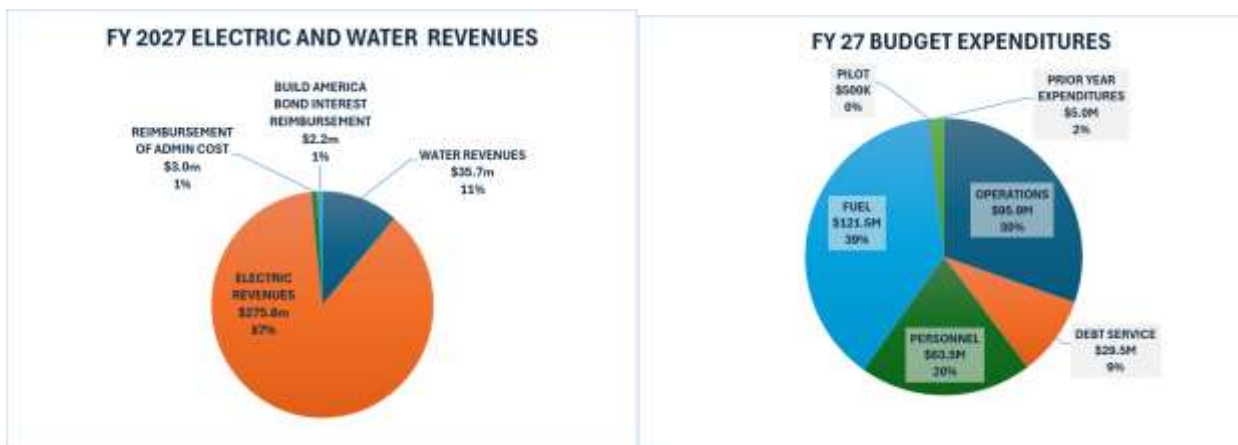


TESTIMONY OF KARL KNIGHT
EXECUTIVE DIRECTOR OF THE
VIRGIN ISLANDS WATER AND POWER AUTHORITY
TO THE COMMITTEE ON BUDGET, APPROPRIATIONS, AND FINANCE
36th LEGISLATURE OF THE U.S. VIRGIN ISLANDS
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Good day, Honorable Novelle E. Francis, Jr., Chair of the Committee on Budget, Appropriations, and Finance, members of the Committee, other Honorable Senators present, and everyone listening and watching today. I am Karl Knight, Executive Director and Chief Executive Officer of the Virgin Islands Water and Power Authority (hereinafter “WAPA” or the “Authority”). Joining me today are members of the Authority’s senior leadership team: Chief Financial Officer Lorraine Kelly, Chief Operating Officer of the Electric System Lemuel Lavinier, Chief Administrative Officer Anthony Thomas, and Interim Chief Operating Officer of the Water System Don Gregoire. We are here at your invitation to present the proposed Fiscal Year 2027 budget for the operations of the Virgin Islands Water and Power Authority. This budget is about more than numbers. It is about the reliability of the service our customers depend on every day, the cost of that service, and the work underway to build a stronger Authority for the future.

Budget Overview



Revenues

The Virgin Islands Water and Power Authority utilizes a July 1 to June 30 fiscal year, meaning our Fiscal Year 2027 began on July 1. On June 25, the Authority's Governing Board approved a total operating budget of \$316.7 million. In addition to electric and water sales and other customer related charges, this year the Authority expects \$3 million in federal reimbursement for administrative costs associated with FEMA-funded disaster recovery projects and another \$2.2 million in prior year Build America Bond interest reimbursement. These figures assume no rate reductions or increases over the next 12 months.

Expenditures

The Authority's budget will support approximately \$310.8 million in planned Fiscal Year 2027 expenditures. This includes \$29.5 million in debt service payments and \$500,000 for Payment in Lieu of Taxes (PILOT). Furthermore, the budget contains \$5 million for the payment towards critical prior year outstanding obligations. These are not abstract numbers. They represent bills and obligations that must be addressed while WAPA continues to keep the lights on and water moving.

Fuel Expenses

The Authority employs two types of fuels for power generation at its facilities: liquefied petroleum gas (LPG) and light fuel oil (diesel). The proposed Fiscal Year 2027 budget projects fuel expenditures of approximately \$121.5 million, accounting for 38.5% of total planned expenditures. Fuel is our single largest expense, and fuel costs ultimately affect the cost our customers pay for electricity. In comparison, actual fuel costs in Fiscal Year 2026 exceeded \$146 million. The projected decrease in fuel expenditures is attributed to increased efficiency at the power plants due to the installation of temporary generating units, a complete year of LPG pricing based on the new contract entered into this past March, and additional solar production to be brought online on the island of St. Thomas.

