U.S. Virgin Islands Water and Power Authority
Strategic Plan

May 2022

U.S. Virgin Islands Water and Power Authority

Preliminary Draft – Work in Process / Subject to Material Change

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Overview

Executive Summary: Where We Are and Where We are Going

New leadership team proactively managing an organization in deep financial and operational distress

- The Authority's current cost structure exceeds its regulatory rate by **$0.16 per kWh, or 39%**
- Deferred maintenance **imperils asset operational viability** and constrained inventory **imperils fuel supply**
- Legacy critical vendor obligations of **~$150 million** in past due payables from deferred payments
- Fuel consumption is [redacted]
- The company faces a **~$5-6 million** monthly cash flow shortfall at current fuel prices

Management has developed the initial phase of a strategic plan to stabilize the Authority

- Phase 1 of a 3-phase plan addresses the near-term viability of the Authority **without an increase in rates**
- This plan is **based on facts, data and cost benefit** analysis
- Current operating cost is ~**$0.57 per kWh** versus regulatory rate of **~$0.41 per kWh** (residential rate <250 kWh)
- Phase 1 of strategic plan can reduce total costs by [redacted] from current operating costs
- Phase 1 of strategic plan delivers **~$80 million** of annual cost savings

Executive Summary: How We Get There but Risks Along the Way

Transform the generation mix and address lease vs. buy

- Immediate effort to improve inefficient dispatch (operation of assets) – **lowers fuel costs**
- Accelerated effort to bring STT Wartsila generation online – **lowers fuel costs**
- In negotiations with providers of more efficient generation for STX – **lowers fuel costs**
- In negotiations with solar and wind providers – **lowers fuel costs**
- In negotiations with GE and Aggreko to purchase leased units – **eliminates ongoing monthly lease expense**
- Evaluating operating cost structure – **reduces ongoing operating costs**
- Address legacy vendor obligations **–** **frees cash by addressing large obligations from past decisions**

Phase 1 materially improves the Authority's position, but risks remain along the way

- Generation transformation reduces exposure to volatile fuel prices, but price spikes can still be detrimental
- [redacted]
- Lack of past maintenance could result in catastrophic equipment failure driving fuel costs higher and/or hurting reliability
- [redacted]
- Efficient generation and/or solar timeline could be hurt by supply chain issues [redacted]

Turnaround Plan Overview

Stabilize	*Transform*	
Phase 1	**Phase 2**	**Phase 3**
Reduce fuel costs with efficient generation and improve operating cost structure • Improve dispatch (the way the assets are currently operated) in immediate term to mitigate excessive fuel burn • Eliminate monthly leased generation expense by purchasing assets • Accelerated in-service of the Wartsila project currently underway on STT • Expand efficient generation footprint on STX (targeted by year-end 2022) • Accelerated solar, and potentially wind, capacity with battery storage for STX – targeted in service 1H2023	**Refinance balance sheet to align capital structure with operations**	**Further refine organization and build long-term strategy**
~12 months	**~TBD**	**~TBD**
~$80 million annual cost savings	**Savings TBD**	**Savings TBD**

Phase 1 projects to financially stabilize the Authority to be self-sustainable

Phase 1 Timeline: ~12 months to stabilize rates

Phase 1 Target Timeline

Month 0

Current – Improve dispatch to mitigate excessive fuel burn

- Efficiency improvements can reduce monthly fuel expense by [redacted]

2Q22 – Eliminate monthly lease generation expense through acquisition

- Reduces monthly expenses by eliminating current equipment lease cost [redacted]

4Q22 – Accelerated COD of the Wartsila project underway on STT

- Wartsila battery in service improves reliability
- May allow peak shaving to avoid high-cost marginal hours; savings TBD

4Q22 – Expand the new efficient generation footprint

- **STT:** Accelerate Wartsilas in-service (4Q22 vs. 1Q23) [redacted]
- **STX:** 20MW new capacity (provider TBD) [redacted]

