THE STATUS OF THE PUERTO RICO ELECTRIC POWER AUTHORITY (PREPA) RESTRUCTURING SUPPORT AGREEMENT

OVERSIGHT HEARING

BEFORE THE

SUBCOMMITTEE ON INDIAN, INSULAR AND ALASKA NATIVE AFFAIRS

OF THE

COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

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OVERSIGHT HEARING ON THE STATUS OF THE PUERTO RICO ELECTRIC POWER AUTHORITY (PREPA) RESTRUCTURING SUPPORT AGREEMENT

Wednesday, March 22, 2017
U.S. House of Representatives
Subcommittee on Indian, Insular and Alaska Native Affairs
Committee on Natural Resources
Washington, DC

The Subcommittee met, pursuant to notice, at 10:07 a.m., in room 1324, Longworth House Office Building, Hon. Doug LaMalfa [Chairman of the Subcommittee] presiding.

Present: Representatives LaMalfa, LaHood, Bergman, González-Colón, Bishop; Torres, Gallego, Soto, and Grijalva.

Also present: Representatives Serrano and Velazquez.

Mr. LAMALFA. Good morning. The Subcommittee on Indian, Insular and Alaska Native Affairs will come to order.

The Subcommittee's subject today, we are meeting to hear testimony on the status of the Puerto Rico Electric Power Authority (PREPA) Restructuring Support Agreement.

Under Committee Rule 4(f), any oral opening statements at hearings are limited to the Chairman, the Ranking Minority Member, and the Vice Chair. This will allow us to hear from our witnesses sooner, and help Members keep to their schedules. Therefore, I ask unanimous consent that all other Members' opening statements be made part of the hearing record if they are submitted to the Subcommittee Clerk by 5:00 p.m. today, or the close of the hearing, whichever comes first.

No objection, so ordered.

OK, I will now recognize myself for 5 minutes.

STATEMENT OF HON. DOUG LAMALFA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. LAMALFA. First of all, the current PREPA debt sits at approximately just under $9 billion. On July 1, a very important major bond payment of $455 million of combined principal and interest is due. According to figures released just yesterday by the Fiscal Agency and Financial Advisory Authority of Puerto Rico, PREPA will be completely out of cash on or around May 17, 2017.

In light of these alarming facts, it is incumbent upon this Subcommittee to drive a productive conversation here today. Our goal will be to inquire on where things stand in the current negotiations between the new Rosselló administration and the various creditor parties who have been working on finding a resolution.

The 3.4 million American citizens residing in Puerto Rico need assurance that there is a solution to this troubling issue, and that it is coming soon. Further delay will only result in further complications for the island's populace.

For context, PREPA for decades has put politics before basic, logical standards for operating an electric utility supplying the entire island grid. The structure within PREPA and a total lack of regard for operating in an efficient and consistent manner has led to severe financial and liquidity troubles, outdated and obsolete generation facilities, and crippling debt. PREPA is unable to access the capital markets and has been for some time now.

In order to get PREPA back on track and stabilize the power generation for the residents and the businesses of the island, serious decisions need to be made by leaders in the government of Puerto Rico, the Governing Board of PREPA, and the various creditor communities. The island cannot afford a delay any longer.

We look forward to hearing today from the Governor as to what his administration plans to do about PREPA's imperiled position, and upcoming debt payment deadlines. We will hear from the Oversight Board established by PROMESA on how they believe the pending Restructuring Support Agreement (RSA) will impact the island's future recovery. We will hear from the chairman of the PREPA Governing Board on the long and arduous process of negotiation that the government of Puerto Rico, PREPA, and its creditors undertook over the past 2 years to get an RSA to this point. And we will hear from individuals who represent various positions of the creditor and business community.

It is important to note that all witnesses mentioned have the same goals in mind: to come to an agreement on the debt resolution of PREPA and to help achieve viable energy generation for the island, going forward.

I thank the witnesses for appearing today before this Subcommittee, and for their travel. I look forward to having a productive and meaningful conversation with them and our Members.

[The prepared statement of Mr. LaMalfa follows:]

PREPARED STATEMENT OF THE HON. DOUG LAMALFA, CHAIRMAN, SUBCOMMITTEE ON INDIAN, INSULAR AND ALASKA NATIVE AFFAIRS

The current PREPA debt sits at roughly $8.9 billion. On July 1, a major bond payment of $455 million of combined principal and interest is due. According to figures released just yesterday morning by the Fiscal Agency and Financial Advisory Authority of Puerto Rico, PREPA will be completely out of cash on or around May 17, 2017.

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It is important to note, that all the witnesses mentioned have the same goals in mind, to come to an agreement on the debt resolution of PREPA and to help achieve viable energy generation for the island going forward.

I thank the witnesses for appearing before the Subcommittee today and I look forward to having a productive and meaningful conversation with them and our Members.

Mr. LAMALFA. At this point I would like to recognize our friend, the Ranking Minority Member, Mrs. Torres, for an opening statement.

STATEMENT OF THE HON. NORMA J. TORRES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mrs. TORRES. Thank you, Mr. Chairman. The passage of PROMESA was the first step to give Puerto Rico relief from their crippling debt. I voted in opposition to the bill because I didn't feel that it did enough, and I still believe that more forms of support are needed.

For the Puerto Rican economy to grow, their leadership must step up and make some tough decisions. Additionally, Congress must step up and assist the island further—in particular, with their healthcare costs, as well as with an additional mechanism to attract investment and jobs.

For these reasons I am eager to hear from our witnesses today about any progress under PROMESA, and specifically about the restructuring agreement for PREPA.

For some time now, PREPA has been in a state of crisis and unable to be a modern, world-class utility. PREPA's problems did not arise overnight, but were the result of management and other strategic decisions that were too often based on political or electoral considerations rather than their best practices, or best business practices.

In late December of 2015, PREPA reached an agreement with creditors holding or controlling approximately 70 percent of its debt. However, to date this agreement has not been finalized, and was recently extended to the 31st of this month. This agreement has not been met with universal support, and Puerto Rico's own governor, who is one of our witnesses today, will explain why he believes the agreement should be renegotiated to get a better deal with PREPA's creditors.

I am also looking forward to hearing from members of the Financial Oversight and Management Board of Puerto Rico, which unanimously voted last week to certify Puerto Rico Governor Rosselló's fiscal plan. The Oversight Board was a key component of the PROMESA legislation, and one that I am most concerned with.

As the bill was written, nothing—nothing—guaranteed that the board members would represent a diverse set of backgrounds or a diverse set of expertise. I felt strongly that the Oversight Board reflect the diverse interests of Puerto Rico and a long-term commitment to the Commonwealth.

This is because PROMESA gave significant power to the Oversight Board, and required the government of Puerto Rico to submit a 5-year fiscal plan to the Oversight Board. I, along with many of my colleagues, continue to be concerned that nothing in the fiscal plan will lead to economic growth, but could cause further contraction in the Puerto Rican economy.

Thank you to the witnesses for being here today, and I look forward to hearing from you on the best approaches to provide Puerto Rico with the tools it needs to prevent further dramatic depletion of their population.

[The prepared statement of Mrs. Torres follows:]

PREPARED STATEMENT OF THE HON. NORMA J. TORRES, RANKING MEMBER, SUBCOMMITTEE ON INDIAN, INSULAR AND ALASKA NATIVE AFFAIRS

Today's hearing is a very important one—it is the first hearing to evaluate any part of the Puerto Rico Oversight Management and Economic Stability Act, (PROMESA) since it was approved by Congress last June 30. The passage of PROMESA was a first step to give Puerto Rico relief from their crippling debt. However, I voted in opposition to the bill because I didn't feel that it did enough, and I still believe more forms of support are needed.

For the Puerto Rican economy to grow, Congress needs to step up and assist the island further, in particular with their healthcare cost as well as with an additional mechanism to attract investment and jobs.

For these reasons, I am eager to hear from our witnesses today about any progress under PROMESA, and specifically about the restructuring agreement for PREPA.

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I, along with many of my colleagues, continue to be concerned that nothing in the fiscal plan will lead to economic growth but could cause further contraction in the Puerto Rican economy.

Thank you to our witnesses for being here, and I look forward to hearing from you on the best approaches to provide Puerto Rico with the tools it needs to prevent further dramatic depletion of their population due to lack of jobs and crippling austerity measures.

Thank you, Mr. Chairman.

Mrs. TORRES. Mr. Chairman, thank you so much, and I ask for unanimous consent for Representatives Velazquez and Serrano to join us today.

Mr. LAMALFA. With no objection, so ordered.

The CHAIRMAN. Mr. Chairman? Mr. Serrano is here. Let's do the UC to him being allowed to be here and participate fully on this Committee.

Mr. LAMALFA. I am sorry?

The CHAIRMAN. Redo the UC. Mr. Serrano is the only one here. Allow him to be here, and recognized to be a full member of this Committee and participate.

Mrs. TORRES. Then I would ask for unanimous consent for Mr. Serrano to be allowed to be here.

The CHAIRMAN. Perfect.

Mr. LAMALFA. OK. So ordered. Thank you.

Now I would like to recognize our Vice Chair, Miss González, for an opening statement.

STATEMENT OF THE HON. JENNIFFER GONZÁLEZ-COLÓN, A DELEGATE IN CONGRESS FROM THE COMMONWEALTH OF PUERTO RICO

Miss GONZÁLEZ-COLÓN. Thank you, Mr. Chairman. As Puerto Rico's sole representative in this Congress, I want to thank you, Chairman Bishop and Chairman LaMalfa, Ranking Member Torres, and fellow members of this Committee for holding this hearing.

For the past year-and-a-half, Congress led, for the most part by this Committee, the most difficult part to confront this crisis. The result of the territorial system that is based on economic and political inequality of its citizens, a model that denies millions of American citizens the most basic right in a democracy—the right to vote and to equal representation, and treats hundreds of thousands of Puerto Rican veterans as equal in war but not in peace.

To that effect, the bipartisan PROMESA not only established a fiscal oversight board, but also created a bicameral and bipartisan task force of Members of Congress to make recommendations on the impediments to economic growth in Puerto Rico, including equitable access to Federal healthcare programs.

In its final report in December, the task force identified numerous programs where Puerto Rico's lack of equal treatment constrains the island's economic growth potential and provided specific recommendations for this Congress to consider. These recommendations included providing Puerto Rico with equitable and sustainable funding under the Medicaid program, as well as addressing the island's Obamacare-imposed Medicaid cliff early in calendar year 2017.

Mr. Chairman, I have already introduced legislation that will implement many of these recommendations, and I urge that the task force report serve as a road map for this Committee, moving forward. This will provide the island with much-needed tools to complement PROMESA and restore economic growth for our people.

Furthermore, the ongoing discussions regarding the replacement of Obamacare, the tax reform, and increased funding for infrastructure projects, among others, present Congress and the Trump administration with a golden opportunity to address decades of unequal treatment for Puerto Rico and the territories. More specifically, I request that this Committee support the ongoing efforts to ensure that Puerto Rico and the other U.S. territories are treated equally in the American Health Care Act, or any other upcoming Obamacare replacement legislation to be considered by this Congress.

I will also like for the Governor and the chairman of the Oversight Financial Board to comment on this issue during their respective turns.

Just last week the fiscal Oversight Board created under PROMESA approved Governor Ricardo Rosselló's fiscal plan, a plan that his administration was able to develop in just 58 days. I consider this to be a giant step in the right direction.

Now we are compelled to quickly shift our focus and engage in the good-faith negotiations that address the debt service, provide sufficient capital for PREPA's infrastructure investment, and set power rates that will not overburden Puerto Rican families and businesses.

What should be clear by now is that PROMESA objectives for Puerto Rico will not be achieved unless economic growth is restored to the island, and that securing an efficient and affordable production of electricity is critical to the island's vitality and needed economic recovery. That is the reason we are here today in this hearing.

I am optimistic that an agreement can be reached and achieved in the best interest of the people of Puerto Rico and our economy. Such an agreement could be set as a precedent for other negotiations to follow.

The government of Puerto Rico is taking the steps to repair Puerto Rico's credibility, trigger economic growth, and seek an end to the territorial status that is the root problem for Puerto Rico's economic crisis. Through the process of the island becoming the 51st State of the Union. Make no mistake about it. Puerto Rico's territorial status is the real problem, and the problem will not go away by ignoring it. Failure to address it will be like treating the symptoms of the very sick patient instead of the underlying disease.

I look forward to the testimony of our witnesses, and to hearing all sides in this very important discussion for the future of our beloved island.

Thank you, Mr. Chairman. I yield back.

Mr. LAMALFA. Thank you, Madam Vice Chair. At this point we will introduce our witness for the first panel. We are joined today, and thank you for your time and travel, by the Honorable Governor of Puerto Rico, Ricardo Rosselló.

You, of course, know the rules, 5 minutes of oral testimony. If you have an entire statement that you would like to have appear in the hearing that may be longer, you can please submit that, as well.

You will see that when you light the microphone, you will get a green light. After 4 minutes the yellow light, and then the red light will be the end of our current 5-minute round for your opening statement. So, you will need to press the talk button on that, and we will be ready to go.

Governor ROSSELLÓ. Good morning, Chairman Bishop, Chairman LaMalfa, Ranking Member Torres, Vice——

Mr. LAMALFA. Hold on. I am sorry, Governor. Please hold on for a moment.

I recognize our Ranking Member for a moment.

Mrs. TORRES. I apologize, Mr. Chairman and Governor. I would like to request unanimous consent to allow Ms. Velazquez to sit and participate at the hearing today.

Mr. LAMALFA. Seeing no objection, so ordered.

All right, Governor. I re-recognize the witness, Governor Rosselló.

STATEMENT OF THE HON. RICARDO ROSSELLÓ, GOVERNOR OF PUERTO RICO, SAN JUAN, PUERTO RICO, ACCOMPANIED BY GERARDO PORTELA-FRANCO, EXECUTIVE DIRECTOR, PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY

Governor ROSSELLÓ. Well, once again, good morning, Chairman Bishop, Chairman LaMalfa, Ranking Member Torres, Vice Chairman Jenniffer González, and other members of the Subcommittee. Thank you for the opportunity to appear today before the Subcommittee to discuss issues related to Puerto Rico's energy infrastructure and financial restructuring.

I understand the Subcommittee is interested specifically in the ongoing restructuring of the Puerto Rico Power Authority, or PREPA. Before addressing the specifics of the PREPA restructuring, it is important to recognize the critical need to transform the energy infrastructure of the island. Puerto Rico needs a reliable, cost-effective, and efficient electrical system, as well as an effective program of conservation and maximization of its water resources in order to support the island's socio-economic transformation.

My vision for PREPA is one that involves a modern and resilient transmission and distribution system with diverse sources of fuel including renewables, and supported by private capital to invest in a new and efficient generating capacity. The goal is to be able to deliver reliable energy at sustainable rates to the people and businesses of Puerto Rico. That vision includes a successful restructuring of PREPA.

I also note that in the past PREPA was frequently cited as an example of governmental dysfunction, where political considerations over-rode true economic goals. In that regard, it is my view that the restructuring of PREPA must incorporate a governance model that facilitates investor and consumer confidence and minimizes political interference.

At the same time, PREPA's governance cannot be disconnected from the overall energy policy of the island. In my view, the appropriate governance structure is one that takes into account the concerns of all stakeholders.

Unfortunately, PREPA's challenges, including its aging infrastructure and significant debt burden, have resulted in inefficiencies and rising costs, which have, in turn, caused Puerto Rico residents and businesses to endure high electricity costs.

Today, we pay substantially more for electricity than do residents of the continental United States, and this in an economy where the median family income is approximately 33 percent of that in the

United States. The high electricity costs negatively impact both the ability of Puerto Rico to attract capital and to compete in the global economy. This situation is not sustainable for our residents or for our economy.

Since I took office, my team has worked diligently to assess both the long-standing and fundamental operational changes facing PREPA, and the proposed transactions set forth in the Restructuring Support Agreement, or RSA, that was negotiated by the prior administration with significant creditor constituencies. While we recognize and appreciate the efforts of many parties put into the RSA, and understand that it provides a useful framework for discussion, my administration believes that any consensual restructuring requires modifications to the terms set forth in the RSA.

Without providing an exhaustive list, our concerns include: (1) the impact of the transition charge on the Puerto Rican ratepayer; (2) the effect the transaction may have on the capital and liquidity available to PREPA to complete its operational transactions; (3) the failure of certain creditor groups to provide significant concessions; (4) the reality that the RSA does not provide for sufficient capital to close the transaction; and last (5) that in the current conditions, the RSA would not be sustainable for the bondholders.

After the RSA was signed in December of 2015, Congress, aided by this Subcommittee, passed PROMESA, which was signed into law by the President on June 30, 2016. It is noteworthy that Congress specifically stated in the very last provision of PROMESA that it was its sense that "any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital . . .". I do share that belief.

A critical part of PROMESA's effectiveness stems from the creation and certification of a fiscal plan. After much work, collaboration, and thoughtful exchange, the Oversight Board certification of our plan on March 13 represented an important first step in moving forward with Puerto Rico's good faith negotiations with its creditors and stakeholders. Our plan was validated because we had the opportunity to elaborate it, give it careful consideration to both our fiscal objectives and the best interests of the people of Puerto Rico.

Efforts now turn to consensual agreements under the Title VI process to avert potentially costly and litigious bankruptcy-type proceedings under Title III. My administration fully supports and is pursuing these types of consensual agreements as the most productive path for Puerto Rico to emerge from its current fiscal and economic crisis as quickly as possible. I recognize that certain PREPA constituents would prefer that we simply accept the deal in the RSA without review or modification. But these constituents must recognize that PREPA's restructuring does not exist in isolation. PREPA's restructuring is an important component of Puerto Rico's overall restructuring efforts, and central to Puerto Rico being able to meet its overall fiscal plan.

As a result, any RSA or any other transaction with constituents must provide and allow for not only an acceptable financial restructuring, but also must lead to a transformed, rationalized, and operationally improved PREPA. Our objective here would be to offer broad economic upside based on utility efficiencies, a sustainable, affordable rate structure, public-private infrastructure investment, and reliable energy for Puerto Rican consumers.

I believe it would be irresponsible to simply accept the terms of a financial restructuring without fully understanding the path it provides for PREPA to improve its operations, increase its reliability, diversify, and access new capital. Our analysis of PREPA's operations and the interplay with the RSA is ongoing, and we continue to focus on potential modifications to the RSA that would recognize the interests of the Puerto Rican ratepayer, as well as creditors and other constituents.

I am committed to continuing this hard work toward meaningful restructuring in order to transform PREPA into a modern utility that will support the people of Puerto Rico and a strong and growing Puerto Rican economy. We were able to achieve what many thought was impossible: a fiscal plan that was comprehensive, that was thoughtful, and addressed fiscal and economic concerns and the well-being of the people of Puerto Rico. Now we aim to do the same with this RSA.

Thank you again for the opportunity to discuss these issues.

[The prepared statement of Governor Rosselló follows:]

PREPARED STATEMENT OF THE HON. RICARDO ANTONIO ROSSELLÓ NEVARES, GOVERNOR OF PUERTO RICO

Chairman Bishop, Chairman LaMalfa, Ranking Member Torres, Vice-Chairman Jenniffer González and members of the Subcommittee: thank you for the opportunity to discuss issues related to Puerto Rico's energy infrastructure and financial restructuring. My tenure as Governor of Puerto Rico began less than 3 months ago, on January 2, 2017. Despite having only been in office for a limited time, I have come to truly appreciate how crucial the work before this Committee and the U.S. Congress is to the economy of Puerto Rico and, most importantly, to the welfare of the citizens of Puerto Rico.

I understand the Subcommittee is interested specifically in the ongoing restructuring of the Puerto Rico Power Authority or "PREPA." Before addressing the specifics of the PREPA restructuring, it is important to recognize the critical need to transform the energy infrastructure in Puerto Rico. Puerto Rico needs a reliable, cost-effective and efficient electrical system, as well as an effective program of conservation and maximization of its water resource in order to support the island's socio-economic transformation.

ISSUES WITH PREPA

Unfortunately, Puerto Rico does not currently have an energy and water service system suited to its current needs. Without changes, PREPA and the other corporations that render these essential services will stagnate and be unable to grow.

PREPA's operations are negatively impacted by the age of its generating assets and the lack of capital to make the investments necessary to assure reliable service. PREPA's median plant age is more than 25 years older than the U.S. industry average. Without significant investment, PREPA cannot meet the applicable environmental standards. The problems with PREPA's infrastructure result in a high number of forced outages, poor efficiency within the system, a lack of reliability with the system and high costs. PREPA also owes over $9 billion to its creditors and operates under serious liquidity constraints.

This all translates into high electric rates. Today Puerto Ricans pay substantially more for electricity than do residents in the continental United States, and this in an economy where the median family income is approximately 33 percent of that in the United States. The high electricity costs negatively impacts both the ability of Puerto Rico to attract capital and to compete in a global economy. This situation is not sustainable for residents or for the Puerto Rican economy.

VISION FOR THE FUTURE

My vision for PREPA is one that involves a modern and resilient transmission and distribution system with diverse sources of fuel including renewables and supported by private capital to invest in new and efficient generating capacity. The goal is to be able to deliver reliable energy at sustainable rates to the people and businesses of Puerto Rico. That vision includes a successful restructuring of PREPA.

My specific plan for PREPA involves attracting private capital to develop new infrastructure, the use of clean fuel combined cycle technology to increase the dispatch of gas to the south coast, and the development of renewables and other cost-effective energy solutions including hydro-electric assets. We are also evaluating the viability of the Aguirre Gas Port.