These projections, however, were developed early in the current Iranian conflict, and we do not yet know its full impact or duration. I want to be direct with this Committee and with our customers: we cannot control global fuel markets, but we can control how efficiently we use fuel and how quickly we reduce our exposure to volatile fuel costs. If there is a vulnerability in the expenditure forecast, it is the current volatility of the fuel market. WAPA has under recovered fuel expenses for the last several years. In other words, the revenue collected through the LEAC has not fully covered the actual costs of the fuel purchases incurred by WAPA.

I want to put that pressure in perspective. While WAPA rates increased by 9% between Fiscal Year 2019 and Fiscal Year 2026, LPG prices increased by 45% and diesel prices increased by 75% over the same period of time.

\$/gal Summary (as of 6/30)	FY19	FY26	% Chg
LPG	\$0.484	\$0.703	45%
Diesel	\$1.883	\$3.293	75%
WAPA Residential Rate	\$0.399	\$0.435	9%

Operating Expenses

For Fiscal Year 2027, proposed operating expenses (excluding personnel and fuel) are projected to just exceed \$95.9 million, making up 34% of total expenditures. The primary cost drivers within this category include generator maintenance, procurement of materials and supplies, and the operation and maintenance of the propane terminals.

Personnel Expenses

The Authority's proposed personnel expenses for Fiscal Year 2027 are approximately \$63.5 million or 20% of expected expenditure. This includes salaries, payroll taxes and fringe benefits. As of June 2026, the Authority had 543 full-time permanent employees.

Position Classifications	No. of Employees
Management	72
Confidential	41
VI Worker's Union (Supervisors) (VIWU)	65
Professional & Technical Union (P&T)	71
WAPA Employee Association (WEA)	294

Debt Service

Besides fuel, operations, and personnel costs, debt service payments currently constitute the fourth largest expenditure category for the Authority. For Fiscal Year 2027, the combined debt service is projected to total approximately \$29.5 million, accounting for 9.3% of anticipated expenditures. This figure does not include the long-term debt obligations that are financed through the gasoline tax revenues.

Fiscal Year 2027 Capital Projects

While the operating budget of the Authority is constrained by the revenues collected from its customers through rates, the capital budget is currently well supported by the federal grants. Most of which were awarded for disaster recovery or hazard mitigation projects in the aftermath of Hurricanes Irma and Maria. These funds are being utilized to implement numerous capital projects that are critical to the modernization of the Authority's water and electrical systems. Several of those projects are expected to be completed or achieve substantial completion before the end of the current fiscal year.

Power Supply

Our generation strategy has two tracks: stabilize the system now while we build the permanent generation fleet we need for the future.

Unit 15 Repairs

The in-depth inspection of damage to Unit 15 in the Randolph Harley Power Plant on St. Thomas is scheduled to begin on August 14 and should conclude by the first week in September. I know our customers are not measuring this work in inspection dates. They are measuring it in whether the system is there when they need it. Once the inspection on Unit 15 is completed, a decision will be made on whether to proceed with the repairs or decommission the unit. It's important to note that Unit 15 has been slated for decommissioning for some time. The cost of repairs and time for return to service will be the determining factors.

Unit 23 Repairs

Additional inspection of Unit 23 in the Randolph Harley Power Plant (Harley Plant) should also begin this month and repairs are expected to be completed by December 2026. It's already known that the gearbox must be replaced, but further inspection is needed to determine what, if any other damage, was sustained during its last forced outage. Repairing Unit 23 would provide a relatively quick solution to restoring plant reliability.

Standby Generation for St. John

Four brand-new Cummins 2.5 MW generator sets have been purchased to provide standby power to St. John. For the people and businesses of St. John, this is about having another layer of protection when the primary system is unavailable from the Harley Plant. Load testing by our personnel was completed in May 2026. The units have been transported from

Waukesha, Wisconsin to the port in Alabama. The units are scheduled to be shipped on August 13. Transit to St. Thomas is expected to take 8 to 10 days.

