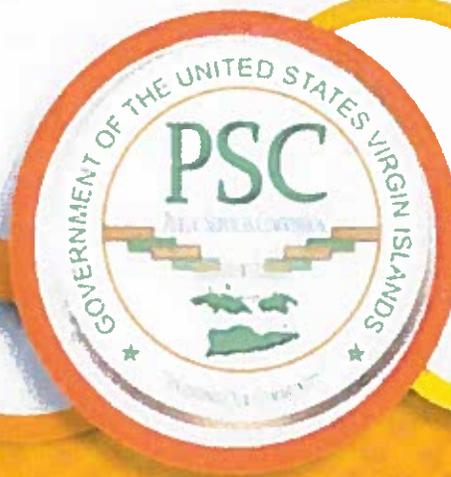


V.I. PUBLIC SERVICES COMMISSION

Fiscal Year 2017 Budget Presentation

July 06, 2016



TESTIMONY

PUBLIC SERVICES COMMISSION FY-2017 BUDGET

BY

DONALD G. COLE, PSC EXECUTIVE DIRECTOR

TO THE

COMMITTEE ON FINANCE

LEGISLATURE OF THE U.S. VIRGIN ISLANDS

Wednesday, July 6, 2016

At 1:00 p.m.

GOOD AFTERNOON CHAIRMAN, SENATOR, CLIFFORD F. GRAHAM, VICE CHAIRMAN SENATOR KURT VIALET, OTHER DISTINGUISHED COMMITTEE MEMBERS: MAJORITY LEADER, SAMMUEL SANES, SENATOR MYRON D. JACKSON, SENATOR MARVIN A. BLYDEN, SENATOR TERENCE "POSITIVE" NELSON, SENATOR TREGENZA A. ROACH, OTHER MEMBERS OF THE 31ST LEGISLATURE WHO ARE PRESENT, STAFF OF THE LEGISLATURE, MY PUBLIC SERVICES COMMISSION (PSC) FAMILY, LISTENING AND VIEWING AUDIENCE.

I AM DONALD G. COLE, THE EXECUTIVE DIRECTOR OF THE PUBLIC SERVICES COMMISSION (PSC). ACCOMPANYING ME TODAY ARE SANDRA SETORIE, ASSTSTANT DIRECTOR; ATTORNEY BOYD SPREHN; MR. MICHAEL S. MOORE, ASSISTANT TO THE EXECUTIVE DIRECTOR: MS. BRENDA CONNOR, ACCOUNTS MAINTENANCE OFFICER AND MS. ALICIA GUMBS, HUMAN RFESOURCES PERSONNEL AND IT MANAGER TO PRESENT THE FISCAL YEAR 2017 BUDGET OF THE PUBLIC SERVICES COMMISSION.

AS THE PUBLIC SERVICES EMBARKS ON ITS 51ST ANNIVERSARY OF ITS ESTABLISHMENT, I MUST TAKE THIS OPPORTUNITY TO THANK ALL THE MEN AND WOMEN WHO HAVE SERVED THIS AGENCY OVER THE YEARS. I ESPECIALLY WANT TO THANK THE PRESENT MEMBERS OF THE COMMISSION, OUR CHAIRMAN, MR. JOHANN (JOHN) A. CLENDENIN, VICE CHAIRMAN ANDREW RUTNICK, COMMISSIONER DAVID HUGHES, COMMISSIONER RAYMOND WILLIAMS, OUR EX-OFFICIO MEMBERS SENATOR NEREIDA (NELLY) RIVERA-O'REILLY AND SENATOR JUSTIN HARRIGAN, SR., FOR THEIR DEDICATED SERVICE TO THE COMMISSION AND THE PEOPLE OF THE VIRGIN ISLANDS.

THE VIRGIN ISLANDS PUBLIC SERVICES COMMISSION WAS ESTABLISHED UNDER TITLE 3, SECTION 273, V. I. CODE AND GRANTED ITS REGULATORY POWERS IN 1965 BY ACT NO. 1435, CODIFIED IN TITLE 30, VIRGIN ISLANDS CODE ET SEQ. THE PUBLIC SERVICES COMMISSION IS RESPONSIBLE FOR REGULATING ALL PUBLIC UTILITIES INCLUDING: ELECTRIC AND WATER SERVICES; TELEPHONE AND CABLE SERVICES;

FERRY FRANCHISE SERVICES; THE WASTE MANAGEMENT AUTHORITY; AND HAS THE AUTHORITY TO DESIGNATE TELECOMMUNICATIONS COMPANIES AS ELIGIBLE TELCOMMUNICATIONS CARRIERS ("ETC") IN THE TERRITORY. AS PART OF ITS STATUTORY MANDATE, THE COMMISSION HOLDS A DUAL RESPONSIBILITY TO BOTH THE UTILITY AND THE RATEPAYERS TO ENSURE THAT ALL RATES AND SERVICES ARE JUST, REASONABLE, AND NON-DISCRIMINATORY.

WITHOUT THESE KEY SERVICES, MODERN CIVILIZATION SIMPLY CANNOT EXIST. WITHOUT SUFFICIENT QUALITY OF SERVICES, AN ECONOMY CANNOT GROW AND FLOURISH. ELECTRICITY IS PROBABLY THE SINGLE BIGGEST HURDLE TO ECONOMIC DEVELOPMENT IN THE VIRGIN ISLANDS. COSTS HAVE BEEN AS HIGH AS \$360M PER YEAR FOR A POPULATION OF ONLY 110,000 PEOPLE; THAT IS A PER PERSON COST OF \$3,272 AND BY FAR THE HIGHEST IN THE UNITED STATES.

ALTHOUGH COSTS HAVE COME DOWN WITH DECREASED OIL PRICES, ALONG WITH A PLANNED CONVERSION FROM FUEL OILS TO PROPANE FOR GENERATING ENERGY CAPACITY; IF COSTS ARE NOT FURTHER REDUCED AND RELIABILITY IMPROVED FOR ELECTRICITY, ECONOMIC DEVELOPMENT WILL BE DIFFICULT, IF NOT IMPOSSIBLE, TO ENCOURAGE OR SUSTAIN.

TELECOMMUNICATIONS ARE CRITICAL, AND A KEY COMPONENT, TO ATTRACT AND SUSTAIN MODERN AND GROWING BUSINESSES, ENCOURAGES TOURISM AND PROVIDES EDUCATIONAL OPPORTUNITIES TO OUR YOUNG GENERATION. AS SMALL ISLAND COMMUNITIES, WE ARE RELIANT ON OUR ENVIRONMENT TO ATTRACT AND MAINTAIN TOURISM AND OTHER BUSINESSES, AS WELL AS PROVIDE FOR OUR RESIDENTS; THUS PROPER MANAGEMENT OF WASTE IS KEY TO THE QUALITY OF LIFE, AND OF COURSE, INTER-ISLAND TRAVEL IS NOT ONLY IMPORTANT TO ST. THOMAS AND ST. CROIX, BUT AN ABSOLUTELY ESSENTIAL SERVICE FOR ST. JOHN.

THE COMMISSION'S BUDGET IS ONE HUNDRED PERCENT FUNDED THROUGH, ASSESSMENTS FROM THE UTILITIES IT REGULATES IN ACCORDANCE WITH TITLE 30, SECTION 25A ET SEQ. THEREFORE, THE COMMISSION'S FINANCIAL HEALTH IS DEPENDENT ON THE CONTINUED HEALTH AND VIABILITY OF THOSE UTILITIES AND THEIR CUSTOMERS.

WE ARE REQUESTING THAT THE FISCAL YEAR 2016 BUDGET OF \$1,782,084 AS OUTLINED IN OUR DETAILED DESCRIPTION, REMAIN AVAILABLE UNTIL EXPENDED. HERE IS A BRIEF SUMMARY OF THE 2017 BUDGETED EXPENDITURES:

- **PERSONNEL SERVICES:** SALARIES FOR **17** STAFF TO INCLUDE THE EXECUTIVE DIRECTOR, ASSISTANT EXECUTIVE DIRECTOR AND AN ATTORNEY. IT ALSO INCLUDES STIPENDS BUDGETED FOR SEVEN (**7**) COMMISSIONERS TO OVERSEE EIGHT (**8**) REGULAR MEETINGS, EIGHT (**8**) SPECIAL MEETINGS AND FOUR (**4**) HEARINGS. TRAVEL PER DIEM FOR FOUR (**4**) COMMISSIONERS FOR UNPLANNED MEETINGS WITH UTILITIES, ATTORNEYS, AND OR CONSULTANTS (**10** TRIPS @ FIVE (**5**) DAYS PER TRIP @ \$75/DAY).
- **FRINGE BENEFITS:** GERS RETIREMENT CONTRIBUTION @ 20.5% (THE NEW RATE TO REFLECT THE 3% INCREASE) OF ALL ELIGIBLE EMPLOYEES SALARIES UP TO \$65K, ACTUAL PREMIUM HEALTH INSURANCE, FICA (SOCIAL SECURITY AND MEDICARE) AT A RATE OF 7.65% AND WORKMENS COMPENSATION.
- **ELECTRICITY:** AN ESTIMATED BUDGET FOR OFFICE LOCATIONS, ON ST. THOMAS/ST. CROIX; AND ST. CROIX TO INCLUDE WATER USAGE.

