

**STATEMENT OF JULIO RHYMER, SR.
INTERIM EXECUTIVE DIRECTOR OF THE
VIRGIN ISLANDS WATER AND POWER AUTHORITY**

**COMMITTEE ON FINANCE OF THE 31st LEGISLATURE
July 25, 2016**

I Introduction

Good morning Chairman Graham, other members of the 31st Legislature and persons in the listening and viewing audience. For the record, my name is Julio A. Rhymer, Sr. and I am the Interim Executive Director of the Virgin Islands Water and Power Authority. On behalf of WAPA, I am pleased to make this presentation based on your May 9, 2016 invitation.

During my testimony today, I will review the finances and operations of the electric and water systems for Fiscal Year 2016 and present an overview of the finances and operations of both systems in the current fiscal year. The fiscal year opened on July 1st and the capital and operating budgets for this year are pending approval before the Authority's governing board.

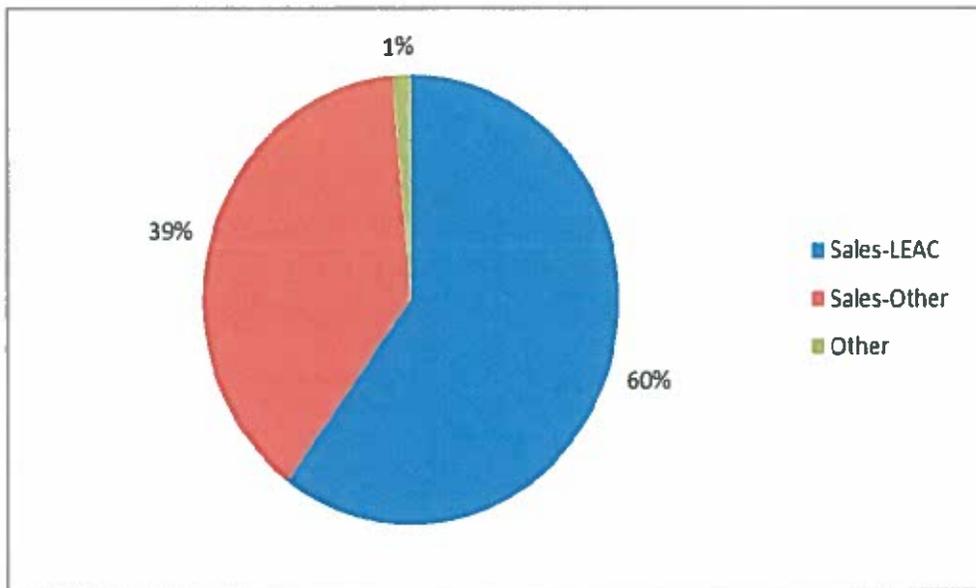
II. Electric System

Table 1: Electric System Income and Expense Summary (000)'s

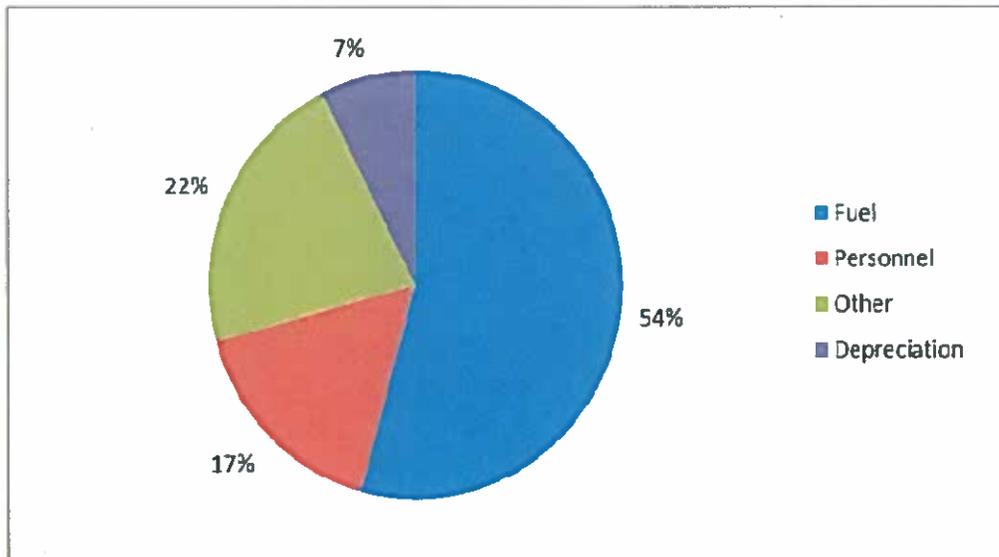
	FY 2015 Audited	FY 2016 April 2016 YTD	FY 2016 Budget	FY 2017 Proposed Budget
Sales Revenue-LEAC	182,617	112,375	205,350	170,164
Sales Revenue-Other	85,039	72,061	79,369	95,717
Other Revenue	3,146	2,628	3,405	3,146
Total Revenue	<u>270,802</u>	<u>187,064</u>	<u>288,124</u>	<u>269,027</u>
Fuel Expense	170,730	100,594	153,617	130,574
Labor Expense	40,118	30,547	39,251	38,897
Other Oper. Expense	70,498	33,385	81,635	77,638
Depreciation	10,771	13,679	15,906	12,654
Other Deductions, net	6,631	7,185	6,767	7,753
Total Expenses	<u>298,748</u>	<u>185,390</u>	<u>297,176</u>	<u>267,516</u>
Net Income (Loss)	<u>(27,946)</u>	<u>1,674</u>	<u>(9,052)</u>	<u>1,511</u>
Sales – MWH	620,881	546,783	680,540	666,123

