

JOSÉ F. ORTIZ VÁZQUEZ, EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER,
PUERTO RICO ELECTRIC POWER AUTHORITY

**Written Statement of José F. Ortiz Vázquez
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Hearing on The Transformation of the Puerto Rico Electric Power Authority**

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Chairman Grijalva, Ranking Member Bishop, and members of the Committee, thank you for the opportunity to appear before you today to discuss the current status and ongoing transformation of the Puerto Rico Electric Power Authority (“**PREPA**”).

As the Committee knows, following Hurricane María, Puerto Rico embarked on an historic effort to transform its energy system and to reform itself. At the same time, PREPA tackled the enormous task of restoring a severely damaged transmission and distribution system, improving system reliability and addressing generating resource adequacy issues. That work has continued, even as Puerto Rico and PREPA have had to recover from massive damage caused by multiple earthquakes and, more recently, have had to contend with the near shutdown of Puerto Rico’s economy to address the threats posed by the COVID-19 virus.

PREPA has made a good deal of progress on several fronts despite the devastation of Hurricanes Irma and María, massive damage caused by multiple earthquakes and the near shutdown of the economy due to the COVID-19 emergency. The utility is better positioned than it has been for many years to confront the many challenges it faces. And we have done this in compliance with the requirements of the Puerto Rico Oversight, Management, and Economic Stability Act (“**PROMESA**”), as evidenced by the recent certification of PREPA’s 2020 Fiscal Plan by the Financial Oversight and Management Board for Puerto Rico (“**FOMB**”).

During FY2020, PREPA has made substantial progress toward achievement of the 12 operational initiatives and 27 projects included in PREPA’s certified FY2020 Fiscal Plan. Among the major milestones PREPA has achieved over the past several months are –

- renegotiation of existing power purchase and operating agreements (“**PPOAs**”) with the owners of the large EcoEléctrica gas-fired generating facility and with the developers of numerous operating and planned renewable generation projects, reducing the cost of energy PREPA will purchase from these suppliers;
- renegotiation of a natural gas purchase and sale agreement with Naturgy under which the EcoEléctrica facility and PREPA’s Costa Sur generating plant acquire their gas supply, achieving better pricing, more quantity flexibility and the ability to accommodate renewable generation additions as they occur;
- the conversion of San Juan Power Plant Units 5 & 6 to natural gas (preserving the ability to use diesel fuel), which will yield significant emissions reductions, cost savings and grid reliability improvements;
- advancement of several customer service initiatives (including private outsourcing and increased customer access to e-billing platforms) that have achieved significant

reductions in customer call wait times and improvements in PREPA's revenue collections;

- the completion and filing of a revised Integrated Resource Plan (“**IRP**”) that establishes an Action Plan for the acquisition of new generation resources that will enable PREPA to accelerate the transformation of Puerto Rico's grid to one that is more reliable, cleaner, efficient and sustainable; and
- Completion of an historic transmission and distribution (“**T&D**”) operation and maintenance outsourcing process, with the selection of a world-class consortium to assume responsibility for operating, maintaining and renewing the PREPA grid.

With some pride, I note that PREPA achieved these and other significant milestones within the context of Puerto Rico's and PREPA's bankruptcy in 2017, ongoing economic uncertainty, very limited liquidity, a shrinking employee pool, two devastating hurricanes in 2017, earthquakes in 2019-2020, continued uncertainty regarding the availability and timing of federal funding commitments for grid reconstruction and, most recently, a world-wide pandemic that has severely affected our island's economy.

Recent PREPA Accomplishments

PREPA has achieved a great deal over the past year and even in the past few months. I want to emphasize that much of what PREPA has done has been intended to improve customer service, reduce costs, improve efficiency, enhance reliability, support the legally mandated move toward renewables, and reduce generating facility air emissions. At the same time, PREPA has had to respond to the unexpected, including substantial earthquake-induced damage to its largest generating facility early this year and a major decline in demand following the shutdown of economic activity to address the COVID-19 pandemic. It has worked in all of this to satisfy the requirements of PROMESA Section 201(b) relating to the identification of operational improvements, and to implement guidance provided by the FOMB as ultimately reflected in PREPA's certified Fiscal Plan.

