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WAPA on Brink of Financial Collapse as LEAC Remains Unchanged Amid Rising Costs, PSC Reveals

With LEACE rates frozen, WAPA teeters on financial ruin. Even so, PSC counsel warns rate hike could drive away more customers

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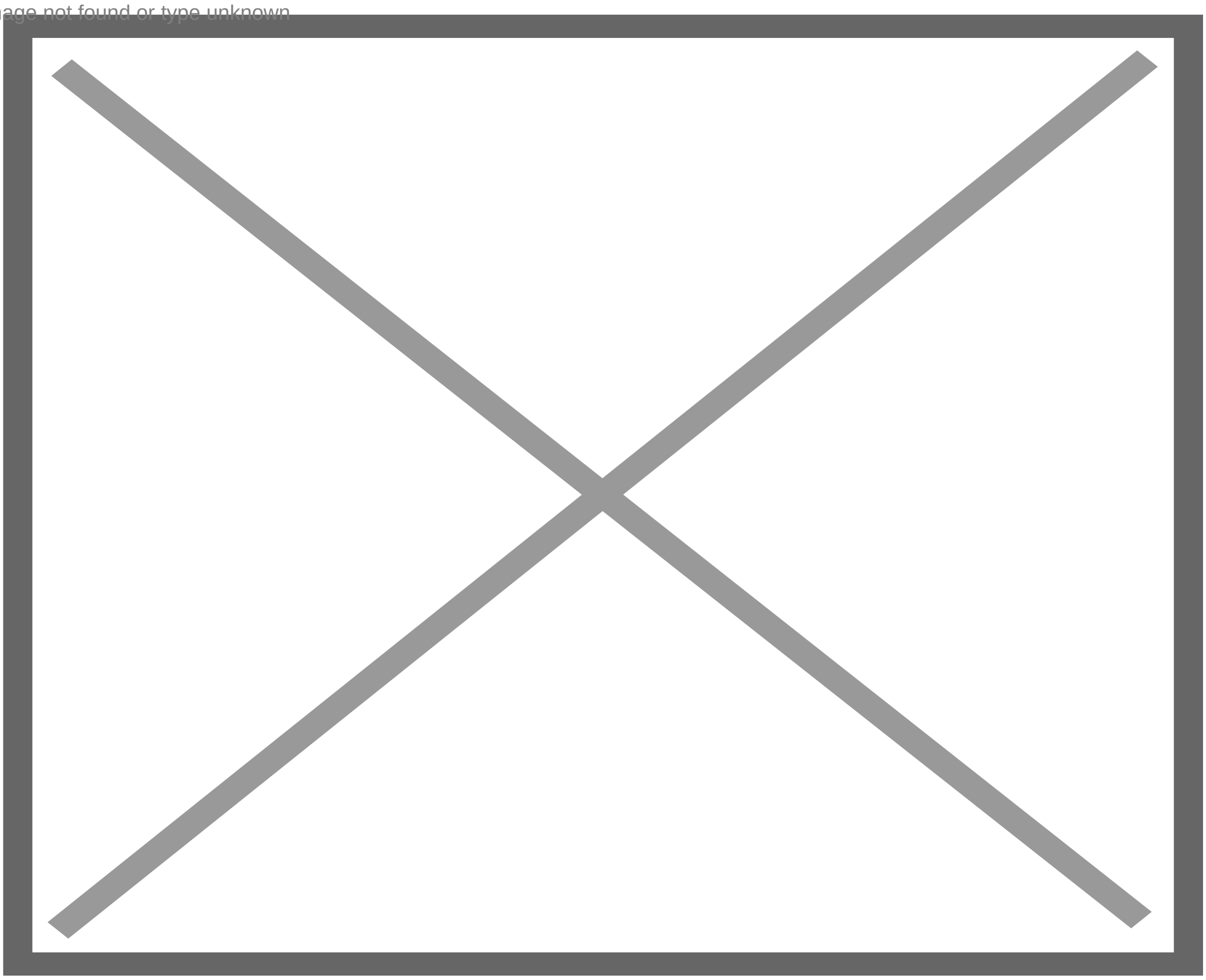

WAPA's Richmond Power Plant on St. Croix. **By. ERNICE GILBERT, V.I. CONSORTIUM**

With no Water and Power Authority representative present at the Public Services Commission meeting on Tuesday, PSC General Counsel Boyd Sprehn began the discussion of WAPA's financial crisis and the energy emergency with a summary of developments to date. Following a lengthy debate, commissioners voted to maintain the current LEAC rate despite the growing specter of ballooning excess fuel costs.

Mr. Sphrehn began by noting the settlement agreement with Warstila that the WAPA board approved last week. “That should result in Wartsila resuming work on the premises within the next two weeks,” he said. The additional generation capacity, combined with battery storage on St. Thomas due to come online “within the month” would “greatly increase WAPA’s reliability and its ability to meet customer demand,” Mr. Sphrehn told commissioners. When those Wartsila generators are converted to propane “some time between the end of September and the beginning of next year,” WAPA’s fuel costs are expected to drop by $2 million a month, savings critical to addressing the utility company’s severe cash flow deficit.

Despite recent emergency interventions by the executive branch, Mr. Sprehn said that WAPA’s cash position is so fragile that it is “in fact in great jeopardy of being unable to meet its commitments within this month.” He also noted the belated selection of Ernst & Young as the company to provide turnaround management services to WAPA.

WAPA, Mr. Sprehn noted, is one of the regulated utilities that did not respond to the PSC’s request to submit updated emergency preparedness plans ahead of the hurricane season. After some discussion among commissioners about what to do about Tuesday’s no-show by WAPA representatives. Commissioner David Hughes counseled patience. Without defending the agency’s unilateral decision not to appear before the PSC, he noted that communication between PSC staff and WAPA was occurring on a regular basis behind the scenes. “This is a great credit to our staff. They’re getting information from WAPA, we’re just not getting it in an open hearing today,” he said. Mr. Sprehn noted that the utility “has serious financial and operational issues at this time.” Nevertheless commissioners voted to direct WAPA to provide the needed information within 14 days, failing which a subpoena would be issued to compel the production of the requested documentation.

The PSC has decided to keep the current rate of the Levelized Energy Adjustment Clause (LEAC), which directly covers the cost of fuel for WAPA to provide electricity. Although WAPA has no outstanding debts for fuel—since these costs are prepaid—the backlog of fuel costs anticipated to exceed $100 million by September is due to the inability to fully recoup these expenses from customers, attributed to the persistently low LEAC rates.

Consultant Jim Madden quoted an excerpt of the most recent staff report which notes that WAPA has not requested any change to the current LEAC rate of 22.22 cents, despite its dire financial position. For at least two and a half years, this rate has not been enough “to cover the cost of fuel using the current generation mix,” Mr. Madden said. Compounding the situation were additional shipping fees charged by Vitol. Even the government subsidy received by the utility between March 2022 and June 2023 was insufficient to close the deficit, Mr. Madden informed commissioners. Now that the subsidy is over, “WAPA has been and continues to lose money on nearly every kilowatt hour of electricity that it sells, totaling millions of dollars of losses each month,” the consultant noted.

This circumstance has placed WAPA in a vicious downward spiral, as working capital was quickly eclipsed by the mounting imbalance between fuel expenditures and revenue. “WAPA has no working capital left,” he claimed, and “defers payment to its vendors in significant amounts.” While recent injections of cash have ensured that the Aggreko bill was paid, and that the debt to Seven Seas remains manageable, other vendors – including solar power supplier BMR Energy – have not been so lucky. Mr. Madden disclosed that BMR has not been paid for the power generated at Estate Donoe or Spanish Town “for at least two months, after paying BMR for only three months of the past two years.” That bill now stands at nearly $4 million.

Because there have been no material changes to WAPA costs so far, keeping the LEAC status quo would consign WAPA to continue to lose millions a month in excess fuel costs. Nevertheless, “given all the uncertainties surrounding this electric LEAC,” PSC staff decided not to recommend an increase. According to Mr. Madden, any rate increase would mean the loss of a significant number of WAPA’s electricity customers, “some of them permanently.”

A smaller customer base would impact base rates in a negative way, Mr. Madden said, answering a question from ex officio PSC commissioner, Senator Carla Joseph. “That’s a big piece of the rationale why the LEAC is being held,” he explained. Attorney Sphren clarified that this was the pattern observed just over 10 years ago, when WAPA’s base rate was increased. The utility did not collect any additional revenues due to the lost income from customers who fled the company.

