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Before the
U.S. House of Representatives Committee on Natural Resources

The Status of the Rebuilding and Privatization of the
Puerto Rico Electric Power Authority
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Chairman Grijalva, Ranking Member Bishop, and Members of the Committee:

My name is Tomás Torres. I am the Executive Director of the Puerto Rico Institute for a Competitive and Sustainable Economy (ICSE). I am also the consumers representative on the Board of Directors of PREPA. Thanks for the opportunity to appear before this Committee. My testimony today is not on behalf of the PREPA Board, but on behalf of ICSE.

As Executive Director of the ICSE I had the privilege of participating in the three main efforts that helped craft the new Puerto Rico energy policy. Those efforts include the Public Collaborative for Puerto Rico's Energy Transformation, the Puerto Rico Senate Advisory Committee on Energy and the Southern States Energy Board Blue Ribbon Task Force.

The Public Collaborative, developed by the ICSE in conjunction of Rocky Mountain Institute, convened leaders from many sectors of society to define the future of the Puerto Rico electric system. During four days of focused discussions, concerned citizens from a wide variety of Puerto Rican organizations came together. Four main areas for change were identified in this effort: (1) A New Vision for Self-Sufficiency and Credibility; (2) The need for an Independent Regulator with Enforcement Powers; (3) The creation of a Modern Regulatory Framework and Integrated Resource Plan (IRP); and (4) The need to Involve Cooperatives and Municipalities in this Transition.

The three above mentioned efforts resulted in the creation of the Puerto Rico Energy Policy Act which was approved by the Puerto Rico Senate and by the Puerto Rico House of Representative, now pending ~~for~~ the signature of the Governor.

The situation is really complex. It is a "perfect storm" situation were the actual hurricanes massive impact, plus deteriorated infrastructure mixed with collapse finances created an unmanageable debt burden.

For the transformation of the Puerto Rico grid to be successful, not only is the enactment of an energy policy needed, but also an implementation strategy that considers the island's complex situation. This strategy must consider the utility's legacy debt and the massive resources needed to rebuild the grid. The Build Back Better Plan has estimated the cost of rebuilding the power system is $17.6 billion; the Central Office for Recovery Reconstruction and Resiliency (COR3) has estimated this effort to be $26 billion. In addition to these amounts, there are another $10 billion of PREPA's debt, now in bankruptcy proceedings under Title III of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). The scale of these amounts indicate that funds required to rebuild the electrical grid cannot come from PREPA and its costumers alone or solely from privately-owned capital investments. Even if available, relying primarily in privately-owned capital investments would result in very high electricity rates, well beyond Puerto Rico electricity consumers' ability to pay. The total value of Puerto Rico's debt amounting to $73.8 billion, precludes that reconstruction funds come from local government resources. Reconstruction needs to be accomplished primarily through reconstruction funds from the Federal Emergency Management Agency, as well as other federal agencies.

Other aspects of Puerto Rico's current situation need to be considered for any transformation effort to be effective. Key considerations include the following:

Technology. Electricity generated by consumers costs less than building new generation facilities because it is generated in the distribution grid at load centers, reducing the need for transmission systems. If consumers do not feel incentivized to remain on the grid, they have the option to disconnect, and operate off grid. This new paradigm, if properly managed, can not only be for the benefit of consumers but for the benefit of the utility as well. It points to a scenario of less central investment with a deeper focus on distribution.

Resiliency. After the 2017 hurricanes it became evident that power sources need to be closer to the point of end use. Photovoltaics with battery storage systems proved to be a steady source of power in the aftermath of those events, especially for basic and medical-therapeutic home needs. The installation of photovoltaic and battery storage systems and its financing to electricity consumers could be a way for the utility and system operator to implement the

new paradigm of distributed energy. It would increase their income, while satisfying resiliency needs.

Population Decrease. Based on U.S. Census Bureau population estimates, for nearly a decade Puerto Rico's population declined by five hundred thirty-one thousand, equivalent to 14.1 percent according to data from April 2010 to July 2018. The Census Bureau projects a population of two million nine hundred eighty thousand in 2025 and two million eighty-nine thousand in 2050. A reliable and affordable electric system that propels Puerto Rico's economic development can be an important tool to reverse this trend.

Socioeconomic Conditions. Considering data for year 2017, Puerto Rico has a gross domestic product of one hundred four billion dollars, which has decreased for the past ten years by 8.6 percent – at constant pricing values, not considering inflation. Before the 2017 hurricanes Puerto Rico had 44.9% of its population below poverty levels (now estimated over 50%).

High electricity rates are not a viable way to recover costs associated with the reconstruction of its electrical system. It is not real, it is not practical. The PREPA Fiscal Plan certified by the Financial Oversight and Management Board (FOMB) in August 2018, states that it is intended to provide low-cost, clean, and resilient power at a rate below 20 cents per kilowatt-hour. Previous declaration of Andrew Wolfe, economic advisor to the FOMB, as part of PREPA Tittle III PROMESA proceedings, and Fiscal Consultant for the Inter-American Development Bank, points out that raising PREPA's blended rate to anything over 21.4 cents per kWh would greatly increase the risk of reducing economic growth below the minimum amount of real economic growth necessary for Puerto Rico to achieve fiscal and debt sustainability. Considering that current rates are at 22 cents per kilowatt hour, without including the recovery of legacy debt, the implications for recovery strategy are clear: Puerto Rico needs to rebuild its electrical grid without raising electric rates, which already are above sustainable levels, and achieve rates below 20 cents per kilowatt-hour.

Transparency. Transparency contributes to the legitimacy of public processes. Electricity consumers validate planning and rate review processes, as they are allowed to participate in regulatory proceedings. Lack of transparency and public participation can negatively affect regulatory processes that in turn could lead to defective planning and insufficient reconstruction funds resulting in high electricity rates that cannot be carried by consumers.

In summary, the challenge ahead is bigger than the restoration of the Puerto Rico electrical system; it is reversing the long-term trend toward declining population and declining gross domestic product to provide Puerto Ricans a better future. Financial strategies need to be realistic, calibrated to the financial capacity of Puerto Rican ratepayers, including PREPA's legacy debt restructuring, and the timely allocation of reconstruction federal funds. Neither sustainable debt restructuring, nor access to federal funds can be achieved without trust in Puerto Rican institutions. This requires transparent public processes, and the development and strict adherence to objective, non-partisan standard regulatory procedures.

We appreciate the opportunity to offer our testimony as part of this hearing. We are optimistic about Puerto Rico's future. A new and better electricity grid can be built, one which takes advantage of the latest technologies and policy innovations, following the foregoing principles to build a promising future for all the citizens of Puerto Rico.

Thank you, and I am ready to answer your questions.