

Rating Action: Moody's assigns Baa2 rating to Guam Power Authority's revenue bonds 2017 Series A, outlook stable

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New York, December 11, 2017 -- Moody's Investors Service, ("Moody's") has assigned a Baa2 rating to the Guam Power Authority's (GPA) senior revenue refunding bonds, 2017 Series A. At the same time, we have affirmed the Baa2 rating on the authority's outstanding senior revenue bonds. The rating outlook is stable.

The 2017 Series A bonds are expected to be issued in an amount of around \$146.5 million to refund the existing 2010 Series A bonds. The authority has around \$565 million in senior revenue bonds outstanding.

Ratings Rationale

GPA's Baa2 rating reflects the authority's strong competitive position as the sole provider of electricity to residential customers on the island of Guam and to main supplier 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. Rate increases need to be approved by the Public Utilities Commission (PUC) of Guam.

We expect fixed charge coverage in 2017 to be around 1.5x and comfortably above 1.3x in the next few years. Liquidity is currently very strong (236 days cash on hand in fiscal year 2016) but expected to decline to historical levels of 80-90 days cash on hand as the authority is funding capital expenditures from operating cash flow and existing liquidity reserves. Leverage is high, but the 5-year capital plan for the period 2018-2022 of \$177.8 million does not foresee new debt financing. GPA reports no outstanding overdue government receivables and makes no transfers to the general fund of the government.

The rating is constrained by the age of GPA's generating facilities which are largely fueled by oil and the challenge to renew its fleet. 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, which will therefore, not require the issuance of new GPA debt. In addition, 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 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.

We do not expect that the electric utility would be able to disconnect itself completely from a material deterioration in local economic conditions, external political events affecting the island or financial stress at the government level.

Rating Outlook

The stable outlook incorporates our expectation that GPA will maintain a fixed charge coverage ratio at around 1.5x and cash days on hand of at least 80-90 days.

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 Guam Power'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 covenants, and a standard additional bonds test. Capital lease payments are subordinated to senior lien debt service.

The debt service reserve fund was funded at \$48.6 million at September 30, 2017, in excess of the required maximum annual debt service. GPA also has a debt service fund (\$18.0 million at September 30, 2017). The bond documentation requires a working capital fund, to be funded at least at one twelfth of the budgeted annual maintenance and operational expenses.

Use of Proceeds

Proceeds from the proposed 2017 Series A will be used to refund a portion or all of the outstanding 2010 Series A bonds.

Obligor 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 (17% of 2017 electric revenue).

Methodology

The principal methodology used in this rating was U.S. 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.

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