

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

**PUBLIC SERVICES COMMISSION**

IN THE MATTER OF THE LEVELIZED )	
ENERGY ADJUSTMENT CLAUSE OF )	PSC DOCKET 289
THE VIRGIN ISLANDS WATER AND )	ORDER NO.: 43/2004
POWER AUTHORITY )	
_____ )	

**STIPULATED ORDER**

WHEREAS, the Virgin Islands Public Services Commission (“Commission” or “PSC”) has established a mechanism for the Virgin Islands Water and Power Authority (“WAPA” or “Authority”) by which the necessary and prudent costs of fuel consumed to generate electricity and water can be recovered by the utility through a Levelized Energy Adjustment Clause (“LEAC”); and

WHEREAS, the costs of fuel were isolated from the base energy rates due to the volatility of fuel costs which are not within the control of the Authority; and

WHEREAS the LEAC is adjusted every six months or more frequently as may be required; and

WHEREAS, it has been the usual practice of the Commission to adjust the Levelized Energy Adjustment Clause (“LEAC”) twice per year unless specifically requested by WAPA to do so more frequently, based on actual fuel costs and the forecast of fuel expenses for the upcoming six month period; and

WHEREAS, as a result of the sharp rise in oil prices, WAPA has petitioned the Commission to amend the LEAC procedures such that automatic changes in the LEAC factor would occur each month depending on the price of fuel; and

WHEREAS, the Commission recognizes that the recent and current fluctuations in the costs of fuel have been dramatic and imposed substantial burdens on the Authority; and

WHEREAS, the Commission seeks to provide WAPA an incentive to increase the efficiency of its existing plants and operations, and to reduce the losses suffered in both the electrical and water departments to reasonable and prudent levels; and

WHEREAS, WAPA has initiated a comprehensive Condition Assessment Study and a study of Electric and Water Department Line Losses to determine the best approaches to achieve both a reduction in the levels of line losses and increase the efficiency of the generating and water desalinization plants; and

WHEREAS, the Commission and WAPA commit to work collaboratively to establish benchmarks and specific goals and timelines for achieving the reductions in line losses; and

WHEREAS, the Commission will use the benchmarks to develop a set of incentives to allow WAPA to recover any balance in its under-recovered fuel expense in an expedited fashion; and

WHEREAS, WAPA's cash flow has been negatively impacted by the price fluctuations of oil, efficiency issues associated with some of WAPA's generating units, the line losses, and by the slow payments by the Virgin Islands government accounts; and

WHEREAS, WAPA management has recently successfully negotiated a schedule of payments with at least one of the larger government past due accounts; and

WHEREAS, WAPA has recommended to the Legislature that a specific line item for utility payments be contained in all of the government agency budgets and that such line item be fully funded; and

WHEREAS, WAPA has further recommended to the Legislature that a special appropriation be made to pay off all prior year amounts due; and

WHEREAS, the Authority has requested that it be permitted to use funds in the amount of \$2.5 million currently available in the self-insurance fund established by the Commission to establish a fuel oil reserve in advance of the hurricane season; and

WHEREAS, the Authority has commenced and anticipates to complete by October 2004, in cooperation with the Commission's staff, the Condition Assessment of the Authority's current generating and desalinization facilities and will implement measures to increase the economic efficiency of its operations as identified by such study; and

WHEREAS the staffs of the Commission and WAPA have discussed the issues raised by WAPA's petition to amend the LEAC procedures and have jointly recommended that certain procedures to amend the LEAC and other related actions be implemented to improve WAPA's recovery of its fuel expenses and its cash flow position;

Now therefore it is ORDERED that:

