



Guam Power Authority FY 2015 Financial Highlights

April 3, 2016

The Guam Power Authority (GPA) closed fiscal year (FY) 2015 with a significant increase in net position (net income) of \$15.2 million (M) from the prior year's restated net income of \$6.6M. The FY 2015 net income of \$15.2M is inclusive of net pension recovery of \$8.0M due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68 pertaining to the recording of pension liability. Had it not been for this pension adjustment, the ending net income for FY 2015 would have been \$7.2M.

Independent auditors Deloitte and Touche, LLP rendered an unmodified or "clean" opinion on GPA's financial statements with emphasis on GPA's adoption of GASB 68 and 71 resulting in the restatement of its FY 2014 financial statements. The auditors also rendered unmodified opinions on the reports on internal control and compliance over major federal programs. There were two findings pertaining to procurement.

Governmental Accounting Statement -Pension Liability

The implementation of GASB 68 related to *Accounting and Financial Reporting for Pensions* in FY 2015 resulted in the restatement of GPA's financial statements for FY 2014, recognizing GPA's pro rata share of the Government of Guam's (GovGuam) net pension liability. Per the Government of Guam Retirement Fund, GovGuam's pension liability of \$1.3 billion (B) in FY 2014 was reduced to \$1.2B in FY 2015. GPA's pro rata share decreased by \$10.8M, going from \$77.9M in FY 2014 to \$67.0M in FY 2015. The restatement and change in the pension liability reduced benefits expenses by \$2.3M in FY 2014 and increased net income by the same amount.

Cabras 3 and 4 Fire

In August 2015, GPA experienced a major failure with its Cabras 3 and 4 base load units when an explosion and fire occurred in the Cabras 4 engine. The power system lost 78.6 megawatts (MW) of the base load capacity resulting in insufficient generation reserve. GPA resorted to procuring temporary power generation equipment of 40MW to supplement its system capacity. The root cause of the explosion and the related insurance recoveries have not been determined as of the release of these highlights. The Cabras 4 generator is not repairable while the Cabras 3 unit will require significant repairs. GPA hired a forensic accountant to handle the insurance claims for the Cabras 3 and 4 explosions.

Decreases in Revenues and Expenses

GPA's total operating revenues significantly decreased by 15% or \$66.4M from \$436.4M in FY 2014 to \$370.0M in FY 2015. The \$66.4M decrease was primarily due to the reduction of the Levelized Energy Adjustment Clause (LEAC) rate by nearly 41% while kilowatt sales increased only by less than .5 % or 0.41%. Consistent with the global decline in the cost of fuel oil, GPA's cost of fuel and production also declined significantly by 23% or \$66.3M. Other operating expense categories decreased by \$5.8M mainly due to the \$2.3M pension recovery. Also, the net non-operating expenses of \$35.2M decreased by \$3.3M from the prior year. This is primarily due to the early termination of the energy conversion agreement with the Performance Management Contractor for the Tanguisson power plant.

Bonds Payable, Debt Service, and Capital Improvement Projects

As of September 2015, total bonds payable amounted to \$597.8M. Annual debt service in FY 2015 amounted to \$44.1M. The bonds will mature in 2045 with a remaining interest of \$444.5M or 77% of the

outstanding principal amount of \$581.1M. GPA's highest bond rating is BBB from Standard and Poor's while its debt service coverage ratio is 1.64. The five largest projects placed in service in 2015 funded from bond proceeds and revenue funds are: Gloria B. Nelson Public Service Building, Substation Automation project, Customer Care and Billing System, Cabras 3 and 4 Smoke Stack replacement, and the GIS Implementation System.

GPA is looking to increase green energy solutions through an energy storage solution to mitigate the fluctuations in power generation from its solar farm caused by intermittent cloud cover. GPA has committed to replace its aging fleet with electric vehicles and investing in charging infrastructures. The Authority is also preparing a financial and integrated resource plan for the construction of combined cycle combustion turbine plants. If approved by the Consolidated Commission on Utilities and the Public Utilities Commission (PUC), the financing plan will take place sometime between 2016 and 2017.

Ongoing negotiations with US Environmental Protection Agency (USEPA)

For the past several years, GPA has been in negotiations with USEPA to allow sufficient time to meet certain environmental requirements. In January 2015, GPA submitted a compliance plan outlining the proposed timelines for inclusion in a potential consent decree. GPA believes that USEPA will defer potential fines post Reciprocating Internal Combustion Engine Maximum Achievable Control Technology (RICE MACT) deadlines for the slow speed diesel units at Cabras 3 & 4 and MEC 8 and 9. The Electric Generating Unit (EGU) MACT compliance for Cabras 1 and 2, which was due April 2015, is expected to be covered by the compliance plan for RICE MACT. If the consent decree is not reached, GPA's maximum liability will be approximately \$150M as of March 2016.

GPA and Guam Waterworks Authority (GWA) Cost Sharing Agreement

Effective October 2015, GPA and GWA implemented an agreement to share costs of the Gloria B. Nelson Public Service Building currently occupied by both agencies. GWA will pay \$269.2 thousand (K) annually to GPA in fixed costs and approximately \$8K per month in variable costs. Also in 2015, both GPA and GWA replaced their revenue billing systems with the Customer Care and Billing system. Costs for the implementation are shared by these agencies with \$1M billed to GWA in 2015.

Reports on Internal Controls and Compliance for Major Federal Programs

The report on internal control over financial reporting and on compliance and other matters identified one finding relative to procurement deficiencies: (1) No evidence showing how repair parts and maintenance service vendors were selected; (2) GPA has not filed the contract for purchase order (PO) #20709 amounting \$2M with PUC; and (3) Seven Performance Management Contract (PMC) expenditures totaling \$2.8M were incurred prior to issuance of POs. The report on compliance over major federal programs noted one significant deficiency pertaining to a truck rental amounting \$14K, which was supported by less than three required quotations from businesses.

Management Letter Comments

A separate Management Letter identified five findings. These include: glitches in the Accounts Payable module resulting in a \$2.6M adjustment, two retired fixed assets untimely removed from the books, undetermined future plan and unsupported estimated salvage value of \$1.2M for the Tanguisson plant, unreconciled total number of smart meters, and unrelated true-up expenses totaling \$357.3K charged to a PMC. A separate letter identified four deficiencies on its 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.