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Response to Questions from Chairman Grivaljva

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April 23, 2019

1. **Would you expand with more specificity on how the federal government could be enlisted to assist in the rebuilding of PREPA?**

The federal government support should only supply support if Puerto Rico is capable of using it effectively and efficiently. Financially, this means the commonwealth needs a real plan for an efficient, affordable integration of public and private resources. On the accountability side, this means that Puerto Rico must have a publicly available energy plan that is followed, along with transparent contracting, monitoring and oversight.

This largely public effort needs to be committed to the resiliency, affordability, reliability goals outlined in Puerto Rico's recently passed legislation that call for 100% renewable energy by 2050.

The federal role in PREPA's rebuilding needs to be substantial to ensure it meets the government of Puerto Rico's stated affordability and resiliency goals. On the affordability side – federal resources, broadly applied through an array of agencies and programs, can be used to provide direct grant or realistically priced loans and loan guarantees at an institutional, residential, and small business level. We would look to HUD, DOE, USDA, DOI, Treasury and others for a show of support that is akin to the comprehensive approach used by the Base Realignment and Closure (BRAC) program run by the Department of Defense.

Private capital should be brought in judiciously to support and be supported by federal resources. This should be done under the auspices of a publicly owned utility.

As it stands, Puerto Rico has adopted a privatization scheme for the future development of its electrical system. Such a scheme is really just a series of uncoordinated contracts entered into by PREPA and Puerto Rico's Public-Private Partnerships Authority for generation, transmission and distribution. As an energy plan it is uncoordinated, as a financing scheme it is expensive, and as a procurement model it is opaque and designed for maximum political interference.

Thus far, FEMA has obligated $1.8 billion to PREPA.[1] According to the testimony of Mr. Ortiz, none of this money has been for permanent works. Meanwhile, PREPA's certified fiscal plan calls for approximately $7 billion in federal funding as a "floor" on funding needed for transmission and distribution system reliability.

[1] GAO. Puerto Rico Hurricanes: Status of FEMA Funding, Oversight and Recovery Challenges. p. 18, March 2019.

This money is needed and so is additional oversight.

Shortly after Hurricane Maria, PREPA entered into a contract with a Montana-based company, Whitefish Energy Holdings. The contract became quickly embroiled in a scandal. The contract was canceled but open questions remain. Both the Puerto Rico Comptroller and the Department of Homeland Security Inspector General announced reviews of the contract, but neither of these agencies have reported publicly on any results of these reviews. PREPA is two years late on its annual audits, largely delinquent on its budget reporting and, once again, has asked for an extension to file its FY 2019 budget.

At the same time the Commonwealth has assured the GAO that it has issued new internal controls reporting for the use of federal money.[2] We have seen such promises before, and they have not been kept. In this environment, it is clear that additional oversight is necessary to ensure appropriate use of federal funds.

UTIER, Puerto Rico's union of electrical workers, is calling for the establishment of an independent private sector inspector general (IPSIG), to act as an independent monitor for PREPA, overseeing and reforming management and reporting violations of law to appropriate enforcement agencies. The establishment of such a monitor is essential to ensuring that federal funds are properly deployed.

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?**

I agree that increasing generation capacity in the San Juan area would enhance disaster resilience by reducing Puerto Rico's reliance on long-distance transmission lines bringing power from south to north. However, this could also be accomplished with renewable energy, including rooftop solar.

There may be some merit to short-term conversion of existing power plants near San Juan to burn natural gas, such as the conversion of San Juan units 5 and 6 currently underway. However, as expressed in my written testimony, IEEFA has serious concerns about the manner in which this contract was awarded and written, the limited track record of the company granted the contract, and the cavalier manner in which savings have been estimated.

I strongly disagree with the statement in Mr. Walker's testimony that 1,200 to 1,600 MW of natural gas capacity should be sited in the San Juan area. It is unclear which DOE study footnoted in Mr. Walker's testimony draws this conclusion. The publicly available June 2018 DOE report

[2] Ibid.

"Energy Resilience Solutions for the Puerto Rico Grid" includes no such recommendation.[3] This amount – 1,200 to 1,600 MW – would represent 50-64% of PREPA's projected total 2025 generation, and generation is projected to continue declining from there due to loss of population.

It is also unclear what assumptions DOE made about delivering this much natural gas to San Juan, as the DOE proposal would require an import terminal up to 2.2 times larger than the new $500 million facility in San Juan proposed by PREPA in its integrated resource plan. To my knowledge, no facility of this size has ever been contemplated for the port of San Juan.

Locking in to this much natural gas would not result in the lowest cost electrical system for Puerto Rico electrical system customers. Natural gas capacity would likely be underutilized as system load continues to decline in Puerto Rico forcing PREPA to raise its already high rates to cover these sunk costs. Puerto Rico would continue to export hundreds of millions of dollars each year to off-island fossil fuel interests and be subject to the volatility of natural gas prices over the next decades. The large amount of natural gas would crowd out investments in utility-scale and distributed renewable energy and storage, which continue to decline in price. It would be impossible to meet Puerto Rico's new law calling for 60% renewable energy by 2040 and 100% by 2050 without significant early retirements of natural gas generation, further driving up costs.

Lower cost electricity is not just an issue for consumers in Puerto Rico. It is a matter of utmost urgency if PREPA is to emerge from bankruptcy. The fiscal plan approved by PREPA and the FOMB clearly shows that the authority must lower its cost of operation in order to achieve fiscal stability. This includes a substantial reduction in fuel costs, a reduction which is not being taken seriously by PREPA and the Commonwealth as it seeks to stay connected to natural gas, which would keep Puerto Rico tied to price-volatile markets that are outside of PREPA's control.

[3] In contrast, that study notes that "Given PREPA's pre-storm estimated sales in 2026, as few as three of PREPA's current power plants may satisfy estimated load in ten years, when combined with purchased power. Any hardening efforts should focus on those plants."