PSC Response to WAPA's Leased Generator Surcharge on Customers Bills

In the past week the Virgin Islands Water & Power Authority (WAPA) has issued press statements that the three cents per kilowatt/hour surcharge now appearing on your bill is to pay for leased generators that the Commission insisted on. To call this representation of the facts a distorted history, would be generous.

Unfortunately, WAPA has been, at best, reckless with its ratepayer's money and careless with its operations for years. The current result is that WAPA now has the highest rates in the United States and/or the Caribbean and still cannot cover its debts or its operating costs. Under the current laws and court decisions in the Virgin Islands, and despite the PSC's efforts to seek changes to current laws, the Commission cannot direct WAPA to do anything; per the court, a we can do is set rates. And to be clear, setting rates that deny WAPA funding for even its imprudent and unreasonable actions could result in WAPA "going dark."

The use of the current leased units exists as a result of WAPA's past mismanagement, and the effect on rates of VI residences and businesses. Again, to be clear, if not for leased generators, St. Thomas and St. John would already be dark, and the Levelized Energy Adjustment Charge/Clause (LEAC) rate would be substantially higher. So, yes, the Commission has urged the use of leased generation as an interim measure; as a bridge to new generation technologies of greater efficiency. But the "interim" is taking too long.

Using the history of the St. Thomas/St. John district for an example, before 2011, WAPA produced potable water using Israel Desalination (IDE) plants – an antiquated technology. To produce adequate water with this old technology, WAPA had to operate its electrical generation in a way that was more expensive and less efficient. WAPA's consultants prepared a "Condition Assessment" in 2004 that stated, the continued operation of the IDE water production plants was not economically intelligent once fuel oil was over $55 a barrel – subsequently in 2005 the fuel oil price exceeded $55 a barrel. That same Condition Assessment said that WAPA's electric power generators were oversized and inefficient. Yet WAPA continued to run the IDE plants until the system failed massively in the 2011/2012 tourist season – costing VI consumers unnecessary tens of millions of dollars on both its water and electrical systems. Restaurants, bars, even public restrooms were affected, along with residents, businesses and tourists, by this water shortage. WAPA was finally forced to switch to Reverse Osmosis or RO plants for water production.

Even more important in 2011 the PSC's consultants noted that WAPA's generating plants were far from meeting the fuel efficiency standards specified by the plant manufacturers. Those inefficiencies were costing ratepayers millions of dollars per month. WAPA's response was that it could not maintain its plants effectively with its then-current budget, despite plant maintenance being a line item in WAPA's 2009 rate increase. In response, the PSC proposed and financed a program to permit WAPA to perform specific maintenance items, and to lease a single generator, so that WAPA's plants could be taken off-line to permit the maintenance and repairs. One of the first and major issues to be addressed was Unit 23, WAPA's newest and largest generator. A special surcharge – The Rate Financing Mechanism or "RFM" was added to the LEAC. It was added to the LEAC because it was estimated that the combined costs of the leased generator and the delayed maintenance would be less than the fuel savings achieved, lowering the overall charge within a reasonably short period of time. After a five-year period, that program would prove to be a failure as a result of the diversion of program funds.

Unit 25 was the first leased generator – it is significantly more efficient – using 30% less fuel than WAPA's units. It was brought online in 2012, for an estimated 18 months; it is still here and in operation. In fact, WAPA did not restore its generating units to optimal operating condition, but in fact has now retired all but three of its St. Thomas units. And one of the remaining is one that WAPA's consultants specifically recommended for retirement – in 2004.

WAPA has now leased two more units on St. Thomas (Units 26 & 27), and finally this year, brought online the new Wartsila generators. The Wartsila units are 7 megawatts (MW) each, so all three can generate the power of one of the leased units (or about ½ of what Unit 23 should produce). The Wartsilas are the most efficient units on St. Thomas, but they don't provide adequate capacity for the St. Thomas/St. John district without the leased units.

Now there are other leased units on St. Croix, commonly referred to as the Aggreko units. Like the Wartsilas, the Aggreko units are far more efficient than WAPA's other units on St. Croix. For comparison (lower numbers are better):

Aggrekos:	9,000 BTUs/kWh	LPG Only
Wartsilas:	9,000 BTUs/kWh	LPG Only
APR Leased Units:	11,500-12,300 BTUs/kWh	Oil Only

St. Thomas WAPA Units:	14,500 BTUs/kWh	Mixed
St. Croix WAPA Units:	17,000 – 20,000 BTUs/kWh	Mixed

[“Mixed” because some of WAPA’s generators have been converted to run on either LPG/Propane or Fuel Oil; some remain on Fuel Oil only.]

The leased Aggreko units on St. Croix are twice as efficient as WAPA’s own units. The newly purchased Wartsila units burn about 60% of the fuel as WAPA’s own units for the same amount of electricity. These units are also smaller, so only the amount of power necessary is running, saving more fuel and operating expense.

WAPA’s current issues are not the expense of the leased generators. It is the extraordinarily high costs of WAPA’s operations, including the massive debt load and its outstanding vendor liabilities associated with the Vitol project and past fuel suppliers. These are critical issues going forward that are not yet fully transparent to stakeholders.

WAPA has lost more than 30% of its sales of electricity since 2011 – and that trend began well before Irma and Maria. Those storms appear to have only accelerated the process, not caused it. Simply raising WAPA’s rates has serious implications for the Virgin Islands’ economy, as well as the continued viability of WAPA. A new and comprehensive path forward must be found and followed, in a very short period of time. This is going to require greater transparency and WAPA working with all stakeholders inclusive of consumer groups.

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