COMISIÓN DE ENERGÍA DE PUERTO RICO

Appendix B: Testimony Before Commonwealth's Senate
Regarding PREPA's Privatization Bill

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Hon. Larry Seilhamer Rodríguez
Chairman
Energy Committe
Commonwealth's Senate

**PUERTO RICO ENERGY COMMISSION TESTIMONY REGARDING SENATE BILL PS 860**

Dear Chairman:

Appears before this legislative committee the Puerto Rico Energy Commission ("Commission"), presenting its comments on PS 860. We are thankful, once more, for the opportunity to speak on this congressional effort.

One of the key drivers of the energy reform, and of the energy market in general, are the Puerto Rico Electric Power Authority's ("PREPA") customers. In order to uphold the electric power consumer's interests, Act 57-2014, as amended, known as the Puerto Rico Energy Transformation and RELIEF Act, conferred on the Commission, as part of its functions and obligations, the task of guaranteeing PREPA's transformation to the benefit of its customers, ensuring a reliable and efficient electric service, at the least cost possible.

Before commencing the discussion on PS 860, it is imperative that we provide an explanation of the Commission's main responsibilities as the regulatory body for the energy sector, as well as a general background on the ratemaking process for electric service, the process to approve an Integrated Resource Plan, and the process of privatization or restructuring of the industry.

## I. The Regulator's Purpose

The purpose of regulation is to extract the best performance from regulated entities, i.e., to induce the regulated entity's performance in such a way that it produces benefits in the public interest. Regulation must produce results that are comparable to those that would be produced by effective competition: reasonable costs and high-quality services. The goal is the same regardless of whether the task is to regulate a monopoly provider or fashioning competitive markets.

Effective regulators visualize the products and services that best serve customers, and then they design and oversee the market structures with the highest probability of producing that mix of products and services cost-effectively. The regulator's intent in doing so is to be able to define which are the desired results and thus define compliance standards, assign consequences for compliance or failure to comply with such standards, and induce the regulated entity's performance as the ultimate goal. In this manner, regulators align private or individual interests with the public interest.

The regulator's main focus must be to induce economic efficiency in the regulated entity. Economic efficiency means that we allocate costs to those who cause costs and allocate benefits to those who produce them. Economic efficiency is the first priority; allocating the benefits of efficiency is the second. In both regulation and competition, rewards, as well as sanctions, must be based on merit, not on incumbency or political considerations.

## II. Revenue Requirement and Rates

In order to fulfill the responsibility to transform the energy industry, the Commission has as one of its main tasks ensuring that rates for electric consumption are just and reasonable. We deem it important to illustrate the process employed to determine a utility's rates and revenue requirement, by which just and reasonable rates are ensured, as required by law.

A just and reasonable rate is determined through a complex rate review process, composed of various elements, including: establishing a revenue requirement, undertaking a cost of service study, assigning revenue amongst the causers of said costs, and designing the rate. The chief element in the evaluation of a utility's rates across the United States is to determine its revenue requirement. A utility's revenue requirement is the amount of dollars it needs in one year to cover the costs and expenditures necessary to serve its customers. In the case of PREPA, several aspects are taken into consideration in order to calculate its revenue requirement. First, the Commission examines operational costs, maintenance costs, fuel purchase, labor, capital costs (i.e. principal and interest on PREPA's debt), among others. Second, the Commission takes into consideration the amount of revenue that PREPA should receive from customers' payment for service provision, as well as the deposits to open new accounts, payments required for bill objection procedures by customers, interest, among others. Another important aspect in determining the revenue requirement is the assumption that there will be delinquent payments and that a certain amount of the services provided by PREPA will not be paid, which is considered as an uncollectable expense. In the case of private utilities, an appropriate profit margin is also determined, and it is part of the revenue requirement.

Determining the revenue requirement is the initial step and the basis for later determining customers' rates. To complete the revenue requirement, the regulator analyzes the prudence of the costs and expenditures associated with it. More specifically, the regulator verifies if the incurred expense was the correct one at the moment it was incurred or if it was excessive. This process is known as "cost disallowance".

Now then, in the case of private utilities in the United States and around the world, these have stockholders who absorb imprudent costs incurred by the utility. In other words, these imprudent costs are not recovered through the tariff. On the contrary, in the case of PREPA, as it is a public, non-profit utility, and the fact that it does not have investors, all costs related to providing service must be recovered from customers, including imprudent costs. Consequently, it is imperative to ensure that PREPA's operation, or that of any public utility, be an efficient one.

