Guam Power Authority
FY 2017 Financial Highlights

April 30, 2018

The Guam Power Authority (GPA) closed fiscal year (FY) 2017 with a significant increase in net position (net income) of $48.4 million (M) from the prior year's net loss of $11.0M. The increase was primarily due to the extraordinary gain from the Cabras 3 and 4 power plant insurance claim. Independent auditors Deloitte and Touche, LLP rendered an unmodified "clean" opinion on GPA's financial statements. FY 2016 was restated due to the recognition of pension liability.

Cabras 3 and 4 Insurance Claim

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 and resulted in a loss of $19.8M as of September 30, 2016.

In FY 2017, GPA received $84.0M of insurance recoveries. Subsequently, GPA entered into a final insurance settlement of $125.9M, which resulted in an additional $41.9M received in March 2018. GPA applied the insurance recoveries against the actual damage incurred and estimated repair costs. The savings on the operational cost from not running Cabras 3 and 4 were used to fund other generation projects. With the additional settlement increase, GPA recorded an extraordinary gain of $40.0M for an overall net recovery of $20.2M.

Increases in Revenues and Expenses

GPA's total operating revenues increased by 8.2%, or $25.3M, from $308.2M in FY 2016 to $333.5M in FY 2017. The increase was due to the increase in demand of electricity and increase in the global fuel price. Energy sales increased by 2.3% over the prior year's 2.2%. Consumption was 1,574 gigawatt hours (GWH) in FY 2016 and increased to 1,610 GWH. Additionally, the number of customers grew by 907, from 50,207 in FY 2016 to 51,114.

GPA's total operating and maintenance expenses increased by 11.0% or $29.4M. This was due to the addition of the Energy Conversion Contract related to the newly acquired 40-megawatt (MW) of power generation, the Performance Management Contract (PMC) for the combustion turbine plants, accelerated depreciation on power plants soon to be replaced and the increase in Energy Sense program rebates. Other operating expenses increased by $7.5M due to administrative and general expenses and energy conversion costs. GPA headcount increased to 475 in FY 2017 from 466 in FY 2016. Overtime increased to $1.4M in FY 2017 from $1.2M in FY 2016 that was attributed to emergency repairs. Energy conversion costs also increased due to the acquisition of the underlying power plant.

In December 2017, GPA refunded its 2010 Series bonds through the issuance of the 2017 Series bonds. The advanced refunding will reduce GPA's debt service payments by $11.5M over the course of the next 22 years.

Future Capital Activities
GPA invested in an industry scale solar farm of 25MW, which became operational in 2015. GPA will be adding 120MW of solar photovoltaics as part of the Phase II renewable projects and anticipates the system to be online by 2020.

In addition, GPA's updated Integrated Resource Plan, the Consolidated Commission on Utilities (CCU) and the Public Utilities Commission (PUC) authorized GPA to procure up to 180MW of dual-fired combined cycle units by December 2021. GPA will retire Cabras 1 and 2 upon commission of the new combined cycle plants. The PUC approved this generation plan in October 2016 and GPA hired a consulting engineer to assist with the engineering and procurement.

FY 2016 Financial Statements Restatement
In FY 2017, GPA adopted the Governmental Accounting Standards Board (GASB) No. 73, which aligns the reporting requirements for pensions, ad hoc Cost-of-Living Adjustments (COLA), and supplemental annuity payments. The implementation of this statement had a material effect on GPA resulting in the restatement of its FY 2016 financial statements. GPA's FY 2016 administrative and general expenses increased by $2.6M and beginning net position was reduced by $12.6M. This resulted in a $15.2M decrease in total net position from $77.0M to $61.8M for FY 2016 and corresponding increase in net pension liability by $17.9M to $88.9M.

As of FY 2017, GPA's net pension liability of $85.9M includes its proportionate share of the Government of Guam's pension, ad hoc COLA, and supplemental annuity payments. Of the $85.9M, $10.9M was for the ad hoc COLA/supplemental annuity plan for Defined Benefit retirees and $3.8M was for ad hoc COLA plan for Defined Contribution Retiree System retirees. Pension expense amounted to $789K in FY 2017 and $793K in FY 2016.

Other Post-Employment Benefits
GASB No. 75 (Post-Employment Benefits Other than Pensions) is effective and will be recorded in GPA's FY 2018 financial statements. This pertains to post-employment medical, dental, and life insurance benefits to retirees, spouses, children, and survivors. Upon implementation, it is anticipated that GPA will record an additional $59.3M liability as of FY 2017 arising from other post-employment benefits.

Compliance Report and Management Letter
GPA did not have any findings in its reports on internal control over financial reporting and on compliance. Further, GPA received minimal grants and as such, no Single Audit for FY 2017 was required.

A separate Management Letter identified four findings: (1) about $1.0M of inactive accounts receivable have corresponding active accounts in GPA's system; (2) PMC expenditures were incurred before the purchase orders were issued to the PMC; (3) no review was performed on customers detected by the system for rate re-class; and (4) inventory was not recorded at the lower of cost or market. In addition, a separate letter identified seven 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.