A GLANCE AT GUAM POWER AUTHORITY

The Guam Power Authority is a public corporation of the Government of Guam. It is governed by the Consolidated Commission on Utilities (CCU), an elected five member board. GPA is subject to the regulation of the Guam Public Utilities Commission of Guam (GPUC) and has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). It has total assets of $885M and employs approximately 500 employees. GPA provides electrical services to residential, commercial, Government of Guam and the U.S. Navy under the Utility Services Contract.

GPA consistently maintains the number of customers for the past five years with slight increases each year. One of our Critical Success Factors is to provide the people of Guam with Superior Customer Service.

The residential rate for Guam decreased by .03 cents from the prior year rate of 29.16 per kWh. Our rate remains competitive in comparison with the other island utilities. GPA has contracted for 30 MW of solar energy and is exploring LNG to pursue low cost energy solutions.

Randall V. Wiegand, CPA, CFM, CFE
Chief Financial Officer
| COMMITMENT TO PRODUCT AFFORDABILITY | • Fuel recovery charge decreased by 13.01%  
• Developed implementation plan to transition to Liquefied Natural Gas (LNG) |
| SUPERIOR CUSTOMER SERVICE | • Available Call Center 24/7 - 647-5787  
• More convenient ways to pay your bill  
• Survey on customer satisfaction increased from 50% to 62% |
| HIGH SYSTEM RELIABILITY | • GPA commissioned a study to improve reliability through energy storage (batteries)  
• T&D Maintenance Action Plan to replace old and rusted line and hardware.  
• Fuse installation and coordination.  
• Faulted Circuit Indicator installation. |
| FINANCIALLY SOUND AND STABLE | • 45 days Unrestricted cash  
• Debt Service Coverage is 1.9x per Bond Covenant  
• Maintained investment grade rating from all rating agencies |
| COMMITMENT TO WORKFORCE DEVELOPMENT | • 2013 MagPro Agency of the Year Awardee  
• Quarterly Employee Recognition awarded for excellence performance  
• Service awards |
| OPTIMUM USE OF TECHNOLOGY | • Purchased new Customer Service Information system  
• Smart Meter installations - 99% completed  
• Launched “My Energy Guam” - customer monitoring utility consumption |
GPA saw slight revenue growth in 2013 compared to 2012. Although our rate is the lowest compared to our neighboring islands, high fuel prices are causing challenges for sales growth. GPA continues to develop plans and find solutions to reduce energy costs for our customers. An implementation plan is being developed to utilize Liquefied Natural Gas (LNG) as an alternative (clean and less costly) in order to diversify energy sources. This plan will allow GPA to take advantage of technology improvements by replacing older plants with more efficient generation equipment and add renewable energy sources. The cost estimate of the plan is between $500-$800 million and will take many years to develop and implement.

GPA non-fuel expenses have been stable for the last four years. Fuel expenses have been volatile over this period. GPA’s fuel cost makes up 64% of GPA’s total expenditures. GPA has been focusing its efforts on maximizing the efficiency of its fuel consumption. These savings are passed directly to ratepayers through the Levelized Energy Adjustment Clause. The top priority of the CCU among the six critical success factors is product affordability. GPA recognizes the high cost of fuel is placing a significant burden on the community and is committed to finding effective energy solutions.

The breakdown of cost per every $1 spent on your bill is consistent every year. Fuel still holds the biggest portion of the cost at $0.64 for every dollar spent. GPA is finding solutions to lower costs. We are striving hard to uphold our commitment to the people of Guam. That is to provide a reliable, efficient and affordable power to our island community.

All financial activities of GPA are in line with the Mission, Vision and Goals established by the Authority. GPA’s financial statements for fiscal year 2013 received a clean opinion from the auditors of Deloitte & Touche. A comprehensive financial statement of GPA may be viewed online at www.guampowerauthority.com
The major challenges facing the Guam Power Authority have not changed in the last year. They are as follows:

1) The cost of fuel and the affordability of electric service to our customers
2) Compliance with USEPA rules and regulations
3) Loss of sales due to renewable energy and conservation
4) Maintaining a healthy credit profile to ensure GPA retains the capability to fund its Capital Improvement Projects

The high cost of fuel remains the most significant challenge for the Authority. After the recent rate proceeding, it has become increasingly apparent that many customers are highly resistant to further rate increases. Fortunately, GPA is entering a period in which existing debt costs will begin to decrease over a number of years. GPA does not believe additional rate increases will be necessary. However, this has provided further impetus for GPA to explore alternatives for reducing its cost of operation.

The United States Environmental Agency (USEPA) has imposed a series of regulations governing the levels of emissions produced from certain power generation facilities. GPA has estimated the costs of complying with these regulations would be nearly $470 million. GPA would pursue a conversion to Liquefied Natural Gas (LNG) in lieu of making the improvements necessary to complete the required emission remediation. GPA has the estimated savings of switching to LNG could exceed $25 million per year as opposed to the expenditure of the $470 million which would not yield any additional cost benefits to GPA.

Another growing concern is the lack of sales growth and the growth of solar energy on Guam. Because GPA recovers more than 80% of its rates through variable energy charges, customers who participate in GPA’s Net Metering program are reducing their power billings without a corresponding reduction in GPA’s cost to serve those customers. As of September 30, 2013, GPA had 77 Net Metering customers. Although the number is relatively small, it has been growing exponentially and is increasingly becoming a challenge for GPA. GPA is planning to petition the Guam Public Utilities Commission for a new tariff that would more closely match fixed costs to fixed rates and variable costs to variable rates.

GPA has determined that access to capital markets will remain a priority in finding and financing solutions to the challenges described above. It is imperative that GPA closely monitor key metrics such as debt service coverage ratios as we navigate through these future challenges.

Joaquin C. Flores P.E.
General Manager