GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

PUBLIC SERVICES COMMISSION

IN RE: THE VIRGIN ISLANDS WATER AND POWER AUTHORITY'S LEVELIZED ENERGY ADJUSTMENT CLAUSE	PSC Docket No. 289 Order No. 66/2015

ORDER

WHEREAS, on April 1, 2015, the Virgin Islands Water and Power Authority's (hereinafter "WAPA" or "Authority") filed a Petition with the Virgin Islands Public Services Commission (hereinafter "PSC" or the "Commission") for the Water Levelized Energy Adjustment Clause (hereinafter "LEAC") factors for the period of July 1, 2015 to December 31, 2015; and

WHEREAS, on June 19, 2015, the Commission received a Report and Recommendations from its technical consultants; and

WHEREAS, on June 26, 2015, the Commission received WAPA's Response to the Georgetown Report; and

WHEREAS, on June 30, 2015, the Commission met in public session in the Commission's offices on both St. Thomas and St. Croix and heard from the Authority and the Commission's technical consultants; and

WHEREAS, the Commission has reviewed the Authority's Petition for new Electric LEAC rates for the period of July 1, 2015 to December 31, 2015, the supporting information, and the report, the rebuttal and testimony of the witnesses, and the prior actions in this docket; and

NOW THEREFORE, the Commission **ORDERS** that:

1. GCG's recommendations as set forth in Paragraphs 1 through 11, on pages 10-14 of its report, are adopted as modified in this motion.

2. The Commission finds that it is in the interest of the ratepayers to have clarity in the allocation of expenses, and desires to return to a LEAC that contains fuel and energy expenses only. Therefore the Commission grants the Authority's request to transfer the RFM from the LEAC to base rates, effective as of August 1, 2015. The level of the RFM is set as recommended by GCG, at its current level of 1.8 cents per kiloWatt/hour. The RFM shall be collected through base rates from August 1 through December 31, 2015 only without further approval of this Commission. As a result of the transfer of the RFM to base rates, as of August 1, 2015, the Electric LEAC is reduced from $0.209321/kWh to $0.19.1321/kWh.

3. WAPA is directed to file a new base rate case prior to December 1, 2015.

4. WAPA is directed to make three equal monthly payments to bring WAPA's outstanding PSC assessments current. If the initial payment is not received by the Commission's Executive Director within 20 days, and successive payments each 30 days thereafter, the assessments will be referred to the Attorney General in accordance with Virgin Islands law.

5. For the convenience of all, the adopted recommendation paragraphs of the consultant's report are set forth herein:

> 1. GCG recommends that the Commission set an electric LEAC rate in this proceeding, effective July 1, 2015, at 20.9321 ¢/kWh until changed by the Commission. [Amended by Paragraph 2, above.]
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> 2. GCG recommends no change in the targeted December 31, 2015 date established by the Commission in Docket 289 Order 25/2015 for the phase-out of the RFM funding component of the LEAC rate. We recommend that the RFM continue until this date at a cost component in the LEAC rate of 1.8 ¢/kWh. RFM revenues by December 31, 2015 will fully fund activities necessary to complete the critical rehabilitation of the St. Thomas HRSG (including costs projected to be incurred in 2016) – one of the original and primary objectives of the RFM – and fully fund the emergency generating unit expenses through December 31, 2015.
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> 3. WAPA continues to fail to answer why approval for the proposed 24-month lease extension of Unit 25 (temporary emergency generator) was undertaken without prior PSC approval before the lease was executed. In its April 2015 LEAC rate filing, some information on the emergency generator lease extension was provided by WAPA. What was originally a planned 18-month lease to complete rehabilitation and deferred maintenance activities at the Harley plant has now extended to 54-months. WAPA says that it will address the future of the unit within the context of the IRP results that WAPA says will be available sometime between August 2015 and October 2015; however, this does not address why the extension occurred prior to Commission approval. WAPA should be required to provide such analysis as soon as is available.
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> 4. GCG recommends that the proposed infrastructure and O&M recovery fees included by WAPA in its proposed LEAC rate filing for the period Jul – Dec 2015 not be allowed for recovery in LEAC rates charged the public until such time that the LPG conversion project is

"used and useful" for regulatory purposes,[1] and VITOL has received from WAPA a notice of "Substantial Completion."[2] It is currently unknown when WAPA will provide VITOL a notice of "Substantial Completion" and unlikely that this would occur prior to the December 2015 timeframe. We recommend no allowance for either the infrastructure or O&M recovery fees be included in the July 1, 2015 electric LEAC rate, in conformance with the terms of the VITOL contract.