- **OFFICE SUPPLIES:** FOR BOTH ST. THOMAS AND ST. CROIX LOCATIONS TO INCLUDE GENERAL OFFICE SUPPLIES, LEGAL PERIODICALS, CLEANING SUPPLIES, STAFF UNIFORMS, AND VEHICULAR SUPPLIES (GAS AND MAINTENANCE, ETC.).
- **REPAIRS AND MAINTENANCE:** THREE (3) RENTAL PROPERTIES LOCATED IN ST. THOMAS, ST. JOHN AND ST. CROIX.
- **PROFESSIONAL SERVICES:** MEMBERSHIP FOR NATIONAL ASSOCIATION OF REGULATORY UTILITIES COMMISSIONERS (NARUC), ORGANIZATION OF CARIBBEAN UTILITIES REGULATORS (OOCUR), MID-ATLANTIC CONFERENCE OF REGULATORY UTILITIES COMMISSIONS (MACRUC), HEARING EXAMINER FOR FERRY BOATS, LEGAL SERVICES AND STENOGRAPHIC SERVICES.
- **TRAINING:** REGISTRATION FEES FOR FIVE (5) CONVENTIONS FOR AT LEAST THREE (3) COMMISSIONERS AND STAFF AT EACH CONVENTION.
- **COMMUNICATION:** LANDLINES FOR LOCAL AND LONG DISTANCE SERVICES, MOBILE (TWO (2) LINES EXECUTIVE AND LEGAL), TWO (2) IPADS, INTERNET CARDS FOR THE COMMISSIONERS AND ONE (1) STAFF FOR ST. THOMAS AND ST. CROIX, POSTAGE BOX RENTAL FOR THE TWO (2) LOCATIONS, AND IT TECHNICIAN FOR MEETINGS.
- **TRANSPORTATION NON-TRAVEL:** AIR FREIGHT AND MUNICIPAL PARKING.
- **TRAVEL:** HOTEL, AIRFARE AND TRANSPORTATION TO ATTEND FOUR (4) CONFERENCES TWO (2) UTILITY AND REGULATORY STUDY PROGRAMS AND INTER-ISLAND TRAVEL TO INCLUDE THE AGRICULTURE FAIR FOR THREE (3) COMMISSIONERS AND STAFF FOR EIGHT (8) DAYS.
- **INSURANCE:** FULL COVERAGE OF ALL REGISTERED STAFF FOR FOUR (4) VEHICLES, TWO (2) EACH ON ST. THOMAS AND ST. CROIX.

- **OTHER SERVICES (NOC):** ANY UNEXPECTED, UNALLOCATED EXPENSES THAT THE AGENCY MAY INCUR.
- **CAPITAL OUTLAY:** BUILDING IMPROVEMENTS, COMPUTER SYSTEM PURCHASES, AND MINOR OFFICE EQUIPMENT.

THIS BUDGET REPORT IS A MEASURABLE PLATFORM UPON WHICH THE COMMISSION'S STAFF MAY RELY TO GUIDE THE AGENCY TOWARDS MEETING THE CHALLENGES OF A DYNAMIC REGULATORY PARADIGM COMMON TO THE INDUSTRIES WE REGULATE. THE PUBLIC SERVICES COMMISSION'S STRATEGIC PLAN ESTABLISHES GOALS AND OBJECTIVES FOR THE AGENCY AND ITS STAFF TO PURSUE DURING THIS FISCAL PERIOD AND BEYOND. ITS FOCUS IS INTENDED TO MOVE THE COMMISSION FORWARD, FROM A GOVERNMENT ORGANIZATION THAT IS REACTIVE TO A PROACTIVE PUBLIC POLICY MAKING AGENCY WITH A FOCUS ON RESULTS-BASED MANAGEMENT. THE BUDGET IS INTENDED AS A "LIVING" DOCUMENT, WITH STRATEGIC GOALS AND PERFORMANCE OBJECTIVES, SUBJECT TO MODIFICATION AND WITH THE CAPACITY TO ADAPT AND CHANGE IN THE EVER EVOLVING REGULATORY ENVIRONMENT. THE FLEXIBILITY EXTENDED IN THIS PLAN IS INTENDED TO PROVIDE THE PUBLIC SERVICES COMMISSION WITH THE CAPACITY TO MODIFY THE PLAN AS NECESSARY, BASED UPON RESPECTIVELY CHANGING INDUSTRIES BOTH LOCALLY AND GLOBALLY.

AS A COST SAVING MEASURE, THE COMMISSION HAS SWITCHED FROM A PRIVATE CONTRACTOR FOR OUR INTERNET SERVICES TO USING THE GOVERNMENT OPERATED SYSTEM. THE PUBLIC SERVICES COMMISSION CONTINUES TO SEE A MARKED REDUCTION FOR TRAVEL COSTS, INTER-ISLAND TRAVEL AND RELATED OVERNIGHT HOTEL STAYS AND MEALS DUE TO THE INSTALLATION OF A VIDEO CONFERENCE SYSTEM. IN ADDITION, THE USE OF VIDEO CONFERENCING HAS MADE IT EASIER FOR OUR CLIENTS AND

THE PUBLIC TO OBSERVE AND PARTICIPATE IN OUR MEETINGS AND PROCESSES. THIS HAS MADE ALL OF OUR MEETINGS OPEN TO PUBLIC PARTICIPATION ON BOTH ST. THOMAS AND ST. CROIX, SIMULTANEOUSLY. HOWEVER, WE BELIEVE THAT SOME TRAVEL BETWEEN THE ISLANDS IS IMPORTANT, AND THAT SOME PORTION OF THE MEETINGS SHOULD BE HOSTED ON ST. CROIX WHILE PROVIDING FOR PARTICIPATION ON ST. THOMAS.

IT IS THE INTENT OF THE COMMISSION, GIVEN THE MANDATE OF THIS OFFICE TO MOVE FORWARD IN ACCOMPLISHING THE VARIOUS GOALS OUTLINED. WE REMAIN COGNIZANT OF THE IMPORTANCE OF ESTABLISHING A COST-EFFECTIVE APPROACH. WE ARE ALSO FULLY AWARE OF THE CONTINUED FINANCIAL CONSTRAINTS WE AS A TERRITORY FACE AND HAVE MADE EVERY EFFORT TO MAXIMIZE THE FINANCIAL RESOURCES AVAILABLE. AT THE SAME TIME, FOR THIS TERRITORY TO COMPETE ECONOMICALLY, IT IS CRITICAL THAT THE TERRITORY HAVE RELIABLE AND AFFORDABLE POWER AND POTABLE WATER SERVICES, STATE OF THE ART COMMUNICATIONS, RELIABLE INTER-ISLAND TRANSPORT, AS WELL AS DEPENDABLE WASTE MANAGEMENT SERVICES. ONLY WITH THESE SERVICES CAN WE HOPE TO BUILD OUR ECONOMY.

THE PROPOSED BUDGET FULLY REFLECTS THE BROADER RESPONSIBILITY THAT OUR AGENCY HAS ASSUMED, AND WILL PROVIDE US THE MEANS TO BETTER ADDRESS THE NEEDS OF THE PEOPLE OF THE TERRITORY. THIS YEAR WE HAVE SEEN AN INCREASE IN COMPLAINTS AND HAVE WORKED DILIGENTLY WITH UTILITIES AND RATEPAYERS TO ENSURE A SATISFACTORY RESOLUTION.

THE NUMBER AND RANGE OF MATTERS WHICH THE COMMISSION MUST ADDRESS CONTINUES TO GROW, AND THE TECHNICAL, LEGAL AND FINANCIAL ISSUES MORE COMPLICATED AND MORE IMPORTANT TO THE FUTURE OF THIS TERRITORY. ISSUES INCLUDE:

WAPA LEAC – RATES ARE NOW REVIEWED EVERY SIX MONTHS, AS FUEL PRICES HAVE SOMEWHAT STABILIZED. HOWEVER, KEY ISSUES REMAIN. THE CURRENT REDUCTIONS IN THE LEAC ARE DUE TO THE FALL IN FUEL PRICES – TO DATE, THE LPG (PROPANE) IT IS TOO SOON TO SEE ANY VISIBLE COST SAVINGS. WAPA'S CONVERSION TO LPG WILL REDUCE FUEL COSTS SUBSTANTIALLY, BUT LONG-TERM THE KEY IS IMPROVED FUEL EFFICIENCY. WAPA'S FUEL EFFICIENCY IS KEY TO FURTHER REDUCTIONS OF COST, WHATEVER FUEL IS USED.

THE MOST RECENT LEAC RATE ADJUSTMENT TOOK, EFFECT JANUARY 1, 2016, AND RESULTED IN A REDUCTION TO \$0.16279 PER KILOWATT/HOUR – (THE LOWEST RATE SINCE 2006).

SOME MAJOR CHANGES HAVE ALREADY OCCURRED. THE 15 MEGAWATTS OF NET METERING CAPACITY HAS BEEN LARGELY CONSUMED. WITHOUT AN INCREASE IN THE CAPS (5 MW ON ST. CROIX AND 10 MW ON ST. THOMAS/ST. JOHN), THERE IS NO CURRENT CAPACITY AVAILABLE FOR THE FEED-IN TARIFF.

WAPA HAS ALSO ENTERED INTO AGREEMENTS WITH SEVERAL ENERGY PROVIDERS, AND NOW OBTAINS A SIGNIFICANT PERCENTAGE OF ITS POWER FROM SOLAR GENERATION.

WAPA HAS ALSO ENTERED INTO AN AGREEMENT WITH A QUALIFYING FACILITY – TIBBAR ENERGY ON ST. CROIX. THIS PLANT WILL PROVIDE DISPATCHABLE POWER – THAT IS AN UNINTERRUPTIBLE POWER SUPPLY THAT WILL HELP WAPA ABSORB THE FLUCTUATIONS IN POWER FROM SOLAR.

WAPA HAS FINALLY BEGUN PREPARATION OF AN INTEGRATED RESOURCE PLAN (IRP). AN IRP IS A LONG-TERM PLAN FOR FUTURE GENERATION. THIS DOCUMENT IS CRITICAL ON SEVERAL FRONTS.

