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U.S. Virgin Islands Utility to Test Bond Market.

Island's power monopoly seeks private bond sale

The U.S. Virgin Islands' public utility is asking Wall Street to help finance an upgrade of its energy infrastructure as unpaid bills pile up and conflict with its regulator escalates.

The Virgin Islands Water & Power Authority, or WAPA, expects to privately sell up to $85 million in debt by next month, according to people familiar with the matter. The sale, managed by Atlanta-based broker-dealer IFS Securities Inc., is open to select investors and won't carry a rating from the major credit rating firms, these people said.

A WAPA spokesman didn't return requests for comment. A spokeswoman for WAPA's regulator, the Virgin Islands Public Services Commission, also declined to comment.

A successful sale would signal that credit markets aren't closed to WAPA despite dwindling cash balances, large capital needs and rocky relations with its regulator. Credit ratings firms have hammered the utility with downgrades into junk status over the past year.

The Virgin Islands has never defaulted on its debt obligations, but its financial standing is top-o--mind for investors in the U.S. municipal bond market following the financial collapse of Puerto Rico, a Caribbean neighbor 80 miles away. The U.S. territories share common fiscal problems including high debt levels, mounting pension costs, outdated infrastructures and shrinking tax bases.

Those troubles extend to WAPA, the power monopoly serving the Virgin Islands' roughly 105,000 inhabitants. The PSC has refused since January to approve a requested rate increase, prompting a public war of words with WAPA, and with cash flows under pressure the utility is behind on its supplier bills. The utility relies on the PSC to approve customer rates that cover the cost of generating and distributing power.

WAPA was forced over the weekend to switch to burning oil at its generation plants after Vitol Group suspended shipments of liquefied petroleum gas, their usual fuel source. After the announcement, the PSC said WAPA had failed to explain why the invoices had gone unpaid when the rates charged to customers should cover the cost of fuel deliveries.

"Those costs are not surprises, and are included in WAPA's rates, but not being paid," the regulator said.

Oil supplier Glencore Ltd. also cut off shipments temporarily in January, according to the PSC. Trafigura Trading LLC, another vendor, recently won a $24 million court judgment against WAPA over unpaid bills.

Proceeds from WAPA's planned bond sale would cover costs associated with the conversion of its generating units to liquefied propane, a cleaner-burning fuel than oil. Yields on the proposed sale have risen during the marketing process to placate prospective investors, and terms may change further before the deal is completed, a person familiar with the matter said.

WAPA owes $253 million in bond debt, according to its financial disclosures.

Twice in the past six months, the Virgin Islands has tried and failed to sell debt amid fears it could wind up under a restructuring proceeding similar to what Congress designed for Puerto Rico. A federal rescue law passed last year allows Puerto Rico to restructure its debts outside the U.S. bankruptcy system, which the U.S. territories can't access.

"It certainly casts a heavy shadow on our approach to the market," said Valdamier Collens, commissioner of the Virgin Islands Department of Finance. "We're very aware of the contagion effects."

Like Puerto Rico, the Virgin Islands isn't funded on an equal basis with U.S. states in federal health-care, highway and tax programs, Mr. Collens said. A five-year plan adopted by the Virgin Islands in December calls for raising property tax levies, timeshare fees and "sin taxes" on cigarettes and alcohol while improving revenue collection and cracking down on past-due taxes.

The Virgin Islands has relied increasingly on bond proceeds to pay operating costs while contributing less to pension plans. That borrowing has increased its debt to a level similar to that of Puerto Rico, on a per capita basis.

Meanwhile, Puerto Rico's creditors are bracing for a potentially lengthy legal fight over how to restructure a $73 billion mountain of debt.

The federal oversight board that placed Puerto Rico under court protection is pushing a fiscal plan that pays creditors less than a quarter of the $35 billion they are owed over the next decade. Creditors are scheduled to face the board in court for the first time on May 17 as its benchmark general obligations tumble to all-time lows in the wake of the oversight board's action.

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