

**Committee on Natural Resources**  
**Oversight Hearing**  
**1324 Longworth House Office Building**  
**Tuesday, April 9<sup>th</sup>, 2019**  
**10:00 AM**

**Oversight Hearing on**

*“The Status of the Rebuilding and Privatization of the Puerto Rico Electric Power Authority  
(PREPA)”*

**Questions from Rep. Grijalva** for Mr. José F. Ortiz, Executive Director and Chief Executive Officer of the Puerto Rico Electric Power Authority

1. IEEFA estimates that the five-year action plan in PREPA’s integrated resource plan will result in 60-70% of Puerto Rico’s electricity coming from natural gas by 2025, with an additional 27% from the island’s coal plant. This appears to contradict many of the assertions made in your statement. How do you respond to this claim?
2. We all recognize that it is currently not possible for PREPA to immediately convert to 100% renewable energy generation and that there will need to be a period of transition. But there are concerns that your current plan to focus on natural gas instead of maximizing solar generation will “lock the island into infrastructure that will soon be obsolete”. What is your response?
3. One of the purposes of this hearing was to respond to concerns of the lack of transparency in some of the recent decisions taken by PREPA. One such example is the recent New Fortress Energy Contract for the conversion of the San Juan 5 and 6 power plants. You indicated in your statement that this contract “could generate fuel costs savings of \$500 million over five years and \$80-\$100” in this current fiscal year.

Why was New Fortress Energy chosen for the natural gas conversion and supply at San Juan 5 and 6? Did New Fortress Energy provide a proposal that had more savings than the competitors? Have there been any objections by competitors or other members of the community regarding the awarding of this contract? Is the full procurement record available for inspection by this Committee?

4. In your consideration of moving to natural gas vs. renewable energy project pipelines, how did you arrive at some of the privatization projects that are proposed in PREPA’s integrated resource plan (such as a new natural gas plant and import terminal in Yabucoa, a new gas port in Mayaguez, and new natural gas and/or propane plants in San Juan)? What economic studies do you have to back up these projects, some of which were being publicly discussed well before the IRP? Have specific developers proposed these projects? Who and when?

5. There seems to be a very clear pipeline of new natural gas projects in the IRP. What pipeline do you have for renewable energy projects? In particular, what specific initiatives do you have underway for deployment of rooftop solar?
6. At a March 30 conference hosted by the Wharton School of Business in which PREPA Executive Director Jose Ortiz stated that we are "very close" to a deal. He then said that the deal will include a "transition charge of 3 cents or 4 cents per kilowatt hour" to pay for legacy or bonded debt, according to an April 1, 2019 article in ReOrg research. That is equivalent to a 15% increase to pay off debt that is no longer in use. Has the Government considered how this will hurt workers in Puerto Rico who on average make less than \$20,000 per year, or slow down the creation of jobs by local businesses? Can local businesses and the people of Puerto Rico actually afford pay to that, or will that hurt the ability of Puerto Rico to recuperate?
7. The original PREPA Restructuring Agreement proposed that the Oversight Board and Government gave bondholders up to 80% back. Citibank was an underwriter for some of PREPA's bonds, including the 2013 issuance, and is now advising the Board on restructuring Puerto Rico's debt, according to a February 21, 2018 article by The Intercept.

Does the original agreement, or any agreement increasing rates on the people of Puerto Rico, make sense without auditing PREPA's debt? Shouldn't the Government and Oversight Board be more aggressive in auditing and litigating PREPA's debt before settling? Is the Government and Oversight Board refusing to push for a better restructuring for the people of Puerto Rico because Citibank is potentially conflicted?

