U.S. Virgin Islands Water and Power Authority
Situation Overview and Strategic Plan Update

September 2022

U.S. Virgin Islands Water and Power Authority

Preliminary Draft – Work in Process / Subject to Material Change

Information contained herein has not been independently verified and is subject to material change based on continuing review. Accordingly, the information contained herein is not intended to be and should not be relied upon by any third party or as legal, auditing, or accounting advice.

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With respect to prospective financial information relative to WAPA, there has not been any examination, compilation or application of agreed upon procedures to such information in accordance with attestation standards established by the AICPA. Consequently, no assurance of any kind is given with respect to, or on, the information presented. It is WAPA’s responsibility to make its own decision based on the information available to it. Management has the knowledge, experience and ability to form its own conclusions related to WAPA's analyses. There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. As a result, no responsibility for the achievement of forecasted results is made. Accordingly, reliance on this report is prohibited by any third party as the projected financial information contained herein is subject to material change and may not reflect actual results.

Many of numbers set forth herein are estimates or based on assumptions which are subject to change. Such changes may be material and can materially affect the calculation of other amounts reflected herein.

How We Got Here

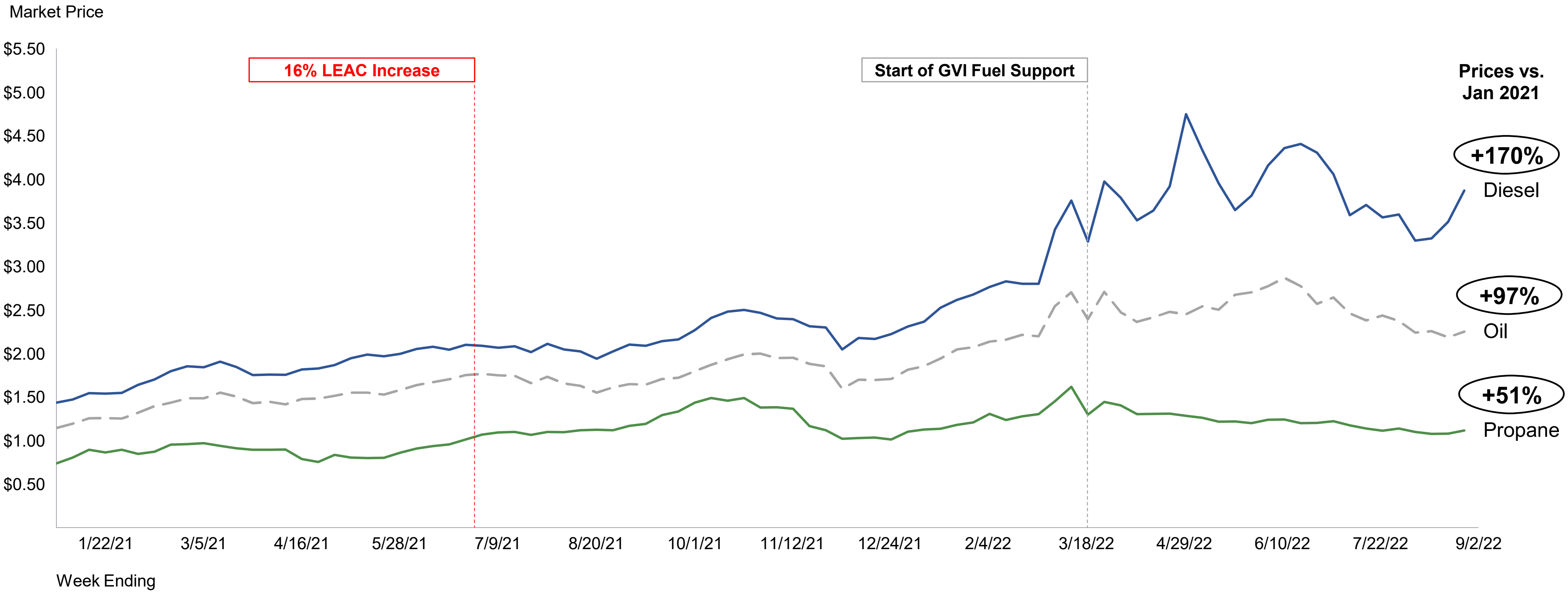
New leadership team inherited a business in deep financial and operational distress