1H23 – Accelerated solar/wind capacity

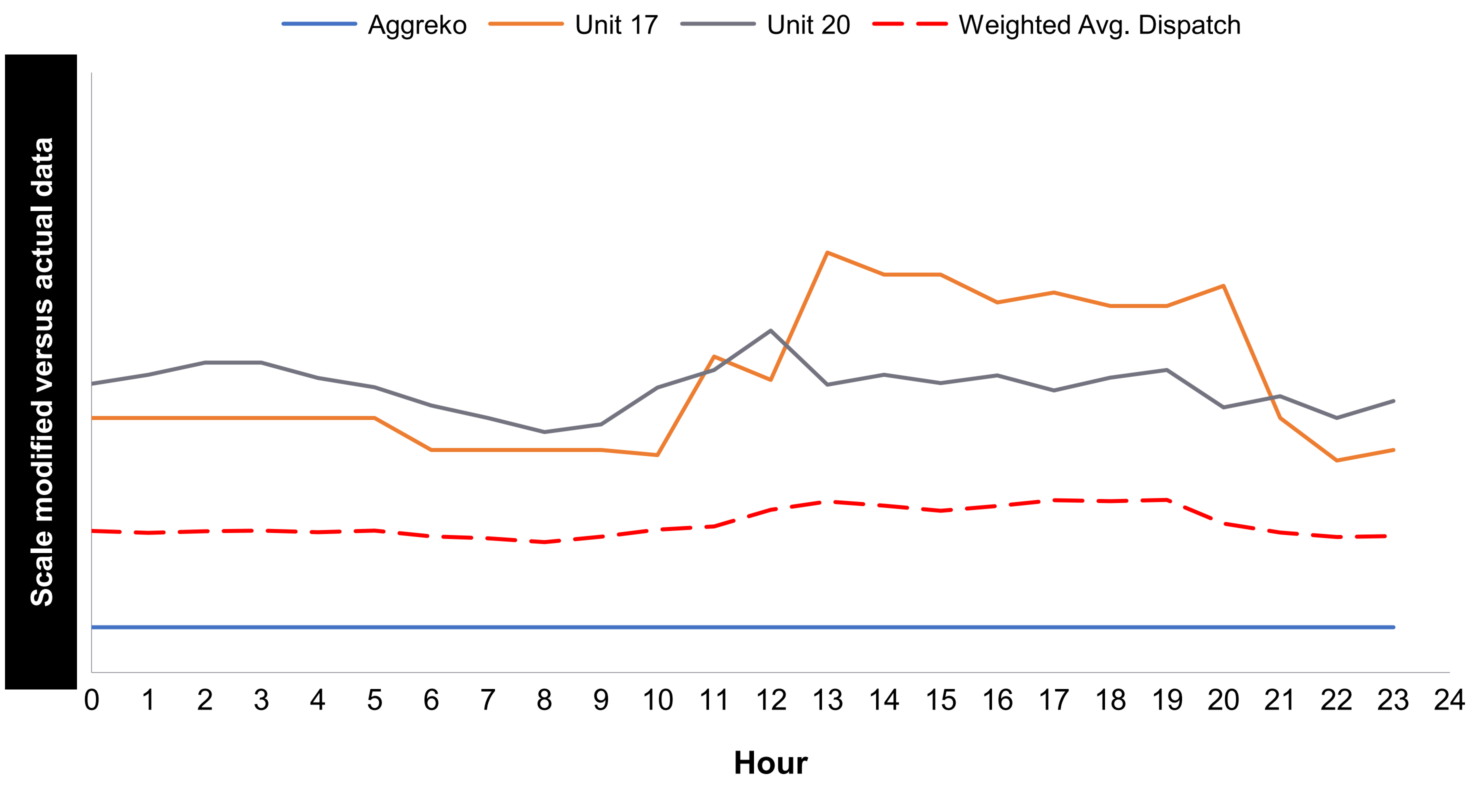
- 30 MWs solar/wind with storage in service
- Reduces monthly fuel expense by [redacted]

