

**Statement of the Honorable Ricardo Antonio Rosselló Nevares
Governor of Puerto Rico**

Before the
U.S. House Committee on Natural Resources
Subcommittee on Indian, Insular and Alaska Native Affairs

March 22, 2017

Good morning Chairman Bishop, Chairman LaMalfa, Ranking Member Torres, Vice-Chairman Jenniffer Gonzalez and members of the Subcommittee. Thank you for the opportunity to appear today before the Subcommittee to discuss issues related to Puerto Rico's energy infrastructure and financial restructuring.

As you know, my tenure as Governor of Puerto Rico began less than three months ago, on January 2, 2017. Despite having only been in office for a limited time, I have always had an appreciation of how crucial the work done before this committee and the US Congress is to the economy of Puerto Rico and, most importantly, to the welfare of the citizens of Puerto Rico.

I understand the Subcommittee is interested specifically in the ongoing restructuring of the Puerto Rico Power Authority or "PREPA." Before addressing the specifics of the PREPA restructuring, it is important to recognize the critical need to transform the energy infrastructure of the Island. Puerto Rico needs a reliable, cost-effective and efficient electrical system, as well as an effective program of conservation and maximization of its water resource in order to support the island's socio-economic transformation. My vision for PREPA is one that involves a modern and resilient transmission and distribution system with diverse sources of fuel including renewables and supported by private capital to invest in new and efficient generating capacity. The goal is to be able to deliver reliable energy at sustainable rates to the people and businesses of Puerto Rico. That vision includes a successful restructuring of PREPA.

I also note that in the past, PREPA was frequently cited as an example of governmental dysfunction where political considerations overrode true economic goals. In that regard, it is my view that the restructuring of PREPA must incorporate a governance model that facilitates investor and consumer confidence and minimizes political interference. At the same time, PREPA's governance cannot be disconnected from the overall energy policy of the Island. In my view, the appropriate governance structure is one that takes into account the concerns of all stakeholders.

Unfortunately, PREPA's challenges, including its aging infrastructure and significant debt burden, have resulted in inefficiencies and rising costs which in turn have caused Puerto Rican residents and businesses to endure high electricity costs. Today, we pay substantially more for electricity than do residents in the continental United States, and this in an economy where the median family income is approximately 33% of that in the United States. The high electricity costs negatively impact both the ability of Puerto Rico to attract capital and to compete in a global economy. This situation is not sustainable for our residents or for our economy.

Since I took office, my team has worked diligently to assess both the long-standing and fundamental operational challenges facing PREPA and the proposed transaction set forth in the Restructuring Support Agreement or RSA that was negotiated by the prior administration with significant creditor constituencies. While we recognize and appreciate the efforts that many parties put into the RSA and understand that it provides a useful framework for discussion, my administration believes that any consensual restructuring requires modifications to the terms set forth in the RSA. Without providing an exhaustive list, our concerns include: #1, the impact of the transition charge on Puerto Rican rate-payers, #2, the effect the transaction may have on the capital and liquidity available to PREPA to complete its operational transition, #3, the failure of certain creditor groups to provide significant concessions, #4 the reality that the RSA does not provide for sufficient capital to close the transaction, and lastly #5, that, under the current conditions, the RSA would not be sustainable for bondholders.

After the RSA was signed in December of 2015, Congress, aided by this Subcommittee, passed PROMESA, which was signed into law by the President on June 30, 2016. It is noteworthy that Congress specifically stated in the very last provision of PROMESA that it was its sense that “any durable solution for Puerto Rico’s fiscal and economic crisis should include permanent, pro-growth fiscal reforms that features, among other elements, a free flow of capital....” I share that belief.

A critical part of PROMESA’s effectiveness, stems from the creation and certification of a fiscal plan. After much work, collaboration and thoughtful exchange, the Oversight Board’s certification of our fiscal plan on March 13th represented an important first step in moving forward with Puerto Rico’s good faith negotiations with its creditors and stakeholders. Our plan was validated because we had the opportunity to elaborate it, giving careful consideration to both our fiscal objectives, and the best interests of the people of Puerto Rico.

Efforts now turn to consensual agreements under the Title VI process and avert a potentially costly and litigious bankruptcy-type proceeding under Title III. My administration fully supports and is pursuing these types of consensual agreements as the most productive path for Puerto Rico to emerge from its current fiscal and economic crisis, as quickly as possible.

I recognize that certain PREPA constituents would prefer that we simply accept the deal in the RSA without review or modification. But these constituents must recognize that PREPA’s restructuring does not exist in isolation. PREPA’s restructuring is an important component of Puerto Rico’s overall restructuring efforts and central to Puerto Rico being able to meet its overall fiscal plan. As a result, any RSA or other transaction with constituents must provide and allow for not only an acceptable financial restructuring but also must lead to a transformed, rationalized and operationally improved PREPA. Our objective here would be to offer broad economic upside based on utility efficiencies, a sustainable and affordable rate structure, public/private infrastructure investment and reliable energy for Puerto Rican consumers.

I believe it would be irresponsible to simply accept the terms of any financial restructuring without fully understanding the path it provides for PREPA to improve its

operations, increase its reliability, diversify and access new capital. Our analysis of PREPA's operations and the interplay with the RSA is on-going and we continue to focus on potential modifications to the RSA that would recognize the interests of Puerto Rican rate payers as well as creditors and other constituents. I am committed to continuing this hard work toward a meaningful restructuring in order to transform PREPA into a modern utility that will support the people of Puerto Rico and a strong and growing Puerto Rico economy.

We were able to achieve what many thought was impossible, a fiscal plan that was comprehensive, thoughtful, addressed fiscal and economic concerns, and the well being of the people of Puerto Rico. Now, we aim to do the same with the RSA.

Thank you again for the opportunity to discuss these issues.