- Authority suffers from a **legacy of bad financial and operational decisions,** coupled with a profound **lack of data and analysis**
- Current **rate structure is insufficient to cover its operating costs;** Authority faces a **~$5-6 million monthly cash flow shortfall** at current fuel prices, excluding Vitol infrastructure payments (+$2.6 million per month)
- **Legacy critical vendor obligations** of ~$40 million in past due payables from previously deferred payments (excludes $150 million Vitol infrastructure lease payments)
- **Deferred maintenance** imperils asset operational viability and **constrained inventory** imperils fuel supply
- **Fuel consumption is over ~30% worse** than legacy management's prior filings with the PSC

The Authority's past action and inaction has resulted in a dire financial situation

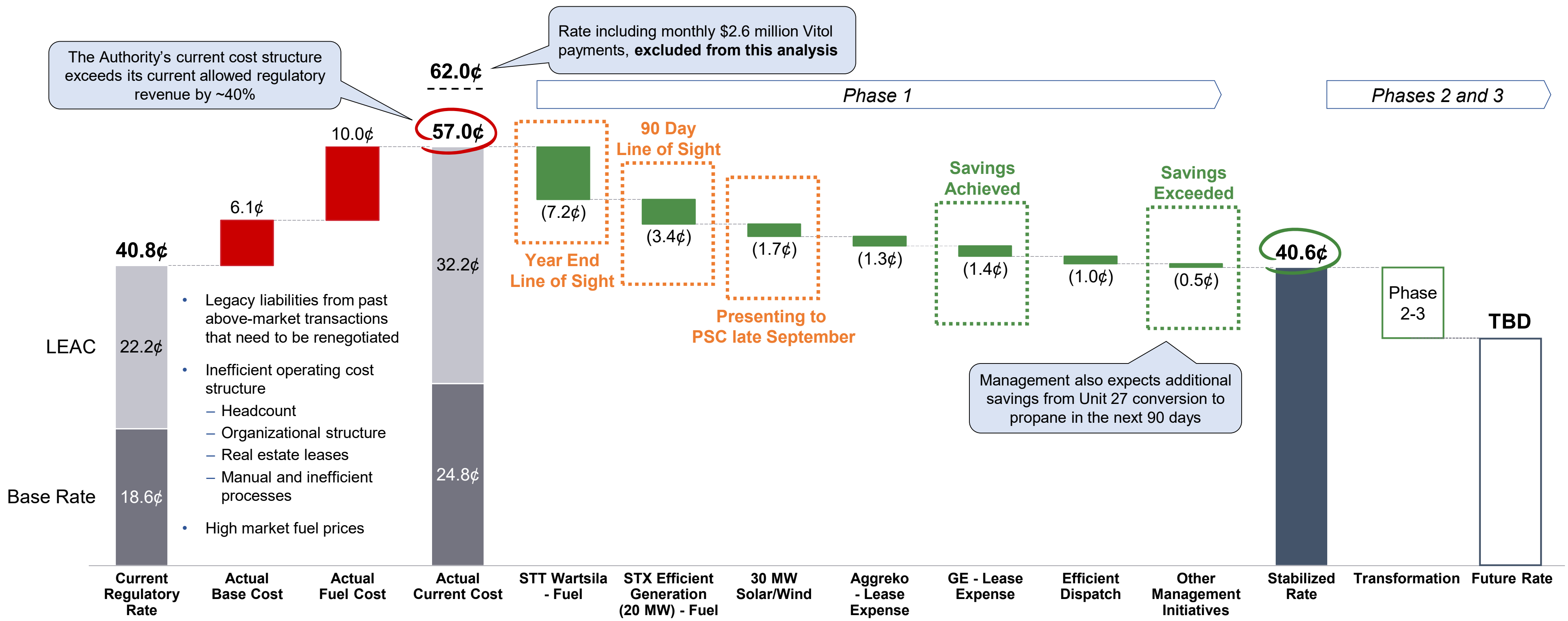
- **Fuel, payroll and debt service** payments can only be made consistently on-time by deferring payments to most other vendors
- **All working capital facilities are fully drawn;** ~$50 million in lines of credit have been maxed for over 3 years
- Authority is in **significant arrears with every major vendor** (e.g., Vitol, Seven Seas, Aggreko)
- Authority is **not current on remittance of employee withholdings** for income taxes and retirement benefits
- Unlike other utilities, Authority **does not have sufficient available liquidity or capacity to raise rates** to weather temporary spike in fuel prices