Even with LEAC held steady, the problem of a shrinking customer base persists. “Over time, WAPA continues to lose customers and lose sales,” Mr. Sphren said. “Its rates are high and the cost of alternatives have diminished,” he noted, saying that WAPA’s revenue collections have not rebounded with the post-hurricane economic recovery experienced by the territory as a whole. “That’s a rough reflection of the fact that most of the economic growth is being supplied power through other means,” he surmised. Instead of trying to chase revenue by raising rates, the only hope for WAPA is to lower them, Mr. Sphrehn argued. If not “it will continue to lose its customer base and sales.”

Asked what the PSC could do about WAPA’s deferred fuel costs, Mr. Madden admitted that “it’s a difficult issue” which is “really above our pay grade.” The Commission would be best placed to determine “whether these fuel costs were prudent,” he advised. Mr. Madden outlined a scenario where, when efficient power generation drives LEAC rates down to between 17 and 18 cents per kilowatt hour, WAPA would delay passing the savings onto the consumer for several months, as a way to recoup its working capital. However, with the amount of inordinate delays in several key projects that would have brought down fuel costs years ago had they been completed on time, the PSC will have to make somewhat of a “judgment call, weighing the balance of the financial viability of WAPA,” Mr. Madden said. He reiterated his advice that the number being claimed by WAPA “is not the correct number for deferred fuel…the commission is going to have to look behind that number and decide how much of that WAPA should be allowed to collect,” he said.

PSC Board Chairman Raymond Williams wondered whether the PSC needed to act proactively to review WAPA’s LEAC, given that there is no request before them for an increase. “I don’t know that we need to address the issue unless and until there is a specific request from WAPA to do so,” he suggested. Mr. Madden pushed back by noting the rapidly mounting figure being recorded by WAPA. “It’s maybe $150, $170 million by the audited books,” he noted. “The auditors sooner or later are going to ask a question – whether that’s a viable asset, is that in fact really an asset?” The recorded deferred fuel costs are so large, compared to WAPA’s surplus and retained earnings account, that “it’s become a substantial issue.”

David Hughes supported his fellow commissioner, wondering whether the PSC needed to “borrow trouble” by unilaterally deciding to consider adjusting the electricity LEAC. “I don’t want to touch it. I don’t want to touch it at all,” he emphasized, noting that the deferred fuel cost was one big number among many on WAPA’s balance sheet. “I’m not worried about WAPA’s balance sheet at this point. I’m worried about their sustainability to open their doors and make power every day.” His comments turned to the wisdom of the PSC’s decision to support an unsustainably low LEAC in the first place. “Are we doing the community a disservice?” he questioned. “Are we obscuring the cost of power in the territory and giving people false comfort?” he wondered.

“I made my peace with that question when we started to deviate from the math, because the governor sat behind it and said ‘I’ll make up the difference,’” Mr. Hughes continued, noting that the governor was indeed true to his word, at least for a while. However, now that the subsidies have ended, “we’re just publishing a rate that isn’t real,” he noted. He questioned whether the utility should continue to promulgate an artificially low rate, provide WAPA with a LEAC that correctly reflects their claimed fuel costs, or whether it should conclude that the just and reasonable LEAC should be even lower than the current rate, “and let the shoe fall, with respect to what it does to the utility.”

Mr. Hughes confessed to not even having a clear opinion on which option he believes is best for WAPA and the territory. Ultimately, he decided that for now, the PSC should comply with the “political consideration” being offered “by both the government of the Virgin Islands and the utility…that we maintain rates where they are even though we know it’s the wrong number.”

That stance, he warned, “is getting to be a tougher position to take, because we are obscuring the cost of power in the territory by publishing this rate.” According to Mr. Hughes, “people need to understand that” it costs more than 22.22 cents in fuel for WAPA to generate each kilowatt of power, “because they should be paying more if they’re paying the true cost of power.” He noted that with WAPA’s finances on the ropes, there is practically nowhere else for the utility to find savings, “short of payroll and debt service, and those are tough, tough choices.”

Ultimately, the current LEAC rate of 22.22 cents per kilowatt will remain unchanged for at least the next three months.