not expect that the authority would be able to disconnect itself completely from local economic conditions or material financial stress at the government level.

The Baa2 senior lien revenue bond rating reflects the authority's strong competitive position as the sole provider of electricity to residential customers on the island of Guam and to the U.S. military, which provides stability to its revenue and customer base through economic cycles. Willingness and ability to increase rates has been adequate. Volatile fuel costs are recovered through a levelized energy adjustment clause (LEAC), which is adjusted semi-annually and the base rate was last increased in October 2013.

The fixed charge coverage is expected to be around 1.4x in FY 2018 and we expect it to remain comfortably around 1.3-1.4x in the next few years. Liquidity is currently very strong (227 days cash on hand in fiscal year 2017) but could decline to historical levels of 80-90 days cash on hand over the next few years because the authority is funding its $178 million 5-year 2018-2022 capital plan with operating cash flow and existing liquidity reserves. The higher level of liquidity has benefited from a $126 million insurance claim following the fire in 2015 that destroyed units Cabras 3 and 4.

The credit profile is constrained by the age of GPA's generating facilities which are largely fueled by oil and the challenge to renew its fleet. However, GPA is planning the construction of a 180 MW combined cycle plant to be fueled by ultra-low-sulfur diesel (ULSD) and liquefied natural gas (LNG). The plant will likely be financed through a long-term capital lease with an independent power producer (IPP). GPA currently expects construction completion by 2022.

GPA's low speed diesel units do not comply with existing Environmental Protection Agency (EPA) regulations. We understand that GPA is in discussions with the EPA to achieve compliance over time as it renews its generation facilities.

Other constraining credit factors include the island's small and concentrated economy, the authority's high leverage, vulnerability of energy rates and consumption owing to volatile oil prices and weather related events as well as the economy's vulnerability to political events in the Pacific region.

RATING OUTLOOK

The stable outlook reflects our assessment of the linkage between GPA and the financial health and stability of the Government of Guam (Issuer Rating Ba1 stable). It also reflects our expectation that GPA will maintain a fixed charge coverage above 1.3x and a solid liquidity profile in the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Increased diversity of its resource mix

- Sustained improvements in sales from residential customers

- Total fixed charge coverage above 1.5x on a sustainable basis

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Erosion of the government's financial position and liquidity or deteriorating local economic conditions that would negatively impact GPA's financial flexibility

- Total fixed charge coverage below 1.1x

- Debt ratio above 100%

- Days cash on hand below historical levels of around 80-90 days

- EPA negotiations result in material fines or higher than expected compliance costs

- Loss of large customers

- Plant shutdown that would further reduce generation capacity

LEGAL SECURITY

Senior lien bonds are secured by a pledge of net revenues, subject to the prior application of such revenues for operations and maintenance expenses. Bondholders benefit from a 1.3x senior annual debt service rate covenant, a 1.2x subordinate annual debt service rate covenant, and a standard additional bonds test. Capital lease payments are subordinated to senior lien debt service.

The debt service reserve fund was funded at close to $50 million at September 30, 2018. The bond documentation requires working capital fund to be funded at least at one twelfth of the budgeted annual maintenance and operational expenses.

PROFILE

The Guam Power Authority (GPA) is a component unit of the Government of Guam. GPA provides electricity to residential, commercial, and governmental customers on the island of Guam and is the sole provider of electric services to around 162,000 residential customers on the island. The U.S. Navy is GPA's largest customer (16% of FY 2018 electric revenue). Rate increases need to be approved by the Public Utilities Commission (PUC) of Guam.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Kathrin Heitmann
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Krummenacker
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.