Fuel Prices (January 2021 – Present)



Historically high fuel prices have caused the Authority to suspend payments to a majority of its other vendors in order to preserve cash to buy fuel

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



Phase 1 of the Strategic Plan projected to reduce annual operating costs by ~30%

1. Savings are versus current fuel prices.

Financial Support Request – September 2022 – Overview

Total Investment Requested	Total Annual Savings Created	Need for GVI Support Eliminated By
$110.0 million	**$92.4 million**	**2Q2023**

- Investment request remains consistent with original plan
- Identified savings have increased

~$110 million investment yields ~$92 million in annual savings, a ~50% reduction in annual fuel and lease expense

Financial Support Request – September 2022 – Detail

Bridge to eliminate financial support

Investment ($ millions)	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23	Total Investment	Annual Savings	Breakeven (Months)
Fuel support	$6.0	$6.0	$6.0	$6.0	$5.0	$5.0	$4.0	$3.0	**$41.0**	-	-
Seven Seas past due	$4.5	$2.2	$2.2	$2.1	-	-	-	-	**$11.0**	-	-
Aggreko past due	$0.7	$0.7	$0.7	$0.7	-	-	-	-	**$2.8**	-	-
GERS/BIR past due	$2.3	$2.3	$2.3	$2.3	$2.3	$2.3	$2.3		**$16.1**	-	-
Other past due	$0.8	$0.8	$0.7	$0.7	$0.7	$0.7	$0.7		**$5.1**		
New Efficient STX Generation											
New Fuel Saving Unit	$16.5	-	-	-	-	-	-		**$16.5**	**($14.4)**	**~14**
Eliminate Aggreko lease	-	-	-	$16.5	-	-	-		**$16.5**	**($8.4)**	**~24**
Unit 27 STT Propane conversion	$2.0	-	-	-	-	-	-		**$2.0**	**($27.6)**	**~1**
Wartsilas In-Service	-	-	-	-	-	-	-		**-**	**($42.0)**	-
Total Investment	**$27.7**	**$9.1**	**$9.1**	**$24.9**	**$6.0**	**$6.0**	**$6.0**		**$110.0**	**($92.4)**	-

~$110 million investment yields ~$92 million in annual savings, a ~50% reduction in annual fuel and lease expense

Summary of Go-Forward Options

Plan	Funding Source	Maintains Customer Rates	Enables Future Rate Reduction	Retains Current Management	Resolves Legacy Liabilities *Excludes Vitol*	Avoids Running out of Cash	Avoids Service Disruptions	Funds Ongoing Debt Payments
Current Strategic Plan	External (Government)							
Raise Rates to Only Fund Ongoing Operations; No Funds for Large Past Due Vendor Payments[1]	Customers	40%+						
Raise Rates Higher to Fund Ongoing Operations and Pay Past Due Balances[2]	Customers	50%+						
Status Quo – No Action	-							

➢ None of the above scenarios consider funding for Vitol infrastructure lease payments

Management's Strategic Plan is the only path that drives turnaround of the Authority; raising already-high rates is untenable to customers and would likely lead to grid defection

1. Assumes rate of ~$0.57/kWh to fund the Authority's true operating cost
2. Assumes rate of ~$0.62/kWh to fund the Authority's true operating cost and back payment of accrued vendor past dues, excluding past due Vitol infrastructure payments

What Happens If We Do Nothing

- **Critical vendors cut off service**
  - Seven Seas provides potable water and is threatening to cut off service
  - Aggreko stops producing electricity and removes generators from territory, leading to an increase in generation cost of ~$2 million per month

