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No Statement Yet From Gov't House on Scathing WAPA Audit Even as Key Administration Figure Was Part of WAPA Board During Propane Conversation Deal

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Ernice Gilbert December 03, 2021

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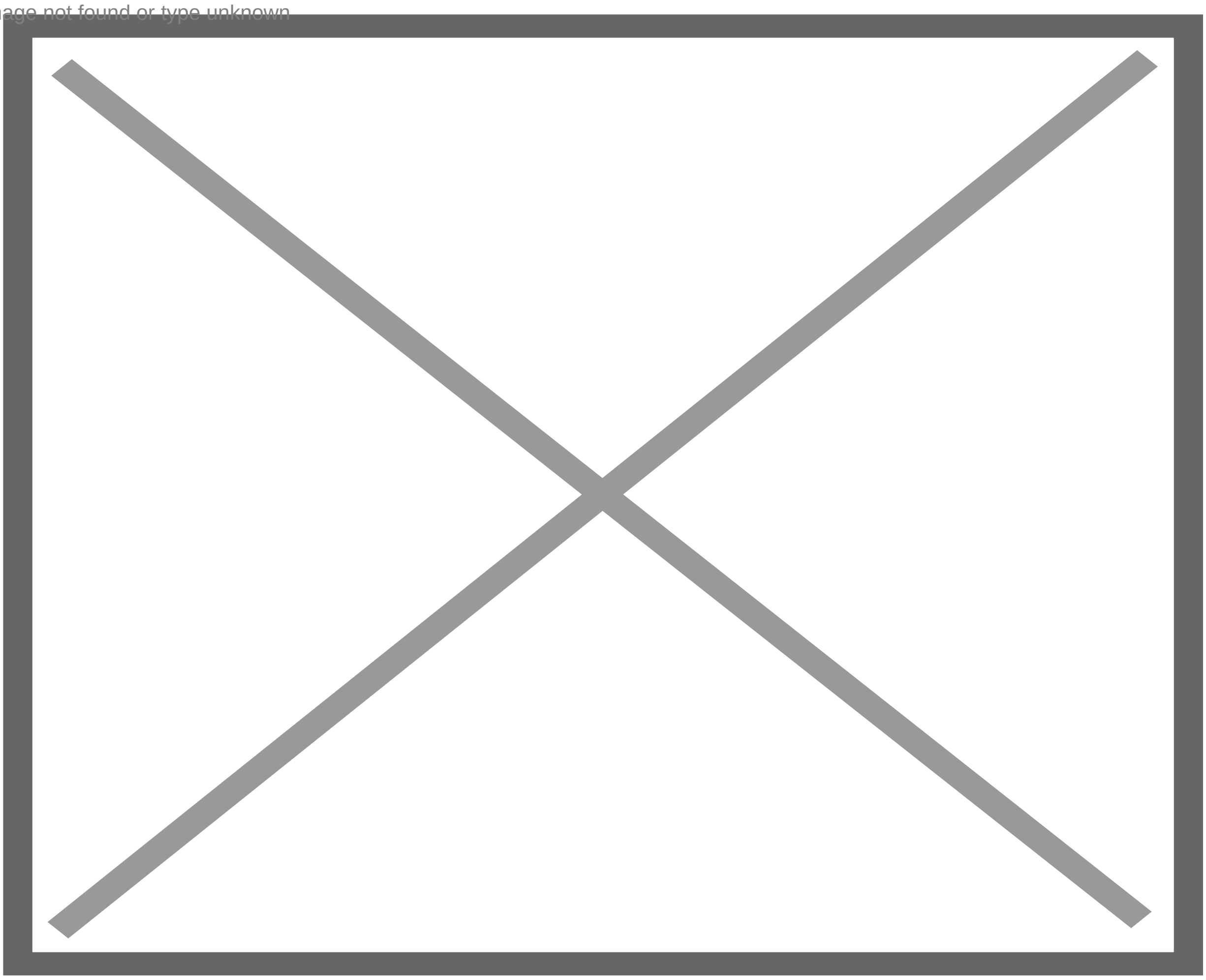

Aerial shot of the V.I. Water and Power Authority Richmond Plant. By. ERNICE GILBERT/ V.I. CONSORTIUM

The Office of the Inspector General on Wednesday issued a scathing audit on the V.I. Water and Power Authority's propane conversation project, including cost overruns of more than $113 million and gross incompetence by both WAPA management and the board.

Yet even as a key member of the Bryan administration was part of the board for more than two years during the time the project was approved along with multiple cost revisions, the administration has not issued a statement on the damning findings.

Karl Knight, the Bryan administration's chief of staff, was part of the WAPA board by virtue of his position of Energy Office director during the former Governor John P. de Jongh administration. The board unanimously approved the Vitol deal in July 2013, with Mr. de Jongh at the time declaring that the deal would move the territory away from dependence on fuel while decreasing the bills of customers by 30 percent.

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That never occurred, and during Mr. Knight's tenure at the board, from May 2011 to Jan. 2015, the propane conversion project's budget had seen three of four revisions relative to cost, which had to be approved by the WAPA board, going from the original $87 million to $150 million by Nov. 2014, according to the audit. Those revisions along with other overruns skyrocketed the cost of the project from the original $87 million to over $200 million.

While it is difficult to find information on how Mr. Knight voted during the many board meetings that occurred during his tenure, including those relative to the propane project, at the time he was part of an administration that pushed for and supported the conversion project.

Among other negligent behavior, the audit found that the WAPA board failed to ensure that it "mitigated WAPA’s financial risk when they approved the project without detailed engineering plans. Instead, they allowed a design and construct as-you-go project. Also, they did not ensure that a cost-benefit analysis was done to routinely assess if and when the project's cost started to negatively affect its benefits."

"The board and management pursued the project in a manner to suggest that the savings to WAPA and its customers would justify its cost, when projected cost had not been fully established," the O.I.G. audit found. "The board relinquished the control of the project to Vitol and WAPA’s project management team without putting added controls in place to ensure that WAPA’s financial interest was protected."

The board also approved the project to move forward without detailed engineering plans, which the audit found "increased the uncertainty of the project’s cost." According to the audit, typically a front end engineering design, or FEED study is performed before the start of engineering, procurement, and construction. However, the WAPA board gave approval for the FEED study and construction to proceed at the same time.

"We found that the board did not pursue the project in a manner that protected WAPA’s financial interest," reads the audit. "Based on the board minutes and interviews of Board members, they expected the project’s cost to increase after Vitol completed the FEED study. However, they did not have a collective expectation or projection for the anticipated increase in cost. As a result, as the cost exceeded $150 million, some Board members expressed that they faced their worst-case scenario."

When the project costs climbed to $150 million, WAPA chief executive at the time, Hugo Hodge Jr., stated, “I want to assure our customers that the adjusted project budget will not impact the amount of savings expected for WAPA customers, or the improvements to air quality that the conversion project will deliver for the territory. We continue to anticipate a 30 percent reduction in the cost of fuel and a 20 percent reduction in greenhouse gas emissions.”

He added: “While the amortization period will be longer, the economic and environmental benefits will not be forfeited. We continue to look forward with great anticipation to providing these benefits to the community as soon as possible.”