I also note that in the past, PREPA was frequently cited as an example of governmental dysfunction where political considerations over-rode true economic goals. In that regard, it is my view that the restructuring of PREPA must incorporate a governance model that facilitates investor and consumer confidence and minimizes political interference. At the same time, PREPA's governance cannot be disconnected from the overall energy policy of the island. In my view, the appropriate governance structure is one takes into account the concerns of all stakeholders.

THE RESTRUCTURING SUPPORT AGREEMENT

Since I took office, my team has worked diligently to assess both the longstanding and fundamental operational challenges facing PREPA and the proposed transaction set forth in the Restructuring Support Agreement or RSA that was negotiated by the prior administration with significant creditor constituencies. While we recognize and appreciate the efforts that many parties put into the RSA and understand that it provides a useful framework for discussion, my administration believes that any consensual restructuring requires modifications to the terms set forth in the RSA. Without providing an exhaustive list, our concerns include the impact of the transition charge on Puerto Rican ratepayers, the affect the transaction may have on the capital and liquidity available to PREPA to complete its operational transition, the failure of certain creditor groups to provide significant concessions, and the reality that the RSA does not provide for sufficient capital to close the transaction. I also note that there are material conditions beyond the control of the RSA parties such as the completion of the validation proceedings and the requirement of an investment grade rating that have not been achieved.

After the RSA was signed in December of 2015, Congress, aided tremendously by this Subcommittee, passed PROMESA, which was signed into law by the President on June 30, 2016. It is noteworthy that Congress specifically stated in the very last provision of PROMESA that it was its sense that "any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital . . .". I share that belief.

Congress through PROMESA has provided Puerto Rico the tools necessary to achieve the fiscal and economic reforms needed to restore Puerto Rico's standing in the financial markets which will aid in its recovery. Indeed, the Oversight Board's certification of Puerto Rico's fiscal plan on March 13 represented an important first step in moving forward with Puerto Rico's good faith negotiations with its creditors and stakeholders with the intent and desire to achieve consensual agreements under the Title VI process and avert a potentially costly and litigious bankruptcy-type proceeding under Title III. My administration fully supports and is pursuing these types of consensual agreements as the most productive path to Puerto Rico emerging from its current fiscal and economic crisis as quickly and expeditiously as possible.

With regard to PREPA specifically, the RSA remains in place at least through its current termination date of March 31, 2017. We intend to request an extension of that date from the RSA parties to allow for continued discussions at least through the expiration of the PROMESA stay. We are also looking forward to receiving the feedback of the Oversight Board on the PREPA fiscal plan so that we can proceed to certification of that plan.

CONCLUSION

I recognize that certain PREPA constituents would prefer that we simply accept the deal in the RSA without review or modification. But, these constituents must recognize that PREPA's restructuring does not exist in isolation. PREPA's restructuring is an important component of Puerto Rico's overall restructuring efforts and central to Puerto Rico being to meet its overall fiscal plan. As a result, any RSA or other transaction with constituents must provide and allow for not only an acceptable financial restructuring but also must lead to a transformed, rationalized and operationally improved PREPA offering broad economic upside based on utility efficiencies, a sustainable and affordable rate structure, public-private infrastructure investment and reliable energy for Puerto Rican consumers.

I believe it would be irresponsible to simply accept the terms of any financial restructuring without fully understanding the path it provides for PREPA to improve its operations, increase its reliability, diversify and access new capital. Our analysis of PREPA's operations and the interplay with the RSA is ongoing and we continue to focus on potential modifications to the RSA that would recognize the interests of Puerto Rican ratepayers as well as creditors and other constituents. I am committed to continuing this hard work toward a meaningful restructuring in order to transform PREPA into a modern utility that will support the people of Puerto Rico and a strong and growing Puerto Rico economy.

Thank you again for the opportunity to discuss these issues.

Mr. LAMALFA. Governor, thank you for your opening testimony. And again, we will remind the Members that Committee Rule 3(d) imposes a 5-minute limit on questions for our Committee members, as well.

So, the Chairman will recognize Members for any questions they may have. I will recognize myself first.

Thank you again, Governor, for your presence today.

Governor ROSSELLÓ. Thank you, Chairman.

Mr. LAMALFA. I will launch right into it here with—yesterday's news was that, Governor, your administration released a proposal to address the PREPA debt situation. Has this proposal been provided directly to the creditors involved, where we have had an ongoing negotiation agreement, et cetera? Have they been made fully aware of the provisions of the proposal?

Governor ROSSELLÓ. As you know, there are several stakeholders involved in this proposal, and our team has engaged with many of them. Some of them, the meetings have not been able to be set up; but it is my understanding that we are continuing to pursue those meetings so that full information, a full disclosure, a conversation can ensue, and it is my understanding that tomorrow some of these negotiations will ensue, as well.

Mr. LAMALFA. At this point they don't have the details on the proposal by administration yet?

Governor ROSSELLÓ. It is my understanding that they all do.

Mr. LAMALFA. Pardon me?

Governor ROSSELLÓ. All of the uninsured bondholders have it.

Mr. LAMALFA. All right. Again, there has been some delay in the process. I understand that you are new to the position there, and I appreciate that, being sworn in and getting started. But indeed, with the situation, there is not a lot of extra time for the island.

So, do you believe that it has been worth delay and the time and the risk to implementation of the previous plan? Is this really bringing confidence for those folks that you must negotiate with?

Governor ROSSELLÓ. Well, if it is a non-sustainable plan, we feel that it is opportune for us to have a conversation. As you well alluded to, Chairman, I have been in office for 78 days; and it has been my effort to design a fiscal oversight plan for Puerto Rico that includes all of these components.

As you all know, the original RSA was proposed in December 2015. We all know that a lot of things have changed since then. This Committee was fundamental in pushing forward the

PROMESA Act that essentially changed the paradigm of governance in Puerto Rico. And it does affect and change the negotiations.

So, in our view, we understand that there has been a lot of time, a lot of discussion previous to our administration. What I can assure you is that we are fully committed to having these discussions, these conversations, so that we can actually have a plan that provides affordable rates for the people of Puerto Rico and the businesses of Puerto Rico, that allows for economic growth to ensue in Puerto Rico that actually is sustainable——

Mr. LAMALFA. Pardon me, Governor, timewise here—if PREPA is pushed to go into litigation because it would be required to under PROMESA, a Title III process, do you expect that outcome would be better for Puerto Rico, if indeed it was mired in litigation?

Governor ROSSELLÓ. No. As I stated in my opening statement, I champion and I value consensual renegotiation efforts. Now, that does not take a back seat to making thoughtful, careful analysis of the evidence that is out there. And what we are asking all of the bondholders and all of the stakeholders is for us to have an opportunity to evaluate, as we did the fiscal oversight plan, have some meaningful conversations, see what the baseline, what the reality of Puerto Rico is, and then come to a better agreement that allows for economic growth, sustainable rates in Puerto Rico, and again, a sustainable path forward.

The RSA cannot be looked upon as something in isolation. It is not independent. As soon as the President signed into law the PROMESA bill on June 30, 2016, it gave the governor of Puerto Rico and its government the responsibility of making sure we had a strategy of the whole of government. And that includes PREPA.

So, with our view, and our efforts in the fiscal plan, we cannot just separate PREPA from the whole of government that is involved in Puerto Rico.

Mr. LAMALFA. OK. Well, again, recognizing there is a time crunch involved in coming to this, and much negotiation and good-faith agreement has been put in place, this Committee, I think, is going to see much urgency in coming to this, because we are going to be in a problem.

With that, I will end my time here and recognize our Ranking Member, Mrs. Torres, for 5 minutes.

Mrs. TORRES. Thank you, Mr. Chairman. Governor, welcome to our Committee, and congratulations.

Governor ROSSELLÓ. Thank you.

Mrs. TORRES. I think that you have a very unique perspective, and a great opportunity given to you, where you don't have to own the past, but you have the unique experience of having been on the sidelines and having seen it from a very intimate way on how your father governed. So, congratulations also on your efforts to address Puerto Rico's debt crisis.

Governor ROSSELLÓ. Thank you.

Mrs. TORRES. We expect much from you. The number of young working-age people that are leaving the island is alarming. Every single day, more and more of the young people come to the mainland. They, frankly, do not see a future for themselves on the island. Work is scarce, and rents are very high, and certainly utilities are very high.

How are you planning to address and incorporate these young people's needs into your plan for growth in Puerto Rico?

Governor ROSSELLÓ. Right, it is a great concern for us. Thank you for your comments, Ranking Member. It is a great concern and a priority for our administration to see how we can tackle the massive exodus and diaspora that we have in Puerto Rico.

Of course, the exodus is an effect of certain actions that have been taken and that are occurring in Puerto Rico: a dwindling economy, problems in the healthcare system, a bureaucratic educational system that does not provide access, a best access, to the tools for our kids, and security concerns have been the driving force to having most of our young professionals leave Puerto Rico.

So, what we have done is we have not totally proposed, but we have taken action. Since we have taken office, we have already converted into law 16 bills, most of them that go into the direction of fixing the fiscal problem in Puerto Rico and addressing the economic limitations that we have. But we are also committed to seeing other drivers, and how we can fix them so that we can make the quality of life for the people of Puerto Rico appropriate so they can stay.

We are working, for example, on a healthcare model that will reduce costs, but that will actually give more access to the people of Puerto Rico, that will empower the people of Puerto Rico.

Mrs. TORRES. In your statement, sir, you also mention your plan for PREPA, that it involves attracting private capital for the purpose of developing new infrastructure using clean fuel, renewables, and other cost-effective energy solutions, such as hydro-electric assets. What is your outlook to make Puerto Rico less dependent on imported oil?

Governor ROSSELLÓ. It is a priority. And we have stated—I have for the Committee—and will submit what our strategy and our platform are; it is a detailed strategy and platform. And we have the fiscal plan, as well, and they include different strategies so that we can push that forward.

Specifically, we are looking forward to having Puerto Rico be at least 15 to 20 percent in renewables. We are looking for a transition into gas. We are looking for infrastructure that can be generated through the private sector in collaboration with the government, using P3 models. We have made various law changes that will facilitate this effort, and understanding the time it takes to create novel infrastructure, we really want to get going, as soon as possible.

Just a couple of weeks ago—well, about a week ago—there was a new Director of PREPA that was installed, and he is already making some of the critical changes in management, and he is already establishing the public policy and the discussions with stakeholders, so that we can have that path forward toward a less dependant energy—oil dependency.

Mrs. TORRES. One last thing I would like to say to you, Governor, is, having come from California, when I was first elected we had a $30 billion deficit that we have to deal with. Decisions that you have to make are not easy. Decisions that the government has to make are not easy. But I would caution that making those decisions on the backs of your public employees is not the best recipe for restructuring your debt. So, please revisit that and think of your public employees as an asset to your community.

Governor ROSSELLÓ. Well, if I may add, our fiscal plan is specifically directed to addressing that concern. We are committed to not only not having to have lay-offs, but also we don't have to reduce the time that the employees are actually working.

It is a commitment. What we are doing is an operational shift. Puerto Rico, right now, has 131 agencies. That is way too much. We have a plan developed so that we can, in the next 4 or 5 years, start reducing that to a structure that is more akin to 30 to 35 agencies, without having to impact public employees.

How do we do this? We have a new P3 law that will enable collaboration with the private sector. We have government as a single employer law that will allow us to put public employees in the areas where they can most serve our people. So, it is part of our commitment, and I take that advice to heart.

Miss GONZÁLEZ-COLÓN [presiding]. Thank you, Ranking Member Torres. Now I will defer to the Chairman of the Full Committee, Mr. Bishop, for your turn.

The CHAIRMAN. I will go last.

Miss GONZÁLEZ-COLÓN. OK. Thank you, Mr. Chairman. Then I will recognize myself for my 5 minutes. Chairman, I have never expected to be presiding on this hearing, and be interviewing and making questions to my governor. It is quite an honor to be here to do that.

Governor ROSSELLÓ. The honor is mine.

Miss GONZÁLEZ-COLÓN. I welcome Secretary of State, Luis Rivera Marin, and leaders from our island, legislators, and other officials.

Governor, what provisions in the agreement give you the most pause here?

Governor ROSSELLÓ. Well, there are several concerns. Of course, as I said, our higher-level vision is to have a sustainable path that can have stable rates for Puerto Rico, and that could push forward our economy, that it is a vision that is encompassed in our holistic view of the fiscal situation in Puerto Rico, and the powers that the PROMESA bill has dictated to our government to enact change in a holistic view in government. So, that is one of the elements that preside over all of the concerns that we are viewing.

There are several components that we understand. Number one, there is a new paradigm. After the signing of the PROMESA bill and it turns into law, it is a different set of circumstances that need to be generated over here.

Number two, our team is concerned that the impact on rates might not be sustainable, and that will have a negative impact overall in the structure of the RSA, pushing forward.

We also see that there is a lack of concessions from certain creditor groups that we feel need to sit down at the table and see how we can get to a common-sense agreement that is actually sustainable.

There has been concern over the continuing validating proceedings, as well, because—some point to the July 1 deadline, but the reality is, with the continuous proceedings, this agreement is not going to be signed before then, anyway. So, it is sort of a—it is not relevant to that discussion.

So, those are some of the concerns. And again, Vice Chairwoman, what we want to do is have the opportunity to sit down—our team has done so, and we are willing to do it again—and look for the best, most rational solution to this problem to see how all stakeholders have to participate, and that we can establish a long-standing, sustainable path for Puerto Rico growth.

Miss GONZÁLEZ-COLÓN. How much time you are looking forward to do those negotiations and sit and look for that plan?

Governor ROSSELLÓ. Well, certainly it is hard to tell. But, obviously, we are all aware of the time crunch. Our team is aware of the limitations, of the deadlines, but we are still pursuing them aggressively. I think it is in everybody's interest in these negotiations for us to have actual time to discuss what the important issues are.

And I will give you an example. With the fiscal oversight plan that was certified, we asked for an extension. And now, history has showed that that extension was probably the difference between having our democratically-elected government put forth a plan that was certified, viable, realistic, versus having no chance at all to submit a plan.

So, essentially, what we are asking is the same opportunity here. Let's sit down at the table, let's look at the opportunities, let's see what is the best path forward for all of the stakeholders involved over here, but let's always consider that this is an important effort, so that the people of Puerto Rico, the businesses of Puerto Rico, can enjoy sustainable rates.

My view is the following: Let's not go over something that is not very well constructed, that is probably not sustainable, and that will put us in these chairs again in a couple of years. Let's do it, let's fix it once, and let's fix it right.

Miss GONZÁLEZ-COLÓN. Governor, you know that the date would be March 31?

Governor ROSSELLÓ. Yes.

Miss GONZÁLEZ-COLÓN. When do you understand any agreement could be reached, in your own view? Months? Weeks? How many? How much longer?

Governor ROSSELLÓ. If the Chair allows, I would like our Director of AAFAF to answer that question.

Miss GONZÁLEZ-COLÓN. I would like him to identify himself for the record.

Mr. PORTELA-FRANCO. Good morning. My name is Gerardo Portela, Executive Director of AAFAF. We are currently negotiating with PREPA bondholders. We expect to resolve as quickly as possible this RSA. We are aware of the deadline, so we need to step to the table and talk to not only uninsured bondholders, but also monolines and the fuel line—PREPA.

Miss GONZÁLEZ-COLÓN. Thank you. Right now my time is finished, so I recognize Mr. Soto.

Mr. SOTO. Thank you, Chairwoman.

Governor, bien venidos, welcome. We appreciate you being here today.

Governor ROSSELLÓ. Thank you.

Mr. SOTO. As you know, I come from Central Florida. Our areas are strongly linked, both culturally and economically, and a lot of those young people we want to make sure to have opportunities in

Puerto Rico are landing in our district. And while we welcome them, we understand it is at the detriment of the island. So, we need to work together.

PROMESA addressed the debt process, but it failed to address any economic stimulus. And our long-term goal, I think, is united, in that we need long-term economic prosperity for the island of Puerto Rico. And I believe we cannot get there through austerity alone.

I want to applaud you, Governor, for your success in negotiating to avoid job cuts. That was a huge win, and an early one. Obviously, we remain concerned, all of us, about furloughs and pension cuts that I know you are continuing to negotiate. And I want to encourage my fellow peers on the Committee to consider other relief, whether it be Medicaid and Medicare parity, whether it be applying the earned income tax credit or the child tax credit to the first and second child—since it only applies to the third—and beyond, as well as access to SBA and Ag. loans. I think the solution lies in the success of the Puerto Rican people, not austerity alone.

Turning to PREPA, it appears that the average kilowatt hours, 18.88 cents in Puerto Rico, while it is an average of 12.75 cents per kilowatt hour across our Nation. And knowing that energy is the life blood of any economy, what would the economic outcome be of the current plan, if it was implemented, Governor?

Governor ROSSELLÓ. Well, if it is implemented without—one of the critical aspects of this whole negotiation is that there needs to be an operational change linked to whatever the financial change is. We cannot just look upon making some financial changes and leaving our old infrastructure as is. This is one of our critical concerns.

We want to establish sort of a path forward, where the financial renegotiation is also linked to establishing a modern infrastructure, collaboration with the private sector. So, those are our critical components. If we don't embark in that view—and our team's view is that it is filled with obstacles, the path forward, unless we have a credible and established plan to do so.

The rates are going to go high. They are going to get higher, and this impacts the average citizen of Puerto Rico, but it also impacts growth. It impacts our industry. It will provoke more exodus of Puerto Ricans, and it will provoke more exodus of industry in Puerto Rico, which will reduce the overall rates that are being generated, the overall monies that are being generated from PREPA, which would make the agreement unsustainable.

So, this is our concern. What we want to make sure is that whatever plan is established needs to have the operational component, so that we can modernize the infrastructure, as well.

Mr. SOTO. Has the administration done any economic analysis to show what decline in domestic product you would have on the island per any increase, or beyond that, so that we could get an idea of, as this stranglehold comes down with higher energy prices, what is the corresponding decline in economic output for the island, making this even a bigger problem then?

Governor ROSSELLÓ. Right. Our new executive director just got into PREPA, and he is putting together the team. They are working fast and diligently so that we can have these assessments.

However, it is a clear obstacle to growth. It is a clear obstacle to quality of life. If you cannot pay your energy bills in Puerto Rico, it becomes harder to have a good quality of life. And people tend to point to that as one of the reasons that they leave, as well. If you have an unsustainable and unpredictable price or rate increases in Puerto Rico, it hampers industry, it hampers confidence for new industries to come in Puerto Rico.

Now, connecting that to your first statement, we have already taken steps in Puerto Rico so that we can make a pro-growth push. We have established certain models, such as the destination marketing organization for Puerto Rico, labor reform, we have a permits reform that will be enacted probably next week. We have a comprehensive taxing reform that we are looking at. But that is just part of the equation.

There is—and I thank you for soliciting the aid of your fellow colleagues—there is another part that needs to come from Congress now. Different from the past, somebody would sit here and probably say, "Give me more, give me more, give me more." We are here, as a government, showing that we are doing our part, that we are pushing forward an agenda, that we really want to make change, that we really want to focus on governance, that we want to reduce and take charge for that responsibility of reducing cost in government and pushing forward the economy.

But that, in and of itself, will limit us. If the Congress can see that equal treatment, collaboration, and certain efforts be part of our holistic strategy, this will certainly help Puerto Rico push forward with a common-sense approach, with a committed government, and transparency efforts for its——

Miss GONZÁLEZ-COLÓN. Thank you, Governor. Thank you, Mr. Soto. Now we are having Mr. LaHood from Illinois.

Mr. LAHOOD. Thank you, Madam Chair, and thank you, Governor, for being here today, for your testimony.

Last year, when we passed PROMESA and debated that in this Committee, and there was a lot of work and effort and commitment that went into that legislation, and I think a lot of us thought, because of all that, we passed that and would not be hearing from you, and would not be dealing with this issue coming into 2017. But here we are.

And in listening to you today, Governor, and this proposed financing deal, maybe walk me through. If this deal fails, what are the short- and long-term ramifications for the island?

Governor ROSSELLÓ. Well, of course, our aim is for this deal to be successful. Of course, PROMESA has some provisions that include Title III restructuring-like efforts. If a deal is not able to be executed, then those provisions, not only for PREPA but for other components of the government, would be executed.

Now, it has been my strong view and our public policy that we want to engage in consensual renegotiation efforts. So, what we are asking is for that opportunity. Don't ask us to rubber-stamp a deal that we have not had ample time to discuss, that we have not seen what the ramifications are, that we are concerned that it is not even going to be sustainable for the bondholders, let alone for the ratepayer in Puerto Rico. Let's sit down, see what the data is, and then let's come up with a common-sense solution.

We have done it in the past. I mean this Committee did it in the past, passing PROMESA, which I know was a challenge. We have done it a couple of weeks back, when we passed a fiscal oversight plan for Puerto Rico, which was a challenge, as well. I feel we can do the same. What I am asking is for us to have the opportunity for our team to sit at the same table, to talk with the available evidence, with the data, and see what the best path forward is for Puerto Rico and mitigate some of the concerns that we have on this deal.

Mr. LAHOOD. There was a *Wall Street Journal* article on the Puerto Rico crisis—I think it was from January 23—that talked about some of the consequences of Puerto Rico not being able to renew contracts with healthcare providers without the financial relief. Can you give me a status on that?

Governor ROSSELLÓ. Yes, it is a critical component for this effort. We are actually asking for Puerto Rico to have the same consideration, and I commend the Vice Chairwoman's leadership on this effort for Puerto Rico to get an extension, as well, for the Medicaid and Medicare funds. And here is why.

In order for us to have the appropriate renegotiation or negotiation tools, we need to have the funding accessible to us now. We are making certain efforts so that we can reduce costs in our healthcare system. I can let you know that we have already proposed to reduce administrative fees as part of our plan. We have capped our per-member per-month as a strategy for a novel plan that will empower the citizen and the patient to have more of an effect. We are financing our own efforts to detect fraud. And here we feel there are vast areas of opportunities. And we are rationalizing what the system offers, so that we do not have overages and uses.