- **Rolling blackouts due to insufficient fuel purchases**
  - Downward spiral of reduced cash collections: Blackouts → Reduced Revenue → Less Cash

- **Debt service payments cannot be made (Authority enters default)**
  - Bondholders could take over the Authority
  - Governing board no longer oversees the Authority; loss of control of long-term outcomes
  - Potential adverse impact on other Government of Virgin Islands bonds

- **Current management team departs**

Advancing Initiatives to Cut Fuel Costs

	Initiative	Description	Ongoing Annual Savings	Timing	Gating Items
1	Unit 27 conversion	Conversion of Unit 27 from Diesel to propane	~$28 million	December	• 90-day lead time for equipment • Connection to propane supply in process
2	STX efficient generation	Purchase of TM2500 generating unit for STX	~$14 million	December	• Financing/payment options for the machine • 90-day lead time for propane equipment • Connection to propane supply in process
3	Wartsila	Displaces old, inefficient generation	~$42 million	January	• Control cables – multiple parties sourcing globally • VIVOT (Eleven) civil works – working to connect with owner
4	Replace Aggreko	Purchase of additional TM2500 generating unit to displace Aggreko	~$8 million	February	• Generator availability
	Total		**~$92 million**		
5	Solar capacity on STX	Transformational solar project for STX	TBD	September	• Presenting proposals to PSC late September • Proceed to finalize contract terms • 12 months to in-service from contract execution
6	Propane Conversion	Conversion of legacy units to propane with parts already owned	Variable; reduces fuel risk if efficient generators have outages	TBD	• The Authority directly owns the parts • Need sufficient backup generation available to take outages

Identified savings, excluding solar, is over 50% of the Authority's annual fuel and lease expense (at current prices)

Appendix

Redefining the Water and Power Authority

- Executing path to financial sustainability
- Re-establishing constructive relationships with stakeholders
- Changing the culture
- Time is of the essence

Current Request for Support vs. June 7, 2022 Meeting with GVI

	Midpoint of June 7 Request to GVI	GVI Funding June 7 to Now	Current Funding Request
Fuel Expense *At current prices*	$55 million	$14 million	$41 million
Efficient Generation	$40 million	$6.75 million	$34 million
Legacy Obligations	$35 million	-	$35 million
Total	**$130 million**	**$20.75 million**	**$110 million**

Total of current request plus funding since June GVI meeting consistent with previous funding request to GVI at ~$130 million

Two Options to Raise Rates

Raise Rates to Cover Cost but Not Address Past Due Balances	Raise Rates to Cover Cost and Address Past Due Balances

Raise Rates to Cover Cost but Not Address Past Due Balances

- Residential rate rises to $0.57 from $0.41 per kWh, or ~40%
- Raises no money for vendors threatening to cut off service
  - Seven Seas makes potable water and is threatening to cut off service
  - Aggreko provides efficient generation; cost of generation would rise by ~30%, or $2 million per month

Raise Rates to Cover Cost and Address Past Due Balances

- Residential rate rises to $0.62 from $0.41 per kWh, or ~50%
- Raises money for critical vendor payments to address accrued legacy past due amounts
- Revenue for past due amounts will be collected over 12 months; assumes vendors are willing to wait that long
  - Assuming sufficient revenue generation, rates can go back down to ~$0.57 per kWh after addressing past due amounts

Risk: Rate increase does not generate projected revenue due to customer unwillingness to pay

