Moody's
INVESTORS SERVICE

Rating Action: Moody's reviews for downgrade Virgin Islands Water & Power Authority's senior and subord. revenue bond ratings

Global Credit Research - 31 Mar 2016

New York, March 31, 2016 -- Summary Rating Rationale

Moody's Investors Service (Moody's) has placed on review for downgrade the Virgin Islands Water and Power Authority (VI WAPA)'s Baa3 electric system revenue bonds rating and the Ba1 electric system subordinated revenue bonds rating. The authority has approximately $127 million in electric system revenue bonds outstanding and approximately $100 million in subordinated electric system revenue bonds.

The review is prompted by VI WAPA's limited financial flexibility and weak liquidity profile. The authority's liquidity profile will be very tight in the next three months in the absence of additional financing or funding from the government. The authority has outstanding credit lines of around $23 million that mature end of June 25, 2016. While we view the extension of the credit lines as likely, VI WAPA's financial flexibility will likely remain constrained by limited internal cash sources, high outstanding amounts of government receivables and a supportive but slow regulatory process. Internal and external liquidity sources including access to a recently approved but as yet undrawn $13 million Rural Utilities Service (RUS) loan are limited. Senior and subordinated bondholders benefit from a debt service reserve fund, which is fully cash funded.

The Baa3 senior electric system revenue bonds rating considers the authority's high leverage and weak financial profile, historically slow payment patterns of VI WAPA's governmental customers which constrains VI WAPA's cash flow generation. In addition, timely recovery of costs can be affected by the fact that unlike the majority of publicly owned electric utilities in the US, VI WAPA's rates are subject to approval by the Virgin Islands Public Service Commission (PSC) with an approval process that can be slow.

VI WAPA's rating also reflects the challenges of operating within an island economy with relatively sluggish growth, high unemployment and a narrow local economy that is dependent on discretionary tourism. It considers the ongoing struggle of the authority to cover its cost base and operate its facilities efficiently given significant excess capacity, the age of its equipment and high retail rates. The rating recognizes the regulatory support the utility has received as it has progressed toward the near completion of a project to convert its base-load generation resources from oil-fueled to tri-fueled (initially propane), thereby lowering the cost of electricity for Virgin Islands ratepayers while reducing its deferred fuel balances. It also recognizes the recently approved emergency rate filing and the government's efforts to reduce outstanding receivable balances which reached an all-time high in fiscal year 2015.

Rating Outlook

The ratings are placed on review for downgrade.

Moody's review will focus on: (1) VIWAPAs ability to refinance outstanding credit lines of around $23 million that mature at the end of June, 2016; (2) the authority's and the government's efforts to address the high amount of outstanding government receivables on a sustainable basis, which stood at an all-time high at the end of 2015 and which limits VI WAPA's cash flow generation; (3) the impact of a recently approved emergency rate increase on VI WAPA's financial performance; (4) the authority's approach towards long-term financial management and (5) the ability to regain lost customers at current lower electricity rates.

Factors that Could Lead to an Upgrade

A rating upgrade is currently unlikely given that the ratings have been place on review for downgrade.

Sustained increase in revenue and reduction in the balance of receivables supported for instance by improving economic conditions

Moody's consolidated DSCR maintained above 1.15x

Days cash on hand maintained above 30 on a sustained basis

Factors that Could Lead to a Downgrade

Failure to maintain Moody's consolidated DSCR around or above 1.0x

Deterioration in VIWAP's liquidity profile, evidenced by days cash on hand falling below 20

Inability to extend or replace revolving credit lines before their maturity

Inability to recover cost of service through rates

Inability to improve collections of past due receivables, including those from the government

Credit negative regulatory decisions

Legal Security

VIWAPA's senior lien electric system revenue bonds are secured by a pledge of net electric revenues and certain other funds as defined in the bond resolution (water revenues are not pledged). The electric system revenue bonds have a rate covenant of 1.25x and a debt service fund requirement equal to the lesser of (i) 10% of aggregate bond proceeds, (ii) maximum aggregate annual debt service or (iii) 125% average aggregate annual debt service.

The subordinate bonds have a subordinate lien on the same type of net revenues, a similar debt service reserve fund requirement and a rate covenant of 1.15x maximum aggregate senior and subordinate bond debt service. Both debt service reserve are fully cash funded.

In addition, VIWAP must maintain at least 1.0x its aggregate combined debt service in each fiscal year.

Based on the approved emergency rate increase end of December, 2015 we expect that the authority will be able to comply with its rate covenants in fiscal year 2015 and 2016.

Use of Proceeds

Not applicable.

Obligor Profile

VIWAPA is an independent governmental agency of the U.S Virgin Islands and was created in 1964. Its electric system is a monopoly provider of electric service to nearly 55,000 customers on St. Thomas, St. Croix, St. John, Water Island and Hassel Island. Its water system, although not a virtual monopoly provider, provides water service to more than 12,000 customers. Unlike the majority of publicly owned entities, the rates of both the electric and water systems are regulated by the PSC (Virgin Islands Public Services Commission). The water and the electric system are independently financed with separate liens on net revenues securing the outstanding debt of each system. We only rate debt of the electric system and the authority provides separate accounting for each system.

Methodology

The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in March 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Regulatory Disclosures

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Kathrin Heitmann
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
DE
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Chee Mee Hu
Additional Contact
Project Finance
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S
INVESTORS SERVICE

PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE. MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third- party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent