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Subsidy or Collapse: WAPA Says it Needs \$48 Million in Funding For Fuel From Gov't to Stay Afloat

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

The V.I. Water and Power Authority has projected that it will need \$48 million in fuel subsidy from the government to prevent the company from “running out of cash” in the next fiscal year.

Andrew Smith, CEO and executive director of the authority told senators during the latest budget hearing before the Committee on Finance on Wednesday that the estimation is based on the current fuel prices on the world market.

"We're relying on government's support to not run out of cash. We pay for fuel, we pay for debt, we pay payroll and that's it," Mr. Smith remarked, noting that the company only has an average of

\$70,000 left back after making these monthly payments.

Jacob Lewis, chief financial officer at WAPA said the cost of the fuel subvention needed was calculated based on electricity consumption and the cost of production.

“We looked at how much power we sold to our customers over a recent trailing 12 months period and that became the basis for our sales assumption for fiscal year 2023. We then looked at how much fuel we had to purchase and consume over that same period of time to produce that amount of energy,” he explained.

Mr. Lewis said that to arrive at the fuel cost, WAPA layered the latest market pricing of fuel on to the purchase requirement which created an estimate of fuel cost.

To date for the fiscal year 2022, WAPA has received approximately \$20 million from the American Rescue Plan (ARPA) to offset the cost of fuel on its operations.

Mr. Smith said customers are also saving as the subsidy has prevented 40 percent of utility cost to be added on to customers’ bill. “Average customer bills were \$250; we save them \$70 – that’s about 40 percent,” he said.

According to information from the U.S Energy Information Administration, valid up to January 2022, the average price of electricity paid by U.S. Virgin Island residents was about 43 cents per kilowatt-hour in mid-2021, which was more than three times higher than the U.S. average power price of 14 cents.

But there is no guarantee that the government will continue to provide this grant support each month and without it, Mr. Smith said the options are “all bad.”

“Quite frankly if we do not receive that funding, I have three options. Option one is I stop buying fuel - the lights go out. It’s unacceptable, I won’t do it but that’s a choice. The other choice we have is we miss debt service.” The second option Mr. Smith said could cause the government to lose ownership of the Water and Power Authority because of the significant amount of debt that would be owed. He said the third option would mean skipping payroll which he refuses to do.

According to the CEO, as early as last week, the authority reached out to the Federal Emergency Management Agency (FEMA) for assistance with fuel oil purchases.

It is possible for the subsidy amount to be lowered but only if the price of fuel decreases and/or if WAPA is able to successfully implement what Mr. Smith termed as “fuel-saving initiatives”.

“The number’s \$75 million a year if we do nothing. We’ve already taken steps to reduce that cost and we’re going to do more and we’re going to get that requirement to zero but we can’t do that overnight,” he explained.

The plan would depend on WAPA’s ability to establish units that can convert fuel oil to propane which costs half the price of LPG, as well as its ability to get its fuel cost down within the next 12 months.

Michael Sharp, WAPA's chief operating officer said in six month the authority expects that one of their units ([the recently purchased Unit 27](#)) will be able to produce propane gas and save the authority \$2.2 million dollars a month. A second unit for conversion is anticipated shortly after.

Mr. Sharp said the vendor that is assisting with the conversion gave a “conservative” timeline of six months, however they are hoping to make that transition before then, if possible.

WAPA said it would also need to make structural changes that would reduce the amount of money it loses to generate electricity and water. At present, WAPA’s fuel cost is \$0.11 cents a kilowatt-hour higher than the amount of money it recovers in fuel consumption

“We currently lose approximately \$0.16 cents on every kilowatt-hour that we sell,” the director remarked.

Approximately, 76 percent of WAPA’s budget is expended on fuel costs which are highly susceptible to wide market fluctuations. The authority is awaiting the results of a filing with the Public Service Commission to determine whether the company will be allowed an adjustment to recoup its losses. Still, Mr. Smith insists that there are no planned rate increases.

In the meantime, WAPA continues to look into how it can implement solar energy as it aims toward producing 100 percent propane gas.