

**GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES**

Public Service Commission

IN THE MATTER OF THE ELECTRIC)	
SYSTEM LEVELIZED ENERGY)	PSC DOCKET NO. 289
ADJUSTMENT CLAUSE AND A FUEL)	ORDER NO. 02/2007
RISK MANAGEMENT PROGRAM OF)	
THE VIRGIN ISLANDS WATER AND)	
POWER AUTHORITY)	

ORDER

WHEREAS, the Virgin Islands Public Services Commission (hereinafter "PSC" or "Commission"), received a petition (hereinafter "Petition") from the Virgin Islands Water and Power Authority (hereinafter the "Authority" or "WAPA") on August 7, 2006, wherein the Authority requested that the Commission authorize a fuel risk management program the costs of which would be recovered in its Levelized Energy Adjustment Clause allocable to the Electric System ("LEAC"); and

WHEREAS, Georgetown Consulting Group (hereinafter "GCG") is currently the PSC's Technical Consultant to review the Authority's Petition and GCG reviewed the Authority's Petition; and

WHEREAS, GCG concurs that the Authority should establish a fuel risk management program with at least three counterparties for the Electric System, the costs of which would be recovered under the Electric System LEAC factor as set forth in the Stipulation dated November 15, 2006, ("Stipulation"); and

WHEREAS, the Authority has adopted a resolution on July 27, 2006, (the "Resolution") (see Exhibit A) authorizing the Fuel Hedge Program (as defined therein) subject to the Program Limitations (as defined therein); and

WHEREAS, the PSC scheduled a public meeting on Sunday, November 19th and Monday, November 20th, 2006, to act on the petition at which it received a report from GCG on its recommendations received and the oral testimony of WAPA and GCG, and the Commission having considered the evidence proffered and being otherwise satisfied in the premises; and

NOW THEREFORE, it is hereby **ORDERED** that the Authority is authorized to enter into a Fuel Hedge Program to be implemented in accordance with the terms of the

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Resolution and the Program Limitations, including the Fuel Hedge Guidelines and the Fuel Hedge Procedures, which are hereby approved and consented to by the PSC, upon recommendation of GCG and WAPA, as set forth in the Stipulation, except that payments for professional services directly related to the Fuel Hedge Program subsequent to the date of PSC approval of the Fuel Hedge Program shall not be permitted for inclusion in any LEAC.

WHEREAS, the PSC will monitor and periodically evaluate the costs and benefits of the Fuel Hedge Program authorized by this Order;

NOW THEREFORE, it is hereby **ORDERED** that the Fuel Hedge Program and the related Program Limitations shall be subject to initial review by the PSC within six months from the date of the first transaction under the Fuel Hedge Program and, no transaction shall settle more than nine months plus five business days after the first transaction and, if the PSC finds the results of such operation are beneficial, reasonable and prudent, the PSC shall deliver a Confirming PSC Order authorizing the Fuel Hedge Program for a three year period from the date of such transaction with a maximum term per transaction of two years; and

WHEREAS, in order for the Authority to recover the expenses and costs of the Fuel Hedge Program, the LEAC must be amended; and

WHEREAS, GCG has recommended under a stipulation, also filed with the PSC on November 15, 2006, (the "Stipulation"), in order for the Authority to recover the expenses and costs of the Fuel Hedge Program as agreed upon between the Authority and the PSC (as set forth in the attached Exhibit B) under the LEAC, that the LEAC be adjusted to recognize and include such costs as agreed upon and as required under the final terms of the multiple transactions to be executed from time to time, pursuant to the International Swap Dealers Association ("ISDA") Master Agreement (the "Master Agreement"), by and between the Authority and eligible counterparties, including but not limited to Morgan Stanley Capital Group ("Morgan Stanley") and Citigroup, the Schedules and the Credit Annexes, having such terms and provisions as determined by the Authority subject to the Program Limitations. The proposed Morgan Stanley and Citigroup agreements and all such future agreements to be entered into with other eligible counterparties are referred to herein as the "Fuel Hedge Agreements"; and

WHEREAS, the final costs to be included in the LEAC shall be set from time to time pursuant to the terms of confirmations to be entered into by and between the Authority and such counterparties ("Confirmations") in accordance with the Program Limitations, established by the Authority Governing Board, in consultation with and as recommended by the PSC, pursuant to the Stipulation; and

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WHEREAS, all costs related to the Fuel Hedge Agreements, including but not limited to costs of operating the Fuel Hedge Program, the payments received in connection with a call option, payments made in connection with a put option or termination payments made or received by the Authority, all as required pursuant to such Fuel Hedge Agreements, shall be included and recognized as a current cost or credit for the purchase of fuel to be recovered in the next succeeding LEAC Period. WAPA has agreed to provide to the PSC verification of all payments made or received at the end of each six month Billing Period under each respective Agreement;

NOW THEREFORE, it is hereby **ORDERED** that prudent payments made by the Authority under the Fuel Hedge Program (excluding those for professional services and other regulatory costs, be recognized and recovered in the next succeeding LEAC Period), unless expressly excluded by the PSC for cause, be recognized and recovered in the next succeeding LEAC Period and payments received by the Authority be taken into account in setting the LEAC for such next succeeding LEAC Period; and

WHEREAS, it is prudent and necessary to establish a reserve for the payment of costs under the Fuel Hedge Program and provide for the replenishment and increase in the amount thereof;

NOW THEREFORE, it is hereby **ORDERED** that certain amounts in the Authority's Self Insurance Reserve Fund be established as a reserve for the payment of costs under the Fuel Hedge Program in an amount not to exceed \$1,000,000 for a period not to exceed nine months plus five business days from the date of the first transaction; provided, however, that to the extent Fuel Hedge transactions have been entered into secured by such Self Insurance Reserve Fund, such amount shall not be reduced by PSC Order for the term of such transactions. Any amounts drawn by the Authority from the Self Insurance Reserve Fund shall be replenished by the Authority from available funds in not more than sixty days from the date of any draw thereon; and that the Authority may increase the amount of such reserve or the source of such reserve or credit facility only pursuant to a formal petition filed with the PSC within three months from the date of the first transaction under the Fuel Hedge Program.