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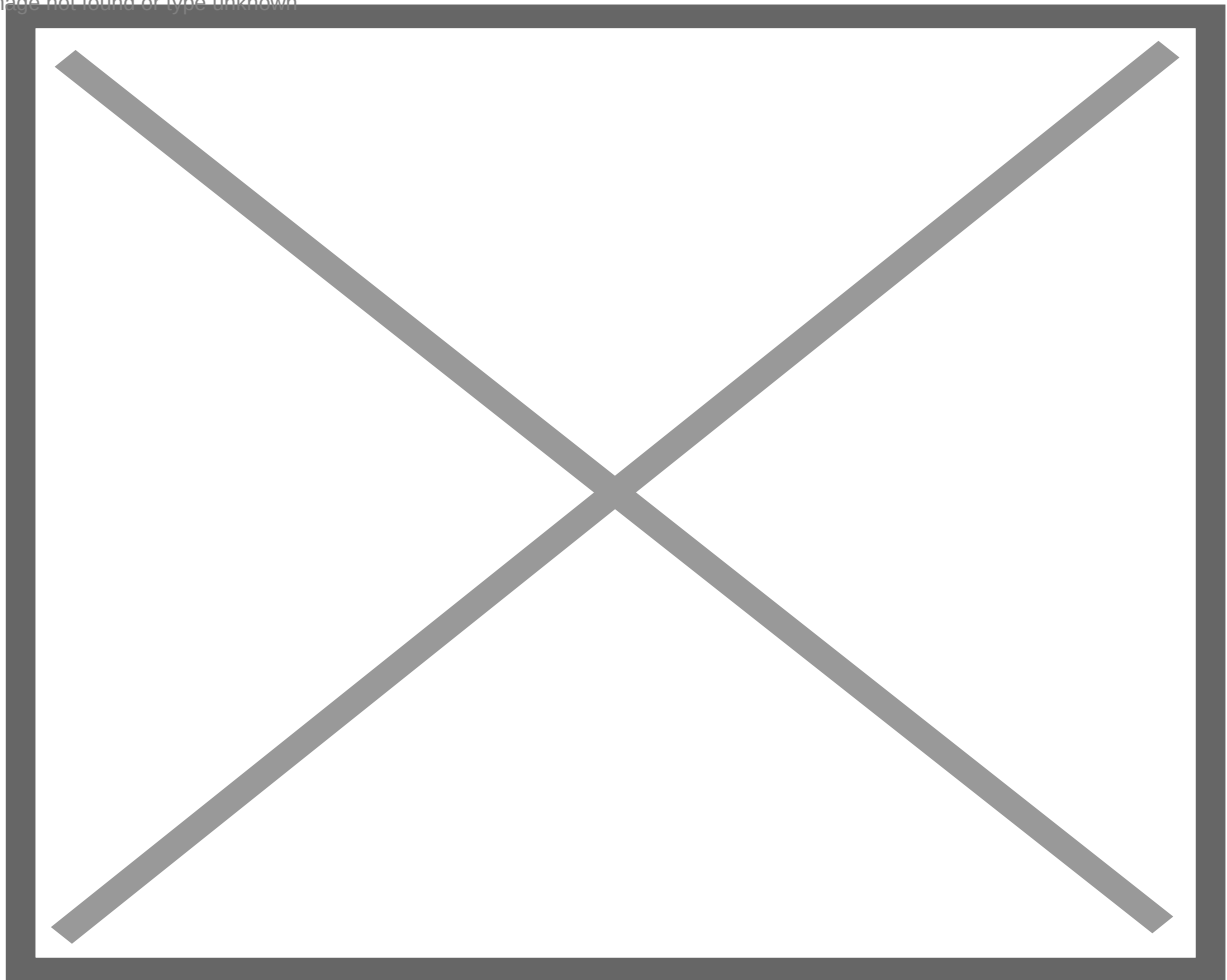
WAPA Faces \$375 Million Fiscal Crisis, "Operating in Zone of Insolvency" as Financial Woes Deepen

A report from Ernst & Young reveals WAPA's need for significant funding to address operational deficits, deferred maintenance, and past-due liabilities, with total risks potentially pushing the figure to \$498 million.

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Aerial shot of WAPA's Richmond, Christiansted power plant. By. ERNICE GILBERT, V.I. CONSORTIUM

A report from the V.I. Water and Power Authority's turnaround management firm, Ernst & Young, estimates that WAPA will require approximately \$375 million to address its financial crisis, cover operational shortfalls, and resolve outstanding liabilities—unless substantial debt

relief measures are implemented.

The money would be required “to fund operational cash burn and deferred maintenance, and resolve legacy liabilities,” the report says, noting \$87 million in past due payables among WAPA's financial burdens.

Compounding the issue, WAPA's projections contain “many risks...that may further deteriorate its financial situation and cause further stress on its operations,” the report notes. If fuel rates do not fall but instead remain flat, WAPA's cash requirements between now and 2030 could be as much as \$58 million more than projected. Any decrease in the Levelized Energy Adjustment Clause would cause a major reduction in cash flow – a one-cent reduction of the LEAC “would reduce cash inflows by ~\$3m annually,” the report says. WAPA also risks its bottom line through attrition. A 10% reduction in its customer base would cost the company about \$8 million a year, Ernst & Young estimates. Altogether, all the risks that could be identified and quantified, should they come to pass, would raise the cash needed by WAPA to \$498 million – just under half a billion dollars to stabilize itself over the next 5 years.

