WAPA Structural Reform Proposal

A Framework for Restructuring the Virgin Islands Water and Power Authority
Through Competitive Generation, Community Rural Electric Cooperatives,
Grant-Funded Customer Debt Resolution, and Water Customer Services Devolution

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I. Background: Why WAPA Fails

The Virgin Islands Water and Power Authority (WAPA) is a public utility owned by the Government of the Virgin Islands (GVI) and regulated by the Public Services Commission (PSC). Despite repeated bailouts from GVI and various federal agencies, WAPA carries enormous financial burdens and is widely regarded as delivering inadequate, unreliable service for both electricity and water. Reform promises by political candidates have consistently gone unfulfilled because the problems are structural, not managerial.

Four dynamics keep WAPA chronically dysfunctional:

Captured regulation.
When the regulator (PSC) and the regulated entity are both creatures of the same government, real accountability is rare. Rate increases get approved to cover operational inefficiencies rather than forcing management reform.

Bailout moral hazard.
Every federal or GVI intervention removes pressure to fix underlying issues — procurement waste, overstaffing, aging infrastructure, and fuel contract arrangements that may not serve ratepayers.

Political employment.
Public utilities in small jurisdictions often function as patronage systems. Reforming headcount or management structures means making powerful political enemies.

Island energy and water economics.
The USVI's dependence on diesel and propane generation and desalinated water makes both power and water genuinely expensive — but that real constraint also provides cover for inefficiency that would not survive scrutiny in a competitive or accountable structure.

II. The Structural Reform: WAPA Genco, Disco, and CRECs

The proposal divides WAPA's functions into two separate entities and transitions distribution — and water customer services — to member-owned Community Rural Electric Cooperatives (CRECs).

WAPA Genco — Power Generating and Water Production Company

Continues to be owned by WAPA. Retains ownership and physical operation of all electric generating plants, fuel storage, water desalination plants, water storage tanks, water transmission mains, and high-voltage electric transmission infrastructure. Sells wholesale electricity to CRECs at transparent, audited cost-of-service rates and produces potable water for wholesale sale to CRECs at an independently set Water Wholesale Rate.

Disco — Power and Water Distribution

Initially transferred to a holding company pending formation of CRECs. Disco's assets — electric poles, wires, meters, substations, water distribution infrastructure, water meters, and all customer accounts — ultimately transfer to the CRECs once formed and capitalized.

Community Rural Electric Cooperatives (CRECs)

Multiple non-profit CRECs would be created, geographically organized as follows:

- One CREC for each historic town in the Territory
- One CREC on each island to serve suburban areas
- One CREC on each island to serve rural areas and large industrial and commercial customers

Each CREC is governed by an independent board elected from among its member-customers. WAPA Genco contracts with CRECs to distribute both power and water through existing infrastructure. CRECs have full authority to develop microgrids, purchase power from any licensed producer, perform all water customer services, and deploy broadband.

Why This Structure Works

- Genco/Disco separation mirrors restructuring done in many jurisdictions to break vertical integration that allows cross-subsidization and hides inefficiency.
- CRECs as the Disco vehicle are well-suited to the USVI. Rural electric cooperatives have a strong national track record — lean, locally accountable, and resistant to patronage dynamics.
- Water customer services devolution to CRECs replaces centralized WAPA billing dysfunction with community-based meter reading, billing, and dispute resolution, creating direct local accountability for service quality.
- Microgrid authority is particularly suited to island geography. Each CREC can pursue solar-plus-storage buildout, organically reducing dependence on WAPA Genco's fossil fuel

generation.

III. WAPA Genco Rate Structure

Rather than a mandate to sell at undefined “lowest wholesale rates” — which is financially destabilizing and legally ambiguous — WAPA Genco should operate under a cost-of-service base rate with a declining renewable premium schedule. Separate rate structures apply to electric wholesale sales and water wholesale sales.

Electric Cost-of-Service Base Rate

WAPA Genco charges CRECs a fully transparent, annually audited cost-of-service rate comprising:

- Actual fuel costs (no markup beyond verified procurement cost)
- Operations and maintenance expenses
- Debt service on generation assets — subject to prudence review (see Section IV)
- A reasonable regulated return, set by the Territorial Energy Authority

Water Wholesale Rate

WAPA Genco sells potable water wholesale to CRECs at a separately set Water Wholesale Rate covering prudently incurred costs of desalination, treatment, storage, and transmission to CREC service points. CRECs add their own water distribution, metering, billing, and customer service costs and establish member water rates subject to Authority approval. Electric and water costs are separately reported and audited.

Declining Electric Rate Schedule Tied to Renewable Transition

- Every 10% reduction in WAPA Genco’s fossil fuel dependency triggers a 5% reduction in the base wholesale electric rate to CRECs
- Milestones are verified by an independent technical auditor, not WAPA self-reporting
- Rate reductions are permanent — WAPA Genco cannot reclaim them if fossil fuel use temporarily rises due to equipment failure

Net Metering Credit

CRECs that develop their own generation and feed surplus power back through the WAPA transmission grid receive a net metering credit against their grid rental fee.