So, we are putting our part. We see that in the first year we can have $300 million in reductions in the healthcare system. And, with the novel plan that we are proposing, which we think would be a model to follow in the United States, as well, we can see an additional $500 million without affecting the access of health care to the people.

So, what I am stating over here right now is we are putting our part. We have a strategy. Stakeholders, everybody in Puerto Rico, is sharing in part of this decision making, is sharing in part of the actions that are being taken. I feel that Congress really needs to act in the next coming weeks, particularly in the continuous resolution, so that Puerto Rico can have the space to negotiate those contracts.

Mr. LAHOOD. And, Governor, in that same article that I referenced earlier, there is a statement in here that Puerto Rico currently owes $17 billion in sales tax bonds and another $13 billion in general obligation bonds. Since this January article, has that increased? And is that the highest obligation that Puerto Rico has ever had?

Governor ROSSELLÓ. It has not increased, and I believe it is the highest. But it has not increased.

Mr. LAHOOD. OK. And that is the highest in the history of the island, correct, where it is at right now?

Governor ROSSELLÓ. Well, if you see the path of the debt, it has been progressive, right? So, it has been higher. But I will defer to our fiscal agent to respond to that.

Mr. PORTELA-FRANCO. Good morning. Yes, between GOs and COFINAs, it is around $30 billion. There have not been any issuances since the last one. In 2014, there was a GO issuance. So, it is $30 billion right now, it has not increased.

Mr. LAHOOD. Thank you. Thank you, Chair.

Miss GONZÁLEZ-COLÓN. Thank you, Mr. LaHood. Now we recognize our Ranking Member, Mr. Grijalva.

Mr. GRIJALVA. Thank you very much, Madam Chair, and welcome, Governor. Glad you are with us.

Governor ROSSELLÓ. Thank you, Mr. Grijalva.

Mr. GRIJALVA. Before he left office, your predecessor submitted a fiscal plan to the Oversight Board, which they rejected. They called it unrealistic, and particularly unrealistic in its reliance on Federal assistance, which they said was uncertain. And given the whole Medicaid discussion and debate we are having about health care in this country and what happens to Obamacare, I would say that they were pretty accurate about that uncertainty, in terms of not only extending the program, but the number of people that would be covered by that program. And I understand the reimbursement issue that has been unfair from the beginning for Puerto Rico.

They initially, if I believe correctly—you could correct me, Governor—rejected your fiscal plan. Then, on March 13 of this year, they certified your amended plan. The plan, as I understand it, includes eliminated subsidies to municipalities and University of Puerto Rico and non-profit entities. It also reduces government spending by $300 million, which was mentioned, in health spending. And it deals with some reductions in pensions, between $2,500 to $10,000 monthly payments, and the privatization of certain government entities and functions within Puerto Rico.

Given all that, and the fact that, as you have indicated in your testimony, more needs to be done in terms of coming to a final agreement to lessen the pain on the citizens of this country and Puerto Rico, essentially to move forward, what are we talking about here, Governor? Are we talking about an additional period of time in order to continue to work on the details of a fiscal plan, going forward? Or is it a question of additional time now for negotiations and collaboration, as you stated?

Or in order to reach a level—I mean you proposed so much reductions, the Oversight Board proposes another set of reductions. Are we looking for a middle ground between those two points? If I may, thank you.

Governor ROSSELLÓ. Yes. So there are two issues over here, right? There is the RSA component, and then there is a fiscal oversight plan. Let me state that the board never rejected our proposal, they just established a letter with some of the concerns that they had. That allowed us to have the opportunity to sit down, our team to sit down and look for, to share numbers, have a discussion.

And what I can assure you is that the policy implemented in our plan is essentially intact, the previous version and the modified version. What we did make some changes to was in terms of some of the underlying economic projections. So, everything that we proposed—and I brought the two versions of our copy, we brought our proposal that has been established, it is written in English as well, so that you can see the policy, and we have the two versions of the fiscal plan, as well, so that they can be worked on. So, in terms of the fiscal plan, it is certified, we are working on it, we are pushing forward. And, we did so without having to eliminate access to health care. We did so with the opportunity to better our education system. We did so by guaranteeing that the reductions and the right-sizing of government did not affect our workers, and we did so with establishing a path for the reduction, in terms of the pensions, to be progressive so that those that have the least would not be affected.

Now, what we are discussing here today is the opportunity to essentially do the same with the RSA, to sit down, to see all of the data, to see what the new paradigm is, and to not expect a new administration to rubber-stamp a deal that has several concerns, from our view. And, without proper discussion and looking for a path that will ensure a stable rate for Puerto Ricans and that will ensure a path of growth in the economy, we are not going to rubber-stamp it.

We are, however, willing to sit down. And, of course, if we do have more time, that is much better. But the timelines were not set by our administration. The timelines were set previously. We are working with them. If we do get more time, I can assure you that our team will be working diligently to get the best solution for all stakeholders, but particularly to the people of Puerto Rico.

Mr. GRIJALVA. Thank you.

Governor ROSSELLÓ. Thank you.

Mr. GRIJALVA. I yield back.

Miss GONZÁLEZ-COLÓN. Thank you, Mr. Grijalva. Thank you, Governor. Now we recognize General Bergman.

Mr. BERGMAN. Thanks, Madam Vice Chair.

Governor, thanks for your time today.

Governor ROSSELLÓ. Thank you.

Mr. BERGMAN. These are not easy times for you, I am sure. What is your level of concern about what is going to happen to Puerto Rico, as a whole, and its access to credit, as a whole, if the RSA is not agreed to in a timely manner?

Governor ROSSELLÓ. Well obviously, all of these things are concerning. But the reality is that I would be more concerned if we signed a deal that was not good and that would put us back in the position in several years where we demonstrated it was unsustainable.

So, I think, if we can agree to sit down, look for the various alternatives, see and make sure—I mean I know stakeholders, and particularly some stakeholders, are going to be here for the long haul. So, it is in their best interests, as it is in our best interest, to have a strategy of growth for Puerto Rico.

And what we want to do is, we want to make sure that the RSA complies with that. We want to make sure that it has the best components. We want to make sure that certain creditors make the necessary concessions that they need to make, and we want to make sure we have, again, a path for sustainable growth in Puerto Rico, and stable rates.

Mr. BERGMAN. OK, thank you. Since becoming governor, have you had any dialogue with certain creditors? And were there any changes that you might have offered or they might have offered, but especially that you have offered that they have been supportive of?

Governor ROSSELLÓ. We have established a conversation with our fiscal agent. They are empowered—the AAFAF is empowered to lead these conversations—of course in coordination and having talked with the fiscal Oversight Board, as well. And our Director of AAFAF, Mr. Portela, could probably answer that question better than I can.

Mr. PORTELA-FRANCO. Good morning. We have had conversations, preliminary conversations, with different bondholder groups. But before then, and as I expressed when we started office, we needed to focus on getting a fiscal plan approved and certified. We did that last week after continuous 20-hour days.

When we got that plan certified, we now have the number, that surplus, that we can work with, and we do not have to negotiate in a vacuum. Once certified, we have been in constant dialogue with some bondholders. And again, we want to have good-faith negotiations with all bondholders in a Title VI, including PREPA bondholders and stakeholders, as well.

Mr. BERGMAN. Thank you. Madam Vice Chair, I yield back.

Miss GONZÁLEZ-COLÓN. Thank you, General. Now it is the turn of the Chairman of this Committee, Mr. Bishop.

The CHAIRMAN. OK, thank you. And, Governor, I want to thank you for being here, taking the time to do it. I appreciate the way you have approached this position and this situation, and I appreciate that you and your administration have come up with data that—we have long been waiting to see that data. And you are doing it the appropriate way.

I do have one sense of frustration, simply because this Committee cannot actually create more time. I guess if we were Senators we could. We could just declare 7 days to be 1 day, and you can get away with it.

[Laughter.]

The CHAIRMAN. So, the question I have, and this is going to be very quick because we do have another panel of experts that we need to have testify—just in your opinion, what do you think is the likelihood of that March 31 deadline being extended? We have all played around with that. What do you think is the likelihood of actually getting that extension?

Governor ROSSELLÓ. Well, I mean, this deadline has been extended in the past. I think it is in everybody's best interest to do so. If we feel we can find a better common-sense solution—and again, I am not asking you to——

The CHAIRMAN. You are comfortable it actually can be extended?

Governor ROSSELLÓ. I am, and I hope it can——

The CHAIRMAN. What would the consequences be if it were not extended?

Governor ROSSELLÓ. Well, again, we are still going to be working within the timetable. We recognize what the deadlines are. And, as I stated earlier, our team is going to be meeting or is asking for several meetings. We must admit we have had difficulties setting meetings with some of the creditors. But we are asking for that so that we can use whatever time we have as best and as efficiently as we can.

The CHAIRMAN. Thank you. I appreciate that. And once again, I appreciate you being up here.

Governor ROSSELLÓ. Thank you, so much.

The CHAIRMAN. Thank you for that. Let me yield back. We have two other people who are not part of our panel. I appreciate them being here as well. Let me give them a chance to get some questions done. I will yield back.

Miss GONZÁLEZ-COLÓN. Thank you, Mr. Chairman. Now we recognize Mr. Serrano.

Mr. SERRANO. Thank you so much. Thank you, Mr. Chairman, for allowing us to be here today, and Madam Vice Chair. And, very briefly, you remind me when I was in the State Assembly and we could not pass a budget, we stopped the clock at midnight. And sometimes Friday lasted until Tuesday, and it was a very long Friday.

[Laughter.]

The CHAIRMAN. Just don't tell them how to do that.

[Laughter.]

Mr. SERRANO. No, this is something they should not learn how to do.

So, Governor, thank you for being here and congratulations on your victory, on your administration's victory.

When Ms. Velazquez and I voted for PROMESA, we took a lot of heat. That is fine. And we took it during a primary season. That is not fine.

[Laughter.]

Mr. SERRANO. But things worked out well. The criticism is still there. There are still some folks who think we have the ability to undo PROMESA.

One of the concerns was that PROMESA was going to over-run Puerto Rico, that Puerto Rico would not have anything to say. This government would just be there as puppets, if you will.

My question is not on factual stuff, but actually on procedure, and so on. What is the relationship—and please don't say it is fine. We know it is fine.

Governor ROSSELLÓ. How about it is good?

[Laughter.]

Mr. SERRANO. How do you interact with this other governing body? Because it is a unique situation. We lived through it in New York City in the 1970s, when I first got to the State Assembly. And I remember that we had two governments at the same time.

Governor ROSSELLÓ. Yes.

Mr. SERRANO. How do you deal with that? And how much trouble has it been? And you can be honest and tell us if there have been times when you have had to lock heads to work on something.

Governor ROSSELLÓ. Well, certainly, I can tell you that it has been respectful, it has been a continuous conversation. Otherwise, I don't think we would have had a fiscal plan that was certified. So, it is a continuous process, it is a new paradigm.

I think, even relative to the New York situation, it is a new paradigm, because New York is a city, it always has its state to back it. Puerto Rico is a colonial territory, and we have no other way of having certain empowerments, or certain impact in terms of the way Congress will be acting, as opposed to our non-voting delegate that—she is doing everything, and we are very proud of her efforts here in Washington.

So, the relationship has been respectful. We have been able to engage in dialogue. I think that is critical. But we need to recognize what the dividing lines are. And I say this with all respect. The fiscal Oversight Board here is established so that, number one, we can meet or we can reduce or eliminate the gap between what the revenues and expenses are in government, and then we can gain access to the markets. They are not here to determine what the public policy for Puerto Rico is. That is my job. That is my government's job.

Up until now, I can say that we have been able to execute that way. This is why we are content that we were able to pass a plan for Puerto Rico, a fiscal plan, based on the public policy that we proposed. It is an ongoing relationship. I can tell you that, up until now, it has been respectful and we have had opportunities. And, of course, as in any type of relationship, we are going to have disagreements, and those are going to be clear. We have disagreements based on what the policy should be for implementing a plan.

There was a suggestion, that in the right-sizing of government we have to lay off somewhere close to 45,000 people. Our approach was significantly different. We approached with attrition. We established a path forward for a new government. We reduced certain subsidies. In that sense we were able to maintain our public workforce, pushing forward.

And we did the same for health care. Reducing access to health care was not an option for us. We want to have the people of Puerto Rico insured, and we want to have them have the power to choose how they get their services, and the same for education, the same for pensions.

So, up until now, it has been respectful. And my hope is that it remains that way.

Mr. SERRANO. Very briefly, you went into my second question, which was how did you—you said you were working on reducing government and so on without hurting the workers. Could you expand a little bit on that? Because——

Governor ROSSELLÓ. Of course.

Mr. SERRANO [continuing]. That sounds like a contradiction. I mean usually it is firing people, you know.

Governor ROSSELLÓ. It does. We will leave the fiscal plan for the members to ensue, but essentially, it stems from recognizing that the vast majority of expenses come from operational costs in our government. And it is precisely because we have a 131-agency structure in Puerto Rico now. That surprises many people when we state, because typically, in their local governments, they have a much more reduced operational structure. So, that is one.

Number two, we started reducing, by executive order on the same day I swore oath, our political appointees, we started reducing what the contracting paradigm was for Puerto Rico, as well, at least 10 percent. But we are making headways to increase that.

We started putting more controls into what the expenditures were because what we typically had was over-budgeting and over-expenses that would then be translated into those deficits.

So, I would say, Congressman, that we are having a responsible government that is actually reducing the expenses, but it is taking the opportunity to make a more effective government than what we have had in the past—131 agencies that do not communicate with each other that are marred with bureaucratic processes, that duplicitousness is not healthy for Puerto Rico.

So, in this time of crisis, in these times of challenges, we found opportunities. And in certain—in our area of right-sizing government, it is explained in detail.

Miss GONZÁLEZ-COLÓN. Thank you.

Mr. SERRANO. Thank you very much. Let me just close with this. Your biggest challenge, Mr. Governor, is that promise you made to get Team Rubio to Puerto Rico by tomorrow.

[Laughter.]

Governor ROSSELLÓ. How about if you dye your hair, I will dye mine?

Mr. SERRANO. Because they all have to go back to spring training by tomorrow morning.

Miss GONZÁLEZ-COLÓN. Thank you, Mr. Serrano. Right now we will recognize Ms. Velazquez.

Ms. VELAZQUEZ. Thank you so much. I want to thank the Chairman, Mr. Bishop, and the Ranking Member, Mr. Grijalva, and both the Subcommittee Chair and Ranking Member, and the gentlelady from Puerto Rico.

I also want to commend Governor Rosselló for revisiting the original PREPA and for seeking more favorable terms for the people of Puerto Rico.

I also would like to ask, Governor—you said that when we passed PROMESA it provides the tool for the government of Puerto Rico and the board to restructure the public debt, and that we should not treat the PREPA deal or the PREPA crisis isolated from the whole island fiscal crisis, that they are both intertwined. Isn't it?

Governor ROSSELLÓ. Yes. That is correct.

Ms. VELAZQUEZ. I was born and grew up in Puerto Rico. I know all about politics in Puerto Rico. My question to you, Mr. Governor, part of the crisis of PREPA is embedded in the fact that, as an institution, it has been traditionally politicized and that, for the first time, finally, it is de-politicized, that there is a new board with top-rate professionals, including management of top energy companies in the United States.

So, is it your intention to allow for that board to continue, those board members to continue in their capacity?

Governor ROSSELLÓ. It is my intention to have a conversation. And, of course, if they are willing, or whoever is willing to push forward our public policy, then that will be the new board.

So, this is a very important point: We can have the best or grade-A professionals, but if their public policy opposes our fiscal policy and our operational changes policy, then they cannot be part of this.

Ms. VELAZQUEZ. OK. And I hope that when appointments are made, they are made based on what is best for the interests of the people of Puerto Rico.

Governor ROSSELLÓ. Of course, always. I will, however, caution that these appointments were made in December 2016. I was already elected governor. There was no conversation with me about this. It was just essentially imposed. And again, everybody knew at this juncture that I have to present the fiscal oversight plan for Puerto Rico that would take the government, as a whole, in terms of its view. So, I think it needs to be——

Ms. VELAZQUEZ. Thank you, Governor. My colleague from California, Mrs. Torres, asked you if you intend to have a plan to increase the energy sector in Puerto Rico, to diversify the energy, the generation of energy in Puerto Rico, is it part of that plan to privatize some of those functions?

Governor ROSSELLÓ. It is part of the plan to create P3s, public-private alliances, yes. We want to create P3s for generations. Puerto Rico or PREPA does not have the cash right now or the wherewithal to generate such structure, and we feel that it would be beneficial.

In fact, we have passed into law a version that part of that margin that gets generated would go into the pension systems. One of the effects that will allow us to have more cash into the pension systems, as well, would allow us to have stable rates in Puerto Rico. And, of course, a stable energy system.

Ms. VELAZQUEZ. Thank you, Mr. Governor. Governor, if voluntary negotiations with all 12 bondholder groups and other creditors of the central government are unsuccessful in producing a sustainable level of debt that is consistent with the certified fiscal plan on or before the expiration of PROMESA's automatic stay against litigation on May 1, would you support the Oversight Board use of Title III to restructure the debt?

Governor ROSSELLÓ. It is part of the structure that we have. But our aim, again, is a Title VI renegotiation effort. And I must stress——

Ms. VELAZQUEZ. I understand that. But my question is, if those negotiations are proven to not be successful, will you support the board to use one of the most powerful tools that were provided under this bill?

Remember one thing: Congressman Serrano and I, we brought this legislation to the finish line. I can promise you that. So, we did it, and we voted for it, because we believe that it was the best tool for Puerto Rico.

Governor ROSSELLÓ. Right. Well, everything is on the table, Madam, but what we understand is that it is the best solution for all stakeholders to seek a Title VI renegotiation effort.

So, this is our caution, and this is our message. We are willing to do so, we are willing to sit down, we are willing to be rationale. We have already presented a plan that has been certified. It has been validated. We can do the same with our renegotiation efforts, so our call to all 19 creditors is for us to——

Ms. VELAZQUEZ. May 1.

Governor ROSSELLÓ. Yes.

Ms. VELAZQUEZ. The clock is ticking. The people of Puerto Rico are suffering. And we need to restructure the public debt in a way that you have the liquidity and the capital that you need in order to provide services for the children, safety of the people of Puerto Rico.

Thank you, Mr. Chairman.

Governor ROSSELLÓ. Madam, I was elected on this platform, to renegotiate. I was elected by the people of Puerto Rico. And this is what they elected me to do, and I will do so.

Mr. LAMALFA [presiding]. All right, thank you.

Governor, again, we do thank you for your testimony. It has been very valuable to the Committee and for Members, for their questions. If there are additional questions for the Governor, we will ask you to respond to those Members, to the Committee, in writing. Under Committee Rule 3(o), members of the Committee must submit witness questions within 3 business days following the hearing, and the hearing record will be held open for 10 business days for these responses.

So, Governor, I wish you the best of luck on this. Indeed, with the challenges you face with RSA extension just 9 days now needed, and then a large PREPA payment due by July 1, this Committee is very interested in the results that are needed, so that Puerto Rico and its people will be well served. So, best wishes to you on that, and we look forward to seeing good things happen.

Thank you again for your testimony and your attendance today.

Governor ROSSELLÓ. Thank you, Mr. Chairman. Thank you to all the Members. And again, I reiterate that we will be working hard. Our team is available to do this, and we want to fix it once, and we want to fix it right.

Mr. LAMALFA. OK, thank you. Thank you, sir. You are excused.

Now we want to introduce our second panel of witnesses here. In order, we will have Mr. José Carrión, III. He is Chairman of the Financial Oversight and Management Board of Puerto Rico—please take your seats as I name you.

We also have Mr. Luis Benítez, who is the Chairman of the PREPA Governing Board.

And we have Mr. Stephen Spencer, who is the Managing Director of Houlihan Lokey, and on behalf of Franklin Advisers and Oppenheimer Funds.

OK, we have next Adam Bergonzi, Managing Director and Chief Risk Officer of the National Public Finance Guarantee Corporation—just please go ahead and take your seats as we go.

Next, we will have Rob Bryngelson, President and CEO of Excelerate Energy.

And finally, we have Ms. Ana Matosantos, a member of the Financial Oversight and Management Board of Puerto Rico.

So, as you are seated here, I will remind the witnesses that, under our Committee Rules, each of you must limit your oral statements to 5 minutes. But again, the entire statement will be allowed to appear in the hearing record, should it be longer than that.

And again, the same rules apply on the 5 minutes. The lights on the microphone will turn green as you start. After 4 minutes, the yellow light will come on. And then, when the red light comes on, I would ask you to please complete your statement to be timely here.

OK. And you know about pressing the button when you are ready to go. We are going to have the entire panel give all their testimony before we will go to questions from our Members. So— OK? Yes, we will do that. So——

Mr. CARRIÓN. Shall I begin?

Mr. LAMALFA. We will hold off a minute while everybody gets settled back in.

[Pause.]

Mr. LAMALFA. OK. If we could please finish finding our seats. The Chair would like to go ahead and recognize Mr. Carrión for your testimony for 5 minutes.

STATEMENT OF JOSÉ B. CARRIÓN, III, CHAIRMAN, FINANCIAL OVERSIGHT AND MANAGEMENT BOARD OF PUERTO RICO, SAN JUAN, PUERTO RICO

Mr. CARRIÓN. Thank you, Chairman LaMalfa, for your leadership in holding this hearing. Many thanks also to Ranking Member Torres, Vice Chair González-Colón, and, indeed, all the members of the Subcommittee, for their interest in this matter.

