

The Virgin Islands Consortium

U.S. Ratings Firm Places WAPA On Negative Watch

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Fitch Ratings has placed the 'CCC' long-term ratings for the Virgin Islands Water and Power Authority on rating watch negative, Fitch announced today.

Fitch said the negative watch reflects mounting concerns that a restructuring of, or default on, WAPA's outstanding debt may be probable following comments by public officials that loan forgiveness and financial assistance from federal agencies should be sought as a means of addressing the utility's weak financial profile.

The rating action further reflects prevailing concerns related to 1) the adequacy of ongoing cash flow and liquidity, particularly given the Virgin Islands Public Service Commission's continuing reluctance to approve requested rate increases, 2) the utility's

ability to procure adequate fuel supply, and 3) the lingering effect of the 2017 hurricanes on the demand for electricity and the regional economy, in general.

Fitch said WAPA's obligations related to its electric system revenue bonds were reportedly paid on July 1, 2019; however, the authority has not released audited financial statements for any period after fiscal year 2017.

The rating watch is related to the open discussion of potential debt restructuring, which Fitch believes will continue. Fitch expects to resolve the rating watch over the next few months as clarity increases. Evidence that a restructuring of, or default on, WAPA's outstanding debt is probable, including the passage of enabling legislation or an inability to meet near-term liquidity demands, would result in negative rating action.

Fitch said WAPA generates, transmits and sells electric power and energy to approximately 50,000 residential, commercial and large power customers, including the government.

The negative watch could not come at a worse time for WAPA. The authority has been struggling to troubleshoot and fix ceaseless power outages territory-wide; it has been struggling to pay its debtors such as VITOL; and WAPA, which charges its customers the highest rate in all of the U.S., is seeking an increase in the base rate -- a move the authority said would give it some hope of paying day-to-day operational costs and settling a \$100 million-plus debt owed to VITOL, the Dutch energy company that supplies the propane fueling power generation in much of the territory.