

COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION

IN RE: REVIEW OF RATES OF
THE PUERTO RICO ELECTRIC
POWER AUTHORITY,

Petitioner.

No.: CEPR-AP-2015-0001

SUBJECT: TESTIMONY
SUPPORTING APPROVAL OF
PROVISIONAL RATES

Direct Testimony of

LISA J. DONAHUE

Managing Director,

AlixPartners, LLP

and

Chief Restructuring Officer,

Puerto Rico Electric Power Authority

on behalf of the

Puerto Rico Electric Power Authority

May 27, 2016

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1 **I. INTRODUCTION**

2 **A. Witness Identification**

3 **Q. Please state your name, title, employer, and business address.**

4 A. My name is Lisa J. Donahue. I am a Managing Director and the leader of the Turnaround
5 and Restructuring Practice at AlixPartners, LLP, a global business and advisory firm. I
6 have also served as the Chief Restructuring Officer ("CRO") of the Puerto Rico Electric
7 Power Authority ("PREPA" or the "Authority") since September 2014. My business
8 address is 909 3rd Ave, New York, New York 10022.

9 **Q. On whose behalf are you testifying?**

10 A. I am testifying on behalf of PREPA, in two separate pieces of direct testimony.

11 **Q. Why are you submitting two separate pieces of direct testimony in this case?**

12 A. This case is based on PREPA's Petition for new rates. PREPA's rate Petition requests
13 that the Puerto Rico Energy Commission (the "Commission") both: (1) approve new
14 "permanent" base rates¹ for PREPA that are anticipated to go into effect in Q1 Calendar
15 Year 2017 and (2) approve provisional rates for PREPA to be in place from 60 days after
16 the filing of its Petition until the new base rates go into effect.²

17 I am submitting two separate direct testimonies because I have been advised that
18 the Commission's Regulation No. 8720, Section 2.02(E), requires separation of testimony

¹ An electric utility's basic rates for electric service, not including charges that are passed through or fluctuate through a tariff rider or other mechanism, often are referred to by the general term "base rates".

² My understanding is that the provisional rates would go into effect 60 days from the filing of PREPA's Petition because that is the earliest possible date if the provisional rates are approved under the PREPA Revitalization Act, Act 4-2016 (the "Revitalization Act"). I have been advised that PREPA also may have the ability to impose or seek temporary rates under other statutory authority, but that is beyond the scope of my testimony.

19 supporting provisional rates, although it allows that testimony to refer back to the
20 testimony supporting permanent rates. Accordingly, my primary direct testimony in
21 support of the Petition is PREPA Exhibit ("Ex.") 2.0.

22 This, my second piece of direct testimony, *i.e.*, my testimony focused specifically
23 on the provisional rates request, is PREPA Ex. 10.0, although I also refer to herein and
24 incorporate my primary direct testimony.

25 **Q. What is your role at PREPA?**

26 A. PREPA's Governing Board selected and appointed me as PREPA's Chief Restructuring
27 Officer in September 2014. I work alongside PREPA's management. I report to, and
28 serve at the discretion of, the Governing Board. I lead a team that assists me in carrying
29 out my duties as CRO.

30 As CRO, my fundamental role has been and is to lead the development and
31 implementation of a holistic recovery plan that will allow PREPA to serve the people of
32 Puerto Rico more efficiently, reliably, and at a reasonable cost. The recovery plan, at the
33 highest level, involves two tasks: (1) addressing the fundamental operational problems
34 that have hindered PREPA for decades and (2) financial restructuring in light of
35 PREPA's debt and liquidity crises.

36 I discuss both of those tasks in detail in my primary direct testimony in support of
37 PREPA's rate Petition, PREPA Ex. 2.0.

38 **B. Summary of Direct Testimony and Attachments**

39 **Q. What are the purposes and subjects of your direct testimony?**


40 A. In this PREPA Ex. 10.0, I discuss PREPA's liquidity crisis and how it relates to
41 PREPA's provisional rates request. PREPA's 2016 cash flow problems are the primary
42 reason that PREPA seeks the approval of provisional rates to be in effect from 60 days
43 after the Petition is filed until PREPA's new base rates go into effect, which, again, is
44 anticipated to be in Q1 Calendar Year 2017.

