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VIRGIN ISLANDS WATER AND POWER AUTHORITY
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Good afternoon Honorable Senator Carla J. Joseph, Chairperson of the Committee on Government Operations and Consumer Protection, members of the Committee, non-member Senators present, testifiers, the listening and viewing audience, and the WAPA family. I am Andrew (Andy) Smith, Chief Executive Officer and Executive Director of the Virgin Islands Water and Power Authority, which I may later refer to interchangeably as "WAPA" or "the Authority." I thank you for your invitation to discuss the Authority, including a general overview; where we stand with respect to renewable energy, including solar; our fiscal and operational challenges; the status of the streetlight fund and associated maintenance of streetlights; and the substantial progress that has been made over the past ten months on the turnaround of the Authority.

OVERVIEW OF FORMATION OF THE AUTHORITY

The Authority was established in 1964 by the Fifth Legislature of the Virgin Islands through Act No. 1248. The enabling legislation was subsequently amended in 1987 to add the production and distribution of drinking, or potable, water and later the responsibility of installing and maintaining streetlights in 2001. WAPA is an autonomous governmental instrumentality and public nonprofit corporation subject to the control of its Governing Board, with a legal existence separate and apart from the Government of the Virgin Islands.

SOLAR AND OTHER RENEWABLE ENERGY

The Authority is committed to the production of reliable, efficient and affordable energy. The Virgin Islands has an abundant resource in the sun, and the community can greatly benefit from the development of significant, utility-scale solar at an attractive price.

Over the past several months, the Authority engaged with multiple developers, with both a Virgin Islands and international presence, with the objective of achieving two outcomes:

1. Fulfill an initiative announced in early 2022 by the Governor of the US Virgin Islands, the Honorable Albert Bryan, Jr., to transition St. Croix to 100% solar energy.
2. Successfully execute an internal Authority strategic initiative to displace expensive and volatile commodity-based fuel costs with lower, more stable, solar energy costs through a long-term Power Purchase Agreement, or PPA.

The Authority is seeking a Power Purchase Agreement for solar development with battery storage. The Authority engaged with seven (7) solar energy developers in its process. The Authority focused on St. Croix initially because of the greater availability of land for solar and battery storage as well as the relative ease of construction. However, the Authority also intends to pursue renewables development on St. Thomas and St. John. Furthermore, the Authority’s rate applies Territory-wide, so the physical location of renewables does not matter to rates because all customers will benefit from additional renewable capacity.

As mentioned earlier, the Authority engaged with seven companies. Three of the companies are leading international renewables developers:

- NextEra Energy is the largest owner and operator of renewable energy in the world.

- Invenergy is the largest private owner and developer of renewable energy.
- Leeward Energy was formed following the acquisition of largely wind assets from ArcLight Capital Partners in 2016. In 2021, Leeward purchased First Solar's project platform, or solar farms. Leeward's portfolio includes over 2,500 Megawatts (MW) of renewable capacity in operation and approximately 20,000 MW of capacity in development. To put the size into context, the Authority's entire generating fleet is only 180 MW, and its peak load is approximately 100 MW. The solar project that Leeward is proposing is 60 MWs of solar and 60 MWs of 2-hour batteries. Leeward also has strong financial backing as it is owned by OMERS, a major Canadian pension fund with over $80 billion in assets under management.

Four of the counterparties have a Virgin Islands presence:

- Haugland VI
- VIElectron
- Core Development
- West Indies Solar

Evaluation of the submissions centered on three (3) primary factors; price, performance (demonstrated track record and capability) and, to a lesser degree, inclusion of a buyout option. Said simply, the Authority wants the lowest priced proposal from a company that can complete the project. The option to buy out the contract could allow the Authority to own the project and eliminate the ongoing Power Purchase Agreement cost. However, given the Authority's current financial condition, a buyout would be difficult to execute. Nonetheless, the Authority wants to retain the buyout option.