As shown in Table 1, as of April 2016, the electric system earned an estimated \$187,064 million in total operating revenues, comprised of \$184,464 million in sales revenues from sales of 546,783 megawatt hours of electricity, and \$2.6 million in other revenues. During the same period, the electric system incurred estimated operating expenses and net deductions of \$183.6 million, producing net income of \$1.7 million.

FY 2016 YTD Revenue Sources



FY2016 YTD Expenses Categories



These graphs illustrate the dominance of fuel in the electric system's financial operations. LEAC, the Levelized Energy Adjustment Clause, which is charged to recover fuel expense, represents 60% of operating revenues, and fuel expense accounts for 54% of operating expenses.

The Authority continues to be faced with an unhealthy working cash condition. On June 30, 2016, the Government of the Virgin Islands owed the electric system \$31.4 million. This working cash shortfall continues to negatively impact infrastructure maintenance as well as service delivery. Also, at the end of June, electric system bonds outstanding totaled \$239.6 million.

Electric System Accomplishments

In Fiscal Year 2016, the Authority initiated, maintained and completed several major initiatives geared towards overall improvement and maximization of the electric system. The following is representative of some of the Authority's major accomplishments during the referenced period for the electric system:

Conversion to Burn Propane

In July 2013, WAPA entered into a turnkey master agreement with Vitol Virgin Islands Corp. (Vitol) for the construction of LPG facilities, the conversion of the Authority's combustion turbines, and the supply and delivery of propane to the Authority's generating facilities on St. Thomas and St. Croix for power production. This project will reduce fuel costs by more than 30% and greenhouse gas emissions by approximately 20%. Converting to propane as the primary fuel source for power generation represents the best near-term option to significantly reduce the cost to produce power in the territory, while ensuring widespread economic benefits.

The conversion process was, however, not without some setbacks. A number of unanticipated challenges arose that necessitated adjustments to the project completion date. The major challenges were:

- Coordinating the conversion of the power plants (upgrade of existing fire protection & other controls systems) to safely burn propane while simultaneously operating the power generating facilities to meet daily electricity and water demands for our customers.

- The complexity of obtaining certain permits.
- The logistics of global sourcing of all the materials and equipment for the project.
- The need to satisfy additional regulatory requirements to further assure the safety and the security aspects of the project, including engineering adjustments and in some instances, re-designs.

Irrespective of these setbacks, the projects to date on both islands, have made significant progress and have jointly accomplished more than 90% of its set milestones.

The following is an updated summary of the St. Croix project:

- The LPG storage terminal and marine facilities are completely and fully functional. All mounded tanks now store Liquefied Propane.
- All federal and local permits from Army Corp. of Engineers, Coast Guard, DPNR, and VI. Fire Service have been secured to operate the facility.
- Three gas turbines, Units 16, 17 and 20, have been converted to burn three types of fuel: propane, oil and natural gas.
- All fire protection and gas detection systems have been installed and commissioned.

WAPA, its project contractor VITOL, and the manufacturer of the generating units, General Electric, began the commissioning of Unit 20 on propane some months ago. During testing, it became apparent that adjustments and re-engineering would be required to successfully complete the process. A corrective action plan was developed, and these issues are in the process of being rectified. Within the next six to eight weeks, we anticipate resuming commissioning of Unit 20, with Units 16 and 17 to follow.

