STATEMENT OF ANDRES GLUSKI, PRESIDENT AND CEO OF THE AES CORPORATION

TESTIMONY BEFORE THE HOUSE COMMITTEE ON FOREIGN AFFAIRS
SUBCOMMITTEE ON WESTERN HEMISPHERE:
"U.S. DOMINICAN REPUBLIC RELATIONS:
BOLSTERING ECONOMIC GROWTH AND INDEPENDENCE"
WEDNESDAY, JULY 23, 2014

Chairman Salmon and distinguished Members of the Subcommittee, my name is Andrés Gluski. I am the President and Chief Executive Officer of The AES Corporation (NYSE: AES), a Fortune 200 company managing electric sector companies in many countries around the world. I also serve on the Board of Directors of the Council of the Americas, as Latin America is one of the key geographies for AES. We have enjoyed a strong partnership with the Government of the Dominican Republic and we are committed to growing our business in the country. Thank you for inviting me to testify before the Subcommittee on the important topic of the Dominican Republic. Working with the government, we have had an important role in bringing affordable, clean-burning natural gas to market in the Dominican Republic and are developing plans to expand the use of this important resource throughout the Caribbean.

AES and Its Operations in the Dominican Republic

AES is a global power company that owns and operates a diverse and growing portfolio of electricity generation and distribution businesses. We employ approximately 17,800 people globally, including 3,700 people in the United States, and safely provide reliable and affordable energy to customers in 20 countries. Our power plants use a broad range of technologies and fuel sources including natural gas, hydropower, coal, diesel, oil, wind, solar, energy storage and biomass, and our utilities power several diverse markets, from São Paulo, Brazil to Indianapolis, Indiana. AES has a proven commitment to operational

excellence in the generation and distribution of electricity to its customers. We combine our more than 30 years of experience in the field with deep local insight to provide safe and sustainable energy to improve people's lives in the markets we serve. Our success in managing a diverse fleet of energy assets across the world sustains hundreds of direct and indirect high quality finance and technical jobs at our headquarters in Arlington, Virginia.

AES has maintained an important presence in the Dominican Republic since 1997. We have invested over $850 million in the Dominican Republic energy sector and are the largest U.S. investor in the country. We wholly-own two gas-fired power plants and a liquefied natural gas import terminal, and share ownership in a third thermal power plant together with the Government of the Dominican Republic. AES Dominicana Group is headquartered in Santo Domingo and currently employs more than 260 people. We are one of the largest electricity companies in the country, operating 850 MW of generation capacity, which represents 23% of the currently installed capacity in the country. AES was the first company to bring natural gas to the Dominican Republic and the first to use it as a fuel source to generate electricity. The introduction of natural gas has saved consumers more than half a billion dollars a year and avoided approximately four million tons of carbon dioxide emissions that would have otherwise been emitted by using imported petroleum products to generate electricity. Through the AES Dominicana Foundation, we have implemented sustainable community investment programs in the areas of education and the environment and more than 75,000 people in the Dominican Republic directly benefitted from these programs from their inception in 2007 through 2013.

Development of the Natural Gas Market

The island of Hispaniola, which the Dominican Republic shares with Haiti, does not have significant sources of indigenous fuels. Prior to 2003, fuel oil, gasoline and diesel were the primary energy sources for transportation, industry and power generation. The development of the natural gas market in the Dominican Republic was greatly influenced by the passage of Fuels Law 112-00 in 2000 that exempted natural gas from import duties. At the same time, discussions and negotiations were underway, culminating in the August

2004 signing of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), which created the legal framework to promote U.S. investment and also opened the Central American and Caribbean markets. These events and favorable economic conditions led to the development of AES Andres, our liquefied natural gas (LNG) import terminal. The Government of the Dominican Republic granted the permits necessary for the LNG terminal and provided rights-of-way for the original pipeline development. Furthermore, the government also provided a level of regulatory stability that encouraged private sector investment, allowing the market to develop. AES Andres commenced operation in 2003 and the Dominican Republic became one of only 15 countries in the world, and the only one in an emerging market, to have an LNG terminal.