The intent of the process to this point has been to identify the partner, or partners, with which the Authority may enter into negotiations for a Power Purchase Agreement. The Authority worked openly with all participants in the process, providing each equal access to the relevant data and information necessary to develop an indication of interest in pursuing a solar development for the Authority. The Authority presented a detailed review of its process and the proposals it received at both its recent public hearing in front of the Public Services Commission ("PSC") and the public meeting of its Governing Board. The Authority will present that same detailed overview today following its testimony.

As a result of the extensive selection process, the Authority identified Leeward Energy ("Leeward") as its preferred partner to engage in negotiations for a long-term PPA. Leeward Energy applied for QF status with the PSC earlier this week. The PSC can designate a developer a Qualifying Facility, or QF. By that process, the PSC reviews the developer's capabilities and good standing. The PSC's approval of designation as a QF compels the Authority to negotiate with the QF; however, it does not obligate the Authority to execute an agreement with the QF if the QF and the Authority cannot reach terms that are agreeable to both parties. Upon conclusion of successful negotiations of a PPA, but prior to execution, the Authority intends to submit the PPA to the PSC for review. The Authority will also submit the PPA to its Governing Board for approval. Both discussions will also occur in a public forum.

THE AUTHORITY'S FINANCIAL CONDITION

The Authority has been transparent about its cash shortfall and the significant efforts necessary to place it on sound financial footing. Fuel prices have increased sharply since the beginning of 2021, with propane rising 22 percent and diesel rising 161 percent. The Authority makes electricity by burning approximately 80 percent propane and 20 percent diesel. The Authority spends over 90 percent of its revenue on three things: fuel, debt service, and payroll. Fuel alone consumes approximately 70 percent of the Authority's revenue. Despite the rise in fuel costs, the Authority continues to shield its customers from higher rates, most recently with assistance from the Government of the Virgin Islands through the American Rescue Plan Act, or ARPA. This critical support serves to protect customers from the high cost of fuel when customers are also facing sharp increases in what they pay for all other goods and services. Over the past 12 months, overall inflation is up 8.2 percent; the price of food is up 11.2 percent; and the price of gasoline is up 18.2 percent. In taking these actions, the Authority has held rates steady for its customers while neighboring rates soared. For example, Puerto Rico has raised rates seven (7) times within the past year, and its rates have roughly doubled over the past two years, rising to $0.33 per kilowatt hour from $0.17 per kilowatt hour.

The Authority has also executed a number of significant internal initiatives to improve its operations and its financial position. Initiatives to-date will save the Authority $35 million in operating costs over the next three years, including initiatives such as:

- $6.4 million in interest savings negotiated in a refinancing earlier this year;
- Lower negotiated insurance premiums;
- Elimination of the Bolongo lease; and
- A hiring freeze.

In addition, the Authority has further implemented a number of operational improvements to better its financial position and its operations. For example, the Authority, for the first time in years, delivered its Fiscal Year operating budget to its Governing Board for approval on time, and it was approved. The budget that the Authority presented is also grounded in the realities of the business and sets expenditures so that the Authority can appropriately adhere to its budget.

Shortly after I started at the Authority, a weekly meeting, called the Critical Payments Meeting, was initiated. During this meeting, all the leaders of the various internal teams review and discuss the payments to be made that week. Unfortunately, the Authority's Comptroller, who led our accounting organization, left the Authority recently to join Schneider Regional Medical Center (SRMC). However, as a testament to the newly implemented best practices, he established a similar Critical Payments process for the SRMC. Also, since joining WAPA in January 2022, about 50% of our vehicles were out of service. Through the hard work of the WAPA family, the number of vehicles out of service has been reduced by 65%. The Authority had one bucket truck in service on St. Croix earlier this year but went into storm season with all six trucks in operation. The efficient outage restoration following Fiona was not only due to the diligence of the WAPA team who worked tirelessly, in hazardous conditions, away from family and friends, but also because restoration crews had enough vehicles to restore power effectively, efficiently, and safely to the community.