5. Order 25/2015 (paragraph 7) required that WAPA provide an analysis of the LPG infrastructure recovery cost – both the original $87 million estimate and the current $150 million estimate – with full supporting documentation. Although not timely, following our June 5, 2015 meeting with LPG project personnel WAPA provided on June 11 substantial supporting documentation which is a positive step. Much of this information was first requested by the Commission in 2014. Before final determination of inclusion of the Infrastructure recovery fee in a specified amount to be recovered in future LEAC proceedings, WAPA should present to the Commission why prepayment is not permitted under the contract. In addition, it is also recommended that the documents and information recently provided and additional information to be provided by WAPA be analyzed and the findings be provided the Commission for its final consideration at its next scheduled LEAC hearing as part of the electric LEAC rate for January 1, 2016. It is further recommended that WAPA file the analysis required by paragraph 7 of Order 25/2015 inclusive of identification of each reasonable alternative considered by WAPA prior to its approval of each major change order.

6. The PSC sets WAPA fuel cost recovery through the LEAC rate mechanism to recover fuel costs based on prudent actions of WAPA. GCG estimates, based on data provided by WAPA that it took up to three years to negotiate the contract with Hamon-Deltak for the rehabilitation of the HRSG (Unit 21). While the rehabilitation contract had a total cost of approximately $5 million, the potential foregone savings from the greater efficiency that the HRSG would have allowed due to normal combined-cycle operations and the resulting lower fuel cost over that period of time would have produced savings to consumers of tens of millions of dollars annually. After repeated opportunities, WAPA has failed to provide an adequate and plausible explanation of this extensive delay. While at this point the retrofit has been substantially funded by the RFM, the PSC should impress on WAPA that projects that are originally estimated to be complete in 18 months cannot be automatically assumed to be delayed for 4 years and the additional costs due to the unit not being in service and foregone savings from operations be automatically passed onto consumers. In a normal regulatory environment this situation would

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[1] Costs incurred and investments made are used and useful if: (1) there is a direct and immediate benefit to consumers; traditionally, the investment is in a plant that is operational now or in a future test year or in the period during which the rates may reasonably be expected to be in effect; (2) the investment or expense, even if not affording an immediate tangible benefit, meets certain secondary benefit criteria, such as reasonably foreseeable plant completion, a necessary cost of continuing business (including land acquisition to enhance gas reserves or other reasonable plans and commitments to dedicate property to public service), or assets held in reserve to ensure service reliability; or (3) the expenditure is necessitated by the projected immediate needs of the rate paying public.

[2] The following are the conditions precedent for the Constructed and Converted Facilities to achieve Substantial Completion under Section 7.04 of the VITOL Agreement: "... (b) Commissioning and Testing has been completed successfully as certified by duly authorized representatives of WAPA and Seller; ... (e) all storage tanks in the Delivery Infrastructure have been loaded with the necessary quantity of LPG to enable Seller to comply with its obligations hereunder; (f) Seller is capable of commencing the continual delivery of WAPA's requirements of LPG to the Delivery Points and vaporized LPG to the headers of the turbines as set forth herein; ..."

be subject to a prudence review and appropriate remedies sought. It is recommended that the Commission affirm its intent to conduct prudence reviews of any questionable imprudent actions impacting consumers.

[7. Deleted per Commission Motion].

8. The PSC should require that WAPA file its due diligence analysis of activities undertaken with respect to assuring itself and consumers of the $20 million absorbed by VITOL as part of the sharing of costs associated with the completion of LPG infrastructure activities.

[9. Deleted per Commission Motion].

10. WAPA should provide a complete report within 30 days of the Commission's order on the status of its implementation of their proposed alternative IAC (independent advisory contractors) contract. This report should include: the status of the procurement, objectives of the procurement, copy of the final work scope and budget, and its proposed reconciliation plan of the previous $4 million diverted by WAPA from Commission-approved RFM funding for other activities, many of which were normal maintenance, which were charged to the RFM.

11. WAPA should provide a complete report within 30 days of the Commission's order on the status of the full implementation and deployment of MAXIMO, the computerized maintenance management system used by WAPA, at its power plants and other facilities. This report should include: the expected completion date for implementation of MAXIMO (if not completed) and the activities required for completion, the schedule for providing information from MAXIMO to the Commission showing the status of deferred maintenance and schedule for undertaking deferred and major preventative maintenance activities and samples of the output reports that the Commission should expect to receive describing the status of WAPA maintenance management planning activities and status of all maintenance activities exceeding 2000 hours beyond any currently overdue schedule for maintenance.

So Ordered.

For the Commission

Date: August 26, 2015

Andrew Rutnik, Vice-Chair