

Statement of Thomas Emmons, Partner, Private Credit, Pegasus Capital Advisors LP
Before the Committee on Natural Resources
United States House of Representatives
Oversight Hearing, “Management Crisis at the Puerto Rico Electric Power Authority and
Implications for Recovery”
Wednesday, July 25, 2018
2 p.m.

Introduction

Chairman Bishop, Ranking Member Grijalva, and members of the Committee, thank you for having me here today.

My name is Thomas Emmons. I’m a partner in the Private Credit group at Pegasus Capital Advisors. Pegasus is an asset management firm that focuses on providing growth capital to middle-market companies focused on the sustainability and wellness sectors. My focus at Pegasus is debt finance for renewable energy projects.

I am here today because of my experience financing renewable energy projects. Specifically, I have been involved in financing more than twenty billion dollars in renewable energy projects in the United States in the past decade. And, I have more than 25 years of experience raising financing for hundreds of projects around the globe, including in Asia and Latin America.

PREPA Credit Issues

I highlight that experience in order to emphasize to you that, based on my experience, in my opinion, PREPA is in no condition to be an acceptable offtaker of power in any energy project financed by the private sector.

Earlier this year, Pegasus was mandated to arrange the capital requirements of the \$305 million Montalva Solar Project in Puerto Rico, which will be built and operated by Greenbriar Capital.

In the world of project financing – particularly energy and natural resource financing – the whole financing package revolves around the offtaker. An offtake agreement is an agreement between a producer of a resource (such as electricity from solar) and a buyer of a resource, and the buyer of the resource is the offtaker. Essentially, the producers, who are investing in the production of a resource, need to know that the offtaker will be able to pay for the resource or product if and when it is delivered.

In the case of investing in Puerto Rico’s energy infrastructure, the offtaker is PREPA. In my opinion, PREPA is currently unacceptable in its current financial condition to be the cornerstone for a project in Puerto Rico.

In a financing package, the offtaker is the source of financial strength for the project. Without a strong offtaker, the project is not financeable. This is very black and white in the renewable energy project finance world.

A commonplace measure of financial strength is the credit rating assigned to it by Moody’s, or other nationally recognized credit rating agencies. Credit ratings are a critical component of any energy project

financing package. For example, the vast majority of utilities in the United States have an investment grade credit rating between BBB and AA.

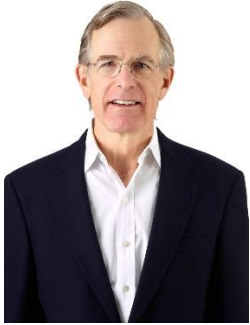
But Moody's has been downgrading PREPA since 2012, and its current credit rating of Ca makes PREPA a completely non-viable partner from a financing standpoint.

To raise financing for a project supported by a power purchase agreement with PREPA, PREPA must be creditworthy, and it is not. No one in the world of renewable energy project financing would be able to raise financing for a project with PREPA in its current state.

Conclusion

The ultimate objective may be for PREPA to be privatized, or for its debt to be restructured, so that it returns to a strong and stable financial condition. However, the process to achieve either of these outcomes is long, difficult, and uncertain. But Puerto Rico needs to attract investment into its power system immediately, particularly renewable energy projects, which will create jobs and move Puerto Rico toward a clean energy future. Therefore, in order to immediately remove the roadblock to renewable energy investments created by PREPA's current weak credit standing, I suggest that Congress pass a law or otherwise direct a federal entity, which will have a strong credit rating, to guarantee the performance of PREPA under its renewable energy power purchase agreements. This payment performance guarantee will give investors assurance that PREPA will pay for the clean power from wind and solar projects if and only if such wind or solar project delivers power to PREPA as required by the PPA. This is not a financial guarantee and will not be a guarantee of PREPA's debt. Moreover, the federal government may never have to make any payment under this guarantee, if PREPA pays its bills. But, in my opinion, it would immediately restore PREPA to the status of an acceptable power offtaker, and as a result, private sector lenders and investors would invest in wind and solar projects in Puerto Rico, in parallel with the longer term work of getting PREPA back on its own feet financially.

I thank you for your time and am happy to take any questions.



Thomas Emmons

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At Pegasus, Thomas Emmons focuses on mezzanine capital in the renewable energy and sustainable infrastructure sectors. He is an experienced energy, natural resources, and project finance specialist with over 25 years of experience in commercial and investment banking, principal investing, and financial advisory. Prior to joining Pegasus, Mr. Emmons was at Rabobank and HSH Nordbank, where over the last 13 years he founded, built, and led two industry-leading teams. At Rabobank, he and his team of 12 committed over \$5 billion across over 100 project financings valued at over \$21 billion in the solar, wind, and bioenergy sectors. He has served as advisor and board member, and provided and arranged debt and equity financing for numerous renewable energy and infrastructure companies. From the beginning of the expansion period of the US wind and solar sectors, his financing teams provided innovative debt and equity capital which fueled early growth in the sectors. Mr. Emmons previously worked at Citibank in New York and Hong Kong in energy and infrastructure finance, at Bankers Trust in energy merchant banking, at Banque Paribas covering Latin America, and at Credit Suisse First Boston in project finance syndications. Mr. Emmons has served on the boards of the Solar Energy Industries Association, SkyPower Corporation, GEC Holdings LLC, and BrightFarms Inc., a greenhouse developer and operator. He is on the Leadership Council of the Yale School of Forestry and Environmental Studies. He is a graduate of Yale College and Harvard Business School. He served as a US Naval officer on board USS Gearing (DD-710).

Education

Yale College; B.A.
Harvard Business School; M.B.A.