Before addressing the subject of the Puerto Rico Electric Power Authority's Restructuring Support Agreement, I would like to take this opportunity to tell you of the important progress the Oversight Board has made since its appointment last year.

At our five public board meetings thus far, we have adopted the board's bylaws and codes of ethics; identified the Puerto Rico entities, including PREPA, subject to financial oversight under PROMESA; assessed the fiscal plan initially proposed by the prior governor of Puerto Rico, and listened to testimony from a wide range of stakeholders.

One of the most difficult issues the board has had to tackle in advancing the PROMESA agenda has been determining as accurately as possible just what the government of Puerto Rico's revenues and expenses are. To assist in that process, we hired a group of advisors and key senior staff. The board and its advisors have worked closely with the government of Puerto Rico and its advisors, with the former governor, Alejandro Garcia Padilla, and, since January, with Governor Ricardo Rosselló Nevares.

We have also participated in dozens of meetings with Puerto Rico creditor groups, resuming conversations that were commenced in the prior administration. On January 18, we sent Governor Rosselló a substantial letter outlining the baseline scenario for a fiscal plan required by PROMESA, and the kinds of savings and the additional revenue that would be required to achieve fiscal balance.

At Governor Rosselló's request, we extended the stay of creditor enforcement efforts from February 15 to May 1, and gave the new administration a short extension of our original deadline for certifying a fiscal plan to March 15, 2017.

On February 28, the Governor submitted their proposed fiscal plan. Upon careful evaluation, we notified the Governor of certain deficiencies that would have to be corrected for the plan to comply with PROMESA. Shortly thereafter, the Governor submitted an amended fiscal plan, which the board certified with a couple of additional amendments last Monday, March 13.

The certified fiscal plan charts a path to achieve fiscal equilibrium in 3 years, provide adequate funding for essential services, maintain the solvency of government pension plans, restructure the government's long-term debts and obligations, and adopt the structural reforms necessary to restore economic growth and opportunity to all in Puerto Rico.

Achieving these objectives will not be easy. The cuts are deep and, in some instances, unfortunately, will be painful. Over time the government has made commitments to its constituents, including employees, pensioners, college students, enrollees in healthcare programs, bondholders, and others that cannot be met based on realistic measures of tax revenue the economy can currently support. However we define the problem, whether in terms of budget deficits, indebtedness, unfunded pensions, or the imminent risk of simply running out of money to pay bills, Puerto Rico faces a nearly existential financial shortfall.

Now, with a certified fiscal plan in place, the administration and the board can discuss specific restructuring proposals with creditor groups. We hope to secure consensual restructurings under the provision of Title VI of PROMESA before other tools such as Title III are utilized. Much work remains to be done, but the certification of a detailed fiscal plan was a major milestone, one that we trust will provide the foundation for real economic growth and, over time, restore opportunity to the people of Puerto Rico.

But even as we pursue and accomplish PROMESA's required objectives of fiscal equilibrium, balanced budgets, and debt restructuring, Puerto Rico will hardly come out of its economic and fiscal crisis unless it also manages to restore economic growth. Reversing the economic contraction that has afflicted Puerto Rico's economy for far too many years and restoring economic growth for the island are at the core of the board's position in support of the government of Puerto Rico's stated intention to review the terms and negotiate amendments to the PREPA RSA to lower the projected increases in energy costs that it requires.

The efficient production of electricity is critical to the economic recovery of Puerto Rico, which, in turn, has a strong correlation to government tax revenue growth, and would have a significant impact in the future of primary surplus available for debt service on Puerto Rico debt obligations. For this reason, the board supports an expedited PREPA RSA negotiation between the government and creditors that results in the lowest electric power rate possible.

Finally, the board also supports initiatives to strengthen the Puerto Rico Energy Commission. We believe that the model of an independent commission with oversight authority over the utility is the right approach to providing the necessary checks and balances as PREPA moves forward in its transition process.

Thank you, Mr. Chairman, for your leadership. And thanks to all Members for your attention to this matter.

[The prepared statement of Mr. Carrión follows:]

PREPARED STATEMENT OF JOSÉ B. CARRIÓN III, CHAIRMAN, FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

Good morning. My name is José Carrión. I am the Chairman of the Financial Oversight and Management Board for Puerto Rico.

I would like to thank Chairman LaMalfa for his leadership in holding this oversight hearing on "The Status of the Puerto Rico Electric Power Authority Restructuring Support Agreement." I would also like to recognize and thank Ranking Member Torres, Vice Chair González-Colón and, indeed, all the members of this Subcommittee for their interest in and attention to this matter.

Before addressing the specific subject of this hearing, though, I would like to take this opportunity to apprise the Subcommittee of the important progress the Board has accomplished since its appointment on August 31 of last year.

During the debates leading to the enactment last June of the bipartisan Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") that created the Oversight Board, Puerto Rico's devastating financial crisis was constantly in the news. Since then, however, there has been relatively little coverage outside of Puerto Rico.

So it is fair to ask: what kind of progress has the Oversight Board made in the last few months?

The short answer is "a lot."

At our five public board meetings thus far—two in Puerto Rico and three in New York—we have adopted the Board's bylaws and Code of Ethics, identified a number of Puerto Rico entities—including the Puerto Rico Electric Power Authority ("PREPA")—as subject to the financial oversight requirements of PROMESA, carefully assessed the fiscal plan initially proposed by the prior governor of Puerto Rico, and listened to testimony from a wide range of stakeholders. In addition to the public meetings, the Board has met constantly both in person and by phone.

One of the most difficult issues the Oversight Board has had to tackle in advancing the PROMESA agenda has been determining as accurately as possible just what the government of Puerto Rico's revenues and expenses are. This is a far more challenging task than you, as Federal lawmakers, may imagine. The Government's most recent audited financial statements cover the period ending June 30, 2014. If Puerto Rico's finances were straightforward, it might not be difficult to bring these numbers up to date. But the government of Puerto Rico has well over 100 different governmental entities, and there are 18 different issuers of debt.

To assist in the process, we have hired a remarkable group of advisors, including two key senior staff officers, interim executive director Ramón Ruiz-Comas and general counsel Jaime El Koury, as well as a strategic advisory firm, two economists, a financial advisory firm, and an accounting firm, as well as an outside law firm and local Puerto Rico legal counsel. The Oversight Board and its advisors have worked closely with the government of Puerto Rico and its advisors, first with former Governor Alejandro García Padilla and, since January, with the new administration of Governor Ricardo Rosselló Nevares.

Although assessing Puerto Rico's revenues and expenses and setting the parameters for the fiscal plan have been our primary objectives, we also have participated with Governor Rosselló's advisors in dozens of meetings with Puerto Rico's creditor groups, resuming conversations that were commenced in the prior administration.

On January 18, we sent Governor Rosselló a substantial letter outlining the "baseline scenario" for a fiscal plan—that is, the difference between Puerto Rico's revenues and expenditures, assuming that Puerto Rico does not receive any new funding from Congress. Our findings confirmed just how dire Puerto Rico's financial crisis is. The average expected deficit is $7 billion each year over the next 10 years. The letter outlined the kinds of savings that would need to be made and the additional revenue that would have to be generated in order to obtain fiscal balance.

At Governor Rosselló's request, during our January 28, 2017 meeting, we extended the stay on creditor enforcement efforts from February 15 to May 1, as we were authorized to do under PROMESA, and gave the new administration a short extension of our original deadline for certifying a fiscal plan to March 15, 2017.

On February 28, the Governor and his advisors submitted their proposed fiscal plan. Upon careful evaluation, we notified the Governor of certain deficiencies that would have to be corrected in order for the plan to comply with the 14 requirements set forth in PROMESA. On March 8, the Board released an independent analysis conducted by Ernst & Young to confirm the Government's baseline projections for the fiscal plan and also the bridge between the last audited financial statements of Fiscal Year 2014 and the Fiscal Year 2017 projections. Shortly thereafter, the Governor submitted an amended fiscal plan which the Board certified—with a couple of additional amendments—last Monday, March 13.

The certified Fiscal Plan charts a path to achieve fiscal equilibrium in 3 years, provide adequate funding of essential services, maintain the solvency of government pension plans, restructure the Government's long-term debts and obligations, and adopt the structural reforms necessary to restore economic growth and opportunity to all in Puerto Rico.

Achieving these objectives will not be easy. The cuts are deep and, in some instances, will be painful.

Overtime, the Government has made commitments to its constituents—including employees, pensioners, college students, enrollees in healthcare programs, bondholders and others—that cannot be met based on a realistic measure of the tax revenues the economy can currently support. However we define the problem, whether in terms of budget deficits, indebtedness, unfunded pensions, or the imminent risk of simply running out of money to pay bills, Puerto Rico faces a nearly existential financial shortfall.

In any financial crisis, there is the temptation to believe that one can emerge without undue sacrifice if only others would bear the costs or if the elusive economic turn-around finally happened. The fact is that any real solution must involve all parties sharing in the effort, especially if it is painful. But all should also share in the opportunity for a better, more secure and prosperous future.

Now, with a certified Fiscal Plan in place, the administration and the Board can discuss specific restructuring proposals with creditor groups. We hope to secure consensual restructurings under the provisions of Title VI of PROMESA. This is the main focus of the Board in the coming weeks. We believe that discussions with creditor groups need to yield a viable restructuring path on or before May 1, when the PROMESA stay expires, and before other tools under PROMESA are utilized, such as Title III.

Throughout the process, the Board has been strongly committed to a "once and done" approach to Puerto Rico's financial crisis. This means establishing a set of policy changes and debt restructuring agreements that, at least in expectation, should put the budget and economy back on track. We believe such an approach is necessary for Puerto Rico to effectively use the tools PROMESA has provided to genuinely solve Puerto Rico's long-standing crisis, and to put the island on the path to a better future.

PROMESA was enacted to build a path to fiscal stability, economic growth, equitable restructuring of the government's debt and restored access to capital markets. Make no mistake: without the bipartisan PROMESA legislation, the island would be facing a financial and legal chaos right now, without hope of reversing the economic decline, and the sad exodus of more Puerto Ricans seeking to build a prosperous life for their families. Without truly massive changes, though, and without using the tools provided under PROMESA, Puerto Rico would face continued decline and deprivation. The people of Puerto Rico deserve better than that, and the Board has pledged its efforts to work toward a better future for everyone on the island.

We are fully aware of how much work remains to be done. But the certification of a detailed fiscal plan on March 13 was a major milestone, one that we trust will provide the foundation for real economic growth and, over time, restore opportunity to the people of Puerto Rico.

As a matter of fact, the restoration of economic growth for the island is at the core of the Board's position in support of the government of Puerto Rico's stated intention to review the terms of the PREPA Restructuring Support Agreement ("RSA") subject of this hearing.

One thing that every economist and consultant has agreed on is that PROMESA's objectives for Puerto Rico cannot be attained without returning to positive economic growth. Even as we pursue and accomplish the required objectives of fiscal equilibrium, balanced budgets and debt restructuring, Puerto Rico will hardly come out of its economic and fiscal crisis unless it also manages to restore economic growth.

To that end, the Oversight Board continues to work pursuant to PROMESA on formulating actions Puerto Rico can take to promote economic growth, including commercialization and privatization.

In that spirit, recognizing the importance of reversing the economic contraction that has afflicted Puerto Rico's economy for far too many years, the Board supports the administration's stated objective of negotiating amendments to the PREPA RSA to lower the projected increases in energy costs that it requires.

The efficient production of electricity is critical to the economic recovery of Puerto Rico, which in turn has a strong correlation to government tax revenue growth, and would have a significant impact in the future Primary Surplus Available for Debt Service on Puerto Rico debt obligations.

For this reason, the Board supports an expedited PREPA RSA negotiation between the Government and creditors that results in the lowest electric power rate possible.

A lower Transition Charge and a more efficient PREPA are the two components that could result in retail rates that are affordable for consumers and low enough to attract and sustain commerce and industry in Puerto Rico.

Finally, the Oversight Board also supports initiatives to support and strengthen the Puerto Rico Energy Commission. Although it has a relatively short track record, as it was created only a couple of years ago, we believe that the model of an independent Commission with oversight authority over the utility is the right approach to providing the necessary checks and balances as PREPA moves forward in its transformation process.

Thank you, Mr. Chairman, for your leadership. And thanks to all the Members for your interest in and attention to this matter.

QUESTIONS SUBMITTED FOR THE RECORD TO JOSÉ B. CARRIÓN III

Questions Submitted by Rep. Bishop

Question 1. If discussions with creditor groups fail to yield a viable restructuring path on or before May 1, what is the Board's timeline to seek Title III restructuring?

Answer. The Board does not have a strict timeline for starting a Title III proceeding. That being said, we are continuing with our efforts to arrive at a voluntary consensual agreement with the various creditor groups and are preparing for any eventuality should those discussions not progress to completion.

Questions Submitted by Rep. Grijalva

Question 1. Has the Board received the report? [Report under PROMESA Section 208(b) setting forth tax abatement agreements granted by the Commonwealth.]

Answer. Pursuant to Section 208(b) of PROMESA, the Secretary of the Treasury of the Commonwealth of Puerto Rico provided tax-related information in a report (with attachments) dated February 28, 2017, copies of which are attached. Subsequently, a representative of the Board met with the Secretary to request additional information to satisfy the requirements of Section 208(b) of PROMESA, and on March 30, 2017, the Board wrote to the Secretary to follow up on such request. A copy of the Board's letter is attached.

Question 2. How could a fiscal plan be agreed to that cuts Government spending for public services and for payment of debts so drastically that does not require any further contribution from companies that represent a third of the GDP and high net worth individuals on top of that who pay so little in tax now?

Answer. There have been material tax increases in Puerto Rico during the last couple of years. Further increasing taxes on corporations and individuals risks higher migration rates out of Puerto Rico that could undermine an economic recovery of the island.

Attachment

ATTACHMENT

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO
SAN JUAN, PUERTO RICO

March 30, 2017

Hon. Raúl Maldonado
Secretary of the Treasury
10 Paseo Covadonga
San Juan, PR 00901

Dear Secretary Maldonado:

We are in receipt of the PROMESA Tax Incentives Report prepared by the Governor of Puerto Rico and the Secretary of the Treasury, delivered to the Oversight Board on February 28, 2017 (the "Report") and provided to comply with the obligations of Section 208(b) of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA").

PROMESA Section 104(a)(2) requires the Government, notwithstanding any other provision of law, to provide the Oversight Board with copies of all documents necessary to enable the Oversight Board to carry out its responsibilities under this Act. Pursuant to PROMESA Sections 104(a)(2) and 208(b), the Oversight Board requests prompt delivery of the documents listed in this letter.

The Oversight Board is tasked with extensive responsibilities under PROMESA for the purpose of ensuring that the Government of Puerto Rico achieves fiscal responsibility and access to the capital markets. As part of the Oversight Board's responsibilities, it must obtain detailed reports regarding the finances, obligations, cash flows and other significant fiscal information from the Government of Puerto Rico, so that the Oversight Board can provide its own assessments of Puerto Rico's fiscal situation and propose solutions. As tax revenues are an essential part of the fiscal stability of Puerto Rico, information regarding the tax abatement and other tax relief agreements that the Government of Puerto Rico has entered is important to assist the Oversight Board in its duties. Under Section 208(b) of PROMESA the Governor is obligated to provide a report "documenting all existing discretionary tax abatement or similar tax relief agreements to which" the Government of Puerto Rico (or one of its instrumentalities) is a party.

The Report does not meet the requirements of Section 208(b) of PROMESA. The Report itself primarily contains a summary of how various statutory and other provisions of Puerto Rico law operate to provide tax incentives, along with a series of exhibits listing various tax incentive provisions (as well as one exhibit listing the total amount of tax credits offered, in aggregate, under various categories).

Section 208(b) of PROMESA requires the provision of more information. PROMESA mandates that "*all* existing discretionary tax abatement or similar tax relief agreements" are to be documented in the report. Further, the agreements to be provided include those entered into by the Government of Puerto Rico plus any "territorial instrumentality"—which would include political subdivisions such as municipalities. A report that principally contains mere citations of various tax incentive provisions, with a spreadsheet setting forth the aggregate tax credits provided under broadly-defined categories, is insufficient.

To comply with Section 208(b), the Report must be supplemented by the following information, at the minimum:

- A copy of every discretionary tax abatement or other tax relief agreement entered into by Puerto Rico or any instrumentality (including municipalities) of Puerto Rico that is currently effective and that has resulted in, or could result in, aggregate tax savings to the taxpayer that is a party to such agreement of an amount equal to or greater than $5 million, including amendments, modifications, or adjustments thereto—including any closing agreements that meet the above conditions that the Puerto Rico Treasury Department issued before the restrictions on the Treasury Secretary's authority under Section 6051.07 of the Puerto Rico Internal Revenue Code of 2011 became effective;
- For each such agreement, a description of the material tax benefits (including beneficial tax rates, credits, partial or total exemptions to tax, or other adjustments applicable to such taxpayer) granted by such agreement;

- For each such agreement, a description of any and all material obligations of the taxpayer, Puerto Rico or the relevant instrumentality of Puerto Rico imposed by such agreement—including, without limitation, any requirements imposed on taxpayers with respect to investments in Puerto Rico, employment of residents of Puerto Rico, or the like;
- For each such agreement, a summary of the total value of the tax benefits granted under such agreement to the extent calculable; and
- For each such agreement, a summary of any other material term or provision of the agreement (including, without limitation, effective dates or expected dates of expiration, if any, for such agreement).

Without the information specified above, the Government has failed to comply timely with Section 208(b) of PROMESA. To remedy such violation, the Oversight Board requests that the above information be provided in the form of a supplemental report by April 30, 2017. As you and Ramón M. Ruiz-Comas, the Oversight Board's Deputy Executive Director, discussed during a meeting this past Monday, March 27, 2017, we understand that the required information is not centralized in a single location and that this poses certain difficulties in terms of document production, but we expect that you will exert your best efforts to comply with the requirements of Section 208(b). To the extent, if any, the Government believes a requested document is outside the scope of PROMESA Section 208(b), the Oversight Board also requests the document pursuant to Section 104(a)(2) of PROMESA.

Sincerely,

JOSÉ B. CARRIÓN III,
Chairman.

Attachment

PROMESA:

(b) REPORT ON DISCRETIONARY TAX ABATEMENT AGREEMENTS.—Within six months of the establishment of the Oversight Board, the Governor shall submit a report to the Oversight Board documenting all discretionary tax abatement or similar tax relief agreements to which the territorial government, or any territorial instrumentality, is a party,"

INTRODUCTION OF PUERTO RICO TAX INCENTIVES

The Government of Puerto Rico provides tax incentives or benefits to promote Economic Development. Tax incentives are directed to encourage specific industries and activities such as manufacturing, agriculture, tourism, exports, technology, among others that are considered key industries or activities for Puerto Rico's economy. The tax benefits are codified in the Puerto Rico Internal Revenue Code of 2011, as amended, ("Code") and various tax incentives acts. Granted tax incentives are nondiscretionary, but must be issued according to specific requirements provided by law and regulations.

In general, the tax incentives include reduced income tax rates, tax exemptions on dividends and profit distributions, special deductions and credits, and exemptions on property and local/municipal taxes. Some of these tax incentives are claimed by taxpayers in their income tax return, subject to compliance as required by law and regulations.

Puerto Rico's tax incentives require a pre-approval from one or more agencies of the Government of Puerto Rico and the issuance of a tax incentive certificate or a grant of the tax benefits, i.e. agreement between the Government of Puerto Rico and a taxpayer with force of contract.

The Administration of Governor Ricardo Rosselló has started a comprehensive analysis of all Puerto Rico's tax incentives acts. The purpose of said analysis is to determine the economic benefit of each incentive *vis-à-vis* the Governmental expenditure. The goal is to create a new legal framework for incentives with ascertainable and measurable impact to the economic growth of Puerto Rico.

REPORT

The information included in this report is limited to income tax benefits or incentives, i.e. preferential rates, deductions, exemptions and credits to income tax. This report does not include property or local/municipal tax incentives that are provided by law and the municipalities of Puerto Rico.

Exhibit A. Lists the Puerto Rico tax incentives acts.

The Government of Puerto Rico may exercise certain level of subjectivity in the evaluation and approval of an application based on the economic development elements of the law and regulations.

Exhibit B. Contains the quantity of grants of tax incentives under the most prominent tax incentives acts.

Exhibit C. Includes a summary of the outstanding tax credits issued under various tax incentives acts, and the tax credits that are under evaluation. Please note that taxpayer's credit requests through tax returns are not included in this report.

Most of our incentive acts allow a tax credit to be sold by one taxpayer to another. This means that a taxpayer with a credit grant may sell the credit if it does not reduce the taxpayer's taxes; This ability to sell credit grants results in the credits to be almost always claimed in full.

Exhibit D. English Version of Section 6051.07 of the Code regarding Closing Agreements by the Secretary of Puerto Rico Treasury Department

Under Section 6051.07 of the Code, the Secretary of the Treasury is authorized to enter into written closing agreements with any person regarding the tax liability levied by the Code for any taxable period. The Secretary is not authorized to enter into closing agreements to offer preferential/lower rates and/or grant tax deductions or credits to taxpayers not otherwise recognized by law.

