

GOVERNMENT OF THE VIRGIN ISLANDS  
PUBLIC SERVICES COMMISSION

IN THE MATTER OF THE  
LEVELIZED ADJUSTMENT CLAUSE OF  
THE VIRGIN ISLANDS WATER AND POWER  
AUTHORITY

PSC DOCKET NO. 289

Order No. 52/2018

**ORDER**

**WHEREAS**, in 2012, the Governing Board of the V.I. Water and Power Authority adopted strategies for reducing the cost of energy, which included fuel diversification by converting base-load power production from fuel oil to liquefied natural gas and/or propane<sup>1</sup>; and

**WHEREAS**, on or about July 26, 2013, the Virgin Islands Water and Power Authority (hereinafter “WAPA” or “Authority”) announced its execution of a contract with Vitol Virgin Islands Corp. (hereinafter “Vitol”) to transition to propane as its primary fuel source (hereinafter “Propane Conversion Project”), which “would ease prices by consumers by 30 percent with a 20 percent reduction in emissions,” and that propane (hereinafter “LPG” or “Liquefied Petroleum Gas”) would be the Authority’s primary fuel source by the fall of 2014;<sup>2</sup> and

**WHEREAS**, by August 2014, WAPA reported that the Propane Conversion Project had been delayed from the final quarter of 2014 to the first quarter of 2015, and that WAPA would submit a revised LEAC providing a reduced expense for customers beginning in January 2015;<sup>3</sup> and

**WHEREAS**, in May 2015, WAPA again assured customers that the savings from the Propane Conversion Project would become available in the summer of 2015;<sup>4</sup> and

**WHEREAS**, in December 2015 the issue of the delays in the implementation of the Propane Conversion Project and the unexplained cost overruns was a significant issue of concern before the Virgin Islands Public Services Commission (hereinafter “PSC” or “Commission”); and

**WHEREAS**, at the Commission’s regular meeting in April 2016, the issue of the propriety of Propane Conversion Project cost overruns and project delays was again the subject of testimony and reports before the Commission; and

<sup>1</sup> GCG report dated 2012/12/15, at pg. 17.

<sup>2</sup> WAPA’s Website at [http://www.viwapa.vi/OurEnergyFuture/VITOL\\_POWERINGVI.aspx](http://www.viwapa.vi/OurEnergyFuture/VITOL_POWERINGVI.aspx)

<sup>3</sup> St. Croix Source, 2014/08/14, “WAPA Bills Should Fall by January With Propane Switch”.

<sup>4</sup> St. Croix Source, 2015/05/09, “WAPA: Hodge Confident Propane Conversion Will Be Completed this Summer”.

**WHEREAS**, this Propane Conversion Project has been the subject of testimony, reports and discussions at Commission meetings, including but not limited to: December 15, 2016; January 12, January 26, February 22, June 27, and December 19, 2017; February 28, June 15, June 29 and August 21, 2018; and

**WHEREAS**, in 2017, before the occurrence of Hurricanes Irma and Maria, the Authority was operating its plants on St. Croix primarily utilizing propane, but very little of the demand on St. Thomas was being met through the use of propane; and

**WHEREAS**, the Propane Conversion Project is now nearly four years behind its original schedule, resulting in ratepayers being billed for substantially higher fuel oil costs in those four years; and

**WHEREAS**, the Authority has presented before this Commission on numerous occasions evidence that the use of propane is prudent and reasonable; and

**WHEREAS**, on April 3, 2018, WAPA filed its Semi-Annual Petition (hereinafter “Petition”) with the Commission for the Electric and Water Levelized Energy Adjustment Clause (hereinafter “LEAC”) for the period July 1 to December 31, 2018, to be applied to the bills issued on or after July 1, 2018; and

**WHEREAS**, in the Petition, WAPA stated that on May 5, 2017, Vitol Virgin Islands, Corp. (hereinafter “Vitol”) suspended delivery of LPG to its power plants in the St. Thomas-St. John and St. Croix districts; and

