



STATEMENT BY RODRIGO MASSES

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before the

**U.S. Senate Energy and Natural Resources Committee Hearing to
Examine Puerto Rico's Electric Grid: the Current Status of Puerto Rico's Electric
Grid and Proposals for the Future Operation of the Grid**

May 8, 2018

Madame Chair Murkowski, Ranking Member Cantwell and Committee Members:

Thank you for the opportunity to testify today and share our statement and especially for your interest in the 3.3 million U.S. Citizens residing in Puerto Rico, a US jurisdiction larger in population than twenty States, as it pertains to the road to recovery of the Island's electric grid from the worst natural disaster to hit our island in 500 years.

I am here as Chairman of the Puerto Rico Manufacturers Association ("PRMA"). PRMA is the primary voice of the private sector and especially, Puerto Rico's manufacturing. Our Members are the principal business sector driving the island's economy for the last 50 years. Our members employ approximately 350,000 American jobs in the Island, produce 50% of Puerto Rico's GDP, the island's primary wellspring of tax revenue for decades and PREPA's largest revenue source as our membership includes the island's largest electricity consumers.

The subject of this hearing is not only vital for restoring the quality of life for those living in Puerto Rico but a priority task required to revitalize our economy and reverse our island's rapid loss of population to other locations in the United States. Clearly, reliable and affordable electrical power has been and continues to be critical for the future of our Island Territory.

BACKGROUND:

Hurricane Maria struck Puerto Rico, and according to FEMA caused more damage than Katrina and Sandy combined. Over 3.3 million US Citizens continue to struggle each day to restore life to normal, while the destroyed remains of the island's electrical infrastructure and its dysfunctionality are a daily reminder of the need to do things the right way this time. Nevertheless, we foresee a bright future for our island based on this



once-in-a-lifetime-opportunity to rebuild better than ever. However, restoration is taking far longer than we imagined.

For the last 15 years the island was constantly affected by poor electrical service, brownouts and today due to recent events repeated blackouts are now commonplace. The causes trace back to a infrastructure dating to the mid 20th century; said infrastructure is dated, well past its expected lifetime and now overwhelmed due to natural disasters. Currently, our hastily repaired electric grid and its crippled energy management system is sustained by mostly obsolete generation assets. Albeit this reality, the Puerto Rico industrial community continues to produce 1st class quality American made products and compete in the world commercial arena. Now, more than ever, our manufacturing facilities have been forced to rely on emergency generators as the only reliable power source in an attempt to maintain consistent production capacity and meet the needs of our customer base.

To continue to be competitive in this century, Puerto Rico's grid must be promptly rebuilt to reflect a 21st century electric grid and become a world-class model for similar systems already in place in the mainland. Not doing so, may result in the continued exodus of American jobs from Puerto Rico to non-U.S. jurisdictions and ultimately deprive Puerto Rico's industrial base of qualified resources lost to mass emigration. Thus, for the common good, it is time we learn how to build and operate reliable and resilient infrastructure capable of protecting our American families and investments across the globe.

For the latter to be long lasting and effective, it is necessary to re-prioritize the basic needs of Puerto Rico's electrical infrastructure based on the understanding of the need to adapt to the current reality of the island as dictated by recent events.

The Government operated utility, the Puerto Rico Electric Power Authority ("PREPA"), is deeply in debt and undergoing PROMESA's Title III restructuring process. Local government action clearly will not supersede PROMESA, nor does it have the capability to rebuild by 2019 all of the infrastructure needed to fully restore power. The repair of the existing transmission and distribution infrastructure requires replacement of thousands of power poles, transformers and thousands of miles of cable just to comply with up to date building codes. Such task will require years of investment and work and in many cases rebuilding what currently exists will not be economically feasible given current advances in technology. Unfortunately, PREPA's debt situation has and will continue to impose delays and roadblocks to the modern transmission and distribution infrastructure Puerto Rico urgently requires..

Recently, Puerto Rico's Governor Ricardo Rosselló, announced his administration's intentions to privatize and transform PREPA and presented a legislative proposal to the Puerto Rico Legislature with that goal. Furthermore, just last week, the Federal Oversight Management



Board (FOMB) approved a Fiscal plan for PREPA reflecting the Governor's announcement, and establishing a broad roadmap to create a new PREPA.

