

The Virgin Islands Consortium

PSC Director Condemns WAPA, Says Inefficiency Has Cost Rate Payers Hundreds Of Million In Preventable Fuel Costs

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ST. CROIX -- In a statement issued on Tuesday, the Public Services Commission Executive Director, Donald G. Cole, issued a scathing assessment of the Virgin Islands Water and Power Authority, what the PSC has deemed over the years as hundreds of millions of dollars in additional, preventable fuel costs that WAPA has passed on to rate payers, and the PSC's failure to equally manage the interest of rate payers, as well as WAPA, with rate payers being on the losing end because of what Mr. Cole says were "special limitations" in favor of WAPA.

The aforementioned was just the beginning of Mr. Cole's 14-paragraph long condemnation of WAPA. The rebuke goes into detail on everything from the LEAC to WAPA's grossly over budget \$160 million LPG conversion project, which Mr. Cole says WAPA is now trying to pass on to rate payers. And WAPA's recent threat of "rotating" power outages because of PSC's rescinding of its approval of a base rate increase was all a sham, Mr. Cole said.

According to the statement, special limitations in favor of the Water and Power Authority have restricted the ability of the PSC to ensure that customers are treated fairly, that their rates pay for improvements that benefit the ratepayers and our community, and to ensure that their money is spent prudently and reasonable services and costs result. The result has been years of high cost electrical service, increasingly unreliable service, and WAPA's diminishing capacity.

Mr. Cole said the core of the current dispute is that WAPA has not been accountable for the way it has spent the monies that it receives from ratepayers, and has clearly sought to continue avoiding accountability.

WAPA's current generation plants are old, according to the statement. Only one generator, the now infamous Unit 23, is only ten years old. Plants varied in age from the 1960s (Units 13 and 11) to the 1990s (Unit 22). But not only did WAPA not have a long-term plan for replacing, rehabilitating or retiring its generation plants until this past December, but it actively and successfully fought any effort by the PSC to make it do any planning. The Integrated Resource Plan ("IRP") finally completed after years of delay, recommends replacing WAPA's entire generation plant, with new, smaller and much more efficient generators, according to Mr. Cole.

As a result of old plants, with poor efficiency, ratepayers have paid hundreds of millions of dollars in excessive fuel costs, the statement reads. They are real costs, but they have been unnecessary, because more efficient equipment has been available.

WAPA is now threatening blackouts because it claims it is forced to cancel a new emergency leased unit, and to terminate the "temporary" generator, Unit 25, that has been here since 2012. Neither is true. Not only is the funding for Unit 25 continuing in current WAPA rates, but the very existence of that unit was at the insistence of the Public Services Commission, according to Mr. Cole. In 2011, the PSC's staff and consultants noted the worsening performance of WAPA's generation and authorized funds for a program to "catch up" on maintenance that was keeping the existence plants from operating properly. After four years, that temporary unit is both the most efficient and reliable unit operating for WAPA, he said.

In 2004, WAPA had the ability to generate nearly 200 megawatts (MWs) of power on St. Thomas/St. John, while demand peaked at about 85 MWs. Today, without the temporary unit 25, WAPA cannot reliably keep up with current demand of 65 MWs or less. St. Croix's demand has dropped from more than 60 MWs to less than 40 MWs. WAPA has lost a significant portion of its sales, as customers have moved to more efficient equipment, acquired their own generation capacity, or simply cut use. Despite these huge losses in demand, WAPA cannot keep up, Mr. Cole says.

In 2003, the PSC asked why WAPA should purchase the very large Unit 23 – a unit which at its peak can generate 39 MWs – so large it would have then powered half the St. Thomas/St. John district; that generator, if operating at its peak, would now supply two thirds of the peak demand. In such a situation, the system becomes unstable and unable to react quickly to changes in demand, says the statement. The PSC inquired if several smaller units might be more appropriate. WAPA responded by suing the Commission, and purchasing Unit 23. The next year, WAPA's own consultants prepared an assessment of the current plants, and recommended the use of smaller units for any new power generation. More than twelve years later, none have been bought yet, according to Mr. Cole.

Mr. Cole said that in the same 2003 rate case that brought us Unit 23, the PSC also provided funding for a Heat Recovery Steam Generator ("HRSG") on St. Croix. A HRSG collects the waste heat from the generators, and uses it to heat a boiler and power additional generator using steam, essentially, free electricity. In 2007, the PSC noted that the new St. Croix HRSG was still not on-line, and found out that WAPA had delayed it and spent the money elsewhere, at a time of skyrocketing fuel prices. When the HRSG was finally built, it cost more than \$30M, nearly three times the original estimates. Its operation then saved ratepayers over \$1M per month. Again, those delays and changes from approved funding ended up costing ratepayers tens of millions of dollars, he said.

Mr. Cole said without reciting all of the cases of poor decisions by WAPA that have resulted in substantial losses that the ratepayers have borne, the PSC of course has to mention the LPG/Propane Conversion project, originally set at \$87M and to be on line by December 2014. It is still not fully on line, and WAPA is now seeking to pass the \$160M in costs through to the ratepayers.

In 2015 the WAPA completed a long overdue management audit. It identified actions that could save ratepayers more than \$50m per year. Foremost among those was replacing current generation with new, smaller and more efficient units. WAPA has not yet signed any deal for such new generation, and consumers continue to pay that extra \$50M per year while time passes, Mr. Cole says.

He added that the PSC has been reviewing WAPA's current rates for the past year, but has been delayed in completing that review due to the years of accumulated backlogs of issues. However, by December 2016, the PSC had received enough information, and worked with WAPA to develop a plan going forward that we could both support and which we could trust would be implemented. WAPA was to move forward with acquiring new generation for the entire territory, beginning with three new smaller units that would operate with vastly improved efficiency – burning just half the fuel of WAPA's current plants, and further lowering the LEAC. In addition, another temporary plant was to be brought in to St. Thomas, to permit removal of more of the old equipment, and to provide efficient and reliable power in the transition, Mr. Cole said.

Unfortunately, according to Mr. Cole, WAPA decided that it was more important to preserve its right to act unfettered. The very next day after the PSC approved a reduction in the LEAC, and two rate increases in the base rates totaling nearly \$47M per year, WAPA filed petitions for reconsideration challenging the ability of the PSC to make sure that the funds actually buy the new services agreed upon.

The PSC cannot, in good conscience, continue to authorize WAPA to collect funds for improvements to its system, and then see the monies diverted and improvements not made, Mr. Cole said. When that has happened, ratepayers get hit with a triple wham – service continues to be poor and unreliable, fuels costs stay high, or get even higher, and WAPA again seeks funding for service improvements, he said.

WAPA has continually challenged the statute that gives the PSC the authority to set rates that are fair, just and non-discriminatory and ensure a fair rate of return for the utility, says Mr. Cole. WAPA, based on years of past practices, has not given the PSC the confidence and assurances that it would respect the law and regulatory authority of PSC and enact the recommendations supported by its own auditors and consultants in conjunction with any rate increases.

The PSC can no longer afford this cycle, he said. WAPA needs to move forward now on a new system, and it needs to do so in a manner that provides assurance and accountability.