

The 35th Legislature of the U.S. Virgin Islands

Committee of the Whole

Bill No. 35-0292

*An Act extending the State of Emergency
Declaration to avert an energy crisis*



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Earle B. Ottley Legislative Hall

St. Thomas.

Presented by:

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Chief Policy Advisor/Incident Commander

Office of the Governor

1 Introduction

2 Good morning Honorable Novelle E. Francis Jr., Senate President of the 35th Legislature,
3 other members and staff of the 35th Legislature, and the listening and viewing audience. My
4 name is Kevin A. Williams, Sr., Chief Policy Advisor to Governor Albert Bryan Jr. Thank you
5 for this invitation to offer testimony on Bill No. 35-0292 - An Act renewing and extending the
6 State of Emergency in the U.S. Virgin Islands based on the power and energy crisis for an
7 additional 90 days from June 22, 2024 to September 19, 2024.

8 I appear before you today in my recent capacity as Incident Commander, along with Daryl
9 Jaschen, Director of VITEMA in his capacity as the Territorial Coordinating Officer and Kevin
10 McCurdy, Commissioner of the Department of Finance.

11 State of Emergency

12 On April 22, 2024, Governor Albert Bryan Jr. declared a State of Energy Emergency, by
13 Executive Order 537-2024, to avert an energy crisis in the United States Virgin Islands. For
14 months leading up to April 2024, the inability of independent government agencies to timely
15 pay the Water and Power Authority (WAPA) for its services impacted WAPA's ability to pay its
16 critical vendors, resulting in the curtailing of power generation. To protect the lives and
17 property of the residents of the Territory, the Bryan-Roach Administration found it necessary
18 to issue a State of Emergency to prevent rotating power and blackouts on the island district
19 of St. Croix. On May 22, 2024, the State of Emergency was extended for an additional 30 days
20 through Executive Order 537a-2024.

21 It is imperative to extend the State of Emergency for an additional 90 days through
22 **September 19, 2024**, to allow for the execution of an extensive and achievable plan of
23 action, and to allow positive actions achieved during the first 60 days to come to fruition.

24 We acknowledge that the immediate action taken after the State of the Emergency did not
25 prevent rotating power and prolonged outages in the St. Thomas/St. John district. These
26 outages underscore the critical nature of the power infrastructure throughout the entire
27 territory and the need for the State of Emergency.

28 The Territory continues to work through the process of mitigating the severe threat of
29 insufficient and unreliable power generation in the USVI, insufficient cash liquidity at WAPA,
30 and an unreliable power generation and transmission and distribution system that leads to
31 frequent and prolonged outages. WAPA, along with the Government of the Virgin Islands

32 continues to take action to stabilize the production of energy in the Territory to ensure the
33 delivery of critical services to its residents.

34 Incident Command Structure and Team

35 Over the past 60-days, beginning on April 22, 2024, the Incident Command (IC) was
36 activated with the expressed goal of averting an energy crisis in the US Virgin Islands
37 through the unity of effort based on the objectives established by the Incident Commander.

38 The IC combines efforts of leadership from the Water and Power Authority, Office of
39 Management and Budget, Department of Finance, the VI Energy Office, Public Finance
40 Authority, VI Housing Finance Authority, Department of Planning and Natural Resources,
41 Office of the Governor, and the Office of Disaster Recovery. This allows prioritization and
42 drives success over many challenges, both internal to interagency coordination and
43 external strategic partners.

44 Command and General Staff meetings are held three days a week, Monday-Wednesday-
45 Friday, to review progress towards objectives, financial daily cash flow, and operational
46 power generation status. Separate Finance and Operations Committee meetings are held
47 Tuesday and Thursday, with a focus on understanding challenges, reviewing and updating
48 plans of action, and providing clear priorities.

49 We have established a good rhythm amongst the incident command team and have
50 reviewed our successes and established new objectives which will require at least 90 days
51 to achieve.

52 The importance of maintaining a State of Emergency is to focus the urgency on decision
53 making based on factors such as current and future cash flow, current and future power
54 generation, and the movement and tracking of funds to support contractual agreements.
55 The State of Emergency also provides a structure through Incident Command which
56 provides documentation and accountability for timely actions. A sense of purpose and
57 understanding of priorities is maintained.