IT WILL PROVIDE A ROADMAP TO IMPROVING EFFICIENCY, FUEL DIVERSITY, AND INCREASING RELIABILITY AND STORM SURVIVAL. WITH THIS PLAN, WE CAN ALSO REASONABLY SET "AVOIDED COSTS", WHICH IS VITAL TO APPROVAL OF LONG-TERM CONTRACTS WITH "QUALIFYING FACILITIES" AND SETTING RATES TO ENCOURAGE USE OF THE RECENTLY ENACTED "FEED-IN TARIFF".

COMBINED WITH THE SOON-TO-BE RELEASED MANAGEMENT AUDIT, THE IRP SHOULD HELP CHART A PATH FORWARD TO MORE EFFICIENT, FUEL DIVERSE, RELIABLE, ENVIRONMENTALLY FRIENDLY AND COST EFFECTIVE POWER. IN THE LONG RUN, WE ARE LOOKING FOR LOWER COSTS (ON BOTH LEAC AND BASE RATES) COMBINED WITH INCREASED RELIABILITY AND QUALITY OF SERVICE.

ADDITIONALLY, WE HAVE RECEIVED AND PROCESSED A TOTAL OF EIGHT (8) QUALIFYING FACILITIES (QF) OF THESE APPLICATIONS, SEVEN (7) WERE APPROVED BY THE COMMISSION AND ONE (1) BECAME A QF BY OPERATION OF LAW.

THE COMMISSION STRUGGLES WITH COURT IMPOSED LIMITATIONS ON ITS AUTHORITY AND INCREASING CALLS FOR ASSISTANCE WITH NET METERING, FEED-IN TARIFF AND OTHER ISSUES CONCERNING ENERGY IN THE TERRITORY.

IN TELECOMMUNICATIONS, WE CONTINUE TO HAVE A BROAD ROLE, AND INCREASING CHALLENGES. THE CONTINUING CHANGES IN TECHNOLOGY, WHICH RESULT IN BOTH INCREASED SERVICES AND THE CONVERGENCE OF TECHNOLOGIES (E.G., TELEPHONE AVAILABLE THROUGH

BROADBAND, CABLE, WIRELESS AND LANDLINE – AT NO APPARENT DIFFERENCE TO THE CONSUMER), WILL PRESENT MORE QUESTIONS TO THE UTILITIES, THE RATEPAYERS AND THE COMMISSION.

THE TELEPHONE LANDLINE SERVICES CONTINUE TO HAVE REGULATED RATES, AND THE COMMISSION IS CONDUCTING A REVIEW OF INNOVATIVE'S TELEPHONE RATES AT THE PRESENT TIME.

THE COMMISSION'S RESPONSIBILITIES INCLUDE CERTIFYING RECIPIENTS AND REVIEWING PLANS AND REPORTS FROM THOSE TELECOMMUNICATION COMPANIES THAT ARE RECEIVING FUNDS THROUGH THE FEDERAL COMMUNICATIONS COMMISSION.

AS A RESULT OF FEDERAL PRE-EMPTION, THE COMMISSION DOES NOT HAVE JURISDICTION OVER THE RATES CHARGED BY WIRELESS TELEPHONE PROVIDERS AND CABLE TV PROVIDERS; HOWEVER, THE COMMISSION DOES HAVE JURISDICTION OVER QUALITY OF SERVICE ISSUES. THE COMMISSION FINDS ITSELF INCREASINGLY BURDENED WITH ROLES ASSIGNED BY THE FCC, WHICH ARE NOT ADEQUATELY ADDRESSED IN ANTIQUATED LOCAL LAWS. THE COMMISSION HAS RECENTLY ADDRESSED AND CONTINUES TO REVIEW THE FULL EXTENT OF ITS JURISDICTION OVER TELECOMMUNICATIONS OTHER THAN LANDLINE TELEPHONES – E.G., BROADBAND, CABLE TV, WIRELESS, VOICE OVER INTERNET PROTOCOL AND OTHERS.

OTHER ISSUES CONCERN THE APPROVAL OF FEES TO MAKE OUR WASTE MANAGEMENT SYSTEMS FUNCTIONAL, AFFORDABLE AND PROTECT OUR ENVIRONMENT. WE ALSO CONTINUE OUR ROLE AS REGULATORS OF THE FRANCHISED PASSENGER SERVICES BETWEEN ST. THOMAS AND ST. JOHN.

OUR COMMUNICATION OUTREACH INCLUDES OUR WEBSITE, A PSC NEWSLETTER, AND OUR FACEBOOK PAGE, WHICH IS NOW AVAILABLE FOR PUBLIC INFORMATION AND COMMENTS. THESE INITIATIVES WILL GIVE THE PUBLIC A CLEARER UNDERSTANDING INTO THE WORKINGS OF THE

COMMISSION AND GIVE US THE ABILITY TO SHARE AND RECEIVE VALUABLE INFORMATION TIMELY. THE GENERAL LEVEL OF CONSCIOUSNESS HAS BEEN HEIGHTENED AS THE PUBLIC BECOMES AWARE OF THE EYE OPENING FACTS ABOUT THE FUNCTIONS OF, AND THE LAWS THAT GOVERN, THE COMMISSION, INCLUDING SPOTLIGHTS ON EACH OF THE ENTITIES THAT THE COMMISSION REGULATES. WE HAVE EMBARKED ON SEVERAL PUBLIC SERVICE ANNOUNCEMENTS (PSA'S) AS WELL AS APPEARING ON TALK SHOWS AND SPEAKING AT PUBLIC FORUMS, IN AN EFFORT TO RAISE THE PUBLIC AWARENESS REGARDING THE COMMISSION'S ACTIVITIES. OUR PARTICIPATION IN THE 2015 ST. CROIX AGRICULTURE FAIR YIELDED US GREAT SUCCESS INTERACTING WITH OVER 500 FAMILIES REGARDING PSC UTILITY INFORMATION AND FACTS ON THE LIFELINE BENEFIT PROGRAMS. LIFELINE IS THE FCC AND PSC BENEFIT PROGRAM THAT PROVIDES DISCOUNTS ON MONTHLY TELEPHONE SERVICES TO ELIGIBLE LOW INCOME CONSUMERS TO HELP ENSURE THEY HAVE THE OPPORTUNITIES AND SECURITY THAT TELEPHONE LANDLINES AND WIRELESS AFFORDS. ADDITIONALLY, OUR WEBSITE HAS A NEW LOOK AS WE CONTINUE TO MAKE IMPROVEMENTS. ALSO ADDED TO OUR WEBSITE IS INFORMATION ON THE LEVELIZED ENERGY ADJUSTMENT CLAUSE (LEAC) IN ORDER TO HELP THE GENERAL PUBLIC UNDERSTAND THE FACTS ABOUT THEIR ENERGY CONSUMPTION. THE PSC WEBSITE CONTINUES TO BE A GOOD SOURCE OF INFORMATION AND ADD TO THE TRANSPARENCY OF THE COMMISSION'S ACTIONS. ALL MEETINGS CONDUCTED BY THE PUBLIC SERVICES COMMISSION ARE OPEN TO THE PUBLIC AND AS WE NOTED EARLIER, NOW AVAILABLE ON BOTH ST. THOMAS AND ST. CROIX SIMULTANEOUSLY. THE PSC CONTINUES TO MAINTAIN AN "OPEN MIND OPEN DOOR" POLICY. THE COMMUNITY IS ENCOURAGED TO VISIT OUR WEBSITE AT WWW.PSC.GOV.VI AND OUR FACEBOOK PAGE IS [VIRGIN ISLANDS PUBLIC SERVICES COMMISSION](https://www.facebook.com/VIRGINISLANDSPUBLICSERVICESCOMMISSION).

WE CAN ALSO BE REACHED:

- ST. THOMAS OFFICE @ (340) 776-1291 FAX (340) 774-4971
- ST. JOHN OFFICE @ (340) 776-1391 Fax (340) 775-1391
- ST. CROIX OFFICE @ (340) 778-6010 FAX (340) 778-0302

THE COMMISSION AND ITS STAFF HOLDS ITS REGULATORY RESPONSIBILITY WITH THE HIGHEST DEGREE OF DEDICATION AND COMMITMENT, DESPITE MANY OF THE CHALLENGES THAT WE CONTINUE TO FACE.

I WOULD LIKE TO ONCE AGAIN THANK ALL THE SENATORS AND THE ADMINISTRATION FOR THEIR CONTINUED SUPPORT OF THE PUBLIC SERVICES COMMISSION. I WOULD ALSO LIKE TO ACKNOWLEDGE MY APPRECIATION FOR MY STAFF WHOSE EXPERIENCE, HARD WORK AND COMMITMENT HAVE PROVEN INVALUABLE AS WE WORK TOGETHER TO CARRY OUT THE MISSION OF THE PUBLIC SERVICES COMMISSION. WE ARE NOW AVAILABLE TO ANSWER ANY QUESTIONS THAT YOU MY HAVE. THANK YOU.

