

GOVERNMENT OF THE VIRGIN ISLANDS

PUBLIC SERVICES COMMISSION

The Virgin Islands Water And Power Authority)
Petition For Surcharge And Approval)
To Issue Additional Electric System Refunding)
Bonds and Electric System Subordinated Bonds)
To Fund Certain Capital Improvement)
Projects, And For Related Purposes.)

PSC Docket No. 533

STIPULATION

The Virgin Islands Water and Power Authority ("WAPA" or "Authority") and the Technical Consultants for the Virgin Islands Public Services Commission ("PSC" or "Commission") hereby agree and stipulate to recommend the following to the PSC for approval:

1. The Authority's request to refund \$40 million of the Electric System Revenue Bonds, 1998 Series (the "Series 1998 Bonds") at more favorable interest rates to produce currently estimated annual debt service savings of approximately \$200,000 should be approved.
 - (a) The Authority has previously identified and committed to complete several projects critical to the Authority's operations, and which the Commission has previously identified as critical in rate formulation. The funds generated by these savings may be used to fund a portion of the costs of certain key projects, which include:
 - (i) Line Loss Reduction, which will reduce rates;
 - (ii) Condition Assessment Update, to provide a means of determining the cost-effectiveness of current operating units, and the need for future rehabilitation or replacement of those units;
 - (iii) Maintenance Management, specifically the implementation of MAXIMO to improve the availability and efficiency of current generating units; and

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(iv) A feasibility study on the interconnection of the Electrical System of the St. Thomas-St. John Division with the St. Croix Division, which interconnection could significantly reduce necessary capital investments in generation capacity, as well as increase system reliability and increase flexibility for plant location.

(b) The Authority agrees to notify the Commission immediately if it chooses not to fund any of the above programs with the full amount of the savings from the refinancing. In such event, the Authority will pass through the projected \$200,000 annual savings associated with the refunding of the Series 1998 Bonds to ratepayers as a rate reduction to be effective on the first of the month following the Authority's election not to finance any of the above projects through such savings.

(c) WAPA shall confirm to the PSC in writing, supported with appropriate work papers, that at the time of sale, the proposed refunding will result in a net present value savings of at least 2.5% net of all appropriately allocated fees and expenses.

2. The Authority's request to issue approximately \$57,155,000 of subordinated bonds ("Series 2007 Subordinated Bonds") be approved subject to the following qualifications:

(a) The use of \$24.1 million of the proceeds from the Series 2007 Subordinated Bonds allocable to the Waste Heat Recovery Boiler project on St. Croix contained in Table 1 of the testimony of Alberto Bruno-Vega (page 10) is recommended.

(b) The requested reprogramming of approximately \$14.264 million of the proceeds of the 1998 Series Bonds and the 2003 Series Bonds for the purposes specifically referred to in this petition as set forth in Table I, Testimony of Alberto Bruno-Vega, page 10, all in accordance with the terms of the Subordinated Bond Resolution is recommended

(c) The retirement of \$10 million borrowed pursuant to the Authority's line of credit by its inclusion within the 2007 Subordinated Bonds should be approved.

(d) Approval of the debt service allocable to the Series 2007 Subordinated Bonds for all of the projects contained in Table 1 of the testimony of Alberto Bruno-Vega (page 10) (the "Capital Projects"), other than the Waste Heat Recovery Boiler project on St. Croix in the amount of \$14.997 million, is recommended. Final approval of rates for the Capital Projects (excluding the Waste Heat Recovery Boiler) shall be reviewed by the PSC in the rate investigation described below. In the

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event that such projects or the cost of such projects is materially changed, or WAPA determines that it does not intend to proceed with a funded project, WAPA shall promptly notify of the Commission.

- (e) The Authority shall provide quarterly reports on the actual uses of the Series 2007 Bonds within 45 days after the end of each quarter in a format approved by the PSC. Any proposed changes in the uses of such funds from those uses approved herein shall be promptly provided to the PSC.
- (f) Any further reprogramming of the projects recommended for approval herein or an increase in the principal amount of Subordinated Bonds to be issued above \$57,155,000 but not to exceed \$65 million, will be subject to review and consideration in the setting of appropriate rates by the PSC. The Commission reserves the right to review all projects and expenditures for the reasonable and prudent use of funds and resources of the Authority in future rate settings.