*****

Exhibit A.—Puerto Rico Tax Incentives

1. Act No. 73–2008 (Puerto Rico Economic Development Incentives Act)
2. Act No. 183–2001 (PR Conservation Easement Act)
3. Act No. 27–2011 (Film Industry Economic Incentives Act)
4. Act No. 74–2010 (Tourism Development Incentives Act)
5. Act No. 98–2001 (Housing Infrastructure Investment Tax Incentives Act)
6. Act No. 77–2015 (Housing Rehabilitation for Elderly and Low Income Families Incentives Act)
7. Act No. 212–2002 (Revitalization of the Urban Centers Act)
8. Act No. 159–2011 (Solid Waste Reduction, Disposal and Treatment Facility Investment Incentives Act)
9. Act No. 46–2000 (Capital Investment Fund Act)
10. Act No. 178–2000 (Santurce Theater District Creation Act)
11. Act No. 1–2011 (Internal Revenue Code of 2011)
12. Act No. 225–1995 (Agriculture Tax Incentives Act)
13. Act No. 20–2012 (Act to Promote the Exportation of Services)
14. Act No. 22–2012 (Act to Promote the Transfer of Investors to Puerto Rico)
15. Act No. 14–2017 (Medical Professional Incentives Act)
16. Act No. 120–2014 (PyMES Employment Generation and Retention Incentives Act)
17. Act No. 135–2014 (Young Entrepreneurs Incentives and Financing Act)
18. Act No. 83–2010 (Renewable Energy Incentives Act)
19. Act No. 168–1968 (Hospital Facilities Tax Incentives Act)
20. Act No. 135–1945 (Public Carrier in the Passenger Air Transportation Business Incentives Act)
21. Act No. 148–1988 (Fine Arts Institution Tax Incentives Act)
22. Act No. 47–1987 (Public & Private Sector New Housing Operation Co-participation Act)
23. Act No. 165–1996 (Low Income Elderly Rental Housing Program Act)
24. Act No. 244–2003 (Early Life Assistance Housing Project Creation Act)
25. Act No. 239–2004 (General Cooperative Act of 2004)
26. Act No. 516–2004 (Integral Development of the Book Industry Incentives Act)
27. Act No. 489–2004 (Comprehensive Development of the Special Planning Institute of *Caño Martín Peña*)
28. Act No. 185–2014 (Private Equity Fund Act)
29. Act No. 52–1989 (International Banking Center Regulation Act)
30. Act No. 7–1955 (Historical Zone Tax Incentives Act)
31. Act No. 148–1948, (Fine Arts Institution Tax Incentives Act)
32. Act No. 72–1962 (Puerto Rico Milk Industry Tax Incentives Act)
33. Act No. 14–1970 (Production and Sale of Puerto Rican Literary, Artistic and Craftsmanship Work Act)

34. Act No. 54–1971 (Flowers and Ornamental Plant Commercial Production Tax Incentives Act)
35. Act No. 124–1993 (Low-Income Housing Subsidy Program Act)
36. Act No. 75–1995 (*Río Piedras* Rehabilitation Special Act)
37. Act No. 14–1996 (*The Castañer* Development Special Act)
38. Act No. 213–2000 (Low-Income Housing for handicapped and Elderly Individuals Act)
39. Act No. 140–2001 (Low or Moderate Income Family Housing Construction or Rehabilitation Investment Incentives Act)
40. Act No. 399–2004 (International Insurers and Reinsurers Act)
41. Act No. 132–2010 (Real Estate Market Stimulus Act)
42. Act No. 216–2011 (Transition to the Housing Impulse Program Act)
43. Act No. 226–2011 (Program to Stimulate the Acquisition and Investment of Accumulated New Housing Inventory)
44. Act No. 273–2012 (International Financial Center Incentives Act)
45. Act No. 1–2013 (Employment Now Act)
46. Act No. 24–2015 (Puerto Rico Talent Retention Incentives Act)
47. Act No. 135–1997 (Tax Incentives Act of 1998)
48. Act No. 8–1987 (Puerto Rico Tax Incentives Act of 1987)
49. Act No. 126–1966 (Maritime Transportation Act)
50. Act No. 78–1993 (Tourism Development Incentives Act of 1993)

Exhibit B.—Current Tax Decrees and Exemptions

Act No. 120–1994 & 1–2011 (Internal Revenue Code of 1994 & 2011): 15
Act No. 225–1995 (Agriculture Tax Incentives Act): 4,207
Act No. 7–1955 (Historical Zone Tax Incentives Act): 286
Act No. 20–2012 (Act to Promote the Exportation of Services): 607
Act No. 22–2012 (Act to Promote the Transfer of Investors to Puerto Rico): 971
Act No. 73–2008 (Puerto Rico Economic Development Incentive Act): 555
Act No. 74–2010 (Tourism Development Incentive Act): 250
Act No. 8–1987 (Puerto Rico Tax Incentive Act): 16
Act No. 27–2011 (Film Industry Economic Incentives Act): 121
Act No. 78–1993 (Tourism Development Incentives Act of 1993): 359
Act No. 75–1995 (Río Piedras Rehabilitation Special Act): 1
Act No. 83–2010 (Green Energy Act of Puerto Rico): 72
Act No. 126–1966 (Maritime Transportation Act): 1
Act No. 135–1997 (Tax Incentives Act of 1998): 991
Act No. 168–1968 (Hospital Facilities Tax Incentive Act): 111
Act No. 52–1983 (Tourism Development Incentive Act of 1983): 13
Act No. 273–2012 (International Financial Center Incentives Act): 21

Exhibit C.—Tax Credits

Act	Description	Credits Fiscal Year 2016-2017	Tax Credits-Pending Evaluation
Act 98 - 2001	Housing Infrastructure	$0	$5,951,563
Act 183 - 2001	Conservation Easement	$0	$7,688,500
Act 212 - 2002 *	Urban Center Development	$9,143,668	$29,420,982
Act 302 - 2012	Donation to Ex Governors Foundations	$0	$391,000
Act 77 - 2015	Housing for the elderly	$0	$111,220,266
Act 159 - 2011	Solid Waste	$0	$4,825,000
Act 78 - 1993	Tourism Development	$1,413,896	$0
Act 74 - 2010	Tourism Development	$25,711,314	$133,776,214
Act 27 - 2011	Film Industry Development	$11,894,943	$72,669,617
Section 6 of Act 73 - 2008	Exempt Business in the process of closing operations	$7,500,000	$15,543,702
Section 5(c) of Act 73 - 2008 **	Research and Development	$90,000,000	$0
		$145,663,821	$381,486,844

Exhibit D.—Section 6051.07 of the Code

Law 33207 (2011–PRIRC § 6051.07)—Closing agreements.

(a) Authorization. The Secretary or his authorized representative is authorized to enter into an agreement in writing with any person relating to the liability of such person, or of the person or estate for whom he acts, in respect of any tax levied by this Code, for any taxable period. Provided that in a closing agreement the Secretary shall not:

(1) accept, after June 30, 2016, future tax payments that are not owed by the taxpayer at the time of the executing the closing agreement;

(2) grant or apply to a transaction covered by the closing agreement, preferential or lower rates than those established in this Code or in any other special law applicable thereof;

(3) grant or apply deductions or tax credit that are not allowed by this Code or by any applicable special law;

(4) classify as overpayment or apply as an overpayment, an amount not consisting of taxes previously paid;

(5) extend statute of limitations, except as allowed by this Code;

(6) condone interest or surcharges, except when allowed by this Code;

(7) modify the basis nor the amount of the gain on the sale of assets, in a manner contrary to the provisions of this Code;

(8) waive the requirement of filing returns, unless the return is part of and is included with the closing agreement; or

(9) grant agreements on matters or issues for which he is not expressly authorized to exercise his discretion.

(b) Finality. Such agreement once executed shall be final and conclusive, and except upon a showing of fraud or malfeasance, or misrepresentation of a material fact——

(1) The case shall not be reopened as to the matters agreed upon nor the agreement modified by any officer, employee, or agent of the Government of Puerto Rico, and

(2) In any suit, action, proceeding, such agreement, or any determination, assessment, collection, payment, abatement, refund, or credit made in accordance therewith shall not be annulled, modified, set aside, or disregarded.

(c) Every closing agreement shall expressly establish that the provisions regarding or applicable to taxable events occurring after the execution of the closing agreement shall be subject to any law amendment approved after the date of the execution of the referred to agreement.

(d) Penalties. The penalties for violations of closing agreements are contained in section 6030 of this subtitle.

(e) The Secretary shall establish a registry of closing agreements identifying each agreement per taxpayer. Each taxpayer may have access to the registry via internet but only to the agreements executed by him with the Treasury Department.

Historical Notes

In 2015,

Act 159–2015 amended sub sec. (a) of this section to add the provision containing 9 limitations to the Secretary's authority. Approved and effective September 30, 2015.

Mr. LAMALFA. Thank you, Mr. Carrión.

Next we will recognize Mr. Benítez for 5 minutes.

STATEMENT OF LUIS BENÍTEZ HERNÁNDEZ, CHAIRMAN, PREPA GOVERNING BOARD, SAN JUAN, PUERTO RICO

Mr. BENÍTEZ. Thank you, Chairman LaMalfa, Ranking Member Torres, Commissioner González, and members of this Committee. My name is Luis Benítez, and I am the Chairman of PREPA's Governing Board. PREPA produces and delivers virtually all the electric power consumed in Puerto Rico. Its future is central to the economic growth and the well-being of Puerto Rico.

Thank you for inviting me to this discussion on PREPA's progress in restructuring over the past several years. I will speak briefly about the challenge of PREPA to the RSA, how the RSA addressed those challenges, and the current status of the RSA.

As I described in my written testimony, in summer 2014, PREPA faced a severe financial and liquidity crisis. That threatened PREPA's ability to deliver electric power to Puerto Rico. To respond to those challenges, after many months of negotiation, PREPA and bondholders of 70 percent of its debt signed the RSA, the Restructuring Support Agreement.

Importantly, the RSA requires a sharing of the burden of the PREPA transformation to ensure neither the ratepayer nor the creditors should carry the burden alone. The RSA provides PREPA with restructure of the debt principal, significant interest rate relief, and liquidity to continue this operation. Besides a financial restructuring, the RSA set in motion a top-bottom reform of PREPA, including improvement of operation, an independent government, and investment in infrastructure.

Over the last few years, PREPA has attained great efforts to implement improvement in transactions contemplated by the RSA. PREPA obtained passage through the PREPA Revitalization Act of Puerto Rico last year, in February 2016, which, among other things, authorized the exchange of PREPA legacy bonds for new securitization bonds and creates a new independent governing board through extended executive search process outside the political process.

PREPA also obtained approvals from its regulator, the Puerto Rico Energy Commission, to a rate increase and new securitization charge required to implement the RSA. Together that rate will increase by approximately $.04 per kilowatt hour.

PREPA received Energy Commission approval of a modified Integrated Resource plan which permits PREPA to implement substantially all of this capital plan envisioned by the RSA. PREPA continues to resolve legal challenges to the PREPA Revitalization Act and propose securitization challenge invalidation proceeding before the Puerto Rico court. To date we have won summary judgment in the most significant case, and we have obtained dismissal in two cases.

After Congress passed PROMESA in June 2016, PREPA immediately began intensive discussion with creditors of a potential change to the RSA in light of PROMESA and concern about the cost of electricity in Puerto Rico. The creditors, however, hesitated to agree to any changes because of the possibility that the incoming governor and his new administration would have different views about the RSA and PREPA's restructuring.

Finally, in late January 2017, after several extensions of the RSA, PREPA and its creditors reached agreement in principle to modify certain terms of the RSA, subject to approval by the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF).

Ultimately, this modification will help provide additional savings to PREPA and decrease by $.01 per kilowatt hour the electricity rate contemplated by the RSA for each of the next 5 years. In addition, these modifications will eliminate the investment grade rating requirement for the securitization bonds. However, the agreement, in principle, was not executed, because AAFAF assumed responsibility for creditor negotiations on January 27, 2017, following the enactment of Act 2 of 2017 by the legislature of Puerto Rico. This Act grants AAFAF the sole responsibility to renegotiate, restructure, and reach agreement with PREPA's creditors since PREPA's Governing Board have that leader involvement with the restructuring discussion.

Although Puerto Rico is not currently involved in base discussion, PREPA's Governing Board continues to support the transformation and modernization of PREPA, as contemplated by the RSA, in addition to governing board support, all efforts to improve the RSA for relief of Puerto Rico and PREPA's consumer.

Mr. LAMALFA. We need to wrap up, sir, thank you.

Mr. BENÍTEZ. We stand ready to help implement any agreement, and sincerely hope agreement can be reached in the near term so that PREPA can focus on providing infrastructure and obtaining third-party investment. Thank you for the opportunity to participate in this hearing on behalf of PREPA and the Governing Board. Thank you.

[The prepared statement of Mr. Benítez follows:]

PREPARED STATEMENT OF PROFESSOR LUIS BENÍTEZ HERNÁNDEZ, CHAIRMAN, GOVERNING BOARD, PUERTO RICO ELECTRIC POWER AUTHORITY

Chairman of the House Committee on Natural Resources Bishop, Subcommittee Chairman LaMalfa, Ranking Member Torres, Commissioner González and members of the Subcommittee: my name is Professor Luis Benítez Hernández, and I am the Chairman of the PREPA Governing Board. I have served in this role since November 2016. Prior to becoming Chairman, I served as the Vice Chair and the Chairman of the Finance Committee of the PREPA Governing Board since June 2014. I am also the former President of the Puerto Rico Economists Association, the former Chief Economist and Director of the Economic and Social Planning Program of the Puerto Rico Planning Board, and the former Co-President of the Special Commission for the Fiscal and Tax Reform. I have served as an economics litigation expert witness and an adjunct professor of economics at the University of Puerto Rico.

I want to thank the Subcommittee for giving PREPA the opportunity to participate in this hearing. Despite significant progress over the past few years, PREPA continues to face a difficult financial situation and we greatly appreciate the Subcommittee's interest in our ongoing restructuring efforts.

PREPA was created for the purpose of conserving, developing and utilizing Puerto Rico's energy resources to promote the general welfare of Puerto Rico's residents and to increase commerce and prosperity. PREPA produces and delivers virtually all of the electric power consumed in Puerto Rico. Its future is central to the economic growth and well-being of Puerto Rico.

Since my appointment to the PREPA Governing Board, I have been a part of PREPA's efforts to address the fundamental operational deficiencies and financial difficulties that have hindered PREPA and the people and businesses it serves. Our efforts to restructure PREPA led to the execution of the Restructuring Support Agreement (RSA) in December 2015 that is the subject matter of today's hearing.

BACKGROUND

As the Subcommittee may recall from prior testimony before the Subcommittee on Energy and Mineral Resources in January 2016, PREPA has experienced financial difficulties for several years. As demand for power declined during the recession, PREPA took on considerable debt to fund its operating expenses rather than raise base rates. By the summer of 2014, PREPA faced a severe financial and liquidity crisis, created by a combination of recurring negative cash-flow, the ongoing recession, outdated generation facilities, substantial debt maturities and an inability to access the capital markets. This crisis—magnified by PREPA's inability at that time to access a Federal restructuring regime—threatened PREPA's ability to operate and imperiled PREPA's ability to provide energy to Puerto Rico.

PREPA's problems did not arise overnight, or even in a few years—they developed and intensified over a period of decades. During this time, management and other strategic decisions, including rate setting, staffing and capital investment were too often based on political or electoral considerations rather than best practices or business imperatives. As a result of this dynamic, PREPA suffered from regular employee reassignments and had difficulty conducting rational long-term planning, which compounded existing challenges.

These deep-rooted problems demanded a comprehensive solution. First, the PREPA Governing Board and its advisors stabilized the situation by PREPA's signing of long-term forbearance agreements with creditors representing more than 60 percent of PREPA's debt, including its fuel line lenders. These agreements gave PREPA relief on $700 million of maturing debt, increased the threshold necessary for the exercise of bondholder remedies, provided relief from PREPA's obligation to make over $600 million in annual interest and sinking fund payments, and permitted a reallocation of construction reserves to operating expenses. Second, the PREPA Governing Board retained financial advisors and implemented cash-flow forecasting and other operational controls. Last, the PREPA Governing Board and its advisors designed a comprehensive business and restructuring plan, based on the principle of burden-sharing across stakeholders, and worked closely with PREPA's creditors to negotiate the RSA and subsequent amendments and supplements.

KEY TERMS OF PREPA'S RESTRUCTURING SUPPORT AGREEMENT

In December 2015, PREPA and creditors holding or controlling approximately 70 percent of its debt, including bondholders, fuel line credit lenders and bond insurers, signed the RSA to address PREPA's fiscal and operational challenges. The RSA required all of PREPA's stakeholders to contribute to its rehabilitation and transformation. It is the product of good faith negotiations by all parties, particularly considering that when it was signed, PREPA had no access to any legal mechanism like PROMESA to facilitate its restructuring.

- For the uninsured bondholders, the RSA provides for a 15 percent principal haircut, a fixed interest rate that is lower than the current rates and a 5-year principal holiday. Although most of the media attention has been on the 15 percent principal haircut, the most important financial benefit of the RSA is that it reduces the interest rate from approximately 5.5 percent to 4.75 percent per annum and extends principal maturities by 5 years. In exchange, bondholders would receive securitization bonds to be issued by a new, bankruptcy remote entity known as the PREPA Revitalization Corporation that is authorized to impose and collect a non-bypassable transition charge to cover the costs of refinancing at a discount PREPA's legacy bond debt.
- PREPA's fuel line credit lenders were given the option of converting their existing credit agreements into term loans, with a fixed interest rate of 5.75 percent per annum, to be repaid over a period of 6 years in accordance with an agreed amortization schedule, or exchanging all or part of the principal due under the existing fuel line credit agreements for securitization bonds to be issued on the same terms as those issued and exchanged for the uninsured bonds, including the 15 percent principal haircut.
- PREPA's bond insurers agreed to issue approximately $460 million in surety insurance policies to support a significant portion of the debt service reserve fund requirement for the securitization bonds.

The RSA, however, is not just about a financial restructuring. The RSA is the heart of PREPA's overall strategy to transform into a modern and reliable utility.

As part of the RSA, PREPA agreed to seek reasonable rate increases, given that PREPA's base rates had not been increased since 1989 and that its current rate structure did not fully cover its costs. At the time we executed the RSA, our financial advisors estimated that there was an 8-cent-per-kilowatt-hour gap between the existing base rate and the rate needed to cover PREPA's costs including capital improvements and debt service. Consistent with the RSA, PREPA sought and obtained the approval from the Puerto Rico Energy Commission to implement a rate increase of approximately 4 cents per kilowatt hour (including both the new transition charge and a PREPA rate increase).

Pursuant to the RSA, PREPA obtained more than $400 million in short term "relending" financings from the creditors who had signed the RSA. Under these financings, RSA creditors agreed to purchase new PREPA bonds in the same amount they received in debt service payments from PREPA on various principal and interest payment dates. These relending arrangements allowed PREPA to continue making debt service payments while conserving liquidity in an uncertain time. Without these relending arrangements, PREPA would have run out of money.

In addition, the RSA contemplates important operational improvements with a goal of increasing efficiencies, reducing costs and implementing best industry practices. PREPA had long been plagued by inadequate procedures and controls for managing fuel supply, inventory, and collection efforts. During this time, we worked with our advisors to achieve $267 million in one-time savings and $212 million in recurring annual operating expense savings.

The RSA also provides a framework for the modernization of PREPA's outdated and inefficient generation fleet and transmission system, which have been responsible for rising costs and decreasing reliability to customers over time. It was also necessary to overcome limitations on diversifying PREPA's fuel mix, and to implement necessary safety procedures and compliance measures.

The long-term capital plan that was developed as part of the RSA and PREPA's Integrated Resource Plan calls for approximately $2.4 billion of investment in new infrastructure—including sustainable renewable energy initiatives—over the next 10–15 years. Phase 1 of the investment plan calls for upgrades at the Palo Seco plant and construction of the Aguirre Offshore GasPort to improve fuel diversity, meet Federal Mercury and Air Toxics Standards (MATS), and increase system reliability. Phase 2 comprehends improvements in energy efficiency and upgrades to the existing the fleet through repowerings or public-private partnerships (P3).

While PREPA presently could use the savings achieved through operational improvements and the debt restructuring to fund this capital improvement plan, our goal has been to provide a platform for third-party investment through a competitive bidding process. We believe there is substantial interest by the private sector in making new infrastructure investments as demonstrated by a successful Request of Expressions of Interest process we ran in Fall 2015. At that time, 31 proposals were received from 16 participants, which included many major market players. All participants expressed an interest in helping PREPA modernize its infrastructure, whether through P3s or other approaches. Importantly, all of the participating investors said that PREPA must fix its balance sheet before the investors would make any investments.

The RSA also required the creation of an independent governing board comprised of non-political appointees with substantial private sector experience. Pursuant to the RSA and the PREPA Revitalization Act (Act 4–2016), PREPA retained an independent, internationally recognized search firm (Russell Reynolds) to identify and interview qualified candidates. Governor Padilla then appointed a slate of candidates from the list of nominees prepared by the search firm, and the Puerto Rico Senate confirmed the Governor's appointments in December 2016.

Implementation of the RSA has required significant effort. For example, PREPA obtained passage of the PREPA Revitalization Act in February 2016. Among other things, this law authorized the issuance of the securitization bonds in exchange for PREPA's legacy bonds. In June 2016, PREPA obtained Energy Commission approval of the transition charge to support the securitization bonds and also obtained provisional approval of a 1.3 cents per kilowatt hour rate increase. In January 2017, PREPA obtained final approval of a 1.03 cents per kilowatt hour permanent rate increase. This rate increase has to be seen in the context of the rate saving contributions from creditors (so far in the range of approximately 5 cents per kilowatt hour) and the operational improvements of approximately 1.4 cents per kilowatt hour (the equivalent of $250 million). In addition, in the summer of 2016, PREPA received Energy Commission approval of a modified Integrated Resource Plan that permits PREPA to implement substantially all of the capital plan envisioned by the RSA, except for the Aguirre Offshore GasPort Project (AOGP). We continue to pursue approval of the AOGP project, which is also included in Governor Ricardo Rosselló Nevares' energy reform plan.

