

Written Testimony of Noel Zamot
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before the

House Committee on Natural Resources

**“Examining Challenges in Puerto Rico’s
Recovery and the Role of the Financial Oversight and Management Board”**

November 7, 2017

Chairman Bishop, Ranking Member Grijalva and members of the Committee, I am Noel Zamot, Revitalization Coordinator for the Puerto Rico Financial Oversight and Management Board (the “Board”). I have also been named by the Oversight Board to serve as the Chief Transformation Officer (“CTO”) for the Puerto Rico Electric Power Authority (“PREPA”). A motion seeking confirmation of that appointment by the Court overseeing the restructuring of PREPA’s debt under Title III of the Puerto Rico Oversight, Management and Stability Act (“PROMESA”) is pending.

It is an honor for me to appear before the Committee. I will first briefly describe my current role, next outline my conception of the PREPA CTO role, and then stand ready to answer the Committee’s questions to the best of my ability.

Revitalization Coordinator

As the Committee well knows, the Revitalization Coordinator, like the Board itself, owes its existence to Congress. Section 502 of PROMESA established the position of Revitalization Coordinator, under the Board. My role is part of Title V of PROMESA—Puerto Rico Infrastructure Revitalization. My job, in a nutshell, is to accelerate the Island’s economic recovery by bringing private capital to address infrastructure challenges, in order to create jobs and set the conditions for growth.

This has become all the more important in the aftermath of Hurricanes Irma and Maria. I am just back from the Island, where I have been coordinating with the Government of Puerto Rico, the U.S. Army Corps of Engineers, military personnel generally, FEMA personnel and others to address the immediate aspects of the Island’s infrastructure devastation in as coordinated and efficient a manner as possible. I myself have a military background, having retired from the U.S.

Air Force in the rank of colonel. I have also been trained in and have led emergency responses to crises.

I can assure you that the troops on the ground in Puerto Rico are acting heroically. I can also assure you it is a daunting effort in which they are engaged.

Our Executive Director, Natalie Jaresko, has delivered the Board testimony in chief. For this portion of my testimony, I want to very briefly discuss the great promise of private investment in Puerto Rico as catalyzed by PROMESA, and, as the Committee has asked us to do, briefly address some of the challenges presented by our limited role.

The good news is that even though Puerto Rico's ability to borrow is compromised, it *does* have access to private capital—through projects identified by the Board under PROMESA's Critical Project provisions. The central mechanism of Title V is identification of "Critical Projects." Once identified, these projects benefit from provisions designed to expedite their realization. We have identified to date \$3.3 billion in private capital that seeks to invest in Puerto Rico infrastructure projects.

One example is a waste-to-energy project sought by a New York-based firm called Energy Answers. This project would involve an \$800 million—fully private—investment to create a plant to convert waste into electricity. It has a dual objective and many advantages. It would not only generate electricity that would be contributed to the grid, but also alleviate some of the pressure on a full and leaking landfill.

In recommending this project and approving it for the expedited permitting provided for Critical Projects, we apply the statutory PROMESA criteria. These include the "impact it will have on an emergency;" the availability of immediate private capital; the cost of the project, if any, to Puerto Rico; and its jobs impact. With respect to energy projects, the criteria also include whether the project will reduce reliance on oil for energy generation, improve energy infrastructure and overall energy efficiency, expedite conversion of fuel sources to natural gas and renewables, contribute to transitioning to private generation capacity, and support the Energy Commission of Puerto Rico in achievement of its goal of reducing energy costs.

Private capital is an essential ingredient of restoration of the Island's infrastructure, and the Critical Projects process has shown it can be a valuable tool to help privately financed projects succeed.

The Committee has also asked what else is required for successful rebuilding of Puerto Rico's infrastructure and what limitations I see in Title V as a tool for aiding the rebuilding. That is an important topic, and I look forward to discussing it in response to your questions today.

As a general matter, I would emphasize that as useful as I think Title V is, it is quite narrow. Beyond identifying and expediting discrete Critical Projects, Title V offers few tools to the Revitalization Coordinator to realize broader economic development in Puerto Rico. The Revitalization Coordinator also does not have the formal power to reform the management,

operations, or contracting of instrumentalities, such as PREPA – a void that has become much more consequential after Hurricanes Irma and Maria.

PREPA Chief Transformation Officer

I would now like to share my thoughts on PREPA and the decision by the Board to appoint a Chief Transformation Officer. My appointment as CTO, as I have indicated, is pending approval by the Title III court. I do not want in any way to appear to be presumptuous about the outcome, but I also understand the Committee’s need for information on my understanding of and plans for the CTO role. I believe the Court will understand that my testimony is provisional—that is, what I plan to do assuming I am confirmed.

The decision to name a CTO was the Board’s, not mine. Suffice it to say that from my perspective of months on the ground in Puerto Rico, and regardless of who fills the role, it is absolutely essential. Both to deal with the short term crisis and the long term transformation of PREPA, we need dramatic action that creates a fast-moving, depoliticized entity driven by a compelling vision of an efficient, durable, sustainable and affordable power sector for the island.

I have three principal objectives for my role as Chief Transformation Officer. First, bring all available resources to bear to restore power to Puerto Rico as quickly as possible. Second, develop and implement the transformation plan for PREPA, ensuring that the near-term recovery activity is consistent with the long-term vision. And, third, ensure the utility exits PROMESA’s Title III via the implementation of a plan of adjustment as a system that can provide stable, reliable, and cost-effective power to Puerto Rico’s inhabitants and institutions.

Restoring Power—and Early Organizational Steps

The first objective requires us to leverage all available resources for Puerto Rico. Much has already been done, but there is much more to do. Based on my interactions with them to date, I am greatly encouraged that the Army Corps of Engineers, the Department of Energy and FEMA can provide us even greater, and better coordinated, resources. Similarly, we can do much more to involve industry groups such as the American Public Power Association to a greater degree.

