

March 31, 2017

Mr. José E. Rossi Written Statement as read by Mr. Lorenzo Dragoni

Mr. Chairman, members of the board, thank you for your invitation to speak about the vital economic issues facing our beloved island.

I am Lorenzo Dragoni and I am here today to provide testimony on behalf of Mr. Josen Rossi, who cannot be with us due to business commitments. Like Mr. Rossi I am also a member of the Aireko Foundation board, a prior President of Aireko, and a concerned citizen of Puerto Rico. Josen's words here today echo my feelings and thinking as well. I wish to disclose first that Josen and I, our families, like many other Puerto Ricans are current owners of Puerto Rico public debt.

In the spirit of efficiency we'll skip more of the traditional testimony protocol and cut to the chase. One of the primary roadblocks to our economy recovery is energy. In contrast to the United States and many other nations, almost every dollar spent on fuel and electricity in Puerto Rico is a sunk cost that has little, if any, multiplier effect throughout the economy unless it resulted in competitive energy rates which they aren't. It's just a dollar that leaves since we have no fossil fuel reserves nor meaningful hydroelectric assets.. One of the great illusions' of the past fifty years has been using growth in electric supply and consumption as an indicator of economic growth, when in fact it's an economic sink.

Thankfully, the U.S. Congress has wisely and specifically provided to you the necessary additional powers to reform this one very essential public service, a critical driver of any modern economy. PROMESA Law and all recognize the importance of a strengthened independent regulatory system. The regulatory modernization instituted to break the island's telecom monopoly years ago is analogous to the potential for energy system economic transformation capacity today. In fact, I'll boldly state, and submit for your consideration, that the effective transformation of Puerto Rico's energy/electrical framework is the single largest opportunity in the short and medium term to unleash economic potential. This is primarily due to the billionaire inefficiency of PREPA's electrical generation base, and absurd debt service.

You have been granted several powers that allow the Oversight Board to drive the essential reform of PREPA and the Puerto Rico Electrical Energy System:

- a. you can stop local legislation that does not support approved public Fiscal Plans
- b. you can reject a PREPA Fiscal Plan with unsustainable debt agreements or un-economic structure,
- c. you can propose a PREPA Fiscal Plan that is sustainable and pro economic growth,
- d. you can guide the modernization of the electric sector regulatory framework through the Puerto Rico Energy Commission, the PREPA Board, and top management itself towards PROMESA Title V goals for competitive energy markets and right-sized utility performance,

- e. you can stop messy litigation through - your guidance or the Title III use if needed - from interfering with a keeping of the lights on in Puerto Rico past May 1st. , and,
- f. you can hire any needed key world class expertise, regulatory or utility, or order such in an approved Fiscal Plan

With full use of these powers, we believe you can fix PREPA and our electrical system for good during your oversight period. Careful approval and proactive supervision of a PREPA Fiscal Plan in coordination with our independent regulator, the Puerto Rico Energy Commission, will allow the proper re-balancing of public and private sector participation in the electric sector which in turn results in higher efficiencies, cleaner power, and market transparency.

Coherent planning for competitive electrical tariff setting in a 10 year Fiscal Plan can include economic development objectives that guide a 20 year Infrastructure Investment Plan approved by the Energy Commission as well as regulatory reforms that introduce competition on proven sectors like electric generation and distributed energy investment. Achieving both short term investment stimulus and a lasting regulatory framework for prosperity is possible with the right talent and coordination under present local and federal energy policy.

The following is a brief list of opportunities to fix the debt including a pro-growth Infrastructure Investment Plan in Energy Commission Proceedings as guided by a wise PREPA Fiscal Plan that puts the electrical energy system and the growth of the Puerto Rico economy first:

- g. Private sector participation in the planning and energy sector rule-making are business best practices in regulatory processes that strengthened by the Fiscal Board will provide for consumer interest protection, price transparency, and needed confidence to the responsible private investor.
- h. The Commission's utility performance proceedings must include full review of utility debt and capital sustainability. Currently the private sector has sought injunctions in local court against the RSA Agreement because it was steamrolled without the usual tariff cost sustainability analysis.
- i. Alternative debt restructuring scenarios can be transparently analyzed to avoid the unraveling of securitization charges that as presently proposed would create a utility death spiral.
- j. Debt restructuring scenarios that avoid PREPA monopoly, promote immediate stimulus to competitive – behind the meter – privately financed energy investment should be in line with state laws 57 and 114 as well as federal energy policy.
- k. Prioritize regulation to immediately allow behind the meter private sector investment, and competitive generation that:
 - i. Contributes to the competitiveness of individual businesses and tax paying jobs where PREPA can't.
 - ii. Contributes to the resiliency of an outdated grid while full scale economic development ensues to restore the grid.

- iii. Grows local capital enterprise and green energy jobs based on competitive private financing of energy services to the private sector and to government later as it recuperates investment grade ratings.
- iv. Creates distributed energy markets based on transparent and unsubsidized cost signals, in line with federal government energy policy.

Providing immediate confidence and economic stimulus to soften the impact of austerity goes hand in hand with the basic fairness that Josen, I and other Puerto Rico bondholders expect from your oversight – to assure millions of Puerto Ricans are not forced to pay higher tariffs to benefit PREPA's bondholders beyond the cuts in the values to our own bonds and future personal income. This will also only worsen Puerto Rico's economic future and ability to service the rest of its debt.

We are thus hopeful and enthusiastic that the guidelines on overall central government debt servicing capacity per the approved Fiscal Plan provide a path to fixing the debt and the electrical system problems to competitively “Energize Puerto Rico's Private Sector to Drive Economic Growth” with both short and long term economic gains.

Our island's government insistence on holding on to the past, and oftentimes the private sector conflicted complacency in allowing it, added to PREPA's Board inherent fiduciary conflict between bondholders and sound public policy in favor of consumers. This has resulted in our traditional government entities nor PREPA having the technical nor energy business expertise to undertake the necessary structural reforms in a reasonable timeframe. To right-size PREPA and its debt and build on the present regulatory foundation to create a world class electric sector framework for Puerto Rico, the Fiscal Board will need to intervene. You have the powers to do it with careful hiring or influencing the hiring of the right world class talent where needed.

In many ways, Puerto Rico's private sector is recently doing its job with regards to energy reform that we can share in more detail with you later. We will all need to help and seek the best help so we also recommend that Oversight Board turn to both DOE and FERC in reaching our goals.

Once again, Mr. Rossi and I thank you for the opportunity to speak before you today. Please count on us and other private sector leaders to support all your efforts to foster investment in Puerto Rico's vital independent energy reform planning and implementation.