

The Virgin Islands Consortium

W.A.P.A. Struggling Because Of Government Delinquency And Ratings Downgrade, Rhymer Says

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ST. THOMAS -- The Interim Executive Director of the Virgin Islands Water and Power Authority Julio A. Rhymer Sr., above, told the members of the Senate Finance Committee during budget hearings on Monday held at the Earl B. Ottley Legislative Hall that his primary focus is on stabilizing the W.A.P.A.'s finances, which have been rocked by downgraded bond ratings and a continued cash flow hardship. Mr. Rhymer's presentation was an overview of the authority's operations in Fiscal Year 2016, and his look ahead to the utility's new fiscal year which began on July 1.

In his discussion of W.A.P.A.'s finances, Mr. Rhymer noted that as of April 30, the electrical system had a net operating income of \$1.7 million and told senators that fuel

costs amount to about 54 percent of W.A.P.A.'s annual operating expense. The authority continues to be faced with an unhealthy working cash condition.

"On June 30, the government owed the electric system \$26.7 million. This working cash shortfall continues to negatively impact on maintenance as well as service delivery," he said.

Mr. also Rhymer presented a summary of what he deemed as fiscal year 2016 accomplishments:

Progress is being made towards the introduction of liquefied petroleum gasoline, LPG, as the primary fuel source in generating electricity; although that project has been delayed multiple times and has gone [grossly over budget](#).

Mr. Rhymer said generating units in both districts have been converted to burn three fuel types; fire gas protection and detection systems have also been completed for each of the converted generating units. He said once completed, the conversion will represent a reduction of fuel costs by an estimated 30 percent and a 20 percent reduction of greenhouse gas emissions. Both LPG terminals are expected to be commissioned and fully functional in October.

Other progress reports include the following:

- W.A.P.A. continues to pursue proposals for renewables and alternative energy sources. In addition to two solar facilities that are on line and functioning to capacity, WAPA has signed power purchase agreements for an additional six megawatts of solar power on St. Croix and is currently negotiating for an additional three megawatts on St. Thomas.
- W.A.P.A. is in negotiations with three qualified facilities that are proposing wind generation.
- A power purchase agreement is also in place for seven megawatts of power via bio-mass technology. The project developer is seeking final financing.
- The installation of an atomizing air system on generating Unit 14 has been completed which has brought that generator into compliance with requirements of the U.S. Environmental Protection Agency.
- A redesign of generating Unit 21, a heat recovery steam generator, has been completed to allow for increase operational parameters. The equipment is on site and awaiting installation.
- WAPA will continue to lease a 20-megawatt generating unit on St. Thomas through the end of November 2016, to augment available generation capacity in order to meet demand for electrical service in the district.
- The deployment of Automated Metering Infrastructure (AMI) was completed on St. Thomas and WAPA has begun to utilize features such as automatic disconnect and reconnect of service. The implementation of AMI continues on St. Croix.
- A continued build-out of a smart electric grid continues in both districts while efforts are ongoing to reinforce the electrical transmission and distribution systems to facilitate more timely restoration following wind storms or other natural disasters that may cause damage to the systems.

Mr. Rhymer said that the overall expectation is that electricity sales will increase in the year ahead with W.A.P.A. projecting a net income of \$1.5 million in fiscal year 2017. The potable water system through the end of April shows net operating income of \$1.7 million.

"The system earned estimated operating revenues of \$24.9 million from potable water sales while incurring operating expenses and deductions totaling \$23.2 million," Mr. Rhymer said. In 2017, the water system is expected to experience a net income of \$9.9 million. "The authority has made major conversions, expansions and rehabilitation of the water production and distribution systems territory-wide, making the potable water supply less expensive, more reliable and available to our residents," he added.

While expressing gratitude to Governor Kenneth Mapp and the Legislature for their respective efforts in addressing outstanding government receivables, Mr. Rhymer outlined a number of areas where the assistance of the Senate is urgently needed.

Repair and replacement of the water distribution system. To facilitate the long overdue rehabilitation of the system, Mr. Rhymer asked senators to restore the District Potable Water Fund established through Act 6595. "We believe it would assist our efforts...if a funding source could be identified to restore monies to the fund to assist with replacing the aging potable water system infrastructure," he said.

Customer charge on potable water accounts. Mr. Rhymer is seeking Senate support for such a charge as is imposed on electrical service customers. "The reason water accounts do not have a similar charge is because the Authority by law is prohibited from imposing a customer charge for potable water services.

Outstanding government receivables. Despite payments earlier this year amounting to \$19.1 million to reduce delinquencies by the territorial hospitals and streetlights, an outstanding balance on both accounts remain. The Authority's bonds have been downgraded two times in recent months for among other things, "sustainability of the government's effort to reduce outstanding government receivables."

Mr. Rhymer told senators that the semiautonomous entity and its ratepayers cannot continue to carry, for the benefit of the entire territory, the burden that the government's receivables are placing on the operations of W.A.P.A. At the end of June, the Juan Luis Hospital owes WAPA \$7.5 million for electrical service and \$1.4 million for potable water, while Schneider Regional Medical Center owes \$4.7 million for electrical service and \$1.8 million for potable water.

W.A.P.A. has not received a direct payment from Juan Luis Hospital since 2011 and has not received a direct payment from Schneider Regional since 2015. The outstanding streetlight total on June 30 was \$8.4 million. Between streetlights and the two hospitals, W.A.P.A. is owed \$23.8 million. Through actions of the Legislature over time, operation and maintenance of the territory's streetlights have become an unfunded mandate which carries an annual price tag of \$9.4 million.

Mr. Rhymer told senators that even in light of the recent downgrade of WAPA's bond ratings to junk status coupled with the daily cash flow challenges, "The Authority is forging ahead with efforts to continue to stabilize its finances."