On St. Thomas, the LPG storage terminal and marine facilities are, for the most part, complete with the exception of some additional training, final testing and electrical and piping work, which are in progress. To date, Units 15 and 18 have been converted to

burn propane, and barring no unforeseen developments, the Authority anticipates commencing commissioning activities before mid-September.

Other developments include:

- Emergency Response & Evacuation Plans for each facility have been updated and approved to reflect the use of LPG as a fuel source at our facilities.
- The required measures for Safety and Security are in place (24/7 Security Guards, Video Surveillance of Power Plant & Terminal Grounds and Marine Docking Facilities).
- The requisite structured safety training for all personnel and first responders that could potentially come into contact with the facilities has been completed. Similar training has been scheduled for St. Thomas personnel in the coming weeks.
- The structured training for plant operations and maintenance personnel on all new installed systems associated with the conversion process has been completed. Similar training has scheduled for the St. Thomas personnel in the weeks ahead.
- The Waterway Suitability Assessment Plan, which focuses on the water side safety & security aspects of the projects, has been approved by the Coast Guard. In addition, we are currently engaged in a rule making process for a permanent safety zone for mooring the Very Large Gas Carrier (VLGC). In the interim, the Coast Guard approved a temporary mooring safety zone at a location some 5.7 nautical miles southwest of St. Thomas.

Current Fuel Supply Contract

The Authority's current fuel supplier is Glencore, Limited. The current contract runs through June 30, 2017. There are no issues with either the supply chain or the contract. This contract provides maximum supply flexibility, coupled with an attractive price, permitting the Authority to efficiently and cost-effectively meet its No. 2 fuel oil needs during the time in which it is physically transitioning from No. 2 fuel oil to propane, as its primary fuel source.

III. Finance Accomplishments

- Fiscal Year 2015 annual audits completed;
- Rate Financing Mechanism (RFP) Surcharge moved from LEAC Rates into Base Rates;
- Closing of Rural Utility Service Loan for \$13 million;
- Extension of Authority Lines of Credit with local financial institutions

IV. Customer Services Accomplishments

- A Management Committee, comprised of the Collections, Customer Service, and Key Accounts Managers, was formed to oversee the operations within the Customer Service Departments, territory-wide. This will allow the managers to standardize the policies, procedures, and operations within the St. Thomas/St. John and St. Croix Customer Services Departments.
- Cross training has been implemented to maximize efficiency within the department.
- With the implementation of the automated metering system, customer service representatives are able to address customer concerns with real time information using Tantalus automated systems.
- On St. John, a banking kiosk is being utilized to reduce operating costs.
- The volume of customers receiving E-Billing (E-Notifications) and utilizing the Authority's website for payment of electrical and water service has increased due to increased presence at community outreach activities. Government agencies are also using electronic billing.

V. Corporate Communications Accomplishments

The Authority's Corporate Communications Division continues to evolve into a robust communications center wherein the internal stakeholders -- the employees of the Authority -- as well as WAPA's customers and the general public are updated regularly on happenings at the Authority, interruption of service within the electrical and potable water systems as well as proactive messaging regarding goals and objectives looking into the future.

WAPA's primary information vehicle is its web site, www.viwapa.vi. The web site is a repository for a smorgasbord of information—everything from the current rate of potable water and electricity, to news releases, photos of outreach activities, information about line safety, and now during the hurricane season---being prepared for the threat of a tropical weather system as well as easy to read feeder listings, and proactive messaging about upcoming service interruptions.

The Corporate Communications Division also uses other social media platforms, such as Facebook, for immediate messaging from the Authority. We also use the V.I. Alert system (through VITEMA) for mass messaging about major incidents to the public. As this system reaches such a large portion of the community at once, it is usually reserved for information on major potable service water and electrical service interruptions. WAPA, through its own V.I. Alert portal, can access all subscribers of VI Alert.gov for immediate messaging as events warrant. I encourage everyone to sign up for the service, and to be sure to select the V.I. Water and Power Authority in order to receive water and electrical interruption information directly from the Authority. Again, signing up is a relatively simple task. It begins with a visit to www.vialert.gov. Some individuals who are already signed up for V.I. Alert may need to update their information to receive Alerts directly from WAPA.

Over the last fiscal year we continued to fine tune the use of an emergency notification protocol that allows us to notify the managers of news gathering organizations of emergency situations involving the Authority. Such notification process would be employed during major service interruptions and include projected timelines for restoration. This protocol gives the media managers information about the emergency challenges faced by WAPA at that moment, and allows for their planning of how best to provide updates to their listeners and readers about the emergency at hand, as well as the effort towards full restoration.