Among PREPA's key accomplishments for FY2020 have been:

- *The selection of an independent T&D operator to assume responsibility for operating, maintaining and improving PREPA's transmission and distribution system.* That operator, LUMA Energy LLC (“**LUMA**”), is a Puerto Rico company owned by to experienced utility sector companies, ATCO Ltd. and Quanta Services, Inc., working with Innovative Emergency Management, Inc. for its federal funding expertise. LUMA has entered into a public-private partnership with PREPA and Puerto Rico's Public Private Partnership Authority (the “**P3 Authority**”) under which it will work to implement the energy sector transformation required by Act 120-2018 and Act 17-2019. LUMA brings to the task of operating, maintaining and improving the T&D system an experienced leadership team and a comprehensive plan for the operation and renewal of PREPA's grid system going forward. I will defer for additional details on this historic transaction to my fellow witness, Fermín Fontanés, the Executive Director of the P3 Authority, who was deeply involved in the LUMA negotiations.

- *The completion of the work of converting PREPA's San Juan Power Station Units 5 and 6 to dual fuel capability and the commissioning of the NFEnergía LLC ("NFE") liquified natural gas ("LNG") handling facility.* PREPA's agreement with NFE required NFE to convert the Unit 5 and 6 combustion turbines to run on natural gas as well as diesel and to supply natural gas through a new LNG receiving and regasification facility adjacent to the San Juan Power Plant in San Juan Harbor. NFE is now supplying natural gas to Units 5 and 6, PREPA's most efficient generating facilities. NFE can also transfer LNG through the facility to trucks that can deliver LNG to other energy users throughout Puerto Rico. NFE obtained all local and federal environmental and U.S. Coast Guard approvals required for the construction and operation of its LNG handling facility and the transit of LNG carriers through San Juan Harbor. PREPA secured a modification to its air emissions permit for San Juan Units 5 and 6 that reflects their capability to consume natural gas.

Now that it is consuming natural gas in San Juan Units 5 and 6, PREPA is achieving significant reductions in greenhouse gas and particulate emissions. PREPA's ability to run these units more economically and more of the time while reducing air emissions offers important public health benefits. The increased availability of the Units will enhance the security and reliability of electricity supply in the San Juan metropolitan region. As of the time the FOMB and the Puerto Rico Energy Bureau approved the NFE-PREPA Fuel Sale and Purchase Agreement, FOMB projected on the basis of then-current market prices for natural gas and diesel that the conversion project could save PREPA and its customers between \$180 and \$280 million during the 5-year term of the contract.

A question has arisen as to whether NFE was required to obtain Federal Energy Regulatory Commission ("FERC") authorization to site, construct and operate its LNG handling facility; that question is currently before the FERC for resolution in response to an Order to Show Cause FERC issued in June 2020. NFE concluded on the basis of its analysis of prior FERC decisions and informal discussions it held in 2017 and 2018 with FERC Staff representatives that FERC authorization would not be required. PREPA's independent discussions with FERC Staff on this subject in 2018 led PREPA to conclude that NFE's position was correct. I have summarized the controversy and PREPA's position concerning it in a letter PREPA filed with FERC on July 17, 2020, which I attach to this testimony for the Committee's information.

- *Renegotiation of a Power Purchase and Operating Agreement with EcoEléctrica and of a long-term gas supply agreement with Naturgy.* Earlier this year, PREPA completed the renegotiation of the EcoEléctrica PPOA and a long-term natural gas supply agreement with Naturgy for the supply of natural gas both to EcoEléctrica and PREPA's adjacent Costa Sur generating facility. This was the culmination of extensive discussions with the counterparties that started in 2018. The FOMB and the Energy Bureau both approved PREPA's execution of these agreements, and in June of this year the Federal District Court presiding over PREPA's PROMESA Title III proceeding granted PREPA's motion to assume them. The renegotiation of the EcoEléctrica PPOA and Naturgy gas supply agreement is critical in providing a reliable platform for efficient

and more economic electricity in Puerto Rico for the next twelve years as PREPA launches its mandated transformation plans.

PREPA estimates that the revised EcoEléctrica PPOA will generate average customer savings of \$71 million annually. PREPA estimates that changes in the Naturgy agreement will result in average savings in the cost of gas consumed in the Costa Sur Facility of approximately \$29 million. Combined, the renegotiated EcoEléctrica and Naturgy contracts are expected to reduce PREPA's net costs of power and fuel by approximately \$100 million annually through September 2032.

- *Renegotiation of PPOAs with operational and non-operational renewable generating project developers.* Beginning in 2010, in order to comply with Puerto Rico Act 82-2010, PREPA undertook a large-scale renewable procurement process to increase renewable power capacity in Puerto Rico. Over the course of several years, PREPA entered into 64 PPOAs for over 1,000 MW of renewable generation with average year-1 contract prices of 15-16 cents per kWh and 1-2% annual price escalation. As of the beginning of FY2020, 11 of these projects were operational and currently provide energy at an average cost of 18 cents per kWh, after factoring in several years of price escalation. Against the backdrop of the ongoing bankruptcy proceedings under PROMESA, PREPA has been working to renegotiate or cancel agreements with the remaining non-operational renewable contract holders. Following concerted efforts and negotiations on financial and technical engineering matters, PREPA was able to revise these PPOAs for the benefit of its customers.