Industrial/Commercial Customer Benchmark

Large industrial and commercial customers served directly by WAPA Genco pay a separate Authority-regulated tariff. If WAPA Genco charges CRECs more than it charges direct commercial customers on an equivalent energy basis, CRECs have legal standing to challenge the rate as discriminatory.

IV. The Propane Conversion Problem

In recent years WAPA undertook a large-scale and enormously costly conversion of its generating plants from diesel to propane. This investment represents a significant sunk capital charge on WAPA Genco's books and has direct implications for the rate structure, the transition timeline, and the integrity of the reform proposal. It must be addressed explicitly.

What the Proposal Must Require

Independent prudence review.
Before the propane conversion debt is loaded onto WAPA Genco's cost-of-service rate base, an independent prudence review must determine what portion was reasonably incurred. Ratepayers are only obligated to recover prudently incurred costs.

Stranded asset valuation mechanism.
An independent appraisal of the propane infrastructure's actual useful life and recoverable value should be completed before the cost-of-service rate is set.

Competitive procurement requirement going forward.
Any future WAPA Genco capital investment above $5 million — whether for electric generation or water production — must be competitively procured and independently reviewed before commitment.

Fuel cost pass-through transparency.
Propane fuel costs must be reported separately from capital debt service in WAPA Genco's audited cost-of-service filing.

V. Water Customer Services Devolution

One of the most significant expansions in the Final Draft TEA Act is the explicit devolution of Water Customer Services from WAPA to CRECs through Disco. This addresses chronic billing errors, unresolved customer disputes, and the lack of local accountability that has characterized WAPA's centralized water billing operation.

What CRECs Take Over from WAPA

- Water meter reading — each CREC reads all customer water meters within its service territory on an Authority-approved billing cycle
- Water billing — each CREC issues bills to member-customers for water service, optionally consolidated with electric service into a unified member bill; water charges collected are remitted to WAPA Genco at the Water Wholesale Rate, net of approved CREC water distribution and customer service costs
- Water customer service — local customer service function handling all water inquiries, billing disputes, payment arrangements, and service quality complaints
- New water service connections — CRECs process applications and coordinate with Disco and WAPA Genco for physical connection
- Water service disconnections and restorations — administered by CRECs in accordance with Authority standards and member protections

What WAPA Genco Retains

WAPA Genco retains ownership and operation of all physical water production infrastructure: desalination plants, water storage tanks, and water transmission mains. Disco retains responsibility for physical maintenance and capital repair of water distribution infrastructure from WAPA Genco transmission mains to CREC service territory boundaries. CRECs handle last-mile water distribution within their service territories.

Member Protections on Water Billing

CREC bylaws must include procedures for member challenge of water billing disputes, including:

- A right to an independent meter test at no cost to the member once per twelve-month period
- A right to a billing adjustment for any error exceeding 5% of the disputed bill

The Authority establishes Water Customer Services standards applicable to all CRECs within 120 days of the effective date, covering meter reading accuracy, billing transparency, dispute resolution timelines, low-income protections, and service quality reporting. Each CREC reports performance data quarterly; the Authority publishes it annually.

VI. CREC Powers and Authority Under Federal Law

Under PURPA, the Federal Power Act, the Rural Electrification Act, and related federal frameworks, CRECs in the USVI can be structured with broad authority. Legislation enabling CREC formation expressly incorporates the full scope of federally available powers.

Core Electric Powers

- Generate, purchase, transmit, distribute, and sell electricity to members and eligible customers
- Own and operate microgrids, solar arrays, battery storage, wind, and other distributed energy resources
- Enter power purchase agreements with any FERC-qualified facility or independent power producer
- Aggregate member demand for wholesale power purchasing
- Develop and operate electric vehicle charging infrastructure

Water Distribution and Customer Services

- Purchase potable water wholesale from WAPA Genco through Disco’s distribution infrastructure
- Perform all Water Customer Services within the CREC’s service territory
- Issue unified electric and water bills to member-customers
- Establish low-income payment assistance programs for water service

Broadband and Telecommunications

- Build and operate fiber, fixed wireless, and other broadband infrastructure using inherited WAPA pole infrastructure
- Negotiate IRU agreements on submarine fiber cable systems individually or in consortium
- Access USDA ReConnect grants, NTIA BEAD, and FCC broadband funding programs

- Offer broadband services to members as a cooperative benefit

Financial Powers

- Issue tax-exempt bonds as nonprofit cooperative entities
- Access USDA Rural Utilities Service loan and grant programs
- Receive federal grants directly from FEMA, DOE, HUD, USDA, FCC, and NTIA
- Issue green bonds for renewable energy, grid resilience, water efficiency, and broadband infrastructure
- Establish capital credit programs covering electricity, water, and broadband revenues

VII. Customer Debt Resolution Mechanism

A significant challenge in transitioning customers from Disco to CRECs is the large volume of outstanding customer arrearages on WAPA's books — many of which are disputed due to WAPA's notoriously inaccurate billing practices for both electric and water service, including estimated bills, meter failures, and billing system errors.

