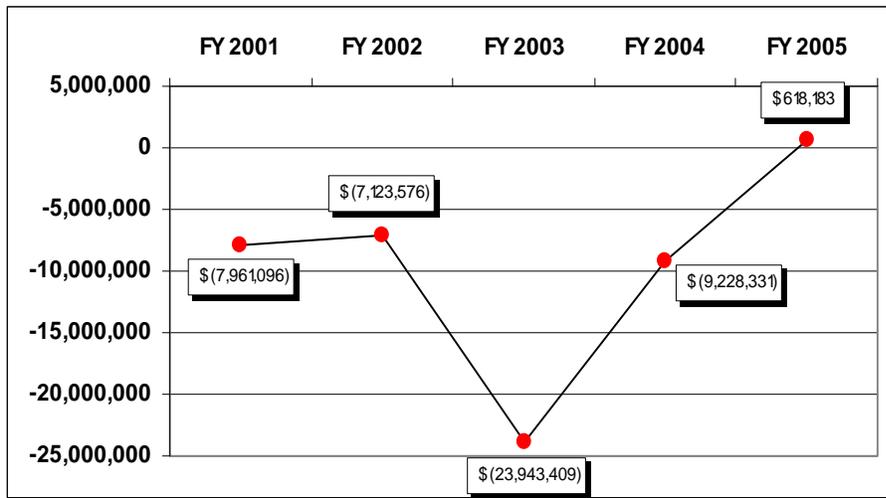


GUAM POWER AUTHORITY
FY 2005 Financial Highlights

May 18, 2006

For the first time in five years, the Guam Power Authority (GPA) posted an increase in net assets. GPA's financial health has been on a steady path of improvement from its \$23.9 million loss in 2003.¹ GPA's loss decreased by \$14.7 million from 2003 to just \$9.2 million in 2004, and in 2005, GPA posted a \$618,183 gain. See Chart below.



Electricity sales increased by \$19.7 million to \$245 million in 2005, and are primarily due to the increase in fuel prices. Other revenue sources include interest revenues and fees charged for reconnections and service establishments.

GPA's total operating and maintenance expenses increased by \$17 million, from \$193.1 million in

2004 to \$210 million in 2005. Of the \$210 million in total operating expenses, \$132.1 million represents production costs, which increased by \$16.8 million from \$115 million in the prior year primarily due to rising fuel costs. The \$16.8 million increase in production cost was offset by a \$20.7 million increase in revenues, resulting in a net increase of \$3.8 million.

Non-production costs, such as administration, transmission and distribution, energy conversion, and customer accounting, increased nominally by \$118,000 to \$77.9 million in 2005. Operating earnings, total revenues minus total operating and maintenance expenses, increased by \$3.7 million in 2005.

Other expenses, which include interest and other non-operating expenses, decreased because no oil spill costs were incurred in 2005 compared to \$3.4 million in 2004, and interest expense decreased by \$553,510 from \$42.7 million in 2004 to \$42.1 million in 2005. Further, GPA received \$1.4 million in Federal Emergency Management Agency (FEMA) Grants.

Fuel inventory increased by \$6.5 million from \$16.5 million in 2004 to \$23 million in 2005 largely due to the increase of fuel cost from \$34 to \$47 per barrel and a 4,000-barrel increase in fuel inventory held by GPA.

Total accounts receivable and current installments of long-term receivables saw a minimal decrease of \$1.3 million from \$48.7 million in 2004 to \$47.4 million in 2005. As of September 30, 2005, GPA maintains \$37 million in receivables from Government of Guam (GovGuam) agencies. Of the \$37 million, \$14 million is due from the Guam Public School System (GPSS), \$10.4 million from the Department of Public Works (DPW) for streetlights, \$782,033 from the Guam Memorial Hospital

¹ The losses were primarily attributed to Typhoon Pongsona losses.

Authority (GMHA) and \$11.7 million from the Guam Waterworks Authority (GWA). Of the four agencies, DPW has made minimal payments on its arrears, because the Department of the Administration has requested the Attorney General for an opinion as to the legality of the amounts owed. The \$11.7 million receivable from GWA is being paid by an 11.5% water surcharge. The likelihood of collection of the receivables from GPSS, DPW, and GMHA is uncertain due to the lack of viable funding.

For the last 4 years, the independent auditors have, in the audit opinion, expressed significant uncertainty of collectability of the \$37 million in receivables from GovGuam agencies, indicating that the “[c]ollection of this receivable is dependent on adequate funding to be provided by the Government of Guam or successful issuance of bonds by the Government of Guam.” To date, no bonds have been issued.

In April 2003, Public Law 27-19 authorized the Government of Guam to borrow up to \$218 million. The original agreement was amended due to concerns raised by the Attorney General as to whether GovGuam has reached its debt ceiling and can no longer borrow. The Guam Economic Development and Commerce Authority, on behalf of the Governor of Guam, filed a Request for Declaratory Judgment to the Supreme Court. In July 2003, the Guam Supreme Court ruled in favor of the Governor of Guam. The Attorney General appealed the ruling to the United States Federal Ninth Circuit Court of Appeals (Ninth Circuit). In March 2006, the Ninth Circuit dismissed the appeal for lack of jurisdiction. The Attorney General has indicated he intends to appeal to the U.S. Supreme Court.

In 2005, the Public Utilities Commission allowed GPA to recover up to \$2.8 million in typhoon losses against a self-insurance fund established to assist GPA in recovering its losses. Funding for the self-insurance fund is derived from a \$.00145/kilowatt hour surcharge in effect since 1993.

The Report on Compliance and Internal Control identified 9 findings, of which one is a material weakness and four are repeat findings. The material weakness is the absence of detailed listings or subsidiary ledgers for its production, transmission, and distribution plants. GPA is one of the few utilities in the country not to have a detailed accounting of its capital assets. Of its \$799 million in plant at cost, GPA is unable to account for \$588 million.

The auditors also found that for the past six years, an average of more than \$2 million in receivables are converted into inactive accounts. Although receivables converted to inactive accounts decreased to just \$1.5 million in 2005, GPA now has over \$12 million in inactive receivables apart from the \$37 million in GovGuam receivables.

Additional findings include, GPA’s non-compliance with requirements pertaining to allowable costs under its Federal Emergency Management Agency grant by charging job orders that are not related to the FEMA-funded project, not properly aging outstanding billings, and not regularly reviewing construction activities.

For a detailed commentary of GPA’s operations, see the Management Discussion and Analysis portion of the audit report.