The air permits for the installation of these generators have already been granted by the Department of Planning and Natural Resources. The building permits still need to be secured. Construction activities are expected to begin in late August-early September. The contractor is currently projecting commissioning, testing, and startup to be completed by January of 2027.

Temporary Power Generators

The original project plan for the prudent replacement of our generation assets anticipated the leasing of temporary power generation until permanent replacement generation was put in place. A cost-benefit analysis demonstrates that leasing temporary power for the anticipated three years required for permanent construction would exceed the present cost of outright acquisition. In other words, we are choosing the option that gives the Authority greater long-term value rather than paying more for equipment we would only use temporarily. Therefore, a determination has been made that it is ultimately more prudent, instead of temporarily leasing, to acquire refurbished generators and eventually retain them as part of the permanent generation fleet.

This phase is already in progress. The design-build contractor, RG Engineering, has placed a deposit on the acquisition of three refurbished Solar Turbine Titan 130 gas turbine generators, each rated at 15–16.5 MWs. Two units, totaling 30-33 MWs, are to be installed in the Richmond Power Plant (Richmond), and the other unit is to be installed at the Harley Plant. They are configured for propane and diesel dual-fuel operation, and hurricane-rated to 185 mph.

Load testing by our personnel is expected to take place this October in Houston, with the units arriving in the territory by December 2026. Installation, commissioning, and startup are expected to take 75 days following delivery.

Battery Energy Storage Systems Procurement and Installation

The design-build contract for generation replacement currently anticipates the purchase of a Battery Energy Storage System (BESS) for both plants by September 2026. The anticipated sized BESS for Harley is 18-20 MWhs. The anticipated size for St. Croix is 30-40 MWhs. Delivery to the Harley Plant is projected for November 2026. Testing, commissioning, and grid integration is expected to take place in March 2027. The installation of the BESS at Richmond is expected to follow closely behind the installation at Harley.

Power Delivery

The following projects may have different names and locations, but they are designed around one goal: giving our electric system more ways to deliver power when something fails, while reducing the amount of time customers are without service.

Feeder 9E Underground Electrical Construction

A contract has been awarded for the replacement of overhead electrical infrastructure with underground infrastructure on Feeder 9E on the island of St. John from the substation in Frank Bay to the Westin Hotel.

Feeder 9A Underground Electrical Construction

Work has begun on the replacement of overhead electrical infrastructure with underground infrastructure on Feeder 9A that runs along Subbase Rd, Crown Bay Rd, Charles Harwood Highway up to Kronprindsens Gade.

Installation of Distribution Automated Devices

The Authority has recently been granted approval from the Virgin Islands Housing Finance Authority to begin procurement of distribution automation devices. Installation of these devices will allow WAPA to detect and isolate electrical faults, allowing for quicker service restoration, ultimately leading to fewer outages for customers. That is the outcome customers care about: when a fault occurs, finding it faster and restoring service faster. Deployment of the devices should begin early next year.

Installation of New Distribution CSP Transformers

The Authority has recently been granted approval from the Virgin Islands Housing Finance Authority to begin procurement of Completely Self-Protected (CSP) pole-mounted transformers. A CSP transformer is an overhead distribution transformer equipped with built-in safety devices, fuses, circuit breakers, and lightning surge arresters. These integrated features allow the transformer to automatically disconnect during faults, protecting the grid and nearby equipment from damage. Deployment of the transformers should begin early next year.

Repair of Ridge Road Feeder 7E Submarine Cable to St. John

Repairs on the Ridge Road 7E submarine distribution cable to St. John have commenced. This submarine cable provides an alternate means of energizing Feeder 7E on St. John. The circuit was damaged during Hurricane Irma. The Authority is pursuing a temporary repair that

will make the line available for emergency use. FEMA has agreed to fund its permanent repair as part of the horizontal bundle of underground projects for the east end of St. Thomas.

The submarine portion of the cable has been tested and the terminations have been made in St. John, tying the circuit into the Frank Bay Substation. Our contractor is mobilizing on St. Thomas this week to complete the tie-in to the grid along Ridge Road. The materials for that interconnection are being provided by the Authority.

I want to thank Senator Angel Bolques as the primary sponsor, and the other members of this body, for appropriating the funds in Bill No. 36-0292 for the Authority to move expeditiously on this project.

