



**STATEMENT OF DR. CARLOS RIVERA VELEZ REPRESENTING THE PUERTO RICO
PRIVATE SECTOR COALITION BEFORE THE HOUSE NATURAL RESOURCES
COMMITTEES' SUBCOMMITTEE ON ENERGY & MINERAL RESOURCES**

**HEARING ON EXPLORING ENERGY CHALLENGES AND OPPORTUNITIES FACING
PUERTO RICO**

JANUARY 12, 2016

Good morning. My name is Carlos Rivera Vélez and I am here today on behalf of Puerto Rico's Private Sector Coalition (PSC).

I would first like to thank you Mr. Chairman, Ranking Member Lowenthal and the members of the Subcommittee for conducting this hearing this morning and for this opportunity to testify. We have noted in previous visits our availability to collaborate and establish a strong partnership with you so together with the federal and local administrations we foster the development of practical, effective solutions to the current fiscal situation and the formulation and implementation of medium and long term plans that enable a competitive, productive and sustained economy in Puerto Rico. I want to recognize that this is the first invitation in recent times that the Puerto Rico Private Sector Coalition as an entity has formally received from Congress to testify on any issue affecting Puerto Rico and I would like to thank you Chairman Lamborn and Congressman Lowenthal for the opportunity and reiterate our availability to collaborate on this and other challenges.

As a proud Puerto Rican and U.S. citizen living on our island, I also want to thank Chairman Rob Bishop, Congressman Pierluisi, Don Young, and all the Members of the House Resources Committee and their staffs who are tirelessly working to assist our Commonwealth and your fellow citizens in Puerto Rico in finding realistic and practical solutions to the current fiscal situation.



Our 3.5 million U.S. Citizens are active participants in the American dream of a better life for our families. Today, Puerto Rico is a key part of the U.S. values and supply chain. In fact, Puerto Rico consumers and business purchased \$20 billion in products and services from mainland suppliers and retailers this past year, being the largest buyer per capita of U.S. goods in the world.

By way of establishing for the record my formal background I am the elected Chairman of the Puerto Rico Manufacturers Association (PRMA), which is the largest, and one of the oldest trade associations in our Commonwealth, founded in 1928. The PRMA is comprised of approximately 1,200 companies and represents the Puerto Rican manufacturing sector, suppliers, and service providers, which together employs almost 350,000 US citizens on the island and over 80,000 Americans on the US mainland. Manufacturing by itself represents 50% of the island's GDP or \$51B and close to 70% of GDP when all impacted aspects of the economy are taken into account. It pays the highest average wages, generates 3 jobs for every direct job, and generates over one-half of the local government's current tax base.

I am also Vice President of Manufacturing and General Manager for Edwards Lifesciences Corp. in Puerto Rico, a global leader in hemodynamic monitoring medical devices, established in the island since 1972, and directly employing approximately 1,000 US citizens.

During my progressive career of almost 30 years, I have occupied diverse professional and executive positions of increased responsibility in the island. I have worked for Digital Equipment Corporation (computers/electronics), Allergan Inc. (pharmaceuticals/medical devices), Advanced Medical Optics Inc. (medical devices), Johnson & Johnson Company (pharmaceuticals/medical devices) and now Edwards Lifesciences Corp.



I have served as an engineer, engineering manager, manufacturing manager, strategic planning director, engineering director, operations director, plant manager, general manager, and now vice president, among others. I have also served as president or board member of several business, academic, and philanthropic organizations.

I have an engineering degree from the University of Puerto Rico; a master degree in Technology and Business from the University of Pennsylvania; and a doctoral degree in philosophy from the Advanced Studies Center for Puerto Rico and the Caribbean.

I also serve as a founding Board Member of the Puerto Rico Private Sector Coalition (PSC), which represents 100% of the private sector. Some of my fellow Board members include: Dr. Jose E. Vazquez-Barquet, President and Chairman of the Board of the Puerto Rico Chamber of Commerce; Ramon A. Perez Blanco, Esq CPCU, President of the Association of Products from Puerto Rico; Zulmarie Urrutia-Velez, CPA, Esq, LLM, President of the Puerto Rico Society of Certified Public Accountants; and Dr. Francisco Montalvo-Fiol, Coordinator of the Private Sector Coalition and Department Chair at the Interamerican University, Bayamon Campus. Together we came to Washington last December 2015 and are the core team of the PSC consisting of almost 30 organizations.

