

# Congress of the United States

Washington, DC 20515

January 23, 2020

Ms. Natalie Jaresko  
Executive Director  
Financial Oversight and Management Board for Puerto Rico  
P.O. Box 192018  
San Juan, PR 00919-2018

Dear Ms. Jaresko:

We write in support of the people of Puerto Rico who continue to suffer from multiple earthquakes, at a time when the island is still recuperating from the damage inflicted by two ferocious hurricanes in 2017. The earthquakes that have rattled Puerto Rico since December 28, 2019, have left people with a nervous uncertainty about their safety and their future, which continues to be compromised by the slow pace of federal hurricane relief efforts. Moreover, these earthquakes have caused significant damage to some of the island's electrical infrastructure. Given these extraordinary circumstances, the Fiscal Management and Oversight Board (FOMB) should immediately consider renegotiating the current Restructuring Support Agreement (RSA) for Puerto Rico's Energy Power Authority (PREPA) and amend PREPA's Fiscal Plan.

This request is necessary given the continued humanitarian crisis on the island. There are heartbreaking images of the young, sick and elderly spending nights in roofless shelters because they simply have no other safe place to go. Even those spared from major damage to their households have suffered continued disruptions of services essential to sustain quality of life. The island-wide blackout caused by the recent earthquakes is clear and convincing evidence that Puerto Rico is still in a vulnerable and unstable position, as it was on Sept. 20, 2017. Indeed, it may be more vulnerable given the risk ongoing aftershocks pose to already fragile infrastructure.

While some areas of Puerto Rico experienced power restoration relatively quickly after the earthquake, a complete overhaul of the island's electric system will take years. The electrical grid's failure after Hurricane Maria, coupled with the recent earthquake and its associated aftershocks, harshly remind Puerto Ricans that they rely on antiquated energy infrastructure. Given these particulars, the island's electrical system urgently needs to be modernized.

Congressional hearings have examined the vulnerabilities of Puerto Rico's electric grid. Subsequently, experts and civil society have expressed concerns with the current grid and have sought for flexibility to incorporate distributed generation from renewable energy sources.<sup>1</sup> The FOMB and the government of Puerto Rico must refrain from pursuing a path that perpetuates centralized generation using fossil fuel technologies and that requires the expenditure of scarce

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<sup>1</sup> See ReImagina Puerto Rico, "Energy Sector Report", June 20, 2018, [https://reimaginapuertorico.org/wp-content/uploads/2019/05/Energy\\_Sector\\_Report\\_ReImagina\\_Puerto\\_Rico\\_ENG\\_09.21.2018.pdf](https://reimaginapuertorico.org/wp-content/uploads/2019/05/Energy_Sector_Report_ReImagina_Puerto_Rico_ENG_09.21.2018.pdf), at p. 41-61.

financial resources in a massive new natural gas infrastructure<sup>2</sup>, under the guise that it would be “the single most valuable investment”.<sup>3</sup> It is unclear why the FOMB favors fossil fuel technology over renewable energy options for Puerto Rico. This is certainly not in the long-term best interests of millions of Puerto Ricans, who will be paying unduly high electricity rates for at least two generations.

The recent earthquakes have inflicted significant damage to several of PREPA’s generation facilities. In particular, the Costa Sur generation plant, which accounts for approximately 19% of the island’s capacity, will be offline for at least a year.<sup>4</sup> In order to make up for that lost capacity PREPA will be forced to rely on older, more inefficient, and costly generation facilities that use expensive and highly polluting Bunker C oil and diesel fuel. The reliance on these decades-old facilities will alter PREPA’s cost structure, likely forcing it to increase rates immediately just to keep the lights on in the short-term.

With that context in mind, we strongly recommend you revise PREPA’s certified Fiscal Plan so that it considers Puerto Rico’s new dawning reality. The current Fiscal Plan, which will eventually incorporate the debt service on PREPA’s debt, as restructured pursuant to the terms and conditions of the proposed Restructuring Support Agreement (the “RSA”), includes a five-year operational costs forecast, which is partly based on the availability of the Costa Sur generation plant. Given that Costa Sur will be offline for the foreseeable future and that PREPA will have to incur materially higher costs to substitute for the lost capacity, it is imperative that both the Fiscal Plan and the RSA be amended to take into account the destruction wreaked by the earthquakes, and to prioritize the restoration of critical infrastructure and services at affordable rates over channeling available cash flow to make unreasonable and unsustainable debt service payments to vulture funds.

The PREPA Fiscal Plan needs to be modified to: (1) take into account PREPA’s loss of capacity at Costa Sur; (2) include a new forecast of operating expenses in light of PREPA’s new cost structure; and (3) incorporate the materially adverse economic effects of the earthquakes, which will likely be exacerbated by higher rates charged by PREPA.