**WHEREAS**, the suspension of propane deliveries to the Authority forced it to revert to costlier No. 2 fuel oil for electricity generation; and

**WHEREAS**, the Authority began again utilizing propane in August 2017 in its power plant on St. Croix; and

**WHEREAS**, on September 6, 2017, the Virgin Islands suffered a direct impact from Hurricane Irma, which directly struck the St. Thomas-St. John District as a Category 5 storm and caused damage on St. Croix; and on September 19, 2017, Hurricane Maria directly struck the St. Croix District as a Category 5 storm and caused further damage to the St. Thomas-St. John District; and

**WHEREAS**, as a direct effect of the Hurricanes, WAPA transmission and distribution system suffered 80-90% damage in the St. Thomas-St. John District, and 60% damage in the St. Croix District; and

**WHEREAS**, post-hurricanes, WAPA resumed the use of propane at its power plant on St. Croix in January 2018; and

**WHEREAS**, the Authority stated that its power plant on St. Thomas was scheduled to come online using propane in April 2018, but has not come online to date; and

**WHEREAS**, the Commission seeks to ensure that WAPA adheres to its own deadlines to convert to propane at its plant on St. Thomas and provides the cost savings to ratepayers; and

**WHEREAS**, on June 29, 2018, the Commission held a Special Meeting at its office located at No. 1003 Estate Ross, Suite 4, Barbel Plaza on the island of St. Thomas, United Virgin Islands and via teleconference at the Port Authority conference room located at the Henry E. Rohlsen Airport on the island of St. Croix, United Virgin Islands; and

**WHEREAS**, at the meeting, the PSC expressed its dissatisfaction with the inclusion of No. 2 fuel oil in WAPA’s Petition and the continued delays in bringing more efficient propane-burning units online; and

**WHEREAS**, on June 29, 2018, the PSC held a special meeting at its office located at No. 1003 Estate Ross, Suite 4, Barbel Plaza on the island of St. Thomas, United Virgin Islands and via teleconference at the Port Authority conference room located at the Henry E. Rohlsen Airport on the island of St. Croix, United Virgin Islands; and

**WHEREAS**, at the June 29, 2018 meeting the Commission ordered that:

1. For all future LEAC applications before the Public Services Commission beginning with the LEAC application for rates to be applied January 1, 2019, fuel source costs which may be considered for recovery will be based solely on the price of liquid propane gas. To the extent that fuel oil is consumed for generation of electric power, costs for purposes of recovery in LEAC will be calculated using the applicable market price for liquid propane gas as converted on a thermal energy (BTU) basis (PSC Order No. 37/2018).

**WHEREAS**, on July 27, 2018, WAPA filed a Petition for Reconsideration of both Order Nos. 37/2018 and 39/2018<sup>5</sup>, asking that the PSC reconsider and vacate its order because: (1) the order was made at a meeting when the issue was not on the agenda and thus no notice or a meaningful opportunity to be heard on the motion was provided to the Authority in violation of its statutory due process rights; (2) No. 2 fuel oil is required for certain prudent utility operations such as the start-up and shut-down of WAPA’s converted gas turbines on both St. Thomas and St. Croix; (3) Other technical and reliability considerations may require the use of No. 2 fuel oil by WAPA; (4) the decision impermissibly encroaches on the province of WAPA’s Governing Board, including its statutory authority to determine the character and necessity of all of the utility’s expenditures, and the manner in which they are incurred.

