

The Virgin Islands Consortium

WAPA Continues To Struggle With Cashflow; Board Approves Fuel Hedging Strategy, Contract To Address Discolored Potable

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ST. THOMAS -- The governing board of the Virgin Islands Water and Power Authority at its final meeting of 2016 on Thursday, approved a fuel hedging strategy for LPG, aimed at reducing and stabilizing the cost over the next three years, WAPA announced this afternoon. The meeting was held on St. Croix.

In explaining the hedge projections provided to WAPA by its consultant, Risk Revenue Energy Associates, Executive Director Julio A. Rhymer, Sr. said that the authority previously purchased about two million barrels per year of fuel oil for electricity

generation purposes at an annual cost of \$240 million.

"To reduce the amount of money we pay for fuel we have changed the primary fuel type to LPG. A hedging strategy for LPG will enable WAPA to obtain the most favorable market prices for its fuel needs." Mr. Rhymer said the hedge was developed for up to 75% of the utility's projected fuel requirements. "The hedge locks our cost for fuel over three years at current market levels. Ultimately, our customers will benefit from the fuel hedging strategy as we will not be affected by any change in the market prices of LPG between now and 2019," he said.

In other action, the board approved a change order to an existing contract with Automatic Generation Control for some 58 days to facilitate training of WAPA personnel. The extension of time, at no cost to the authority, will ensure that personnel are trained on the system that allows for power adjustments in response to load changes. The system can determine the activity of WAPA's energy resources and provide efficient service while simultaneously minimizing cost. Chief Operating Officer of WAPA's Electric System, Clinton Hedrington, Jr., explained that the system will coordinate which generating units should be on line, at what time so as to evenly accommodate frequency loads in the most cost-effective way.

The board authorized Mr. Rhymer to execute a contract with Linde Gas to supply the required equipment and carbon monoxide needed for the post-treatment of potable water produced by WAPA contractor, Seven Seas. The contract will spread over ten years at a cost of just over \$1 million, according to WAPA. The post treatment will change the chemistry balance of the water to reduce the volume of discolored water which has been affecting potable water customers. The change chemistry of the water will also reduce the level of reaction the water is having with the older cast iron pipes in the distribution system which is also contributing to the discoloration of potable water.

Also approved on Thursday was a measure which allows the authority to consent to assignment of the Spanish Town Solar Facility on St. Croix from NRG Solar DC, LLC to Virgo Helios, LLC, a Delaware Limited Liability Company. NRG Solar has assigned its right, title in and to the membership interest in the solar facility on St. Croix to Virgo Helios. WAPA's Power Purchase Agreement requires that any transfer or assignment be to a qualified owner that is experienced in the ownership or operation of a facility for the generation of electricity from solar photovoltaic systems.

The governing board denied a request to amend existing Power Purchase Agreements with St. Croix Solar, LLC and St. Croix Solar II, LLC. The amendments would have extended the date for commercial operation and allow the company's additional time to secure startup financing.

The board's vote on all items was unanimous.

In his monthly Executive Director's report, Mr. Rhymer spoke of WAPA's continued financial challenges.

"The Virgin Islands Water and Power Authority ended the month of November facing severe financial challenges while being creative in securing low cost financing and prioritizing key capital projects. In addition, our efforts continue to reduce inherent risk

associated with bond downgrades.”

Due to the continued high outstanding accounts receivable and lack of new rates from the V.I. Public Services Commission, WAPA says it continues to experience hardships with cash flow. Mr. Rhymer told the board that the trend in November continued to be one of difficulty in making timely payments for fuel and other mandatory costs. A lack of cash flow is also affecting the timely completion of ongoing projects. Without capital resources, projects are being prioritized to maximize efficiency and reliability of the Authority.

Mr. Rhymer reported the continued progress of two major ongoing capital projects, the conversion to LPG as primary fuel source and implementation of Automated Metering Infrastructure (AMI).

“With St. Croix fully functioning on propane, commissioning moved to St. Thomas in November. Unit 15 began its commissioning regimen and by the end of the month, the 20-megawatt unit was successfully burning propane,” Mr. Rhymer said. “The commissioning of Unit 18 was commenced at month’s end. The AMI project has continued to experience slow but steady progress on St. Croix with all communication devices installed and functioning by the end of the month. This giant step forward has enabled all installed meters to be read remotely and has allowed the Authority to move forward with installation of the remaining smart meters on St. Croix. Completion of this phase of AMI is expected to be achieved by the end of March 2017.”

The executive director also addressed some priority areas for 2017, including: new generation, completion of LPG conversion, new street lights, new rates, the adoption of a five-year strategic plan and new control centers as well as cost savings in fuel and operational efficiencies.

Board members in attendance included Chairwoman Elizabeth A. Armstrong, Vice Chairman Noel Loftus, Secretary Juanita Young, Director Marvin Pickering, Commissioners Devin Carrington and Gustav James, and Gerald T. Groner, Esq. Cheryl Boynes Jackson was excused.