

The Virgin Islands Consortium

Moody's Revises WAPA's Financial Outlook Rating From Negative To Stable

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WAPA's Executive Director, Hugo Hodge

On Aug. 28, 2013, Moody's Investors Service gave the Virgin Islands Water and Power Authority's (WAPA) financial outlook a negative rating, but on Tuesday, the credit rating, research, and risk analysis firm upgraded WAPA's outlook to stable, "reflecting improvements in the utility's financial position and the near completion of its fuel conversion program," Moody's said in a report.

The revised outlook also includes WAPA's \$140 million senior revenue bonds at Baa3 and approximately \$110 million of subordinate revenue bonds at Ba1.

"Gradations of creditworthiness are indicated by rating symbols, with each symbol representing a group in which the credit characteristics are broadly the same," information found on Moody's website explained. There are nine symbols used to designate least credit risk to greatest credit risk: Aaa Aa A Baa Ba B Caa Ca C. In addition, Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa.

News of Moody's revised financial outlook for WAPA was welcomed by longtime WAPA Executive Director Hugo Hodge, Jr.

"I am very encouraged by today's announcement from Moody's, one of the 'big three' rating agencies," he said. "WAPA continues to take major steps forward in fulfilling its strategy to diversify its generation portfolio, at the same time, improving efficiency and adding renewable energy sources to the electric grid. The significance of today's announcement is that now all three rating agencies have improved the Authority's financial outlook to stable."

In its summary rating rationale, Moody's said the rating reflected the "challenges" WAPA faces in "operating within an island economy with relatively sluggish growth, high unemployment and low economic diversity."

Furthermore, Moody's said its rating "consider the historically slow payment patterns of VI WAPA's government customers and the fact that, unlike the majority of publically owned electric utilities in the US, VI WAPA's rates are subject to approval by the Virgin Islands Public Service Commission (PSC)."

"The rating recognizes the regulatory support the utility has received as it has progressed toward the near completion of a project to convert its base-load generation resources from oil-fueled to tri-fueled (initially propane), thereby lowering the cost of electricity for Virgin Islands ratepayers while reducing its deferred fuel balances and associated debt burden. Additionally, the rating acknowledges the slow but steady financial improvement that has occurred over the past several years from a liquidity, leverage, and coverage standpoint," the report said.

Further explaining its financial outlook rating for WAPA, Moody's said the rating "assumes the progress VI WAPA has made in diversifying its fuel sources and lowering the cost of electricity for Virgin Islands ratepayers will continue to bear fruit, and that the cost recovery and surcharge mechanisms approved by the PSC will support relatively stable cash flow metrics that are appropriate for the rating."

The Moody's report offered specific ways WAPA could increase its rating from stable:

- To the extent there were to be improving economic conditions in the islands manifesting in increased revenues and lower receivables balances;
- A reduction or elimination of deferred fuel balances such that cash flow coverage of total debt service remains above 1.15x; and

- Days cash on hand remains above 30, there could be upward pressure on the rating.

Moody's also outlined factors that could cause the stable rating to go back down to negative:

- An economic downturn that inhibits VI WAPA's ability to recover its cost of service through rates;
- Regulatory decisions that are not credit supportive;
- Cash flow coverage of total debt service remaining below 1.0x;
- Days cash on hand falling below 20; and
- An inability to extend or replace revolving credit capacity could put downward pressure on the rating.

While Moody's did not issue a rating outlook for WAPA in 2014, in its Aug. 28, 2013 report, Moody's downgraded the ratings for the utility's senior and subordinated lien bonds to Baa3 and Ba1, respectively, from Baa2 and Baa3, respectively, further making known that the utility's rating outlook had remained negative.

In its Aug. 28, 2013 report, Moody's rating rationale said of WAPA: "The rating downgrades and negative outlook reflect the persisting weakness in VIWAPA's credit metrics and liquidity, along with a challenging economic environment, including high unemployment and other weak economic indicators compared to the United States averages. VIWAPA's challenging credit risk fundamentals are exacerbated by the closure of HOVENSA LLC's oil refinery operations on the island of St. Croix during 2012 and the ensuing heightened dependence on rate increases, which are subject to approval by the Virgin Islands Public Service Commission (PSC), and a need for other cost saving initiatives to achieve improvements in the utility's financial performance. Along these lines, VIWAPA has arranged replacement fuel oil supply, obtained emergency rate increases from the PSC and filed for additional base rate increases, while trying to cope with challenges of the Virgin Islands' economy and the government's longstanding history of slow payments to VIWAPA."

In its April 19, 2012 report, Moody's downgraded WAPA's financial outlook from stable to negative.

Feature Image: WAPA's Executive Director Hugo Hodge, Jr.