**WHEREAS**, on August 21, 2018, the PSC held a regular meeting at its office located at No. 1003 Estate Ross, Suite 4, Barbel Plaza on the island of St. Thomas, United Virgin Islands

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<sup>5</sup> This order will only discuss WAPA Petition for Reconsideration as it pertains to PSC Order No. 37/2018. At the time that the Petition was filed, the written orders were not issued. Therefore, reference to the orders in WAPA’s Petition was based on the transcript of the Special Meeting on June 29, 2018.

and via teleconference at the Port Authority conference room located at the Henry E. Rohlsen Airport on the island of St. Croix, United Virgin Islands; and

**WHEREAS**, the PSC granted WAPA’s Petition for Reconsideration and ordered that WAPA brief the issue on why the Authority should be able to use any fuel other than propane, even in any *de minimis* amount; and

**WHEREAS**, on September 25, 2018, the PSC held a regular meeting at its office located at No. 1003 Estate Ross, Suite 4, Barbel Plaza on the island of St. Thomas and via teleconference at the Port Authority’s conference room located at the Henry E. Rohlsen Airport on the island of St. Croix, United States Virgin Islands; and

**WHEREAS**, WAPA testified that the bases for using fuel other than propane was contained in the Petition for Reconsideration that was filed on July 27, 2018; and

**WHEREAS**, in furtherance thereof and at the request of Commissioner David Hughes, counsels for PSC and WAPA’s conferred concerning the re-formulation of PSC Orders Nos. 37/2018 and 39/2018 and drafted a proposed order that recognizes the various technical, mechanical and logistical issues as well as possible emergency conditions that WAPA wishes the Commission to consider in ordering implementation of its goals in its original Orders No. 37/2018; and

**WHEREAS**, on October 10, 2018, the Authority submitted its proposed order.

**WHEREAS**, on October 18, 2018, the PSC held a regular meeting at its office located at No. 1003 Estate Ross, Suite 4, Barbel Plaza on the island of St. Thomas and via teleconference at the Port Authority’s conference room located at the Henry E. Rohlsen Airport on the island of St. Croix, United States Virgin Islands; and after review of the proposed order by PSC staff and due deliberation of the Commission,

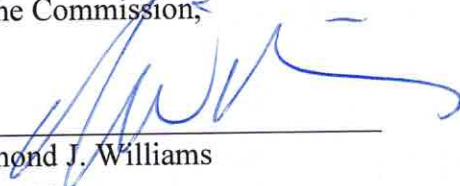
It is hereby **ORDERED** that:

1. Effective January 1, 2019, the Commission shall establish future LEAC rates based on its statutory authority to determine just and reasonable rates and on the basis of allowing the prudent recovery of the most cost effective fuel source then reasonably available to the utility, which in the upcoming LEAC proceeding, effective January 1, 2019, is LPG as its primary fuel source while only allowing fuel oil expenses to be recovered for limited operational (start-up, shut-down and stabilization) purposes of the utility’s combustion turbine generating units and to the extent that such fuel oil usage shall not be authorized to exceed five percent (5%) of the utilities' total fuel use, when measured on an equivalent BTU basis, for the LEAC period under consideration;

2. In each instance where a LEAC rate petition proposes the Commission authorize the recovery of fuel oil for operations of its combustion turbine generating units and the inclusion of such expenses in a LEAC rate, WAPA shall contemporaneously with the submission of such petition, provide a thorough justification for said usage that identifies the basis on which the Commission should find such usage of fuel oil prudent and in the public interest;
3. All LEAC rate petitions filed after the date of this order shall set forth fuel expenses proposed to be recovered using the applicable price for LPG and the volumes projected to be consumed; and the applicable price for fuel oil for those volumes projected to be consumed and deemed prudent for operational reasons of its combustion turbines, provided such fuel oil expense shall not exceed five percent (5%) of total fuel required for operations on an equivalent BTU basis; recognizing that any excess projected fuel oil expense above five percent (5%) shall be priced and shown on the basis of LPG for an equivalent amount of energy.
4. In the event of a natural disaster, act of God, man-made disaster or other emergency regarding the ability to procure or use liquid propane fuel, and is required to utilize more No. 2 fuel than is needed for normal start-up of generators, WAPA must notify the PSC by its next LEAC filing or within 90 days, whichever is earlier, of the circumstances of the disaster or emergency, the use of No. 2 fuel oil, and justification for the deviation.

For the Commission,

Dated: **February 11, 2019**  
*Nunc Pro Tunc October 18, 2018*

  
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Raymond J. Williams  
Chairman