**PUBLIC SERVICES COMMISSION
PSC REVOLVING FUND
Fiscal Year 2017
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**THE PUBLIC SERVICES COMMISSION OF THE UNITED
STATES VIRGIN ISLANDS**

GOVERNOR

The Honorable Kenneth E. Mapp

**PUBLIC SERVICES
COMMISSIONERS**

**The Honorable Johann A. Clendenin, Chairman, STX
(Term 04/14 – 04/17)**

**The Honorable Andrew Rutnik, Vice-chairman STJ
(Term: 7/14-7/17)**

**The Honorable David Hughes, STX
(Term 03/16 - 03/19)**

**The Honorable Raymond Williams, STX
(Term 03/16 – 03/19)**

***The Honorable Senator Justin Harrigan, Sr., STT**

***The Honorable Senator Nereida O'Reilly, STX**

***Ex Officio**



STAFF

ST. THOMAS – St. JOHN

Donald G. Cole.....Executive Director

Lorna Nichols.....Public Communication Coordinator

Brenda Connor.....Accounts Maintenance Officer

Ivring Heddrington.....Public Utility Auditor

Alicia C. Gumbs.....Personnel & IT Manager

Michael S. Moore.....Assistant to the Executive Director

Tizan T. Hendricks.....Legal Support Specialist

Andrea Hamilton.....Assistant Accounts Maintenance Officer

Jamal Potter.....Complaint Officer

Brenda Hodge-Lockhart.....Administrative Specialist

Lucinda Jurgen.....Special Assistant

ST. CROIX

Sandra L. Sztorig.....Assistant Executive Director

Vacant.....General Counsel

Jamil Springer.....Industrial Engineer III

Madona Abraham.....Complaint Officer

Carla LaFong.....Secretary

Government of the U.S. Virgin Islands
Honorable Kenneth E. Mapp, Governor
Honorable Osbert Potter, Lt. Governor

Johann Clendenin, Chairman
David Hughes
Senator Justin Harrigan, Sr.
Andrew Rutnik, Vice-Chairman
Raymond J. Williams
Senator Nereida Rivera-O'Reilly

General Counsel

Executive Director

Assistant Executive Director

Public Utility Auditor

Personnel & IT Manager

Legal Support Specialist

Utility Staff Assistant

Special Assistant

Industrial Engineer III

Communication Coordinator

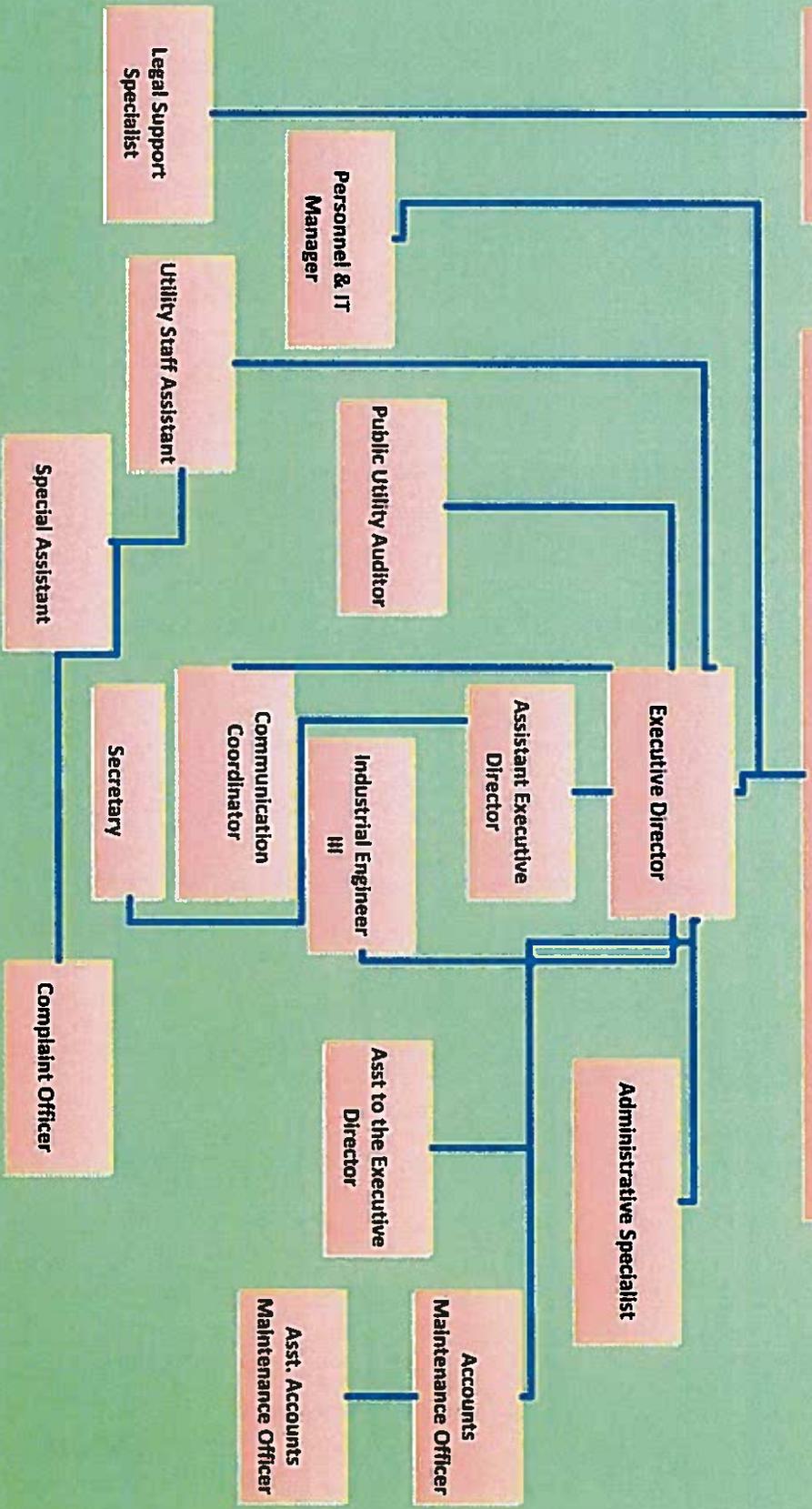
Secretary

Administrative Specialist

Asst to the Executive Director

Accounts Maintenance Officer

Asst. Accounts Maintenance Officer



PROFESSIONAL SERVICES



LEGAL COUNSEL

USVI Office of the Attorney General
Benham & Chan

HEARING EXAMINERS

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Dolace N. McLean, Esq.
Kye Walker, Esq.
Andrew Simpson, Esq.
Ronald Belfon, Esq.

TECHNICAL CONSULTANTS

Georgetown Consulting Group, Inc.
Avery Williams

PUBLIC SERVICES COMMISSION

FISCAL YEAR 2017

BUDGET PRESENTATION

EXHIBIT 1

Message From the Executive Director

In accordance with budgetary objectives, in collaboration with the directives of the Office of Management and Budget and, to meet the mandates of Title 30 of the Virgin Islands Code, the Virgin Islands Public Services Commission (PSC) is proud of the efforts of the PSC team meeting its strategic and functional goals. Our mission at the PSC is to serve the interest of the utilities that we regulate and utilities ratepayers of the Virgin Islands by assuring them safe and reliable regulated public services, while delivering services at fair and reasonable rates, enforcing regulatory consumer laws, and improving operational effectiveness and efficiency.

MISSION STATEMENT

To regulate all public utilities operating in the territory to assure the efficient provision of safe, reliable and adequate public utility service at fair and reasonable rates, while providing ratepayers with the highest quality of service.

The PSC fulfils its mission by pursuing a number of goals:

Ensuring that standards are maintained so that Virgin Islanders receive safe and reliable utility services at just, reasonable and affordable rates;

- Ensuring that all utility users receive appropriate levels of customer satisfaction and quality of service for those services provided through the entities regulated by the Commission;
- Ensuring that as competition among utilities environment increases that all customers are not unduly burdened with the cost of competition and are provided appropriate and adequate service and service options;
- Providing an open, accessible and efficient regulatory process which is fair, cost effective and unbiased, while also exploring better methods of regulating the entities under the jurisdiction of the Commission;
- Providing the public with the information they need to make informed decisions;

- Balancing the needs of the ratepayers and public utilities by resolving disputes between ratepayers in a reasonable time frame;
- Educating utility consumers and informing the public;
- Enhancing qualified provision of services in energy interconnections, and approval/certification of eligible telecommunication carriers (ETCs);
- Ensuring subscribers benefits of certified Life-Line and Link Up discount programs where necessary and applicable;
- Working collaboratively with the Virgin Islands Energy Office to educate consumers on efficient, cost-reduction initiatives and programs;
- Ensuring saving and benefits to ratepayers dollars through advocacy, complaint resolution, monitoring of utilities and conservation incentives;
- Conducting overview audits to ensure proper management and financial practices of regulated utilities;
- Reviewing and determining and ensuring implementation of federal and territorial economic incentives programs such as Life Line and Link Up America;
- Expeditiously and judicially determine matters of the regulated utilities relevant to the expedient implementation of federal and territorial economic incentive programs and policies;

- Shaping the future of the PSC by training, preparing and evaluating our current team members and prospecting for, attracting, selecting and preparing top quality applicants for positions within the Commission;
- Seek to encourage motivation through the enhancement of Commission processes and the attainment of self-actualization by Commission employees through empowering of these employees to carry out their responsibilities and rewarding them for their contribution to the attainment of Commission goals.

SCOPE AND OVERVIEW

The Public Services Commission (PSC) is a quasi-judicial, regulatory agency dedicated to serving the public interest by assuring safe, reliable and reasonable priced services for all utilities and ratepayers. The Commission operates administratively and for budgetary purposes only, within the Virgin Islands Department of Licensing and Consumer Affairs. Under the direction of our legal counsel the rules and regulations are currently being updated.

The Public Services Commission consists of seven (7) voluntary members appointed by the Governor of the United States Virgin Islands with the advice and consent of the Legislature, and two (2) ex officio members appointed by the President of the Legislature of the Virgin Islands. The ex officio members have no voting privileges. The Commission requires a minimum of four (4) members present to achieve a quorum and take action. Currently, the Commission only has four (4) voting members, and therefore can act only when all members are present. Unlike a great majority of commissioners in the United States, the members constituting the Virgin Islands Public Services Commission serve on a purely voluntary basis and receive a small stipend of \$75.00 per meeting for their services. The overall goals of the PSC are to ensure a regulatory balance that enables utilities to provide customers with safe, adequate and reliable services, at rates that are just and reasonable, equitable and economically efficient, and that allow utilities an opportunity to earn a fair rate of return on their investment. In addition, the Commission continues to take an active and cautious role in the development of a competitive approach to utility regulation whenever such an approach is in the public interest with a broad statutory mandate to ensure that all Virgin Islanders have access to reliable public utility service. Consequently, the PSC regulates critical, essential public

services such as electricity, water, telecommunications, cable television, solid waste, water management and ferry boat services. The Commission addresses issues of consumer protection, renewable and alternative energy initiatives, improved telecommunications services, the efficient provision of public marine transportation between the islands, reasonable solid waste and wastewater disposal user rates. The Commission also is responsible for monitoring public utility service and responding to consumer complaints.

