

COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY BUREAU

SECRETARIA
COMISION DE ENERGIA DE
PUERTO RICO

IN RE: REVIEW OF THE PUERTO
RICO ELECTRIC POWER
AUTHORITY INTEGRATED
RESOURCE PLAN

CASE NO.: CEPR-AP-2018-0001¹⁹ APR 26 P3:52

SUBJECT: Informative Motion Regarding
Changed AES Assumptions

**INFORMATIVE MOTION
REGARDING CHANGED AES ASSUMPTIONS**

National Public Finance Guarantee Corporation (“National”) respectfully submits this Informative Motion to notify the Puerto Rico Energy Bureau (the “Bureau”) of certain changed assumptions that materially affect the Integrated Resource Plan (“IRP”) process. This information requires immediate attention because it is integral to the IRP that the Puerto Rico Electric Power Authority (“PREPA”) is currently drafting, and therefore it should be considered now to avoid a needless waste of the Bureau’s and PREPA’s resources. Indeed, it appears that PREPA is continuing to rely on IRP assumptions that materially conflict with this new information—despite an awareness of such information and without apprising the Bureau. Therefore, National respectfully states as follows:

1. AES Puerto Rico (“AES”) established and operates Puerto Rico’s only coal-fired power plant.¹ AES supplies 17% of all electricity consumed in Puerto Rico and is reportedly the lowest-cost provider of electricity on the island.² AES currently has a Purchased Power Agreement with PREPA that runs until 2028. February 12, 2019 Draft Integrated Resource Plan (the “Draft IRP”), § 4.1.1.5.

¹ See Public Comments of AES Puerto Rico, Case No. CEPR-MI-2018-0010, p. 2 (March 18, 2019).

² See *id.*

2. On April 8, 2019, Governor Ricardo Rosselló issued a press release announcing that Puerto Rico will no longer produce electricity using coal.³ While acknowledging that the government's previously announced public policy was to transition from coal in 2028, he stated that the government is now negotiating with AES to end the use of coal by 2020.⁴ AES's Executive Vice President and Chief Operating Officer, Bernerd Da Santos, has reportedly confirmed ongoing negotiations to convert the AES coal plant in Guayama to another fuel—negotiations that include PREPA Executive Director José Ortiz.⁵ Mr. Da Santos reportedly indicated that any such conversion will be a multistep process, which must be executed carefully to avoid grid reliability issues. He further suggested that, because no other power generator in Puerto Rico can provide electricity at a similarly low cost, taking the AES plant out of service for the time required to convert it could increase electricity rates by 20 percent⁶—to say nothing of the potentially increased costs from burning a new type of fuel at the AES plant.⁷

3. On April 17, 2019—over a week after these announcements—PREPA filed an informative motion in this proceeding.⁸ PREPA sought “direction from the Energy Bureau”

³ “Puerto Rico Governor Announces New Climate Milestone,” La Fortaleza (Apr. 8, 2019), at <https://www.fortaleza.pr.gov/content/puerto-rico-governor-announces-new-climate-milestone-island-will-no-longer-produce>.

⁴ *Id.* The Governor reiterated this policy in his recent State of the Commonwealth address. “Governor Will Denounce Discrimination against Puerto Rico during Presidential Campaign in the United States,” El Nuevo Día (Apr. 24, 2019), at <https://www.elnuevodia.com/noticias/politica/nota/ricardorosselloofrecesutercermensajedeestadodesituacion-2489928/>.

⁵ See “AES Confirms Dialogue with the Government, But Does Not Give Details,” El Nuevo Día (Apr. 9, 2019), at <https://www.elnuevodia.com/noticias/locales/nota/aesconfirmadialogoconelgobiernoperonodadetalles-2487099/>; “AES Ready for a More Renewable Future,” Caribbean Business (Apr. 18, 2019), at <https://caribbeanbusiness.com/aes-ready-for-a-more-renewable-future/>. Executive Director Ortiz also referenced negotiations with AES during testimony at an April 9th U.S. House Natural Resources Committee hearing on PREPA.

⁶ “AES Ready for a More Renewable Future,” Caribbean Business (Apr. 18, 2019), at <https://caribbeanbusiness.com/aes-ready-for-a-more-renewable-future/>.

⁷ National is not taking a position on what fuel should be used by AES, but whatever fuel is used, appropriate and accurate IRP modeling is essential to the integrity of this proceeding.

⁸ See *PREPA's Informative Motion, Proposal Regarding Compliance Schedule, and Update Question*, Case No. CEPR-AP-2018-0001 (Apr. 17, 2019) (“PREPA Informative Motion”).

regarding whether it must model an economic retirement of the AES plant given that Act 17-2019 bars the use of coal fuel after 2028.⁹ In other words, PREPA raised AES in an attempt to do *less* modeling. Yet PREPA did not make any reference to the material new information about AES—which would likely require more modeling to account for retiring coal eight years earlier than the IRP presently assumes. PREPA did not, for example: (i) seek the Bureau’s direction about what changed or additional modeling may be necessary to account for these material changed assumptions; (ii) seek the Bureau’s direction about whether a conversion of AES (and associated plant downtime) is compatible with the IRP and the critical goal of a reliable energy system; or (iii) even inform the Bureau about these important developments. This omission is especially surprising when Executive Director Ortiz is reportedly in direct contact with AES executives and recently testified about those negotiations before Congress.

