



GOVERNOR OF PUERTO RICO

Ricardo A. Rosselló Nevares

**Written Statement of Hon. Ricardo Rosselló Nevares
Governor of Puerto Rico
House Committee on Natural Resources
Oversight Hearing, "Management Crisis at the
Puerto Rico Electric Power Authority and Implications for Recovery"
July 25, 2018**

Governor Ricardo Rosselló Nevares of Puerto Rico submits this written statement for the record in connection with the U.S. House of Representatives Committee on Natural Resources oversight hearing entitled *Management Crisis at the Puerto Rico Electric Power Authority and Implications for Recovery*, scheduled for July 25, 2018. This statement covers (i) Puerto Rico's vision and the ongoing transformation process of the island's energy sector, (ii) certain recent events that have stabilized the management of the Puerto Rico Electric Power Authority ("PREPA"), and (iii) the proper role of the federal government in facilitating the transformation and future of PREPA and the Puerto Rico energy sector.

As the Committee is well aware, I took office during an unprecedented fiscal and economic crisis that jeopardized the very future of Puerto Rico. The first 18 months of my Administration brought both expected and unexpected challenges, including two catastrophic hurricanes that left the island without power, water or communication. Puerto Rico's efforts to recover from the hurricanes and address our financial issues have been, at times, complicated by the many layers of bureaucracy that come with an oversight board and emergency management personnel.

Despite these challenges, my Administration has worked diligently to address the myriad issues facing Puerto Rico. The results of those efforts are evident. For example, recent figures show an increase in the level of employment and a reduction in the level of unemployment for June 2018 when compared with May 2018, recent sales tax revenues appear to exceed pre-



GOVERNOR OF PUERTO RICO

Ricardo A. Rosselló Nevares

hurricane levels and the Federal Government, through FEMA recently signed the agreement to grant Puerto Rico access to Community Disaster Loans.

With regard to the electric sector, we have moved aggressively to be in a position to attract private investment for the island, modernize the island's energy grid and create a system that is more resilient and reliable. Through the transformation process, Puerto Rico has the opportunity to leapfrog into energy 2.0 and to create an energy grid that can serve as a model for the world.

I was encouraged by the recognition of our efforts in my recent meeting with U.S. Treasury Secretary Mnuchin last week. In that meeting, we discussed the reconstruction of Puerto Rico and the transformation of the island's energy sector. Secretary Mnuchin expressed his view that PREPA has a very good short-term and long-term strategy to really transform the energy grid and that with the necessary adjustments and injection of federal funds, Puerto Rico can become a success story.

Puerto Rico's Vision for the Future of the Energy Sector

On January 23, 2018, I announced a historic new vision for the transformation of PREPA and the island's energy sector. The envisioned transformation will achieve private participation in the electric sector in Puerto Rico and assure that the electric system is modern, reliable, resilient, sustainable and affordable to residential, commercial and industrial consumers. The transformed electric sector will serve as a major catalyst to sustained and long-term economic growth and job creation. Our "base case" model for the contemplated transformation transaction involves (i) private ownership and/or operation of generation assets with a focus on a diversified fuel mix, including clean energy sources and (ii) private operation of the transmission and distribution ("T&D") system through a concession or similar model, that leaves the ownership of the T&D



GOVERNOR OF PUERTO RICO

Ricardo A. Rosselló Nevares

assets in public hands while the operation, maintenance and long-term capital improvement plan transitions to a private operator. Since that announcement, my Administration, in collaboration with the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), has significantly advanced the transformation process, in compliance with the New Fiscal Plan for PREPA certified by the Oversight Board on April 19, 2018, as it is being implemented by the Government of Puerto Rico.

Ongoing Process to Achieve Energy Sector Transformation

The transformation of the island’s energy sector is a complex process that involves developing new legislative and regulatory structures, integrated resource planning, updating the public private partnerships framework for the transaction, coordinating and complying with federal disaster funding requirements, addressing legacy obligations and resolving ongoing bankruptcy proceedings at both PREPA and the Government of Puerto Rico. My Administration has developed and is implementing a plan to achieve the transformation of the energy sector taking into account all of those important and interrelated factors. In that respect, I believe that we have made substantial progress toward our goals and are optimistic about reaching our final objectives.