The entire private sector has come together in a united front to work on the issues affecting Puerto Rico, with energy one of the most critical ones, and we look forward to working with you and your colleagues prospectively. The World Economic Forum (WEF), has listed high energy cost and non-competitive electrical infrastructure as a significant challenge for the Island's economy and as a weakness in the WEF'S Global Competitiveness Report for the last five years. Business



investment decisions have been negatively impacted by Puerto Rico's high energy costs.

Last month, the PSC met with a number of your colleagues here on Capitol Hill and recommended a five-point program towards sustained economic development. At the top of our agenda was energy. As most of you know, energy costs in Puerto Rico far outweigh similar costs on the mainland and are a significant drag on our ability to compete with our neighbors in the Caribbean Basin or even other regions of the World. I will speak more about this next from an operational perspective but the PSC recommends at the federal level that the current MOU between the Department of Energy and the Government of Puerto Rico be revitalized. We also ask that the Insular Affairs Office of the Department of the Interior is appropriated with the necessary funding to complete work with Puerto Rico on modeling and implementing a competitive, transparent, diverse, and dynamic energy solution that can become a key catalyst towards economic recovery and sustained development.

At the local arena, we have been advocating for the implementation of the following elements intended to enable the beginning of the transformation of the agency and economic development: structured and competitive-conscious debt restructuring; assertive integration of renewable energy sources into the Puerto Rico Electric Power Authority (PREPA) infrastructure; immediate implementation of wheeling; the modernization of the current generation plants network and the incorporation of cheaper and cleaner fuel sources (i.e. LNG); the transparency of information and modernization of the information system platform; and the total empowerment and resourcing of the Energy Commission as an independent body representing consumers, commerce, and industry to oversee the whole process of developing and setting energy tariffs. Dedicated resources are needed to provide robust tools,



funding, and technical expertise to the Commission which will allow the Commission to do its job on a level playing field.

I want to offer some of my personal experiences as an operational leader managing a global company. One of my main responsibilities is to ensure expected results are provided within the planned budget for the year within a fair degree of certainty, while improving costs year over year in order to ensure products remain competitive in the global market place. Utility costs are a major component of the cost equation, in which energy prices come to play a major role in the daily management of any operation, in particular if it is relatively capital or equipment intensive. The same analogy applies whether you have a manufacturing plant or a store, at the end the customer pays for it or a portion of it at the risk of being surpassed by cheaper prices from competitors that have managed to achieve lower costs through different cost reduction strategies or better operating conditions, like operating in a place where energy is very cheap.

Energy costs in Puerto Rico for the last fifteen years have been unstable and unpredictable, trending upwards from 11¢/kwh in 1999 all the way to almost 30¢/kwh in 2012. Average US prices for all sectors combined in October 2014 were 10.34¢/kwh while in Puerto Rico that figure was 26.70¢/kwh, almost 2.6 times more than in the mainland. When we take the same averages for October 2015, US energy prices for all sectors combined was 10.34¢/kwh while in Puerto Rico we were at 19.66¢/kwh, almost twice that of the US, the improvement driven mainly from the dramatic drop in oil prices during 2015. To make things worse, there are proposals to increase energy prices even more above the current ones in order to facilitate PREPA's restructuring and debt servicing. This amount could top an additional 7.8¢/kwh taking the worst case; resulting in average Puerto Rico prices for all sectors combined versus that of the US to be 3.3 times using 2014 prices or 2.6



times using 2015 prices.¹ Compared to Singapore, Costa Rica and Dominican Republic, just to take these 3 competitors, and using 14¢/kwh as a fair point in the combined range at 2015 prices, Puerto Rico will be almost double. Anyone with a simple understanding of operating a business appreciates how devastating this change would be and its consequences to our economy.