Month 12

Phase 1 starts to financially stabilize the Authority and position it for transformation in Phases 2 and 3

Inefficient Operations and Legacy Assets

St. Croix Average Hourly Production Cost: Dec 1-7, 2021
$/MWh

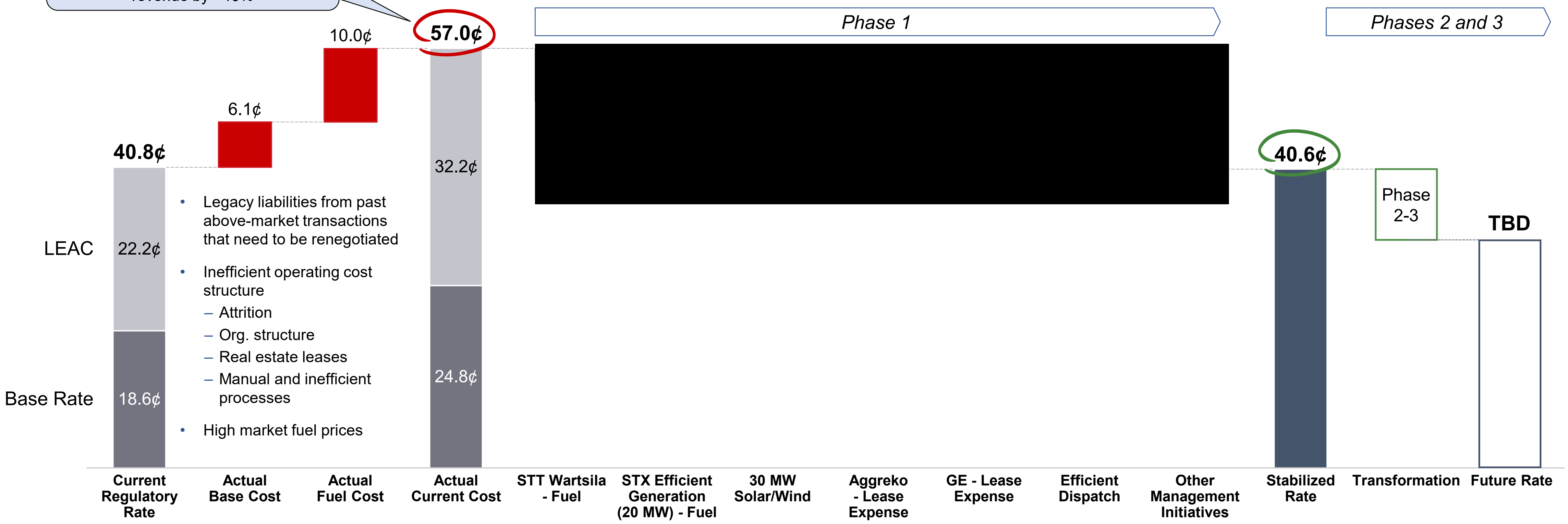


- [redacted]
  - Strategy to improve current dispatch is being developed
- However, improved operations does not make up for the inefficiency of select legacy assets
- Additionally, the historical lack of maintenance has further eroded efficiency
  - Evaluation underway to determine if maintaining legacy assets is cost-effective
- [redacted]

Current system cost structure is burdened by the dependence on inefficient legacy assets

Rate Bridge to Financial Sustainability (¢ per kWh)[1]

[redacted]



Phase 1 projected to reduce costs by ~30%

1. Savings are versus current fuel prices.

Fuel Expense

[redacted]

Redacted Sensitive Information

Message on the slide is that at the end of Phase 1, not only has the Authority's operating cost been reduced, but its reliance on fossil fuel has also been reduced.

Fuel is the Authority's largest operating cost and market fuel prices are volatile. Reduced reliance on fossil fuel structurally reduces the risk to the Authority's operating cost structure.

Next Steps

1. [redacted]