



Guam Power Authority FY 2016 Financial Highlights

April 12, 2017

Guam Power Authority Achieves Low-Risk Auditee Status

The Guam Power Authority (GPA) is commended for achieving low-risk auditee status. No findings pertaining to federal funds were identified in fiscal year (FY) 2016. Independent auditors Deloitte and Touche, LLP rendered unmodified “clean” opinions on GPA’s financial statements and compliance over major federal programs. There was one finding pertaining to procurement.

GPA closed FY 2016 with a significant decrease in net position (net loss) of \$7.0 million (M) from the prior year’s net income of \$15.2M. The decrease is due to the extraordinary net loss of \$19.8M from damage to the Cabras 3 and 4 power plants.

Cabras 3 and 4 Written Down to Zero Value

In August 2015, two of GPA’s generators suffered major damage from an explosion at the Cabras 3 and 4 power plants. It was determined that Cabras 4 could not be repaired and bringing Cabras 3 back online was not feasible. As a result, the generators, related facilities and equipment were written down to zero value as of September 30, 2016.

GPA lost 78.6 megawatts (MW) of base load capacity causing insufficient generation reserve. Prior to the explosion, Cabras 3 and 4 represented 19% of GPA’s total capacity of 420MW. Despite the 78.6MW loss, GPA was able to augment the shortfall by swiftly coordinating with large customers to establish 29MW of interruptible load program, running smaller peaking units, and installing 40MW of newly acquired temporary generation. In addition, GPA aggressively implemented a rehabilitation plan for its diesel engines and turbines. This included bringing back its decommissioned Dededo Combustion Turbine 1 and 2 of 40MW at a cost of \$9.8M which should be fully operational by April 2017. Due to GPA’s focused efforts, the average customer experienced less than 1% of the total load shedding hours.

In FY 2016, GPA realized \$84.0M in insurance recoveries which was applied against incurred and estimated repair costs of \$103.8M resulting in the extraordinary loss of \$19.8M. If the final amount of losses, damages, and related insurance recoveries are materially different than estimated, any difference will be accounted for prospectively in the financial statements.

Future Generation Capacity

In December 2015, GPA entered into a contract for temporary power services to provide 40MW of additional generation. The contract was extended for four years effective January 2017.

In addition, based on GPA’s updated Integrated Resource Plan, the Consolidated Commission on Utilities (CCU) and the Public Utilities Commission authorized GPA to procure up to 180MW of

combined cycle units. GPA will retire Cabras 1 and 2 upon commission of the new combined cycle plants.

Decreases in Revenues and Expenses

GPA's total operating revenues significantly decreased by 16.7%, or \$61.8M, from \$370.0M in FY 2015 to \$308.2M in FY 2016. The \$61.8M decrease was primarily due to the reduction of the Levelized Energy Adjustment Clause rate by 17.4%. Despite revenue decreases, energy sales increased by 2.2%, or 35 gigawatt hours (GWH) over the prior year's 0.4%. Energy sales were 1,539 GWH in FY 2015 and increased to 1,574 GWH and the number of customers grew by 677, from 49,530 to 50,207.

GPA's total operating and maintenance expenses decreased by 16.7% or \$53.6M. This was due to the significant decline in GPA's fuel cost and other production costs by 27.7%, or \$62.0M, consistent with declining global fuel prices. However, other operating expenses increased by \$8.4M mainly due to the pension liability adjustment for Governmental Accounting Standards Board Statement (GASB) No. 68. Also, net non-operating expenses decreased by nearly \$6.0M from the prior year. This was due to completion of payments for the 2010 Series Subordinate Revenue Bonds, early termination of energy conversion agreement, and write-off of utility plant.

GASB Statement – Pension Liability

The implementation of GASB 68 and 71 related to Accounting and Financial Reporting for Pensions recognizes GPA's pro rata share of the Government of Guam's (GovGuam) net pension liability. Per the Government of Guam Retirement Fund, GovGuam's pension liability of \$1.2 billion (B) in FY 2015 increased to \$1.4B in FY 2016. GPA's pro rata share increased, going from \$67.0M in FY 2015 to \$71.0M in FY 2016. This resulted in a pension adjustment of \$4.4M.

Reports on Internal Controls and Compliance for Major Federal Programs

The Report on Internal Control over Financial Reporting and Compliance and other matters identified one finding relative to procurement deficiencies: (1) No evidence of how a vendor was selected; (2) Sole source procurement; and (3) \$536 thousand (K) in purchase order (PO) amendments exceeded the General Manager's approval threshold and required CCU approval.

GPA received an unmodified "clean" opinion on the Report on Compliance over Major Federal Programs. The auditors did not identify any findings in FY 2016.

Management Letter Comments

A separate Management Letter identified six findings: (1) accounts were not classified in the appropriate rate class, (2) \$241K of inactive accounts receivable have corresponding active accounts in GPA's system, (3) accounts payable schedules issues, (4) Performance Management Contractors (PMC) expenditures were incurred before the POs were issued to the PMC, (5) untimely approval and processing of the personnel action forms, and (6) \$126K in customer deposits with no corresponding active customer accounts. In addition, a separate letter identified six deficiencies in GPA's information technology environment.

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