Despite significant changes to the media landscape in the territory, where practical, our communications team utilizes commercial radio stations—we find that radio is still the best vehicle for immediate messaging to the public. Even against the backdrop of technological advances and the popularity of social media, the Virgin Islands remains a news and information community which relies on radio for the bulk of their information.

Over the last 12 months, we have engaged a public awareness campaign that has become wildly popular. It introduces the public to our smart meters, a significant part of WAPA's implementation of Automated Metering Infrastructure and the development of a smart grid across the public utility. Similar to the LPG campaign, the smart meter awareness effort is spread across many media platforms including: radio, television, newspapers, social media, on-line publications and through on-line search engines.

A year-round radio campaign remains active in both island districts geared at reminding the public about power line safety...staying safe around, and avoiding contact with, power lines. The messaging serves as a constant reminder to the public about the dangers of interacting with WAPA's power lines and components of our electrical transmission and distribution system.

Community outreach is a strength of the Authority and something we are very passionate about. All of our outreach activities are coordinated by the Communications Division. The outreach initiatives include school science fairs, career presentations, safety awareness demonstrations using the PowerTown model. The model, which teaches safety around power lines and electrical equipment, as well as the presentations by WAPA personnel, allows us to demonstrate and explain the importance of what the men and women of the Authority do each day to produce and distribute electrical and potable water services our customers. We share information about the Authority at schools, churches, shopping centers, St. Croix Agrifest, St. Thomas Agriculture and Food Fair, Bordeaux Farmer's Fair, as well as VITEMA, V.I. Housing Authority, and VI Housing Finance Authority expos.

We have redoubled our efforts to ensure that our internal e-mail newsletter, "*Inside WAPA*", is produced and distributed monthly to the men and women of the V.I. Water and Power Authority. The employees of WAPA are the utility's best ambassadors as they move about the community in which they live. They must be informed of all that is happening in the Authority and what the path of the future looks like for this company. This month's edition featured hurricane safety and preparations, and WAPA's ability to respond to any wind storm that may impact the territory. Each day our Communications team sets out to promote and support a culture of open and transparent communications with the employees of WAPA.

VI. Power Production Accomplishments

➤ Unit 15 & 18 LPG CONVERSION (St. Thomas)

The mechanical and control conversion for two gas turbines, Units 15 & 18, was completed and the units have been turned back to the Authority for normal operations. The conversion work included: new air ventilation & scavenging systems, new combustion fuel nozzles, new purge systems, a new fuel gas delivery system including a stop/control ratio valve for proper fuel gas delivery, safety and fire protection systems, and a new controls system.

➤ FIRE GAS PROTECTION AND DETECTION SYSTEMS UNITS 15 & 18

We have demobilized our contractor for this work from the site as they have completed the base scope and are awaiting the commissioning of the system. Only the hazardous area class on Unit 15 remains to be completed. To reduce mobilization and demobilization costs, the contractor's remaining work will be scheduled around the same time as the commissioning of the fire systems.

➤ UNIT 14 ATOMIZING AIR SYSTEM

This project was successfully completed, and eliminated a long standing opacity problem with Unit 14. The installed system ensures unit compliance with EPA requirements.

➤ Unit #21 Heat Recovery Steam Generator Redesign (St. Thomas)

The Authority contracted the original equipment manufacturer of Unit 21 Heat Recovery Steam Generator (HRSG) to redesign the existing HRSG to allow for increased operational parameters. The increase in operating design allows for a more efficient and reliable combined cycle operation with steam turbines, Units 11 and 13. The manufacturing redesign phase has been completed. The boiler redesign includes a new super heater panel, two new modules, to include additional HP economizers, new steam drum, LPG duct firing capability and new/upgraded instrumentation, valves & trim. The equipment is currently on site and awaiting installation.

➤ Leased generating unit – Unit 25 (St. Thomas)

The Authority continues to maintain a lease with APR for a 20 megawatt generating turbine. The cost of the lease is \$659,000 monthly and will expire in

November 2017. Funding for the lease is provided through a Rate Financing Mechanism, which was approved by the Public Services Commission.

➤ **LPG Conversion of Unit 16, 17 & 20 (St. Croix)**

The conversion of Units 16, 17 and 20 to burn three fuel types was completed and the units are back in the Authority's bank of available generators to produce electrical power on St. Croix. The conversion scope is identical to the converted units on St. Thomas. The units now sport new air ventilation & scavenging systems, new combustion fuel nozzles, new purge systems, a new fuel gas delivery system including a stop/control ratio valve for proper fuel gas delivery, safety and fire protection systems and a new controls system.

