

**Written Statement of the Honorable Ricardo Antonio Rosselló Nevares
Governor of Puerto Rico**

Before the
U.S. House Committee on Natural Resources
Subcommittee on Indian, Insular and Alaska Native Affairs

March 22, 2017

Chairman Bishop, Chairman LaMalfa, Ranking Member Torres, Vice-chairman Jennifer Gonzalez and members of the Subcommittee: thank you for the opportunity to discuss issues related to Puerto Rico's energy infrastructure and financial restructuring. My tenure as Governor of Puerto Rico began less than three months ago, on January 2, 2017. Despite having only been in office for a limited time, I have come to truly appreciate how crucial the work before this committee and the US Congress is to the economy of Puerto Rico and, most importantly, to the welfare of the citizens of Puerto Rico.

I understand the Subcommittee is interested specifically in the ongoing restructuring of the Puerto Rico Power Authority or "PREPA." Before addressing the specifics of the PREPA restructuring, it is important to recognize the critical need to transform the energy infrastructure in Puerto Rico. Puerto Rico needs a reliable, cost-effective and efficient electrical system, as well as an effective program of conservation and maximization of its water resource in order to support the island's socio-economic transformation.

Issues with PREPA

Unfortunately, Puerto Rico does not currently have an energy and water service system suited to its current needs. Without changes, PREPA and the other corporations that render these essential services will stagnate and be unable to grow.

PREPA's operations are negatively impacted by the age of its generating assets and the lack of capital to make the investments necessary to assure reliable service. PREPA's median plant age is more than 25 years older than the U.S. industry average. Without significant investment, PREPA cannot meet the applicable environmental standards. The problems with PREPA's infrastructure result in a high number of forced outages, poor efficiency within the system, a lack of reliability with the system and high costs. PREPA also owes over \$9 billion to its creditors and operates under serious liquidity constraints.

This all translates into high electric rates. Today Puerto Ricans pay substantially more for electricity than do residents in the continental United States, and this in an economy where the median family income is approximately 33% of that in the United States. The high electricity costs negatively impacts both the ability of Puerto Rico to attract capital and to compete in a global economy. This situation is not sustainable for residents or for the Puerto Rican economy.

Vision for the Future

My vision for PREPA is one that involves a modern and resilient transmission and distribution system with diverse sources of fuel including renewables and supported by private capital to invest in new and efficient generating capacity. The goal is to be able to deliver reliable energy at sustainable rates to the people and businesses of Puerto Rico. That vision includes a successful restructuring of PREPA.

My specific plan for PREPA involves attracting private capital to develop new infrastructure, the use of clean fuel combined cycle technology to increase the dispatch of gas to the south coast, and the development of renewables and other cost-effective energy solutions including hydro-electric assets. We are also evaluating the viability of the Aguirre Gas Port

I also note that in the past, PREPA was frequently cited as an example of governmental dysfunction where political considerations overrode true economic goals. In that regard, it is my view that the restructuring of PREPA must incorporate a governance model that facilitates investor and consumer confidence and minimizes political interference. At the same time,

PREPA's governance cannot be disconnected from the overall energy policy of the Island. In my view, the appropriate governance structure is one that takes into account the concerns of all stakeholders.

The Restructuring Support Agreement

Since I took office, my team has worked diligently to assess both the long-standing and fundamental operational challenges facing PREPA and the proposed transaction set forth in the Restructuring Support Agreement or RSA that was negotiated by the prior administration with significant creditor constituencies. While we recognize and appreciate the efforts that many parties put into the RSA and understand that it provides a useful framework for discussion, my administration believes that any consensual restructuring requires modifications to the terms set forth in the RSA. Without providing an exhaustive list, our concerns include the impact of the transition charge on Puerto Rican rate-payers, the affect the transaction may have on the capital and liquidity available to PREPA to complete its operational transition, the failure of certain creditor groups to provide significant concessions, and the reality that the RSA does not provide for sufficient capital to close the transaction. I also note that there are material conditions beyond the control of the RSA parties such as the completion of the validation proceedings and the requirement of an investment grade rating that have not been achieved.

After the RSA was signed in December of 2015, Congress, aided tremendously by this Subcommittee, passed PROMESA, which was signed into law by the President on June 30, 2016. It is noteworthy that Congress specifically stated in the very last provision of PROMESA that it was its sense that "any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that features, among other elements, a free flow of capital...." I share that belief.

Congress through PROMESA has provided Puerto Rico the tools necessary to achieve the fiscal and economic reforms needed to restore Puerto Rico's standing in the financial markets which will aid in its recovery. Indeed, the Oversight Board's certification of Puerto Rico's fiscal plan on March 13th represented an important first step in moving forward with Puerto Rico's

good faith negotiations with its creditors and stakeholders with the intent and desire to achieve consensual agreements under the Title VI process and avert a potentially costly and litigious bankruptcy-type proceeding under Title III. My administration fully supports and is pursuing these types of consensual agreements as the most productive path to Puerto Rico emerging from its current fiscal and economic crisis as quickly and expeditiously as possible.

With regard to PREPA specifically, the RSA remains in place at least through its current termination date of March 31, 2017. We intend to request an extension of that date from the RSA parties to allow for continued discussions at least through the expiration of the PROMESA stay. We are also looking forward to receiving the feedback of the Oversight Board on the PREPA fiscal plan so that we can proceed to certification of that plan.

Conclusion

I recognize that certain PREPA constituents would prefer that we simply accept the deal in the RSA without review or modification. But, these constituents must recognize that PREPA's restructuring does not exist in isolation. PREPA's restructuring is an important component of Puerto Rico's overall restructuring efforts and central to Puerto Rico being to meet its overall fiscal plan. As a result, any RSA or other transaction with constituents must provide and allow for not only an acceptable financial restructuring but also must lead to a transformed, rationalized and operationally improved PREPA offering broad economic upside based on utility efficiencies, a sustainable and affordable rate structure, public/private infrastructure investment and reliable energy for Puerto Rican consumers..

I believe it would be irresponsible to simply accept the terms of any financial restructuring without fully understanding the path it provides for PREPA to improve its operations, increase its reliability, diversify and access new capital. Our analysis of PREPA's operations and the interplay with the RSA is on-going and we continue to focus on potential modifications to the RSA that would recognize the interests of Puerto Rican rate payers as well as creditors and other constituents. I am committed to continuing this hard work toward a

meaningful restructuring in order to transform PREPA into a modern utility that will support the people of Puerto Rico and a strong and growing Puerto Rico economy.

Thank you again for the opportunity to discuss these issues.