58 Objectives and Accomplishments in the First 60 days

59 **Objective #1: Provide payments to WAPA to facilitate timely vendor payments on**
60 **behalf of GVI semi-autonomous agencies (SRMC/JFLH/WMA) to prevent rotating**
61 **schedules and blackouts.**

62 To date, a total of \$10,282,677.64 has been processed/paid to WAPA from the
63 Budget Stabilization Fund. The funds have been used to offset the following
64 balances that were owed as of April 30, 2024:

65 Waste Management Authority: \$6,111,923.64

66 Schnieder Regional Medical Center: \$2,591,702.00

67 JFL Hospital: \$1,579,052.00

68 All outstanding bills owed by the central Government, SRMC, JFLH, and WMA have been
69 paid. Moving forward, we will now include these three semi-autonomous entities in the
70 single payer fund to ensure that they remain current on their utility bills.

71 **Objective #1-a: Ensure WAPA has paid Aggreko \$2.3M to reduce the risk of St. Croix**
72 **experiencing rotating power or blackout conditions.**

73 As part of the initial payments made to WAPA in objective #1, WAPA was able to pay
74 approximately \$2.3M to Aggreko for leased generators. Although WAPA has paid the
75 initial outstanding amounts that resulted in the generators being turned back on in St.
76 Croix, WAPA has again racked up outstanding amounts totaling \$2.1M.

77 Additionally, payments to Seven Seas for water production of approximately \$4M were
78 made. Finally, WAPA has escrowed funds to assist with resolving the Wartsila contract
79 disputes.

80

81 **Objective #2: Complete the VITOL infrastructure acquisition:**

82 The GVI government fully expects to close on the VITOL infrastructure acquisition
83 before the end of July 2024. This accomplishment will secure WAPA's access to the
84 propane infrastructure and remove that debt off its balance sheet. This will also pay
85 back the \$45M line of credit to the GVI.

86 We are currently wrapping up the 30-day required environmental review phase. The
87 VIHFA anticipates submitting the entire packet to the Department of Housing and
88 Urban Development (HUD) by June 26, 2024. Once HUD reviews and approves the
89 packet, we will be ready to proceed with initiating the closing process.

90

91 **Objective #3: Assist WAPA with improving its cash flow and reducing its liquidity**
92 **gap to meet critical payments.**

93 Effective June 1, 2024, the Incident Command, through external counsel, and WAPA,
94 negotiated new reduced LPG transportation rates from \$0.73 to \$0.59 per gallon for 9
95 months with VITOL. These new rates have the effects of saving WAPA approximately
96 \$900,000 monthly on shipments of propane versus the spot price Vitol was charging
97 prior to the new contract. At the end of the 9-month period, WAPA will solicit on the

98 open market for fuel transportation services in hopes of achieving additional
99 competitive responses and even lower transportation costs.

100

101 **Objective #4: Negotiate a return to work of Wartsila**

102 On June 11, 2024, the GVI and WAPA successfully resolved all outstanding matters with
103 Wartsila and signed a contract addendum that facilitates the restart of work. The
104 contract has expedited clauses to have work fast-tracked as early as two months after
105 propane is available to the generators. The work is critical as the four generators and
106 associated battery packs will bring online new generation for increased reliability and
107 significantly improved fuel efficiency. Additionally, this will give WAPA the added
108 capacity to begin the process of remediating deferred maintenance.

109 This project will bring online 36MW of power with 9MW of battery capacity. This will
110 reduce WAPA's expenses by \$2.5M monthly.

111 The stabilization of WAPA runs through the final completion of the Wartsila project.

112 **Objective #5: Assist with bringing online renewable projects at a faster pace**

113 The Incident Command continues to facilitate communication between WAPA, US
114 Department of Energy, VI Electron, the National Renewable Energy Labs, and Sargent &
115 Lundy to push for expected and measurable progress in getting the Petronella solar site
116 connected. The interconnection study being performed by Sargent & Lundy is expected
117 to be completed by July 31, 2024 for the Petronella site. Studies for the remaining sites
118 on St. Croix will follow shortly thereafter.

119 We remain hopeful that within the next 90 days the first solar site at Estate Petronella on
120 St. Croix will be able to be added to the generation mix on St. Croix. The second site at
121 Estate Hogensberg should follow shortly. This represents 26MW of purchasable power
122 combined.

123

124 **WAPA is facing severe challenges**

125 While none of these actions independently solve WAPA's problems, all of them are a part of
126 the plan to make improvements at the Authority. To be clear, many of the projects listed
127 above were experiencing severe delays or were at an impasse. The existing State of
128 Emergency and Incident command structure has facilitated progress on these items within
129 a 60-day period.