Said rate review process, where the costs incurred by PREPA or any privately-owned utility are analyzed in detail, is essential to guarantee the continuity and stability of said utilities' operation, and to ensure customers' well-being so that an unjust and unnecessary general rate increase does not occur.

The result of the rate review process guarantees that PREPA or any privately-owned utility can obtain sufficient revenue in order for their operation to not be affected, and so that they are able to meet all of their economic obligations (i.e., payroll, fuel payments, maintenance, capital costs, debt repayment, etc.).

Another aspect closely linked to rates is resource planning.

## III. Integrated Resource Planning

An integrated resource plan (IRP) is the culmination of the process. The *process* "evaluates the merits of using different kinds of energy resources to meet forecasted future demand for electricity with the goal of meeting demand reliably and cost effectively."[1] The *plan* is the path to provide electric service at the least cost for the duration of the planning horizon, which is generally twenty years. What is meant by "least cost" is that, through the evaluation of the planning period, the necessary investment results in a revenue requirement that provides the least cost possible, while also meeting the goal of providing an efficient service. In other words, the IRP is the plan that will provide the lowest possible rate.

In order to create this path, the utility must first evaluate whether its resources are sufficient to meet its obligations. The utility's *resources* include supply-side generation (utility-owned or acquired from an independent energy producer), the transmission and distribution infrastructure, energy efficiency programs, demand-response programs, and customer-owned or -located resources, such as distributed generation. The utility's obligation is to reliably meet the customer's needs, both in terms of consumption[2] and load.[3] Through the

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[1] *Kentucky Coal Association, Inc. v. Tennessee Valley Authority*, 68 F. Supp. 3d 703, 707 (2015).

[2] "Consumption" in this context means the amount of electricity required by customers over the course of a given time period within the public utility's service territory. It is measured in gigawatt hours (GWh). Regulation on the Integrated Resource Plan for the Puerto Rico Electric Power Authority (IRP Regulation), § 1.08 (B) (13).

[3] "Load" (also called "demand") means the amount of electricity required by customers at a given hour of the year, as measured in megawatts (MW). IRP Regulation, § 1.08 (B) (14).

use of historical information, the utility creates consumption and load forecasts. Next, it determines which resources, both existing and future, are necessary to meet the forecasted loads and consumption. When evaluating these resources, the utility must consider certain parameters, such as limitations in the operations of generating plants (due to physical limitations or environmental regulation), as well as other public policy goals, such as the obligation to be interconnected with renewable energy generating sources.

Taken together, this plan and this process have the following objective: to inform regulating entities of the infrastructure needs and their associated costs, before such needs become emergencies and before those costs are incurred. Integrated resource planning allows the utility to present the forecasts of its needs and costs to the scrutiny of regulating entities, stakeholders, consumers, and the public. It takes uncertainties into account through the production of alternative plans in order to later evaluate the robustness of those plans—that is, their ability to be successful under multiple possible future scenarios. It allows regulating entities to evaluate, guide and, where necessary, direct the utility's decisional procedures.

In order for it to be effective, this planning process must occur in a public and transparent manner. Thus, those who would be affected by the decisions and those with the expertise and the perspectives that allow them to contribute to the decisions, may have full opportunity to share their concerns and contribute their knowledge.

An IRP is a living document. It should reflect the best knowledge available at the moment of its creation and the best possible decisions in light of said information. It must take into account risk and uncertainty. Although an IRP addresses long-term needs, it should also guide short-term actions. As new information emerges—such as information on new technologies and new customer needs—the plan must evolve. Consequently, our IRP Regulation requires a three-party process—one in which PREPA (or its successor), the Commission, and the public reevaluate the existing plan, incorporate new information, and develop a new action plan. Periodic reconsideration, revision, and reinvention are essential for a robust planning process.

The Commission's priority is cost-effectiveness—providing for Puerto Rico's energy needs at the least feasible cost. The actions PREPA (or its successor) and its customers undertake, will affect the costs for decades to come. For example, the construction of new generating units or infrastructure requires long delivery periods, thus making uncertainty inevitable. Therefore, each decision must be based on the best information available at the moment in which such decision is made. This fact supports a robust IRP—flexible enough to allow for realities that differ from expectations. In this way, the best possible effort is made to avoid overwhelming PREPA and its customers with unnecessary costs when lesser-cost alternatives are available.