The Commissioners and Officers of the commission are supported by a team of motivated staff who are committed to serving the best interest of the utilities they regulate and the ratepayers.

The Commission was created on April 21st, 1965, and charged by statute pursuant to 3 V.I.C. §137, and operates under the provision of 30 V.I.C. Ch.1 and subsequent enabling legislation, with the regulation of the electric and portable water utility, telephone company, cable TV companies, ferry services between St. Thomas and St. John and, St. Thomas and St. Croix; and solid waste and wastewater disposable utilities in the Territory. This year we celebrated 51 years in operation.

The Commission serves all public utilities consumers out of its centrally located offices in Barbel Plaza on St. Thomas, in Sunny Isle on St. Croix, as well as in Cruz Bay, St. John. The Commission continue to comply with the Virgin Islands Open Records or the "Sunshine Law", which provides that all meetings, votes, actions and deliberations of public governmental bodies shall be open to the public and that the Sunshine Law shall be liberally construed to promote this public policy. The Commission hereby adopts and implements this Open Records Policy to respond to requests for access to public records. Information, public documents filed and generated by the PSC, forms may be obtained by contacting the agency or visiting the website at www.psc.gov.vi.

The Commission is funded solely by assessments to the regulated public utilities that it oversees. Assessments are paid into the Territory Treasury's General Fund for use solely by the PSC.

GOALS AND ACCOMPLISHMENTS

1. Have the Legislature amend the over 50 year old legislation that established the PSC and bring it into the 21st century.
2. The legislature create a full time commission with paid commissioners or a combination of paid and volunteer commissioners.
3. See the commission relocate its offices on both St. Thomas and St. Croix into its own buildings.
4. Create an electronic document management system to manage the specific, verbatim transcripts, commission orders and other pertinent documents and make them accessible to the general public.
5. This fiscal year the PSC received eight (8) Qualifying Facilities (QF) five (5) of which were approved and one (1) became a QF by operation of law.

Case Matters: The Customer complaint process continues to be revised and updated. Complaints and cases continue to be tracked to ensure timely resolutions. The security and integrity of all official documents, files and records are of utmost importance.

The PSC continually experiences increased public participation at our meetings, via our website, and written communication from the general public. Many factors contribute to the increase including the enhanced visibility of PSC officials, staff and augmented outreach activities.

Educational Programs: The PSC continues to expand on its outreach initiatives and public education activities by appearing on local radio and television broadcasts and programs territory wide. We continue to work with our public utilities to create, promote, and distribute public service announcements to better serve the community. Consumer brochures, surveys, fliers and fact sheets are updated and disseminated to the public.

The PSC continues to work collaboratively with public agencies, including the Virgin Islands Energy Office (VIEO), Energy Development in Island Nations (EDIN), National Renewable Energy Laboratory (NREL) and the U.S. Department of Energy initiatives, Fossil Fuel reduction project, as well as the U.S. Department of Environmental Protection "Fix a Leak" national campaign which promotes greater water conservation and efficiency by consumers.

The PSC moves forward with its well established and ongoing consumer campaigns such as the VI LifeLine program. Lifeline provides discount on phone service as well as initial telephone line installation for qualifying low-income consumers to ensure that all Virgin Islanders have the opportunities and security that phone service brings, including being able to connect to jobs, family and emergency services. Lifeline discounts were made available to qualifying low-income consumers on pre-paid wireless service plans in addition to traditional landline service. Discounts cannot be applied to any other communication services. Lifeline is part of the Universal Service Fund. Currently there are three VI Lifeline eligibility workers that are paid by the PSC and physically located

at the department of Human Services. We continue to closely monitor telecommunication utilities to ensure that this local program and other such programs reach full potential and serve the maximum number of consumers in our community.

Public Meetings: In accordance with the Open Public Meetings Act (aka the Sunshine Act) the Public Services Commission notified the public of tentatively scheduled of its regular public meetings for 2016 and 2017 as follow:

2016	2017
March 29, 2016	March 23 ,2017
June 26, 2016	June 22, 2017
September 22, 2016	September 28, 2017
December 15, 2016	December 19, 2017

Meetings are generally scheduled to be held on Tuesday at 5:00 p.m. at the office of the Commission at Barbel Plaza St. Thomas, VI (unless otherwise indicated). All meetings are simultaneously video-conferenced to the PSC St. Croix Office located in the Sunny Isle Shopping Center. Consistent with the “Sunshine Law”, the public is always invited to attend these meetings.

Special Meetings or any other meetings held by the PSC and may also be conducted on St. Croix and St. John.

In every area of operation, we work to improve the efficiency of the programs and initiatives we engage in and enhance the effectiveness of the services that we provide to the utility customers of the Virgin Islands.

A majority of public meetings held were conducted via audio and video conferencing at both district offices in order to considerably reduce agency travel costs.

Website: Since the implementation of the Commission's website, access to information maintained by our agency by external users, has improved significantly. Currently, the navigating and downloading of information is easier and more expeditious. PSC Order, regulations, press information, public hearings and complaint handling forms are readily available and accessible. Realizing our limitations, however, we continue to look for new ways and upgrades to expand the system and increase service to the public.

REGULATORY MATTERS

Franchised Ferryboat Services

St. Thomas/St. John

The Public Services Commission is responsible for regulating the franchised ferry services to ensure that all rates are just, reasonable and non-discriminatory. The ferryboat companies Varlack Ventures, Inc., and Transportation Services of St. John, Inc., jointly the “Franchisees”) jointly operate an exclusive franchise between St. Thomas and St. John, with passenger services between Red Hook and Charlotte Amalie on St. Thomas and Cruz Bay on St. John. The Franchisees have each acquired the use of one new vessel built for the VI’s Department of Public Works. It is our understanding that the leases have not yet been executed for the vessels (named “Cruz Bay I” and “Red Hook I”), but the vessels have been in operation for more than a year. With the commencement of the use of these vessels, the scheduled rate investigation has been resumed to evaluate the revenue impact as a result of the new ferries being in operation, and the propriety of the current rates.

The Ferry Companies have installed an upgraded e-ticketing system that will provide an immediate record of tickets issued, the processing of credit cards sales and related payment gateway, ticket validation, monitoring of passenger traffic, reconciliation of collections and other improved ticketing services.

The Legislature has just passed Bill No. 31-0332, which extends the joint franchise for an additional 15 years, with an additional 5 year period at the option of the franchisees subject to the approval of the Public Services Commission.

The Commission remains concerned with the satisfactory operation of the joint franchise. Runs have been cancelled or rescheduled too frequently and with insufficient notice. The failure of the franchisees to conclude lease agreements with Public Works leaves substantial uncertainty in the future operations and costs. The completion of these agreements should both stabilize the services and maintenance of the schedules, and should bring the operating costs of the two franchisees into closer alignment.

TELECOMMUNICATIONS

Innovative

 FY 2016 saw the completion of a rate case for Innovative Telephone (aka VITELCO). This was the first rate investigation completed for VITELCO since 2009 (Docket 578), and prior to its acquisition by CFC out of the bankruptcy of VITELCO's former parent entities.

The rate investigation, which included an update of the depreciation rates, was finally resolved, after a lengthy process, with a negotiated consent decree. Innovative, which had not increased its rates since 2003, had sought authorization for rate increases of up to 40%, has now obtain the opportunity to increase its rates by up to 9 percent. However, the Commission had expressed strong concerns about the quality of service, and particularly delays in handling customers. Although the transition to a new system necessarily caused increased communications with

customers, Innovative did not address customer services in a timely manner, while this transition occurs. The Consent Decree addresses those concerns by linking rate increases to improved performance. The increases are contingent on VITELCO *first* meeting 90% of the customer service standards for four consecutive months: (1) Percent Customer Service Calls Answered in less than 20 seconds (90%); (2) Percent Repair Calls Answered in less than 20 seconds (90%); (3) Percent Repair Troubles Cleared within 24 Hours (85%); (4) Percent Repair Commitments Met (90%); (5) Repair Reports per 100 Lines (9.5); (6) Installations Completed with 5 Days (90%); and (7) Initial Service Order Commitments Met (90%). In addition, the Consent Decree resolved the following issues:

 A related issue was the modernization of VITELCO's scheduled depreciation of assets. This is a very technical subject, but a matter which factors significantly in setting rates. This was also resolved in the Consent Decree in a manner which protects the ratepayers.

☎ Also related is the completion of the new hybrid fiber optics system, which uses both fiber and cable to carry telephone, cable television and broadband services (Internet) to homes and businesses. The build-out of this \$75M system is now substantially completed, and most customers have been migrated to the new system.

One related issue is the ability of the system to withstand power outages. The old copper wire systems were able to operate with a small amount of voltage sent along the same lines carrying the phone signal. However, modern fiber optic cables can carry far more information, but cannot carry power. Consequently, Innovative has had to develop new means of providing power at key points in its new system. In addition, the battery within customers' homes have also had to be powered and kept charged. Innovative had received and installed a number of batteries that were defective in the early installations, but has now moved to replace all of those defective systems. The back-up should provide seven (7) hours of service time, but many of the originally installed batteries did not provide this coverage. Innovative is correcting this problem.

Another customer service issue that has been an on-going matter of concern to the Senate has been the receipt of cash payments at Innovative. The Commission secured Innovative's commitment to receive cash payments at its offices on each island three days a week, until its new kiosks are installed. When those kiosks are installed, they will accept cash payments at any time that the Innovative offices are open. In addition to Innovative's offices and web payment options, Innovative bills may be paid at 23 bank branches throughout the Territory.

