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Fitch Withdraws WAPA Bond Ratings Due to Information Shortage

Fitch Ratings' withdrawal of WAPA bond ratings reflects concerns over insufficient information

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Aerial shot of the Randolph Harley Power Plant in St. Thomas, USVI. By. ERNICE GILBERT, V.I. CONSORTIUM

Fitch Ratings has announced the withdrawal of several ratings for the V.I. Water and Power Authority. The withdrawal, announced in December, includes ratings for approximately \$74 million in electric system revenue bonds (series 2003 and 2010C) and \$69 million in electric system subordinate revenue bonds (series 2007A and 2012C), all previously rated 'CC'. Additionally, the Issuer Default Rating (IDR) of 'CC' for WAPA has been withdrawn.

This decision stems from the limited availability of WAPA's operational and financial information from public sources or from the authority's management, which Fitch states does not provide sufficient transparency to maintain the ratings. Consequently, Fitch will no longer provide ratings or analytical coverage for WAPA. This includes the withdrawal of the outstanding Environmental, Social, and Governance (ESG) Relevance Score ratings.

In terms of financial security for bondholders, the electric system revenue bonds are guaranteed by a commitment of the net revenue generated from electricity sales and specific funds set aside according to the bond agreement. The electric system subordinate revenue bonds have a similar guarantee, but they rank lower in priority compared to the main electric system revenue bonds. Essentially, if funds are limited, the primary revenue bonds will be paid first. Additionally, both the primary and subordinate revenue bonds are backed by special reserve funds designated for paying off the debt.

Fitch Ratings has also withdrawn the Revenue Defensibility, Operating Risk, and Financial Profile ratings, indicated as 'wd'. Furthermore, there's an ESG consideration regarding Governance: the potential formation of an [oversight committee](#) responsible for WAPA's operations. This change could lead to increased political influence and a possible debt restructuring, elevating the risk of a distressed debt exchange, according to Fitch.

Since the ratings have been withdrawn, Fitch Ratings states that factors leading to either a negative rating action/downgrade or a positive rating action/upgrade are no longer applicable.

WAPA could face a litany of negative repercussions as a result of Fitch's decision.

Increased Borrowing Costs for WAPA

Without a current credit rating, WAPA might face higher borrowing costs. Potential investors, perceiving greater risk, may demand higher returns, leading to increased interest rates on new debts.

Market Confidence and Liquidity Issues

The absence of a credit rating could lead to reduced market confidence, affecting WAPA's capital-raising abilities. This might also result in decreased liquidity for WAPA's bonds, complicating the management of its debt portfolio.

Contractual and Reputation Challenges

The withdrawal may impact WAPA's eligibility in investment portfolios that mandate holding only rated securities. Additionally, the bond market may perceive the withdrawal negatively, potentially harming WAPA's reputation.

WAPA, as an instrumentality created by the government of the Virgin Islands, is the sole provider of electric and water service in the territory, which includes St. Thomas, St. Croix, and St. John. The electric system serves about 50,000 residential, commercial, and large power customers, including the USVI government.

The ESG Relevance Scores for WAPA consider factors such as Governance Structure, Exposure to Environmental Impacts, Financial Transparency, and Group Structure, each impacting the credit profile to various extents.

Following this withdrawal, Fitch will no longer provide associated ESG Relevance scores for WAPA.

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