In sum, the goal of integrated resource planning is to replace old and costly plants with lesser-cost options: more efficient plants, renewable resources, energy efficiency, demand-response, and distributed generation technologies—some of which allow customers to manage their own costs. Many of these alternatives reduce environmental harm, while protecting consumers from the volatility of fuel prices. An integrated resource planning that

is appropriately designed and continuously executed will promote the legislative intent of evolving the energy sector towards one less dependent on imported fossil fuels and more on our own resources, and to efficiently meet energy demand.

**IV. Privatization, Competition, or Restructuring of the Industry**

All ideas, all forms that lead to improving the electric system's performance must be considered. However, the concept of "privatization" must be clarified. Otherwise people will confuse ideologies with solutions. There are certain concepts which tend to be confused and combined often. These are:

1. Market structure: This term describes the level of competitiveness of a market, in terms of the factors that affect competitiveness. These factors include: the number and types buyers and sellers, their participation in the market, the nature of the product or service that is being bought and sold, the geographic limits of the market and the ease of entry and exit to/from the market (including the presence or absence of entry barriers). Market structures range from perfect competition to complete monopoly. Within that range there are structures such as a duopoly (two sellers), oligopoly (a few sellers), and monopoly competition (multiple sellers, but with each seller differentiating itself in a way that allows it to maintain prices above competitive levels; a common example is a law firm with a distinctive personality of unique value).

Market structure analysis can be applied to each of the following three subjects: asset ownership, operational responsibility, and business ownership.

2. Asset ownership: This term means what it says: the physical assets are owned by a particular company. Ownership of assets is different from the market structure. In a monopoly market structure, assets could be owned by a government entity or a private company. Likewise, in a competitive market, the government could own several assets, just as a private company could. For example, the government, through PREPA or any other entity, could remain in ownership of one or more of the generation, transmission or distribution assets, but outsourced the responsibility for maintenance, operation and/or other activities to private companies. Getting private companies involved does not necessarily mean that private companies will own the facilities. One of the advantages of the government maintaining ownership is that, if a private party's performance is unsatisfactory, the government may cancel the contract (or allow it to expire) and then transfer responsibility for performance to another party.

3. Operational responsibility: The assets are owned by X, but responsibility for their operation is contracted out by X to Y. For example, in most of the United States, the transmission network is owned by for-profit entities, but the responsibility for the design, planning, functioning, and even billing, falls completely on the "regional transmission operator", a non-profit entity.

4. Business ownership: Business ownership refers to which entity receives the benefits of the business. An example of this might be a baseball stadium, where the owner of the asset

is the government, but the business of operating it (field maintenance, programming, food stall rental, etc.) has been granted by the government, in the form of a franchise or concession, to a private company, where profits are divided thus between the government and the private company.

## V. Analysis of PS 860

### a. Comments regarding statutory language

In the vast majority of jurisdictions in the world, the regulatory body is charged with undertaking rate review, the orderly planning of resources, and the transformation or restructuring of the energy system. The reason is obvious: as we established in Part I of this testimony, the regulator is the body tasked with extracting the best performance while protecting the public interest. We expose several concerns with regard to the provisions of PS 860, below.

1. An environment for the creation of abusive rates: PS 860 removes the Energy Commission from the process of establishing and reviewing the rates to be charged by the new actors in the energy market and the impact that the participation of these new actors will have on the electric system. At the same time, it opens the door to abusive, unjust, and unreasonable rates.

According to PS 860, the rates applicable to any regulated service, in this case the purchase and sale of energy, shall be established in the Public-Private Alliance (PPA) Contract. Once the terms of such Alliance Contract are established, the regulatory body may not alter or amend it, i.e., it will be incapable of acting to uphold the public interest.

As we explain in Part II of this testimony, the first step to establish rates is to determine the total expenses in order to establish the utility's revenue requirement. Payment to entities under the Alliance Contracts will be part of the utility's expenses, and, therefore, of its revenue requirement. Consequently, if such expenses are established by contract, which may not be reviewed by the regulator, said regulator will have no other option but to adjust rates in order to pay for these contracts. In other words, the regulator will not have the power to review the companies' expenses, as their recovery was agreed upon in the Alliance Contract. Therefore, under this premise, the rigorous rate review process becomes a mere certification.

On the one hand, long-term power purchase agreements generally establish two charges to be recovered by the entity: a fixed charge, in order to cover the provider's fixed costs (generally called a capacity charge), and a variable charge, in order to cover the variable costs of energy production (i.e., a sold/purchased power charge). In these contracts, recovery of the fixed investment expenses in guaranteed. Therefore, these long-term contracts do not incentivize modernization or performance improvement, as they transfer market risk and technology risk to the consumer.