Repair of the Frank Bay - Great Bay Transmission Line to St. John

Repair of the Great Bay transmission line to St. John is expected to be completed in the current fiscal year. This cable was damaged several years ago by what is believed to be heavy equipment removing sargassum from the beach at Great Bay. A decision has been made to relocate this cable to a less vulnerable location. The Authority is currently awaiting final proposals from two local contractors, one to relocate the cable and the other to repair the damage. Once completed, this transmission line will work in tandem with the other existing transmission line to relieve the burden on both cables.

Repair and Replacement of Feeders 11 and 12 Transmission Lines

The repair and replacement of Feeders 11 and 12 transmission lines will significantly improve the overall reliability of the 34.5kV transmission system on the islands of St. Thomas and St. John. Both transmission feeders were damaged by the 2017 hurricanes and Feeder 11 is no longer in service. The primary work is to repair and replace approximately 10 to 11 miles of cable on Feeders 11 and 12. Solicitation of proposals for this project will begin shortly.

Construct Feeder 13 Transmission Line Bypass

The Authority is nearly complete with the interconnection of a bypass to the Feeder 13 transmission line. The underground portions of Feeder 13 transmission line has been showing increasing signs of failure in recent years. The completion of the bypass allows some redundancy in the event of future failures and allows the underground portions of Feeder 13 to eventually be taken offline for replacement. Completion of this project has

required a series of prolonged scheduled outages, and we know those outages have disrupted homes, businesses, routines, and plans. We are sorry for that disruption. The outages were necessary to allow our personnel and the contractors to work safely around the high voltage transmission lines. We thank our customers for their patience while we complete this work.

Queen Street Underground Electrical Construction

Work has recently begun on the replacement of overhead electrical infrastructure with underground infrastructure in Christiansted on Feeder 1A along Queen Street, between the Christiansted cemetery and Fort Christianvaern.

Water Delivery

On the water system, our focus is straightforward: replace aging infrastructure before it fails, improve water transmission, and build a system that can better serve customers for decades to come.

Blackbeard Hill Waterline Rehabilitation

Construction is in progress on the new installation of 3,240 feet of water mains, hydrants and service lines at Blackbeard Hill. The project is expected to be completed in January 2027.

Mahogany Estate Waterline Rehabilitation

Construction is in progress on the installation of 2,705 feet of new water mains, hydrants and service lines at Mahogany Estate. The project is expected to be completed in November 2026.

Canaan Road Waterline Rehabilitation

The Canaan Road Waterline Rehabilitation will replace aged and deteriorating pipes on Canaan Road on St. Croix. The design is complete, and procurement will begin shortly on the installation of 3,217 feet of water mains, hydrants and service lines between Alfredo Andrews to Woodson School.

Hospital Ground Waterline Rehabilitation

The Hospital Ground Waterline Rehabilitation will replace aged and deteriorating pipes in the Hospital Ground area. The design is complete, and procurement will soon begin on the installation of 3250 feet of water mains, hydrants and service lines.

Norre Gade Waterline Rehabilitation

The Norre Gade Waterline Rehabilitation will replace aged and deteriorating pipes in the Norre Gade area on St. Thomas. The design is 70% complete, and procurement will soon begin on the installation of 5150 feet of water mains, hydrants and service lines.

Contentment and Concordia Pump Stations Rehabilitation

The rehabilitation of the Contentment and Concordia Pump Stations is being pursued to upgrade the pumps and control systems, and to construct new pump house buildings. These upgrades will help improve water transmission on the island of St. Croix. For customers, that means investing in the pumps, controls, and infrastructure that have to work reliably long before water reaches a faucet.

Other Infrastructure

Automated Metering Infrastructure

The deployment of the automated metering infrastructure is currently in progress. This project will modernize how we measure and manage electricity use, reduce reliance on manual meter reading, and give customers a more efficient billing experience. Poles are being erected to house the network communication devices. There are over 55,000 new electric meters in the Territory awaiting deployment. Meter installation is now expected to begin on the island of St. John in November 2026. St. John should take approximately 30 days to complete. Meter installation on St. Thomas and St. Croix should be completed by December 2027. This is a major change in how customers interact with WAPA: better information, a more efficient meter-reading process, and a more customer-friendly system.

Battery Backups

The Authority has recently received proposals in response to a Request For Proposal for the installation of a battery energy storage system for the Roy Lester Schneider Hospital. We are moving to the evaluation phase and expect to have a contract awarded and executed within the next few months. This project will provide the Schneider hospital with four hours of instantaneous emergency backup, reducing their reliance on standby generators for short duration outages.