4. There can be no doubt that this new policy changes inherent assumptions in PREPA’s IRP. The Draft IRP repeatedly contemplates a full transition from coal in 2028—not 2020.¹⁰ For example:

- a. In discussing the “Future Generation Mix,” the Draft IRP assumed retirement of AES in 2028, with almost steady production from coal at approximately 4,000,000 MWh until a ramp-down in 2027. Draft IRP, § 8.2.4 and Exs. 8-10 and 8-11. Note also that the Draft IRP’s retirement of AES was not economic in nature, but rather was a fixed decision. *Id.*, §§ 8.2.3, 4.1.1.5 (“Based on discussions with PREPA, the base Scenarios of the IRP will not assume a renewal of the AES PPOA...”). That is because,

⁹ *Id.*, ¶ 5 (“Do PREPA [*sic*] still need to model the economic retirement, or is that now unnecessary?”).

¹⁰ Although the Bureau rejected the Draft IRP as noncompliant, PREPA has not indicated that it intends to account for these changed assumptions in its next draft. To the contrary, the PREPA Informative Motion elides the issue.

according to the Draft IRP, AES is an economical power generator. *See id.*, § 6.2.4 and Ex. 6-18 (depicting the lowest cost of energy for AES at all production factors over 60%); § 5.5.¹¹

- b. In discussing “Fuel Diversity,” the Draft IRP modeled a similar curve, with almost steady consumption of coal at 40,000,000 MMBtu until a ramp-down in 2027. *Id.*, § 8.2.5 and Ex. 8-12.
- c. In discussing “Capacity Requirements,” the Draft IRP again depicted retirement of the AES coal plant in 2028. *Id.*, § 8.2.3 and Ex. 8-9.
- d. In discussing “System Costs,” the Draft IRP noted that costs to supply power would increase with the retirement of the AES coal plant in 2028. *Id.*, § 8.2.7 and Ex. 8-17.

5. Retirement of the AES coal plant in 2028 was an integral fixed assumption in the Draft IRP. And when the Draft IRP allowed AES to economically retire in one sensitivity, it did not retire until even later (2038); what is more, PREPA’s overall portfolio costs in that sensitivity were \$275 million lower than with a 2028 fixed coal retirement assumption. Therefore, transitioning the AES coal plant to some other type of fuel in 2020 would materially affect the current IRP process and may also increase PREPA’s costs—and, in turn, the electricity rates paid by PREPA’s customers. AES has reportedly already estimated that customers’ bills could be as much as 20% higher during the transition period alone.¹²

¹¹ PREPA modeled a sensitivity where AES was instead allowed to economically retire. *Id.*, § 5.5. Under that sensitivity, PREPA’s overall portfolio costs were \$275 million lower than with a 2028 fixed retirement assumption—to say nothing of a 2020 coal retirement assumption, which was not modeled. *Id.*, § 8.2.12 (Sensitivity 3). The PREPA Informative Motion now seeks to abandon this sensitivity.

¹² If PREPA believes that burning another type of fuel at the AES plant would be economical, that hypothesis nonetheless must be subjected to complete and transparent IRP testing, rather than being blindly accepted.

6. There are at least two additional reasons why a fuel transition at the AES plant would be so impactful to the IRP. The first is simply that AES provides a huge portion of the electricity consumed on-island. The second is that any fuel conversion at the AES plant would carry its own new considerations, requiring a study of feasibility, costs, timing, and other impacts. For example, biomass generally involves a much larger volume of fuel to generate the same quantity of electricity, which would necessitate additional transportation, handling, and ash disposal capabilities (or else a capacity reduction). Plant modifications to the boiler, fuel handling, etc. would also impact the economics as an input to the IRP. Similarly, natural gas would likely require additional transportation and handling infrastructure, as well as boiler modification or replacement. Whatever the fuel, the IRP must be allowed to consider all relevant information.¹³

7. PREPA should have informed the Bureau of these material new assumptions regarding AES in its Informative Motion (at the latest). It did not. Instead, PREPA sought to abandon a sensitivity that illustrated the economics of the AES plant. National respectfully submits this Informative Motion to the Bureau so that these new assumptions can be appropriately modeled and the exact effects of fully transitioning from coal in 2020 can be fairly assessed by all stakeholders and the people of Puerto Rico—in other words, by those affected by any resulting rate increases. If PREPA does not model these material new assumptions, the next IRP submission will be facially inconsistent with the plans announced by the Governor and Executive Director Ortiz. This proceeding, which shapes Puerto Rico's energy future, cannot afford another such setback.

¹³ More specifically, fuel conversion of the AES plant would likely affect the IRP's production cost modeling, expansion planning modeling, and transmission system modeling. If the converted plant has higher operating costs, it may run less and therefore require a replacement generation source(s). Indeed, if the costs are sufficiently high, it could affect the entire generation mix selected by the LTCE model.

RESPECTFULLY SUBMITTED,

THIS 26th DAY OF APRIL, 2019

CERTIFICATE OF SERVICE: We hereby certify that on this same date a true and accurate copy of the foregoing motion was sent via electronic means to **Autoridad de Energía Eléctrica de Puerto Rico** to Nélida Ayala Jiménez, Esq., Nitza D. Vázquez Rodríguez, Esq. and Carlos M. Aquino Ramos, Esq. at n-ayala@aeep.com, n-vazquez@aeep.com, c-aquino@aeep.com; to the **Oficina Independiente de Protección al Consumidor**, to Coral M. Odior Rivera, Esq. and José Pérez Vélez, Esq. at codiot@oipc.gov, and jperez@oipc.gov; and to the **Oficina Estatal de Política Pública Energética** to Wilma I. López Mora at wilma.lopez@ace.pr.gov.

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