



## Guam Power Authority FY 2014 Financial Highlights

April 1, 2015

The Guam Power Authority (GPA) closed fiscal year (FY) 2014 with an increase in net position (net income) of \$4.3 million (M), which is \$582 thousand (K) less than the \$4.9M increase in FY 2013. GPA experienced decreases in sales of electricity of \$14.6M and federal grants of \$6.3M. Sales remains the biggest issue for GPA, as customers continue to take aggressive measures to conserve energy despite decreases in the Levelized Energy Adjustment Clause (LEAC). Consistent with the global decline in the cost of fuel oil, GPA's cost of fuel and production also declined significantly by \$27M. Deloitte and Touche, LLP, rendered unmodified or "clean" opinions on the financial statements and report on compliance for major federal programs.

### **Governmental Accounting Statement -Pension Liability**

The Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. The implementation of GASB Statement No. 68 related to *Accounting and Financial Reporting for Pensions* will result in significant changes in the financial statements as GPA will be required to report its pro rata share of \$79.4M of Government of Guam's pension liability of \$1.3 billion (B) as of FY 2013.

### **Growth in Total Assets and Total Liabilities**

For FY 2014, total assets of \$952.7M grew by \$85M (10%) while total liabilities of \$802.5M grew by \$87.6M (12%). The growth in the total assets was attributed to new bond proceeds and timing fluctuations in Fuel Inventory, while the growth in total liabilities was mainly due to the new bond issuance. Of the total liabilities of \$802.5M, \$701.3M represents bonds and lease obligations associated with utility plant and other capital assets. The value of these utility plant and capital assets of \$552.7M plus the bond indenture funds of \$136.1M totaled \$688.8M, compared with related liability of \$701.3M, a difference of \$12.5M. Related liabilities grew by \$188.6M (37%) from \$ 512.8M in FY 2009.

### **Electric Sales and Consumer Growth**

For the last seven years, GPA continued to see declines in kilowatt demand due to the aggressive conservation measures by customers. Peak system demand went from a high of 272 Megawatt (MW) in October 2009 to a drop of 249 MW in June 2014. Similarly, in FY 2014, nearly all categories of GPA's consumer base experienced declines in electric sales by a total of \$14.6M (3%). The biggest decrease was from the US Navy by \$9.6M (11%), followed by the commercial customers by \$2.3M (1%), government by \$1.8M (3%), and residential by \$908K (0.72%). GPA's consumption by kilowatt hours (kWh) declined by 31.8M kWh, from 1.565B kWh in FY 2013 to 1.533B kWh in FY 2014, although there was a slight growth in GPA customer base of 320 customers.

### **Deactivation of Tanguisson Power Plant**

The consistently declining loads led GPA to reevaluate the number of plants maintained and operated. In December 2014, GPA terminated its Energy Conversion Agreement with Pruvient and deactivated the Tanguisson Power Plant, the oldest and least efficient base load plant. The termination resulted in a payment of \$8.1M, which is expected to be offset by the estimated foregone cost.

### **Capital Improvement Projects**

The largest project financed by the 2010 bond issuance was the construction of the Gloria B. Nelson Public Service Building, which has a budget of \$35M. The building was occupied by GPA employees in December 2014 and Guam Waterworks Authority employees in January 2015. The smart grid project, at a cost of \$33.2M is to be partly funded by a US Department of Education grant. This project was substantially completed after installing nearly 49,000 smart meters. GPA entered into three renewable energy purchase agreements for a utility scale solar farm and wind farm which will be available in 2015 and 2016, respectively. Under this agreement, GPA will purchase 25.65MW solar energy and 9.35MW wind energy with escalating contract prices per MW until 2041.

### **Ongoing negotiations with US Environmental Protection Agency (USEPA) and Future Borrowing**

For the past several years, GPA has been in negotiations with USEPA to allow sufficient time to meet certain environmental requirements. These requirements necessitate GPA to update and implement its Integrated Resource Plan (IRP). The IRP identifies the timing, size, technology of future power generating units and issues such as fuel diversification and renewable portfolio standards. GPA anticipates a consent decree with USEPA to be issued later in 2015 that will allow additional time to meet these rules. If the consent decree is not reached, GPA may be subject to penalty fees of \$37K per unit per day.

As part of its IRP, GPA is planning to build combined cycle combustion turbine plants at an estimated cost of between \$250M to \$400M. The process to fund, procure, and build these units is anticipated to begin in FY 2016 with a commissioning date of the new units at the end of FY 2019.

### **Military Build Up**

The planned military buildup has been down sized from 8,000 to 5,000 marines. GPA is not including any military buildup projects in its five year planning horizon, as it believes it has sufficient generation resources to meet the new demand from the expanded military presence.

### **Reports on Compliance and on Internal Controls and Major Federal Programs**

The report on internal control over financial reporting and on compliance and other matters identified one significant deficiency and one repeat finding. One was a noncompliance with applicable Guam procurement rules and regulations and Public Utilities Commission (PUC) rules and procedures. For example, 1) 23 Purchase Orders (PO) totaling \$310K at \$14,900 per PO (20 POs) and \$4,000 per PO (3 POs) were procured through blanket POs and (2) seven POs totaling \$1.7M exceeded the PUC approval threshold of \$1.5M. The repeat finding, which pertained to weaknesses in computer controls and access to GPA's Utiligy system, was addressed by GPA in March 2015 with the conversion to a new Customer Information System.

### **Management Letter Comments**

A separate Management Letter identified 12 findings, four of which are repeats from prior year and includes (1) negative balance of \$31.2M in accounts payable, (2) inappropriate rate class classification, (3) non-review and approval of changes in customer files, (4) incorrect charging of true-up cost, (5) negative balance of \$144K in customer deposit, and (6) long outstanding inactive accounts guarantee deposit of \$363K. A separate letter was also provided on its information technology environment that identified five deficiencies.

### **Audit Adjustments and Uncorrected Misstatements**

The auditors proposed 11 adjustments resulting in an increase in net position of \$218K. Additionally, there were seven uncorrected misstatements that could have reduced the net position by \$1M.

For more details, refer to the Management Discussion and Analysis in the audit report at [www.opaguam.org](http://www.opaguam.org) and at [www.guampowerauthority.com](http://www.guampowerauthority.com).