

COMMONWEALTH OF PUERTO RICO
ENERGY COMMISSION

IN RE: PETITION FOR APPROVAL OF TRANSITION ORDER FILED BY THE PREPA CORPORATION	ORDER NO. CEPR-AP-2016-0001 SUBJECT: TECHNICAL HEARING PROCEDURAL ORDER
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**MOTION IN COMPLIANCE WITH PR ENERGY COMMISSION ORDER, AND
REQUEST CONCERNING ICSE-PR PRESENTATION ON FRIDAY MAY 27**

TO HONORABLE COMMISSION:

Now comes the Instituto de Competitividad y Sostenibilidad Económica de Puerto Rico (ICSE-PR) represented by appearing Counsel and respectfully alleges and prays:

1. ICSE-PR will be present both on Panel 8 and Panel 9 on Friday May 27, 2016.
2. ICSE-PR representatives will question Corporation and PREPA'S witnesses Zarumba; Mace, Donahue and Quintana-Mendez concerning their statements and rebuttal statements filed with the Commission.
3. ICSE-PR respectfully request that its participation concerning Panel 8, be permitted to be at the earliest possible time on Friday May 27, 2016. The reason for this request is that ICSE-PR consultant on the substantive issues, Mr. Ted Kuhn, must leave Puerto Rico early in the afternoon.
4. Concerning Mace, Donahue and Zarumba announced testimonies and rebuttals, although very well illustrative, fail in responding the main question that need to be answered an part of this proceeding, If the projected demand or costumer base of the Puerto Rico Electric Power Authority (PREPA) for the next 25 years will be enough to cover the projected debt of \$6.84 billion?

Why this question is important? Because this debt will be directly paid by the current customer base that under the proposed adjustment mechanism is recalculated every three months. This become relevant when considering that the demand of PRPEA has dropped 16.4% from 2006 to 2015 (Serie Histórica AEE, 2016) and the overall population of Puerto Rico has dropped 6.8% from 2010 to 2015 (US Census Bureau, 2015). The demands drop for the past 10 years is equivalent to a yearly drop of 1.6%. If this trend continues for the next 25 years the demand of PREPA would drop 33% at the end of the proposed securitization schedule. The conclusion of this rough analysis is that, in a conservative approach, approximately two thirds of PREPA's current customer base will be responsible for the overall debt being considerate under this proceeding. This is unsustainable. In addition, in regards to poverty, 42.3% of Puerto Rico's population lives below poverty levels (US Census Bureau, 2014).

After seeing this figures, there is serious doubt about the capability of the Puerto Rico Power Authority's declining customer base to effectively assuming a \$6.84 billion debt in the proposed period of time. The question that needs to be answered is: What amount of debt should be reasonable to directly distribute within the PREPA's customer base (by means of securitization) and what amount should be under PREPA's revenue. That is the decision that under our opinion, the Puerto Rico Energy Commission need to take to fulfill its duties under Act 57, 2014; since it is clear that under present demand and population decline, and customer base wealth, it is not possible to fulfill.

In this context we will question PREPA'S and the Corporation's witnesses on the lack of a reasonable demand study that properly accounts for demographic and other socio-economic changes that are occurring and likely will continue to be occurring, perhaps in larger and larger magnitudes, when PREPA begins imposing the securitization charges to its ratepayers on behalf of the Corporation.

PREPA or the Corporation should provide a demand study that considers how the government sector ratepayers could react to the securitization charges when they are imposed in addition to other rate increases that PREPA plans to impose. Given that those ratepayers will also come under fiscal pressure from the Commonwealth's other debts, all that is clear at this stage is that the proposed securitization charges will only further complicate those ratepayers' decisions about whether to spend their funds on PREPA services or other fiscal demands like payroll or debts. If they choose to pay PREPA, then they may need to spend less on payroll and debt payments, which would not likely improve Puerto Rico's economic health and could contribute to further population decline or otherwise contribute to a shrinking customer base and overall demand. Under the current proposal, under those conditions, the Corporation could continue to increase the size of the securitization charges in order to try to maintain collections. But that easily could cause further reductions in the customer base or overall demand for PREPA services. Thus, without any assurances that PREPA or the Corporation know how PREPA customers will react to expected future electric rates and securitization charges, the proposed securitization could become a more expensive method of restructuring PREPA's debt than other methods that PREPA could pursue.

