



Financial Highlights
Guam Power Authority Financial Audit
Fiscal Year 2023

May 21, 2024

The Guam Power Authority (GPA) received an unmodified (clean) opinion in their fiscal year (FY) ended September 30, 2023 financial statements, but a material weakness was identified in the Report on Internal Control over Financial Reporting. GPA also received a qualified opinion on its compliance for its sole major federal program, due to a material weakness in federal award reporting requirement. Independent auditors, Ernst and Young LLP (EY), opined that the Schedule of Expenditures of Federal Awards (SEFA) was fairly stated, in all material respects, in relation to the basic financial statements as a whole. EY also issued a separate management letter with four findings.

GPA closed FY 2023 with a net income of \$7.1 million (M), increasing its net position to \$30.3M from \$23.2M in FY 2022. Other notable highlights include:

- Increase in assets and decrease in liabilities;
- Significant increases in revenues and expenses;
- Funding and status of capital activities; and
- Status of United States Environmental Protection Agency (US EPA)-Consent Decree

Increase in Assets and Decrease in Liabilities

GPA increased its total current assets by \$21.1M, which was attributed to the replenishment of working capital due to the reduction of unrecovered fuel costs. However, total assets increased only by \$8.5M due primarily to the decreases in utility plant by \$7.5M, and lease asset by \$5.1M. Although current liabilities increased by \$31.6M due to debt service payments, total liabilities only decreased by \$22.6M, mainly due to the reductions in long-term debt (net of current maturities) by \$26.3M, lease liability by \$4.9M, and other post-employment benefits (OPEB) liability by \$44.2M. Net pension liability, however, increased by \$21.1M and customer advances for construction by \$133 thousand (K). Net pension liability and OPEB liability totaling \$222.2M comprised 27% of the total liability amounting to \$810.9M in FY 2023.

All gross revenues have been pledged to repay the bonds principal and interest. Debt service for the series bonds amounted to \$27.8M, and total bonds payable (net of current maturities) amounted to \$477.6M as of FY 2023.

Significant Increases in Revenues and Expenses

Net operating revenues increased by \$75.5M, rising from \$478.6M in FY 2022 to \$554M in FY 2023. Electricity sales of \$548.7M was \$75.1M (or 15.9%) more than FY 2022 of \$473.6M. In FY 2023, total electric sales in terms of megawatt hours (MWh) decreased by 103K MWh, (or 7%) due to power generation and grid damages from Typhoon Mawar, which hit Guam in May 2023.

The Statements of Revenues, Expenses and Changes in Net Position for FY 2023, reflected total

operating and maintenance expenses of \$514.6M, which also increased by \$74.5M from \$440.1M in FY 2022. Such increase was mainly attributed to production fuel amounting to \$399.9M, which significantly increased by \$84.1M (or 27%) from \$315.8M in FY 2022. Production fuel is revenue neutral collected through the Levelized Energy Adjustment Clause. However, excluding the production fuel and depreciation and amortization costs totaling \$435.1M, operating and maintenance expenses decreased by \$9.6M due to lower production costs.

For operating and maintenance expenses, there were decreases in administrative and general expenses by \$5.1M, transmission and distribution by \$2.7M, customer accounting by \$698K, and other production costs by \$1.9M or a total of \$10.4M in FY 2023. Other expenses (net) significantly increased by \$14M (or 550%) substantially due to recovery costs related to Typhoon Mawar. In FY 2023, GPA's operating income of \$39.4M exceeded non-operating expense, net of \$32.3M, resulting in net income of \$7.1M, a decrease of \$6.2M compared with the prior year's net income \$13.4M.

Funding and Status of Capital Activities

The largest capital costs incurred in FY 2023 were for the Cabras 1 and 2 overhaul (\$4.2M), bucket trucks and equipment (\$2.5M), and substation and transmission improvement (\$0.9M). These were funded by proceeds from bonds and revenue funds.