Two other initiatives keep our employees and the community safe. For the community, drivers collide with our power poles too frequently. Not only can drivers be injured, or die, but the accidents also often cause a power outage. The Authority's Transmission & Distribution team identified relatively inexpensive, highly reflective strips that can be easily attached to poles. The Authority recently completed a pilot installation program for the reflective strips and received favorable feedback from the community. The installation of the strips is now being expanded. And further placing safety front and center, previous practices found that safety glasses were not always required of the WAPA family inside the fence of the power plant. Employees were recently provided two pairs of safety glasses, which are now mandatory inside the fence line, unless inside of an administration building. Little initiatives like these protect our most valuable resource, our people, ensuring that they go home at the end of the day in the same condition that they entered at the start.

Finally, the Authority continues to make progress bringing current the employee withholdings that were previously not remitted to GERS. Through September, the Authority has made $918,890 in catch-up payments for employee withholdings. Over an approximate six-month period, the catch-up payments roughly total one-third of the previously unremitted employee withholdings due to GERS. Visibility into the capacity to make these payments would not have been possible without the weekly Critical Payments Meeting process. The Authority owes an additional $1,958,596 in outstanding employee remittances and continues to make catch-up payments. On the present course, employee remittances will be up to date by April next year, if not sooner. Additionally, there is a persistent rumor in the community that retired employees are unable to receive their benefits because the Authority has not made the final payments due to GERS when an employee retires. That is not correct. When the Authority receives an invoice from GERS for the one-time payment for an employee that has retired and is seeking benefits, those payments have been paid, and are continuing to be paid.

I close this section regarding the Authority's Financial Condition with reference to our Accounts Payable. As was requested, attached to this testimony as Exhibit "A" is the Accounts Payable listing as of September 2022.

STREETLIGHTS

Despite the 2001 amendment discussed earlier in my testimony, the present streetlight system remains split between two parties. The Authority owns and maintains its streetlights. However, the Department of Public Works ("DPW") also installs and owns its streetlights. The Authority and DPW have worked collaboratively to coordinate maintenance of streetlights under such a system. While the Authority believes that it would be more efficient to have one responsible entity, at present it does not have the funding, crews, or equipment to meaningfully manage the streetlights owned by DPW. Furthermore, the streetlights installed by DPW are of a different type than the lights owned by the Authority. As a result, the Authority does not have the spare parts or other inventory that it would need to maintain the lights owned by DPW. Ostensibly, funding for such repairs was made available under Section 3002(a) of Title 33, however, the streetlight fund is depleted, and in fact carries a negative balance. The Authority's only source of revenue is the rates that it charges its customers. Therefore, the Authority only has two ways to pay for its operations. One is to request an increase in rates from the PSC to cover the streetlight associated costs. The second is to forego spending on other critical investments that the Authority needs to serve its customers.

An additional point that I believe is important with respect to funding relates to the invaluable support that the Authority, and by extension the community, receives from its federal partners. The Authority is moving forward with both electrical and water infrastructure improvements with the support of our federal partners. Most of these projects can be seen by you and the viewing audience. However, I have heard it said many times that "WAPA gets all this money from the federal government, why are my rates so high?" or "WAPA gets all this money from the federal government, why does it not have money for fuel and has to ask for help?" That is because federal funding is 100 percent line-of-sight to a specific project. If, for example, funding is for composite poles, that money cannot be spent on anything other than composite poles, despite the other critical needs of the Authority or the Territory.

THE PATH AHEAD

The Authority outlined a path forward before the Senate in two (2) separate hearings held earlier this year. Those strategic goals remain unchanged, and the Authority has made significant progress toward achieving its objectives as will be explained further when we view the attached presentation following my testimony.

CONCLUSION

This concludes my testimony. Again, I thank the Committee and the public for the opportunity to discuss developments at the Authority. I also thank the hard-working men and women that comprise the WAPA family. If we can please display the accompanying presentation, attached as Exhibit "B", the WAPA team will present, following which we are available for questions.