On the other hand, besides not allowing it to adjust the rates, PS 860 establishes that the Commission may only review the rates of regulated service if it is not prohibited by the contract. In other words, the regulated entity will determine how and where it will be regulated. In no other jurisdiction in the world where there is a regulator is the regulated given free rein to accept or reject regulation.

This language is dangerous because it bestows public utility characteristics to a private entity, insofar as it allows for the total recovery of expenses, even when these are imprudent or unreasonable. These provisions threaten the public policy of establishing just and reasonable electric service rates. Furthermore, as it is not subject to regulation, the private entity would operate without any type of supervision, which would remove consumer protections.

The language of PS 860 establishes that all efforts possible be undertaken in order to complete the transaction. It gives the Alliance Committee the power to determine laws with which not to comply in order to make the transaction viable. This language could clear the path for establishing excessive profit margins, abusive rates, and even eliminating requirements to maintain the reliability of the system. In this manner, it creates an environment prone to irregularities, repeated expenditure imprudence, and abusive rates, while tying the regulator's hands down. An example of contracts established without the appropriate analysis, without the oversight of a regulator and with the condition that they be completed under any circumstances are the multiple contracts for renewable energy signed between 2010 and 2012.

The Commission is the entity specialized in these matters. Furthermore, the Commission carried out the first independent rate review proceeding in the history of the local energy market. By removing the Commission from the rate review process, the means of protecting the consumer and the public interest from abusive practices are also removed. Likewise, we must point out that no other government agency has the experience or expertise necessary to establish an electric rate; therefore, any other government entity would be at a disadvantage at the moment of negotiating the rates that would be established by contract.

If the desire to establish long-term contracts persists, the Commission recommends that these be established on the basis of the entity's performance, where it be determined that the regulator shall perform frequent reviews of the costs of service and a reasonable profit margin, instead of establishing a capacity charge and a production charge. Should this recommendation not be accepted, the contracts should be analyzed and authorized by the regulatory body in order to ensure that these result in a just and reasonable electric service rate, with adequate and reasonable profit margins.

2. Disorganized transition: PS 860 exempts companies from complying with the Integrated Resource Plan (IRP). Furthermore, it removes the requirement to undertake an orderly planning process through the IRP and the Energy RELIEF Plan. As we explained in Part II of this testimony, the IRP is an essential strategic planning tool for the short-, mid-, and long-term. It is a plan to meet the Island's energy needs, not designed exclusively for PREPA. It is worth clarifying that the IRP approved by the Commission is not an obsolete analysis; the

Modified IRP became final on March 2017.[4] As we mentioned previously, the IRP, through a rigorous process of analysis and evaluation, contains and identifies the most cost-effective energy resource portfolio (e.g., generators, renewable energy, distributed generation resources, energy efficiency, etc.) to supply the Island's energy demand, projected over several scenarios or futures, within a planning horizon of twenty (20) years. In other words, the IRP is the most cost-effective combination of resources, necessary to supply long-term energy demand. It is incorrect to infer that the IRP is obsolete and exclusive to PREPA.

Now then, PS 860, by removing compliance with the IRP under the proposed long-term contracts model, introduces the risk of entering into contracts with inefficient resources, with resources that have an established date of retirement from the system, or otherwise approving the incorporation of generation that will not be used but for which the consumer will be obligated to pay. This would result in generating capacity in excess of that which is necessary with guaranteed recovery, which necessarily implies higher rates and costs for consumers; i.e., rates higher than those for which they would be actually responsible if the generation, transmission, and distribution system were an optimized one.

A similar situation occurred with the renewable energy contracts signed between 2010 and 2012. Contracts aggregating approximately 1,200 MW were signed then, when the system's capacity to absorb renewable energy is slightly more than half the contracted generation.

By promoting only the sale and purchase of resources without adequate planning, PS 860 introduces the risk that the resources contracted might not be the ones that are necessary, or the most cost-effective ones, to meet the demand. For example, the implementation of an Energy Efficiency program is a more cost-effective resource, removing the need to build new generating plants and the costs associated with these. This last point was demonstrated in the most recent IRP approval proceeding before the Commission. Introducing a moderate Energy Efficiency program in the analysis resulted in the modification of the resource portfolio to meet demand. This new approved resource portfolio results in net present value savings of $1 billion.