The Mechanism

CRECs purchase both electric and water customer accounts from Disco — including outstanding arrearages — at a negotiated discount, then seek grant funding to extinguish those balances. Customers receive a clean $0 starting balance in both their new CREC electric and water accounts.

Discounted Purchase Price

CRECs should acquire disputed arrearages at a negotiated discount of 30 to 50 cents on the dollar, reflecting realistic collectability and dispute rates for both electric and water balances.

Grant Funding Sources

- FEMA Hazard Mitigation: Unresolved utility debt as a barrier to household resilience investment
- HUD CDBG-DR: Energy and water utility debt relief for low-to-moderate income households
- USDA Rural Development: Debt relief tied to CREC formation as part of the cooperative capitalization package
- DOE Energy Equity Programs: IRA funding for energy access in underserved communities
- Philanthropic Capital: Foundations focused on Caribbean resilience and climate equity

VIII. Transition Financing Alternatives

The transition requires financing for three distinct needs: (1) resolution of WAPA's legacy debt; (2) capitalization of newly formed CRECs; and (3) infrastructure investment — grid hardening, water infrastructure maintenance, microgrid development, renewable generation buildout, and broadband deployment. Multiple mechanisms are available and should be layered strategically.

Legacy Debt Resolution

- GVI Debt Assumption (after prudence review of propane conversion) — prerequisite for clean CREC balance sheets. Revenue bonds may be backed by both WAPA Genco electric revenues and water wholesale revenues.
- USVI Public Finance Authority Revenue Bonds — backed by the restructured rate stream including CREC grid rental fees

CREC Capitalization

- USDA Rural Utilities Service (RUS) Loans and Grants — for both electric cooperative formation and water distribution infrastructure
- New Markets Tax Credits — effective 39% subsidy on qualified investments over seven years
- DOE Loan Programs Office — Title XVII loan guarantees for clean energy projects
- IRA Direct Pay — structure all CREC solar and storage procurements to maximize direct pay benefits from day one

Infrastructure Investment

- FEMA BRIC Grants — microgrid development and grid hardening
- DOE Grid Resilience Grants — island territories specifically identified as priority recipients
- USDA ReConnect and NTIA BEAD — broadband last-mile and middle-mile deployment
- Green Bonds — for renewable energy, grid resilience, water efficiency, and broadband infrastructure

IX. Key Risks and Mitigations

Propane conversion debt and stranded assets.
A mandatory prudence review and stranded asset valuation must be completed before the rate base is set. Failure to address this allows imprudent past decisions to permanently burden CREC ratepayers.

Transition period vulnerability.
Moving Disco assets to a holding company creates a period of maximum operational and financial risk. An independent transition oversight body with statutory authority must be established to manage this period and enforce milestones.

Water Customer Services transition risk.
CRECs must establish metering, billing, and customer service capabilities before assuming water customer services. The Authority's Water Customer Services standards and the 18-month formation timeline must be coordinated to ensure no gap in service.

Unequal CREC financial viability.
CRECs serving historic towns versus rural areas will have radically different customer density and creditworthiness. Minimum viable scale criteria should be established, or initial CRECs consolidated into fewer entities with subdivision authority as financial strength develops.

Political resistance.

WAPA functions partly as a patronage system. Legislation must include clear transition employment protections, retraining provisions in clean energy, broadband, water systems operations, and Water Customer Services administration.

X. Recommendations

1. Pursue a USVI-specific TEA Act establishing WAPA Genco's competitive electric and water wholesale role, CREC formation authority, Water Customer Services devolution, and open access transmission in territorial law.
2. Commission an independent prudence review of the propane conversion investment before loading any debt service onto the cost-of-service rate base.
3. Complete an independent appraisal of propane infrastructure useful life and recoverable value.
4. Mandate competitive procurement and independent review for all future WAPA Genco capital investments above $5 million — whether for electric generation, water production, or shared infrastructure.
5. GVI assumes WAPA's pre-restructuring debt (after prudence review) in exchange for the Disco asset transfer. Revenue bonds may be backed by both electric and water wholesale revenues.
6. Form CRECs early. Legal incorporation during the transition period establishes grant eligibility and allows CREC boards to begin community engagement and financing work before Disco asset transfer.
7. Establish the Territorial Energy Authority as a statutory body with jurisdiction over both electric utility regulation and Water Customer Services standards.
8. Mandate annual independent audits of WAPA Genco's electric generation AND water production cost components, with public disclosure and separate reporting.
9. Promulgate Water Customer Services standards within 120 days of the effective date, covering meter reading accuracy, billing transparency, dispute resolution timelines, and low-income protections.
10. Expressly authorize CRECs to deploy broadband infrastructure, negotiate IRU agreements on submarine fiber cables, and access all federal broadband funding.
11. Structure all CREC solar and storage procurements to maximize IRA direct pay tax credit benefits from the outset.
12. Enroll every customer — electric and water — as a CREC member-owner at the moment of account transfer.