☎ New Franchises for the Cable TV companies on St. Thomas/St. John and St. Croix (legally separate companies, but jointly operated as "Innovative Cable", were approved after hearings held before the Commission.

☎ The Commission has begun to establish customer service standards for the Cable TV services. The National Telecommunications Act and

FCC have preempted local regulation of Cable rates, but permit local establishment of service standards and quality.

☎ In June 23, 2014 the Commission met in regular session and reopened Docket 628 (Investigation of the Virgin Islands Telephone Corporation Depreciation Schedule.

☎ Re-certification of USF status for Innovative and Choice; Lifeline Providers

Universal Service Funds are provided through the FCC. The PSC is required to review and recertify eligibility for these funds annually. Currently Innovative and Choice are the only full service providers receiving USF support. Both Vitelco and Choice communication have received USF recertification following the guidelines as established by the FCC.

☎ The Commission also reviews the annual recertification of several other providers, who provide only "Lifeline" services, which are subsidized cellular phone services through an Federal Communications Commission program.

☎ Revision of lifeline programs is on-going, and new providers have been obtained or pending.

Alternative Energy and Avoided Cost:

The Legislature enacted a Feed-In Tariff program intended to encourage more production of solar power to and the sale of that power to WAPA. The Commission has been assigned extensive duties in regard to that program, including setting rates, approving standard contracts and enforcement responsibilities.

VI Waste Management Authority (VIWMA) has implemented tipping fees to be effective no later than August 1, 2016, providing an opportunity for public education and commercial entities to incorporate the new fees.

These fees were approved based on recommendations of the Hearing Examiner. These fees are:

1	Municipal Solid Waste (Household/Businesses)	\$52.13
2	Construction & Demolition	\$65.26
3	Fill Waste (sand, soil, spoils, sludge)	\$31.28
4	Green Waste (trees, leaves, grass, etc.)	\$52.13
5	Scrap Metal (autos, appliance, etc.)	\$39.15
6	Mixed Waste	\$65.26

Water and Power Authority:

Electricity is probably the single biggest hurdle to economic development in the Virgin Islands. Costs have been as high as \$360M per year for a population of only 110,000 people- a per person cost of \$3,272 – by far the highest in the United States. When shopping for new appliances, we are now all familiar with the “Energy Star” ratings that predict annual operating costs. Unfortunately, until very recently, to get an accurate forecast of local operating costs it was necessary to multiply the Energy Star numbers by 5. Despite the recent declines in fuel prices, residential rates remain around \$0.30 per kiloWatt/hour, nearly three times mainland rates. When the conversion to propane (aka "LPG") is completed, costs may decline slightly more.

Although costs have come down with decreased oil prices, as yet improved efficiency remains a goal and not the reality. A planned conversion from fuel oils to propane (“LPG”) for much of its current generating capacity remains incomplete at the present time. To date, the cost reductions seen are due to falling oil prices, not the propane project. It is uncertain how long the current low fuel costs will remain. However, the increasing use of alternative energy around the world is helping to drive petroleum fuel demand down, and along with discord between the largest oil exporting countries, may result in a longer period of depressed fuel prices.

The Authority has suffered from declining sales, and loss of significant customers. Declining costs of individual generation, management and, critically, storage, will make separation from the grid increasingly popular unless WAPA can significantly reduce its rates and improve its

services and reliability. WAPA's sales of electricity are down about 30% million the past decade, and down 14% in just the past few years. Some large customers and residential customers who could not take sufficient advantage of "net-metering" or FIT have simply left the system altogether. New products such as Tesla's Powerwall and improved battery storage will only accelerate those losses.

The single largest issue facing the Commission in the regulation of the Water and Power Authority is the absence of a comprehensive Integrated Resource Plan. An IRP is a standard tool for utility planning, and has been the subject of much discussion, contention and even litigation over the past decade and more. It is important to note at this point that in 2003 and 2004 WAPA filed suit against the PSC, when the PSC insisted that WAPA use rates for the purposes promised, and that WAPA should prepare a long-term plan. The Virgin Islands Supreme Court found that alone among Virgin Islands utilities, WAPA is to be regulated only for rates, as if rates are independent of all other matters. As a result of this decision, the Court eventually found that the Commission could not even assist customers with their billing issues with WAPA; on that issue the Legislature acted, and restored that limited jurisdiction, however, the PSC's jurisdiction over WAPA is severely limited, much more so than other entities.

Although the Legislature enacted the Small Power Production and Cogeneration Act (title 30, Chapter 2) in the 1980s, and modeled on the federal Public Utilities Resource Policy Act ("PURPA"), which encouraged the efficient use of energy and resources, including wind, solar, and biomass, no company seeking certification by the PSC was able to secure an agreement with WAPA until 2014. Despite high costs and many applicants, no other independent power producer has been able to secure an agreement with WAPA. In 2014 one of the most difficult issues to address was the "avoided cost". Avoided cost is a key concept

in power purchase agreements under this act, as well as the rates to be provided under the recently enacted Feed-In Tariff. Key to the development of avoided cost is long-term planning, which has to date been insufficient.

In 2014 and 2015 the Commission several times asked, directed and finally ordered that the Authority file a new base rate case. On December 1, 2015, WAPA filed new base rate cases. In February, the Commission staff met with Authority staff to review the application, and the parties agreed that substantial revisions were required. In May 2016, WAPA filed an “emergency” application for \$34M in cash reserves; the Commission consolidated that application with the base rate cases and directed the hearing examiner to report back within 60 days on the emergency issue. On June 6, 2016, WAPA filed its Supplemental Base rate filing, seeking more than 8 cents/kWh in increased base rates. That matter remains pending.

AVOIDED COST

Avoided Cost: Several Qualifying Facilities (“QFs”) under the Small Power Production and Cogeneration Act, as well as other interested parties with possible proposals, have expressed concerns about the negotiation of Power Purchase Agreements, and the availability of accurate and reliable Avoided Cost information. “Avoided Cost” is a measure of how much WAPA can avoid spending to generate the same power. That measure should include costs for replacement and rehabilitation of existing equipment or expansions of capacity, where necessary.¹ The PSC opened a docket (620) two years ago to review the

¹ Avoided cost is the savings WAPA can obtain by purchasing power from another generator. Costs that WAPA can avoid include fuel, maintenance, and capital. Capital includes major rehabilitation, retirements, new generation capacity, etc. Power purchases under the Small Power/Cogeneration Act are capped at cost on the basis of avoided cost. Since the passage of Act

data from WAPA on avoided costs, and set a rate or rates for future bidders.

This docket was largely postponed in the fall of 2013 due to recognition by WAPA that it needed to update its filing from February 2013. Although that filing was made in April 2014, the Authority has requested a further stay on this proceeding while an Integrated Resource Plan is prepared. An Integrated Resource Plan (IRP) is a standard tool of utility planning, which includes at least 10 years of forward looking planning, with input from the affected ratepayers. The Commission has set an interim avoided cost so that the Qualified Facilities can continue to move forward with proposals while the IRP is prepared, but without this key planning tool further progress is hampered.

In February 2015, the Authority stated:

In the Thursday, February 20 meeting of the Governing Board of the Virgin Islands Water and Power Authority, the board approved the decommissioning, surplus, dismantling and removal of eight units at the Estate Richmond and Randolph Harley Power Plants. Unit #12, Boilers #10, #11(STT) & #13, along with IDE #'s 1,2,4, & 5, have all been deemed economically unfeasible to continue to maintain as a result of the changes in production technology for water as well as the changes in fuel availability and requirements being used for power generation. "The progress we've made in plant efficiency has allowed us to be able to retire these units," said board member and Energy Office Director Karl Knight. Executive Director Hugo V. Hodge, Jr. said "The decommissioning of these units makes room for new projects

7075 and the Feed-In Tariff ("FIT"), that number has become critical. Act 7075 mandates that the information be filed annually by WAPA with the PSC.

in the available space, and clears the way for new energy generation.”

That progress remains pending. Along with the recommendations from the 2015 Management Audit, which recommended wholesale changes in WAPA’s generation equipment, the above change in existing plant equipment makes the issue of capital costs for retirement or replacement of existing equipment, and new generation equipment unavoidable. In previous filings, WAPA has simply stated that it has sufficient generating capacity, and has included no expense for rehabilitation, replacement or plant expansion. That position ignored the age, reliability and expense of continuing with many of these older units, when compared to newer equipment and alternatives.

This docket will move forward in 2016.

In 2013, WAPA has finally agreed to prepare an IRP; that process remains incomplete. WAPA waited for the receipt of grant moneys to pursue this planning. Both the avoided cost and FIT dockets (discussed below) have been stalled pending the conclusion of the IRP. FIT will also be able to move forward, however, we must note that the FIT program shares a cap with net-metering, and the cap has currently been reached in both districts.

On a related note, WAPA concluded a management audit in 2015, which it agreed to and was funded in the 2009 rate case, and which was finally advanced as part of the 2013 rate proceeding. That audit also commented on WAPA’s planning, and choices for repair, rehab or replacement of current equipment, which again, will link back to future avoided costs and the appropriate size on caps for net metering, FIT or other alternative power (discussed below). That Management Audit

recommended wholesale replacement of WAPA's current electrical generation equipment.

Concerns with the current overall rate levels for electricity. Both in 2009 and 2012, with the most recent rate increases, WAPA failed to realize the full amount of additional revenue from the authorized increase. That appears to be due to having reached a price ceiling- for any increased rate, customers are either finding new ways to conserve, new power sources, or are simply doing without. Consequently, WAPA's sales of electricity have decreased substantially in the past two years, and nearly 13% in the past several years. In 2003 WAPA's peak demand on St. Thomas was approximately 88 MW; in 2014 that peak demand has dropped to 65 MW. On St. Croix 2003 peak demand was approximately 55 MW; in 2014 peak demand is approximately 40 MW. On St. Croix demand has dropped so sharply, and the conversion to alternative power is so significant that peak demand now often occurs in the evening, after most businesses have closed.