➤ **Fire Protection System (St. Croix)**

The fire protection system was commissioned using the newly installed fire pumps. Commissioning involved testing in accordance with National Fire Protection Association standards. Sprinklers were also installed around the gas components at all four gas turbine generators. The sprinklers are capable of being manually operated or automatic through the fire and gas detection monitors installed around the unit's gas piping.

VII. Transmission and Distribution Accomplishments

Continued implementation of Advanced Metering Infrastructure (AMI):

- A total of seven (7) base stations are necessary to provide 100% communication coverage across the territory: Three (3) on St. Thomas, one (1) on St. John and (3) on St. Croix. Presently 6 of 7 base stations are commissioned and operational, with one remaining to be constructed in St. Croix at Recovery Hill.
- A total of 55,772 smart meters and 410 wide area network collectors have been deployed to date. Percentage completion of meter deployment in the St. Thomas/St. John and St. Croix districts is 95% and 65% respectively. Full completion of smart meter deployment is scheduled by December.
- More than 75% of the Authority's billed electric accounts obtain meter reads via AMI, including delivered and received consumption and demand data.

- Service connections and disconnections are mostly automated and are processed within 24 hours, significantly reducing customer wait times and improving workforce efficiency.
- Multiple theft cases and zero-billed accounts are continually being identified, greatly improving the Authority's revenue protection efforts.

Outage Management

- Outage monitoring and reporting has been enhanced by Milsoft Dispatch Outage Management System software integration with the AMI system. Meters reporting unexplained customer outages leads to real-time investigation of possible meter tampering or failure. Customer outage times are reduced by real-time notification and crew dispatch.
- Planned switching orders are evaluated in the outage management system for minimum customer impact. Integrated facilities such as automated customer calling provide advanced notification to customers of planned service interruptions.

System Operations Center

- The Authority's newly constructed System Operations Center (SOC) features a state-of-the-art display wall and work stations for monitoring our automated and operational systems.
- The center's location doubles as a customer payment center. Payment kiosks have been installed and are being prepared for opening of customer payment center.
- We have commenced the implementation of additional protection upgrades to our line department substations.
- Underground projects utilizing FEMA/VITEMA grants are underway at several schools in St. Croix, and other critical loads on St. Thomas.
- WAPA continues the effort to design and reinforce electrical transmission & distribution infrastructure integrity, leading to more efficient and timely restoration of the transmission and distribution systems after hurricanes or other natural disasters.
- We have completed the final testing of some Distribution Automation Field devices as part of Smart Grid Initiatives. Deployment of Automated devices throughout the T&D system will commence in earnest this year and extend over a 2-3 year deployment period.

VIII. FY 2017 Budget Overview

The Authority is projecting that sales of electricity in FY2017 will increase slightly. LEAC revenue projections are based on a reduction in fuel cost due to a drop in oil prices and the conversion to LPG.

Electric System

Table 2: Electricity Sales Summary (In Megawatt Hours - MWh)

	FY 2014 Actual	FY 2015 Actual	FY 2016 April 2016 YTD	FY 2017 Budget
Residential	219,402	211,753	188,241	227,197
Commercial	113,517	108,148	92,314	116,019
Industrial	291,037	283,558	239,951	304,201
Street lighting	17,078	17,422	14,444	18,706
Total	641,034	620,881	534,950	666,123

Table 1 shows that in Fiscal Year 2017, the electric system is projected to earn sales revenues of \$265.9 million, from the sale of 666,123 megawatt hours of electricity, and \$3.1 million of other revenue, for total operating revenues of \$269 million. Operating expenses and deductions are budgeted at \$267.5 million, resulting in budgeted net income of \$1.5 million.

As was the case last year, fuel expenses of \$130.6 million is by far the largest budget item, representing 50% of the operating expense budget. Personnel expenses at \$39.5 million or 15% is the second largest budget item.

The Fiscal Year 2017 Capital Budget for the Electric System totals \$18.2 million. Approximately 81% or \$14.7 million is funded from internally generated funds. The balance is funded from a combination of grants, Public Services Commission authorized line loss, Rural Utilities Services loan and customer contribution. Due to limited funding, the focus of the Authority's capital improvement program will center on essential overhaul of generating units and the undergrounding of portions of the transmission and distribution systems.

There remains in excess of \$21.3 million in unfunded capital improvement projects. As funding becomes available, these projects will be undertaken.