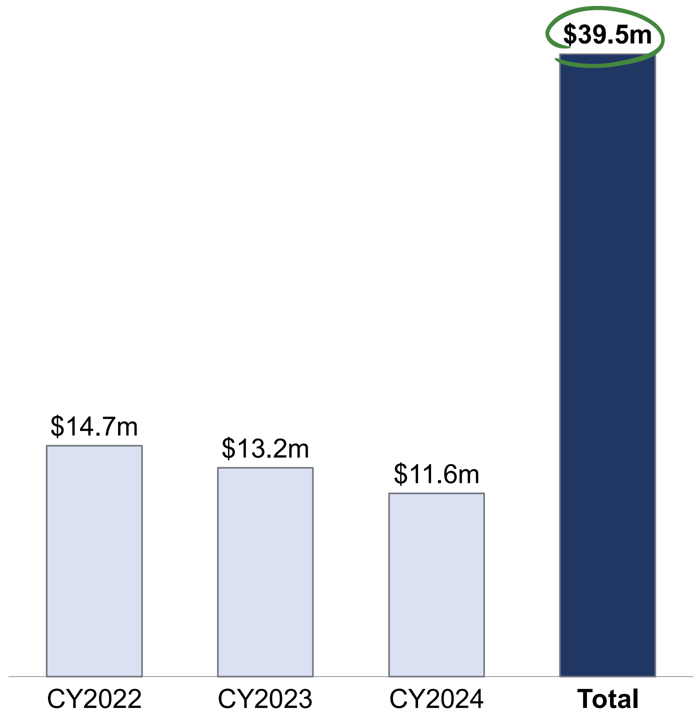
Risk: Rate increase does not generate projected revenue due to increased grid defection

Risk: Neither scenario addresses VITOL past due amounts

Accomplishments to Date - Financial

Executed Transformational Initiatives		CY2022	CY2023	CY2024	Total
Savings Achieved					
(1a)	Purchase GE Unit 27 - Avoided Lease Payments	$ 5,714,853	$ 8,784,029	$ 8,784,029	$ 23,282,912
(1b)	Purchase GE Unit 27 - Past Due Lease Payments	5,124,017	-	-	5,124,017
(1c)	Purchase GE Unit 27 - Buyout Cost	5,200,000	-	-	5,200,000
(2a)	2022 BANS - Avoided Cash Interest[1]	1,525,000	3,250,000	1,625,000	6,400,000
(2b)	2022 BANS - Eliminated Advisor Costs	100,000	-	-	100,000
(3)	Hiring Freeze - Only Critical Roles Filled	854,000	854,000	854,000	2,562,000
(4)	DOI Lineman Safety Training Grant	750,000	-	-	750,000
(5)	Fuel switching during Ukraine Invasion	500,000	-	-	500,000
(6)	Cancelled rate design consultant	500,000	-	-	500,000
(7)	Cancelled Bolongo Lease (Net Savings)	120,000	120,000	120,000	360,000
(8)	Received DOI Grant for Hybrid Bucket Trucks	353,000	-	-	353,000
(9)	Avoided Interim CFO Salary	38,245	152,981	152,981	344,207
(10)	Tesla - fuel savings	84,000	84,000	84,000	252,000
(11)	Cancellation of Muni Advisor Contract	240,000	-	-	240,000
(12)	Avoided Strategic Plan Costs	175,000	-	-	175,000
(13)	Line of Credit Fee Savings	117,000	-	-	117,000
(14)	Reduced Insurance Premium and Deductible[2]	98,584	-	-	98,584
(15)	Cancellation of Plexos consultant contract	60,000	-	-	60,000
Total Savings Achieved		**$ 21,553,699**	**$ 13,245,010**	**$ 11,620,010**	**$ 46,418,720**
Cost to Achieve					
(1)	Purchase GE Unit 27 - Implementation Cost	$ (6,895,000)	$ -	$ -	$ (6,895,000)
Total Cost to Achieve		**$ (6,895,000)**	**$ -**	**$ -**	**$ (6,895,000)**
Total Net Savings		**$ 14,658,699**	**$ 13,245,010**	**$ 11,620,010**	**$ 39,523,720**

Annual Net Savings, CY2022-2024



The Authority has implemented multiple transformational initiatives, achieving $39.5m of net savings through 2024