On January 29, the same day the report was published, Governor Albert Bryan Jr. told the Consortium that he anticipated a grim review. “WAPA is inefficient and we need to fix this, duh,” he predicted. “You'll spend a lot of money to find out what we already know.” While several lawmakers as of press time have indicated that they had not yet seen the published report, correspondence seen by the Consortium indicated that it was transmitted to Senate President Milton Potter at the same time it was delivered to the Office of the Governor and the Public Finance Authority. An analysis of the report was published by credit intelligence agency Octus on January 30, which contained a link to the Ernst & Young report, which the Consortium has now seen. The full 136-page report is available [here](#).

In the key deliverable of the [first phase of the \\$450,000 contract](#), Ernst & Young's assessment is indeed sobering. “WAPA is operating at a structural deficit, as the rates WAPA charges customers are not enough to cover WAPA's cost of fuel, operations, administration and debt payments,” the report declares. “WAPA cannot pay its bills as they become due which means that WAPA appears to be operating in the zone of insolvency,” the assessment continues.

How did the utility find itself in such dire circumstances? “Historically, Management and the Governing Board have not utilized external advisors, such as legal counsel, financial advisors, or operational consultants, to assist in contract diligence and negotiations,” the report says, pointing to one potential factor. It specifically mentions [WAPA's propane project with Vitol](#) which ballooned from \$80m to over \$220 million as an event directly connected with WAPA's decline. The end of the company's fuel hedging program in 2017 was also highlighted. Questions of managerial competence aside, the report also cites late payments by the Government of the Virgin Islands, WAPA's largest customer, a declining customer base, and historical dependency on diesel as contributors to the company's current financial crisis.

Governor Bryan was correct: none of these findings are new. However, the report's conclusion is stark. Current plans to stabilize WAPA rely heavily on the continued largesse of the federal government and on-time completion of projects managed by 3rd parties, neither of which are guaranteed. A “draft plan of high-level strategic initiatives” that management has reportedly put together also makes no provision for WAPA developing “the ability to repay legacy liabilities” or to build the capacity “for the respective required debt service” while also reducing rates to consumers.

Even the strategic initiatives that have been developed are still relatively nebulous. “The initiatives currently lack a detailed action plan and are dependent on federal funding.” WAPA management also has reduced expectations on just how much savings these initiatives will bring. “Savings, originally estimated to be \$7.7m, have been revised down to \$4.3m,” the report says. This is largely due to removing a potential rate increase from consideration, which would have brought in around \$1.5 million. An initiative to provide “efficient STX generation” which could have resulted in \$1.1m in savings was scrapped due to “lack of clarity around funding sources.” Expected savings from fuel renegotiations might also be lower than expected, to the tune of \$1.2 million in lost savings, the report said.

With planned strategic initiatives projected to bring in less savings than originally hoped for, operational costs mounting due to having to run machines without required maintenance schedules, limited access to credit, and any prospective rate decreases only making its cash crisis more acute, the report concludes that “overall WAPA’s capital structure and legacy liabilities appear to constrain WAPA’s ability to achieve financial and operational viability.”

There are opportunities for the company “to improve its operating cash flow,” the report says, but these are “dependent on further investment or concessions from contractual counterparties.” For example, if upcoming solar projects are completed ahead of schedule, WAPA could realize fuel cost savings of around \$4m per year.

However, in light of WAPA’s current financial standing, the turnaround management company strongly hinted that consumers may not be able to realize the rate reductions that have been expected (and touted) due to the commissioning of more cost-efficient power generation infrastructure. “Debt service may continue to pressure the need to maintain or increase rates” despite the projected reduction in fuel costs, the report declares, particularly with WAPA’s “large amount of debt obligations with maturities starting in FY25.”

How does the territory’s utility provider work its way into a sustainable future? The report says management is starting with long-overdue audits of WAPA’s finances. Work on auditing fiscal years 2021-2024 will begin next month, “with all years estimated to finish 16 months from commencement,” according to the report. “Completed financial audits may set precedent for WAPA to enable more robust accounting controls and procedures moving forward,” the document hopefully states. As part of getting its financial house in order, WAPA is also “in the process of writing off millions of dollars in delinquent accounts receivable to create a more reliable and useful account receivable aging report to drive collections,” the report says. There have also been “significant vendor settlements for fixed assets and inventory that were no longer in use.”

WAPA is also restarting a strategic initiative to refinance its debts, and is hiring a registered municipal advisor to help with refinancing options. The plan is to consolidate the company’s debts and provide a liquidity runway, all in one loan of approximately \$400 million.

In the shorter term, Phase 2 of Ernst & Young’s contract requirements should now be underway. In approximately 60 days, the company will be expected to produce a report detailing short-term measures for initiatives to reduce the LEAC, recommendations for reducing the base rate over 24 months, and strategies for incorporating renewable energy initiatives and reducing dependency on fossil fuels over a five-year period. The plans must also include an organizational restructuring that includes all divisions within WAPA, a debt consolidation and management plan, an energy plan that ensures the appropriate base rate and LEAC, and a water distribution plan adhering to reliable water quality standards.