5. Concerning questioning of Mr. Michael Mace, appearing attorney accepts that it used incorrect language when referring to bonds issued by PREPA instead of bonds issued by the Corporation.

The issue raised by appearing attorney refereed to who is going to pay, and in both cases if would be PREPA's rate payers.

6. Concerning PREPA's Chief Restructuring Officer Lisa Donahue's rebuttal, it is obvious that the premise of PREPA's and the Corporation's, position is based on the absolute separation between PREPA and the Corporation, which in fact in not true.

Both PREPA's revitalization and the Corporation, as an instrument to facilitate such revitalization, are geared to the same end, this is to obtain the lowest costs for electricity which permit sustainable economic development for Puerto Rico, less contamination, more open access, more renewable energy, more modernization of PREPA's operation.

To discuss PREPA's and the Corporation as "separate" denies the truth that an incomplete or not efficient securitization can act as a serious limitation to PREPA's future capacity and to Puerto Rico's sustainable economic development.

ICSE-PR position is that this Commission simply does not have the necessary information to make an informed opinion, at this time.

7. Concerning Ms. Donahue rebuttal and questioning, the same contains the following question and answer with regard to the recommendation that the Commission approve a reasonable Integrated Resource Plan (IRP) for PREPA before approving a debt securitization for PREPA:

"Q. Aside from any legal arguments, are there any practical reasons why the approval of PREPA's IRP must precede Commission action on the Corporation's Petition?"

"A. No. The two processes are independent. The IRP process is forward looking. The IRP is, by definition, a plan for future PREPA investment and operations. In contrast, the securitization transaction addresses the unsustainable costs and demands of PREPA's preexisting debt. The two processes address different, independent needs. The IRP will not eliminate PREPA's need to restructure its existing debt. And, neither do the many benefits of the proposed restructuring depend on the Commission's prior approval of PREPA's IRP. Indeed, the securitization would be essential even if the proposed IRP were completely rejected" (page 5, emphasis in the original).

ICSE-PR does not agree with the characterization contained in the above question and answer.

ICSE-PR has not said that the Commission must follow any particular sequence; what it actually recommended was the sequence the Commission "should" follow for the legal and policy reasons provided.

The above arguments by Donahue do not persuade us to change our recommendation regarding the appropriate sequence of the Commission approval.

The two processes – i.e., the IRP and securitization approval processes – technically can be thought of as separate processes, but that does not make it appropriate for the sake of PREPA, its ratepayers, or Puerto Rico. Further, just because approving an IRP technically will not eliminate PREPA’s need to restructure its existing debt, that is no reason for securitization plans to be blind towards PREPA’s prospective capital needs.

Indeed, by stating that “... the securitization would be essential even if the proposed IRP were completely rejected,” Chief Restructuring Officer Donahue seems willing to completely disregard PREPA’s overall capital needs in pursuit of the proposed securitization. That approach would be contrary to a more logical and appropriate approach of using the IRP process to determine PREPA’s expected optimal capital needs before making any irreversible decisions regarding debt restructuring through securitization or other methods.

Chief Restructuring Officer Donahue’s rebuttal testimony also states, “The policy goals of Puerto Rico, as expressed in Act 57-2014 and then supplemented and amended by Act 4-2016, are served by both an appropriate IRP and the timely and successful implementation of the securitization transaction; none are served by denying or postponing that securitization” (page 6). This statement does not persuade us to change our views or recommendations.

That statement seems to present a false choice as a weak argument in favor of the current proposal – i.e., that PREPA either maintain its existing debts or pursue the securitization plan that is currently being proposed at this time. That false choice is not contained in Act 4 or Act 57 and is irrelevant here. Put differently, neither Act 4 nor Act 57 requires the Commission to approve the current proposal as the only method for restructuring PREPA’s debt; rather it provides the Commission the alternate of rejecting the proposed restructuring order.

