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Chairman José B. Carrión III
Federal Oversight and Management Board
Jacob Javits Federal Bldg, 26 Federal Plaza
Room 2-128
New York, NY 10278

Dear Chairman Carrión and members of the Federal Oversight and Management Board,

We are writing to urge you to oppose recent developments that signal a rush to build new natural gas infrastructure in Puerto Rico without apparent regard for the lessons of Puerto Rico's past involvement with the fossil fuel industry.

If these plans come to fruition, Puerto Rico will fail to achieve the significant fuel cost savings from renewable energy that it has promised to its bondholders and citizenry, undermining PREPA's ability to become a going concern again. Puerto Rico will also fail to take advantage of its historic opportunity to create a much more decentralized and reliable electrical system based on investments in demand management, renewable energy and storage.

We urge the Board to promote a strategy for Puerto Rico's electrical system that prioritizes the development of local renewable energy resources coupled with a labor strategy that attracts and retains the skilled workforce needed to run a functional electrical system.

New natural gas developments

The misguided initiative to prioritize natural gas development is moving rapidly. It is simultaneously clear that there are no viable plans to move forward with renewable energy investments on a scale that will create a long-term solution for Puerto Rico.

Developments in just the past two months include:

- A sudden change in the scope of PREPA's integrated resource plan (IRP) to include the evaluation of new natural gas infrastructure. Between Aug. 1, when PREPA answered questions from the Puerto Rico Energy Commission (known now as the Energy Bureau) about its modeling plans,[1] and August 14, PREPA added modeling

[1] In this filing, PREPA explained that it was running out of time to consider additional scenarios: "It should be noted that the scenarios described here or its modified version must be locked up so the analysis can proceed. Any changes made to the scenario setup will cause delays and will make it impossible to meet

of new gas infrastructure at Mayaguez and Yabucoa to the scope of the IRP. The Mayaguez and Yabucoa import facilities are now the basis for two of PREPA's four core scenarios, not simply an additional sensitivity.[2]

- Passage by the Puerto Rico Senate on August 27, of a resolution asking the U.S. Congress for a partial exemption from the Jones Act for large vessels, in order to facilitate the transport of liquid natural gas (LNG).[3]
- Testimony by PREPA CEO Jose Ortiz to the Puerto Rico Senate Special Committee on Energy Affairs on August 30 in which Mr. Ortiz extensively discussed the importance of transitioning to natural gas. Mr. Ortiz rejected the idea of short-term natural gas investments of 5-10 years as too expensive, endorsing instead 20-25 year contracts for natural gas, and also mentioning the need to add value to the existing generation infrastructure (including using federal money to do so) in order to sell it. His testimony lacked any concrete plans for investment in energy efficiency, demand management, renewable energy or energy storage.[4]
- Recent news articles that have quoted a discussion by Mr. Ortiz around a potential new gas plant at Cataño. Although one article quoted him stating that the plant would only be needed while new units are being constructed at San Juan and Palo Seco, the article stated that the Cataño project would be developed according to Law 120, implying a long-term contract with PREPA for electricity produced by the plant.[5]
- PREPA's issuance of an RFP for the conversion of San Juan combined cycle units 5&6 to dual fuel capacity and for a contract for natural gas supply.[6]
- The avoidance by the Board of listing any renewable energy projects under consideration for critical project status. While a news report several months ago said that four solar energy projects had been submitted for consideration as critical projects,[7] these projects do not appear as approved, disapproved or pending on the board's critical projects website.[8]
- Resident Commissioner Jenifer Gonzalez joining U.S. Rep. Robert Bishop of Utah calling for Puerto Rico to become a "natural gas hub," importing natural gas from the U.S. and re-exporting it to countries elsewhere in the Caribbean.[9]

The implication of these recent developments is that the main focus that PREPA and the government of Puerto Rico is pursuing is investments in natural gas generation and associated infrastructure. **Renewable energy and investment in distributed energy infrastructure remain on the back burner, as they always have been in Puerto Rico, despite legislative mandates to the contrary.**

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the agreed deadlines for completing the IRP as such." (PREPA August 1, 2018 compliance filing in Case No. CEPR-AP-2018-0001, p. 22).

[2] PREPA presentation to PREC Technical Conference, Case No. CEPR-AP-2018-0001, August 14, 2018, p. 17.

[3] Eric de León Soto, "Piden exención a ley de cabotaje para facilitar privatización de AEE,"

[4] Testimony of Jose Ortiz before Senate Special Committee on Energy Affairs, August 30, 2018, https://www.facebook.com/SenadoDePuertoRico/videos/314928979066853/

[5] Gerardo Alvarado León, "La AEE hará plantas de generación 'eficientes' en Cataño y Yabucoa," July 21, 2018.

