



Guam Power Authority FY 2010 Financial Highlights

March 8, 2011

The Guam Power Authority (GPA) ended fiscal year (FY) 2010 with a \$7.7 million (M) decrease in net assets, an improvement compared to the \$14M loss in FY 2009. Although GPA saw small growth in kilowatt sales, revenues declined due to the recovery of fuel costs. Increased costs for Administrative and General Expenses and the decline in Grants from the United States also attributed the FY 2010 loss. With the need to relieve liquidity issues and to fund capital projects, GPA borrowed \$206.6M in revenue bonds.

Deloitte and Touche, LLP, rendered an unqualified or “clean” opinion on the financial statements; however, in order to receive the clean opinion, 10 audit adjustments were made which had a cumulative effect of reducing net assets by \$1.9M. GPA corrected two prior-year findings, of which one has been identified as a material weakness since prior to FY 2002. The material weakness pertained to GPA’s inability to maintain detailed cost records for its property, plant, and equipment. The other finding related to discrepancies in fuel inventory reports between the generation and accounting departments. A Single Audit was not required for FY 2010 as grant expenditures were only \$98 thousand (K); however, the auditor’s report on compliance and internal control cited one significant deficiency relating to weaknesses in GPA’s accounting system. Separate Management Letters identified eleven control deficiencies of which five were repeat conditions.

New Bond Financing

During FY 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, and distribution projects, and smart grid technology. Bond proceeds were also utilized to fund three years of capitalized interest and debt service through 2041. GPA will need to approach the Public Utilities Commission for a base rate increase in order to provide the cash flow to pay annual debt service of \$7.5M for this bond commencing FY 2013 and escalating to \$17.7M during the life of the bond.

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. These bonds were rated investment grade by Standard and Poor’s and Moody’s Ratings Service. GPA’s Standard and Poor’s rating went from a BBB- to BBB, the Fitch Rating from BB+ to BBB-, and the Moody’s rating affirmed GPA’s rating of Ba1.

Smart Grid Technology & Other Capital Projects

In July 2009, GPA submitted a grant request to the U.S. Department of Energy 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 will cost \$33.2M. An American Recovery and Reinvest Act grant from the Department of Energy will fund 50 percent of the project while the remaining 50 percent will be

funded from bond proceeds. Other projects that will be funded from the bond include the construction of a consolidated office complex to house both GPA and the Guam Waterworks Authority which is estimated at \$35M.

Decline in Sales of Electricity and Net Assets

Nearly all categories of consumption increased except for GPA's Large General Customer and Small Government Customer categories. The decline in these categories is a result of conservation measures because of the steep increases in fuel over the last few years and the loss of a primary customer who independently produces power. This customer remains as a standby customer of GPA.

Although GPA's customer base grew by 979 and total power consumption increased by 13,009,021 kilowatt hours during the year, sales of electricity declined. GPA's sales of electricity decreased by \$23.1M, from \$388M to \$364.9M due to the recovery of fuel costs through the Levelized Energy Adjustment Clause (LEAC). In FY 2010, fuel costs dropped to an average of \$72.64 per barrel from an average cost of \$92.79 per barrel in FY 2009. The LEAC is adjusted every six months as fuel prices fluctuate.

GPA's fuel and other production costs decreased over the prior year by \$35.5M, from \$279M to \$243.5M. All other operating and maintenance expenses increased from \$87.8M to \$90.1M. The most notable increase stemmed from Administrative and General expenses which increased by \$1M, from \$26.7M to \$27.5M. This was primarily due to costs associated with the commercial paper loan. GPA also experienced a significant decrease in grants from the U.S. government of \$3.5M, or 97%, compared to only \$98K in 2010.

Report on Compliance and Management Letter

A management letter reported seven findings, of which two were repeat findings from FY 2009: (1) no regular review of customer deposits and related accrued interest and (2) incorrect late charges assessed. The five new findings pertained to:

- Inaccurate counts of materials and supplies inventory;
- Incorrect accrual of sick leave hours;
- Lack of periodic reconciliation of annual leave accrual between ledgers;
- Untimely reconciliations of utility plant ledgers; and
- Non-approval of GPA's policy regarding the allowance for inventory obsolescence.

A separate management letter was also issued concerning certain deficiencies involving GPA's computer processing environment, which cited four findings, of which three were repeat findings from FY 2009. In addition, a separate document to the Consolidated Commission on Utilities was issued by the auditors outlining audit strategies, emphasis, required communications, audit differences, and adjustments. For more details, refer to the Management Discussion and Analysis in the audit report at www.guamopa.org and at www.guampowerauthority.com.