45 PREPA faces severe debt and liquidity crises. In my primary direct testimony, I
46 describe how in the summer of 2014, PREPA's debt and liquidity crises threatened
47 PREPA's ability to operate, including its ability to purchase fuel to run its power plants
48 and thus to keep the lights on in Puerto Rico. At that time, PREPA faced maturity of
49 approximately \$735 million in revolving credit lines and \$400 million in principal and
50 interest payments due under its power revenue bonds. PREPA's cash position was
51 extremely low, and oil prices were at unusually high levels. PREPA obtained
52 forbearance agreements from its key creditors that gave it breathing room to work on its
53 financial and liquidity crises. Eventually, the forbearance agreements were extended and
54 became the foundation for the Restructuring Support Agreement (the "RSA") among
55 PREPA, creditors holding approximately 70% of the outstanding financial debt, and other
56 parties.

57 PREPA now has debt obligations of approximately \$9 billion, including
58 approximately \$1.3 billion in principal and interest that will be due on July 1, 2016, under
59 its existing revolving credit lines and power revenue bonds. PREPA has approximately
60 \$550 million in cash, including \$146 million in Government Development Deposits that
61 are subject to a moratorium. Although the RSA provides a long-term path to financial
62 sustainability, it does not fix PREPA'S immediate short-term liquidity situation.

63 As part of the RSA, we have negotiated and agreed upon a recovery plan to solve
64 the debt crisis, as described in my primary direct testimony. Yet, notwithstanding the
65 consensual restructuring plan for its debt, PREPA does not have sufficient cash flow to
66 meet its debt obligations and operating needs in the near term before the new base rates
67 go into effect.

68 The proposed provisional rates are intended to be a bridge to enable PREPA to
69 manage its cash flow issues in the immediate interim period. It goes without saying that
70 PREPA's running out of cash before the restructuring can be implemented would be
71 extremely harmful for both PREPA and its customers and would likely prejudice the
72 overall recovery plan. A large electric utility cannot operate without a significant amount
73 of cash. Given PREPA's financial situation, it no longer has access to capital markets on
74 reasonable terms, PREPA creditors have not agreed to extend financing to allow PREPA
75 to its financial obligations in July 2016, and even if they had PREPA would still need to
76 increase rates immediately to cover necessary costs, such as maintenance, capital
77 expenditures, and other operating expenses. The Commission should approve the
78 proposed provisional rates.



79 **C. Qualifications and Professional Background**

80 **Q. Please describe your educational background and professional experience.**

81 **A.** In addition to serving as CRO of PREPA and as a Managing Director of AlixPartners, I
82 have served as a senior executive at several energy companies, most recently as Chief
83 Financial Officer at Atlantic Power Corporation, a publicly traded power and
84 infrastructure company. Prior to that, I served as Executive Vice President and Chief

Financial Officer at Calpine Corporation, an energy company with operations in several North American countries, and as the Chief Restructuring Officer at SemGroup, L.P., a mid-stream oil & gas, pipeline, storage, and commodity trading company. My professional education includes a Bachelor of Science (B.S.) degree in Finance from Florida State University. My complete *curriculum vitae*, which reviews my education, professional qualifications, and experience in detail, is attached as to my primary direct testimony as PREPA Ex. 2.01.

II. PREPA'S LIQUIDITY CRISIS

Q. Did you discuss the PREPA's debt crisis and the efforts to restructure PREPA's debt in your primary direct testimony, PREPA Ex. 2.0?

A. Yes.

Q. Did you discuss PREPA's summer 2014 liquidity crisis and how PREPA obtained forbearance agreements to give it time to work on the debt crisis in your primary direct testimony, PREPA Ex. 2.0?

A. Yes.

Q. What is the current magnitude of PREPA's debt and liquidity issues?

A. As I previously noted, PREPA has debt obligations of approximately \$9 billion, including approximately \$1.3 billion in principal and interest that will be due on July 1, 2016, under its existing revolving credit lines and power revenue bonds. PREPA currently has approximately \$550 million in cash, including \$146 million that is held in GDB accounts


subject to a moratorium. PREPA has exhausted all of its debt service reserves because it has not been able to make any monthly sinking fund payments since late 2014.

Indeed, without action to restructure PREPA's debt and reduce its immediate cash flow burdens, PREPA faces a funding gap of more than \$700 million as of July 1, 2016. PREPA also faces the need to replenish its self-insurance fund, which helps protect PREPA against unexpected needs, *e.g.*, extraordinary maintenance and repair costs following a hurricane.