8. If my timeline is correct, Puerto Rico initiated a Request for Qualifications, (RFQ) process for the concession of the transmission and distribution system on October 31, 2018. On January 17, 2019 the Government announced four qualified candidates. That process occurred without a regulatory framework in place. Can you tell us why the RFQ process has continued without having the Puerto Rico Energy Public Policy Act in place?
9. Can you tell us where you are in the process for the transition of generation assets to private hands? Will you ensure that process abides by the new regulatory law? Once the law passes, will you retroactively apply provisions of the law to the new contracts?
10. A member of the Puerto Rico Energy Bureau raised questions with the fact that the payments made under this contract will combine payments for fuel and repayment for capital expenditures, a form of debt. Are you concerned that this method of payment will cause PREPA to lose control of how much it is spending on fuel and how much for debt? How will PREPA separate these costs? Isn't mixing debt and operational expenses exactly how PREPA went bankrupt in the first place?

11. You say that PREPA has requested \$2.5 billion from FEMA for strengthening its transmission and distribution system and \$1.88 billion has been obligated and \$1.34 billion has been disbursed. What does FEMA say about the rest?

**Questions from Rep. Grijalva for The Honorable Bruce J. Walker, Assistant Secretary of the Office of Electricity in the U.S. Department of Energy**

1. You stated that DOE believes increasing natural gas generating capacity in the San Juan area would be “one of the single most valuable investment for PREPA’s long-term recovery”. But there are others who say that going in this direction even in this limited way, could lock the island into infrastructure that will soon be obsolete. Do you agree that falling prices in renewable energy and battery storage due to advances in technology will lead to infrastructure based on fossil fuels becoming obsolete in 30 years?
2. Puerto Rico Senate Bill 1121 which will is expected to be signed into law by Governor Rossello on Thursday, April 11, 2019, contains a section establishing an independent regulatory agency. You indicate that DOE is supporting the technical development of regulatory capacity for the Puerto Rico Energy Bureau (PREB), the island’s energy regulator. Are you familiar with the regulatory framework in Senate Bill 1121? Do you share the view that the Energy Bureau has been diluted and weakened by the current Puerto Rico administration?
3. What, if any, should be the Federal role in ensuring that Puerto Rico has new, more efficient, and cleaner to operate power generation plants, and, if it includes financial assistance, how can taxpayers be assured that they won’t be subsidizing corporate profits?
4. Are PREPA and the U.S. Department of Energy agreed on the new vision for PREPA’s transformation?

**Questions from Rep. Grijalva for Mr. Noel Zamot, President of Atabey Group**

1. What is your assessment of PREPA’s plans for transforming the utility in view of your statement about the lack of local government effectiveness and transparency that “has been inherited over decades of mismanagement of federal and local resources”?
2. What recommendations do have for addressing the systemic inefficiencies that you say are everywhere in Puerto Rico?

3. You were quoted as saying at an investment conference while PROMESA Revitalization Coordinator that the Government of Puerto Rico officials gave up at least \$3 billion in private “critical” infrastructure investments. What was the \$3 billion investment?

**Questions from Rep. Grijalva for Mr. Ramón Cruz, Sierra Club Board of Directors**

1. Does the Puerto Rico Energy Bureau have sufficient capability and resources, including staff, to ensure that PREPA’s transformation is done properly?
2. It is realistic to expect to bring electricity prices down in Puerto Rico in the near to medium term while replacing oil and coal-fired power generation with natural gas, transitioning to renewable energy resources, paying off existing PREPA bondholders and new investors and operators of power infrastructure making a profit?
3. In your estimation, how much per kilowatt hour would it cost to pay off PREPA’s existing debt and cover the costs of new power generation plus profits for the investors in those facilities and a concessionaire for the transmission and distribution system?

**Questions from Rep. Grijalva for Mr. Tom Sanzillo, Director of Finance, Institute for Energy Economics and Financial Analysis (IEEFA)**

- 1 Thank you for a very thoughtful and comprehensive statement. Would you expand with more specificity on how the federal government could be enlisted to assist in the rebuilding of PREPA?
- 2 Do you agree with DOE’s finding and analysis that the cost and reliability benefits of increasing natural gas generation capacity in the San Juan metropolitan area, would greatly enhance the reliability and disaster resilience of Puerto Rico’s power system, while lowering power commodity costs island-wide?