On June 20, 2018, I signed into law the *Puerto Rico Electric System Transformation Act* (the “Transformation Act”), which was a necessary legislative step toward the transformation of the energy sector. The Transformation Act contemplates the solicitation of private interest in the electric sector through the process set forth in the Puerto Rico *Public Private Partnership Act* (the “P3 Act”) and under the direction of the Puerto Rico Public-Private Partnerships Authority. The P3 Act is a model public private partnership statute that provided the framework for the recent and successful development of public private partnerships of the Luis Muñoz Marín International



GOVERNOR OF PUERTO RICO

Ricardo A. Rosselló Nevares

Airport and certain toll roads in Puerto Rico. The P3 Act provides a fair, transparent and verifiable framework for all relevant stakeholders. It also provides Puerto Rico with a powerful and proven tool - recognized by international and U.S. market participants - to implement the contemplated transformation transactions.

In addition to the passage of the Transformation Act, we recently completed our contemplated market-sounding phase, which is a component of the certified PREPA Fiscal Plan. The market-sounding phase solicited preliminary information from potential market participants on the contemplated base case, alternative structures and potential roadblocks to achieving the transformation of our energy sector. The feedback received from the market revealed substantial interest in participating in the transformation of the energy sector in Puerto Rico, as contemplated by our base case. The market-sounding phase also provided us data and information on how to improve the transformation process in order to achieve the best results for Puerto Rico. My Administration is working with the Oversight Board to incorporate the feedback into our transformation process going forward.

My Administration is also moving forward with development of the necessary regulatory framework to: (a) support and enhance the new vision for the island's energy sector, specifically the desired power sector transformation, (b) provide investor confidence, and (c) implement stable and accepted modes of regulation. Independent and stable regulation of the electric sector is essential to the transformation and modernization of Puerto Rico's energy sector, just as it is on the mainland. The Transformation Act contemplates development of that framework by early December through a process designed to bring together the best thinking from market leaders deeply knowledgeable in the energy regulatory space. In connection therewith, I recently



GOVERNOR OF PUERTO RICO

Ricardo A. Rosselló Nevares

announced the Blue-Ribbon Task Force. In addition, consultants to both my Administration and the Oversight Board are working to address anticipated regulatory issues recognizing that our regulatory transformation must maintain strong independent regulation while providing assurance that Puerto Rico's regulatory structure is consistent with broadly accepted and proven frameworks in other jurisdictions that support the desired changes in the island's energy sector.

Other activities necessary to facilitate the transformation are ongoing. Those activities include the updating of a 2015 integrated resource plan, as required by local law and standard industry practice, to develop an updated integrated resource plan for Puerto Rico, based on the island's new and adjusted realities resulting after the passage of hurricane Maria. In addition, those activities include, without limitation: (i) legal and financial preparation for the anticipated transaction(s); (ii) coordination of and compliance with federal funding requirements related to or impacted by transformation process; (iii) functionalization and analysis of separation of common electric systems; (iv) analysis and development of contract and transformation structures; and (v) claims analysis and title III planning.

Another critical issue in the transformation is the resolution of the legacy claims against PREPA. Congress designed PROMESA to give the Government the resources and tools necessary to address its fiscal crisis. Congress made clear that the purpose of PROMESA was to benefit the lives of 3.5 million American citizens living in Puerto Rico by resolving Puerto Rico's fiscal crisis and returning Puerto Rico to economic growth. The legacy obligations against PREPA must be resolved consistent with the intent of the statute.



GOVERNOR OF PUERTO RICO

Ricardo A. Rosselló Nevares

PREPA Management and Operations

Regarding PREPA management, on July 23, 2018, electrical engineer José F. Ortiz began his tenure as the new Executive Director and Chief Executive Officer of PREPA. Mr. Ortiz' credentials are unassailable and I believe his leadership will ensure significant improvements in PREPA operations leading into the transformation of the utility and the sector. Mr. Ortiz is a dynamic, results-oriented executive with a history of driving organizational cultural change. He has held critical leadership roles within the Government of Puerto Rico under administrations of both major political parties on the island. In my view, he has demonstrated the capacity to put politics aside, exercise independent judgment and put the people of Puerto Rico first. I believe Mr. Ortiz is the right leader for PREPA at this critical time.