In addition, PREPA has been working to resolve pending challenges to the RSA transactions. As part of the PREPA Revitalization Act, Puerto Rico established a process allowing all interested parties to challenge the PREPA Revitalization Act and the RSA transactions before the expiration of two statutes of repose. In total, seven different lawsuits were filed challenging the RSA transactions. Three of these lawsuits have been dismissed, leaving four remaining. PREPA won summary judgment in one of the remaining four cases, and that case is now on appeal before the Puerto Rico Supreme Court. The remaining three cases are administrative law cases, which have been consolidated into one proceeding by the courts, and we hope to resolve them in the next 3 or 4 months. PREPA will need to continue to vigorously defend against these lawsuits and remains confident that the courts should rule in PREPA's favor.

ENACTMENT OF PROMESA

As this Subcommittee knows, Congress passed the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") in June 2016. Following its passage, PREPA immediately began discussions with creditors about potential changes to the RSA in light of PROMESA. For example, the RSA assumed that approximately $700 million in PREPA legacy bonds would remain obligations of PREPA after consummation of the restructuring because we assumed that some creditors would not voluntarily participate in the exchange. PROMESA gave us the opportunity to bind all bondholders to the exchange into securitization bonds, as long as we met the requisite voting threshold, but we needed to adjust parts of the deal (particularly the size of the debt service reserve or the amount of the monoline surety). In addition, after executing the RSA, it became clear that the rating agencies were not in position to immediately assign an investment grade rating. At the same time, to make the deal work for PREPA, we needed to fix the interest rates at the lowest interest rate contemplated by the RSA, even without an investment grade rating.

As PREPA and its advisors were thinking about ways to adjust the RSA in light of PROMESA, we were also hearing heightened concerns from the public, the Oversight Board and the Congressional Task Force on Economic Growth in Puerto Rico about the costs of electricity in Puerto Rico and the potential negative impact such costs could have on Puerto Rico's economy. With that in mind, the current Governing Board instructed PREPA's advisors to seek additional creditor concessions that maintained the key economics of the RSA but also provided rate relief over the next 5 years.

As we approached an RSA automatic termination date of December 15, 2016, our management and advisory teams held intensive discussions with our creditors. We believed, and continue to believe, that maintaining the RSA was critical to PREPA's future. Then, as now, if the RSA were terminated, $700 million in fuel line debt and more than $375 million in relending bonds would become immediately due. In addition, termination would trigger potential disputes with fuel suppliers and other counterparties who may seek to terminate contracts or otherwise reduce credit. At the same time, we were (and continue to be) keenly aware that many people in Puerto Rico are expecting improvements to the deal in light of the availability of the restructuring regime provided under PROMESA.

Not surprisingly, PREPA's creditors were hesitant to address any changes in December given the uncertain political situation and the possibility that the incoming Governor and his new administration would have different views about the RSA and PREPA's restructuring. As a result, the creditors and PREPA agreed to extend the RSA until January 31, 2017 to give PREPA and its creditors more time to finalize adjustments in light of PROMESA and to allow the new administration to weigh in with its views.

In the face of this deadline, in late January 2017, PREPA and its creditors reached an agreement in principle to modify certain terms of the RSA, subject to approval by the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF). Among other things, these modifications included eliminating the investment grade rating requirement on the securitization bonds and increasing the amount of the surety to be posted by the monoline insurers. In total, these modifications would have reduced the electricity rates contemplated by the RSA for each of the next 5 years by approximately 1 cent per kilowatt hour. The agreement in principle, however, was not executed because AAFAF assumed responsibility for creditor negotiations on January 27, 2017.

CURRENT STATUS OF RSA DISCUSSIONS

The enactment of Act 2–2017 by the Legislature of Puerto Rico in January of this year granted AAFAF the sole responsibility to renegotiate, restructure and reach agreement with PREPA's creditors. As a result, PREPA and its Governing Board have not been involved with the restructuring discussions since January 27, 2017, when AAFAF assumed this role. Of course, PREPA's Governing Board continues to support the transformation and modernization of PREPA, especially efforts to improve PREPA's infrastructure and obtain third-party investment through P3 projects and otherwise. In addition, PREPA's Governing Board—whose members have significant experience working with distressed companies such as General Motors—supports ongoing efforts to improve the terms of the RSA for the benefit of the people and businesses of Puerto Rico. The enactment of PROMESA presents a once-in-a-lifetime opportunity to address PREPA's financial situation and to obtain the best deal possible from the creditors, and Puerto Rico's economic and fiscal situation demand that PREPA succeeds in doing so. We therefore stand ready to implement any agreement that is reached with the creditors to improve the terms of the RSA.

I would like to thank the Subcommittee for giving me the opportunity to participate in this hearing on behalf of PREPA and its Governing Board.

QUESTIONS SUBMITTED FOR THE RECORD BY REP. GRIJALVA TO MR. LUIS BENÍTEZ, CHAIRMAN, PREPA GOVERNING BOARD

Question 1. PREPA has had several problems. Perhaps the biggest—and the one that has adversely affected Puerto Ricans and the territory's economy the most—is that PREPA is two-thirds dependent upon imported oil and has inefficient power plants and an unreliable distribution system. This has resulted in extremely high power rates.

PREPA's plan to improve its infrastructure under the agreement is extremely unaggressive, with the improvements not being completed until 2030! The net result of the plan and the PREPA Restructuring Support Agreement would be that creditors will be paid almost all of what they were due, consumers will pay higher rates, and rates will not be able to be reduced through more efficient and reliable infrastructure.

Major companies have proposed investing their own money to build much more efficient power plants with power purchase agreements and improve electricity distribution. The last governor did not act on this. PROMESA includes provisions to expedite such projects. These sorts of agreements with the private sector would put PREPA in a much better position to pay creditors.

What is being done to take advantage of private sector offers and PROMESA to improve energy infrastructure so that substantial amounts of money can be saved in fuel costs, customer rates can be substantially lowered, PREPA's financial position can be improved—including for the benefit of creditors?

Answer. Thank you again for the opportunity to testify before the Subcommittee and your continued support for our efforts to revitalize PREPA and Puerto Rico. In response to your question, I want to assure you that PREPA is very focused on improving its infrastructure and promoting private investment. Over the past few years, our goal has been to transform PREPA into an efficient, world-class utility, which transformation requires an operational restructuring as well as a financial restructuring. At the same time, our goal has been to ensure that PREPA's electricity rates are as affordable and reasonable as possible.

Our advisors estimated that without any restructuring or rate adjustment, the gap between PREPA's all-in electricity rates and costs would be more than 8 cents per kilowatt hour (kWh). Our goal has been to eliminate this gap through equitable burden sharing. Although the media and policy makers have focused on the 15 percent principal haircut embodied in the RSA, the main savings under the RSA is a reduction in the interest rate (from an average of 5.5 percent to 4.75 percent) and a 5-year principal holiday. As I mentioned in my testimony, after the enactment of PROMESA, PREPA's Governing Board negotiated additional improvements to the RSA which would have reduced the projected electricity rates by approximately 1 cent per kWh each year for first 5 years following the restructuring. While as noted in my written testimony, the Puerto Rico Fiscal Agency and Financial Advisory Authority assumed full and complete responsibility to negotiate, restructure and reach agreement with PREPA's creditors, the PREPA Governing Board supports the Rosselló administration's efforts to improve the RSA even more.

You are correct that, as I noted in my testimony, for several decades PREPA did not operate with the level of efficiency associated with the private sector or even comparable units of government in other jurisdictions. In too many instances, PREPA's decisions were based on political or electoral factors rather than sound business practice. For that reason, the RSA required PREPA to implement a new governance structure, with independent board members with private sector experience. In 2016, the Puerto Rico legislature passed a law (Act 4–2016) implementing the governance reform contemplated by the RSA. New legislation has also been proposed to allow the Governor to name new members of the PREPA board, but it has not passed the Puerto Rico Senate.

PREPA has been working with its advisors to identify operational improvements that could provide PREPA and its ratepayers with near- and long-term benefits and cost savings over the long term. In 2015 and 2016, PREPA achieved $267 million in one-time savings and $212 million in recurring, annual operating expense savings. These savings provide important benefits for PREPA, its customers, all residents of Puerto Rico. Indeed, achieved cost savings have already reduced PREPA's approved, regulated rates from what they otherwise would have been.

We are aware that operational improvements are only part of the solution, particularly when PREPA remains burdened by aging infrastructure and, as you note, an inefficient generation fleet that is overly reliant on one fuel source. PREPA's Integrated Resource Plan (IRP), which was recently approved, as modified, by the Puerto Rico Energy Commission (PREC), identifies PREPA's key medium to long-term goals, namely, (1) modernization of PREPA's aging infrastructure, particularly its generating fleet, and improving fuel diversity, (2) improving system reliability and flexibility, (3) achieving environmental regulatory compliance, including compliance with Federal Mercury and Air Toxics Standards (MATS), and (4) providing the framework that will permit the accelerated deployment of additional renewable resources. PREPA's Governing Board recognizes that access to and the intelligent deployment of private capital are essential to achieving these goals.

Even prior to the passage of PROMESA, PREPA's Governing Board had taken important steps to identify possible private sector partners. In late 2015, PREPA issued a request for expressions of interest (REOI) seeking to test the market for interest in private investment that would upgrade PREPA's generating fleet. In response, PREPA received over 30 proposals from 16 energy market participants, including many major energy players of the kind you referred to in your inquiry. These submissions expressed a willingness to invest in new infrastructure projects, but only after PREPA first fixed its balance sheet. Although these expressions of interest were a welcome and positive sign for PREPA's future, PREPA must finally resolve its financial crisis before it can expect any influx of private capital.

PREPA desires to capitalize on the opportunities new investment can support, consistent with prudent utility practice. Our vision for PREPA includes a modern and resilient transmission and distribution system with diverse sources of fuel, including renewables, and supported by private capital to invest in new and efficient generating capacity. That being said, achieving those goals and seizing on the opportunities offered by private sector partners similarly cannot be accomplished immediately. They will take time to implement, but PREPA is not just starting that task.

For instance, as with any utility, achieving fuel diversity requires the requisite infrastructure. This challenge is compounded in an island economy like Puerto Rico, which currently must import substantially all of its fuel and generate all of its electricity. In the IRP, PREC has authorized PREPA to continue its efforts to secure permits for and conduct other preliminary work, such as engineering and planning, on the Aguirre Offshore GasPort (AOGP) and four related fuel conversions (Aguirre thermal 1 and 2 and Aguirre CC 1 and 2), subject to a $15 million, going forward, aggregate spending limit, pending PREPA's submission and PREC approval of further AOGP economic analyses. If finally approved, the project would increase Puerto Rico's ability to import natural gas, reducing reliance on oil-fired generation. In the IRP, PREC also directed PREPA to pursue permitting of several dual-fuel, combined cycle plants, including new generation facilities and the repowering of certain existing facilities.

Under PREPA's capital plan, PREPA's preferred approach to the required system modernization is to run a competitive process to allow private investors to submit bids for public-private partnerships (P3s) and then select winning bids through a transparent and open process. The cost to PREPA from such P3s will of course need to be passed through to PREPA's customers, subject to PREC approval, but it is anticipated that the private sector will provide cost efficiencies that might not otherwise be available (efficiencies which will also inure to the benefit of PREPA's ratepayers). In any event, the modernization projects will be phased beginning in Fiscal

Year 2018. Overall, the plan provides for $2.4 billion in capital improvements over 10 years.

Of course, we realize that private investment is not cost-free. The cost of this (and all) privately invested capital to be applied to the renewal and recovery of PREPA will be passed through to PREPA by these investors. PREPA will be required, upon PREC review and approval, to include such additional capital cost in its rates to be paid by PREPA's customers, as is the case with every investor-owned and governmental electric utility operating in the United States. In addition, as noted earlier, the ultimate cost to PREPA of that privately invested capital will depend in very large measure on PREPA's credit rating because PREPA will be the sole user of the assets financed with such private capital. It will be PREPA's financial condition and creditworthiness and, because PREPA does not operate in a vacuum, that of the government of Puerto Rico, that will determine the return on investment demanded by such private investors (subject to negotiation). As noted above, because private capital will not be available to PREPA until after PREPA's restructuring is completed, it is critical for PREPA to move forward expeditiously with its financial and operational restructuring.

Again, thank you for your interest in PREPA's transformation.

Mr. LAMALFA. Thank you. OK. We are going to go a little out of order here—we are going to move to Mr. Bergonzi.

STATEMENT OF ADAM BERGONZI, MANAGING DIRECTOR AND CHIEF RISK OFFICER, NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION, PURCHASE, NEW YORK

Mr. BERGONZI. Good morning. I am the Chief Risk Officer of the National Public Finance Guarantee (National), a monoline financial guarantee insurance company. I would like to thank Chairman LaMalfa and fellow members of the Subcommittee on Indian, Insular and Alaska Native Affairs for allowing me the opportunity to come and speak to you today.

For over 40 years, National has been in the business of guaranteeing the debt of municipal issuers in the U.S. public finance market. Our insurance product enables municipalities to save on interest expense, and attracts investor confidence because they know that their repayment is guaranteed. National believes the restructuring contemplated today will stabilize PREPA's finances, create a framework for financing long-overdue improvements to its electric generation infrastructure, and put PREPA, importantly, on a path to restored market access.

National guarantees debt issued by cities, states, counties, airports, roads, and public utilities. We effectively lend our high credit ratings to the borrower, thereby reducing their debt cost. We have shared these savings with the borrower.

Municipal issuers, therefore, save money when using our product. Our policies are irrevocable. We are not traders, we do not profit from debt restructurings, other than by limiting defaults or losses. We are akin to long-term, buy-and-hold investors, and we can only lose money in these situations. We will be invested in Puerto Rico for many years to come.

National has nearly $3.6 billion exposure to Puerto Rico issuers, including $1.4 billion to PREPA. We are, in fact, the utility's largest single creditor. Together with assured, the monolines represent approximately $2.2 billion of the $9 billion of PREPA's debt. Since 2015, National has labored in good faith, alongside PREPA's institutional bondholders and Puerto Rico, to achieve a sustainable long-term solution for PREPA. We very carefully analyzed PREPA's operations and finances, and we have negotiated the restructuring with the following key goals in mind:

(1) Create a stable financial platform that will provide eventual access to the capital markets for the utility.

(2) De-politicize PREPA through the creation of an independent board. We believe this is vital to avoid the past mistakes of policy being driven by past administrations.

(3) Position the utility to address significant O&M savings for further rate reduction.

(4) Lower PREPA's debt burden, and provide near-term liquidity for reinvestment and planning.

(5) Assure a steady fuel supply to the utility. All of these can be said to serve the ultimate goal: again, of facilitating private investment over time in cheaper and more efficient generation from better fuel sources for the utility.

The parties to the RSA include PREPA and 70 percent of its bondholders. We believe the restructuring achieves a fair balancing of interest among Puerto Rico, PREPA, its ratepayers, bondholders, and trade partners.

The provisions are, really, three: (1) an exchange of uninsured PREPA bonds at an 85 percent of par discount into a newly-formed bankruptcy-remote entity. This will be backed by a special assessment collected by PREPA; (2) the fuel line lenders are repaid now over a 6-year period, and have reduced the interest on the fuel-line loans; and (3) the monolines have agreed to provide surety bonds of up to $462 million to fund a debt reserve fund for the securitization bonds. This is to, in effect, compensate for the fact that the utility cannot currently raise capital, nor can it currently expend cash on hand to raise that financing.

Importantly, the surety supports an eventual rating of this transaction, and supports the credit and trading of the secondary market bonds for the securitization. Creditors have importantly needed to address significant liquidity needs for the utility during this period, and the RSA, through the collective action of creditors, has purchased $375 million of bonds on behalf of creditors for the utility.

We have waived reserve requirements to release an additional $500 million of liquidity to PREPA, granted the use of general funds for capital improvements prior to debt service, and finally, have permitted PREPA to use cash on hand in unspent construction funds.

The RSA debt is only 3.3 cents per kilowatt hour of an overall $.22. This is 15 percent and is in line with similar institutions and similar utilities across the country. More importantly, $.11 is for fuel and purchased power, and this is where we urge the real savings over time before the utility can occur. We do not believe PREPA is over-indebted; it is very inefficient.

Finally, the punch list on PREPA, the RSA has been substantially negotiated, as you have heard. We do have some issues with implementation under PROMESA. These are positive aspects that might actually add value to the transaction. The RSA complies with all legislative and regulatory requirements, including Act 4 of

2016, and the Energy Commission's 2016 PREPA restructuring order.

PREPA is a defendant in several judicial validation proceedings that are challenging the RSA and brought in court to facilitate closure of that transaction, but that is going well. The first case has been rendered positively in front of PREPA.

Finally, I would just say that the RSA is a pre-existing voluntary agreement under PREPA. Section 104, which provides for a streamlined process for final approval—this statute was designed to encourage consensual agreements like the RSA, and we think this could be a lost opportunity to reform the utility and provide a foundation for economic growth in Puerto Rico, and it may call into serious question whether the PROMESA board and Puerto Rico can foster similar consensual agreements to restore market access.

I thank you for the time.

[The prepared statement of Mr. Bergonzi follows:]

PREPARED STATEMENT OF ADAM BERGONZI, MANAGING DIRECTOR AND CHIEF RISK OFFICER, NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

INTRODUCTION TO NATIONAL

National Public Finance Guarantee ("National") is a municipal-only monoline insurer with over 40 years of experience in the municipal market. Through its municipal bond insurance products, National has delivered savings to municipalities across the United States and provided credit protection to individual investors, thereby facilitating the selling and purchasing of municipal bonds which are critical to finance essential public infrastructure projects.

NATIONAL'S PARTNERSHIP WITH PUERTO RICO

For over 30 years, National has partnered with Puerto Rico and its bondholders and currently insures approximately $3.6 billion of Puerto Rico bonds issued for energy, transportation, higher education and general government purposes. A summary of this activity is as follows and notes where National has contributed capital in the form of Claims Paid and Relending Bonds over the past 2 years:

	Gross Par Outstanding	Claims Paid	Relending Bonds	Total Exposure
Commonwealth GO	$855	$192	–	$1,047
PRHTA	706	5	–	711
PREPA	1,249	–	139	1,388
COFINA(1)	684	–	–	684
UPR	86	–	–	86
Inter-American UPR	26	–	–	26
Total	$3,607	$197	$139	$3,943

Note: As of 9/30/2016

(1) Excludes interest accreted to-date on CABs.

NATIONAL AND PREPA

National insures nearly $1.4 billion of PREPA bonds—making National PREPA's single-largest creditor. National has worked constructively with PREPA and the Puerto Rico Government toward an optimal consensual outcome for all stakeholders over the past 2 years. Our objective is the same as Puerto Rico's: a sustainable, long-term solution. Accordingly, in December 2015, 70 percent of PREPA's creditors, including National, reached a voluntary agreement known as the Restructuring Support Agreement or "RSA" that would allow PREPA to restructure its debt on consensual terms.

The RSA is designed to achieve the following objectives:

a. create a stable financial platform to permit access to the capital markets;
b. depoliticize PREPA through the creation of an independent board of directors;
c. position PREPA to reap the benefits of operational and maintenance savings, thereby creating opportunities for further rate reduction;
d. assure a steady fuel supply for the island; and
e. achieve the necessary financial stability to encourage future private investment in generation, transmission, and distribution of electricity.

OVERVIEW OF THE PREPA RSA AND CREDITOR CONTRIBUTIONS

The RSA entails the following:

a. Exchange of **uninsured PREPA Bonds** at 85 percent of par into a newly formed bankruptcy-remote entity ("SPE"). The entity would be backed by a special assessment charged by PREPA (the "securitization charge").
b. **Fuel line lenders** are repaid ~$650 million of currently due loans over 6 years. Interest rate on fuel line loans reduced by ~150 basis points.
c. **Monolines** to provide sureties of up to $462 million to fund a Debt Service Reserve Fund ("DSRF") for the securitization bonds which would be used after a $65 million cash funded DSRF.

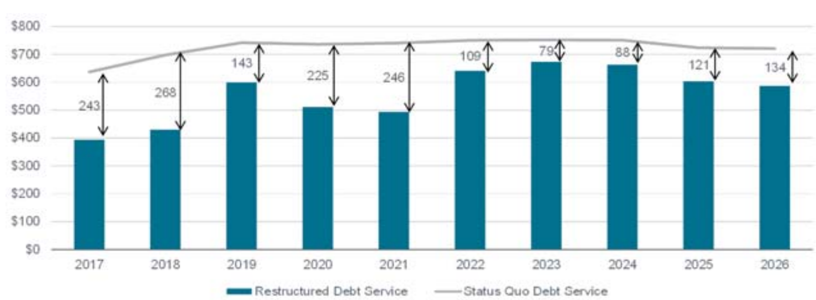
In addition to the concessions made in the RSA, National and other creditors have made important contributions over the past 2 years that have allowed PREPA to continue operating despite its lack of access to the capital markets:

a. Purchased $375 million of new bonds—over a third of which came from National.
b. Additional bond purchase avoided payment defaults and prevented a contraction of fuel vendor credit terms.
c. Waived collateral requirements (thereby releasing over $500 million in needed liquidity to PREPA).
d. Permitted the use of general fund monies for capital improvements prior to debt service.
e. Permitted PREPA to use cash in the construction fund, providing further liquidity.

All of the above actions have enabled PREPA to operate at levels of liquidity necessary to serve Puerto Rico.

BENEFITS OF THE RSA TO PREPA AND PUERTO RICO

The RSA lowers PREPA's overall debt burden and provides near-term liquidity for reinvestment. According to PREPA's petition for a Restructuring Order filed in April 2016, the RSA leads to $1.7 billion of savings over a 10-year period. To the extent the RSA is enacted through a Title VI proceeding under PROMESA, the savings will be even greater, as uninsured bondholders (including those not currently parties to the RSA) would all take a principal deferral and a 15 percent principal discount.



