

January 12, 2016

Honorable Doug Lamborn  
Chairman, Subcommittee on Energy  
and Mineral Resources  
U.S. House of Representatives  
Committee on Natural Resources  
1333 Longworth House Office Building

Mr. Chairman,

In response to the invitation to the hearings of January 12, 2016 by the Subcommittee on Energy and Mineral Resources, I am pleased to offer the following testimony. I am thankful to you, Ranking Member Alan Lowenthal and fellow committee members beyond the invitation to speak, as you have chosen to focus on “energy challenges and opportunities facing Puerto Rico” and in doing so you also focus on the best opportunity US citizens in Puerto Rico have to actively participate in the renewed investment and economic growth in our beloved island. The White House Task Force report on Puerto Rico of 2010, the Puerto Rico Private Sector Coalition Supranational Goals report of 2008, the promises of our local politicians over the years, others testifying at these hearings and important public forums over the years bear witness to this generally accepted truth that a transparently planned and wisely supervised energy reform that sustainably lowers our electrical energy costs in Puerto Rico is key to our economic, social and environmental wellbeing.

I begin by stating that in Puerto Rico it is important to first comment on potential conflicts of interest if you are to give or receive opinions on energy reform given the historical, unusual and very detrimental political and big-government heft of our failed electrical energy public monopoly. In my case as Chairman of Aireko Companies I could benefit short term from

a short-sighted re-structuring resulting in higher electrical energy prices in Puerto Rico because of our Energy Efficiency and Renewable Energy business.

On the other hand our general construction company, our workers and families can most benefit if the electrical system is reformed to attain the maximum amount of sustainable investments that promptly fix the current system's ridiculous 50% dependence on obsolete oil fired generation. Said obsolescence and present incapacity of the system to replace it is the primary challenge to low-cost grid access for competitively priced intermittent renewable energy generation that the federal and most state governments solidly support.

Given present circumstances in Puerto Rico I believe a well-implemented electrical system reform, with a Puerto Rico Energy Commission (PREC) approved Integrated Resource Plan (IRP) can support, as they regularly do in the rest of the US and the civilized world, the maximum public and private sustainable investment that consumers and our economy can benefit from. Additionally, the goals of the Institute for a Competitive and Sustainable Economy of Puerto Rico (ICSE-PR) which I chair as Intervener in the PREC's IRP evaluation, are also the goals of the broadest sectors of our specific community to: (1) attain the lowest sustainable base system cost; (2) actively support a robust implementation of our independent regulatory body, the PREC, per State Law 57 of 2014 and all applicable federal laws and regulations; (3) unleash the best private and public-private competitive solutions to replace the 50% of the system that no longer works.

The local public sentiment and that of most experts I have heard is that fiscal reform must go hand in hand with structural economic reform. For energy reform to become structural reform the diminishing number of rate payers of unpredictable local electrical bills, as well as the responsible investor must regain confidence in our public policy and institutions. I mean the type participative, open, clear rules regulatory institutions that can replace the obscure and broken public financing schemes that broke our energy system prior to 2015 when we enacted Law 57 and the PREC. As responsible electricity rate-payers Aireko, its more than

600 workers and many more in Puerto Rico can support the financing of a competitive electrical energy system, similar to other modern industrialized islands like Ireland and Singapore which use modern regulatory frameworks to turn their electrical energy into a competitive economic advantage, instead of profit opportunities for the few, the well-connected, or the corrupt.

Puerto Rico is an industrialized archipelago with a 2014 GDP of \$103.6 billion. Manufacturing directly contributes \$49.3 billion (47.5%) of total GDP, an unusually high component of our economy when compared with all states of the union. The manufacturing GDP of Puerto Rico is comparable on its own and even higher than the total GDP of many incorporated states like Hawaii's total GDP of 76.17 billion, Alaska's \$56.64, or Vermont's \$29.31 billion. Our very competent hi-tech manufacturing and related services labor which supports 95% of our total export capacity, can only make their and Puerto Rico's economic future thrive if strategic energy infrastructure investment, including a modern regulatory capacity result in electrical energy costs which increase productivity and wages for all.

As proposed by the Puerto Rico Manufacturers Association when I presided it in 2008, transparently planning and executing reforms that achieve 16.0¢/KW-h energy solutions for our hospitals, industrial manufacturing and similar type base-load rate payers that underpin a solid electrical system is a requisite starting point to this economic structural reform. I specifically mean a reform that: (1) sustainably lowers energy costs to that of most competitive industrial island-states (presently an industrial intermediate rate in the range of 14¢/KW-h); (2) continuously increases grid access to best-cost renewable generation, at all scales, using our natural solar and wind resources; (3) an institutional reform that eliminates shortsighted partisan politics and big un-competitive participants in our energy sector.

The type integral energy reform that Law 57 of 2014 began with the 2015 implementation of the PREC and its legal power to act on behalf of the consumer, is presently challenged in our state legislature by some of the same short sighted politics and a narrative of fear of facing a complete re-structuring of the failed public utility as a needed step to

successfully transform the whole system for sustainable success. You must know our public utility has not yet fully complied with court ordered system information pursuant to the PREC's IRP process, and is still engaged in debt negotiations with bondholders that still have not presented for public evaluation the capacity nor the legality of rate-payers and our economy to further finance its failures thru rate increases. I certainly support our utilities efforts to fairly re-negotiate its debt and enact improvements to its operating costs that may require legislative authority. But no one should again accept in Puerto Rico nor the federal government that revitalization of this public corporation, our electrical system nor our economy can occur going back to less, rather than more independent supervision, expert consulting and legal power on behalf of the consumer.