During this first phase, the organizational structure will be of critical importance. I will employ an approach that I have used with success in previous times when we had to transform organizations in the middle of chaotic and uncertain environments. I have found success by establishing a straightforward, clear chain of authority, with well-defined roles and responsibilities that track with the overall objective and with strategic priorities. Especially during this initial phase, we must prioritize speed—with discipline, transparency and integrity—over endless analysis. The people of Puerto Rico deserve no less. We will keep our objectives—recovery and transformation—front and center throughout every action we take.

I plan to have five key direct reports on my staff. They will enable me both to act fast and effectively in the first phase *and* to integrate our actions with our long-term transformation plan *and* to ensure that I have advisors with the right expertise helping me achieve our goals. These are

a: Chief Operations Officer (“COO”), Storm Boss, VP for Transition, Chief Financial Officer (“CFO”), and General Counsel (“GC”).

The Chief Operations Officer will be responsible for day-to-day operations of the utility. This will initially be a senior leader from PREPA, but will be augmented by an industry executive, identified in conjunction with input we are receiving from the Edison Electric Institute.

The Storm Boss will liaise directly and freely with FEMA, the Government of Puerto Rico, the Army Corps of Engineers, as well as other members of the team. This person will be responsible for identifying, onboarding, and integrating all help as required, as well as acting as the primary stakeholder to ensure that short term recovery actions under Stafford Act Category B are consistent with the long-term plan for the island. I expect to coordinate with the Storm Boss frequently—likely several times per day.

The VP for Transition will lead the mechanics of developing the transformation plan, as embodied in the revised Fiscal Plan for PREPA, ensuring that we remain on the timeline and that all stakeholders are represented and contribute appropriately. This person will further insure that the various working groups are integrated with the outside and internal stakeholders, and that the evolving vision is shared with the COO and Storm Boss to ensure continuity of effort and consistency between near term recovery and the transformation vision.

The CFO will have traditional financial responsibilities. The CFO will develop an improved, open and transparent procurement process, fully compliant with all federal requirements, such as FEMA’s. In my experience, much of the challenge with problematic contracts has less to do with the substance of the contract—which can be reviewed and amended—than with the RFP process and selection criteria. Without sound controls and protocols for those two, you could end up with a perfectly executed contract that was awarded inappropriately.

Finally, we will have a General Counsel. As a three-time military commander and industry executive, my experience is that the roles and responsibilities of management and GC are and must be clear. Leadership establishes vision and executes strategy; the GC ensures that those objectives are accomplished in an ethical and legal manner.

I have been engaging in informal conversations with potential candidates for all these positions so that they can be hired and join the team as soon as I am confirmed to the role by the Court.

Outside of the organization, I have already identified key executives to serve on a Board of Advisors. These are Chief Executive Officers from public and private utilities, who have generously volunteered to bring their considerable expertise to help with the task. I will also rely on professional, engineering, and sector insights from seasoned experts in the field. This is my “deep bench,” and it includes former executives from multinational utilities, energy experts, economists and more. These will include experts from McKinsey & Company and Ernst & Young, who currently serve as outside consultants to the Board, as well as economists from MIT’s Sloan School, my alma mater. My intent is to reach out to them on a regular, scheduled basis. I have

already asked this team to identify key process and organizational efforts in the first critical days of transition.

The Fiscal Plan and Its Transformative Character

The Board, in conjunction with the Government of Puerto Rico and PREPA, has developed a Fiscal Plan that reflects a transformation of PREPA that is in broad agreement with Puerto Rico's energy strategy and the Governor's energy priorities. Our goal or "end state" is to provide stable, reliable, and cost-effective power via a grid that incorporates best practices, in order to act as a catalyst for sustainable economic growth. Puerto Rico's energy strategy calls for: 50% renewables by 2040, with the balance a natural/LP gas mix; regional grids with generation close to demand; physical hardening and control schemes to provide resiliency; and widespread distributed generation, all wrapped by an empowered, accountable energy regulator.

PROMESA is clear in its guidance to attract private capital to achieve this end state. We intend to do just that, not only for generation, but to attract innovative capital solutions from the private sector for transmission and distribution as well.

To be sure, we must update the existing PREPA Fiscal Plan based on the post-Maria reality. Not only has the asset base been decimated, but now we have to rebuild the infrastructure with virtually no revenues and minimal liquidity. Fortunately, Congress and the Administration created a Community Disaster Loan program in the recently passed supplemental appropriations bill and made PREPA an eligible borrower. Moreover, our FEMA and DOE colleagues have worked closely with us to identify the proper federal programs to rebuild the asset base and to give us the benefit of their expertise. We will work closely with the Governor and existing PREPA officials with expert knowledge of the Fiscal Plan and its transformative role, and the process for amending the Plan will also include professional and industry groups and thought leaders.

We will begin integrating outside stakeholders into our process by mid-November, with recurring milestone meetings every ten days to two weeks. We will have an initial draft of the revised Plan by mid-December, and a more polished version by mid-January. The January product should include sufficient detail to begin crafting actionable engineering and policy requirements to begin execution during the second quarter of 2018.

Plan of Adjustment

The binding, actionable implementation of the resulting, amended transformative Fiscal Plan is via the Plan of Adjustment, the legally enforceable outcome of the Title III court proceeding. This Plan ensures the transformation of the utility far beyond the termination of my tenure, which will occur upon approval of the Plan. The court process associated with Plan construction and approval also assures the input of creditors and the recognition of their legal rights, as provided for in PROMESA.

I look forward to answering your questions.