

GUAM POWER AUTHORITY FY 2003 Financial Highlights

September 14, 2004

Guam Power Authority lost \$23.9 million in fiscal year 2003, compared to a profit of \$1 million in FY 2002, according to the financial audit conducted by external auditors Deloitte & Touche LLP.

The loss is attributable to \$11 million in damages arising from Typhoon Pongsona, a \$6.2 million increase in the cost of fuel and fuel production, and a \$7 million decrease in net sales margin. Fortunately, the loss did not put GPA in technical default to its bondholders as GPA was still able to meet its minimum debt ratio requirement of 1.3 times the minimum net revenue.

Deloitte expressed concern in the audit opinion about the ability of GPA to collect more than \$32 million in notes receivable from the Department of Education and the Department of Public Works. Neither agency has been making payments on notes of \$17.4 million and \$15 million, respectively.¹ The DPW debt is for electricity GPA provided for street lights over a period of years.

Total accounts receivable increased \$4.9 million from \$63.8 million to \$68.7 million, primarily due to Federal Emergency Management Agency (FEMA) claims of \$1.5 million for damages from Typhoon Pongsona. Deferred fuel costs increased \$6.4 million to \$13 million from \$6.6 million. In FY 2004, approximately \$6.5 million of the \$13 million deferred fuel costs has been recovered through rate adjustments.

After six years, FEMA agreed to pay GPA \$8.5 million to settle outstanding claims from damages Typhoon Paka inflicted in 1997. The contractor who negotiated the settlement was paid a 10 percent contingent fee of \$893,000.

In the Compliance and Internal Control Reports, Deloitte cited GPA with twenty findings, up from eight findings in FY 2002. Findings 2003-01 through 2003-08 are repeat findings of FY 2002. Other findings discussed in the report were the following:

2003-19. In September 2000, two bond reserve fund forward delivery agreements were entered into. Under the terms of the agreements, GPA liquidated at a substantial discount, a long-term interest revenue cash flow from

¹ Over the last two months, DOE has made an additional payment of \$1 million.

certain bond proceeds, in return for the payment of \$12.7 million. Additionally, GPA incurred termination fees of \$3.53 million and closing costs of \$1.25 million.

These agreements exceeded the \$1.5 million review threshold for the Public Utilities Commission of Guam's (PUC) contract review, but GPA did not obtain prior PUC's approval.

According to the PUC, "this transaction was entered into on GPA's behalf, by the Governor of Guam, under an assertion of organic authority, in the absence of a quorum of the GPA board of directors." GPA and the former Governor, "with the aid of an ill advised Attorney General's opinion, sidestepped independent public scrutiny that PUC would have brought to bear under its contract review authority."²

2003-14. The auditors noted several instances of excessive overtime as indicated in the table below. In addition, there were six employees that notably received overtime in excess of 100% of base annual pay. Much of the overtime, however, was due to Typhoon Pongsona recovery efforts from December 2002 to March 2003, accounting for 64% of total overtime.

# of Instances	Overtime Paid on a Single Day
32	Over 16 hrs. + 8 regular hrs.
391	10 to 16 hrs. + 8 regular hrs.
40 ³	24 hrs. or more + 8 regular hrs.

2003-13. Review of Construction Work in Progress details revealed one job with \$941,000 in charges that has not been completed and did not have current year activity. In addition, the Plant Maintenance Supervisor indicated that this project has been delayed at least twice due to funding issues.

2003-17. While GPA's practice has been to only pay off-island vendors through a line of credit, a local vendor was paid through this method. This vendor was then paid a second time upon the processing of invoices. This occurred because the normal accounts payable process had been deviated for this vendor.

2003-20. Following Typhoon Pongsona, GPA issued a purchase order to the lowest off-island bidder for the rental of bucket trucks. Due to an oversight by GPA procurement, the request for proposal (RFP) did not address air freight costs for the vehicles, and resulted in a subsequent issuance of a purchase order amounting to \$496,800.

For a more detailed commentary of GPA's operations, refer to the Management Discussion and Analysis in the audit report.

² These quotes were taken from PUC's Docket 94-03 dated March 31, 2004.

³ GPA acknowledges that there is room for improvement in the control of overtime. However, they did not find "any instances in which an employee was paid for working more than 24 hours in a day."