Furthermore, the five-year Action Plan, approved as part of the IRP, established the following:

| Resource | Action[5] |
|---|---|
| Palo Seco 1 & 2 | Retirement |
| San Juan 7 & 8 | Retirement |
| Costa Sur 3 & 4 | Retirement |
| San Juan 9 & 10 | Designation as "limited use" |

[4] Several entities have stated that the IRP is from the year 2015. Nothing could be further from the truth. The IRP was filed on 2015 and the process culminated with the final approval (September 23, 2016) and the rejection of PREPA's motion to reconsider (February 2017).

[5] Such actions were based on PREPA's compliance with several environmental laws and regulations, including the Mercury and Air Toxics Standards (MATS).

PS 860 does not establish if these units will be part of PREPA's asset sale. Additionally, the most recent Fiscal Plan presented by PREPA to the Financial Oversight and Management Board establishes that PREPA's generating units, including the San Juan, Palo Seco, and Costa Sur units, will be part of the new power purchase agreement structure.

3. Sale vs. Modernization: The Statement of Motives of PS 860 establishes that the generating fleet should be modernized. However, the measure only establishes the framework for the sale of assets and remains silent with regard to modernization. The sale of assets will not imply an instantaneous modernization, regardless of who acquires the generation assets. Therefore, the private entity that acquires the assets will sell power, at the short- and mid-term, utilizing the same inefficient units. The construction of new generation plants takes, within an optimistic timeframe, between 5 to 7 years.

4. Market Structure: Meanwhile, the electric power industry has four physical functions: generation, transmission, distribution, and system operation. Additionally, it has two commercial functions: wholesale energy selling and retail energy selling to the consumer. PS 860 remains silent on the market structure regarding those functions of the system.

5. Sections 6, 11 and 12 of PS 860: Section 6 of PS 860 would eliminate the applicability of the following statutory provisions to PREPA's Transitions: (1) the mandate for highly efficient generation; (2) the mandate for an optimal reserve margin; (3) the mandate to maximize the use of renewable energy; (4) identifying more effective and economical ways to develop distributed generation; (5) the requirement of a transparent bill to inform the consumer in a detail about the charges for electric service; and (6) the prohibition that the cogenerator or private producer derive profits attributable to fuel; among others. Furthermore, Sections 11 and 12 of PS 860 remove the Commission's power to approve power purchase agreements, as well as the power to approve transfers and acquisitions related to PREPA's Transitions. We must point out that Section 11 of PS 860 renders inapplicable to PREPA's Transitions the provisions of Section 6.32 of Act 57-2014, which include: (1) the Commission's power to establish the standards and requirements related to the transition, including the terms and conditions which must be included in every power purchase agreement, including **reasonable costs for power purchase**; (2) the requirement that every transaction must comply with the Integrated Resource Plan, including the energy efficiency goals established in such plan; (3) the requirement that interconnection with the system does not threaten the system's reliability and stability; and (4) the requirement that rates, rights, rents or charges that PREPA pays to the independent producer be **just and reasonable, and that they protect the public interest and the public purse**.

With said provisions, PS 860 turns back several advances made in the restructuring of the electric system introduced by Act 57-2014: highly efficient generation, optimal reserve margin, the maximization of the use of renewable energy and distributed generation, the implementation of a transparent bill, and prohibiting profits attributable to fuel, among others. Likewise, it removes independent analysis and evaluation of proposed contracts, whilst not taking into consideration the integrated planning of resources or the standard that rates and charges be just and reasonable. These provisions are not in accordance with the best regulatory practices implemented in other jurisdictions.

### b. Comments regarding the Commission

In one the Public Hearings on PS 860, witnesses argued that including the Commission in the transformation process would increase public expenses in consultants and legal representatives. We must point out that the Commission's budget is established by law and is a fixed amount. Specifically, the budget assigned to the Commission is $5.8 million, of which ten percent (10%) is destined as the budget for the Independent Consumer Protection Office. The funds come from the rates charged by PREPA to its customers. Moreover, this budget is considerably lower than that of similar commissions in the United States.

