Guam Power Authority
FY 2011 Financial Highlights

March 27, 2012

The Guam Power Authority (GPA) ended fiscal year (FY) 2011 with a $1 million (M) decrease in net assets, an improvement compared to the $7.7M loss in FY 2010. Although GPA experienced notable growth in its customer base, kilowatt hour sales declined. GPA's sale of electricity increased by 7.4%, or $27M during the year, the increase was attributed to the ever increasing cost of fuel. GPA closed the year with an increase in gross margin of $6.9M due to the full year application of base rates, and nearly a $1M increase in miscellaneous revenues. Additionally, other production cost decreased by $2.8M due to a major boiler repair project and write-off of obsolete inventory items in FY 2010.

Deloitte and Touche, LLP, rendered an unqualified or "clean" opinion on the financial statements and reports issued for compliance for major programs; Auditors identified one repeat audit finding which has been identified as a significant deficiency. The significant deficiency pertained to weaknesses in GPA's billing system. Additionally, the management letter identified eight control deficiencies related to GPA's control over financial reporting.

Rising Cost of Electricity and Decreasing Power Consumption

The increasing world-wide market for fuel prices has had a negative impact on GPA customers and on budgets for families and businesses throughout the island. Although GPA's residential customer base grew from 37,000 in FY 2005 to over 41,000 in FY 2011, the overall power consumption declined by 1% to 1,617,810,069 kilowatt hours during the year. GPA's power sales have not been able to exceed its FY 2006 sales in any of the last five years as all of GPA's customer classes have taken significant actions to improve efficiency and monitor power usage. GPA has been exploring options for renewable energy including wind, solar and geothermal energy, liquefied natural gas, coal, and modular reactors, however the high cost of fuel will continue to be a paramount challenge for which GPA has not found a solution that would provide immediate savings to its customers. GPA's recovery of fuel costs through the Levelized Energy Adjustment Clause (LEAC) resulted in an increase in deferred fuel revenue totaling $18.5M to help finance fuel inventory totaling $57.1M at year end. In FY 2011, fuel costs increased to an average of $107 per barrel from an average cost of $74 per barrel in FY 2010.

Increase in Sales of Electricity and Expenditures

All categories of electricity sales increased in FY 2011. In total, GPA experienced a 7.4%, or $27M growth in sales from $365M to $392M, which was primarily due to the increase in fuel costs passed on to customers through the LEAC and the 2010 rate increase which was in effect for the full 12-month period. GPA's fuel and other production costs increased over the prior year by $21M, from $243.5M to $264.6M. Other operating and maintenance expenses increased from $90.1M to $92M. Notable increases stemmed from Administrative and General Expenses which increased by $2.8M, from $27.6M to $30.4M. GPA also experienced an increase of $1M, or 9%, for transmission and distribution going from $11.2M to $12.2M in 2011. Overall, Salaries and Benefits increased, by $2.1M for 536 employees, to include the addition of 14 new employees in the year, and an increase in the Authority's share of the benefits for retirees under the Defined Contribution Plan and those retired under disability.

Bond Refinancing

In 2010, GPA issued two new revenue bonds totaling $206.6M. The first bond, *2010 Series Senior Revenue Bonds*, totaled $150.4M to finance capital projects to include a new administration building, various generation, transmission, distribution projects, and smart grid technology. Bond proceeds were also utilized to fund three years of capitalized interest and debt service through 2041. The second bond, *2010 Series Subordinated Revenue Bonds*, totaled $56.1M to relieve liquidity issues and build up its Working Capital Fund. This bond will be paid back after five years. GPA will need to approach the Public Utilities Commission (PUC) for a base rate increase in order to provide the cash flow to pay annual debt service of $8M for this bond commencing FY 2013 and escalating to $17.7M during the life of the bond. As of September 30, 2011 approximately $119M is available to fund various projects including construction and smart grid technology. However, GPA's long term debt has grown to over half a billion or $547.5M and Interest Expense has increased by $7.1M to $47.8M as a result of the additional Bond Issuances.

Smart Grid Technology & Other Capital Projects

In July 2009, GPA submitted a grant request to the U.S. Department of Energy (DOE) to implement smart grid technology. The smart grid project includes the installation of: smart meters for every customer, a meter data management system, outage management system, and a mobile workforce management system that will cost $33.2M. An American Recovery and Reinvestment Act grant from the DOE will fund 50 percent of the project while the remaining 50 percent will be funded from bond proceeds. During the year, GPA entered into contracts for the provision of program management services for the smart grid. GPA anticipates that 2012 will be the year in which significant progress towards project completion takes place.

Rate Increases

In October 2011, GPA filed a multi-year rate petition with the PUC. The filing calls for an increase in rates of 10.7% over a five year period. Additionally, GPA plans implementing a payment in lieu of taxes (PILOT) surcharge. The PILOT surcharge is the result of DOA's billing of $12.2M for the autonomous agency collection fund, which GPA has offered to pay only $2.6M if the PUC approves the request for the surcharge. GPA Board resolution states that the cost will be transferred to the customers through the PILOT surcharge.

Report on Compliance and Management Letter

Auditors rendered an unqualified or "clean" opinion on the reports issued for compliance with major programs; however one repeat audit finding was identified as a significant deficiency. The finding pertains to weaknesses in computer controls and access in the Utiligy system. The initial design of the Utiligy system did not include this control feature. A management letter reported eight findings. The findings included:

- Allowance for doubtful accounts understatement of $890,370.
- Depreciation understatement of $648,000
- Unknown cause for debit balance of $532,422 for Miscellaneous Accrued and Current Liabilities.
- Errors in Recording of Meter Sales
- Errors in Cancellations and Rebills
- Errors on Payroll Timekeeping

A separate management letter was also issued concerning certain deficiencies involving GPA's computer processing environment, which cited four findings, all of which are repeat findings from FY 2010. For more details, refer to the Management Discussion and Analysis in the audit report at www.guamopa.org and at www.guampowerauthority.com.