

**GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES**

PUBLIC SERVICES COMMISSION

IN THE MATTER OF THE LEVELIZED)
ENERGY ADJUSTMENT CLAUSE OF THE)
VIRGIN ISLANDS WATER AND) PSC DOCKET 289
POWER AUTHORITY) ORDER NO. 02/2004

ORDER

WHEREAS, the Virgin Islands Public Services Commission (hereinafter "PSC"), received a petition from the Virgin Islands Water and Power Authority (hereinafter "WAPA") on November 18, 2003, wherein WAPA requested that its electric system Levelized Energy Adjustment Clause ("LEAC") be increased from \$0.088200 per Kilowatt hour (kWh) to \$0.108957 per kWh and that its water system LEAC be increased from \$0.39 per kGal to \$1.42 per kGal; and

WHEREAS, WAPA proposed that these new factors become effective on January 1, 2004, once approved by the PSC; and

WHEREAS the Georgetown Consulting Group (hereinafter "GCG") was appointed the PSC's "Technical Consultants" on August 7, 2002, to review WAPA's petitions in Docket 289; and

WHEREAS, the Commission's Technical Consultants thoroughly reviewed WAPA's petition and submitted a report (hereinafter "GCG Report") dated December 13, 2003 containing conclusions and recommendations that included a recommendation for a smaller increase in the LEAC factors of both the electric and water departments for reasons more fully described in the GCG report; and

WHEREAS, the GCG report states that fuel costs, in part, are within WAPA's management control and costs associated with management actions have been paid by ratepayers in the past and unnecessary costs continue to occur and are being passed through to consumers; and

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WHEREAS, the total costs recoverable under the LEAC are significant and thereby make it essential that the LEAC filing be complete, transparent and in compliance with prior PSC Orders on this matter; and

WHEREAS, the GCG report recommends additional information and reporting requirements to support the position taken by WAPA in this and future LEAC proceedings; and

WHEREAS, the GCG report also indicates that certain items that can reduce the cost of fuel to the electric and water departments should be addressed by WAPA and reported to the PSC in a timely fashion (economic dispatch, capital planning and line loss reduction program); and

WHEREAS, the GCG report cited instances where WAPA had ignored deadlines and other PSC requirements; and

WHEREAS, the Commission met and considered WAPA's petition, the GCG report, and took additional testimony at its meeting of December 19, 2003; and

WHEREAS, the Commission considered information specifically relating to the amount of line losses incurred by WAPA and its failure to significantly reduce those losses, and the cost to the ratepayers of those continuing losses in fuel and expenses; and

WHEREAS, the Commission considered the on-going problems with Unit 22, which should be a very fuel efficient generator but which still does not work properly despite more than three years of installation and operation, causing WAPA to continue to rely on less efficient generators and consume additional fuel; and

WHEREAS, the Commission is charged with setting rates which are just and reasonable; and

Whereas, the Commission finds that it is not just or reasonable to continue charging the ratepayers for unnecessary expenditures which are within WAPA's control;

NOW THEREFORE:

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IT IS ORDERED that pursuant to the GCG report the electric system Levelized Energy Adjustment Clause factor ("LEAC") effective for all electric meters read on or after January 1, 2004, to and including June 30, 2004, shall be increased to \$0.090284 per kWh as recommended by the PSC's consultants and for the reasons stated in their report and in their testimony before this Commission on December 19, 2003; and it is

FURTHER ORDERED that pursuant to the GCG report the water system Levelized Energy Adjustment Clause factor ("LEAC") effective for all water meters read on or after January 1, 2004 to and including June 30, 2004 shall be increased to \$0.59 per kGal as recommended in the GCG report and for the reasons stated in that report and in their testimony before this Commission on December 19, 2003; and it is

FURTHER ORDERED that the balance of deferred fuel expense for both the electric and water departments as of December 31, 2003, (in the amount estimated at fifteen million dollars [\$15,000,000]) be amortized through the LEAC over a period of three years and that one-sixth of that amount be recovered through the LEACs for both the electric department and water department in this six month period ending June 30, 2004; and it is

FURTHER ORDERED that PILOT expense be included in the LEAC for the water department until such time as the PSC addresses this matter in the base case regarding the appropriate method to be used to recover PILOT expenses, or this order is superseded. The amount of PILOT expense authorized for recovery is the estimate of \$135 thousand over the ten months ending April 30, 2004, to be trued-up in the next LEAC; and it is

FURTHER ORDERED that fuel handling expenses be removed from the LEAC until such time as WAPA provides sufficient documentation regarding reasonable levels of such charges at which time and with PSC approval, such charges would be appropriately allocated to both the electric and water departments; and it is

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FURTHER ORDERED that the collaborative effort between WAPA and GCG to improve the reporting process of fuel costs should be reinstated. Immediate emphasis should be given to getting the electric system reporting process back to the level of the earlier filing this year. Further, considerable improvement is still required for the water department and the allocation of costs from the electric department to the water department. The goal of this effort should be the provision of verifiable information that is consistent and transparent.

FURTHER ORDERED that WAPA adhere to the PSC's filing and discovery requirements and adhere to the LEAC protocols.

FURTHER ORDERED that WAPA file a detailed set of milestones and responsibility assignments for the Condition Assessment Study no later than January 31, 2004; and it is

FURTHER ORDERED that WAPA formally respond to the GCG report regarding a more aggressive loss reduction program and as required by the PSC's May 28, 2003, order. WAPA should file with the PSC specific performance benchmarks as described in the consultant's report concerning the St. Croix loss reduction program that will allow for the measurement of WAPA's performance in the implementation of the line loss program; and it is

FURTHER ORDERED that WAPA should file an appropriate tariff for the approved incentive fees as approved by the PSC in the prior LEAC proceeding no later than January 31, 2004; and it is

FURTHER ORDERED that costs not to exceed \$285,000 associated with the St Croix Line Loss Reduction Program be included in the electric department's fuel costs and be recovered through the LEAC over a period of twelve months ending June 30, 2004. Failure to reduce losses in an economic amount equal to or greater than the costs to implement the plan may result in a return to the ratepayer of this amount over a period of twelve months ending June 30, 2005; and it is

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FURTHER ORDERED that the requirement that WAPA investigate the use of an industry standard model for the purpose of estimating generating unit dispatch, production and fuel use as it is a vital component of WAPA's cost of fuel. WAPA shall report its findings to the PSC no later than January 30, 2004.

FURTHER ORDERED, that by May 1, 2004, WAPA shall file for revisions to the recommended LEAC factors discussed above, such revisions being applicable to the electric and water departments and implemented on July 1, 2004, and contain the following items as described in the consultant's report:

- A complete narrative describing the major cause or causes for any change in the level of the LEAC and the implication on an average electric and water customer of the change(s) proposed by WAPA.
- Support for all of the assumptions used in the derivation of the proposed factors such support would consist of:
 - Studies or data used to forecast sales, losses and uses
 - Studies or data used to forecast the price of oil
 - Support for the actual prices of fuel oil contained in the filing
 - A complete description of the status of the generating units for both Islands and the basis for the forecasted heat rates for those units
 - A complete description of the reason(s) for any routine or forced outages that occurred or will occur in the time period(s) depicted in WAPA's next LEAC filing

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FURTHER ORDERED that in all other respects the Commission's previous orders in this matter shall remain in full force and effect.

FOR THE COMMISSION

DATED: December 24, 2003

A handwritten signature in black ink, appearing to read 'Valencio Jackson', is written over a horizontal line.

VALENCIO JACKSON, Chairman