Alternative Energy. The Legislature has previously set a goal to have 20 percent of WAPA's peak demand met by alternative energy by January 2015, and higher goals thereafter. At the present time, the only alternative energy projects currently on line are solar power projects on both St. Thomas and St. Croix. In addition, two new solar projects on St. Croix and from Tibbar Energy (discussed below), are scheduled to come on-line in the next 18 months. The total alternative energy capacity for these projects will be 14 MW of electricity from solar, and 7 MW from biomass. These projects will result in a capacity of roughly 20% of WAPA's peak demand. This is in addition to that generated by WAPA's customers, which has a permitted capacity of another 15 MWs.

For your convenience, we have prepared very brief summaries of some of the pending dockets before the Public Services Commission related to Energy and Water:

289 – The Commission lowered the LEAC for the July – December 2015 period to .191326 cents/kWh. That action reflects several major changes:

(1) Oil and propane prices have fallen substantially over the past two years, and are expected to remain low for the next several months (longer term outlook is less promising).

(2) Conversion to propane is now hoped to occur this summer and being largely completed in 2017, a substantial delay from original projections.

(3) The Commission has begun the phase-out of the “Rate Financing Mechanism” (RFM) which was begun in April 2012 to address severe power outages on St Thomas/St. John due to deferred maintenance. The Commission has removed funding for an Independent Advisory Contractor that was required in the RFM Stipulation, but never contracted, and disallowed certain proposed expenditures as not within the agreed scope of the funding. However, the Commission has continued funding for the leased GE “Unit 25” on St. Thomas, which remains key to reliable power. That expense is considered a capital expense, and has now been transferred to the base rates, and is no longer included in the LEAC.

Outstanding issues remain the absence or insufficiency of information concerning Key Performance Indicators; Maintenance Management (aka MAXIMO) planning, inventory and controls; availability, reliability and fuel efficiency of WAPA’s existing generators, etc.

In 2011 and 2012 the Virgin Islands suffered water shortages and frequent blackouts. In addition, the generating plant that still remained functioning was very fuel inefficient, and unable to produce its rated power capacity. In 2012 the Commission implemented the RFM (Rate Financing Mechanism), which provided additional funds for equipment maintenance, parts, and a temporary generator. These funds were provided through the LEAC, which is ordinarily restricted to solely fuel costs, because the plant inefficiency was costing so much in additional fuel expense that the Commission determined that immediate action needed to be taken. The RFM has now been removed from the LEAC, and remaining expenses will be addressed in the base rate proceedings.

The Authority has extended the temporary generation on St. Thomas, which has been key to both keeping the power on (despite recent events) and reducing fuel expense. At the present time, this unit (Unit 25) remains the single most efficient generator on St. Thomas/St. John.

All these issues tie to the on-going concern with efficiency of operations. At the present time, WAPA cannot operate its St. Thomas plant in the most efficient configuration because of outstanding maintenance needs.

620 - Avoided Cost. This docket still remains dogged by the absence of a long-term plan – the IRP. The IRP is now expected to be completed this summer. This effort, along with the IRP planning, is key to the below dockets:

563 - Self-Insurance/Hazard Mitigation. Following the storms of the 1980s and 1990s, FEMA insisted that WAPA establish a fund for immediate self-help following any natural disasters. A surcharge was implemented, with a goal of obtaining an \$8M reserve fund. The Commission also permitted the use of funds to reduce exposure to future harm. Consequently, after insisting that the Authority seek federal

grants, the Commission has approved the use of this Fund for undergrounding projects in Charlotte Amalie and Frederiksted. WAPA also used to borrow against the fund to increase fuel storage in advance of hurricane season, however, that action resulted in a depletion of the fund when it was most likely to be needed in an emergency. Several years ago the surcharge was discontinued when the fund was filled. WAPA was unable to articulate exactly what its exposure was, and why \$8M was an appropriate number. A risk study was ordered by the Commission, and it was finally filed in 2015. A funding surcharge is in effect, but the appropriate level of funding remains an open issue.

620 - Avoided Cost. This docket, necessary to implement both the Small Power Production and Cogeneration Act and the new Feed-In Tariff, also remains dogged by the absence of a long-term plan. Numerous entities have expressed interest and concerns about the negotiation of Power Purchase Agreements, and the availability of accurate and reliable Avoided Cost information. “Avoided Cost” is a measure of how much it would cost WAPA to generate the same power, both at the present time and going forward for several years. As discussed above, it includes costs for replacement and rehabilitation of existing equipment or expansions of capacity, where necessary. This docket was established to review the most recent submission from WAPA on avoided costs, and set a rate or rates for future bidders.

At least seven parties have sought or obtained QF status, with additional inquiries. QFs include proponents for wind, solar, waste-to-energy and ocean thermal energy.

Tibbar (621 - 7MW Biomass/Waste) and **VIWMA (608 - 1.5MW landfill gas)** are the only present QFs with interconnection agreements with WAPA.

632 - Feed-In Tariff. Although the cap is not currently permitting any projects under this Act, the Commission is still obligated to set a tariff

designed to encourage participation, and to establish a model interconnection agreement. Again, the rates to be set are driven by the IRP, the long-term planning for WAPA

TRANSFER OF CONTROL OF VITELCO AND THE CABLE COMPANIES

In November 2015, the National Rural Utilities Cooperative Finance Corporation ("CFC") and Atlantic-TeleNetwork, Inc. (recently renamed as "ATN International, Inc.", herein "ATN") filed an application for the approval of the transfer of control of Virgin Islands Telephone Company ("VITELCO"), St. Thomas/St. John Cable and St. Croix Cable, all doing business under the name

"Innovative" (collectively the "Operating Companies"). CFC acquired these Operating Companies in 2010 from the bankruptcy their prior parent entities.

At the time of their acquisition in 2010, VITELCO's telephone system was obsolete, unable to provide modern telecommunications (e.g., broadband, caller ID, etc.), and was susceptible to frequent breakdowns, even from simple rains. The cable systems were also obsolete, and unable to carry broadband or even simple two way communications (I.e., ordering pay per view through the cable systems). In addition, although none of the operating systems were themselves ever placed into bankruptcy, VITELCO's debt was excessive, and it had functionally no remaining borrowing capacity.

In the 2010 Transfer of Control, CFC, through its subsidiaries, committed to the installation of a completely new communications network at a minimum cost of \$75M that would permit the Virgin Islands to have 21st Century capable communications through a hybrid fiber-optic cable system. While that conversion has not been without its difficulties (e.g., individual battery back-ups and system-wide capacity for power failures), the installation of the new system is largely complete, and the remaining customers will migrate to the new system within the next few months. However, VITELCO remained a financially strapped company, carrying excessive debt.

CFC is a lender to rural utilities, and not normally a system owner or operator. Consequently entry, CFC had stated its intention to own these Operating Companies for a limited number of years. ATN is an owner and/or operator of numerous telecommunications systems, both within the Caribbean and the continental United States, including rural and difficult to serve areas. ATN proposed to

acquire the Operating companies, along with the related entities through the purchase of Caribbean assets Holdings, LLC ("CAH"), and its subsidiary, DTR, which directly owns the Operating Companies.

As a result of the negotiations between PSC Staff and ATN, a new Transfer of Control Agreement has been reached and approved by the Commission, which in addition to the other significant benefits listed below, returns VITELCO to financial health, restoring its independent ability to access financial markets and to control nude to provide telecommunications services at reasonable rates.

In addition, the 2016 TOCA provides:

- Qualifications. ATN is financially and managerially qualified to acquire control of Vitelco and the Cable Companies, CAH, and DTR; and CAH and DTR, under ATN's control, are committed to providing quality telecommunications and cable television services.
- Employees. Certain existing consultants serving as senior management of CAH may be retained on an interim basis for up to 6 months. No significant changes in the total number of employees of Vitelco and Cable Companies for one year, although voluntary early retirement program is permitted. Notice to be provided to PSC of any new senior management hired for Vitelco or the Cable Companies. Vitelco's pension plan to be fully funded in connection with closing.
- Business Plan. Updated business plan for Vitelco to be prepared within 6 months.
- Property, Plant, and Equipment ("PPE"). Prior PSC consent required for the cumulative sale of more than 10% of Vitelco's PPE, except that PPE may be retired, replaced, or upgraded without consent. PSC to receive detailed notice of cumulative sale of more than 5% of PPE.
- Financing. Vitelco may grant mortgages on its assets in connection with loans made directly to Vitelco. Vitelco may guarantee loans of DTR, CAH, ATN, and ATN-VI if Vitelco is commercially advantaged, directly or indirectly, by such financing and PSC is provided 45 days notice. Vitelco guarantees, when combined with other Vitelco long-term debt then outstanding, may not when issued exceed 60% of Vitelco's

total capitalization. DTR may pledge Vitelco's stock to a lender as collateral, but lender may not foreclose without PSC approval if foreclosure results in a transfer of control of Vitelco. Lenders to Vitelco that are affiliated with ATN may pledge Vitelco debt as collateral.

- Vitelco Debt. Vitelco's \$113 million of existing debt to DTR to be eliminated and replaced at closing with a new ten-year term loan bearing a 5.5% fixed interest rate. Vitelco may take on new debt, including that initially provided by DTR, representing when issued up to 60% of its total capitalization. Vitelco will have access to a secured revolving credit facility to fund capital expenditures.
- Vitelco Stock. Vitelco will not have preferred stock outstanding at closing and only will issue new stock in accordance with USVI law, which currently requires PSC approval. ATN will comply with USVI law in connection with any future transfer control of Vitelco.
- Dividends. The TOCA places strict limits on Vitelco's ability to issue dividends and requires Vitelco to endeavor to achieve positive earnings and maintain a positive equity position.
- Compliance. Vitelco and the Cable Companies to comply with all final PSC orders.
- Rates. No new rate case for one year.
- Management Fees. Vitelco may pay management fees to certain affiliates of ATN but amount of these fees must be calculated in accordance with FCC Parts 32 and 64 rules.
- Vitelco Reports to PSC. Vitelco is required to provide a wide variety of financial and operational reports to the PSC on a quarterly and annual basis. Vitelco, the Cable Companies, DTR, and CAH shall provide the PSC with access to their books and records and various operational information. Confidentiality may be requested for this information when appropriate.
- 2010 TOCA. The 2010 TOCA is terminated.