Water System

Table 3: Water System Income and Expense Summary (000)'s

	FY 2015 Audited	FY 2016 April 2016 YTD	FY 2016 Budget	FY 2017 Proposed Budget
Sales Revenue-LEAC	11,333	7,341	7,877	7,516
Sales Revenue-Other	21,219	17,176	22,657	23,039
Other Revenue	479	381	674	479
Total Revenue	33,031	24,898	31,208	31,034
Fuel Expense	0	0	0	0
Labor Expense	6,001	4,511	5,915	5,084
Other Oper. Expense	27,006	16,629	20,733	20,889
Depreciation	3,409	1,774	3,226	2,227
Other Deductions, net	658	270	(8,896)	(7,082)
Total Expense	37,074	23,184	20,978	21,118
Net Income	(4,043)	1,714	10,230	9,916
Sales - Kgals	1,107,483	904,131	1,234,389	1,289,670

On an accrual basis, the water system performance through April 30, 2016 shows an estimated net income of \$1.7 million. The system earned estimated operating revenues of \$24.9 million from sales of 904,131 thousand of water, and incurred operating expenses and deductions totaling \$23.2 million.

IX. Water System Accomplishments

STT-STJ Water System

- Reduced water system line loss to under 15%.
- Added one new large user incentive customer.

- Completed the Contant Midtown Waterline Project which improved water quality and line loss in parts of Estate Contant. The Contant Midtown Waterline Project was funded by EPA Drinking Water Capital Improvement Grant.
- WAPA was awarded a Department of Interior Office of Insular Affairs (DOI-OIA) Maintenance Assistance Program (MAP) grant for a 17 ton crane truck.
- WAPA has taken receipt of a valve maintenance service truck via the DOI-OIA Maintenance Assistance Program (MAP) grant.

St. Croix Water System

- Completed the assessment, design, advertisement and contractor selection for Phase I of the Christiansted Waterline Rehab Project. Work is scheduled to begin shortly.
- Completed the assessment and design of the replacement of the Distribution System for Phase II of Christiansted Town.
- Completed the design and installation of Phase I of Frederiksted Town waterline replacement project. The full closeout of the project is scheduled to be completed in August of 2016.
- Completed the design and bidding process of Pressure Management Phase II project. This project entails the installation of 5 Booster Pump Stations, 4 Pressure Reducing Stations and installation of 7,900 linear feet of 24 inch transmission mains.
- Completed the design and layout of all the hardware and connections at each site for the implementation of the Supervisory Control and Data Acquisition system (SCADA) on the potable water system. The system is known, provides for remote monitoring and control. The system operates with coded signals over communication channels such as text messaging and e-mail. SCADA has been used on the electric system for a number of years.

- In addition to all our efforts in advancing and improving the water distribution system, it is important to note that we have also enhanced the territory's firefighting & protection capabilities by the increased numbers of fire hydrants throughout the island districts.

X. FY 2016 Water System Overview & Highlights

The Fiscal Year 2016 operating budget for the water system assumes 1,289,670 kGals in water sales. The budget anticipates operating revenues of \$30.9 million, to finance \$21million of operating expenses and deductions, thus producing net income of \$9.9 million.

The Capital Budget allocation for the Water Distribution System territory-wide is \$14.2 million. Because of the system's minimal capacity to generate internal cash and it's almost non-existent financial capacity to borrow external funds, its capital budget relies heavily on local and federal government grants in the amount of \$7.5 million this fiscal year.

XI. How the Legislature Can Help

First and foremost, the Authority, as always, thanks the members of the Legislature for the various legislative initiatives that have been passed or considered for the intended benefit of the Authority and its customers. While the Legislature and the Authority may not have always agreed on some of these efforts, the Authority carries out and implements these laws to the best of its ability.

The Authority, as all are aware, is as an independent instrumentality of the Government of the Virgin Islands and as such, does not generally receive direct appropriations from the General Fund for its operations. We rely on bond proceeds, loans, and the revenues generated from the sale of services to our customers. There are times however, that certain extraordinary circumstances compel us to seek either funding from the Legislature, or request legislation that may assist the Authority in its efforts to provide reliable and affordable water and power services to the residents of the territory.

I would like to take a moment and identify some areas where the assistance of the Legislature is urgently needed:

Repair and Replacement of Water Distribution System

We noted at previous budget hearings, that any assistance this body can provide with respect to our aging potable water system infrastructure would be appreciated. As you know, in June 1987, the responsibility of distributing potable water was transferred from the Department of Public Works to the Authority by Act 5265. With this transfer, the Authority inherited an already aged distribution system, which was primarily comprised of cast iron pipes that were installed sometime around the 1930's. In an effort to protect the integrity of the distribution's piping, the Authority embarked on a project where an approved National Sanitation Federation (NSF) corrosion control additive was injected into the system.

