

GOVERNMENT OF THE VIRGIN ISLANDS  
OF THE  
UNITED STATES

Public Services Commission



IN THE MATTER OF THE VIRGIN ISLANDS )  
WATER AND POWER AUTHORITY ) Docket No.: 533-W  
PETITION FOR EMERGENCY WATER RATE ) WATER SYSTEM  
INCREASE ) Order No. 39/2004

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**ORDER ON REGULATORY ASSET  
AND PETITION FOR RECONSIDERATION**

WHEREAS, on September 11, 2003, the Authority filed its Petition for Emergency Water System Rate Increase, seeking an additional \$3,400,000 in water rates within fiscal year 2004, which, on September 24, 2003, the Authority reduced to \$2,900,000 in increased revenue for fiscal year 2004, and included revised testimony supporting its claim; and

WHEREAS, the Authority alleged that the increased rates were needed on an emergency basis to avoid defaulting on the Authority's bond covenants, sought an extraordinary permanent rate increase prior to the completion of the customary and statutorily required investigation by the appointed hearing examiner and technical consultants; and

WHEREAS, in Order 43/2003, the Authority directed the Hearing Examiner in this Docket to conduct an immediate investigation as to the (1) the existence of an emergency, and if one is found, (2) to recommend such measures as appropriate; and

WHEREAS, the Authority now concurs with the Commission's staff and has requested the creation of a regulatory asset to ensure that adequate debt service coverage is maintained; and

WHEREAS, the Hearing Examiner endorsed the joint recommendation of the staffs; and

WHEREAS, following an expedited investigation by and hearing before the appointed

hearing examiner, and the taking of further testimony at its meeting on November 13, 2003, the Commission denied the Authority's request for an emergency increase, in its Order No. 01/2004; and

WHEREAS, the Authority filed a Petition for Reconsideration on or about December 1, 2003, which was granted by the Commission in its Order No. 03/2004; and

WHEREAS, the Authority has subsequently rescinded its request for increased rates at the present time, rendering moot the continued reconsideration of Order No. 01/2004;

NOW THEREFORE, the Commission hereby finds and orders:

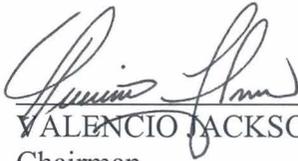
1. Based upon normal and prudent operations, if WAPA projects that the debt service coverage ratio for Fiscal Year 2004 will fall below 1.25x, i.e., the minimum debt service coverage ratio that WAPA is required to maintain under its 1998 bond covenants, the Commission will create a regulatory asset and accompanying surcharge in an amount at least equal to such deficiency as may be necessary to meet such 1.25x coverage. The regulatory asset will be structured to satisfy the requirements of the 1998 Water System General Bond Resolution and FAS 71. It will be amortized over a term not to exceed two years, with a surcharge to be created in an amount sufficient to amortize the cost of such regulatory asset. The surcharge shall automatically sunset when the regulatory asset is fully amortized.
2. In the event that WAPA determines that the DSCR has fallen or is projected to fall below the minimum requirement due to reasonably unforeseen circumstances,

WAPA shall promptly advise the Commission. WAPA shall also inform the Commission of the amount of additional earnings that must be recorded in Fiscal 2004 in order to reach a debt service coverage ratio of 1.25x. In addition, WAPA shall specifically identify the causes for significant changes in April, May and June 2004 that worsened the coverage ratio from the level experienced through March 2004. WAPA shall also demonstrate to the Commission that higher expenses recorded in the final three months of the fiscal year are unavoidable and justifiable and prudent.

3. Should WAPA request the creation of a regulatory asset, WAPA shall at the same time review and adjust expenditure levels, reconsider and review hiring and personnel levels, re-examine budgeted increases in overhead expenses and overtime, and implement top-level expenditure approval and accountability procedures. WAPA shall certify and describe such procedures to the Commission and the Technical Consultants no later than July 1, 2004, except as required by WAPA's auditors, and WAPA shall notify the Commission of any such correction or amendment as soon as possible thereafter.

4. The Commission affirms its Order No. 01/2004 and terminates its reconsideration of that order.

Dated: July 02, 2004

  
VALENCIO JACKSON  
Chairman

cc: Keithley R. Joseph, Executive Director  
Frederick G. Watts, Esq.