1. WAPA shall continue to prepare adjustments to its LEAC factor on a semi-annual basis, and file its proposed adjustments a minimum of forty-five days before the effective date of the LEAC factor (January 1 and July 1 of each year); additional filings based on unexpected fluctuations in the price of fuel (increases and decreases) are permitted and shall be implemented as described below; and
2. The existing under-recovery balance as of January 1, 2004 shall be recovered through the LEAC completely by December 2006, or sooner. WAPA shall have the opportunity to accelerate the amortization by meeting or exceeding benchmarks for generation efficiencies and line losses as described below; and
3. WAPA shall include in the fuel clause reconciliation only those costs specifically approved by the Commission and provide a complete annual reconciliation of fuel expenses and revenues, prepared by WAPA's independent auditors, and filed with Commission no later than October 30<sup>th</sup> of each year; and
4. The Commission will support WAPA in its efforts to obtain legislation requiring all Territorial Government agencies and departments to include a line item within their budgets for utilities, to be fully funded and to be used solely for the purpose of paying utility bills; and
5. The Commission will support WAPA in its efforts to obtain a special appropriation to pay all prior year past due bills from Government Department and agencies; and
6. The Virgin Islands Energy Office is hereby requested to undertake and complete within 12 months of this Order energy efficiency audits of those departments that

are in arrears of their bills and implement all reasonable conservation measures indicated by such audits; when completed such audits will be presented to the Commission; and

Within any six month period (the "LEAC Period") WAPA shall be permitted to automatically adjust its LEAC factor if the actual price of fuel oil varies from the forecasted delivered price for any month by more than \$1.75 per barrel (higher or lower). WAPA shall implement this change for the remaining period of the LEAC by placing the new delivered price into the forecast in place of the original estimated price upon which the LEAC factor was based and was used by the Commission to establish the LEAC factor. In addition, for the remaining months of the then-current LEAC Period, the original estimated delivered price of oil will be replaced by the actual delivered price of oil in those months, as adjusted to so that any over or under recovery of fuel expenses in the current period will be recovered or returned as a fuel cost in the remainder of that LEAC period. WAPA must file with the Commission and its Technical Consultant invoices reflecting the change in the price of fuel and the revised schedules computing the amended LEAC factor 10 days prior to the effective date of the adjusted LEAC factor. A revised Tariff for the LEAC mechanism is attached to this Order; and

8. In accordance with Commission Order No. 29/2004, dated May 07, 2004, WAPA has filed benchmarks and milestones for reduction of losses for both the electric and water departments in its report Electric and Water System Loss Reduction Master Plan. The Commission's Technical consultants are directed to review the


filed benchmarks and to make recommendations to the Commission by September 30, 2004 regarding the adequacy of the benchmarks, as well as to make recommendations on an incentive mechanism to accelerate the January 1, 2004 fuel under recovery based on WAPA achieving or exceeding the proposed benchmarks; and

9. WAPA shall present to the Commission at the earliest possible date, but not later than October 31, 2004, the results and implementation recommendations of the Condition Assessment Study. The Commission will immediately review all of the implementation recommendations and issue appropriate orders for implementation within 60 days of receipt of the study. The Commission will establish a fuel efficiency benchmark estimating the fuel consumption that would occur without implementation recommendations of the Condition Assessment Study. WAPA will be permitted to use 25% of fuel efficiencies achieved above the established base line efficiency in order to accelerate recovery of the remaining January 1, 2004 deferred fuel balance. This incentive will expire no later than January 1, 2007 when the deferred fuel account balance is scheduled to be fully amortized. The Commission will entertain continued incentive mechanisms for fuel cost recoveries upon appropriate application of WAPA; and
10. WAPA is hereby permitted to use \$2.5 million from the self-insurance fund to purchase additional fuel reserves for the 2004 hurricane season. No later than April 1, 2005 WAPA shall redeposit into the self-insurance reserve the full amount utilized to purchase 2004 hurricane season fuel reserves. By April 1,

2005, WAPA and Technical Consultants will make recommendations as to whether the funding levels of the self-insurance reserves are adequate for current circumstances and recommend any proposed changes.

11. WAPA shall aggressively pursue alternative fuels and power so as to reduce the dependence of the Virgin Islands on oil, and lessen the vulnerability of the Islands to price increases in a single energy source.
12. This order shall expire on October 30, 2005.

So Agreed and Stipulated:

 08/09/04  
Alberto Bruno Vega,  
Executive Director,  
Virgin Islands Water and Power Authority

So Ordered:

Dated: 09 10, 2004

  
VALENCIO JACKSON  
Chairman

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