[6] Puerto Rico Energy Bureau, Case No. CEPR-AI-2018-0001, Order, August 24, 2018.

[7] Gerardo Alvarado León, "Cuatro proyectos críticos de energía solar se suman a evaluación de JSF," El Nuevo Día, May 7, 2018.

[8] https://cpp.juntasupervision.pr.gov/en/projects/

[9] José Javier Pérez, "Vía rápida para los proyectos de gas natural," El Nuevo Día, August 9, 2018.

While renewable energy features prominently in PREPA's Fiscal Plan and as one of the top priorities of PREPA's Governing Board,[10] this high-level policy priority has yet to translate into a coherent strategy for developing projects. Nor has a strategy been developed for implementing energy efficiency and demand management programs, both of which would help customers lower bills directly and avoid some costs of new generation.

Natural gas development unlikely to achieve goal of 40% reduction in power costs

PREPA's claim, made multiple times in the press, that converting its electrical system to natural gas will bring down the cost of power by 40% is unsupported by any published analysis. Indeed, it is not clear which of the various proposed projects mentioned above are actually included in this claim. We note that the conversion of San Juan units 5 & 6 alone, at the 80-85% capacity factor expected for the project,[11] combined with existing natural gas usage at EcoEléctrica and Costa Sur, would bring total gas generation on the system above 60% by FY 2023. This figure is independent of the possible other projects at Mayaguez, Cataño, Palo Seco and Yabucoa.[12] The claims of lowering rates through increasing generation from natural gas appear to rely heavily on a waiver of the Jones Act for natural gas transport; burning higher-priced gas from elsewhere in the Caribbean would raise the cost from a natural gas power plant by 2-3 cents/kWh.[13]

Further, natural gas infrastructure developments are likely to result in overpriced contracts for Puerto Rico electricity consumers in the absence of meaningful contracting reform. Unfortunately, the legal framework—Law 120-2018—under which these projects would be developed does not incorporate any of the hard lessons from PREPA's past contracting scandals. The privatization process created by Law 120 contemplates selling PREPA's assets and entering into long-term contracts to purchase the power. The valuation of those assets and the terms of the contracts through which power is bought will be major determinants of electric rates for decades to come. Yet Law 120 strips away any meaningful role for an independent regulator in the privatization process, leaving the process of deciding on privatization projects, issuing requests for proposals, and negotiating contracts all under the control of the governor, PREPA and the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF).

This means that a major determinant of future rates will be decided via a process largely outside of the influence of the Energy Bureau. At the same time, Law 120 does nothing to address the need for contracting reform at PREPA, despite the authority's record of

[10] The August 1, 2018 Fiscal Plan quotes the Governing Board's vision for the system as a "model of sustainability" in which "the grid and grid systems are designed to take maximum advantage of increasingly cost effective renewable power generation alternatives and to integrate emerging technologies." (p. 11)
[11] Technical Conference before the Puerto Rico Energy Bureau, Case No. CEPR-AI-2018-0001, August 24, 2018. https://www.youtube.com/watch?v=yOaZu1xpbIg (at approximately 1 hour, 37 minutes)
[12] This calculation relies on the FY 2023 sales forecast presented in the August 1, 2018 Fiscal Plan, and assumes that generation is 18% than billed sales (based on the June 2017 Monthly Report to the Governing Board, covering FY 2017).
[13] Assuming a natural gas plant with a heat rate of 7,500 BTU/kWh and that natural gas from non-U.S. sources costs $3-$4/MMBTU more than U.S. gas, as stated by Mr. Ortiz. (José Javier Pérez, "José Ortiz alega que es possible bajar la facture eléctrica en un 40%," El Nuevo Día, August 8, 2018.)

contracting scandals, from Whitefish to overpriced renewable energy contracts to the multi-decade oil purchasing scandal previously investigated by the Senate.

Specifically, the contracting scheme contemplated for the natural gas conversion of San Juan units 5 & 6 —the project that is moving forward the fastest—would all but ensure that PREPA will continue to be overcharged for fuel costs. The initial five-year contract for natural gas would be designed to recover not only the price of natural gas, but also the cost of converting the units to natural gas (which would be performed by the contractor) and at least a partial return on the other infrastructure investments made by the contractor, including transportation, regasification and storage facilities.[14] We have fundamental questions about a contract that mixes fuel prices with capital cost recovery, an arrangement that lacks transparency and creates the risk that Puerto Rico will pay too much for both fuel and the capital recovery.