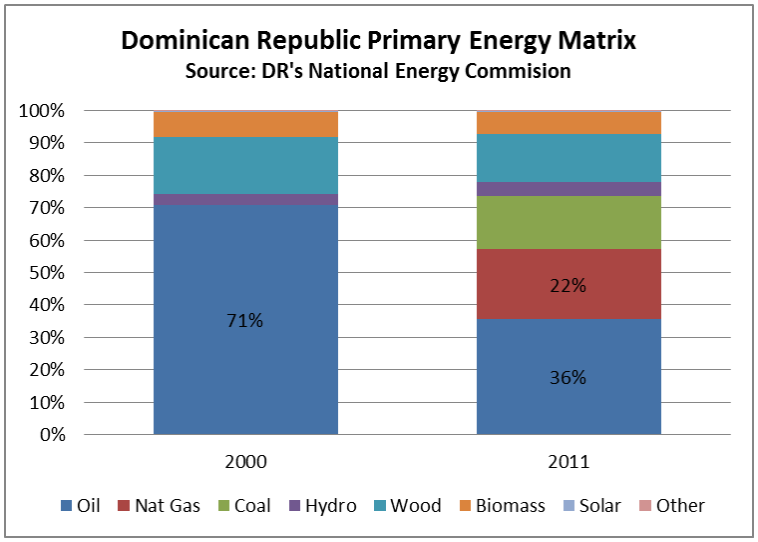
The arrival of affordable, reliable and clean-burning LNG at the new terminal enabled AES to build a new, efficient 319 MW combined cycle, natural gas-fired power plant. At the same time, AES converted a costly and little used 236 MW diesel-fired DPP plant to natural gas. Today, these plants are two of the lowest cost producers of electricity in the Dominican Republic and combined provide enough electricity to power 1.1 million homes per year. Recently, AES began the process of closing the cycle at the DPP plant, to increase output by another 114 MW, without using any additional fuel.

The abundance of LNG created opportunities for use outside of electricity generation, and in 2005, the first contract with a local distributor was signed and natural gas began to reach the local economy. To get the gas to market quickly, AES first developed a system to deliver compressed natural gas (CNG) by trucks. Then, in 2010, AES built the first LNG truck loading terminal in the region that uses modern technology and cryogenic processes to store and transport LNG, allowing more gas to get to market quicker.

Throughout the development of the market, the Government of the Dominican Republic supported the use of natural gas in the power sector and beyond. In 2007, the Government of the Dominican Republic declared the use of natural gas a matter of national interest and issued a mandate to promote the increased use of this new and environmentally friendly fuel. The government also established an organized framework to create technical standards, technician certifications and licensing processes for companies that work on any natural gas installations or LNG equipment in the country. AES contributed to this effort and continues to play an important role by collaborating with the government to share our expertise and knowledge in this industry.

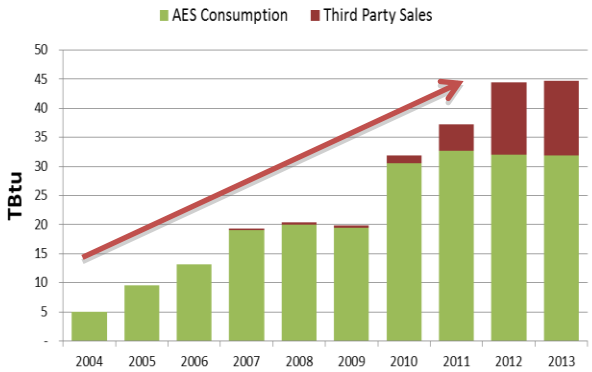
Transformational Impact of Natural Gas

As a result of the introduction of natural gas, the Dominican Republic's energy matrix has been transformed. As shown in the following chart, natural gas usage went from zero in 2000 to providing 22% of the country's overall energy usage in 2011.



The arrival of LNG in the Dominican Republic has had a transformational impact on the energy sector, reducing dependence on imported oil from 71% to 36%. Reducing the country's dependency on oil is one the most important results of the growing market for LNG, as it provides a more balanced energy matrix for the country and relieves pressure on the economy by reducing the amount spent on oil related subsidies, reducing electricity rates, promoting competitive growth for local industries and reducing the exchange rate effect over the Dominican peso.