With respect to the RSA, it is simply a bad transaction for the people of Puerto Rico and needs to be renegotiated to (1) reduce the outstanding principal by an amount sufficient to allow PREPA to operate as a sustainable entity in the future; (2) decrease the proposed Transition Charge, which is scheduled to increase from 2.768 c/kWh to 4.552 c/kWh, an increase of 64% that is neither

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<sup>2</sup> Mike Henchen and Roy Torbert, “Puerto Rico’s Electricity System at a Crossroads”, December 11, 2019, <https://rmi.org/puerto-ricos-electricity-system-at-a-crossroads/>

<sup>3</sup> Assistant Secretary, Office of Electricity U.S. Department of Energy, “House Committee on Natural Resources oversight hearing entitled The status of the ‘Rebuilding and Privatization of the Puerto Rico Electric Power Authority (“PREPA”)”, April 9, 2019, <https://naturalresources.house.gov/imo/media/doc/4.9.2019%20HNR-%20OE%20Bruce%20Walker%20Final%20Testimony.pdf>

<sup>4</sup> Joanisabel González, “Los daños de Costa Sur complicarán el restablecimiento del servicio eléctrico, January, 9, 2020. <https://www.elnuevodia.com/noticias/locales/nota/losdanosacostasurcomplicaranelrestablecimientodelservicioelectrico-2539639/>

reasonable nor viable; and (3) eliminate disincentives for investing in renewable generation technologies.<sup>5</sup>

We stress that the RSA, as currently proposed, would structurally raise Puerto Rico's future energy costs, keeping them relatively high even if Puerto Rico moves away from fuel oil toward a reasonable mix of natural gas and renewables. These higher energy costs are estimated to lower GNP<sup>6</sup> growth by 22.28%, increase unemployment by 170,756 lost jobs, and spur an increase of 223% in Puerto Rico's Consumer Price Index.<sup>7</sup> Furthermore, the Transition Charge would function as a highly regressive tax that would disproportionately affect low-income families, some of whom would have to dedicate 42% of their monthly income to pay for electricity.<sup>8</sup>

An additional increase in electricity rates, in tandem with rate increases caused by the recent earthquakes would likely have long-term negative effects on economic growth, raise unemployment; and wreak havoc on the monthly budget of hardworking Puerto Rican families.

In summary, the residents of Puerto Rico should not be required to bear the consequences of a bad deal and it is in both the people of Puerto Rico and the investors' own interests to support a truly sustainable power company. The FOMB and the government of Puerto Rico have before them a unique opportunity to prevent the realization of the aforementioned risks, reduce the PREPA debt load to a sustainable level, and opt for a Fiscal Plan that prioritizes renewable generation. While we do not intend to delay the advancement of the restructuring process unnecessarily or indefinitely, we believe that taking these steps at this time are appropriate and will prove to be both good for the people of Puerto Rico and cost-effective in the long run.

The FOMB owes it to Puerto Rico's future generations to amend PREPA's Fiscal Plan, renegotiate the RSA, modernize the electrical system, and grow the economy.

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<sup>5</sup> Sergio M. Marxuach, "PREPA Debt Restructuring 3.0: It Is Worse Than You Think", May 23, 2019, <https://grupocne.org/wp-content/uploads/2019/05/PREPA-Debt-Restructuring-3.0-FINAL.pdf>

<sup>6</sup> Puerto Rico has historically utilized GNP as a measure of economic growth instead of GDP since the production of foreign manufacturing companies on the island can overestimate the actual size of the economy. See José Caraballo at <https://www.elnuevodia.com/negocios/economia/nota/medirelproductointernobrutodepuertoricopudieranorefleiarne%20strarealidadeconomica-2499613/>.

<sup>7</sup> Ramón J. Cao García, Ph.D. "An Economic Evaluation of the Definitive Restructuring Support Agreement for Outstanding PREPA's Debt, Of PREPA Fiscal Plan and a Modest Proposal", August 30, 2019, <http://tomastorresjuntaace.com/wp/wp-content/uploads/2019/09/Executive-Summary.pdf>

<sup>8</sup> Hector R. Cordero-Guzmán, Ph. D. "The Socio-Economic Impacts of the Puerto Rico Electric Power Authority (PREPA) Restructuring Support Agreement (RSA) on the Population of Puerto Rico", September 6, 2019, <https://ieefa.org/wp-content/uploads/2019/12/PREPA-RSA-Cordero-Guzman-UTIER-REPORT-9-10-19-FIN-ENGLISH.pdf>

Sincerely,



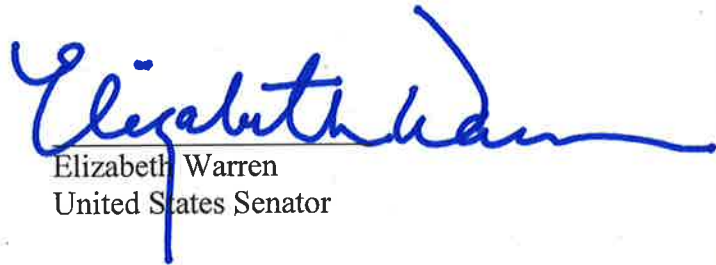
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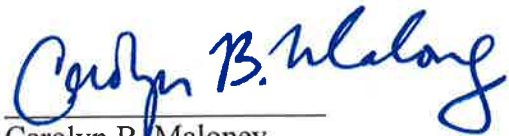
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Member of Congress

Jesús G. "Chuy" García  
Member of Congress

Cc: Hon. Wanda Vázquez  
Governor of Puerto Rico  
63 Calle de la Fortaleza  
San Juan, P.R. 00901

Director Omar Marrero  
Puerto Rico Fiscal Agency and Financial Advisory Authority  
Roberto Sanchez Vilella Government Center  
De Diego Ave. Stop 22  
San Juan, P.R. 00907

*Richard Blumenthal*

Richard Blumenthal  
United States Senator