130 These projects were marred by contract disputes and liquidity issues that prevented timely
131 actions.

132 WAPA has been grappling with:

- 133 a. Under recovery of rates- It costs the utility \$0.55 per kilowatt hour to serve its
134 customers, but its regulated rate only permits WAPA to charge customers
135 \$0.41 per kWh. This is a direct impact of approximately \$5M monthly.
- 136 b. Billing- inability to bill and collect in a timely manner. WAPA reports that it
137 collects cash from customers for over 98% of the services it bills for;
138 however, it underbills customers because of its failing Automated Meter
139 Reading Infrastructure.
- 140 c. Inability to stay current with critical and core vendors.
- 141 d. Generation that is old and unreliable due to deferred maintenance
- 142 e. Generation that runs on higher cost diesel fuel
 - 143 i. STT Unit 15 should have been replaced already.
 - 144 ii. STT Unit 23 is not reliable and without it, generation becomes
145 insufficient.
 - 146 iii. Many of the units are derated, which means they are not efficiently
147 generating power.
- 148 f. Transmission and Distribution
 - 149 i. Feeder 11 is down that prevents a loop on the St. Thomas grid.
 - 150 ii. Only one undersea cable is operable to serve St. John. The other two
151 cables are not in service.
 - 152 iii. Overgrown vegetation impacting lines. This will only get worse given
153 the steady rains the territory is receiving.

154 An extension of the SOE is necessary to provide support to WAPA. It sends the right signals
155 to our federal partners including President Joseph Biden, the Department of Energy, the
156 Department of the Interior, and FEMA of the status of our energy environment. It finally brings
157 a consistent focus and coordination necessary to get WAPA initiatives moving and to keep
158 them moving.

159 WAPA critical vendors and payments

160 While some may speculate that the State of Emergency is simply to resolve an acute
161 generator issue, the extended request is needed because the Authority on a weekly basis
162 needs assistance to keep the lights on. WAPA's critical payments include fuel suppliers,
163 payroll, debt payments, lease of generators, and water production. If anyone of these
164 services is impacted, a domino effect will occur. Incident Command has been working with
165 WAPA to address many of these issues. Actions taken include expediting our single payer

166 payments, working with other non-single payer entities to ensure they pay their bills on time,
167 and collaborating with the vendors to resolve issues.

168 The continuation of the State of Emergency reinforces to our federal and local partners the
169 gravity of the challenges we are facing. The attention needed to stabilize the Authority
170 requires weekly support and monitoring to ensure progress made in the first 60 days is not
171 reversed because of ongoing liquidity issues.

172 Objectives for the next 90 days

173 *PLAN OF ACTION*

174 The State of Emergency Incident Command intends to address the following during the
175 continuation of the State of Emergency:

176 • **Core Vendor Payments:** IC continues to monitor WAPA's financials to ensure
177 that critical services are not interrupted due to lack of payment.

178 • **Closing of the VITOL Transaction:** IC is diligently tracking all aspects of the
179 VITOL transaction to ensure that the closing takes place as soon as possible
180 without any unnecessary delay.

181 • **Wartsila Project:** IC will continue to guide the Wartsila restart initiative to
182 ensure batteries and generators are placed in service as soon as possible.

183 • **St. John Power Sustainability:** IC is monitoring the planning, design, and
184 implementation of redundant electrical transmission to St. John as well as
185 ensuring that accurate communication regarding outages is provided to the
186 public in a timely fashion.

187 Critical to this effort will be the initiation of discussions with our federal
188 partner to fast track the repair of the undersea cable to provide backup
189 options. Additionally, there is a damaged riser connection that impacts
190 backup options that need to be repaired.

191 We will also examine the status of the St. John Generator project. All
192 projects on St. John are going through an Environmental and Historic
193 Preservation (EHP) due to concerns from the National Park. We want to
194 reach out to our federal partners to see how we can expedite or seek a
195 waiver to certain critical projects.

196 Failure to address St John’s power sustainability could result in island wide
197 outages lasting weeks to months. If a federal Major Disaster Declaration is
198 requested and approved from POTUS it will be limited to 90 days and a \$5
199 million-dollar federal cost-share. The justification for a Federal Emergency
200 Declaration would need to be around life safety.

201 • **Turnaround Management Company:** Engage with the turnaround
202 management as they begin the 4-month assessment phase of their engagement.

203 • **Short-Term Financial Obligations:** IC is monitoring WAPA’s obligations to
204 bondholders and outstanding creditors.

205 • **Renewable Energy:** IC is prioritizing and expediting connection of solar sites
206 to add generation capacity to the electric grid. We are seeking to get the
207 Interconnection study completed as soon as possible. We are also facilitating
208 communications with all parties to execute battery leases and amended power
209 purchase agreements.

210 • **Revenue Collection:** IC is assisting WAPA in strategic planning to maximize
211 revenue collection.

212 • **Deferred Maintenance:** IC is assisting WAPA to identify funding to address
213 deferred maintenance issues.

