

TESTIMONY OF KARL KNIGHT  
EXECUTIVE DIRECTOR OF THE  
VIRGIN ISLANDS WATER AND POWER AUTHORITY  
TO THE COMMITTEE ON GOVERNMENT OPERATIONS, VETERANS AFFAIRS AND  
CONSUMER PROTECTION  
36th LEGISLATURE OF THE U.S. VIRGIN ISLANDS  
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Good day Honorable Avery L. Lewis, Chair of the Committee on Government Operations, Veterans Affairs and Consumer Protection, members of the Committee, other Honorable Senators present, and the listening and viewing audiences. I am Karl Knight, Executive Director/CEO 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 Operating Officer of the Electric System, Lemuel Lavinier; Chief Operating Officer of the Water System, Noel Hodge; Chief Financial Officer, Lorraine Kelly; Chief Administrative Officer, Anthony Thomas; Chief Information Officer, Julius Aubain; and Chief General Counsel Dionne Sinclair.

We are here at your invitation to provide a comprehensive update on the:

- The current operational status of the territory’s power plants;
- Resolutions to customer service and billing issues;
- Future project plans, cost, and management initiatives;
- WAPA’s procurement policies and guidelines;
- Update of the clean water infrastructure, repairs, and maintenance planning;
- Any new conversion of power-generating units and associated costs; and
- Any other matters relative to the discussion of the status of the Authority

**Financial Update**

The Water and Power Authority remains in a fiscally challenged position. The only source of operating revenues for the Authority is the collection of monthly charges for the sale of electricity and water to our customers. At present, the Authority spends more

to provide service than it collects in charges to its customers. The Authority runs a monthly operating deficit of \$2-3 million.

This situation exists because despite increases in the cost of fuel, goods, services, and labor, the Authority has not substantially increased its electric rates in almost six years. The residential electric rate in July 2019 was 42.9 cents per kilowatt-hour, the rate today is 43.4 cents per kilowatt-hour. The half cent adjustment was made in March 2022. The water rates were last increased in August 2023.

Closing the operating deficit solely through rates would likely require a rate increase of 8 cents or more. The Authority is mindful of the negative impacts that occur once electrical rates exceed \$0.50 a kilowatt-hour as they did in January 2013. We understand that raising rates to this level actually has a deleterious effect on revenues. From our past experience, we can expect to see increased business closures, more customers disconnected for nonpayment, and government entities falling back into significant arrears. Therefore, the decision not to petition the Public Services Commission for a rate increase has been a deliberate policy of the Authority. Instead of increasing rates to cover operational expenses, the Authority is aggressively moving to reduce its operating expenses.

However, operating at a budget deficit has required the Authority to manage cash flow through deferring vendor payments at times to align with revenue receipts. It became apparent last April that this strategy was unsustainable, and that direct financial support would be necessary to offset a portion of the deficit until more substantial operational efficiencies could be achieved. That prompted the declaration of the state of emergency in April 2024 by Governor Albert Bryan Jr. in response to the threat to the community presented by WAPA's fiscal decline and its impact on power generation. That declaration allowed the central government to mitigate the Authority's ongoing liquidity crisis at crucial moments and aligned government entities in support of the Authority.

The good news is, the intervention by the Government of the Virgin Islands has bought the Authority precious time to effectuate operational savings and provided critical resources that have begun to reverse the negative fiscal spiral. In March 2024, the monthly budget deficit was approximately \$8 million per month. In September that deficit was approximately \$6 million per month. As stated earlier, the deficit is now closer to \$2-3 million a month.

The Authority has approximately \$87 million in past due accounts payable and \$88 million in long-term debt. We estimate that deferred maintenance on our generating assets amounts to about \$27 million. The EY Turnaround Management Team has suggested that the Authority needs a cash infusion of approximately \$375 million over a five year period to fully resolve its financial liabilities.

The first step in curing the Authority’s fiscal challenges is to reduce operating costs to fit within reasonable rates without further compromising service quality. We have made great strides in this regard and can make further progress in the next fiscal year. We are in the process of finalizing a two-year contract for a new fuel oil supplier at a rate that is less than our current contract. We are releasing a solicitation for a new Liquefied Propane Gas (LPG) provider next week and we are optimistic that we will receive viable proposals that are competitive with our current contractual relationship. We also anticipate bringing online additional renewable resources this year at power purchase rates that are considerably less than our current avoided costs for power generation.

The next step in addressing the Authority’s fiscal woes is the consolidation and refinancing of our outstanding debt. There are several preliminary steps that must be taken to optimize the benefits of this strategy. That includes shoring up our billing and revenue collections, closing our operating deficit, coming current on our financial audits, and meeting our financial reporting requirements. Demonstrating a relatively stable regulatory and legal operating environment will also be crucial. That requires the buy-in of the Public Services Commission and this body.

The Authority has recently engaged the services of a municipal advisor for the first time in three years to advise us in our financial decision making. We also have the benefit of the EY Turnaround Management team, that was commissioned by this body and should be producing their recommendations shortly, as well.