In recent years however, the problems associated with the aging of the potable water system have become progressively worse. Replacement of the aged cast iron piping in the entire distribution system is the definitive solution to the problems with the water system. However, it goes without saying that revenues realized by the Water System are, simply put, not adequate to replace the aging facilities, the cost of which is estimated at \$125 million to \$150 million per district. The primary reason revenues from the Water System are not sufficient to install new lines is because the Authority's potable water distribution system is a standby system. In the territory, most homes are constructed with cisterns to catch rainwater for daily use. Therefore, for a large number of households, rainwater is their primary water source, and the potable water system is the backup when rainfall is not plentiful. With regard to large water users, such as hotels, which previously purchased water from the Authority's standpipe, the Authority now competes for these users with private for profit entities that undercut the Authority's wholesale prices, and sell water at a lower cost. Yet, even though the Authority's potable water system is being used as a standby operation, and customers use it minimally, the service is expected to be there when needed, and the Authority is mandated by law to make that service available. Currently, further compounding this situation has been the recent downgrade of the Authority's bonds to junk status by Moody's Investor Services, which now affects the Authority's access to the capital markets in which the cost of borrowing money will now come at a premium, and will have to be passed onto the ratepayers.

One step, we believe will help to address this matter is the restoration of the District Potable Water Fund. This Fund was established pursuant to the Infrastructure Maintenance Act (Act 6595), for the maintenance and expansion of the potable water system, and was funded by 2% of property taxes. However, because of the need for additional funds for the District Streetlight Maintenance Fund, the 2% of property taxes

for potable water projects was removed and added to the streetlights to fund that at 4% of property taxes. We believe it would assist our efforts to rehabilitate the potable water distribution system if a funding source could be identified to restore monies to the District Potable Water Fund to assist with replacing the aging potable water system infrastructure. In fact, any other cash infusion that the Legislature may offer to replace waterlines and improve water quality is needed.

Customer Charge on Potable Water Account

Another initiative to further our effort in addressing the aging potable waterline infrastructure, is the implementation of a customer charge on potable water accounts. The Authority has such a charge to its electric accounts. The reason water accounts do not have a similar charge is because Act No. 5326 prohibits the Authority from charging its customers a customer charge for potable waters services. Specifically the Act states at section 2:

...However, the Water and Power Authority shall not require its customer to pay a meter usage or meter reading fee.

For the record, a customer charge is not unique in the utility industry. A customer charge is a monthly fee charged to customers to help with with routine maintenance of facilities and infrastructure (whether water or electric). As we noted previously, the standby nature of the system does not provide the Authority sufficient revenues to perform basic routine maintenance.

The Authority is therefore recommending that the Legislature repeal Act 5326, and in so doing, removing the impediment to applying a customer charge, which would allow the Authority the opportunity to seek relief from the PSC, to determine not only the adequacy of a customer charge on potable water, but the amount of such a charge.

Outstanding Government Receivables

The Authority recognizes the enormous efforts made by the Legislative and Executive Branches to assist with the payment of past due electric and water bills of Government agencies and instrumentalities. Earlier this year, the Authority received \$11 Million from the Arc Light deal which went to reduce the outstanding obligation for streetlights. We further received \$8.1 Million to reduce the arrears owed by both hospitals.

However, notwithstanding these funds, the Authority's bonds have been downgraded by Moody's Investor Services in the past several weeks not once but twice for among other

things, “sustainability of the government’s effort to reduce outstanding government receivables”.

Let me be very candid, the Authority and its ratepayers cannot continue to carry, for the benefit of the entire territory, the burden that government receivables are placing on its operations. The hospitals in particular are placing the greatest strain on operations, as their arrears represent a significant percentage of government receivables. Despite the \$8.1 million payment that was made in April of this year, the receivables are still significant. As of June 30th, the Governor Juan F. Luis Hospital owes the Authority for water services \$1.4 million and for electric services \$7.5 million. For the same period, the balance owed by the Schneider Regional Medical Center for water services is \$1.8 million and for electric service \$4.7 million. Couple the hospitals’ receivables with streetlights, which as of the end of June totals \$8.4 million and you have a total of \$23.8 Million that is owed the Authority from these three accounts alone.