214 WAPA’s entire fleet of gas turbines are significantly overdue for major
215 maintenance. Major maintenance is typically performed on a gas turbine every
216 two years, but WAPA’s gas turbines have not had major maintenance performed
217 in over ten years. Due to the amount of time major maintenance has not been
218 performed, the cost will be higher. Currently there is \$34 million in deferred
219 maintenance cost covering the generator units on St Thomas and St. Croix. On St
220 Thomas Unit 15 has \$5 million, Unit 23 has \$7 million, and Unit 27 has \$5 million
221 for a total of \$17 million. On St Croix Unit 17 has \$5 million, Unit 19 has \$5 million,
222 and Unit 20 has \$5 million for a total of \$15 million. There is a need for \$2 million
223 dollars in parts and spares. As a result of the number of years behind on major
224 maintenance, WAPA generators are beginning to be derated in the output
225 capacity. Unit 15 on St Thomas has been derated to 14 mega-watts; Unit 27 on St
226 Thomas has been derated to 16 mega-watts. The risk if major maintenance is
227 further delayed is continued derating of generators and more units operating on
228 costly diesel fuel rather than cheaper propane fuel.

229
230 · **Hurricane Preparation:** As hurricane season has begun, challenges remain
231 with ensuring sufficient storage capacity for water and diesel fuel is maintained.
232 WAPA has a need to have transformers on order and agreements in place with
233 their suppliers. The critical paths for WAPA’s hurricane preparation include 1)
234 fuel inventory of propane and diesel, 2) water inventory, and 3) transmission and
235 distribution material and supplies, some like transformers, with 60-week lead
236 times.

237 For safety, the propane supply system shuts down 24-hours before expected
238 landfall, so systems operate on diesel until a storm has passed. The cost of one
239 day supply of propane is approximately \$300,000 dollars. For hurricane season,
240 ideal propane supply is a minimum of 75% total capacity for St. Thomas and St.
241 Croix, which equates to 20-24 days for St. Thomas and 17-20 days for St. Croix.
242 St. Thomas is currently above the level with 38 days and St. Croix is below with 4
243 days.

244 The cost of one day supply of diesel is approximately \$750,000 dollars. Ideal
245 diesel requirement for St. Thomas is 14 days and St. Croix is 14 days. Both St.
246 Thomas and St. Croix are below the hurricane season requirements with St.
247 Thomas at 10 days and St. Croix at 3 ½ days.

248 This means, within one-week of a storm passing, if we can not get fuel to St.
249 Croix, it will be unable to produce power beyond the solar farm at Spanish Town.

250 For water supply, St. John has 3-days (66% capacity), St. Croix has 4-days (57%
251 capacity), and St. Thomas has 9-days (66% capacity). St Thomas Seven-Seas
252 output capacity is 3.3 million gallons per day and St. Croix Seven-Seas output
253 capacity is 3.7 million gallons per day.

254 Path to ending the SOE

255 Continued urgency is needed to bring energy stability and reliability to WAPA’s rate payers.
256 This problem cannot be solved overnight or in 30 or 60 days. The additional 90 days is
257 needed to allow the utility to work through liquidity issues, management changes, stabilize
258 or amend agreements and foster renewed cooperation between WAPA, its Board of
259 Directors, its strategic partners, and the Government of the Virgin Islands.

260 There are other opportunities to further reduce the gap between what the Authority charges
261 and the cost of energy production. The pathway is clear – competitive fuel transportation
262 costs, reduced debt, cheaper and cleaner renewable energy, more efficient generators,

263 new management and management structure, all rate payers paying their fair share, and all
264 necessary support to focus on recovery projects. This is not the time to remove the focus
265 and attention to this critical issue only to be forced back into a worse predicament at the
266 next catastrophic event. WAPA is out of surgery but remains in intensive care and requires
267 round-the-clock attention.

268 CONCLUSION

269 In conclusion, there are critical and immediate actions that can and must be taken to protect
270 the safety of our residents. We request that the State of Emergency be extended to facilitate
271 the resolution of the Authority's most dire and disruptive issues. Through the Incident
272 Command team, and through the help of the legislature, we can address the need to mitigate
273 the ongoing critical threat to the people of the Virgin Islands.

274 Thank you, Senate President Novelle E. Francis, and the other members of the 35th
275 Legislature for your attention and support as we address the energy issues confronting the
276 territory. We look forward to the opportunity to continue serving our stakeholders and
277 delivering impactful results in the coming period. I would like to thank the entire Incident
278 Command team for their contribution and participation in our daily meetings. We remain
279 available to answer any questions you may have regarding the request to extend the State of
280 Emergency.

281 Thank you.