logo Image not found or type unknown

WAPA Gets Approval for New Propane Supplier, Extends Lease on Generating Unit as Vitol Standoff Continues

WAPA / **Published On December 02, 2022 04:38 AM /**

Ernice Gilbert December 02, 2022

Image not found or type unknown

The Randolph Harley Power Plant in St. Thomas, USVI. By. ERNICE GILBERT/ V.I. CONSORTIUM

The V.I. Water and Power Authority board on Wednesday approved agreements with a propane supplier untied from Vitol and extended a lease with Aggreko LLC for use of its propane operating units.

The moves take effect as WAPA's standoff with propane supplier Vitol continues into December. WAPA has said it would run out of propane by late Nov. or early December, and would have to implement rotating blackouts if a deal was not reached, or if it failed to secure another propane supplier.

On Tuesday, WAPA announced that it successfully arranged a shipment of diesel enabling normal power production at the Randolph Harley Power Plant in St. Thomas and the Richmond Power Plant on St. Croix, an indication that its impasse with Vitol continued.

Even so, WAPA said that due to the shift of operations to 100 percent diesel, "there will be sole reliance on the older generation units which may result in a reduction in reliability."

On Wednesday, WAPA CEO Andrew Smith asked the board for temporary permission to purchase propane from a supplier other than Vitol.

The board approved the request to authorize the purchase of propane in an amount “not to exceed the equivalent of $500,000 a day” from either Carib LPG, Rubis, Antilles/Parkland or Polaris.

Discussions were already ongoing with the potential suppliers. Mr. Smith explained that based on the supplier, the full amount could be requested as a lump sum for the entire cargo. This could be as much as $3.5 million for a 7-day supply of propane.

The authorization granted by the board on Wednesday is temporary and expires on January 6, 2023.

In a release issued Tuesday, Mr. Smith said the Aggrekos and Wartsilas, the newer generators, would not be in operation due to their need for propane. However, during the Wednesday meeting he requested that the board authorize a two-year lease extension with Aggreko. WAPA leases the units from Aggreko, but the authority would rather own them and realize substantial savings.

“With the new lease we would be locked into 12 months and at the end of the 12 months we can pay an exit fee and we can get out of the lease,” Mr. Smith stated.

“We’ve been talking about wanting to own assets rather than lease assets,” he added, revealing that there were two parts to the Aggreko lease relative to the structure. The first was a monthly capacity charge, and the second was a dollar per kilowatt hour operation and maintenance charge, also known as an energy charge. In the new lease, the dollar per kilowatt hour operation and maintenance or energy charge rate at .0105 cents a kilowatt hour would remain unchanged.

With the exit option, the maximum cost of exiting the lease would be $656,000, which Mr. Smith estimates represents about 8 percent of the annual lease cost.

Aggreko was seeking a 20 percent increase in the capacity cost in the lease, however Mr. Smith stated that his team had been able to “negotiate that down to a 10 percent increase in year one, and a five perfect increase in year two.”

That figure would represent $52,000 a month more in capacity charges versus the expiring contract.

“When that steps down to five percent in the second year, that’s a $26,000 increase in the monthly cost of the expired contact,” Mr. Smith explained.

The CEO stated that WAPA currently pays just under $650,000 per month for the Aggreko lease, which would increase to $750,000 per month in the first year of the new lease due to the estimated energy charge. The energy charge varies depending on the production of the assets. As stated previously, the difference in the second year is a $26,000 increase.

The exit fee in the lease would be $656,000 at the end of the 12th month. That figure would decrease by $55,000 per month.

“If we get halfway through the second year the exit cost would be around $325,000 to exit the lease,” Mr. Smith told the board.