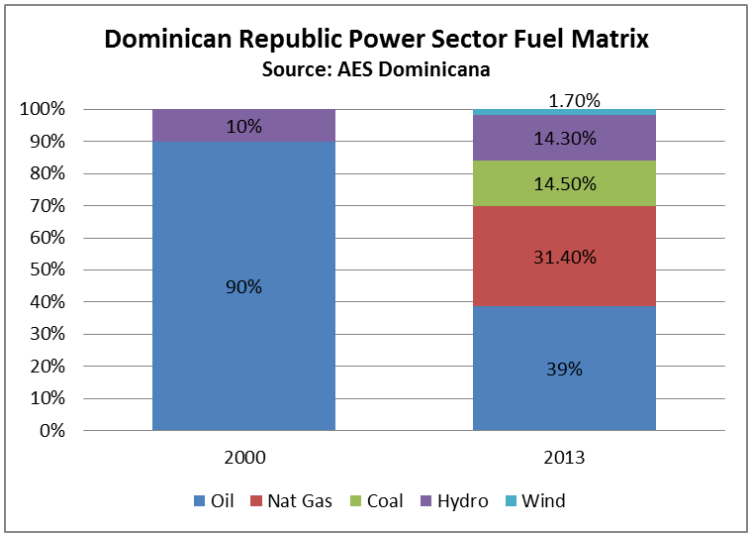
The following graph shows the evolution of natural gas consumption in the last decade in the Dominican Republic.



As a result, a new market exists where natural gas is sold on a daily basis to 6 wholesale distributors who in turn supply as many as 65 large industrial and commercial customers.

In addition, four third party power plants and more than 12,000 vehicles have converted their fuel systems to utilize natural gas.

The introduction of natural gas into the power sector has had similarly impressive results. As shown in the following chart, 90% of the country's installed capacity was oil-based in 2000. By 2013, just a decade after the introduction of LNG, oil-based capacity decreased to 39%, while natural gas capacity grew to 31%.



Our analysis shows that using AES-supplied LNG, instead of higher priced fuels for electricity generation represents a savings of more than half a billion dollars per year for the Dominican Republic. This has had a direct impact on the purchase price utilities pay for electricity. Recent data shows that utilities with gas-linked power purchase agreements included in their generation mix pay 30% less for their power than those that are more reliant on other generation sources. This translates directly to lower power prices for consumers than what they would otherwise pay.

Fortunately, there are still opportunities for more improvements. We anticipate that the gas market will continue to grow and the utilization of natural gas will continue to increase. In 2013, the LNG terminal supplied enough natural gas to generate 31% of all electricity produced in the Dominican Republic. Fully utilized, the AES LNG terminal could supply enough natural gas to produce 45% of the electricity needs in the country. The addition of a

second storage tank to the existing LNG facility would support another 1,000 MW of generation capacity, or enough energy to power an additional 2 million households per year.

Expansion of the local gas market will also economically benefit the Dominican Republic. Converting current oil-based power plants to natural gas and extending the natural gas pipeline system to reach existing dual fuel plants could result in savings of approximately $150 to$170 million per year.

Opportunity to Transform the Caribbean

Dependence on foreign oil with its high volatility and high prices has contributed to the economic and political instability of the Caribbean. The instability of the energy matrices has made Caribbean economies vulnerable and depressed economic growth. As discussed in the Atlantic Council's recently-published report, "Uncertain Energy: The Caribbean's Gamble with Venezuela," the future of Venezuela's Petrocaribe Agreements, which provide low-cost, long-term financing for petroleum imports from that country, is increasingly uncertain. The financial assistance that Petrocaribe provided countries in the Caribbean and Central America in 2013 totals $1.9 billion, including $470 million for the Dominican Republic, $370 for Jamaica and $220 for Haiti. Providing these countries with natural gas from an efficient hub in the Dominican Republic could alleviate the uncertainty of continued dependence on Petrocaribe.

By expanding current AES LNG infrastructure, the Dominican Republic could become the center of a "Hub and Spoke" system whereby LNG would be imported from the U.S. in large, efficient tankers and then re-exported in smaller volumes, likely as LNG or as compressed natural gas, or CNG, to various Caribbean islands. As shown in the independent Castalia Strategic Advisors study[1] prepared for the Inter-American Development Bank (IDB), the LNG infrastructure in the Dominican Republic provides an opportunity to transform the Caribbean's energy matrix. Specifically, the study stated, "The Dominican Republic may be

[1] Natural Gas in the Caribbean – Feasibility Studies, Castalia Strategic Advisors on behalf of IDB, May 2014.