As you know, PREPA has depended on oil to power its electricity generators since the 1940's. Thankfully, today's oil prices are low but history has taught us that the price of oil can change drastically in a short period of time and Puerto Rico is vulnerable to these price swings. PREPA has been slow in evolving a significant amount of its infrastructure to LNG and renewable energy sources which have enabled Puerto Rico to stay competitively behind; now things are even worse as a result of the financial challenges at the agency (i.e. Aguirre Gas Port construction is halted).

Many local businesses and manufacturers have taken their own initiatives to lower energy costs. In the case of the facility I personally oversee, we have spent over a \$1 million to change our lighting to LED lighting and install more efficient equipment as part of an energy cost reduction strategy. Several large operations in manufacturing, consumer products, and retail markets, have actually installed their own electricity generation capacity onsite to ensure adequate power at a lower price (i.e. cogeneration with propane, large solar panel arrays, and energy cost reduction programs). Notably, PREPA has resisted the ability of these companies to sell back to the grid or to initiate the practice of "wheeling" and sell to a neighboring facility.

¹ Sources: Independent Statistic & Analysis US Energy Information Administration and Estadísticas PREPA Serie Histórica 2015



Small business have also become creative within their limited budget to attenuate energy costs: turn off the air conditioner or use it partially; use only a portion of the lights in the show room; place timers to control ON time on continuous operation electrical devices; lay off employees; among other mitigations. There are instances for many businesses in Puerto Rico where energy costs are significantly higher than payroll expenses.

If we do not turn around these energy cost trends, this will be a disaster for consumers, commerce, and the manufacturing industry. Despite all of our challenges to operating in Puerto Rico, we continue to be a manufacturing powerhouse, as demonstrated by our GDP figures. Any significant increase over current energy prices that are already less than competitive, will kill the manufacturing industry; local business and manufacturing will be forced to revise its cost structures once again resulting in job reductions to compensate or pass the costs to the consumer. In the end, local consumers will be once again hurt with product cost increases while global customers will look at other product options, reverting in lower demand for Puerto Rico made products, and as a consequence trigger less jobs for US citizens in Puerto Rico and the mainland. We need to focus all our efforts in achieving lower competitive energy costs over a modern, diverse, compliant and agile infrastructure.

Let me now offer more details from the operations perspective by illustrating the example of a manufacturing plant. Every time there are energy cost increases the following dynamics occurs in any manufacturing plant in Puerto Rico: the general manager needs to explain the financial variances and the reason for it; he or she need to look and implement ways to compensate for the cost increase. Typically reverting to:



- 1) cutting jobs or holding up on other capacity improvement projects or plant expenses;
- 2) holding up capital investment geared towards new products,
- 3) holding up capacity or capabilities improvements is held in order to implement energy cost reduction projects;
- 4) new annual budget for electricity is increased and challenged by corporate officials by its lack of predictability and uncertainty;
- 5) capital dollar pool is limited in order to provide space for energy saving related projects –

The impact means that no new energy projects could put at risk the plant's future in Puerto Rico; corporations desist from bringing new products to the local plants if they are heavy on capital equipment. Workers at all levels become very aware of the previous challenges at the working place, when combined with their own energy cost challenges as consumers, it contributes to a suboptimal working environment. For these and many other reasons, we believe providing a competitive long term energy platform is one of the cornerstones towards Puerto Rico's economic recovery.

Other non-energy related recommendations of the PSC from past December visit, included parity with respect to Chapter 9 bankruptcy protection and Medicare/Medicaid reimbursements; establishment of a Federal Fiscal Oversight Board; a preferred partnership with Puerto Rico to promote manufacturing and the export of products and services; the establishment of an economic development board; "do no harm" with respect to international tax reform; and the inclusion of the private sector in crafting workable and effective solutions.



With respect to this last point, the private sector pays a significant amount of tax revenue in Puerto Rico and is our island's largest employer. On that basis alone we hope that the Congress will follow the example demonstrated today by Chairman

Lamborn and Ranking Member Lowenthal and this subcommittee and actively solicit the expertise and participation of the private sector in assisting the Congress, the Administration and the government of our Commonwealth in resolving this fiscal situation.

In conclusion, thank you for the opportunity to testify and I would be pleased to respond to any questions you might have. We look forward to working with you in a collaborative and productive fashion.

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