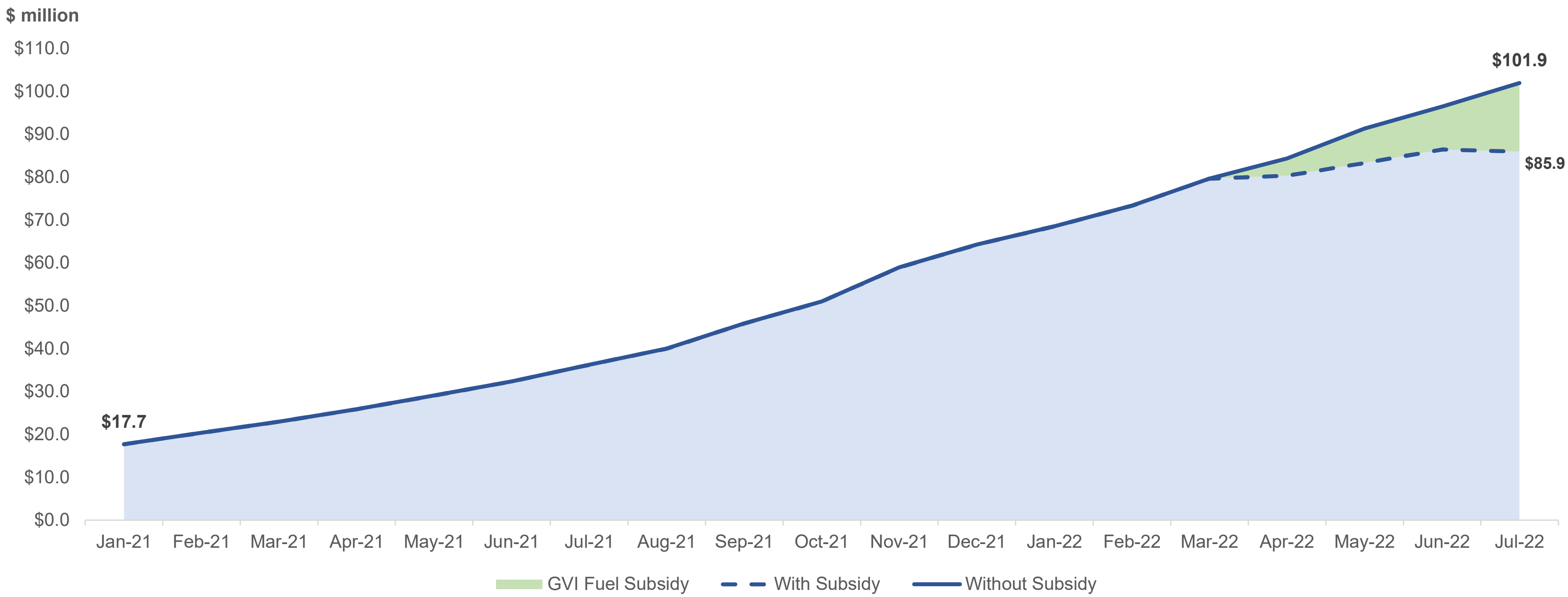
1. 2022 BANS – Avoided Cash Interest: Redeployed unused proceeds from prior series
2. Deductible cut in half

Accomplishments to Date - Operational

1. **Redesigned and secured approval of FY2023 Budget** prior to the start of FY2023
2. Finalized 2020 audit; accelerated schedule for FY21 and FY22 audits to become current and fully transparent
3. **Established weekly Critical Payments Process**
   a. SRMC implementing same process modeled after WAPA
4. **Advanced negotiations to switch gasoline providers**; delivers automated fuel tracking and fuel savings
5. Aggressively responded to sargassum influx before engaging with federal assistance
6. **Secured FEMA funding of $1+ billion** for prudent replacement of water infrastructure on STX; assessment for STT in process
7. Anticipate prudent replacement filing for electric generation at end of month
8. **Removed onerous new customer requirements** to increase connections and base rate revenue
9. Engaged with leading engineering firms to solve propane conversion challenges, converting units previously thought unable to be converted
10. Secured 1 hybrid and 2 conventional bucket trucks in highly scarce market
11. Implemented process to **increase capture of reimbursable management costs** for federal projects
12. **Aggressively countered VITOL's early threat** to shut off fuel supply
    a. No payment to VITOL to resolve the threat; prior VITOL threats resulted in payment from the Authority
13. New leadership over the garage, warehouse, and real estate
    a. Originally ~50% of vehicles out of services; only 1 of 6 bucket trucks in operation on STT and STX
    b. **Less than 20% of vehicles currently out of service**; all bucket trucks now in service on STX
    c. STT truck maintenance was not gaining traction; set money aside & recently signed purchase agreement for 2 new trucks
14. Staffed the COO and CFO roles with deeply experienced professionals; COO started 4/11 and CFO started 4/19
15. Identified and executed process to truck fuel to STX Richmond plant when weather conditions prevented waterborne deliveries
16. **Safety glasses now mandatory** inside plant fence
17. Reorg of operations team to effectively carry out the WAPA mission
18. **Creation of Data and Organization team** to effectively capture and analyze data; limited data or analysis existed previously, if any
19. Re-based PSC relationship