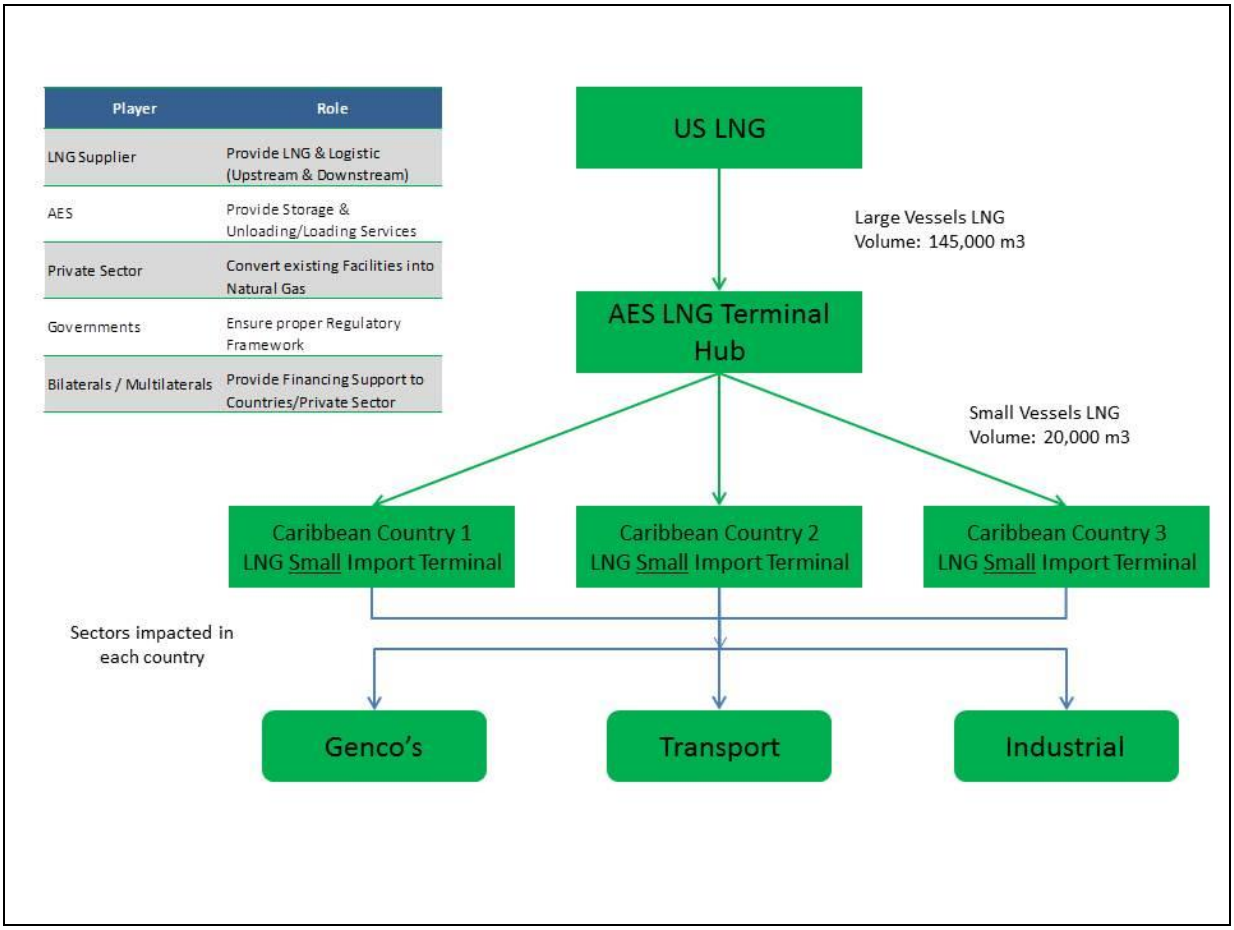
the best option for a physical hub in the Caribbean because it is centrally located, and because AES Dominicana already has LNG facilities and operations in place there." The main points of the IDB study can be summarized as follows:

- The Caribbean's current energy matrix is heavily dependent on oil and derivatives, with nearly 100% of their energy needs being imported, resulting in high energy prices;
- The Dominican Republic is a geographically strategic location in the Caribbean;
- The Dominican Republic has existing infrastructure to import and store LNG;
- The Dominican Republic is a Free Trade Agreement country located within close proximity to several of the proposed U.S. LNG exporting terminals;
- The LNG demand of the individual Antillean islands, with the exception of Jamaica, does not economically justify each having their own LNG terminal or LNG supply contract; and
- The only other large exporting country in the Caribbean Basin, Trinidad &Tobago, will not likely be able to accommodate small LNG vessels, since the loading operations are only safely sized for larger vessels.

AES' existing and proven infrastructure in the Dominican Republic, and a decade of experience, will be extremely valuable in expanding the LNG infrastructure in the Dominican Republic and extending it to the individual Caribbean countries. The expansion of our existing LNG facility provides the fastest and least costly way to increase the availability of natural gas in the Caribbean. New U.S.-based liquefaction facilities in the Gulf states would also benefit, as it is significantly less expensive to ship U.S LNG to the Caribbean than it is to more distant markets in Europe and Asia. Furthermore, signatories of Free Trade Agreements, such as the Dominican Republic, are countries with which the United States shares long-term ties of friendship and cooperation.

The chart below shows the simplified model proposed for this project and the role of each party in the value chain. It's important to note that AES will provide storage and

loading/unloading services while the LNG, logistics, and market development (upstream and downstream) will be handled by LNG suppliers and retailers.



To make this project a reality, significant investments from local and international private sector companies will be needed to develop the necessary facilities and market infrastructure. Quoting again from the Castalia Strategic Advisors study, "Due to the complex coordination that would be required to pool regional LNG demand to contract supplies at the lowest price possible, doing so would likely require external support. External support—for example, from a regional organization such as the IDB—would be needed to bring all the parties together at one time and to provide the necessary financial guarantees."

By using such an approach, this project could be implemented without sovereign financial guarantees from the importing nations. This would substantially reduce energy costs while

reducing the carbon footprint of the Caribbean countries that rely heavily on imported oil-based fuels.

AES has begun taking the necessary steps towards implementing a Caribbean LNG hub by identifying the enhancements needed to expand the AES Andres terminal, to enable exporting LNG. AES is also closely working with large LNG suppliers and local partners to structure the project, utilizing the core competencies of each party in order to ensure a competitive value proposition for each country in the region. We have also worked collaboratively with multilaterals, such as the IDB, to identify opportunities for financial and non-financial support at key points along the value chain. Furthermore, we have offered the use of our LNG terminal in exchange for a tolling fee so others have the ability to import gas to the Dominican Republic.

The current gaps that need to be addressed to provide certainty in the long run for LNG development are:

- Credit requirements to buy LNG through long-term contracts;
- Financing downstream infrastructure (import/domestic) facilities; and
- Enhancing the regulatory and fiscal framework of the regional countries to level the playing field.

Haiti as a Pilot Project

In 2013, we began a pilot project to export LNG from the Dominican Republic to Haiti through third party distributors. Haiti's proximity to the Dominican Republic enables LNG to be transported across the border by trucks. To-date, we have delivered enough LNG to fuel approximately 2% of Haiti's annual electricity consumption, lowering the country's reliance on diesel and wood. Needless to say, following the devastating earthquake of 2010, Haiti's electric system is in need of more efficient fuel sources.

The Right Timing

The confluence of market forces, required infrastructure and political will has created a window of opportunity to continue to diversify the energy mix in the Dominican Republic and throughout the Caribbean. Proposed U.S. LNG export terminals will provide a more flexible fuel source, linked to U.S. natural gas prices, in close proximity to the Dominican Republic. We are encouraged by the recent House passage of the Domestic Prosperity and Global Freedom Act, which would expedite decisions on applications to export LNG from the United States.

We look forward to continuing to support the Dominican Republic and welcome the opportunity to provide similar benefits to consumer throughout the Caribbean, alongside multilateral entities such as the Inter-American Development Bank and IFC, U.S. agencies such as OPIC and U-S-A-I-D, as well as, regional and local partners.

Conclusion

I appreciate the opportunity to present this testimony to the committee.

Thank you for your time and consideration.