To date, PREPA has advanced discussions and commercially agreed to terms with developers of 16 projects, totaling approximately 500 MW, achieving 30-40% lower contract pricing than was provided under the original contract. PREPA has also renegotiated PPOAs with most of the operational projects to achieve a 10% contract pricing discount. It has recently initiated proceedings before the Energy Bureau for approval of the renegotiated PPOAs and will seek Title III Court approval to reject PPOAs covering projects that are not operational and as to which contract renegotiation has not been successful. The process of obtaining new and amended renewable PPOAs will continue into FY2021.

- *Substantial progress in the repair of PREPA's Costa Sur generating facility.* Seismic activity that occurred between December 28, 2019 and January 15, 2020 inflicted significant damage on the Costa Sur power plant, an 820 MW generating facility that has been converted to consume natural gas. Repairs of Costa Sur Unit 5 are ongoing and expected to be completed by early August 2020, at an estimated cost of \$25.2 million. The more heavily damaged Costa Sur Unit 6 is in the early stages of being repaired, and the current expectation is that these repairs could be completed before year end 2020.
- *Development and submission for Puerto Rico Energy Bureau review and approval of a new Integrated Resource Plan.* Under the PREPA enabling act, Act 57-2014 and Act 17-2019, PREPA is required to adopt an IRP for a 20-year planning period. The IRP is to be revised every three years. The proposed IRP which PREPA submitted to the

Energy Bureau on June 7, 2019 has undergone extensive technical, evidentiary and community hearings and is currently before the Energy Bureau for approval.

The Proposed IRP offers a comprehensive and robust analysis of the challenges and opportunities PREPA faces in planning and executing on a fundamental transformation of Puerto Rico's electric power system. The preferred resource plan that emerged from this analysis – the Action Plan – will guide Puerto Rico as it moves toward a future of increased reliance on renewable sources of energy and improved energy efficiency. The Action Plan also provides leeway to manage variable future costs of generation and storage resources. If approved and implemented, the Action Plan will enable PREPA to pursue the rapid uptake of renewable and energy storage systems while preserving options that will permit it to procure natural gas-fired generating resources as necessary given the pace of other resource development efforts. The result of the implementation of the Action Plan will be an energy system that will be able to meet electrical demand at all times in an efficient, environmentally responsible way.

The Proposed IRP recommends the adoption of three fundamental changes to the Puerto Rico electric system:

- *Increasing the share of renewable generation*, including the additions of new solar PV generation, energy storage, natural-gas-fueled generation and supply infrastructure, and retiring or converting all existing coal-fired and heavy fuel oil-fired generation;
- *Enhancing grid resilience*, including capital investment in the transmission and distribution system to support establishment of minigrids and microgrids that can be separated and independently restored and operated following grid disturbances; and
- *Enabling customer choice*, including changes to the system that will support the incorporation of rooftop solar photovoltaic installations and new energy efficiency and demand response programs, allowing the customer to play a meaningful role in Puerto Rico's electricity grid.

Critical Initiatives PREPA Is Currently Pursuing

I would also like to highlight several actions PREPA is taking to build on its recent successes and to advance the goal of rebuilding Puerto Rico's electric grid and achieving a sustainable energy future. These include:

- *The impending launch, in conjunction with the P3 Authority, of a solicitation for proposals for needed new generation resources*, much of which we anticipate will be renewable in compliance with Puerto Rico energy policy and law.
- *Commencement of multiple grid reconstruction projects*. This year PREPA has completed a "T&D roadmap" that defines transmission and distribution system reconstruction projects that are necessary to improve the grid's reliability and resiliency following catastrophic events. The T&D roadmap will enable PREPA to optimize and streamline the process for designing, developing, and constructing T&D projects. It is

intended to ensure that the most important projects are constructed in the most efficient way possible so that PREPA can make optimal use of scarce resources, including anticipated FEMA funds, and ensure accountability for the use of public funds.

In addition to its pursuit of federal funding, PREPA is currently engaged with its insurers to adjust its Hurricane Maria claim and a claim arising out of the 2020 earthquake. To date, PREPA has received \$100 million in advance funding, not including the \$25 million deductible with respect to the Hurricane Maria claim, and has requested \$25 million in advances related to the earthquake claim.