The Authority has implemented numerous meaningful improvements in a short period of time

Cumulative Fuel Under Recovery



WAPA's fuel under recovery (net of GVI subsidy) continues to grow due to high fuel prices

Solicitations for St. Croix Solar and Storage

Opportunity to Install Significant Solar and Battery Capacity for St. Croix Quickly

- Solicited offers from seven developers, some with global presence and some with local presence
- Developed under a Power Purchase Agreement; no material capital cost for the Authority
- The Authority's bad credit may be a gating item

Global Vendors

- NextEra Energy – largest renewable owner/operator in the world
- Invenergy – Largest private solar developer in the world
- Leeward Energy (purchased FirstSolar's portfolio) – 2,500 MW in operation; developed over 20,000 MW

Local Vendors

- Haugland
- VIElectron
- Core Development
- West Indies Solar

Leeward Energy appears to have provided most attractive indicative offer based on initial analysis

Lowest Price | **Serve Significant Annual Load** | **Panels and Storage in Inventory** | **Potential to be In Service in 12 Months**

Transformational opportunity to install solar and battery capacity on St. Croix

Critical Fuel Savings Achievable Near-Term

Burn Propane, not Diesel on St. Thomas

- Unit 27 on St. Thomas can currently only burn diesel
- Diesel is ~80% more expensive than propane at current prices
- Propane blender makes propane "look" like natural gas; lower risk because it does not require opening the machine
- Equipment cost ~$2 million; 90-day lead-time on equipment
- Piping propane to the unit the gating item – in process
- **Saves $2.4 million per month** at current prices

Pays for itself in less than 1 month

More Efficient Generation for St. Croix

- Legacy generation 55% less efficient than new generation
- Generator can be on island by end of September
- 90-day lead-time on propane blender
- Piping propane to the unit the gating item – in process
- Saves $2.5 million per month if propane supply is lost and forced to run St. Croix on diesel
- **Saves $1.2 million per month** burning propane at current prices

Pays for itself in 13 months

Investment in assets reduces the need for fuel support; absent the investment, the need for fuel support increases

Funding Bridge – Authority Request

Ongoing Fuel Support

~$41 million

- Converting Unit 27 to propane, adding efficient generation to STX, and placing Wartsila's in-service at a minimum sharply reduces the need for ongoing fuel support
- Additional fuel support ongoing into 2Q2023, but need declines as initiatives materialize
- Declining fuel costs can shrink the need for fuel support

Seven Seas

~$11 million

- Seven Seas past due has grown because the Authority has deferred payments to Seven Seas (among other vendors) in order to be able to buy fuel
- Seven Seas has requested payment of $4.5 million by 9/30, and additional $6.5 million by 12/31
- Seven Seas has expressed a willingness to renegotiate the terms of the contracts on STT and STX starting in 2023

Aggreko

~$2.8 million

- Past due lease payments for current STX generation

GERS

~$8.6 million

- Unpaid employer and payroll-withheld employee contributions
- WAPA has resumed paying employee contributions and is also remitting (bi-weekly) an additional $130,000 to repay past due employee contributions

BIR

~$7.5 million

- Employee income tax withholdings
- Unpaid Gross Receipt taxes

Other

~$5.1 million

- Other past due payments to critical vendors

Support will be needed in the short-term to facilitate the ongoing turnaround; line of sight to material reduction, if not elimination, of need for fuel support