The RSA also starts PREPA on a path to restored access to the capital markets and third party investment. The debt restructuring would allow PREPA to achieve a higher credit rating. Closing the RSA would also facilitate integration of P3 investment in PREPA, as third party investors would be unlikely to extend credit or provide financing to PREPA absent a resolution of its debt restructuring. The SPV may also provide a go-forward financing vehicle for select capital projects. In sum, closing the RSA provides a bridge for PREPA to access the capital it needs for critical investments that will transform the utility.

Finally, the RSA has contributed to significant business improvements at PREPA. The stability provided by creditor forbearance has restored trade terms with fuel vendors and PREPA currently has payables balances of over $350 million with terms of up to 60 days. The RSA also requires increased transparency and improved PREPA governance. Closing the RSA will allow management to shift their attention to critical issues facing the business, and allow PREPA to proceed with a much-needed operational transformation to provide cheaper and more stable service to the island.

RISKS OF TERMINATION OF THE RSA

If the RSA is terminated, PREPA would likely default on its over $450 million bond payment due July 1, 2017. This would in turn lead to bondholder litigation (post-expiration of stay) for receivership and the enforcement of liens for Special Revenue debt. Active litigation with bondholders would deter critical private investment, and delay EPA compliance and renewable integration. In addition, approximately $730 million in payments for matured fuel lines, which lenders are currently forbearing from exercising remedies due to RSA, would come due and current fuel vendor credit terms ($342 million of current payables balances) that were enabled by the RSA could be withdrawn—all of which could generate additional litigation and affect PREPA's operations. Furthermore, a default would undermine PREPA's creditworthiness and delay PREPA's re-entry to the capital markets.

Puerto Rico also risks losing credibility with investors—and therefore renewed access to the capital markets—if the RSA falls prey to the vagaries of local politics or to a change of administration. The RSA and its implementing legislation, Act 4–2016, recognized the importance of a nonpolitical, professional board of directors for PREPA as a way to insulate PREPA from political risk and guarantee a competent, expert-driven, and evidence-based stewardship for the utility. The RSA is the only fully negotiated solution that creditors and the Puerto Rico government have reached in the last 3 years. Abandoning it at this time bodes ill for future negotiations with creditors on PREPA and other Puerto Rico government entities.

In the event a defensive Title III proceeding was filed, such a proceeding would not create stability for PREPA. Title III-related creditor litigation would still occur and liquidity and trade contraction could remain obstacles to PREPA's recovery.

Termination of the RSA would also lead to the loss of voluntary creditor concessions. PREPA's former CRO, Lisa Donahue, has stated in testimony to the Puerto Rico Energy Commission, that bondholders would likely receive 100 percent recovery in litigation. In the interim, PREPA would be unable to access capital markets or public-private partnerships until any litigation is resolved, which could take [years]. This is all compared to the current RSA, which contemplates a 15 percent principal haircut, interest rate reduction, 5-year principal deferral, and extension of up to $462 million of credit by the monolines.

Puerto Rico has benefited in the past few years from a significant decrease in electricity rates thanks in large part to historically low oil prices. PREPA chose to pass on all of those savings to consumers, while creditors were not being paid full debt service. PREPA needs to, and is statutorily and contractually obligated to, increase rates to account for debt service. However, it had not (until last year) increased its base rate since 1989, despite having expenses that exceeded revenues. The required increase is limited to 3.3 cents/kwh under the RSA, compared to an increase of an average of 4.6 cents/kwh from FY2017–FY2020 if PREPA had to pay its status quo projected debt service (see Exhibit A for a detailed breakdown of PREPA's rate).

CURRENT STATUS OF THE PREPA RSA

The PREPA RSA has received support and approval from key stakeholders. Approximately 70 percent of PREPA's legacy bond creditors and all of PREPA's bank creditors support the restructuring. Under Governor Padilla's administration, the Puerto Rico government put in place the legislative and regulatory framework needed to implement the RSA. In February 2016, the Legislature enacted Act 4–2016, which carried out central provisions of the agreement, most notably the securitization structure and transition charge necessary for PREPA's transformation into a financially stable utility. In June 2016, PREPA's regulator, the Energy Commission, approved a transition charge methodology. The Puerto Rico courts, meanwhile, are in the process of validating the securitization structure (see further below). Additionally, both the Puerto Rico Legislature and Congress expressed their support for the RSA by carving out PREPA from the Moratorium Act and PROMESA.

PREPA is in the midst of validation proceedings, where challengers are questioning both the validity of Act 4–2016 and the validity of the Energy Commission's 2016 PREPA Restructuring Order (both of which must be upheld as a condition to the RSA). The first decision recently came out in favor of validity of Act 4 and other Phase I cases were voluntarily dismissed (the decision in the *UTIER* case is being appealed). The Phase II cases have been consolidated.

In January 2017, National participated in discussions with PREPA's advisors regarding adjustments to the RSA needed to close the restructuring under PROMESA. Near the end of the month, however, Governor Rosselló appointed AAFAF to take over the negotiations on behalf of PREPA, and creditors agreed to extend the RSA from January 31, 2017 to March 31, 2017. Since then, no one from AAFAF has shared any proposal with National to close the restructuring.

OPPORTUNITIES FOR PREPA POST-RESTRUCTURING

According to PREPA's most recent business plan, chronic underinvestment and inconsistent management have led PREPA's facilities to fall significantly behind industry standards. For example, PREPA's median plant age is 44 years (compared to an industry average of 18 years), and PREPA's facilities experience significant forced outages (16 percent, compared to industry average of 11 percent). Once the restructuring has closed, PREPA will be able to pursue the investments needed to achieve cheaper, cleaner and more reliable energy.

PREPA's long-term investment program seeking compliance with environmental requirements totals over $4.5 billion from FY2016–FY2035 ($2.4 billion in first 10 years). Significant projects include:

a. AOGP ($517mm): Facility is expected to be built in 18 months (post-permitting). AOGP would improve fuel diversity, as needed to achieve environmental compliance, and would allow for construction of new units that rely on gas rather than diesel

b. New Units/Fleet Upgrade ($1.7bn): Investment in new fleet would reduce costs and enhance system reliability (reduce outages). Average PREPA thermal unit is 30 percent less efficient than a new combined cycle gas unit

c. Transmission and Distribution ($250mm): Improve distribution system reliability (reduce energy losses)

d. Increasing share of Renewable Energy from 2 percent to 17 percent

Besides achieving regulatory compliance, improved reliability and improved efficiency, these investments will create jobs in Puerto Rico and attract new third-party capital investment. PREPA conducted a Request for Expressions of Interest in Sept/Oct 2015 for the development of new generation assets to gauge interest from third parties on modernization solutions for PREPA. Thirty-one proposals were received from 16 participants, demonstrating robust interest in P3s from the private sector.

The closing of the debt restructuring also enables management to refocus on improving the business in several areas. In terms of receivables collection, the past due balance from government customers remains above $150 million, the equivalent of $113 per residential client. PREPA can also work to decrease energy losses. Energy losses not due to technical issues (primarily theft) totaled 5 percent of net generated energy in October 2016, according to the Donahue Handover Report. Total energy losses as a percentage of total power generated/sourced was 14 percent for PREPA in 2015, compared to U.S. municipal average of 4.6 percent, according to EIA data. Finally, PREPA must continue to focus on improving safety for employees. DuPont performed a safety analysis showing PREPA performs below "fundamental" levels (the lowest designation) on each of the 12 metrics they analyzed.

PATH FORWARD THROUGH TITLE VI

The RSA parties believe that implementation of the PREPA transaction through Title VI of PROMESA would be advantageous as it would, among other things, (a) increase the speed and certainty of process and outcome and (b) demonstrate that consensual deals are achievable and build momentum for the remaining issuers.

The RSA is a "pre-existing voluntary agreement" under PROMESA § 104(i)(3) and is therefore deemed to be in conformance with the section of PROMESA concerning certification of Pre-existing Voluntary Agreements. As such, certification and approval of the RSA is subject to a streamlined process. Once the RSA/Qualifying Modification is approved and binding under Title VI, the PREPA deal will "go effective" upon satisfaction by PREPA of the closing conditions under the RSA.

* *

Background Note on Monoline Insurers

Monoline insurance companies insure investors against the risk of a bond defaulting—i.e., guarantee the scheduled payment of principal and interest for the duration of the life of a bond (often up to 30 years). Insurance on bonds is often called a "credit wrap," or simply a "wrap." Monolines are akin to the issuer of a bond, and it is their obligation to make full principal and interest payments even if an agreement calls for investors to receive a discount to par.

A wrapped bond has the same credit rating as the insuring monoline, which is generally higher than the credit rating of the issuer. The guarantee and higher credit rating allows the issuer to obtain a lower cost of financing than it may have otherwise received (with the spread in cost being shared between the monoline and the issuer). In addition to lowering financing costs for issuers, monolines enhance capital markets access by attracting a larger group of investors and facilitating greater trading/liquidity.

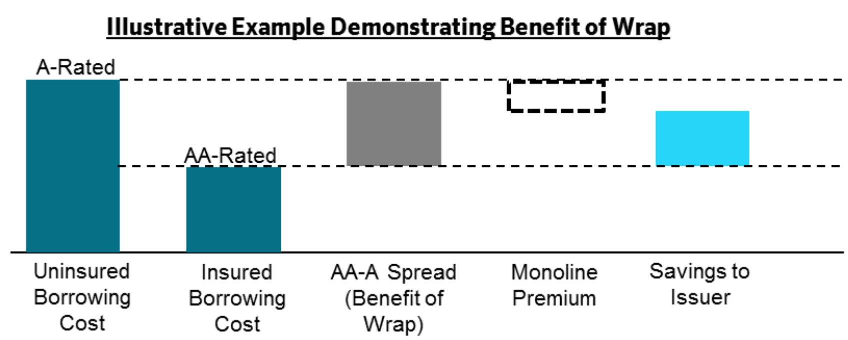
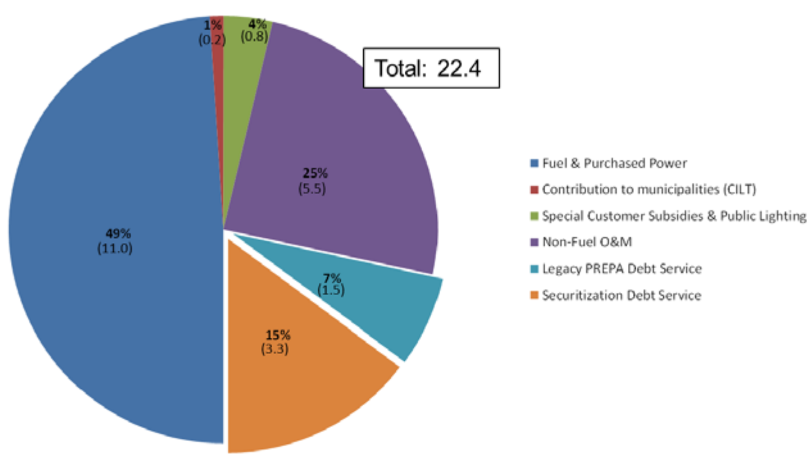


Exhibit A: Breakdown of PREPA Rates



Mr. LAMALFA. All right. Thank you, Mr. Bergonzi.

We will now recognize Mr. Bryngelson for 5 minutes.

STATEMENT OF ROB BRYNGELSON, PRESIDENT AND CEO, EXCELERATE ENERGY LP, THE WOODLANDS, TEXAS

Mr. BRYNGELSON. Thank you, Chairman LaMalfa, Ranking Member Torres, Vice Chairman González. My name is Rob Bryngelson and I am the President and Chief Executive Officer of Excelerate Energy. I appreciate the opportunity to appear today before the Subcommittee to provide some testimony regarding Excelerate's experiences cooperating with the Puerto Rico Electric Power Authority on the development of the Aguirre Offshore GasPort Project, supporting PREPA's efforts in developing the Restructuring Support Agreement, and, finally, supporting PREPA's continuing efforts to comply with the requirements of PROMESA. My more extensive written testimony has been filed with the Subcommittee.

Excelerate is a Texas-based energy company, and we are engaged in the development of liquified natural gas transportation and regasification infrastructure. We are a provider of LNG storage and regasification services and an importer of LNG. The company operates a fleet of nine purpose-built floating storage and regasification units, or FSRUs, as they are referred to, that are capable of regasifying LNG on board the vessel for delivery as gaseous natural gas to downstream customers around the world.

Our solutions are proven in over a decade of operation and, in many instances, our projects supply more than 20 percent of all gas consumed in a given country. Established in 2003, we are headquartered in The Woodlands, Texas, just north of Houston. We have operations in Argentina, Brazil, Israel, the United Arab Emirates, and Pakistan, with projects in Bangladesh and, hopefully, Puerto Rico slated to come on-line in 2018.

The Aguirre Offshore GasPort Project is a critical initiative for PREPA. For many years, PREPA and the government of Puerto Rico have worked to bring an energy solution to the island that will minimize the environmental impacts from power generation, allow PREPA to be compliant with the Federal Mercury and Air Toxic Standards, or MATS rule, and help lower energy costs. The Aguirre Offshore GasPort Project is the most economical and time-efficient solution to meet PREPA's urgent goals.

In 2011, PREPA selected Excelerate for the development of a floating offshore LNG delivery system, incorporating Excelerate's FSRU technology, a decision based on Excelerate's industry-leading expertise. Excelerate proposed an offshore delivery system with a capital cost of approximately $266 million, which includes infrastructure construction, permitting, and development costs. Annual operation and maintenance expenses are estimated to be approximately $6.2 million.

In the spirit of partnership established with PREPA, Excelerate has constructed the FSRU, and the vessel stands ready to support the project. Cost reduction, environmental enhancement, and increased efficiency are the primary drivers for bringing LNG as a new source of fuel to PREPA. Under the current U.S. EPA regulations, utilities must reduce air emissions from operations, requiring

PREPA to switch from heavy fuel oil to a cleaner burning fuel source—likely natural gas. Not only will natural gas allow PREPA to be compliant with the new regulations, but it is considerably cheaper than fuel oil and will provide substantial savings over the life of the project.

The successful conversion of the Aguirre power plant will be the first step in upgrading PREPA's system to provide safe, clean energy for citizens of Puerto Rico.

One of the long-term benefits of the project will be improved air quality on the island, especially for the residents of the surrounding community of Aguirre. By switching to natural gas at the Aguirre power complex, an overall reduction in air emissions of 64 percent is estimated, with greenhouse gases, specifically CO_2, reduced by nearly 30 percent. This decrease is equivalent to eliminating more than 335,000 passenger cars from the road.

Excelerate Energy and Siemens Engineering conducted a financial analysis of the project, and determined that PREPA would realize $25 million in savings per month or more in operating costs, once the project is in service. Over the 15-year life, nearly $5 billion in savings can be recognized.

The Aguirre Offshore GasPort Project is near completion of its comprehensive environmental analysis, which began in 2011. During this review process, in conjunction with regulatory bodies, we completed multiple studies to evaluate site locations, interconnecting pipeline routes, and construction techniques.

The Aguirre Offshore GasPort Project has undergone rigorous design reviews since introducing the floating concept to PREPA in 2008. Preliminary design is being completed and reviewed by the FERC, the U.S. Army Corps of Engineers, and the Department of Transportation Office of Pipeline Safety.

In conjunction with the design of the Aguirre Offshore GasPort Project, the work required to convert the Aguirre Power Plant has been underway cooperatively between PREPA and Excelerate, to ensure both projects are completed at the same time. Advanced engineering design is scheduled to begin in the second quarter of 2017, and construction to begin in the third quarter of 2017.

My testimony today is intended to provide information to the Subcommittee regarding Excelerate's efforts to support PREPA's successful restructuring, and not to discuss the mechanics of the RSA and other financial efforts currently underway by the Puerto Rico Government.

Excelerate's involvement with the development of the Aguirre Offshore GasPort Project became a critical piece of the overall restructuring of the utility. The intent and scope of this project is to bring about the reduction of fuel costs for the facility and, in turn, provide a reduction in electricity rates for ratepayers. Efforts by past Commonwealth administrations to facilitate recovery of the island's economy resulted in direct impact to continued development of the project.

Our position is support the passage of the RSA as quickly as practicable and help PREPA begin restructuring the utility.

And I will shorten this, since I have gone to the edge of my time here.

Mr. LaMalfa. Yes.

Mr. BRYNGELSON. Excelerate remains a committed partner to PREPA in this project, and to the government of Puerto Rico. Today's hearing is obviously focused on getting PREPA's Restructuring Support Agreement implemented as soon as possible. Again, we stand ready to support these efforts, and will continue to offer all assistance we can to PREPA and the government of Puerto Rico. Thank you very much.

[The prepared statement of Mr. Bryngelson follows:]

PREPARED STATEMENT OF ROBERT BRYNGELSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, EXCELERATE ENERGY, LP

Thank you Chairman LaMalfa, Ranking Member Torres and members of the Subcommittee. My name is Rob Bryngelson, and I am the President and CEO of Excelerate Energy, LP (Excelerate). I appreciate the opportunity to appear before the Subcommittee today to provide testimony regarding Excelerate's experiences cooperating with the Puerto Rico Electric Power Authority (PREPA): (1) with the development of the Aguirre Offshore GasPort Project (AOGP); (2) supporting PREPA's efforts in developing the Restructuring Support Agreement (RSA); and finally, supporting PREPA's continuing efforts to comply with the requirements of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).

Excelerate Energy, LP

Excelerate is a Texas-based energy company engaged in the development of LNG transportation and regasification infrastructure, a provider of LNG storage and regasification services, and an importer of LNG. The company operates a fleet of nine purpose-built Floating Storage Regasification Units (FSRU), LNG carriers capable of regasifying LNG on board the vessel for delivery as gaseous natural gas to downstream customers worldwide.

Established in 2003 and headquartered in the Woodlands, Texas, Excelerate also has facilities in Singapore, Dubai, Kuwait City, Buenos Aires, Israel, and Rio de Janeiro.

Aguirre Offshore GasPort Project

The AOGP Project is a critical initiative for PREPA. For many years, PREPA and the government of Puerto Rico have worked to bring an energy solution to the island that will minimize the environmental impacts from power generation, will allow PREPA to be compliant with the Federal Mercury and Air Toxics Standards (MATS) Rule, and help lower energy costs. AOGP is the most economical and time efficient solution to meet PREPA's urgent goals.

Since natural gas is one of the most environmentally-friendly and cost-competitive fuel sources available, PREPA recognized early on that converting its power generation from fuel oil to natural gas would provide the most immediate benefits to the island. PREPA initially considered conventional energy infrastructure solutions and sought to utilize land-based pipelines to bridge existing resources for the distribution of natural gas. Ultimately, the pipeline projects encountered considerable financial, environmental, and public opinion challenges, and were canceled. As a result, PREPA turned its attention to other, more advanced alternatives—specifically Excelerate's floating LNG regasification terminals.

In 2008, Excelerate introduced the concept of an offshore LNG import terminal to PREPA as a viable alternative solution to access natural gas. Floating regasification terminals, such as the proposed AOGP project, can be designed and constructed at a fraction of the cost of similarly sized land-based LNG import facilities. More importantly, floating regasification terminals require minimal infrastructure and land-use, thus reducing environmental impacts and long-term effects on the surrounding environment.

In 2011, PREPA selected Excelerate, following a Notification of Interest and Request for Proposal process, as the most qualified technology provider to collaborate on the development of a floating, offshore LNG delivery system incorporating Excelerate's FSRU technology—a decision based on Excelerate's industry-leading experience. For the project site, PREPA selected the Central Aguirre Power Complex as the location for LNG importation as it is the facility with the greatest power generation capacity on the PREPA system, providing the most cost-savings and benefits to the surrounding environment. Excelerate proposed an offshore delivery system with a proposed capital cost of approximately $266 million, which includes infrastructure construction, permitting and development fees. Annual operation and maintenance expenses are estimated approximately $6.2 million. Excelerate has purchased and constructed the FSRU, and the vessel stands ready to support the Project.

In April 2013, Excelerate formally commenced the permitting process with the Federal Energy Regulatory Commission (FERC) which started its rigorous review under the National Environmental Policy Act. After an extensive permitting process, FERC published the Final Environmental Impact Statement (EIS) for the project in February 2015. The EIS document describes the effects of the project on the land, water, air, ecosystems in the project area as well as the social, cultural and economic impacts. The document also provides ways to mitigate, lessen or remove, any potential impacts. To ensure that the AOGP was, in fact, the appropriate solution, the EIS also analyzed other alternatives to supply natural gas to Aguirre.

In July 2015, FERC issued its order authorizing the project. Both documents concluded that, as proposed, the project will have no significant impact on the environment and determined that it is the best, proposed alternative for bringing LNG to the island.

PROJECT BENEFITS

Cost reduction and environmental enhancement are the primary drivers for bringing LNG as a new source of fuel to PREPA. Under the current U.S. EPA regulations, utilities must reduce air emissions from operations requiring PREPA to switch from heavy fuel oil to a cleaner-burning fuel source, like natural gas. Not only will natural gas allow PREPA to be compliant with the new regulations, but it is considerably cheaper than fuel oil and will provide several billions of dollars in fuel cost savings over the life of the project. In addition, there is an abundance of LNG available in the international market which will allow PREPA to take advantage of competitive pricing. The successful conversion of the Aguirre power plant will be the first step in upgrading PREPA's system to provide safe, clean energy for the citizens of Puerto Rico.

