

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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BY ELECTRONIC MAIL

December 12, 2017

The Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
P.O. Box 9020082
San Juan, PR 00902-0082

Dear Governor Rosselló Nevares:

As you know, the Financial Oversight and Management Board considers the transformation of the power sector in Puerto Rico as essential to Puerto Rico's long-term economic future. Like you, we believe that delivering affordable, reliable, and clean power to Puerto Rico is critical to Puerto Rico's economic development and revitalization. We think it is important that the Fiscal Plan for the Puerto Rico Electric Power Authority (PREPA) be anchored in the transformation of the power sector. After Hurricanes Irma and Maria, transforming the power sector is both more difficult and more important than ever.

As you've outlined, PREPA, like all of Puerto Rico, faces an enormous challenge in rebuilding in the wake of Hurricanes Maria and Irma. We understand that over 70% of the transmission and distribution system sustained severe damage, including major damage to at least 131 out of 334 substations. We also understand that following the hurricane, lack of power on the island has hindered communication, water restoration, and medical services.

This is truly a critical moment in the history of Puerto Rico where decisions made today will have real impact on the millions of American citizens that call Puerto Rico home for years to come. It is in this context that we stress the importance of an ambitious long-term transformation plan for the power sector that provides for low-cost, reliable power to support the long-term economic development of Puerto Rico. We understand this transformation is a shared priority of the Board's and your Administration.

As you know, the current PREPA Fiscal Plan was certified last April, prior to the hurricane. PREPA is now developing a revised Fiscal Plan to submit to the Board by December 22 to reflect the impact of Hurricane Maria. We believe there is a significant opportunity to revise the Fiscal

Plan to include a revised capex plan, transformational operational targets and the governance and regulatory framework to facilitate federal recovery funding and private sector investment.

Consistent with ongoing dialogue between PREPA, AAFAF, and FOMB advisors, and with your office's energy strategy and priorities, the FOMB would like to confirm our view of the principles that should be incorporated in the development of PREPA's Fiscal Plan:

- **Low-cost reliable power:** The Fiscal Plan should commit to delivering low-cost reliable power to enable Puerto Rico to compete for residents and commerce.
- **Energy resiliency:** The Fiscal Plan should include clear investments in resiliency sufficient to maintain critical infrastructure during future outages and decrease the time to restore power following future major storm events; and at an investment level comparable to mainland utilities following major storms.
- **New technology deployment:** The Fiscal Plan should include the means to fund and deploy renewable energy, storage and other smart-grid technologies that can lower long-term system costs, decrease reliance on volatile fossil-fuel prices, and increase system resiliency
- **New demand environment:** The Fiscal Plan should include a significantly reduced demand forecast that considers revised population and economic trends following the hurricane and incorporates the potential widespread adoption of distributed generation that will further reduce demand. A future energy utility can thrive in this reduced demand environment, so long as it employs efficient and effective management practices to deliver power to the people of Puerto Rico.
- **Revised capital investment program:** The Fiscal Plan should include a new capital expenditures plan with alternative options to better position Puerto Rico for low-cost and resilient power in the new demand environment.
- **Operational excellence:** The Fiscal Plan should include clear KPIs, targets and milestones to enable PREPA to become a world-class utility, including right-sizing operational costs for the new demand environment; delivering projects efficiently across asset planning, procurement, and construction; and lowering long term maintenance costs while increasing reliability through predictive maintenance strategies.
- **Financial sustainability:** The Fiscal Plan should provide for a positive cash flow from operations by 2022, if not earlier.
- **Regulatory framework to Support Private Sector Investment:** The Fiscal Plan should include a best-practice regulatory framework and proposed rate structure to facilitate private investment, drive demand growth, and support distributed power development.
- **Governance:** The Fiscal Plan should contain a clear plan for enhanced management capabilities to deliver a successful restoration and transformation and ensure PREPA management is de-politicized and able to make independent technical and operational decisions in a governance structure consistent with attracting private investment.
- **Private investment and partnerships:** The Fiscal Plan should explicitly provide a plan for the private sector to invest to develop new infrastructure, upgrade existing infrastructure, and realize operational excellence.
- **Robust independent regulator:** The Fiscal Plan should clearly outline the authority of an independent regulator that allows it to set and enforce rules to ensure power is delivered in accordance with the principles outlined in this letter.

- **Federal funding for reconstruction:** The Fiscal Plan should include a detailed plan for reconstruction, focused on optimizing the use of federal funds to make long-term improvements to the power system and providing a governance structure and procurement function to deploy federal funds efficiently and transparently.

Sincerely,



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