As of June 30, 2016, the Central Government owes the Authority for electric services the sum of \$13.8 million. Outstanding water receivables total \$.6 million. The total owed for water and electric services by the central government is \$14.4 million, with street lights accounting for \$8.4 million of that total. The amount owed by the government represents 31 days worth of cash to the Authority. The Authority is struggling to pay its vendors, many of them local companies that provide us services, who are required to wait longer and longer for payment of services already rendered.

In our view, the Legislature needs to act to restructure the mode of operation of the hospitals to allow them to pay their obligations, or provide a source of revenue to pay for the utility services being used by the hospitals. We would add that any money for hospital utility services should come directly to the utility and not go to the hospitals since the appropriations they receive for utility services are being directed to pay for other services.

To continue this “business as usual” approach by the hospitals will not only be to the detriment of the hospitals, and the Authority, but the entire territory as well since, as I mentioned above, the sustainability of the government’s efforts to reduce outstanding receivables are being monitored by the rating agencies for our bonds. Additionally, the Authority asks the Legislature once again, as it goes through review of the budgets of the various agencies and departments of the government, to ensure that sufficient funding is appropriated for utility services.

Streetlight Services

To put this testimony into perspective for whom that may not know the history, allow me to provide some background on the issue of street lighting and how the Government of the Virgin Islands' debt to the Authority for these services, which now totals \$8.4 million, has amassed. To start off, street light service is a government function and one of the services the government is statutorily required to provide to the residents of the territory. Prior to January of 2002, the Government of the Virgin Islands, through its Department of Public Works, was responsible for the payment of all streetlight services.

The responsibility of the government to pay for streetlights services changed however on January 30, 2002, with the enactment of Act 6486. This Act divested the Department of Public Works with providing for the maintenance and installation of street lighting and, instead, made the Authority responsible to: "install and maintain adequate streetlights in the urban and rural residential sections". Act 6486 appropriated the sum of \$4,780,000 to enable the Authority to carry out this responsibility, but that appropriation was never funded.

Because of the unfunded mandate to install and maintain public streetlights for the territory, the Authority was forced to petition the Public Services Commission in August of 2002 for a surcharge, to be paid by the electric ratepayers, to fund the maintenance and restoration of the streetlight system. This surcharge was approved and remained in effect until August 21, 2005. During the period when the surcharge was in place, the Authority received monies monthly for the street lighting services it provided, and did not have a debt that critically affected its cash flow. Act 6755, which became law on August 31, 2005 effectively stopped the Authority from requiring ratepayers to pay for street lighting services.

Prior to the passage of Act 6755, 30 V.I.C. section 103 (12) read as follows:

- Except that the Authority shall install electric poles and power lines at no cost to its customers...

After the passage of Act 6755, 30 V.I.C. section 103(12) read:

- Except that the Authority shall install electric poles and power lines **and maintain and install streetlights** at no cost to its customers...

On September 1, 2005, the Authority, in compliance with Act 6755, stopped assessing the surcharge for streetlight services, and looked for payment of those services from the District Streetlight Maintenance Fund, which had been established in September 2003, through Act 6595, but put on hold for implementation, per Act 6693, to January 1, 2006. The District Streetlight Maintenance Fund consisted of three accounts (one for each island) for the payment of the streetlight services on each island.

Since the implementation of the District Streetlight Maintenance Fund, the Authority has struggled to keep current with these services. Four percent of property taxes is not adequate to pay for streetlights in the territory. To maintain street lighting in the territory requires the Authority to use other operating funds to replace, repair and maintain the territory's streetlights. This practice cannot continue.

As you are aware, Governor Mapp earlier this year sent a bill to the Legislature for consideration which would repeal the District Streetlight Fund and create an energy usage surcharge to cover the cost of street lighting in the territory. This proposal is a step towards a permanent solution to adequately fund streetlight services that would allow the Authority to recover promptly for the services it provides and improve the Authority's financial health.

We wish to assure the Legislature and the people of the territory that notwithstanding the daunting news concerning our bonds, operations of the Authority are moving forward, and we are seeking alternative funding, such as federal grants and RUS loans, to continue with our efforts to diversify our generation and improve both efficiency and reliability. We ask the Legislature again to ensure that sufficient funds are appropriated for government agencies and departments to remain current with their utility bills. Now, more than ever, it is imperative that the government continue improving on its payments of utility services.

Additionally, we ask the Legislature to consider requests we have made to:

- 1) Repeal Legislation restricting the Authority from charging potable water customers a base charge for the water system to allow for the maintenance of the system;
- 2) Fund the District Potable Water Fund to allow for the upgrade and expansion of the water system territory-wide; and
- 3) Support legislation for the streetlight surcharge.