Mr. Eli Diaz Atienza and Mr. Ralph A. Kreil Rivera also recently joined the PREPA Board. Mr. Diaz Atienza is the Executive Director of the Puerto Rico Aqueduct and Sewer Authority ("PRASA") and worked successfully with the federal government on numerous projects during his tenure with PRASA. Mr. Rivera is a professional engineer with over 30 years of experience in that field in Puerto Rico and the Caribbean Region. Consistent with applicable legal requirements, I am also working on an expedited process to identify and name new independent directors. In addition, Todd Filsinger and the Filsinger Energy Partners team continue to provide PREPA with day-to-day operational support and support related to the transformation process.

Given that Mr. Ortiz and the new PREPA Board members have just taken office, and the Committee hearing was announced with such short notice, unfortunately they were unable to participate in today's hearing. However, they will be available to engage in a productive



GOVERNOR OF PUERTO RICO

Ricardo A. Rosselló Nevares

conversation with the Committee as soon as next week or anytime thereafter that the Committee deems appropriate.

I understand that the recent management changes at PREPA raised certain concerns but I assure you that those changes are not indicative of political interference with the management or operation of PREPA. PREPA is free to operate as its Board of Directors and executive management determine, within its public statutory mandate. It is important to recognize, however, that PREPA is a public corporation that is accountable to the people of Puerto Rico. Puerto Rico's citizens were vocal in their view that the proposed salary for PREPA's executive director, combined with certain public comments and expressions, were not acceptable to the people of the island. As the duly-elected representative of those citizens, it was my view that the PREPA Governing Board should have reduced the salary and responded to the economic concerns raised by our citizenry. Notwithstanding, our progress towards the transformation of the energy sector has continued unhindered despite recent developments and nothing will stop it.

Role of the Federal Government in Transformation

The federal government is a critical partner for Puerto Rico moving forward. Securing CDBG-DR-2018 funding for electric system improvement matching purposes will be key to transforming and reconstructing the electric grid system in Puerto Rico at a cost that its citizens and its economy can bear. We are working with the U.S. Department of Housing and Urban Development and the Puerto Rico Housing Secretary to assure access to and qualification for such funds so that the necessary projects to construct a more resilient and hardened electric grid can be achieved as soon as possible. In addition, we welcome any technical support from the U.S. Department of Energy and other federal agencies of relevance in the energy sector transformation



GOVERNOR OF PUERTO RICO

Ricardo A. Rosselló Nevares

process. However, additional legislation vastly expanding the role of the federal government in this process is simply not warranted.

As described above, my Administration is working closely with the Oversight Board in advancing the transformation process. Under the leadership of the P3 Authority, we have made substantial progress toward the transformation consistent with the schedule set forth in the certified New Fiscal Plan for PREPA. Further, the Government of Puerto Rico is providing periodic reports to the U.S. Treasury and FEMA to ensure the visibility and transparency that helps further the overall transformation objectives, together with the mentioned federal government support. The recent management changes at PREPA have not disrupted that progress. Our intent is to identify the right partners for Puerto Rico within 12-18 months - an aggressive target given the complexities of the anticipated transactions. Our collective focus must be to support efforts that help complete the progress and avoid measures or processes that may interrupt that progress or impose new or additional levels of control or oversight that would simply delay or further complicate the transformation process.

In addition, the transformation of the energy sector in Puerto Rico is linked to the restructuring of Puerto Rico and its future economic growth. Any new or additional federal intervention at PREPA could jeopardize or impair the ongoing restructuring of Puerto Rico and all of its agencies and instrumentalities. While I wish to emphasize that we appreciate the support from the federal government, the “federalization” of PREPA would be a mistake and federal control of the transformation process is unnecessary and inappropriate.



GOVERNOR OF PUERTO RICO

Ricardo A. Rosselló Nevares

Conclusion

It is my belief that critical policy choices that will impact the future of Puerto Rico for many generations should rightly be the decisions of the Government of Puerto Rico and residents rather than any other stakeholder, federal or otherwise, who may unfairly influence the process. State governments are closest to the people and thus significantly better equipped to address the issues and challenges at the local level. I know the leadership of this Committee shares that political value. Therefore, I respectfully submit that we continue working together, collaborating and securing the necessary federal and Congressional support to ensure timely and effective reconstruction and transformation objectives for our energy sector on the island.