Additionally—as has also historically been the case with PREPA's oil deliveries[15]—the decision to contract out every aspect of fuel delivery to San Juan units 5 & 6 appears likely to result in a situation in which few companies will be willing to bid to undertake all of the different components required. And once the initial five-year term has expired, it appears likely that the contractor will be able to charge PREPA an above-market price for natural gas because it would be cheaper for PREPA than finding a new contractor to build redundant fuel delivery and storage infrastructure.

Crowding out renewable energy

The aggressive investment in natural gas that PREPA is contemplating would crowd out investments in renewable energy and distributed generation, despite the high-level policy consensus in favor of renewables.

Puerto Rico has an opportunity now to reinvent its electrical system in a radically different way. The island can move away from the fiscally destabilizing, centralized infrastructure of the current system—infrastructure that is poorly configured to withstand severe hurricanes—and toward one rooted in resilient, renewable decentralized energy technologies. Other U.S. jurisdictions, including Hawaii, are locking in low-price renewable energy contracts that are significantly lower than PREPA's current costs of generation and that have no fuel price risk. Prioritizing 20-25 year contracts for natural gas generation, including new infrastructure far from northern load centers at Yabucoa in the southeast, will crowd out the investment needed to create a resilient and renewable electrical system.

The development of the lowest cost strategy for Puerto Rico's electrical system should be modeled through an integrated resource planning process that includes robust modeling of energy efficiency, demand response, renewable energy, storage, and distributed generation. Unfortunately, as described in detail in our joint comments to the Energy

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[14] Technical Conference before the Puerto Rico Energy Bureau, Case No. CEPR-AI-2018-0001, August 24, 2018. https://www.youtube.com/watch?v=yOaZu1xpbIg (at approximately 1 hour, 55 minutes)

[15] Special Commission for the Study of the Standards and Procedures Related to the Purchase and Use of Oil by the Puerto Rico Electric Power Authority and of Government Integrity, Final Report, December 5, 2016, p. 92.

Bureau,[16] the assumptions and modeling scenarios under consideration in the IRP over-emphasize natural gas. And the sudden addition of new scenarios involving natural gas imports at Mayaguez and Yabucoa, added after PREPA told the Energy Bureau that it had limited capacity to model additional scenarios, suggests a politicization of the IRP process that is deeply troubling.

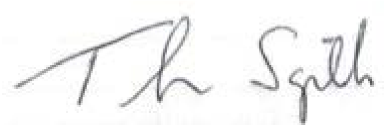
Meanwhile, interest is growing at the local level in Puerto Rico in developing municipal, cooperative and community energy systems. Supporting development of locally owned renewable-based systems would keep more money in local communities and reduce money spent on fossil fuel imports. The installation of small-scale renewable energy systems would also create more jobs than either the development of natural gas plants or the conversion of existing plants to natural gas.[17]

A robust economic development plan for the electrical system should include not only jobs in energy efficiency and renewable energy but in skilled electrical work of the type needed to maintain and operate the grid. PREPA has lost nearly 30% of its workforce since 2012, half in the transmission and distribution segments. An additional 10% of the workforce is pending retirement.[18] Hundreds of workers have opted to retire rather than be subjected to the benefit cuts imposed by the Board, resulting in a shortage of skilled labor at PREPA.[19]

While the Board has acknowledged the need to attract skilled workers into PREPA, it has focused its attention on cuts to benefits and pensions. The Board has provided very little documentation in support of these "reforms," and has failed to undertake an investigation into how labor and benefit expenses at PREPA have been distorted by the hundreds of political appointees in PREPA who perform functions tangential to PREPA's core mission and/or have been appointed to technical positions without regard for qualifications, as detailed in the Kobre & Kim report.

In conclusion, we urge the Board to prioritize the development of local renewable energy resources, to stop the juggernaut that is pushing for new natural gas projects, and to couple the prioritization of renewables with a labor strategy to attract and retain the skilled workforce necessary to maintain a functional electrical system.

Sincerely,



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[16] Sierra Club de Puerto Rico, Cambio PR, El Puente and IEEFA Joint Comments to the Puerto Rico Energy Bureau in Case No. CEPR-AP-2018-0001, August 27, 2018. http://ieefa.org/wp-content/uploads/2018/08/NGO-Comments-on-PREPA-IRP-Assumptions-8-27-2018.pdf

[17] M. Perry, "Inconvenient energy fact: it takes 79 solar workers to produce same amount of electric power as one coal worker," American Enterprise Institute, May 3, 2017.

[18] August 1, 2018 PREPA Fiscal Plan, p. 25

[19] Gerardo Alvarado León, "La AEE pierde parte de su talent especializado," El Nuevo Día, May 25, 2017.

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