The Virgin Islands Consortium

WAPA Board Votes To Reinstate Fuel Hedge Program

Government / **Published On January 14, 2015 02:37 PM /**

Cynthia Graham January 14, 2015

The Virgin Islands Water and Power Authority Governing Board voted at a special meeting Tuesday to reestablish its electric system fuel hedge program that seeks to cap a portion of fuel costs, now that fuel oil and liquefied petroleum gas (LPG) prices are declining on the world market.

Fuel hedging is described as a contractual tool some large fuel-consuming companies use to reduce their exposure to potentially rising fuel costs. The contract allows the companies to establish a fixed or capped cost, through a commodity swap or option.

Tuesday's governing board decision authorizes the hedging of fuel oil, LPG, liquefied natural gas, and all other fuel sources used by the Authority going forward, according to a press release issued about the the board's action.

WAPA's first fuel hedge program existed from July 2006 through the early part of 2011.

The Authority says it believes that given the decreasing cost of fuel, the time is right to reestablish its fuel hedge program to lock in current market rates for the last two quarters of 2015 and all of 2016.

"It's advantageous for us to execute hedges now to lock in the lower prices that will exist for about one-and-a-half years, and will be a great benefit to ratepayers," said WAPA Chief Executive Officer Hugo V. Hodge, Jr., adding that the hedging will start with small quantities, but will gradually ramp up to 50 percent of the Authority's volume.

WAPA said the benefit of its hedging program will be recognized in the Authority’s July LEAC filing.

Hodge noted that while customers are currently receiving a saving in the Jan. 1 through June LEAC, which would reflect a portion of the switch to propane expected to fully come online at the end of the first quarter, the July 1 LEAC period will be entirely based on propane.

The current rate of electrical service for residential customers is $0.39 per kilowatt hour and commercial clients are presently paying $0.42 per kilowatt hour, a decrease from $0. 51 cents for residential service and $0. 56 for commercial users as of Sept. 2014, according to WAPA.