

The Virgin Islands Consortium

As VITOL Loses Patience With WAPA, USVI At Yet Another Crossroads

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VITOL, the company keeping power on through its supply of propane and system maintenance at the Virgin Islands Water and Power Authority, is at its wits' end with WAPA. The company, which WAPA owes millions of dollars, is now demanding that WAPA stay current or face losing its supply of the fuel.

That's according to Lawrence J. Kupfer, WAPA's executive director, who explained during the authority's last board meeting held late April that the petition to the Public Services Commission (P.S.C) for the [6 cents rate increase](#) was necessary to garner funding to remain current with [VITOL](#), whose subcontract with WAPA does not only include the supply of fuel, but also propane conversion work.

Such a scenario would spell trouble for the beleaguered government-owned entity, and disaster for the U.S. Virgin Islands.

Henry Thomas of PRNG, WAPA's rate consulting specialists, presented information at the meeting that was the impetus for the board's [decision to request the 6-cent rate increase](#). An approval would facilitate WAPA's generation of approximately \$55 million in revenue for Fiscal Year 2020.

Mr. Thomas's summary of the rate filing proposed to present to the P.S.C. called "The Big Picture," included specific information, listed below, justifying the need for another rate hike to generate funds to pay VITOL.

- WAPA generates \$219 million, including projected LEAC revenues, based on the currently adopted LEAC, along with some miscellaneous surge income. However, most of it is rate-revenue based on rates made permanent on July 1, 2017 by the P.S.C.
- Since Hurricanes Irma and Maria, there was an increase in WAPA's sales, but it has leveled off and [since declined by 17%](#), and has not recovered. WAPA has lost 1,370 accounts since the 2017 storms for a number of reasons: offline users, including large companies like Caneel Bay and Frenchman's Reef in St. Thomas; customers who have relocated; and customers who invested in solar energy. These figures are based on 523 kilowatt hours of sales
- Sales levels are more than 30% lower than historically experienced
- Billed accounts are down by 1,370 customers since the storms
- Sales to government is down
- Operating expenses are \$199 million, which includes fuel cost at current LEAC levels adopted by the P.S.C.
- The authority is down \$43.2 million based on a debt of \$63.7 million. This signifies that current rates are not sufficient to pay operating costs plus existing debt service, according to Mr. Thomas's presentation

Mr. Kupfer explained that the senior and subordinate debts are obligations that the authority absolutely has to pay, or it becomes an event of default. The largest portion of the general fund debt service is the VITOL infrastructure portion, which is \$31.2 million monthly. VITOL also receives \$750,000 monthly for operation maintenance expenses.

"Based on our most recent meeting with VITOL, they want us to stay current with that payment. The expectation is really that, basically, those two amounts we need to stay current with or it presents a problem," explained Mr. Kupfer, "One would be an event of default, the second would be a loss of propane supply if we are not staying current with the infrastructure payment."

As reported back in October, 2018 by The Consortium, [WAPA's debt obligation to VITOL](#) totaled \$160 million.

Elizabeth Armstrong, board chairwoman, stated that in the past, when the authority has not stayed current, nothing happened other than VITOL expressing the need for WAPA to remain current.

Mr. Kupfer said he and Governor Albert Bryan had a meeting in early March with VITOL where the president of the company's U.S. offices, Miguel Loya, made it clear that the debt could not increase anymore. "We must stay current with the infrastructure payment," Mr. Kupfer said. "These payments include fuel costs and operation maintenance expenses. They have run out of patience, and they now want us to stay current with the infrastructure payment. They know we are working on a plan to buy them out, but they don't want to see that amount go up each month by \$2.6 million as we work on that plan."

This is not the first time that VITOL has run out of patience with WAPA. Despite the cost of propane being collected through the LEAC, WAPA in 2017 failed to make payments to VITOL totalling more than \$20 million, and had to temporarily switch back to fuel. WAPA had to extend an oil contract with Glencore for six months in 2017 to keep lights on in the U.S. Virgin Islands.

The news about WAPA's switch back to oil in 2017 after spending over \$200 million converting its systems to propane, was brought to the fore after former Senator Alicia Hansen [informed The Consortium](#) that she had learned of the switch. The Consortium later obtained copies of letters VITOL wrote to WAPA, revealing the suspension and the amount WAPA owed, which stood at over \$24 million.

Additionally, Mr. Kupfer said WAPA has not been making interest payments. "There is no immediate plan to do so. The only request Vitol has made is to remain current with fuel, operation maintenance and infrastructure payments. At some point, when we negotiate an overall price for their facilities to buy them out, we will have to address principal owed and accrued interest."

Talks of a buyout, the threat of a [blackout](#), concerns of default and loss of propane supply dominated the WAPA board meeting in late April. But the solution to what has been described as a catastrophe waiting to happen, remains elusive. WAPA needs money to buyout VITOL operations at WAPA, money it simply does not have and lacks the capacity to borrow. And the government of the Virgin Islands, with its junk status credit rating, has no borrowing capacity at favorable interest rates either.