

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



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Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

May 16, 2018

United States Senate
Committee on Energy and Natural Resources
Washington, DC 20515

Dear Chair Murkowski, Ranking Member Cantwell, and Members of the Committee:

I write on behalf of the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), created under the bipartisan Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), to thank you for the important and informative Full Committee Hearing on Puerto Rico’s Electric Grid that you held on May 8, 2018. You called attention to the pressing issues confronting Puerto Rico’s electric grid and its electric utility, PREPA, and demanded answers to the lingering questions on the minds of so many in Puerto Rico, Washington, and throughout the United States. Why has the restoration has progressed so slowly? What is the current status of the grid? What are Puerto Rico, PREPA, and the federal government doing to ensure the grid performs better during the next hurricane, and how are they preparing for the upcoming hurricane season? And perhaps most importantly: will the future PREPA provide low-cost, reliable energy, and if so, what is the process for getting there and who is responsible? Your dogged determination in pursuing these issues is essential to achieving the goals of ensuring the electric grid is more resilient, more storm-resistant, and more cost-effective.

As was discussed throughout the Hearing, there are many stakeholders involved in PREPA’s recovery, restoration, and future transformation. The multitude of parties and unclear, often overlapping roles and responsibilities are causing confusion within Puerto Rico, in Washington, and in the marketplace. In the interest of providing some clarity on this point, I write to describe how the Oversight Board fits in to these processes. The Oversight Board’s authority with respect to PREPA arises from its responsibility to certify its fiscal plan and approve its budget, as provided for in Title II of PROMESA, and as the representative of PREPA in its court-supervised insolvency proceedings, as provided for in Title III of PROMESA.

After Hurricanes Irma and Maria pummeled Puerto Rico, causing catastrophic damage to Puerto Rico's electric grid and generation assets, the Oversight Board endeavored to revise PREPA's fiscal plan to account for its radically reshaped reality. Over several months the Oversight Board engaged with a wide variety of stakeholders, undertook rigorous research and analysis, and negotiated with PREPA and its advisors before certifying, on April 19, 2018, the New Fiscal Plan for PREPA. The goal of the New Fiscal Plan is to support the financial sustainability of PREPA and guide its transformation into an electric utility that provides low-cost, reliable energy, consistent with the Governor's vision. The key elements of the New Fiscal Plan are setting an aspirational rate target of less than 20c/kWh by 2023; delivering reliable, resilient, cleaner power; and implementing operational efficiencies to lower cost and improve service.

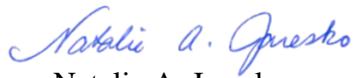
The New Fiscal Plan also provides the contours for PREPA's annual budgets through 2023 in PREPA's steady-state, assuming no transformation transaction takes place. The Oversight Board is currently working with PREPA to create the budget for the fiscal year beginning in July 2018. The Oversight Board projected PREPA's revenues for the year and then will determine PREPA's expenditures based on that revenue estimate so that PREPA is fiscally responsible. The budget also requires PREPA to achieve certain operational and financial targets to promote efficiency and sustainability until the transformational transaction occurs.

As the representative of PREPA in the Title III court proceedings, the Oversight Board leads the negotiations to restructure PREPA's legacy obligations, such as debt and unfunded pension. The Oversight Board also plays an integral role in the process to transform PREPA into a modern electric utility that provides low-cost, reliable energy because any transaction to effectuate that transformation will have to be approved by the Title III court as part of PREPA's plan of adjustment to emerge from Title III. The Oversight Board has retained Citigroup Global Markets, Inc. as the financial advisor, representing both the Oversight Board and the Government, on any potential transformation transactions. Among other things, Citi intends to conduct a broad market sounding exercise to gauge interest level in participating in any potential such transformation transactions that could entail a long-term concession for the transmission and distribution system and the potential sale of generation assets. This market sounding will help shape the RFQ and RFP process that will be conducted pursuant to the amended P3 legislation that is currently being debated in the Puerto Rico Legislature.

One final clarification about one role the Oversight Board decidedly does not, cannot, and does not want to play – that of the regulator of PREPA. The New Fiscal Plan for the Commonwealth calls for a professional regulator, modeled on best practice regulatory structures employed in the United States, to provide robust regulatory oversight of the transformed PREPA, whatever shape that takes. As part of the legislation to authorize the PREPA transaction, the Puerto Rico Legislature is amending the statute that created the current regulator, the Puerto Rico Energy Commission. The Oversight Board supports these efforts and looks forward to the creation of an independent, expert, and well-funded regulator that is tailored for the transformed PREPA.

On behalf of the Oversight Board, thank you again for holding the productive and enlightening Hearing, for your hard work for the people of Puerto Rico, and for your continued engagement on the challenges facing Puerto Rico's power sector. If you have any questions about the Oversight Board and its roles or responsibilities with respect to PREPA, please do not hesitate to contact me.

Sincerely,



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