A similar project to back up the VITEMA Emergency Operations Center on St. Thomas is now preparing to go to procurement. Both projects are funded by the Energizing Insular Communities grant program at the U.S. Department of the Interior.

Public Streetlighting

Act No. 9074

This body, through Act No. 9074 (Bill No. 36-0210), appropriated \$4 million to the Virgin Islands Water and Power Authority for the repair, replacement, and operation of streetlights throughout the territory. The appropriation earmarked funds as follows:

- \$1 million to satisfy outstanding invoices associated with transmission and distribution (T&D) work.
- \$3 million to restore, repair, and improve streetlighting systems throughout the Territory.

This funding provides an opportunity to restore reliable streetlighting services, improve roadway safety, and support the establishment of a sustainable maintenance program for the Territory's streetlighting network. A working streetlight is more than a fixture; it is part of how a community feels safe traveling home, getting to work, or walking through a neighborhood after dark.

A little over \$1.63 million has been expended through this appropriation. The funds have been utilized to procure 600 LED roadway luminaires, 800 photocontrols, 2,000 AVC20 clamps/connectors, and two F600 4x4 bucket trucks. These materials have been evenly split across both districts and represent an initial purchase to get the program started. There are additional procurements pending for conductor wire and transformers.

Streetlighting Budgetary Deficit

I want to be clear with this Committee and the community. Current funding is insufficient to energize, repair and maintain existing streetlights, let alone support new installations. Act 9074 is greatly appreciated, but to the best of my knowledge it is a one-time appropriation. There remains a structural imbalance between the Authority's expenditure on public streetlighting services and the amounts paid over by the government for that service. There have been attempts to retroactively assign previous government subsidies to offset the outstanding balance. However, that exercise does not correct the continued misalignment moving forward.

The average streetlight costs approximately \$427 per year to maintain and operate. The Authority has over 17,500 lights in the system. Another 437 streetlights remain unrepaired following the 2017 hurricanes.

District	Streetlights
St. Croix	10,169
St. Thomas	6,814
St. John	595
Total	17,578

The Virgin Islands Department of Finance is required by law to place 4% of property taxes collected on each island into the District Street Lighting Fund for the maintenance and installation of streetlighting along the public roadways. That amounts to approximately \$2 million annually. The Authority bills approximately \$7.5 million annually for streetlight services. Clearly, this formula is unsustainable.

The Authority is offering for consideration the following possible solutions:

- Increasing the property tax allocation 30VIC 3002a – from 4% up to 15%
- Include the full cost of streetlight funding in the Base Rate (~\$0.0125)
- Designate an alternative permanent funding source (General Fund or other source)
- Implement an annual true-up of the property tax deficit through a General Fund allocation to the District Street Lighting Fund

The Authority strongly recommends a combined approach be pursued and adopted:

- Increasing the property tax allocation 30VIC 3002a – from 4% up to 11% to generate approximately \$5.5 million annually for the District Street Lighting Fund to cover maintenance, repairs, and replacement, and
- The Authority would petition the PSC to add a customer surcharge of approximately \$0.0033 to generate \$2.0m to cover the costs of streetlighting energy consumption.

Requests for Legislative Action

As part of our FY 2026 budget presentation, the Authority presented several matters within the Legislature purview that could have a financially beneficial impact on the Authority. We submitted drafts of legislative language and detailed white papers to justify the proposals. Therefore, rather than repeat the detailed white papers today, I want to briefly restate some of the less controversial measures we have presented previously to this committee. Our simple request is that the Authority be given a hearing on these matters so that the suggestions can be more fully explored. These statutory and policy changes can improve our financial operation, but we cannot implement any of them without the support of this body.

Adjust Legislatively Mandate of 30-Day Meter Reading Cycle

30 V.I.C. § 125(a) mandates that electric meters must be read at least once every month within a 30-day cycle. The Authority respectfully renews its request for an amendment to extend the meter reading cycle to a maximum of 35 days, consistent with common industry practices.

Implement a Customer Charge for the Water System

Currently, water system customers are not subject to any customer charges. The Authority is pursuing legislative approval to institute a flat customer service charge for water customers, not to exceed \$5.00 per month.

Place a Cap on Liability for the Authority

The Virgin Islands Water and Power Authority, unlike most other public sector entities in the territory, remains exposed to unlimited tort liability. This unchecked exposure places the Authority at constant financial risk, leading to costly litigation, higher insurance premiums, and fiscal instability, all of which ultimately burden ratepayers.

