



OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagåtña, Guam 96910

Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)

www.opaguam.org

Guam Power Authority – FY 2018 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) released the Guam Power Authority (GPA) financial statements, report on compliance and internal control, management letter, and the auditor's communication with those charged with governance for fiscal year (FY) 2018. GPA closed FY 2018 with a \$10.4 million (M) increase in net position (net income). The prior year's restated \$38.5M net income was mainly due to the extraordinary gain from an insurance claim.

Independent auditors Deloitte & Touche, LLP (D&T) rendered unmodified "clean" opinions on GPA's financial statements and compliance for each major federal programs. D&T did not identify deficiencies in internal control over financial reporting. In FY 2018, GPA qualified as a low-risk auditee. The FY 2017 financial statements were restated to record other post-employment benefits (OPEB) in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 75 – *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*.

Cabras 3 and 4 Insurance Claim Settled

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. In February 2018, GPA entered into a final insurance settlement of \$125.9M. GPA applied the insurance recoveries against actual damage incurred and repairs. GPA recorded a \$22.2M extraordinary gain from the settlement, of which \$20.2M was already recorded in FY 2017. GPA used the operational cost savings from not running Cabras 3 and 4 to fund other generation projects.

Revenues Increased by \$46.4M

GPA's total operating revenues increased by 14% or \$46.4M, from \$333.5M in FY 2017 to \$379.9M in FY 2018. The increase was due to the increase in the global fuel price. Energy sales decreased by 2.7% due to conservation efforts by customers and lower consumption due to weather during the year. Consumption was 1,610-gigawatt hours (GWH) in FY 2017 and decreased to 1,567 GWH in FY 2018. Although consumption decreased, the number of customers grew by 258, from 51,114 in FY 2017 to 51,372 in FY 2018.

Operating and Maintenance Expenses Increased by \$34.9M

GPA's total operating and maintenance expenses increased by 11%, or \$34.9M, to \$341.7M in FY 2018 due primarily to the \$51.1M increase in the global fuel price. Other operating expenses decreased by \$15.9M or 13%, to \$106.7M in FY 2018 because of \$6.8M pension recoveries, and a \$7.2M decrease in depreciation and amortization. GPA's plant assets were reaching their useful lives thereby decreasing the depreciation and amortization.

2017 Series Revenue Refunding Bonds

In December 2017, GPA refunded its 2010 Series Bonds through the issuance of the 2017 Series Bonds. Although the advance refunding resulted in a \$17.3M accounting loss, GPA reduced aggregate debt service payments by \$11.5M over the next 22 years and obtained a \$7.8M economic gain.

Capital Activities

GPA's capital activities primarily consist of new construction and replacement of facilities necessary to deliver safe and reliable power to its customers. In FY 2018, the top three largest capital costs were (1) \$11.0M land for the new power plant site, (2) \$9.2M energy storage system (ESS), and (3) \$5.4M general plant (\$5.4M). GPA invested in an industry scale solar farm of 25 megawatts (MW) 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. Phase III project is underway and expected to add 35MW of renewable energy with ESS, shifting 100% of the energy to evening load. This ESS should be operational in September 2019.

In 2016, the Consolidated Commission on Utilities (CCU) and the Public Utilities Commission (PUC) approved the procurement of 180MW dual-fired combined combustion turbine plants. The project will be operational in December 2021. For GPA, combined cycle generation has several benefits to include better fuel efficiency, lower capital cost compared to installing emission control system to its existing generation plants, promotes fuel diversity, and compliance with U.S. Environmental Protection Agency requirements.

FY 2017 Financial Statements Restatement, OPEB, and Pension Liability

GPA implemented GASB No. 75, which pertains to the accounting and reporting of post-employment medical, dental, and life insurance benefits to retirees, their spouses, children, and survivors. The recording of GPA's \$154.1M OPEB liability resulted in the restatement of its FY 2017 financial statements. In effect, GPA's net position as of FY 2017 was restated from positive \$110.2M to negative \$28.7M. GPA's OPEB liability was \$146.0M as of FY 2018.

As of FY 2018, GPA recorded its \$76.6M proportionate share of the Government of Guam's net pension liability. GPA's net pension liability included \$14.0M of ad hoc cost of living allowance (COLA)/supplemental annuity plan for Defined Benefit retirees and \$3.7M for the ad hoc COLA plan for Defined Contribution Retirement System retirees.

Four Management Letter Comments Identified

D&T issued a separate Management Letter that identified four findings:

- (1) 245 accounts billed based on estimated consumption for more than three months;
- (2) GPA does not have a time frame policy for reclassifying and monitoring accounts eligible for rate reclassification;
- (3) Performance Management Contractors (PMC) expenditures were incurred before purchase orders were approved, and one invoice from PMC had no evidence on file to support that PMC obtained the best pricing for GPA; and
- (4) About \$366K of inactive accounts receivable have corresponding active accounts in GPA's system.

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