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Guam Power Authority – FY 2022 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 Auditor’s Communication With Those Charged With Governance for fiscal year (FY) 2022. GPA closed FY 2022 with an increase in net position (net income) of \$5.1 million (M), marking a rise from prior year’s net position of \$8.2M to \$13.4M in FY 2022.

Independent auditors, Ernst and Young (EY) LLP, have rendered an unmodified “clean” opinion on GPA’s financial statements and identified no material weaknesses or significant deficiencies. However, GPA received a qualified opinion on compliance for major federal programs, causing it to no longer qualify as a low-risk auditee. EY also issued a separate management letter containing five comments.

Significant Increases in Revenues and Expenses

GPA’s total operating revenues surged by 45.3%, amounting to \$149.2M, rising from \$329.3M in FY 2021 to \$478.6M in FY 2022. This increase is primarily attributed to increased global fuel prices stemming from the war in Ukraine. In comparing the electricity sales between FY 2021 and FY 2022, the accumulated sales for FY 2021 was \$324.2M and \$473.6M for FY 2022, an increase of \$149.3M.

Total operating and maintenance expenses also increased significantly by 41.5% or \$129.1M, going from \$311M in FY 2021 to \$440.1M in FY 2022. The increase mainly driven by raised production expenses, particularly in production fuel. For FY 2022, production fuel expense was \$315.8M when compared to FY 2021’s expense of \$180.8M, an increase of \$135.0M, or 74.6%. All other operating and maintenance expenses decreased by \$6.7M, largely due to pension and Other Post-Employment Benefits (OPEB) valuation. Total employee count decreased from 426 in FY 2021 to 412 in FY 2022, mainly due to employee retirements.

GPA Leases

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Upon adoption of this standard, GPA recorded a right-of-use asset and a lease liability of \$21.1M on October 1, 2021. As of September 30, 2022, GPA’s right-of-use asset, net of accumulated depreciation and lease liability amount to \$17.0M and \$17.1M, respectively.

Future Capital Activities and Borrowing

GPA is committed to renewable energy and the reduction of greenhouse gas emissions. GPA invested in a utility-scale solar farm of 25MW which became operational in 2015. GPA will add 120MW of solar PV as part of phase II renewable project. 60 MW of the 120 MW became operational in June 2022. The remaining 60MW is under development. Phase III project was terminated due to the long delay from the bid protest and the US Navy repurposing the land for military operations. Phase IV project is in the process of adding 180MW of renewable energy.

Despite the advancement of renewable energy and storage, traditional power generation is still required. In 2016, GPA filed an integrated resource plan to the Consolidated Commission on Utilities (CCU) and the Public Utilities Commission (PUC) for the construction of combined cycle combustion turbine plants. Approval was given by the CCU and the PUC to authorize GPA to proceed with the procurement of new power generation. The plan for the procurement model was independent power purchase agreement (IPP) where the IPP finances the construction of the plant.

On November 5, 2019, GPA entered into an energy conversion agreement with Guam Ukudu Power, LLC for the new generation. The agreed capacity was 198 MW using Ultra Low Sulfur Diesel and eventually moving to Liquefied Natural Gas (LNG). The upcoming Phase IV renewables project will require hardening of the grid. Therefore, GPA applied for grants under Bipartisan Infrastructure Law, and Inflation Reduction Act.

Other Post-Employment Benefits (OPEB)

GPA participates in the retiree health care benefits program. Administered by the Government of Guam's (GovGuam) Department of Administration, the GovGuam Group Health Insurance Program provides medical, dental, and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. The program covers retirees and is considered an OPEB plan. Total OPEB liability as of September 30, 2022, is \$174.9M.

Report on Compliance

EY rendered a qualified opinion on GPA's compliance for major federal programs due to a material weakness identified related to inaccurate amounts reported in the SF-425 Federal Financial Report for the semi-annual reporting period ending December 31, 2021. However, no questions costs were reported because the inaccuracies did not impact Federal draws.

Management Letter

EY issued a separate management letter that identified three recommendations for GPA to consider related to other matters: (1) adopt policies and procedures in the recording and pursuit of tampering charges collections; (2) reconsider the application of the existing allowance for doubtful account policy in evaluating the adequacy of reserve at year-end in consideration with aging of past due receivables and probability of collections; and (3) timely address the working capital fund requirement. In addition, EY made two recommendations related to general information technology controls.

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