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Good morning Chairman Grijalva, Ranking Member Bishop, and members of the Committee. Thank you for the opportunity to appear before you today to discuss the rebuilding and transformation of the Puerto Rico Electric Power Authority (or “**PREPA**”). As the Committee knows, following Hurricane María, Puerto Rico embarked on an historic effort to transform its energy system. Governor Ricardo Rosselló set out his vision to create a consumer-focused, efficient, resilient, and environmentally-friendly grid system that delivers affordable electricity to the people of Puerto Rico. This system would include, among other things, an independent transmission and distribution (or “**T&D**”) operator, established under a public-private partnership, who could present a stable strategy, leadership team and execution procedures for the grid system going forward. PREPA has taken significant steps to make this vision a reality, and the process of transforming the T&D system is now well underway. This has happened at a unique time of consensus in Puerto Rico. We have recently seen the passage of the bipartisan Puerto Rico Energy Policy Act, for example; and under the leadership and cooperation of the Governor, Puerto Rico’s Public Private Partnership Authority (or “**P3 Authority**”), the Fiscal Oversight and Management Board for Puerto Rico (or “**FOMB**”) and the Puerto Rico Fiscal Agency and Financial Advisory Authority (or “**AAFAF**”), we see a general alignment of spirit and direction. Today, I will highlight the steps PREPA has taken to move things forward and the areas where Puerto Rico needs continued support.

Recent Developments and Progress within PREPA

1. We have brought in independent leadership to PREPA’s Governing Board that added substantial experience in the electric utility industry and public sector to the leadership team.
2. We have tightened up our finances in line with the Fiscal Plan, paid down \$300 million in debt and improved our liquidity. Revenues have increased 8% above budget, and we have reconnected 100% of our customers.
3. We have improved grid system efficiency through various initiatives, and are working to improve the reliability and resiliency of the grid system through vegetation management and strategic placement of mobile generation.
4. We have secured major fuel cost savings and reduced reliance on petroleum fuels. Our transformative achievements regarding PREPA’s San Juan Units 5 & 6 represent the primary example of this. For that project, we ran a competitive bid process that attracted over 60 registered participants and 6 credible offers, and accepted the offer with the lowest delivered fuel price, the highest level of cost savings and the strongest commitment to deliver gas earlier and on more flexible terms than any other offer. The contract represents the most flexible fuel supply agreement in PREPA’s portfolio, and could generate fuel cost savings of \$500 million over five years and \$80-\$100 million in FY 2019-20. The conversion reduces emissions, improves air quality and brings natural gas to the north of Puerto Rico for the first time. We are pleased to have executed the deal with the Energy Bureau and FOMB approval.

5. At the same time, we are renegotiating contracts with independent power producers (both thermal and renewable) to reduce the cost of purchased power, while working with the FOMB to fast track renewable energy project development.
6. We have also improved customer service and cash collections by (i) launching an e-billing initiative; (ii) setting up the introduction of “Smart Meters”; and (iii) seeking to provide an on-island, overflow call center to augment the existing call center.