Puerto Rico's modernly regulated Telecom sector is an undisputed competitive tool for the betterment of a key public services infrastructure and thus our local economy. Since inception over 25 years ago the Puerto Rico Telecommunications Regulatory board has been staffed by Puerto Ricans, and is testament to our capacity to do exactly the same with the electrical system. Correctly valuing the PR Telephone Co as the PRTC Regulatory Board was enacted and new private investment flowed to further productivity and consumer choice, remains a stellar example of our capacity for structural economic reform. What our failed power monopoly is now incredibly proposing to local legislators and the public in its proposed "Revitalization Act"? - to value itself, with no independent expert supervision until it "securitizes" the value and converts it into "a new long term debt" within a new corporation outside regulatory powers. The consequences of accepting this along with the other good portions of the proposed Act would be the arbitrary limiting of new private investments that could otherwise structurally and competitively reform energy productivity, harness renewable natural resources innovatively, and do it under the independent, modern and legal regulatory scrutiny that our PREC presently requires from anyone interested in doing business in our grid.

In 1999 the Puerto Rico Manufacturers Association and our local Chamber of Commerce publicly criticized the lack of competent planning, procurement and regulation of

our electrical energy system as costs started diverging from the more competitive norm of the 60's, 70's and early 80's. By 2000 the average energy cost for Puerto Rico was 11.96¢/KW-h and the national (US) average was 6.81¢/KW-h, a 75.6% higher cost difference. From then on as other local Non-Governmental Organizations clamored unsuccessfully for local implementation of the modern independent energy regulatory structures that became the norm in the rest of the US in the 80's and 90's, our local energy incompetency became a cause or our general economic incompetency in the past 15 years. During 2015 (January to October) electricity cost 100% more at 20.97¢KWh in Puerto Rico than the equivalent national (US) average same period of 10.45¢/KWh. If we consider the substantial decrease in oil cost during 2015, and our continued dependency on oil for over two thirds of our generation capacity, Puerto Rico is poised for further economic distress as fossil fuel costs rise again in the future, as they did unexpectedly in 2012 when costs rose above the 30¢/KW-h, approximately 250% higher than continental US and 100% higher than best-in-class industrialized island-states, unless we valiantly do something about it.

Puerto Rico nor our economy can afford further timid, incomplete energy system reform without broadly understood and competitive future energy costs scenarios and expect to again attract growing industrial investment with well-paying jobs. Even the best scenarios proposed by our more recent public utility leadership with scant system information would have short term energy costs in the range of 24 to 25 ¢KW-h, in a very low oil cost scenario. Towards the future as oil costs went up, and the proposed and undefined monopoly "Securitization Transition Charges" kicked-in Puerto Rico would be vulnerable to the significant industrial investment and energy consumption losses of the past 15 years and further economic distress that would grow as our energy competitiveness gap grew again.

The continued focus by our failed monopoly to again propose unsupervised financial solutions with limited re-structuring to itself, and incomplete information on future energy cost scenarios, along with lack of understanding of some in our local political leadership regarding implementation of a modern regulatory framework with full legal power is in my opinion the

immediate challenges that must be addressed in Puerto Rico for truly sustainable energy system reform. These challenges in my opinion can be overcome if the US Congress and our local leaders present today pay attention to the unfulfilled promises by the federal and to some extent local Executive branches of government. Unfulfilled promises by the White House Task Force officials that engaged with local private sector leaders, as well as unfulfilled expectations in the DOE implementation playbook of the 2014 MOU with the Puerto Rico government, depict a federal government that has timidly shied away from technical assistance and other available efforts at capacity building of our most immediately fundamental infrastructure – the PREC and its expert capacity in valuing the present failed public utility and assessing the best IRP solutions for local energy competitiveness.

Congress must be aware that growing private sector alliances of leading longstanding NGO's as well as new organizations like the ICSE-PR are currently educating the public and engaging our political leaders so that we keep the good of what is proposed to subject future procurement practices to independent scrutiny but we strike out all un-competitive and non-transparent portions of the monopoly proposed "revitalization law". Most important going forward are that Congress influences our Executive to rapidly help strengthen the PREC regulatory capacity, the failed public utility disclosures of system information and thus the confidence of local and outside investors that similar to the Telecom re-structuring of long ago we will not shy away from real structural reform this time again in our energy sector.

With regards to additional solutions and ideas which I support, beyond the focus on the emergency capacity building of our regulatory framework I want to stress the following, with the understanding it is not a complete list:

1. Exempt Puerto Rico from Jones Act provisions regarding Natural Gas maritime transport.
2. Provide federal debt guarantees for strategic:
  - a) Infrastructure investments in natural gas transport and storage as long as Puerto Rico government and the public monopoly credibly commit to private

business access to said infrastructure at competitive natural gas prices. We do not have another infrastructure monopoly, this time federally aided.

b) Replacement of old thermal generation with new dual-fuel cogeneration capacity specifically procured to provide best-cost access to intermittent renewable generation at all scales of the system.

My deepest thanks to you, Ranking Member Alan Lowenthal and to this honorable committee for the opportunity to participate in these hearings. I trust you will understand that I expect the alarm and grave concerns that are part of this testimony are directed at a needed awakening from the passivity that has oftentimes accompanied Puerto Rico energy reform and economic reform talks in the halls of power here and locally. We can certainly achieve an awakening of Puerto Rico's and outside investor's confidence in our ability to overcome obstacles and responsibly take all opportunities in our energy sector reform if we focus on emergency regulatory framework capacity building and other opportunities where federal government can be helpful such as the public-private procurement process options that can be implemented in parallel with the needed regulatory evaluations. In the ICSE-PR and the growing local private sector alliances we are doing our part.

Sincerely

Josen Rossi  
Chairman of the Institute for a Competitive and Sustainable Economy of Puerto Rico

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