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PSC Approves WAPA’s Request to Maintain LEAC Amid Cost Pressures

As WAPA’s debt grows and cost-saving energy projects remain delayed, the Public Services Commission agrees to freeze current electricity rates through December

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WAPA's Richmond powerplant on st. Croix. **By. ERNICE GILBERT, V.I. CONSORTIUM**

Due to a “very depressed financial condition” and the “unavailability of generating plans” which were “expected to be online months ago and perhaps a year ago,” the Water and Power Authority has requested that the current Levelized Energy Adjustment Clause (LEAC) on electricity bills remain the same until at least the end of the year. This was from a Public Services Commission staff report presented by Jim Madden of Georgetown Consulting on Tuesday.

“The potential savings expected” from much-touted solar and wind generation projects “has not yet occurred, and there is no certainty to when it will actually occur,” Mr. Madden continued. While these projects lag, WAPA ratepayers are stuck paying more for energy than they would have if things had rolled out on schedule. Mr. Madden reminded commissioners that the four propane-burning Wärtsilä generators, which can operate at a lower cost than older, less efficient machines fueled by expensive diesel, have been on island for at least three years, and are only now moving through their commissioning stages. WAPA’s request to maintain the current LEAC indicates – at least in part – the utility’s “uncertainty of whether the new Wärtsilä units would be operational in the next quarter,” he asserted.?

That being said, the current LEAC rate of 22.22 cents is still not enough to cover WAPA’s current cost of fuel generation, meaning that the utility “continues to lose money on nearly every kilowatt hour of electricity that it sells,” Mr. Madden noted. “WAPA simply goes into each period knowing it will lose money as a result.” Depleted after years of operating in the red, “WAPA has no working capital left,” Mr. Madden said, leading to the current situation of high arrears on vendor invoices, and long deferrals of much-needed scheduled maintenance of the generation system.

When the LEAC and base rate is combined, the latter covering WAPA's payroll, operations, vehicles and other expenses, residential customers pay over 40 cents per kilowatt hour, while commercial customers pay over 46 cents per kilowatt hour — the highest in all of the United States and its territories.

The gap between fuel costs and what it is able to recoup through the LEAC was previously reported as being approximately $118 million by WAPA. By the end of this year, Mr. Madden estimates that the company could be carrying up to $160 million in deferred fuel balances.?

“We have a structural deficit, it probably exceeds that amount,” WAPA CEO Karl Knight told commissioners. “For our critical vendor payments, it’s approximately $6 million a month.”

Contributing to that deficit is “line loss” of between 13-14% – electricity that is produced by WAPA but does not reach a ratepayer’s meter – according to interim Chief Financial Officer Lorraine Kelly. The national average, according to PSC counsel Boyd Sprehn, is between six and eight percent.?

Mr. Madden estimated that it currently costs WAPA 25.41 cents to generate each kilowatt-hour of electricity. That cost would drop to 20.73 cents once the four Wärtsilä engines come online, under the LEAC for the first time in years.

As such, the PSC staff recommended that the Commission vote to continue with the current LEAC as per WAPA’s request, “although there are significant lessons to be learned from the recent history,” according to Mr. Madden. Ultimately, a motion to that effect was carried by all commissioners present.