Guam Power Authority
FY 2013 Financial Highlights

March 18, 2014

The Guam Power Authority (GPA) closed fiscal year (FY) 2013 with a significant increase in net position (net income) of $4.9 million (M) compared to a decrease of $2.4M in FY 2012. Despite pressures from high fuel costs, GPA maintained their sales of electricity which increased by 2% from the prior year through the Levelized Energy Adjustment Clause (LEAC), which passes high fuel prices to GPA's customers. The increase in electricity sales is primarily due to the rising cost of fuel as electricity consumption decreased modestly by less than 1%. Rising fuel costs continues to be the authority's biggest challenge as the cost of fuel increased by $6.9M during the year.

Deloitte and Touche, LLP, rendered unmodified or "clean" opinions on the financial statements, and report on compliance for major federal programs. In October 2013, U.S. Department of Energy removed GPA's high-risk status. For the report on internal control, the auditors identified one recurring deficiency pertaining to weaknesses in computer controls and access to GPA's Utiligy system. The auditors also issued a management letter that identified 11 findings, of which seven are repeat findings.

During FY 2013, GPA implemented two Governmental Accounting Standards Board (GASB) pronouncements, resulting in a restatement in their net position from ($2.3M) to ($2.4M) in FY 2012. Certain reclassifications have been made to the FY 2012 financial statements to correspond to the FY 2013 presentation.

Increase of Base Rates and Consumer Growth

For FY 2013, nearly all categories of GPA's consumer base experienced a nominal increase in electric sales by 2% or $10.9M in FY 2013 compared to 12% or $46.2M in FY 2012. This can be attributed to the growth in GPA's base rates and consumer base and not the increase in kilowatt consumption. Sales to the U.S. Navy saw a decrease of 1% or $1.1M. Commercial sales increased by 5% or $8.2M. GPA's residential customers and the Government of Guam increased by 3%, or $3.7M and $179 thousand (K), respectively. In addition to the increase of electricity sales, there has been a growth in GPA's customer base by 77 customers, going from 48.5K in FY 2012 to 48.6K in FY 2013. Although there is a slight increase in GPA's consumer base, the high fuel cost has forced GPA's customers to take aggressive measures to reduce power usage through energy-efficient equipment purchases and seek energy alternatives such as solar energy. GPA's consumption by kilowatt hours (KWH) showed a downward trend over the last five years with an average decline of 17.2M KWH per fiscal year. For the current year, KWH consumption declined by 7.9M, going from 1.563 billion (B) to 1.556B in FY 2013.

Increased Production Fuel Cost

Over the last five years, GPA's production fuel cost has increased by an average of $10.3M per fiscal year. Cost of fuel increased by $6.9M or 2% from the prior year, going from $288.6M in FY 2012 to $295.5M in FY 2013. Cost of fuel average 66% of total expenditures. Other production decreased by $3M, going from $25M in FY 2012 to $22M in FY 2013. Total combined fuel and production cost represent 70% or $317.5M of operating expenditures.

Rate Activity

In September 2013, the Public Utilities Commission (PUC) approved a 1.9% power base rate hike to allow GPA to finance certain large capital projects with a commercial paper issuance. The full impact of this base rate increase, which is separate from the LEAC increases, will provide additional funds to GPA in FY 2014.

Increased Salaries and Benefits:

For the past five fiscal years, GPA's salaries and benefits have grown in excess of $1M annually or an average of $1.7M. In FY 2009, total salaries and benefits were $30.1M. Salaries and benefits have grown from $35.2M in FY 2012 to $36.8M in FY 2013 and represents 9% of GPA's operating expenses. Aside from regular pay and benefits, GPA's annual overtime cost has gradually increased by an average of $19.5K between FY 2009 to FY 2013. GPA management decided to follow the Judiciary's lead by paying out the Merit Bonuses for the last four fiscal years. In September 2013, GPA recognized and paid $55K in Merit Bonuses to approximately 27 employees.

Borrowing Activities

In October 2012, GPA issued 2012 Series A revenue bonds for $340.6M. These bonds were to restructure and flatten out GPA's debt service by reducing principal payments from 2012 to 2018 and increase the amount of debt service payment required from 2019 to 2031. Approximately $60M of the bonds was used to restructure GPA's existing bond debt. This borrowing did not result in additional capital improvement project funding.

Future Capital Improvement Projects

GPA is currently exploring the number of new Liquefied Natural Gas (LNG) plants to install. The range of costs for the generation facilities and the LNG regasification plant are estimated to be between $500M to $800M, depending on the number of generators to be installed. These capital improvements will result in additional future bond borrowings. New combine cycle facilities are to be constructed as soon as it is feasible to achieve fuel savings and improve system reliability. As GPA develops LNG facilities over the next seven to eight years, the combined cycle combustion turbines will utilize Ultra-Low Sulfur diesel fuel oil as an interim alternative fuel source.

Reports on Compliance and on Internal Controls and Major Federal Programs

Auditors rendered an unmodified or "clean" opinion on the report on compliance for major federal programs. For the report on internal controls, GPA had one significant deficiency pertaining to weaknesses in computer controls and access in the Utiligy system. This is a recurring audit finding for GPA's general computer control systems, which allow users to "delete and/or update" meter readings and billing information. To address this finding and remedy the lack of system audit trails, GPA has purchased new software and is planning to go-live in 2014 and 2015.

Management Letter Comments

A management letter reported 11 findings, of which seven were identified in the prior year. The four new findings include: electricity sales related to streamlining errors; erroneous payroll payments; expenses for change order approvals and expense classifications; and accounts payable for long outstanding accounts and an unreconciled balance. The seven repeat findings were: excessive cancellations and rebills; allowance for doubtful accounts understated by $316K; verification and recording of obsolete or retired utility plant inventory; reconciliation of accounts with Guam Waterworks Authority; accounting for bid deposits; customer deposits containing improper refunds, system problems, negative balances, and inactive accounts; and annual leave reconciliation.

A separate section in the management letter concerning three other matters involved GPA's lack of analysis performed on their Integrated Resources Plan implementation, lack of established caps on budgetary transfers, and minutes of Consolidated Commission on Utilities meetings that have not been transcribed.

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