

Testimony of
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Committee on Natural Resources
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Mr. Chairman and members of the subcommittee, thank you for inviting me to discuss our perspective on some of the energy challenges faced by Puerto Rico.

I would like to start out by pointing out a few simple facts that underscore the urgency of our work.

Electricity is an essential building block of the modern world. Application of affordable and dependable energy makes everything we do – food production, manufacturing, health care, transportation, heating and air conditioning – better.

Nations that have reliable and low cost electricity systems are better able to do things – refrigerate vaccines, grow and transport enough food for their citizens, treat wastewater -- that improve life. Their citizens live longer lives and have a greater range of opportunities.

In short, we are talking about something very important today.

In our experience, there are three important components – profitable companies, satisfied consumers, confident investors -- of any healthy economic sector. Profitable companies need satisfied consumers. Consumers need to get a good and dependable product at prices they can afford. Investors need assurances that the company is run well and that political involvement is limited.

EcoEléctrica

EcoEléctrica was the first independent power producer to supply clean, reliable and safe energy at a competitive cost to the Puerto Rico Electric Power Authority (PREPA) under a twenty-two (22) year Power Purchase Agreement (PPOA). Our facility includes a 507-megawatt power plant and a Liquefied Natural Gas (LNG) terminal with a regasification capability of 366 million cubic feet of gas per day that could be expanded if the sector is developed properly.

The 507 megawatts represent approximately 9% of the total installed power capacity on the island, but supplies up to 17% of the total electricity consumed on a daily basis.

The shareholders of EcoEléctrica -- Gas Natural Fenosa, Engie (formerly known as GDF Suez) and Mitsui & Co. -- are among the largest operators of power plants and gas suppliers, throughout the world. These three shareholders have the combined financial resources to successfully support selected project development commitments made.

The EcoEléctrica tri-fuel combined cycle power plant is one of the cleanest and lowest-cost producers of electricity with the best efficiency and lowest emissions to the environment in the PREPA system.

EcoEléctrica employs eighty (80) highly skilled full time personnel who have worked more than one million hours without a lost time accident.

The EcoEléctrica LNG terminal provides the required infrastructure for the supply of natural gas on the island. The above ground LNG tank contains 160,000 cubic meters of storage capacity and is capable of receiving as many as sixty (60) LNG transport ships annually. The terminal currently provides natural gas to the EcoEléctrica power plant and to PREPA for use at Costa Sur, PREPA's largest power plant.

The natural gas imported into Puerto Rico by EcoEléctrica, for use at its power plant, has been mainly sourced from the Caribbean Basin out of Trinidad & Tobago. Today, some of the natural gas received at the LNG terminal destined for use by PREPA is also sourced from the Middle East and Africa.

EcoEléctrica is active in social and community organizations that contribute towards the improvement of public policy with an emphasis on the energy sector, as well as charitable causes close to the community.

EcoEléctrica is proud of the support it provides to neighboring communities through numerous initiatives, including scholarship programs that have provided close to \$700k in grants to university students commencing their first year; the continuing biological monitoring that cares for and protects marine life; and donations to build facilities for the care and custody of manatees found injured, among other things.

With all that in mind, I would like to touch on a few of our challenges.

Challenges

There are a few pervasive and probably systemic problems in Puerto Rico's energy sector.

- Consumers are paying more for energy because the overall system could attract new investment in more efficient and reliable generation if it were part of a stable business environment.
- Capital spending should be focused on reducing consumers' overall costs. An example of this opportunity is the existing LNG terminal, where untapped capacity for greater use can serve to lower the cost of new infrastructure.
- The financial crisis in Puerto Rico is real and has caused deterioration of the overall credit environment. Our industry is going to need an improved credit environment to help get financing at reasonable costs.
- Our counter parties are experiencing some erosion of their credit worthiness. This shows up in variety of ways, including late payments (now averaging around 30 days beyond contract terms). PREPA cash flow has deteriorated over time, and those of us in the energy sector need PREPA's cash position to be better managed. Without surety of payment, it will be difficult for anybody to justify investment in the Puerto Rican energy sector.
- The Government should not undermine the commercial value of assets through the creation of government regulatory bodies. An example of this is the legislatively-created Puerto Rico Energy Commission's Regulations that prohibit the recovery of fees that are reimbursable under the PPOA terms. Our counterparties' efforts to meet contractual obligations should not be impeded by government actions.
- There is, unfortunately, a deficiency of certainty in the legal and regulatory framework. It is pretty simple: when legal and regulatory frameworks are constantly changing, investor confidence is undermined.

Solutions

We want to see PREPA be successful. Companies, consumers, and investors in the energy sector in Puerto Rico all need and want PREPA to be successful. PREPA itself is attempting to address some of these challenges in their business planning process known as an Integrated Resources Plan.

Along with PREPA's plan, we think that part of Puerto Rico's and PREPA's financial recovery will include finding and relying on expertise in the following areas:

- Expansion of fuel diversification efforts, specially increasing the use of LNG
- Investments in state of the art modern efficient power plants
- Investments in renewable energy generation assets
- Professional management of power assets and/or the utility.

The elements that should characterize the future state of PREPA and the sector are:

Independence. PREPA's operations have been very closely linked to the agenda of the Puerto Rican government. PREPA should be operated as a private business and divorced from intervention from the Puerto Rican government and its institutions. For example, it cannot continue to provide legislated subsidies for multiple purposes.

Leadership. More stable and predictable leadership from people experienced in operating power grids is needed at PREPA. During the last eight years there have been six (6) CEOs with one of them remaining at the position for no more than three days. Continuity in the roles with a medium to long-term vision is key to providing the stability we all need to succeed.

Certainty. Confidence in the durability of the legal and regulatory framework is also a key element necessary to facilitate strong financial leadership at the utility. Leadership needs to focus on improving the business environment through honoring contractual commitments while protecting the rights and obligations of the parties.

Credit. An improved credit environment throughout Puerto Rico will enable financing at reasonable costs and should also help stabilize PREPA's finances. Because recovering credit worthiness is a high priority and would take time, it might serve Puerto Rico's and PREPA's interests to institute – and monitor -- a program of federal guarantees as a means towards increased sustainability. The liquidity at PREPA requires special focus in the management of their cash position to facilitate meeting current obligations.

Focus. Long-term fuel supply, power generation and overhaul of the transmission system are business issues that need immediate attention to help PREPA overcome its financial difficulties.

Knowledge. Experienced private investment knowledgeable of the Puerto Rico energy market can serve to accelerate the implementation of the solutions required to overcome the financial recovery.

Conclusion

In many respects, Puerto Rico faces the same challenges as the rest of the United States. Businesses should be run like businesses, without bureaucracies or political institutions substituting their judgment for those of the people actually trying to operate the business and, in this case, supplying the affordable, dependable electricity on which Puerto Ricans rely.

At the same time, while we are fixing the current system, we need a bridge. The financial crisis in Puerto Rico is real and will require some time and assistance to be resolved.

EcoElectrica is a good example – and has the potential to be an excellent example -- of how private sector approaches can provide real economic, environmental and social benefits to the citizens of Puerto Rico.

We look forward to working with you on these issues. Thank you again for inviting me, and I look forward to your questions.