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Financial Oversight and Management Board
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To the Financial Oversight and Management Board:

We write to express our urgent concern over the ongoing Puerto Rico Electric Power Authority debt restructuring, given the rapidly escalating electricity prices in Puerto Rico and continued delays in the transition to renewable energy.

Puerto Rico cannot afford to raise rates to pay back legacy debt without further jeopardizing its economic recovery. The FOMB's post-hurricane August 2018 Certified Fiscal Plan for PREPA was designed to be a roadmap, based in the privatization of the electrical system, for achieving electrical rates below 20 cents/kWh, noting that "Puerto Rico's future economic growth and vitality depends on affordable and reliable power."¹ This target was also codified by the Puerto Rico legislature in Law 17-2019. Puerto Rico's economy has deteriorated even further since that time, due to the impacts of the 2020 earthquakes and more than two years of ongoing pandemic.

Rates have just increased to 29 cents/kWh, nearly 50% higher than the affordability target previously established by the FOMB. This represents the sixth consecutive quarterly rate increase. That FY 2022 rate – which currently includes no provisions for debt service – is higher than the highest rate projections in the 2020 and 2021 PREPA Fiscal Plans, which included full debt service.² Adding debt service on top of current rates will put the FOMB and the government of Puerto Rico's rate affordability target, a critical component of restoring Puerto Rico to fiscal health and stability, even further out of reach.

¹ August 2018 PREPA Certified Fiscal Plan, p. 2

² The June 2020 PREPA Certified Fiscal Plan projected an FY 2022 rate of 27.7 cents/kWh in the absence of any reform measures and including full debt service and pensions (p. 43). The May 2021 PREPA Certified Fiscal Plan provided an FY 2023 rate estimate of 25.7 cents/kWh in the absence of reforms and including full debt service and pensions (p. 78; no estimate was provided for FY 2022 with debt service and pensions included).

Imported fossil fuel costs have been the primary driver of recent rate increases. Nothing short of a full-scale transformation to a renewable energy-based electrical system will result in stable rates below 20 cents/kWh. This is acknowledged in the 2021 PREPA Fiscal Plan, whose assumption of declining expenses over the next decade is “driven by decreasing generation cost as renewable power replaces outdated and inefficient oil-based generation.”³ However, this rapid transition to renewable energy continues to be delayed (in part because of the exclusive focus on utility-scale solar farms, many of which are opposed by local communities), and the government of Puerto Rico continues to make decisions, apparently with the support of the FOMB, that show that it is not serious about the transformation to renewables. Most notably, this includes the decision not to earmark any of the more than \$14 billion in electrical system FEMA funds for renewable energy or storage. PREPA has also recently announced plans for the conversion of more units of the San Juan power plant to natural gas, and the governor of Puerto Rico reaffirmed his support for a transition to natural gas earlier this month, despite the fact that the private companies contracted to supply natural gas to PREPA’s power plants have been failing to actually deliver gas in recent months.⁴ Not only would continued investment in natural gas perpetuate Puerto Rico’s dependence on imported fossil fuels, but the government apparently cannot even enforce contracts for the delivery of this fuel.

Imposing debt service costs on top of rates that are already unaffordable would result in yet more dysfunction in the operation of the electrical system, repeating the mistakes of the past. It would increase the pressure to cut costs in other areas; already we have seen PREPA and the FOMB continually defer maintenance on the electrical system to the point of physical collapse. We have also seen continued attempts to cut labor costs and pensions, further weakening Puerto Rico’s middle class and decimating the skilled human capital needed to run a functional electrical system. Adding debt service costs to rates would increase the pressure on the government to divert other funds to subsidize electrical rates, and thereby indirectly subsidize bondholders; we saw this most recently with the use of COVID recovery funds to subsidize electrical system fuel costs last fall. Additionally, the increase in rates to pay debt service would directly impact the budgets of government agencies and residents, leading to increased non-payment, which would also negatively impact the operation of the electrical system.

Solutions exist both for Puerto Rico to achieve affordable electrical rates and for bondholders to receive partial payments through recovery mechanisms that do not involve raising electric rates. A comprehensive debt audit would allow an important first differentiation between legal and illegal debt. Furthermore, the Institute for Energy Economics and Financial Analysis has repeatedly emphasized other possible avenues for bondholder recovery, including pursuing

³ May 2021 PREPA Certified Fiscal Plan, p. 81.

⁴ New Fortress Energy did not meet its gas delivery obligations to San Juan units 5 and 6 between September 2021 and February 2022, and Costa Sur units 5 and 6 operated 70% with residual fuel oil instead of natural gas between December 2021 and February 2022. (Puerto Rico Energy Bureau, Resolution and Order, Case No. NEPR-MI-2020-0001, March 16, 2022).

recovery from bond insurers and from those who acted negligently, and possibly fraudulently, in the issuance of past PREPA debt.⁵ IEEFA has also highlighted pathways for debt restructuring that do not involve cuts to the PREPA Retirement System.

Additionally, comprehensive electrical system modeling developed and published last year by CAMBIO demonstrates that Puerto Rico could achieve 75% distributed renewable energy within fifteen years with a large-scale investment in rooftop solar and storage. The use of some of the available federal funds to facilitate this transformation would bring rates to approximately 15 cents/kWh.⁶

Stable and affordable electrical rates are critical for Puerto Rico's economic recovery, its long-term financial health and its future ability to repay its debts. Yet it appears that the FOMB and the government of Puerto Rico are pursuing short-sighted natural gas contracts, pension cuts and debt repayment strategies that will perpetuate the problems that drove the electrical system into bankruptcy and physical collapse in the first place.

Much work needs to be done to transform Puerto Rico's electrical system to meet the FOMB's affordability threshold of costs per kWh below 20 cents. We urge the FOMB not to pursue any debt restructuring agreement that would allow costs per kWh to rise above 20 cents to pay bondholders which implies, for the foreseeable future, no bond repayment through electric rates.

Sincerely,

CAMBIO PR

El Puente

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Amigos del Río Guaynabo

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Unión de Trabajadores de la Industria Eléctrica y Riego (UTIER)

Asociación de Empleados Gerenciales de la AEE

Sierra Club de Puerto Rico

EarthJustice

cc: Honorable Congressman Raúl Grijalva, Honorable Congresswoman Nydia Velázquez, Honorable Congressman Chuy García

⁵ Institute for Energy Economics and Financial Analysis, [Letter to Puerto Rico legislature](#), October 2019.

⁶ CAMBIO PR, [Puerto Rico Distributed Solar Resource Integration Study](#), March 2021.