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Guam Power Authority – FY 2019 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) released the Guam Power Authority (GPA) financial statements, report on compliance and internal control, management letter, and auditor’s communication with those charged with governance for fiscal year (FY) 2019. GPA closed FY 2019 with an increase in net position (net income) of \$15.2 million (M) from the prior year’s \$10.4M.

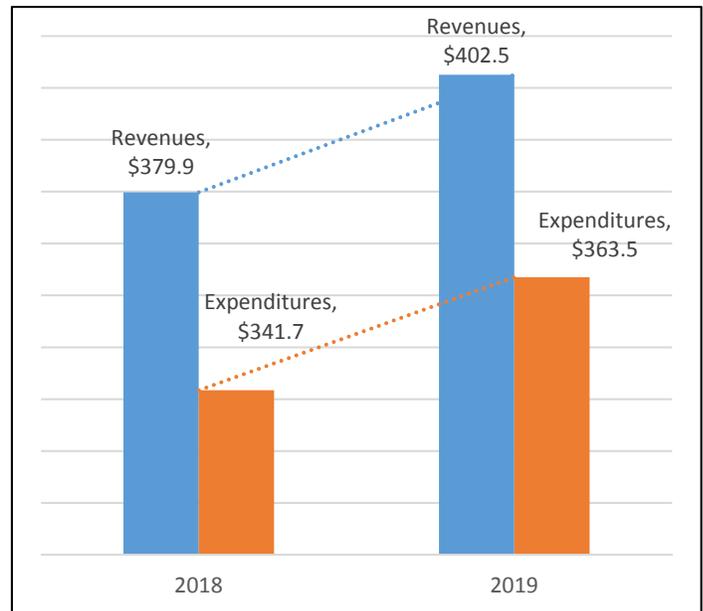
Independent auditors, Deloitte & Touche, LLP (D&T), rendered an unmodified “clean” opinion on GPA’s financial statements and compliance for all major federal programs. Once again GPA qualified as a low-risk auditee, for the fourth year in a row, as auditors did not identify any material weaknesses or significant deficiencies in its compliance report. However, D&T issued a separate management letter that identified six comments.

\$22.7M Increase in Revenues Edges out \$21.8M Increase in Expenses

GPA’s total operating revenues increased by 6%, or \$22.7M, from \$379.9M in FY 2018 to \$402.5M in FY 2019. The increase was due to the maintenance of a steady Levelized Energy Adjustment Clause (LEAC) rate and recovery of unrecovered fuel costs. Miscellaneous revenue also increased by 6%, or \$1M, from \$2.2M in FY 2018, which was mainly due to the reimbursement of costs for loaned personnel received from the Commonwealth of the Northern Marianas Islands for assistance provided during the recovery from Super Typhoon Yutu.

The increase in GPA’s operating revenues edges out the 6.4% or \$21.8M increase in total operating and maintenance expenses of \$363.5M for FY 2019. The increase was primarily due to the 10%, or \$21.3M, increase in production fuel caused by an increase in the global fuel price. There was also a 13% or \$4.3M increase in administrative and general expenses due to increases in pension costs. Most other expenses increased minimally. On

the other hand, Energy and Conversion costs decreased significantly by \$3.6M, or 20.4%, due to the completion of the lease with Marianas Energy Corp in January 2019. There was also a \$600 thousand (K), or a 3%, decrease in other production and a nominal \$185K, or 0.5% decrease in depreciation and amortization.



FY 2019 Other Post-Employment Benefits (OPEB) Decreased

Governmental Accounting Standards Board (GASB) No. 75 pertains to post-employment benefits other than pension. These benefits provided by the Government of Guam (GovGuam) include medical, dental, and life insurance to retirees, spouses, children, and survivors. For FY 2019, GPA's proportionate share of GovGuam's OPEB liability was \$120.3M, an 18% or \$25.7M decrease from \$145.9M in FY 2018.

New Generation

In 2016, GPA filed its updated integrated resource plan (IRP) to the CCU and PUC. The IRP included the plan to install 180MW of dual-fired combined-cycle generation units, the retirement of Cabras 1 & 2 generators, expansion of renewable energy portfolio, and installation of energy storage. The PUC approved GPA's generation plan in October 2016 and procurement was completed in 2019.

The new generation was awarded to KEPCO as a build-operate-transfer contract and is planned to be commissioned by October 31, 2022. For GPA, a combined-cycle generation has several benefits like better fuel efficiency, the lower capital cost compared to installing an emission control system to its existing generation plants, promotes fuel diversity, and compliance with U.S. EPA requirements.

Management Letter

Although there were no material weaknesses or significant deficiencies in its compliance report, auditors still issued a separate management letter that identified six comments related to the following: (1) billing customers on estimated consumption beyond the allowed three months, (2) no analysis was done for revenue rate reclassification, (3) delays in approval of purchase orders for performance management contracts, (4) inactive accounts still appear active in their Customer Care & Billing System, (5) untimely closing of construction work in progress to fixed assets, and (6) accounts payable reconciliation issues.

For more details, refer to the Management Discussion and Analysis in the audit report at www.opaguam.org and www.guampowerauthority.com.