We are taking methodical and purposeful action to bring the Authority back from the brink of insolvency and we will be successful.

**Operations Update**

The average daily peak load in the St. Thomas-St. John district is approximately 60 megawatts (MWs). The base load, which is the minimum demand at the low point in the day, is approximately 33 megawatts (MWs). These numbers are approximate and subject to seasonal variations.

The primary source of power generation in the St. Thomas – St. John district is the Randolph Harley Power Plant in Krum Bay. The Authority owns and operates 3 gas turbines and 7 reciprocating engines at the Harley Plant for a total generating capacity of 123.0 megawatts (MWs).

Unit 15	Gas Turbine	18.0	LPG/ Diesel
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Unit 23	Gas Turbine	30.0	Diesel
Unit 27	Gas Turbine	18.0	Diesel
W1	Reciprocating Engine	7.0	LPG
W2	Reciprocating Engine	7.0	LPG
W3	Reciprocating Engine	7.0	LPG
W4	Reciprocating Engine	9.0	LPG/ Diesel
W5	Reciprocating Engine	9.0	LPG/ Diesel
W6	Reciprocating Engine	9.0	LPG/ Diesel
W7	Reciprocating Engine	9.0	LPG/ Diesel
		123.0 MW	

WAPA also purchases power daily from the Donoe Solar Farm which has a potential capacity of 5.0 MWs. That facility is owned by InterEnergy. Additionally, the Harley plant has an 18 megawatt-hour (MWh) battery energy storage system (BESS) that can dispatch 9 MWs of backup power for up to 2 hours once fully charged.

The Authority is preparing to release a solicitation next month for at least 40 megawatts in additional generation in the Harley Plant to replace Unit 15 and the previously retired Unit 14. This project will include additional battery energy storage. It is funded by the FEMA Disaster Public Assistance program.

While there is currently no power generation on the island of St. John, the Authority has several projects that it is pursuing to bring power resiliency to the island of St. John. This includes the installation of battery energy storage for the island. That solicitation should be released by July. The Authority is also pursuing standby generation for St. John. Both projects are federally funded. Finally, the Authority has an executed power

purchase agreement with VIRAPC for the purchase of up to 18 MWs of solar energy on St. John.

The average daily peak load on St. Croix is approximately 43 MWs. The average daily base load is approximately 28 MWs. Again, these numbers are subject to seasonal variation.

The primary source of power generation on St. Croix is the Richmond Power Plant in Christiansted. The Authority owns and operates 3 gas turbines and leases an additional 20.4 MWs of generation for a total generating capacity in the Richmond Power Plant of 80.4 MWs.

Unit 17	Gas Turbine	18.0	LPG/ Diesel
Unit 19	Gas Turbine	20.0	Diesel
Unit 20	Gas Turbine	22.0	LPG/ Diesel
Aggreg o	Reciprocating Engines	20.4	LPG
		80.4 MW	

The Authority also has a power purchase agreement with InterEnergy for the purchase of up to 4.0 megawatts of energy at Estate Spanish Town. There is also an active power purchase agreement with VIRAPC for the purchase of 10.0 megawatts at Estate Petronella. That project has a battery energy storage system that can discharge up to 4MWs for a 2-hour duration.

FEMA has approved funding for the full replacement of the Richmond Power Plant which includes at least 86 MWs of generating capacity. The Authority is preparing a solicitation to secure an EPC contractor to lead the planning, design, and construction of the new Richmond Power Plant. That solicitation should be ready for advertisement in April.

### **Customer Service Update**

The Authority has experienced significant challenges with its metering infrastructure in recent years. Those challenges include meters that can no longer be read remotely and require a manual read and meters that cannot be read at all.

The Authority has recently selected a contractor, Itron, to rebuild the automated metering infrastructure (AMI) completely. The project is being funded by FEMA as part of the Disaster Recovery Prudent Replacement program. The contract is currently being negotiated with an anticipated start date on or about July 1<sup>st</sup>. The project roll out will begin with the island of St. John and likely take approximately 18 months from start to finish for the whole territory.

In the interim, the Authority replaced approximately 1000 electrical meters in the month of December. Another 2500 electrical meters are currently being installed for new services and replacement of malfunctioning meters and there is an additional 2500 electrical meters that have been procured and are en route. These meter purchases are also funded by FEMA.

WAPA has also initiated negotiations with our current AMI provider, Tantalus Systems, to restore remote read functionality to as much of the network as practical as an interim measure.

The Authority is also undertaking a similar meter replacement effort with our water meters in both districts utilizing Environmental Protection Agency (EPA) funding.

We believe that the convergence of these efforts will greatly reduce the overreliance on estimated billing and provide greater consistency in customer bills.

