



Information on the Virgin Islands Water & Power Authority's Contracts with Alpine Energy Group for Alternative Energy By Hugo V. Hodge, Executive Director (CEO)

In the Authority's continuing efforts to educate and inform the public on the facts and circumstances surrounding its Power Purchase Agreements with Alpine Energy Group (AEG), we present the second in a series articles dedicated to these efforts. Below is summary of the economic benefit contained in the agreements, and the caps placed in the agreements that limit the risk of the Authority in the implementation of these projects:

1. Economic Benefits of the Power Contracts

- Alpine must meet a strict milestone schedule for developing, permitting, financing and constructing the project. Unless excused by uncontrollable circumstances under the terms of the power contracts, Alpine must pay WAPA liquidated damages if it misses a milestone. This assures that Alpine will complete the project in a timely manner.
- If Alpine fails to deliver the quantities of electricity it promised, it must pay WAPA liquidated damages to compensate WAPA and its customers for the extra costs of producing replacement power.
- Alpine is required to post bank guarantees, in the form of letters of credit, to back up all of its obligations under the power contracts. These letters of credit can be drawn on by WAPA if Alpine defaults in its obligations. The amount of these guarantees increases over time, reaching \$20 million when both projects are constructed and begin operations.
- After WAPA purchases the minimum amount of energy required under the PPA, it gets a 30% discount on the price of any additional electricity.
- WAPA, rather than Alpine, is entitled to all renewable energy credits or similar benefits from replacing carbon-based fuels (oil) with biomass or waste-derived fuels.
- If Alpine is entitled to any tax credits or other incentives from economic stimulus programs established by President Obama and the U.S. Congress to encourage alternative energy facilities, WAPA and its ratepayers will receive 90% of that tax credit or incentive.

- The cost of making refuse-derived fuel (or RDF) from municipal solid waste is covered under Alpine's service contracts with WMA, and is not a cost borne by WAPA.
- Alpine has committed to provide a guaranteed amount of RDF and other fuels, including waste tires, sewage sludge, waste oil, and other wastes, and rum bottoms, woody biomass, or other biomass.

—If more waste or biomass fuels are available, WAPA gets 100% of the benefit, up to an agreed amount.

—If even more RDF or supplemental fuels is available, WAPA gets half of the savings.

Bottom line: The two power contracts are expected to save WAPA's customers \$101 to \$275 million dollars on a net present value basis and \$304 to \$715 million dollars on a cumulative basis over their 20-year terms, in reduced oil costs, capital costs, and operation and maintenance costs over a range of pet coke costs and fuel oil prices and without the impact of CO₂ legislation. These are the savings based on conservative assumptions for the costs of fuel oil, petroleum coke, new waste products, plant efficiency, and U.S. government incentives. Even using more pessimistic assumptions that assume the costs of complying with any future carbon regulatory regime, such as required purchases of CO₂ allowances the savings for the two power contracts are projected to be \$10 to \$183 million dollars over on a net present value basis and \$67 to \$477 million dollars on a cumulative basis over their 20-year terms.

2. Cost Caps under the Power Contracts

- WAPA pays Alpine a fixed base price for electricity. As a result:
 - Alpine, rather than WAPA, has to raise the \$440 million up-front cost of developing, permitting, financing and constructing the projects.
 - the risk of cost increases associated with constructing the projects is solely borne by Alpine. **Alpine cannot raise the price of power to WAPA if its construction costs are higher than Alpine projected.**
 - the costs of operating and maintaining the projects in the future are borne entirely by Alpine. **If labor costs, insurance, taxes, or prices of spare parts go up, Alpine cannot pass the cost increase along to WAPA or its customers.**

- WAPA did agree to share some costs for a limited number of construction items needed for the facilities. However, WAPA's obligations for these costs are strictly limited:
 - WAPA shares half the cost of constructing or refurbishing dock facilities on St. Thomas and St. Croix, but only if the costs exceed the estimated costs in the contracts, and even then WAPA pays no more than \$1 million on each island.
 - WAPA shares half the cost of acquiring the site and preparing it for construction, but again this is only if the costs are higher than the agreed estimates, and again WAPA pays no more than \$1 million on each island.
 - Alpine, not WAPA bears any cost overruns above these amounts.
- On the other hand, if the cost for the dock facility or the site acquisition on either island is *less* than the estimated costs, Alpine must pay WAPA the *full savings*.
- The costs of building the electrical interconnections needed to connect the projects to WAPA's electrical system—including the costs of upgrading portions of the WAPA system related to the projects to make it more robust and reliable—were studied by WAPA before the power contracts were signed. The estimated costs are already included in the rates under the contracts. If the final costs are less than the amount determined by these studies, however, Alpine actually *pays* WAPA for the difference.
- If new climate change legislation or other new environmental laws require modifications to the facilities, Alpine bears the first \$2.5 million for each modification. If new operating costs are required, such as the purchase of "carbon credits", Alpine pays the first \$150,000 increase each year.
- Only after Alpine pays this amount is WAPA obligated to share costs of new environmental laws. However, these are risks that WAPA would bear itself on its own projects, or if it owned the new alternative energy projects, and a significant part of these costs has been shifted to Alpine.
- If a change in environmental law actually reduces Alpine's costs, WAPA gets most of the benefit.

- In addition, Alpine agreed to take all of the risk of other changes in law. If taxes go up, or labor costs are higher due to tougher OSHA requirements, for example, Alpine bears the full cost of the increase.

I trust that the information provided above demonstrates that the Power Purchase Agreements that the Authority entered into with Alpine Energy Group were carefully developed, and not only provide benefits to the people of the Territory, but also protects them against the business risks associated with projects of this kind.

In the near future, the Authority will be providing more information on other aspects of the AEG projects. Further, WAPA in conjunction with the Virgin Islands Waste Management Authority, will be holding town hall meetings on all three islands and invites "ALL" members of the public to attend and have their questions or concerns answered.