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[Cathy Kunke](#) | December 19, 2018

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IEEFA Puerto Rico: PREPA keeps relying on expensive consultants

Instead of building up its own staff expertise on key continuing issues

So far, the limited use and short shelf life of Puerto Rico's bevy of high-cost consultants has not contributed to solving its energy and finance problems. As a prime example, the Puerto Rico Electric Power Authority's (PREPA) overreliance on outside advisors continues to undercut its ability to invest in the people needed in Puerto Rico to handle analysis, planning and decision making internally. Even as the Puerto Rico government and the Financial Oversight and Management Board (FOMB) seek to cut medical benefits and impose other labor "reforms" on public sector workers, including workers at the PREPA, the utility continues to spend extravagant sums on outside consultants and advisors.

This under investment in human resources ensures continued proliferation of weak, short-term ideas by disappearing consultants and no long-term resource left for Puerto Rico to use to advance its interests for the future.

In December 2017, PREPA entered into a contract with Filsinger Energy Partners, based in Denver, to be its Chief Financial Advisor through June 2018. Filsinger has no past history of work in Puerto Rico, seemingly little to no familiarity

with Puerto Rico's electrical system prior to 2017, and no experience in the public bond market. Despite that, a review of papers filed by Filsinger in PREPA's bankruptcy proceeding show that the company has been deeply involved in long-term resource planning, PREPA's privatization process (including design of RFPs and reviewing proposals), debt restructuring, dealing with regulatory agencies, financial management, and more. These are all skills the utility will continue to need and it could clearly benefit from having staff handling at least some of these functions rather than depending on expensive consultants.

Two years ago, the Puerto Rico Energy Commission raised red flags about the large fees paid to PREPA's restructuring consultant AlixPartners (which preceded Filsinger in its financial advisory role) and other advisors, and the lack of controls over those fees. PREPA had paid \$45 million to AlixPartners over a period of 28 months to craft a debt deal that the Financial Oversight and Management Board ultimately rejected.

\$250 to \$842 an hour for consultants; but less medical coverage for its own staff.

It appears that PREPA is on track for a comparably expensive arrangement with Filsinger. While Filsinger's original contract was for \$5 million from December 2017 through June 2018, the contract was amended several times and Filsinger billed \$9.2 million for that period – almost double the amount of the original contract. (Filsinger's billings have to be approved by the bankruptcy court, but the court has thus far approved 95% of the billed fees.) The latest amendment to the contract extended Filsinger's term to June 30, 2019 and allowed for total compensation of \$21.63 million. If the results of the first seven months are any indication, Filsinger will ultimately bill PREPA's ratepayers significantly more than that.

AT THE SAME TIME AS PREPA HIRES EXPENSIVE OUTSIDE CONSULTANTS, IT IS SERIOUSLY UNDERINVESTING IN ITS OWN WORKFORCE. Earlier this year, the government announced a cut to the public employee medical plan of on average \$4,200 per employee, or about \$25 million for all PREPA employees. More than 30% of PREPA's employees have retired since 2012, leaving key operational functions short-staffed. It is difficult to imagine that it is cost effective to pay Filsinger at rates ranging from \$250 to \$842 per hour for functions many of which could be performed by a well-trained local workforce.

In the bigger picture, the contract with Filsinger serves as a reminder that this year's "new" initiative to "privatize" PREPA is not really new at all. For well over a decade, fossil fuel and financial interests have fought for increasing control over PREPA – resulting in a [decades-long oil pricing scandal](http://ieefa.org/wp-content/uploads/2018/07/Multibillion-Dollar-Oil-Scandal-Goes-Unaddressed-in-PREPA-Contract-Reform-and-Privatization-July-2018.pdf) (<http://ieefa.org/wp-content/uploads/2018/07/Multibillion-Dollar-Oil-Scandal-Goes-Unaddressed-in-PREPA-Contract-Reform-and-Privatization-July-2018.pdf>) in which consumers overpaid for oil by hundreds of millions of dollars, a string of increasingly risky debt deals that ultimately resulted in bankruptcy, a failed debt deal that resulted in more than \$100 million in payments to financial advisors and law firms, and most recently a series of well-paid financial consultants that make major operational decisions for the agency.

We are also not at all surprised that the debt deal that emerged during Filsinger's tenure calls for PREPA paying 77 cents on the dollar for its debt. AlixPartners called for paying 85 cents on the dollar. Neither plan is feasible.

Weakening PREPA's ability to make its own decisions – by underinvesting in its own workforce and insuring that it can build up no institutional memory to serve Puerto Rico as it relies on short-term outside consultants – facilitates the control of PREPA by outside interests, not the development of a well-planned and professionally managed electrical system.

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