Investing in Assets to Reduce Ongoing Fuel Support

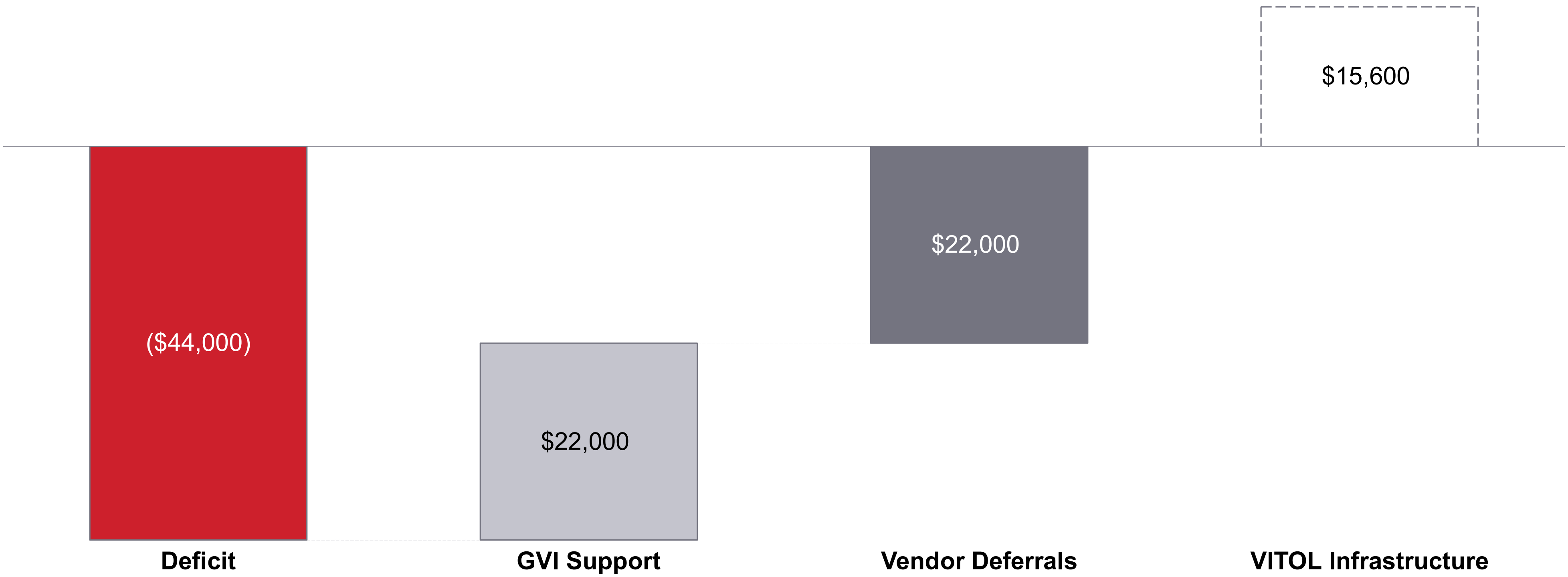
Purchase fully refurbished TM2500 generator for STX	$16.5 million	• The Authority has identified a fully refurbished TM2500 generating unit that can be on-island by 9/30
		• The upfront cost to purchase the unit is $16.5 million; fuel savings pays for unit in ~13 months
		• Vendor financing options are unattractive
		  • ~20% interest rate
		  • Additional $2.9 to $3.7 million in interest expense

Conversion of Unit 27 from diesel to propane	$2.0 million	• Conversion to propane will result in monthly fuel cost savings of ~$2.4 million and an acquisition payback period of less than 1 month • Approximately 90-day lead time from date of purchase to propane conversion to realize fuel cost savings
Replace Aggreko lease	$16.5 million	• Need to source additional generator • Eliminates ~$8 million annual lease expense

Initiatives will drive significant cost saving for the Authority and reduce the need for future fuel support from GVI

Fuel Shortfall (March 18 – September 2)

$ in'000s



The Authority has accumulated a ~$44 million deficit between March and August, offset by $22m in GVI assistance and additional $22m in vendor deferrals

1. Deferrals excludes deferred Vitol infrastructure payments, totaling $15.6 million