Competitive Bidding

30 V.I.C. § 116 establishes a cap on purchases and contracts requiring competitive bidding for the Virgin Islands Water and Power Authority. Enacted in 1964, the statute's current threshold of \$10,000 has become increasingly impractical due to rising costs for materials, labor, and services.

Appropriate the Prior Year PSC Annual Assessments

The Authority is taking steps to pay the FY 2026 annual assessment due to the Public Services Commission. Likewise, the FY 2027 annual assessment is included in the budget. What is not accounted for is the payment of the previous FY 2024 and FY 2025 assessments. Legislative action appropriating funds in the FY 2027 Executive Budget for the \$2.8 million in prior year PSC annual assessments would greatly assist the Authority's financial turnaround. **This is the only financial support** that the Authority is requesting in the FY 2027 Executive Budget and it is **on behalf of the Public Services Commission**.

Closing Statement

As I conclude my testimony, I want to thank the Committee on Budget, Appropriations, and Finance for affording the Virgin Islands Water and Power Authority an opportunity to present our proposed Fiscal Year 2027 Operating Budget.

In this political season that we are in, there has been constant discussion on how to “fix WAPA”. Well, one fix is easy, raise the rates. A five-cent increase would strengthen the Authority’s financial position, enabling us to better meet our obligations and keep critical equipment properly maintained. This, however, is not a sustainable fix for our community or our economy. Our customers deserve more than a solution that simply asks them to pay more.

Senators, the real challenge confronting us all, is how do we “fix WAPA” without placing an undue burden and financial hardship on our ratepayers? This means pursuing operational efficiencies to reduce the cost of our service. That puts a focus on installing more fuel-efficient generation. It calls for embracing lower cost and less volatile renewable energy power sources. It requires the Authority to exit from expensive operation and maintenance agreements. It emphasizes the need to reduce waterline losses.

The Authority has a plan to achieve these objectives and we have been executing that plan. The work is not always visible to a customer looking at a monthly bill or waiting for the lights to come back on, but it is happening across our generation, transmission, distribution, water, metering, and resiliency systems. That is the work that the Authority’s board and management team have been focused on. These are not quick fixes, but they lead to a more sustainable future for our utility. The FY 2027 operating budget for the Virgin Islands Water and Power Authority will help advance those objectives.

This fiscal year will see the Authority expand its portfolio of utility-scale renewable energy sources. We are installing additional generation that are more fuel efficient. The Authority will retire its manual meter reading process and implement a more customer-friendly and efficient process. We will be consolidating our rented administrative spaces. Most importantly, the Authority will continue the implementation of several resiliency projects and rebuild redundancies that have been lacking in the system.

The issues of the last several months have understandably shaken the confidence of our customers and stakeholders in the fiscal and operational recovery of the Virgin Islands Water and Power Authority. We recognize that. When customers experience outages or uncertainty, they do not experience it as a budget problem; they experience it at home, at work, and in their businesses. We are sorry for the disruption and frustration those experiences have caused.

However, they have also masked the underlining progress being made. Ironically, the last several months have been more progressive for the Authority than the last several years. The Authority has entered into a new supply contract for LPG and moved away from the exclusive arrangement it had with Vitol. Work has begun on the post-hurricane rebuilding of the

Richmond Power Plant and the addition of generation to the Harley Plant. Standby generators have been procured and are on their way to St. John. These are not simply plans on paper. They are transformational steps beginning to take shape.

Honorable Senators, I want to remind you that I am available for individual meetings should you wish to discuss in detail the direction we are pursuing, our progress to date, and the challenges that remain. I remain open to engaging in meaningful, solution-oriented dialogue at your convenience. We may not always agree on the path forward, but continued progress request honest conversation, accountability and partnership. Our continued progress at the Authority fully depends on the engagement and support of this body.

Before I close, I want to take a moment to recognize the hardworking men and women of WAPA.

Every day, you show up with dedication to serving our customers and our community. The work is demanding, often behind the scenes, and sometimes comes with significant challenges, but it matters.

I want you to know that your professionalism and commitment to keeping the Virgin Islands powered and connected do not go unnoticed. Thank you for the work you do every day to make safety and service central to the work we do.

Thank you for your attention, Senators. My team and I are available to address any questions you may have at this time.