GPA is committed to renewable energy and reduction of greenhouse emissions. GPA invested in a utility-scale solar farm of 25 megawatts (MW), which became operational in 2015. In the Phase II renewable project, a 60MW solar plant became operational in June 2022, while Phase III was terminated due to the long delay of the bid protest and the United States (US) Navy repurposing the land for military operations. Phase IV 180MW renewal project is under the bidding process.

GPA is required to absorb all the power fluctuations emitted by the Dandan solar farm and net metering customers. The Korea Electric Power Corporation 60MW solar farm has batteries to mitigate fluctuations in solar production. In 2016, the Consolidated Commission on Utilities and Public Utilities Commission approved procuring a 198MW dual-fire combined cycle combustion turbine. Due to damage from Typhoon Mawar during construction, the project was delayed. The revised commissioning date is September 2025.

Status of US EPA Consent Decree

The United States of America, on behalf of the US EPA, filed its complaint under the Clean Air Act. In early 2020, GPA, EPA, and the Justice Department finalized a settlement to resolve the alleged violations. The parties lodged a Consent Decree with the US District Court in Guam, which was approved in April 2020. Under the terms of the settlement, GPA will build and operate a new power plant burning ultra-low sulfur diesel (USLD), and capable of burning liquefied natural gas, convert fuel delivery system from residual fuel oil to USLD, build 100MW of solar power, install and operate new energy storage system, and pay a civil penalty of \$400K, which was paid in May 2020, to resolve the US's allegations. In January 2022, the US District Court of Guam approved a revised consent decree. The modifications mostly pertain to the schedules for implementing the injunctive relief required by the decree. The revision extended the building of the 198MW power plant until April 2024. However, due to damages from Typhoon Mawar, the commissioning of the 198MW plant was delayed. The status of consent decree objectives is shown in the table below.

Monetary penalties will be required if objectives are not accomplished by the required implementation dates.

FY 2023 Status of Consent Decree Objectives

Consent Decree Objectives	Schedules of Implementation	Current Status per GPA	Timeline per GPA
a. Permanently retire Cabras 1 and 2 units.	October 31, 2024	Under review by Consul.	Delayed due to Typhoon Mawar in May 2023. Permanent retirement by March 2026.
b. Bring the Marians Energy Company 8 and 9 units into compliance by switching from residual fuel oil to ultra-low sulfur diesel oil and installing oxidation catalyst.	July 31, 2022	The conversion was completed before July 31, 2022 or placed off-line until conversion was completed.	
c. Construct a new power plant that will comply with the requirements of Clean Air Act.	April 30, 2024	Under review by Consul.	Delayed due to Typhoon Mawar in May 2023. For completion by September 2025.

Reports on Compliance and Internal Control

During FY 2023, GPA expended a total of \$1.2M of federal awards with \$945K provided to sub recipients. EY rendered a qualified opinion in its Report on Compliance for the Sole Major Federal Program, due to a material weakness identified related to non-compliance with the requirements regarding Assistance Listing Number 15.875 Economic, Social, and Political Development of Territories (a major federal program). EY also identified a material weakness in the Report on Internal Control over Financial Reporting due to: a) overstatement of revenues and understatement of net position by \$2.2M and b) overstatement of SEFA by \$19.2M and grant revenues and receivables by \$16.8M. EY noted two findings, one related to federal awards and one on financial statements.

Management Letter

In a separate management letter, auditors identified four findings related to utility tampering charges, allowance for doubtful accounts, other matter – noncompliance, and general IT controls – untimely removal of system access of separated employees.

For more details, refer to GPA’s FY 2023 Financial Statements, Report on Internal Control Over Financial Reporting and On Compliance, Report on Compliance for Each Major Federal Program and Internal Control Over Compliance, Management Letter, and Auditor’s Communication With Those Charged With Governance at www.opaguam.org and www.guampowerauthority.com.