3. With regard to rate actions:

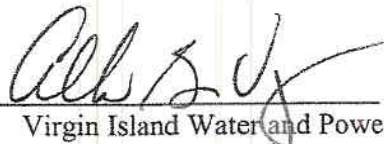
- (a) Subject to Board approval, the Authority shall file a base rate proceeding by December 31, 2007.
- (b) The Authority and the Technical Consultant recommend that the PSC affirm its commitment to support a debt service coverage ratio of 1.75 times with respect to the Senior Bonds.
- (c) The Authority and the Technical Consultant recommend that the PSC adopt a commitment to support a debt service coverage ratio of 1.50 times with respect to the Subordinated Bonds.
- (d) The Authority and Technical Consultant agree to recommend that the Authority's request for a surcharge of 2.2 mills per kWh, commencing on October 1, 2008, or the date on which the Waste Heat Recovery Boiler achieves ninety percent (90%) of its performance standards as set forth in the agreement between WAPA and its contractor, whichever is later, for the Waste Heat Recovery Boiler made in this petition be approved. The surcharge will be reviewed in the upcoming base rate proceeding and may be rolled into base rates if appropriate.
- (e) The approvals granted above are intended to provide assurance to the rating agencies and the bond market that the Commission supports the Financing Plan as described above.

4. The Authority agrees to aggressively plan to lower rates, increase fuel diversity and economically implement renewable resources of generation.

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- (a) Recognizing that the Commission will be required to approve any change in the Authority's rates necessary to implement new and replacement generation capacity, and seeking to work together to produce the most efficient means of implementing such change, the Authority agrees to provide a copy of its forthcoming request for proposals (RFP) and any subsequent RFP for new capacity to the PSC at least thirty (30) days prior to its release for comments. Comments shall be provided back to the Authority within 15 days. The Authority shall consider such comments before finalizing and issuing the RFP.
- (b) The Authority shall complete the Condition Assessment Study Update within the scope that has been previously agreed to by the Authority and the Technical Consultant, as set forth in the Stipulation on the Condition Assessment, by and between the Authority and the Technical Consultant to the Commission, dated December 12, 2006, attached as Exhibit I attached hereto. The Authority shall be permitted to fund the Condition Assessment Study Update from the savings of the refinancing approved herein, or proceeds of the 2007 Subordinated Bonds, from its Line of Credit or from available amounts previously escrowed by the Authority for load research, or demand side management.
- (c) The Authority shall complete and provide to the PSC that portion of the Condition Assessment Study Update specifically related to the Capital Projects to be financed, in whole or in part, from proceeds of the 2007 Subordinated Bonds, for PSC review prior to any proposed change in rates allocable to such projects.
5. The Authority shall provide substantially final documents related to such financings including the Subordinated Bond Resolution, flow of funds, covenants, engineer's report, preliminary official statement, and bond refunding savings analysis for PSC review and approval prior to mailing of the Preliminary Official Statement.

Dated: April 30, 2007



Virgin Island Water and Power Authority
By: Alberto Bruno-Vega
Executive Director/CEO



Georgetown Consulting Group
By: Jamshed "Jim" Madan

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PUBLIC SERVICES COMMISSION

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The Virgin Islands Water And Power Authority)	
Petition For Surcharge And Approval)	Order No. <u>22</u> /2007
To Issue Additional Electric System Refunding)	
Bonds and Electric System Subordinated Bonds)	
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Projects, And For Related Purposes.)	PSC Docket No. 533
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ORDER

This matter is before the Virgin Islands Public Services Commission ("Commission" or "PSC") as a result of the filing of a petition ("Petition") by the Virgin Islands Water and Power Authority ("Authority" or "WAPA"), for the Commission's approval of the Authority's proposed Financing Plan, including the refunding of certain Electric System bonds and the financing of a portion of the costs of certain proposed capital projects, and approval of a surcharge proposed by the Authority to commence on October 1, 2008 or the date on which the Waste Heat Recovery Boiler ("WHRB") achieves ninety percent (90%) of its performance standards as set forth in the agreement between WAPA and its contractor, whichever is later, in order to fund the balance of the costs of a waste heat recovery boiler for St. Croix.

WAPA and the Commission's Technical Consultant have entered into a stipulation, dated as of April 30, 2007, with joint recommendations to the Commission