- *Continued efforts to achieve enhanced operational efficiencies, through procurement of new generation capacity, implementation of generating resource economic dispatch, enhanced vegetation management programs and T&D infrastructure improvements.* Success in these efforts will enable PREPA to realize overall generation cost reductions. While we are making progress on a number of these fronts, that progress has been slowed by the need to respond to the recent earthquakes and measures required to respond to the COVID-19 pandemic.
- *A renewed effort to achieve resolution of PREPA's Title III restructuring under PROMESA.* PREPA, the FOMB, a group of PREPA creditors and the Puerto Rico government reached agreement last year on elements of a consensual debt restructuring agreement and early this year developed proposed legislation that would implement this agreement. Efforts to obtain passage for this legislation and to complete the process of Title III restructuring were suspended earlier this year at the FOMB's request given the uncertainties which the COVID-19 pandemic and response measures have created for PREPA and its customers. PREPA is hopeful that a renewed effort to achieve a resolution of the Title III proceeding can be mounted early in 2021.

Federal Support Is Still Needed

As a result of the 2017 hurricanes, PREPA qualified for federal funding support. PREPA, the Federal Emergency Management Agency (“**FEMA**”) and the Central Office of Recovery, Reconstruction, and Resiliency (“**COR3**”) have been working to define the universe of necessary T&D reconstruction projects, estimate costs, and determine the path toward making federal funding available to reconstruct the energy grid.

PREPA's main sources of federal funding are: 1) FEMA's Public Assistance Program; and 2) the federal Department of Housing and Urban Development's (“**HUD**”) Community Development Block Grant – Disaster Recovery (“**CDBG-DR**”) Program. Funds may also be available through HUD's Community Development Block Grant Mitigation (“**CDBG-MIT**”) program.

PREPA remains eligible for FEMA disaster relief funding and for funding of permanent works. To date, a total of \$20.2 billion in CDBG-DR and CDBG-MIT funding has been apportioned for Puerto Rico, including approximately \$1.9 billion specifically designated for energy-related projects. PREPA is required to meet a 10% cost share requirement for its FEMA-funded permanent work projects, to which it plans to apply CDBG-DR and CDBG-MIT program funds, as they become available. Access to CDBG funds, however, is subject to various HUD actions. The current Fiscal Plan assumes CDBG funds will cover the cost share required for federal

funding. If these funds are not available, PREPA will need to find savings elsewhere or will have to seek to adjust rates to cover the cost share obligation.

Through April 2020, PREPA had received \$1.42 billion in FEMA public assistance funds. Additionally, PREPA expects to receive a portion of the \$20.2 billion in post-hurricane assistance appropriated to Puerto Rico through HUD-approved CDBG-DR and CDBG-MIT grants to be used for matching or cost share purposes.

PREPA has been actively working with FEMA on a cost estimate since 2018 in a collaborative effort to reach estimates for each asset classification. PREPA expects to reach an agreement with FEMA on a fixed cost estimate for all permanent repair and reconstruction work very soon. A FEMA team has worked directly with PREPA's Disaster Funding Management Office ("DFMO") project formulation team to finalize all cost estimates. At FEMA's request, PREPA's DFMO prepared a two-year plan which presents an initial estimate addressing various individual projects, rolled up by asset classification, that may be prioritized by PREPA. The two-year cumulative cost included in the estimate totals \$1.4 billion across five asset categories (T&D, distribution, Distributed Energy Resources and microgrids, technology, and other.)

The successful transformation of Puerto Rico's energy system will require significant capital investment over the next ten years. Federal funding will play a critical role in mitigating the burden of the cost of these investments on ratepayers. With adequate federal funding, the overall impact on energy rates would be minimal. If adequate federal funds were not to be made available, Puerto Rico would have to choose between increasing energy rates to meet unfunded capital investment needs, or forgoing the implementation of the grid repairs and system modernization called for in the IRP, PREPA's T&D roadmap, and PREPA and Commonwealth Fiscal Plans. Moreover, a lack of federal funding would have serious consequences for the reliability and resiliency of Puerto Rico's electric system and would impede the achievement of PREPA's long-term energy vision. Federal funding support is also critical for delivering on system improvements necessary for resiliency and environmental compliance, including deployment of microgrids, distributed generation, and renewable resources.

Conclusion

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, and we continue to look for ways to expedite the flow of federal funds.

Thank you for the opportunity to appear before this Honorable Committee and to provide this testimony.

Attachment (PREPA Letter to FERC Re: Order to Show Cause Directed to New Fortress Energy LLC, Docket No. CP20-466-000)