### **Capital Project Update**

The Authority continues to harden our electrical transmission and distribution system through the installation of composite poles. Phase I for St. Thomas, St. Croix, and Water Island are 100% completed. St. John Phase I is 87% completed. The Authority has already replaced 9,196 wooden poles with composite poles. Phase II of the composite pole project will see the installation of an additional 1,350 poles.

In the more densely populated areas, the Authority continues its hazard mitigation strategy with the burial of electrical lines. Work has begun on Feeder 5A in St. Thomas, and Queen Mary Highway Phase I and Hannah's Rest on St. Croix.

The Authority is also upgrading the East End substation, Donald Francois substation and Tutu substations on St. Thomas. This includes HUD funding for battery energy

storage systems at all three facilities. A similar battery energy storage system is also planned for the Gregory Willocks substation on St. Croix. Those projects should be out for solicitation in June.

On the water system, there are multiple system improvement projects in progress. On St. Croix, waterline replacement projects are underway in Hannah's Rest and in Campo Rico. On St. Thomas, proposals are being evaluated for waterline replacement projects at Blackbeard's Hill and Mahogany Estate. Request For Proposals are being prepared for waterline rehabilitation in on Norre Gade, Sara Hill, and Hospital Ground. Proposals are also being evaluated for the first bundled utility project to be done under the Office of Disaster Recovery's Super Project Management Office. This project includes the installation of waterlines from Tide Village, along the Northshore Road, to La Reine intersection.

### **Legislative Requests**

The end of the State of Emergency on December 19, 2024 also ended authorization for direct financial subsidy from the Government of the Virgin Islands without legislative approval. However, in addition to financial assistance, there additional measures that this body can undertake to help put WAPA on sound financial footing. We have prepared proposals for legislative amendments in several areas.

- **Amendment to 30 V.I.C. § 104(b)- Quorum**

Proposed amendment to 30 V.I.C. § 104(b) adjusting quorum requirements for WAPA Board.

- **Amendment to 30 V.I.C. §105(a)(12)- Reconnection Fees and Initial Service**

Connections Costs Proposed amendment 30 V.I.C. § 105(a)(12) to address reconnection and initial service connection fee limitations.

- **Amendment to 30 V.I.C. §116- Competitive Bidding Requirements**

Proposed amendment to 30 V.I.C. § 116, raising the competitive bidding threshold from \$10,000 to \$150,000 to streamline the procurement process for WAPA.

- **Amendment to 30 V.I.C. §§125 & 127- Backbilling**

Proposed amendments to 30 V.I.C. §§ 125 and 127 to enable equitable backbilling for WAPA and extend the meter reading cycle to 35 days, addressing operational inefficiencies and financial imbalances.

- **Establishing a Utility Setback Easement**

Establishes clear utility access setbacks and protected utility easements to enhance service reliability and infrastructure maintenance.

- **Amendment to 33 V.I.C. §3002a- Streetlighting Fund**

Proposed Clarification

- **Amendment to 30 VIC 1, 23, 23(b), 25, 25(a) and 3 VIC 273**

Clarify the parameters within which the PSC exercises oversight and strengthens utility Regulatory Practices in the Virgin Islands; enforce compliance with § 23(b) to ensure utilities receive a fair and legal return on investment; amend § 25 to require periodic public solicitation of consultants; reform assessment practices under § 25(a) to prevent exploitation of nonprofit utilities; clarify statutory intent under both § 1 and § 273 to reaffirm the PSC's role as regulatory, not managerial.

- **Amendment to 3 V.I.C. §65**

Proposed amendment to 3 V.I.C. § 65 to raise outdated \$75 per diem rate to \$175 and standardize travel reimbursement policies.

For the sake of brevity, I will only highlight the two most financially critical measures, streetlighting and backbilling. The underfunding of our actual streetlighting expenses remains a challenge. There are a few options we must seriously contemplate. We can either increase the amount of property taxes set aside for this purpose, supplement the property tax set aside with a true up in the Executive Budget, authorize the placing of an operating surcharge on customer bill to make up the difference, or the Authority may be forced to reduce the amount of streetlighting to work with the approved funding threshold.

The current backbilling and provision limiting the billing cycle to 30 days creates an unintended impact that causes the Authority to estimate bills, that it would have otherwise read, in order not to lose revenue.

We hope that this body will take serious consideration of these proposals.

## **Conclusion**

The operations of the Virgin Islands Water and Power Authority are complex and challenging, but not beyond our capacity to manage. We understand fully the impact that our delivery of service has on the quality of life for the people of the Virgin Islands



and on the economic viability of our community. As a public power utility, we are beholden to this community and look at this as a shared responsibility. Our employees are some of the most dedicated and committed public servants you will find anywhere. They are also some of the most talented and competent Virgin Islanders as well. They are fully invested in helping WAPA right the ship and improve its delivery of service. They are highly motivated because not only are they employees of WAPA, but they are also customers themselves. They work on behalf of their family, friends, neighbors, classmates, and co-workers. They work on behalf of this community. They work on behalf of you.

I thank you for your time and we stand ready to answer any questions the committee may have of us.