As the Legislative Assembly concluded in adopting the Revitalization Act, PREPA's financial situation require immediate action if it is to achieve financial solvency and meet its obligations in a manner that is orderly and satisfactory to all its stakeholders.

Q. Will the debt restructuring, if it is achieved, solve PREPA's short-term liquidity crisis?


A. No, as I indicated earlier. PREPA needs to address separately its summer 2016 liquidity crisis, because completion of numerous steps and transactions that will take several months to be completed, including Energy Commission approval of the calculation methodology for the Transition Charges and the Adjustment Mechanism, obtaining the requisite ratings for the new securitization bonds, successfully completing the validation proceedings contemplated by the Revitalization Act, consummation of the exchange of debt for new securitization bonds, including consent of holders of approximately \$2 billion of \$2.7 billion in debt who are not parties to the RSA and the billing and collection of the Transition Charges from customers. The immediate liquidity crisis can



126 be managed only by the Commission also establishing provisional rates for PREPA that
127 are in effect until the new rates begin to be recovered.

128 Q. **Can PREPA manage its liquidity issues before the new rates go into effect by**
129 **temporarily cutting back on its expenditures?**

130 No, that strategy would not be practical, and it would be harmful and risky to PREPA's
131 customers and Puerto Rico. It would also be exactly what PREPA has been doing for
132 years in the absence of a rate structure that covers its cost, and part of the reason that
133 PREPA finds itself in this precarious situation. Additionally, PREPA has already
134 implemented significant cost reduction initiatives. In particular, PREPA has focused on
135 operational improvements to core business functions that increase efficiency, improve
136 customer service, centralize controls and decision-making utilizing industry best
137 practices, increase revenue generation, and instill a culture of safety in the workplace. As
138 a result, PREPA already is operating in a very cash constrained environment. PREPA
139 has minimum cash needs in order to meet its basic obligations in terms of service and
140 safety. In order to meets its other financial obligations, PREPA would have to cut so
141 deeply into its operations that it could not meet its basic obligations as an electric utility.



142 Q. **Can PREPA manage its liquidity issues before the new rates go into effect by**
143 **obtaining new forbearance agreements?**

144 A. No, I do not believe so. The RSA expires on June 30, 2016. Discussions to extend the
145 RSA and obtain "relending agreements" with the supporting creditors are ongoing.
146 However, it would be imprudent to assume those discussions would be successful, and in
147 any event they would not solve all of PREPA'S liquidity issues.

148 Q. **Can PREPA manage its liquidity issues before the new rates go into effect through a**
149 **combination of temporary cost cutting and new forbearance agreements?**

150 A. No, this idea, too, is not realistic based on existing circumstances.

151 Q. **Do you see any realistic solution for managing PREPA's impending cash flow issues**
152 **absent the Commission's establishing the requested provisional rates?**

153 A. No, I do not.

154 **III. CONCLUSION**

155 Q. **Does this complete your (second) direct testimony?**

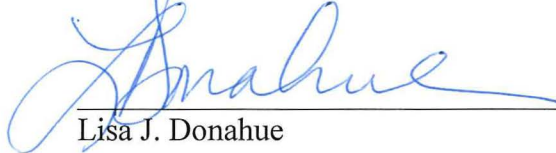
156 A. Yes.



ATTESTATION

Affiant, Lisa J. Donahue, being first duly sworn, states the following:

The prepared pre-filed Direct Testimony and the Schedules and Exhibits attached thereto and the Schedules I am sponsoring constitute the direct testimony of Affiant in the above-styled case. Affiant states that she would give the answers set forth in the pre-filed Direct Testimony if asked the questions propounded therein at the time of the filing. Affiant further states that, to the best of her knowledge, her statements made are true and correct.



Lisa J. Donahue

Affidavit No. 3,568

Acknowledged and subscribed before me by Lisa J. Donahue, of the personal circumstances above mentioned, in her capacity as a Managing Director of AlixPartners, LLP, and Chief Restructuring Officer of the Puerto Rico Electric Power Authority, who is personally known to me or whom I have identified by means of her driver's license number _____, in San Juan, Puerto Rico, this 26th day of May 2016.



Public Notary



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