If that statement is not meant to proffer that false choice, then perhaps that statement is meant to stress the assumption that the currently proposed securitization transaction could be “timely and successfully” implemented. If so, then we disagree with the statement for the reasons previously given for why it would be suboptimal for the Commission to approve the proposed securitization at this time.

Chief Restructuring Officer Donahue’s rebuttal testimony goes on to include this question and answer exchange regarding appearing attorney testimony:

“Q. Attorney Agrait also testifies that the fiscal situation in Puerto Rico is fluid. Again, apart from any legal arguments, is this a reason to deny or delay issuing a Restructuring Order?”

“A. No. The generally fluid fiscal condition in Puerto Rico does not alter the fact that the issuance of the Bonds is a sensible, consensual, and beneficial means of addressing PREPA's unsustainable debt burden and delivering significant benefits to customers. Neither the passage of the Moratorium Law, nor any other potential developments, warrant the delay or rejection of the workable solution to PREPA's significant debt problem. A successful securitization by the Corporation is an essential component to help stabilize PREPA's financial situation, which, in turn, is a key part of the efforts to resolve Puerto Rico's current financial crisis” (pages 6-7, emphasis in the original).

We agree with the words of the last sentence in isolation as a truism, but we do not agree that the actual current proposed securitization will be successful in terms of satisfying the requirements of Act 57-2014 and Act 4-2016 or in terms of serving the public interest of Puerto Rico. Further, we strongly disagree with the premise of the above answer that the current proposal represents a “workable solution to PREPA's significant debt problem” for the same reasons that we disagree that Puerto Rico's economic conditions should be ignored when the Commission considers the securitization proposal.

In fact, we have serious concern if the above answer represents PREPA's disregard for the economic conditions facing Puerto Rico now and for the foreseeable future. We also have concerns if the above answer reflects PREPA's ignoring of Puerto Rico's current situation. If it's the latter, then it is important for purposes of this proceeding and as a general rule that PREPA understand Puerto Rico's current situation and why it is relevant.

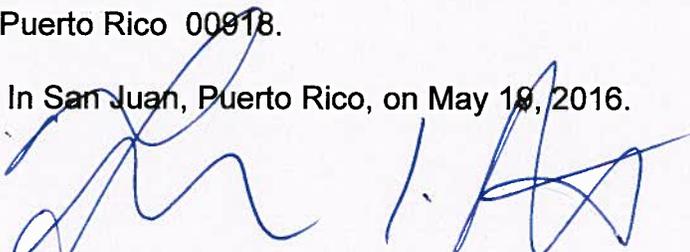
Simply put, neither PREPA nor the Commission has demonstrated that demand for PREPA's electric service or PREPA's customer base will support the proposed securitization plan. This omission undermines the credibility of the likely success of having the securitized debt directly paid by PREPA's customers, even with the proposed adjustment mechanism that would allow securitization charges to be recalculated every three months.

WHEREFORE: It is respectfully requested that this Board receives this motion and take appropriate actions according to the same.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, in this 19 th May of 2016. I H EREBY CERTIFY that the foregoing was regular mail Corporación para la Revitalización de la Autoridad de Energía Eléctrica, Quiñones & Arbona, PSC, Edwin Quiñones, Víctor D. Candelario-Vega, Giselle M. Martínez-Velázquez, Richard Hemphill Cabrera, PO Box 10906, San Juan, Puerto Rico 00900; Grupo Windmar, Lcdo. Marc G. Roumain Prieto, 1702 Avenida Ponce de León, 2do Piso, San Juan, Puerto Rico 00909, Oficina Estatal de Política Pública Energética, Lcdo. Edwin J. Quiñones Porrata, PO Box 41314, San Juan, Puerto Rico 00940 y a la Lcda. Coral M. Odio Rivera, 268 Hato Rey Center, Suite 524, San Juan, Puerto Rico 00918.

In San Juan, Puerto Rico, on May 19, 2016.



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