FINANCIAL DATA

Title 30 VIC 25A obligates the Commission to submit annually, “a report to the Committee on Finance of the Legislature of the Virgin Islands, detailing the total amount of appropriations needed by the Commission for the following fiscal year”. Accordingly, the Commission’s budget request for Fiscal Year 2017 is \$1,782,084.37. As per Act No. 7785, Bill No. 31-0205 this amounts fall within the \$1,800,000.00 ceiling.

The PSC budget request of \$1,782,084.37 is an increase of \$28,409.30 or 1.59416% from the Fiscal year 2016 appropriation. This small increase represents salary increases and the associated benefit adjustments.

As authorized pursuant to Act No. 7785 – Bill No. 31-0205, the Commission issued Order No. 52/2014 for revenue assessment of \$1,753,675.07 to fund operation expenses as authorized for fiscal year 2016 (October 1, 2015 to September 30, 2016) as required by Title 30 VIC 25A; funding the Commission one hundred percent (100%) from regulated utility fees. As of May 31, 2016 the Commission has collected and remitted to the Department of Finance, Public Services Commission Revolving Fund \$1,521,691.51. In

addition, uncollected revenue assessments from fiscal year 2015 have also been collected and remitted to the Department of Finance, Public Services Revolving Fund in the amount of \$36,095.25. The Commission's uncollected revenue for Fiscal Year 2016 stands at \$231,983.56 and is expected to be fully collected within the accounting period, thereby matching the PSC appropriation for the fiscal year.

In addition to the appropriated funds, Title 25 VIC authorizes the Commission to make Docket Specific Assessments on regulated utilities in order to facilitate investigations, analysis and complaint resolutions. For fiscal year 2015 the following Docket Specific Assessments were made by the Public Services Commission.

1. Virgin Islands Water & Power Authority	\$706,310.00
2. Virgin Islands Telephone Company	\$251,206.21
3. Innovative Cable STT/STJ/STX	\$ 12,700.00
4. Waste Management Authority	\$ 13,460.00
5. Choice Communication, LLC	\$ 4,940.00
6. Varlack Ventures, Inc.	\$ 3,150.00
7. Transportation Services of St. John Inc.	\$ 3,150.00
8. Caribbean W2E	\$ 3,000.00
9. Tibbar Energy USVI LLC	\$ 11,485.00
10. Diageo	\$ 5,000.00
11. SIP Wave Communication, LLC	\$ 1,200.00
12. Windfarm	\$ 4,200.00
13. Orbitel	\$ 17,100.00
14. Momentum	\$ 24,750.00

For the eight (8) month period of Fiscal Year 2016, (October 1, 2015 to May 31, 2016), the Commission assessed the following:

1. Virgin Islands Water & Power Authority	\$318,443.00
2. Virgin Islands Telephone Corporation	\$294,594.00
3. Innovative Cable STT/STJ/STX	\$ 4,182.00
4. VI Waste Management Authority	\$ 96,457.00
5. Caribbean Cinema STT	\$ 890.00
6. Choice Communication, LLC	\$ 1,520.00
7. Tibbar Energy	\$ 2,531.00
8. Momentum	\$ 9,851.00

Additionally, the Public Services Commission continues to operate the Life Line and Link-Up America Program. Funding for this program for Fiscal Year 2015 was \$122,300.00 and Fiscal Year 2016 is \$122,300.00. It is anticipated that the funding needs for Life Line and Link-Up America Program will remain at \$122,300.00 for Fiscal Year 2017. All funding for this activity is provided by contract with Virgin Islands Telephone Company under Docket No. 305.

PERFORMANCE INDICATORS

FISCAL YEAR 2014-2015

No. of Complaints	No. of Inquiries	No. of Complaints and Inquiries Resolved
55	46	88

FISCAL YEAR 2015-2016 YEAR-TO-DATE

No. of Complaints	No. of Inquiries	No. of Complaints and Inquiries Resolved
61	44	72

PUBLIC SERVICES COMMISSION

FISCAL YEAR 2017

BUDGET PRESENTATION

EXHIBIT 11

**PUBLIC SERVICES COMMISSION
OPERATING BUDGET- REVENUES
ESTIMATED PUBLIC UTILITY FEE ASSESSMENT SCHEDULE**

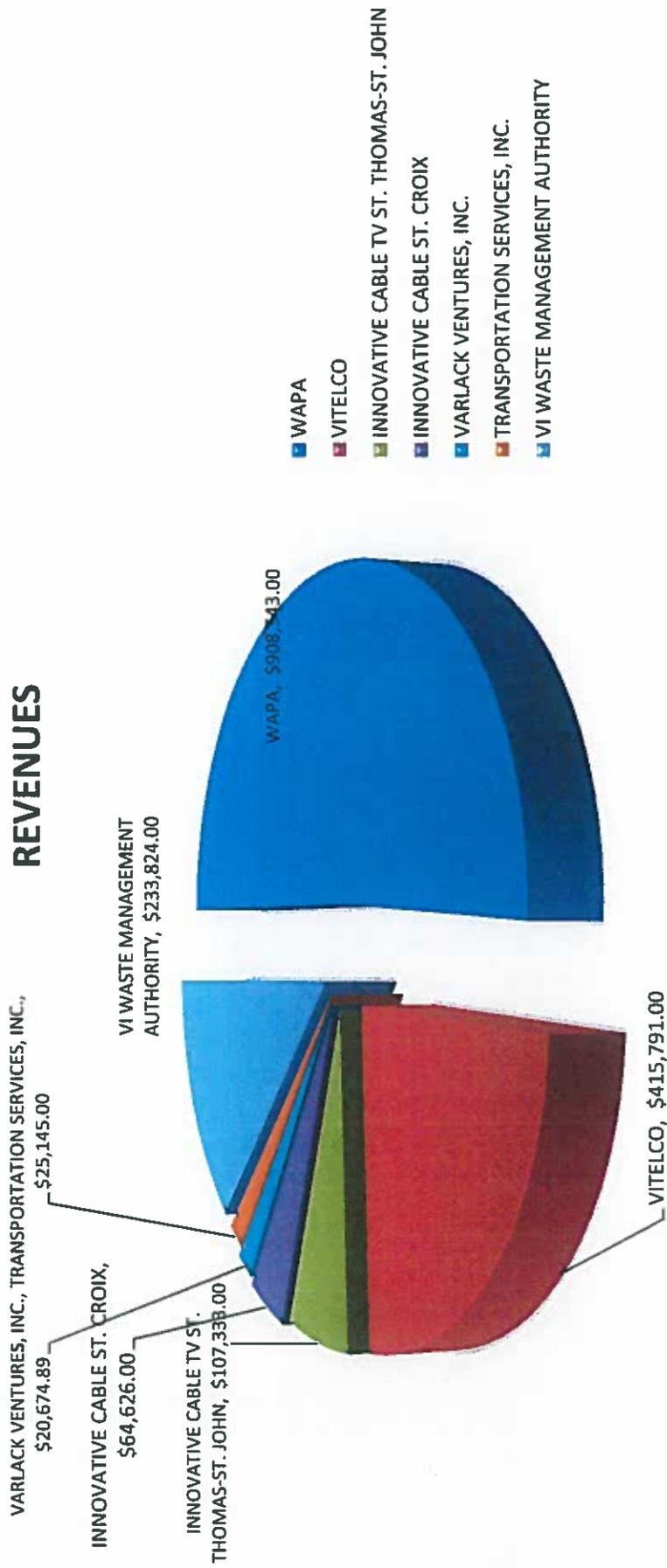
BUDGET FUND 6032

UTILITY	2014 /15 TOTAL GROSS REGULATED REVENUES	RATIO	F/Y 2017 FEES
VI WATER AND POWER AUTH	\$115,137,019.00	50.98206%	\$ 908,543.25
VITELCO	\$52,692,000.00	23.33174%	\$ 415,791.22
INNOVATIVE CABLE TV ST. TH	\$13,602,004.00	6.02289%	\$ 107,333.06
INNOVATIVE CABLE ST. CROIX	\$8,189,874.00	3.62643%	\$ 64,626.08
VARLACK VENTURES, INC.	\$3,398,991.00	1.50506%	\$ 26,821.35
TRANSPORTATION SERVICES,	\$3,186,527.00	1.41098%	\$ 25,144.80
VI WASTE MANAGEMENT AUT	\$29,631,905.00	13.12085%	\$ 233,824.60
TOTAL ASSESSMENT REVENU	\$225,838,320.00	100.00%	\$ 1,782,084.37

SUBJECT TO CHANGE WHEN UPDATED AUDITED FINANCIAL REPORTS ARE RECEIVED FROM UTILITIES

PUBLIC SERVICES COMMISSION
 OPERATING BUDGET-REVENUES
 ESTIMATED PUBLIC UTILITY FEE ASSESSMENT SCHEDULE
 FISCAL YEAR 2017
 BUDGET FUND 6032

REVENUES



- WAPA
- VITELCO
- INNOVATIVE CABLE TV ST. THOMAS-ST. JOHN
- INNOVATIVE CABLE ST. CROIX
- VARLACK VENTURES, INC.
- TRANSPORTATION SERVICES, INC.
- VI WASTE MANAGEMENT AUTHORITY