Pursuant to the Governor's announcement, the executive branch proposed legislation pursuing PREPA's transformation and changes to the current energy commission which were not accepted by our legislature. Currently our legislators are working on a new proposal that will hopefully create the legal framework needed to transform the island's energy model and promote new technologies. Congress may also consider initiatives to ensure the eventual development of the 21 Century electrical power supply and distribution system necessary to serve America's largest Territory of 3.3 million U.S. Citizens. It is evident that everyone agrees Puerto Rico's energy model has to change, it's just a matter of how it will be done.

PRMA'S RECOMMENDATIONS:

STRONG REGULATORY FRAMEWORK - First and foremost, PRMA strongly believes that there needs to be a clear path on how the Puerto Energy Commission's (PREC) expertise on energy matters will be integrated into PREPA transformation and transactional process; and how its commissioners are appointed outside political considerations and with relevant regulatory expertise. Therefore, strong collaboration will be required between the FOMB and the Puerto Rico Government to achieve such a goal. A lead role for a strong and independent regulatory authority is a basic requirement for the creation of a 21st Century electrical grid for Puerto Rico.

DISTRIBUTED GENERATION - Our second recommendation is that immediate regulatory measures be taken to facilitate private investment in distributed, independent generation and microgrids, as well as creation of the necessary legal framework to promote and develop cooperatives and municipal electric agencies similar to those deployed in many States. The advantage of this type of generation is that it can be deployed immediately, and is designed to the specific needs of those willing to make said investments albeit independently of PREPA's bankruptcy situation. Simply put, distributed generation is the first step to fill the void that PREPA has left and thus fulfill immediate and urgent needs. Puerto Rico's families and businesses desperately need affordable electrical rates and levels of quality service that the current PREPA grid simply cannot provide for the foreseeable future. Local policy and regulation can be enacted immediately for microgrids and distributed energy seeding and accelerating private investment to providing much needed energy security and reliability..

UTILITY TRANSFORMATION REQUIRES TRANSPARENCY- As a third step we recommend that this transformation be a transition from PREPA, a public monopoly, to multiple, independent private and cooperative entities. Nevertheless, this privatization must be executed transparently in order to in a guarantee that the public's best interests are respected and this process achieves lower, competitive costs. Frankly, taxpayers and ratepayers deserve full



transparency in every step of the process including procurement of selection of buyers, equipment and services.

We do not believe that by simply replacing a government run monopoly with a private monopoly is in the best interest of consumers and business. As such, we urge that strong, independent regulation be maintained going forward to ensure an open, transparent and fair competition which will greatly benefit both the new utilities as well as consumers.

The island already has a properly established regulator and, with the right resources, it can do an effective job to manage the transformation. The Puerto Rico Energy Commission ("PREC") is firmly established and has vast powers to oversee the transformation while keeping all parties, not just consumers, in check. However, to further strengthen and professionalize the PREC, key selection method changes have to be implemented to assure the appointment of competent commissioners that have the proper credentials to take on the colossal task required for the transformation of our energy market model while simultaneously developing a state-of-the-art grid quickly.

Congress can play a key role in ensuring that the consumers of electricity are the first priority for reconstruction and ensuring that the final transformation results in a balanced system that includes competent independent regulation and a competitive marketplace served by multiple generators with a 21st Century grid system. Your focused questions and demand for accountability and transparency will be critical to protect the interests of Federal taxpayers.

In conclusion, we in the business and manufacturing sector ask to work with the Congress as well as Executive Branch agencies to ensure Puerto Rico emerges from the devastation of Hurricane Maria with a growing economy that creates well-paying jobs and supports essential services for all U.S. Citizens living and working on our island. This can be achieved in the short term through investment in distributed generation deployed by private investment but there still needs to be a legal framework to promote and foster it for the long term by following the roadmap established by FOMB and properly regulated by a strong and independent PREC.

We thank you for your interest in Puerto Rico's future and look forward to opportunities to work with you to rebuild Puerto Rico's electrical grid - the right way.

Again, thank you for the opportunity to represent the Puerto Rico Manufacturers Association before your panel today. We appreciate that you recognize that manufacturing is the heart of today's Puerto Rico economy. I welcome the opportunity to address any questions of the Committee.



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