Despite its modest budget, the Commission has worked efficiently on the following proceedings: Integrated Resource Plan, Securitization Charge, Economic Analysis of the Aguirre Offshore Liquefied Natural Gas Terminal, Transparent Bill, and the first independent rate case undertaken in Puerto Rico. It is important to highlight that, during the rate case, the Commission's consultants detected a series of errors in PREPA's filing, including the double counting of certain expenditures, as well as a series of imprudent or unreasonable expenditures. In sum, as a result of the thorough and independent analysis undertaken by the Commission, the increase in PREPA's revenue requirement was reduced from $222.256 million per year to $171.786 million per year, which represents a $50.470 million reduction annually. In other words, if the Commission had not performed its independent analysis, PREPA's customers, that is to say, the people of Puerto Rico, would be paying an excess of $50 million annually. Therefore, consumers are receiving an annual return on investment of 770%, in relation to the $5.8 million investment made in the Commission. This return on investment only takes into account the savings related to the rate review process, without accounting for the other proceedings undertaken by the Commission, including investigations and rate review cases.

Likewise, in a Public Hearing witnesses stated that the inclusion of the Commission in the transformation process would delay decision-making. We must keep in mind that haste is costly and always a bad adviser. The proposed process for the transformation of PREPA is considerably complex and highly technical, one which must be carried out with the prudent urgency that Puerto Rico needs. Nevertheless, we cannot forsake a careful analysis and an orderly, planned and well thought-out process, in search of a speedy process. At a time when Puerto Rico's economy relies significantly on its energy system, we cannot afford the luxury of hasty decision-making with considering their overall effect. This takes on a higher relevance given that, in the current historic moment, the decisions we make in the upcoming months, perhaps years, will bind Puerto Rico's energy system and its economy for the next thirty (30) to fifty (50) years.

## VI. Logical Steps for Performance

As we mentioned earlier, restructuring the energy system is a complex task. It is far more complex than restructuring the telecommunications, gas, or even banking, industries. Electric power is vastly different from the telecom, gas, or banking industries. Among these

differences is that the electric power industry needs a system operator (in the case of PREPA, Monacillos) to continuously monitor the system in order to ensure its safety and stability.

One cannot remove the regulator, the specialized entity in relation to the transformation process, and expect the result to be beneficial to the people. In a Public Hearing, it was mentioned that market appetite will be the force that moves the process. It is wrong to assume that opening the gates to the market will result, without a doubt, in efficient service and a benefit to the people. Opening the gates to the market is not synonymous with competition and much less with effective competition which results in a benefit to the Island. The goal of obtaining the highest sale price cannot be the one that moves the process. The process should be moved by the goal of providing the people of Puerto Rico with the best energy product, in the most efficient manner and with the best performance.

In order to produce the performance that Puerto Rico needs, we must follow a logical sequence of steps:

1. Establish the combination of products and services that customers need, taking into consideration all kinds of customers: residential, large and small commercial, large and small manufacturers, tourism, government, agriculture, etc.

2. Establish the qualities of those products and services, in terms of their reliability, opportunity, innovation, and ease of use, among others.

3. Identify the market structures (i.e., monopoly, competition) that will provide those products and services most cost-effectively.

4. Identify the types of businesses that could provide those products and services most cost-effectively (for example, local companies, mainland companies, specialized companies, traditional services, independent companies).

5. For products and services provided by a monopoly market structure, establish the regulatory principles and procedures for the following:

    a. How to select the best monopoly provider (which does not necessarily have to be PREPA).

    b. Decide whether monopoly providers may or should be government enterprises, investor-owned enterprises, co-ops, or all of them.

    c. How to regulate the monopoly provider, in terms of price and quality.

    d. How long should the monopoly provider hold the privilege to serve, before offering the privilege to others.

6. For products and services provided by a competitive market structure, establish the regulatory principles and procedures for the following:

a. Transferring the current provider's (PREPA's) assets to the new competitors.

b. Establish the license requirements to ensure that the new competitors compete fairly and provide a high-quality service to their customers.

c. Address any "stranded cost" in PREPA's books, which must be paid for as part of any transition to competition (e.g. existing debt).

d. Decide whether eligible competitors may only be private companies, co-ops, or also government companies.

e. Educate consumers on how to select their providers.

f. Create rules to prevent consumer fraud.

g. Create rules to prevent providers from only providing service to high return on investment customers exclusively.

h. Create rules to prevent that some customers escape their just responsibility for past costs.

If we do not follow this logical sequence of steps, it will be "each man for himself". No car arrives at its destiny safely if each passenger takes the wheel and heads toward a different direction.

We are thankful for this opportunity and hope that our comments are useful to this Commission. Once again, we are willing to share ideas and proposals which, in unity of purpose, contribute to the well-being of the Island and its inhabitants.

Cordially,

José H. Román Morales
Interim Chairman