Working Together to Set the Infrastructure Vision

7. We are working with the Energy Bureau, the Central Office of Recovery, Reconstruction and Resiliency (or “**COR3**”) and the P3 Authority to plan the electrical infrastructure build-out. This infrastructure will include a hardened T&D grid, micro-grids, an improved dispatch capability, better overall system operational flexibility and the capability for rapid restoration in an emergency. We will design the system to withstand a category 4 storm (like María) with sufficient margins to ensure high survivability for a category 5 storm. Puerto Rico’s electric generation mix will incorporate large amounts of renewable generation, supplemented by battery energy storage systems, as well as modern, highly efficient and flexible conventional generation fired by clean-burning natural gas. This mix will yield energy cost savings that could approach \$1 billion per year for Puerto Rico electricity consumers, and should result in CO2 emissions reductions of up to 50 percent in 10 years.
8. To reach these objectives, PREPA, COR3 and the P3 Authority have worked together to develop the Energy Grid Modernization Plan (or the “**EGM Plan**”). The EGM Plan sets out a roadmap for a transformation that will result in a more flexible and decentralized grid. It envisions around \$21 billion in capital expenditures, with a significant share coming from the Federal Emergency Management Agency (or “**FEMA**”).
9. We have also worked with the Energy Bureau on the new Integrated Resource Plan (or the “**IRP**”). As filed, this plan reflects most of the generation elements of the EGM Plan. While the Energy Bureau issued an order noting the IRP did not comply with its regulation and prior orders, this was not unexpected given the highly technical nature of the IRP. We have started revisions to the IRP and requested additional time to re-file.
10. While the IRP remains under review, PREPA, COR3 and the P3 Authority have decided to continue soliciting proposals to develop the projects needed for Puerto Rico. PREPA has collaborated with these agencies in the development of Requests for Proposals (or “**RFP**”) related to battery energy storage, rooftop solar, peaking units and hydroelectric units. We have received a number of proposals from qualified bidders for battery energy storage, but final bid review requires availability of FEMA funding and/or a government guarantee.

Progress in Public-Private Partnership Arrangements

11. Against this backdrop, the transformation of PREPA’s T&D system has progressed well. The P3 Authority invited four pre-qualified respondents to submit responses to the transformation RFP and organized management presentations for some respondents last week and this week. We target execution of the T&D system partnership contract by the end of 2019.
12. The transformation of PREPA’s existing generation assets, which remains in the early stages, will take place in a process, not yet finalized, independent from the T&D transformation. We expect this to get started in the coming months, and PREPA will continue working with AAFAF, the P3 Authority, FOMB and other stakeholders to ensure a smooth process.

Federal Support Still Needed

13. So far today, I have discussed our vision for Puerto Rico's grid system, but in truth, we need continued federal support to fully achieve it. PREPA remains eligible for FEMA disaster relief funding and for funding of permanent works. PREPA has requested through COR3 \$2.5 billion in FEMA funding to support rebuilding and hardening its T&D system to withstand future hurricanes. As of April 1, 2019, FEMA had obligated \$1.88 billion in Category B funding for PREPA's benefit, of which it had disbursed \$1.34 billion. FEMA has obligated no dollars for permanent works, and PREPA and COR3 continue discussing the cost estimate with FEMA for such works. These funding delays have prolonged the period in which Puerto Ricans remain vulnerable to weather events affecting the grid.
14. PREPA also needs support to obtain a temporary waiver of the Jones Act. While Puerto Rico would like to buy American liquefied natural gas, no LNG carriers that qualify under the Jones Act exist to move LNG in bulk quantities from the U.S. mainland to Puerto Rico. Unless Puerto Rico receives a Jones Act waiver until a sufficient number of qualifying LNG carriers become available to transport LNG from the U.S. mainland to the island, Puerto Rico will lose hundreds of millions of dollars in savings from low-priced U.S. LNG supply sources, and U.S. LNG suppliers will also lose the opportunity to enter the Puerto Rico market.

Conclusion

As I hope you can see, PREPA has made significant progress in rebuilding Puerto Rico's electric system and restructuring PREPA itself, with the support and cooperation of AAFAF, the P3 Authority, COR3, the FOMB and the Energy Bureau. PREPA has undertaken these efforts within real financial constraints during the transformation of Puerto Rico's energy sector – a truly complex challenge. The federal government's support remains critical to our success, however, including regarding the high priorities of (1) expediting the flow of federal funds and (2) obtaining a limited Jones Act waiver for U.S. LNG supply. Working together, we can emerge from Title III with a strong, revitalized and modern electric system that affords the people of Puerto Rico the ability to grow our economy sustainably and resiliently. Thank you for the opportunity to appear before this Honorable Committee and provide this testimony.