Environmental Benefits

One of the long-term benefits of the project will be the improved air quality on the island, especially to the residents of the surrounding community of Aguirre. By switching to natural gas at the Aguirre Power Complex, an overall reduction in air emissions of 64 percent is estimated, with greenhouse gases, specifically CO_2, reduced nearly 30 percent. This decrease is equivalent to eliminating greenhouse gases from more than 335,000 passenger cars.

Additionally, the project will improve the water quality in the local area. The power complex is located adjacent to the Jobos Bay Estuarine Sanctuary and currently receives its fuel via cargo tankers which must traverse the environmentally sensitive bay to reach the plant. The AOGP terminal will be located outside the bay and would eliminate approximately 90 percent of the barge traffic reducing the risks of any inadvertent fuel spills.

Economic Benefits

Excelerate and Siemens Engineering conducted a financial analysis of the AOGP project and determined that PREPA would realize $25 million in savings per month, or more, in operating costs once the project is in service. Over the 15-year life of the project, nearly $5 billion will be saved in fuel costs.

As PREPA converts its many power generating facilities to natural gas, the fuel cost savings will be substantial translating to lower energy costs for consumers. With lower electricity rates, industries will be encouraged to expand current operations, and industries that have left will have the incentive to return.

Community Benefits

It is Excelerate's goal that the AOGP terminal will become an integral part of the community of Aguirre. During the construction phase of the project, local fishers will be employed to assist with directing local fishing traffic safely around the active construction area. When in operation, Excelerate will work with the local mariner unions to train local members to perform some duties of the FSRU crew.

Excelerate will patronize local businesses as the primary source of supplies and services for the construction crews. During operations, local tugboat operators will be utilized to guide the large refueling tankers that will call upon the AOGP facility. The terminal will also procure food and other supplies for the vessel crew from local providers.

PROJECT STATUS

Permitting

The AOGP project is near completion of its comprehensive environmental analysis which began in 2011. During this review process and in conjunction with regulatory bodies, Excelerate completed multiple studies to evaluate site locations, interconnecting pipeline routes, and construction techniques.

Public participation was integral in the development of this project. In addition to FERC's public hearings, both Excelerate and PREPA held more than two dozen community meetings to ensure complete transparency throughout the entire permitting process. Excelerate worked closely with the residents in the project area to present the details of the project and explain the potential benefits the project would bring to their community. Residents had the opportunity to share their input regarding the project location, construction activities, and any possible impacts to the fishing community. Both Excelerate and FERC considered the community's feedback during the analysis and design of the project.

The National Marine Fisheries Service (NMFS) is currently completing its review of any biological impacts the project will have to the location and finalizing its mitigation requirements for the project to lessen or remove any of these potential impacts. Excelerate, NMFS, and FERC will complete these mitigation plans by April 2017. All other permits, local and Federal, will be finalized after the consultation.

Engineering

The AOGP project has undergone a rigorous design effort since introducing the floating concept to PREPA in 2008. Preliminary design has been completed and reviewed by FERC, the U.S. Army Corps of Engineers, and the Department of Transportation Office of Pipeline Safety. Separate from the engineering design efforts for the AOGP structure and subsea pipeline, additional work has been completed to design the horizontal directional drill under the Boca del Infierno. In conjunction with the design of the AOGP project, the work required to convert the Aguirre power plant has been underway cooperatively with AOGP to ensure both projects are completed at the same time. Advanced engineering is scheduled to begin as early as second quarter 2017 and construction to begin in the third quarter of 2017.

PREPA RESTRUCTURING SUPPORT AGREEMENT

My testimony today is intended to provide information to the Subcommittee regarding Excelerate's efforts to support PREPA's successful restructuring, and not to discuss the mechanics of the RSA and other financial efforts currently underway by the Puerto Rico Government. Excelerate's involvement with the development of the AOGP project became a critical piece to the overall restructuring of the utility. The intent and scope of the AOGP project was to bring about the reduction of fuel costs for the facility and in turn result in the eventual reduction in electricity rates for the ratepayers. Efforts taken by the past Commonwealth administration to facilitate the recovery of the island's economy resulted in direct impacts to the continued development of the AOGP project. Law 21[1] passed by the Padilla placed a moratorium on the ability for creditors to seek payment for obligations incurred by government entities. Because the critical AOGP project was currently in active development, the potential that Excelerate would be prevented from seeking payment of current invoices was a serious development. If enacted, Excelerate would have to suspend activities until either the Law was repealed or specific waivers could be granted. The timing of this law impacted negotiations between the Restructuring Officer (RO) and the bondholders who were progressing to a point where some funding for the AOGP project could be released for continued development. However, without the ability to ensure payment of invoices, Excelerate would be required to suspend development activities. Excelerate's position is to support the passage and implementation of the RSA as quickly as practicable to allow PREPA to begin the critical restructuring of the utility. Continued delays to RSA implementation will have detrimental impacts to the continued development of the AOGP project. The longer the AOGP project is delayed, the longer it will be until PREPA can pass the potential fuel cost savings to their utility ratepayers.

[1] Law 21, "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act," 6 April 2016.

PROMESA

In April, 2016 Congress introduced H.R. 4900 entitled the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), establishing an oversight board, a process for restructuring debt, and expedited procedures for approving critical infrastructure projects. In our opinion, the AOGP project was clearly a project that the met the criteria as a critical infrastructure project. Excelerate has had several meetings with congressional members responsible for the PROMESA, briefing the members on the attributes and development status of the project. Most recently Excelerate met with the Chairman of the Fiscal Oversight Board and the Revitalization Coordinator to present the project. The Fiscal Board will be establishing a Critical Project Program in April 2017, and Excelerate will present the AOGP project for consideration of the Fiscal Board. The AOGP project is in the final stages of permitting and is scheduled to commence the initial procurement phase of construction in the 3rd quarter of 2017, pending final approval of project financing. Approval by the Fiscal Board will have a direct positive impact on the implementation of PREPA's RSA.

CONCLUSION

The Aguirre Offshore GasPort project is a critical initiative for PREPA. For many years, PREPA and the government of Puerto Rico have worked to bring an energy solution to the island that will minimize the environmental impacts from power generation, will allow PREPA to be compliant with the Federal air emission rules, and help lower energy costs. AOGP is the most economical and time efficient solution to meet PREPA's urgent goals.

Excelerate has remained a committed, cooperating partner for PREPA and for the government of Puerto Rico. The purpose of the hearing today has focused on getting PREPA's Restructuring Support Agreement implemented as soon as possible. Excelerate supports these efforts and will continue to offer assistance in any way need by PREPA or the Governor.

We look forward to our continued participation in the process with our ultimate goal of bringing the AOGP project in-service, bring clean-burning natural gas to PREPA and being a part of the Governor's efforts to revitalize the Puerto Rico economy. I thank you on behalf of Excelerate Energy for allowing me to provide this testimony.

QUESTIONS SUBMITTED FOR THE RECORD BY REP. GRIJALVA TO ROB BRYNGELSON, PRESIDENT & CEO, EXCELERATE ENERGY, LP

Question 1. You testified that the proposed Aguirre Offshore GasPort would cost $266 million to build and $6.2 million to operate and maintain.

Caribbean Business reported December 16 that PREPA has estimated that the project will cost $522 million to build, $51 million a year to lease, and other costs, presumably operation and maintenance. http://caribbeanbusiness.com/prepa-may-be-too-deep-in-aguirre-offshore-gas-port-to-look-at-other-options/

How do you explain the differences between your testimony and what PREPA has been reported to have said?

Answer. The Aguirre Offshore GasPort (AOGP) project comprises two general parts. These are:

(i) a floating storage and regasification unit (FSRU), which is essentially a floating facility that receives LNG and converts it into vaporous natural gas, and

(ii) an offshore jetty to which the FSRU will moor and a pipeline necessary to bring vaporized natural gas ashore (Fixed Infrastructure).

Under the agreements in place with PREPA, Excelerate Energy will finance and own the FSRU and lease it to PREPA, while PREPA will finance and own the Fixed Infrastructure.

The cost referenced in my testimony of $266 million pertains to the capital cost of the Fixed Infrastructure that PREPA will own and finance (also noted in the article). The operating costs of $6.2 MM per year also pertain to the Fixed Infrastructure. The $51 million per year noted in the article is for the lease of the FSRU from Excelerate.

The cost of $552 is a broader cost provided by PREPA that not only encompasses the AOGP project itself, but also includes upgrades required to allow existing power generation facilities to switch to natural gas from fuel oil.

Question 2. Caribbean Business also reported that your hope is to finance your project with an 80 percent U.S. Energy Department loan guarantee.

Is this correct? If so, what assurance do you have of such a guarantee? Can you finance the project without the guarantee?

Answer. Under the agreements in place between Excelerate Energy and PREPA regarding the AOGP project, it is PREPA's responsibility to finance and own the Fixed Infrastructure referenced in the previous question. As such, PREPA has been pursuing the U.S. Department of Energy loan guarantee, and not Excelerate Energy. We have no additional insight into this process or assurance that such guarantee will be provided. In Excelerate Energy's view, it is critical for PREPA's debt restructuring to occur in order for financing for this project to be obtained in any form, or for guarantees to be granted.

Question 3. The Puerto Rico Energy Commission has prohibited PREPA from spending more than $15 million on the Aguirre Gas Port.

How would the Commission explain its action on your proposed project?

Answer. Recognizing the importance of the AOGP project, the Puerto Rico Energy Commission (PREC) authorized the spending of up to an additional $15 million for ongoing engineering, design, and permitting activities to allow the project to maintain schedule. Excelerate Energy is working closely with PREPA to proceed with these additional engineering and related activities.

In its decision, PREC stated that PREPA was not authorized to commence construction of the AOGP project, and was clear that this was not a denial of the project. Rather, PREC requested additional information from PREPA regarding the project's economic benefits to Puerto Rico.

At this stage Excelerate Energy is completing the permitting process for the AOGP project. Until that process is completed and the Federal Energy Regulatory Commission (FERC) has provided its notice to proceed, the AOGP project is not able to commence construction—regardless of the position taken by PREC.

Excelerate Energy expects to have the final authorizations to proceed to construction in the third quarter of this year.

Mr. LAMALFA. All right, thank you. I appreciate it.

We will now recognize Ms. Matosantos for 5 minutes.

STATEMENT OF ANA J. MATOSANTOS, MEMBER, FINANCIAL OVERSIGHT AND MANAGEMENT BOARD OF PUERTO RICO, SACRAMENTO, CALIFORNIA

Ms. MATOSANTOS. Good morning, Chairman, Ranking Member, and other Committee members. Thank you for the opportunity to address you today. I would like to start by adding my support to Chairman Carrión's comments regarding the important progress the board has made since our appointment last year.

With a certified fiscal plan now in place, we aim to partner with the government of Puerto Rico to balance the budget, restructure long-term obligations, and take the decisive action necessary to restore economic growth and opportunity for the people of Puerto Rico. The fiscal plan certified by the Oversight Board is premised on ending the more than a decade-long economic contraction Puerto Rico has experienced, and on restoring economic growth.

A transformational PREPA to provide reliable energy at a lower cost is critical to achieving that growth. In this context, we believe that the Governor's determination to review and negotiate amendments to PREPA's RSA is reasonable. Costly and at times unreliable energy is a major drag on Puerto Rico's economic growth. It is not enough to maintain that energy costs under the RSA will compare favorably to energy costs in some other jurisdictions, as lower energy costs, rates that compare favorably to the Dominican Republic, to the mainland, and to others, are key to reversing the negative economic growth trajectory that largely drove Puerto Rico's budgetary crisis and threatens the well-being of the millions of the island's residents.

It is important to note that, to date, the board has not had the RSA before it for approval. The prior government did not present it for review. And Governor Rosselló has expressed interest in modifications. We stand ready to review it and have already advised Governor Rosselló that the board would approve an RSA amended to reflect the improved economic terms, including lower transition costs he is requesting in negotiations.

Because the PREPA RSA was, to some extent, grandfathered by PROMESA, PREPA creditors do not bear under the RSA anything remotely comparable to the losses to be borne by creditors of other Commonwealth entities. Under the RSA, the uninsured PREPA bondholders agreed to take a 15 percent discount on their principal claims. The insured bondholders retained their claims to 100 percent of their principal.

The monoline insurers who were paid premiums in exchange for their promises to make all debt service payments that PREPA does not make will not be making any debt service payments of principal once the deal is implemented, and they have not shown us any interest payments they will make. Instead, they are posting some surety bonds that are returned to them as cash reserves are built up. Additionally, hundreds of millions of other debts are not experiencing any discounts.

It is important to understand how other Commonwealth creditors are likely to fare under the recently certified fiscal plan. Between 2009 and 2014, Puerto Rico's annual deficit averaged $3.9 billion. With a deficit of this magnitude and lack of access to capital markets, this year Puerto Rico was only able to fund essential services by defaulting on much of its debt, delaying payments to vendors, and delaying the issuance of taxpayer refunds.

Next year, Puerto Rico's fiscal situation will worsen. Most all pension funding will be exhausted. Likewise, the Affordable Care Act funding is scheduled to begin phasing out. Puerto Rico's annual deficit is projected to grow to $7 billion over the next several years, about 50 percent of their ongoing revenue.

To balance the budget, the certified fiscal plan includes hundreds of millions of dollars in reductions to each of the following: healthcare programs, the University of Puerto Rico, and to public employment. To ensure liquidity and to generate necessary budget savings, the Oversight Board inserted two amendments requiring higher pension cuts, averaging 10 percent, to be implemented in a progressive manner, and, to the extent necessary, cancellation of the Christmas bonus for public employees and a furlough program of up to 4 days per month. These measures are acutely painful, but necessary for liquidity, achieving structural balance, funding essential services and pensions, as well as providing some funding for debt service.

The fiscal plan, as certified, provides for less than 25 percent of contractual debt service due between now and 2026. In short, the sacrifices the implementation of Puerto Rico's certified fiscal plan will require from the people of Puerto Rico and other Commonwealth creditors are far greater than anything being asked of PREPA's creditors.

In conclusion, the Oversight Board stands ready to review the PREPA RSA, and supports efforts to lower energy costs and ameliorate projected electricity rate hikes to avoid exacerbating the prevailing negative economic growth trend.

Thank you—and thank you for all your interest and attention to this matter.

[The prepared statement of Ms. Matosantos follows:]

PREPARED STATEMENT OF ANA J. MATOSANTOS, MEMBER, FINANCIAL OVERSIGHT & MANAGEMENT BOARD FOR PUERTO RICO

Good morning. My name is Ana Matosantos. I am a member of the Financial Oversight and Management Board for Puerto Rico.

Thank you, Chairman LaMalfa for your leadership in holding this oversight hearing on "The Status of the Puerto Rico Electric Power Authority Restructuring Support Agreement." Thanks also to Ranking Member Torres, Vice Chair González-Colón and, indeed, all the members of this Subcommittee for your interest in and attention to this matter.

Before addressing the specific subject of this hearing, I would like to add my voice in support of Chairman Carrión's statement regarding the important progress the Board has made since our appointment last year.

For the last 6½ months, we have worked to understand the facts on the ground, the options available to the government, and the implications of different approaches to addressing the financial and economic crisis facing the island. Throughout, we have sought to partner with the government of Puerto Rico and to use the tools made available under PROMESA to help provide a better future for the people of Puerto Rico, not just for today, but for our children and future generations. Our people love their home and they deserve to be able to build a future on it, not forced to move away to support their families and their dreams.

The Board provided guidance and proposed actions on many fronts to ensure there is sufficient cash to fund essential services on the island, to put the budget on a path to structural balance, and to restore economic growth. The Rosselló administration incorporated the Board's guidance, as well as its own initiatives, in a Fiscal Plan that the Board was able to certify in compliance with PROMESA. With that Fiscal Plan now in place, over the course of the next few years, we aim to partner with the government of Puerto Rico to balance the budget, restructure long-term debt obligations, and take the decisive action necessary to restore economic growth and opportunity for the people of Puerto Rico.

With respect to PREPA, I would like to state at the outset that the Fiscal Plan that the Oversight Board certified on March 13, 2017 is entirely premised on ending the more than a decade-long economic decline Puerto Rico has experienced and on restoring economic growth by no later than Fiscal Year 2022.

In that regard, I echo Chairman Carrión's statement that the Board's approach to PREPA's Restructuring Support Agreement ("RSA") must focus on its potential impact on economic growth.

The Governor's determination to review and negotiate amendments to PREPA's RSA is reasonable and supported by the Oversight Board's initial review of the draft Fiscal Plan PREPA's management has submitted to the Board.

We believe that the two main goals of PREPA's Fiscal Plan should be: (1) comprehensive transformation of PREPA's business model, including the substitution of old, inefficient and unreliable transmission and distribution (T&D) and generation infrastructure; and (2) implementing operating efficiencies and other changes that can lower energy costs for the people of Puerto Rico and our businesses.

The Board has done a preliminary review of the draft PREPA Fiscal Plan submitted to the Board on February 21, 2017 and has the following observations:

a. The draft Fiscal Plan does not provide for the comprehensive transformation of PREPA necessary to lower electricity costs for the People of Puerto Rico.
b. It does not sufficiently address the need for institutional change in processes and procedures, outdated systems and information technology.
c. It does not capture enough operating expense savings.

d. It does not contain an ambitious plan to change its business model, and replace inefficient legacy assets with new assets, especially regarding power generation via Public-Private Partnerships ("P3s") or privately sponsored projects.

e. The capital expenditures plan seems to be concentrated in legacy assets and their maintenance.

In our view, it is not enough to maintain that although the resultant energy cost under the RSA will increase, it will still compare favorably to energy costs in some other jurisdictions. Energy costs in Puerto Rico are high when compared to the mainland, to the Dominican Republic and others. Costly and at times unreliable energy is a major drag on Puerto Rico's economic growth. The RSA increases the cost of electricity, thereby increasing the cost of living and doing business in Puerto Rico. That only makes it more difficult to reverse the negative economic growth trajectory that largely drove Puerto Rico's budgetary crisis and threatens the well-being of the island's residents.

Further, in respect to the PREPA RSA, it is important to note what PROMESA requires the Oversight Board to do and not to do. For most consensual deals, PROMESA requires the Oversight Board to make three decisions. But for the PREPA RSA, the Board only makes two decisions.

PROMESA section 104(i) generally requires the Oversight Board to decide whether a Restructuring Support Agreement is consistent with the borrower's debt sustainability, and its certified fiscal plan, if it has one. But the PREPA RSA was entered into prior to May 18, 2016. Therefore, under PROMESA section 104(i)(3), the PREPA RSA is deemed to be consistent with PREPA's debt sustainability and the Oversight Board has no power to say otherwise.

PROMESA section 601(e) provides that the Oversight Board must determine whether to authorize an entity to invoke Title VI to implement an RSA. Because Title VI does not deal with the restructuring of anything other than bond debt, other obligations cannot be restructured in Title VI. If PREPA requires relief of other contractual obligations, the Oversight Board's use of Title VI would be inadequate. The Board could approve the implementation of the PREPA RSA, as amended, in a Title III case, making it possible for PREPA to address other contractual obligations driving significant costs.

Finally, PROMESA section 207 provides the Oversight Board must authorize the issuance of new debt, and the PREPA RSA includes issuance of new debt.

To date, the Board has not had the RSA before it for approval as the prior government did not present it for review and now Governor Rosselló has expressed an interest in modifications. The Board stands ready to review the PREPA RSA upon its submission for the Board's consideration. The Board has already advised the Governor that it would approve an RSA amended to reflect improved economic terms, including lower transition costs, as the Governor is requesting in negotiations.

It is important to note that because the PREPA RSA was grandfathered to some extent by PROMESA, PREPA creditors do not bear under the RSA anything remotely comparable to the losses to be borne by creditors of other Commonwealth entities.

To avoid overlooking the obvious, I will just mention briefly that while the uninsured PREPA bondholders agreed to take a 15 percent discount on their principal claims, the insured bondholders retain their claims to 100 percent of their principal. The monoline insurers, who were paid premiums in exchange for their promises to make all debt service payments that PREPA does not make, will not be making any debt service payments of principal once the deal is implemented and they have not shown us any interest payments they will make. Instead, they are posting some surety bonds that are returned to them as cash reserves are built up. Additionally, hundreds of millions of other debts are not experiencing any discounts.

The sacrifices the implementation of Puerto Rico's certified Fiscal Plan will require from the people of Puerto Rico and other Commonwealth creditors are far greater than anything being asked of PREPA's creditors.

It is important to understand how other Commonwealth creditors are likely to fare under the recently certified Fiscal Plan. To accomplish PROMESA's mandate that Puerto Rico balance its budget, fund essential services and pensions, as well as work to restore access to capital markets at cost-effective rates, the Oversight Board worked to understand Puerto Rico's actual financial condition and operating deficits.

Between 2009 and 2014, Puerto Rico's annual deficit averaged $3.9 billion. With a deficit of that magnitude and lack of access to capital markets, this year, Puerto Rico funded essential services by defaulting on much of its debt, delaying payments to vendors and delaying the issuance of refunds to taxpayers. Next year, Puerto Rico's fiscal situation will worsen.

Most all pension funding will be exhausted in Fiscal Year 2018, necessitating general fund expenditures starting at $989 million per year. Likewise, Affordable Care Act funding from the Federal Government of $800 million per year will cease during Fiscal Year 2018.

Against that background, the Oversight Board had to evaluate the prior governor's proposed fiscal plan for the Commonwealth, and determined it contained many violations of the terms of PROMESA section 201(b).

The prior governor declined to revise his proposed fiscal plan, leaving it to the new Governor who was not inaugurated until January 2, 2017.

Understandably, the new Governor requested more time to propose a fiscal plan and the Oversight Board provided him until February 28, 2017, so that the Board could certify the Governor's plan or its own plan by March 15, 2017.

Further, an analysis of initial spending projection included in the Government's Fiscal Plan conducted by Ernst & Young at the Board's request, concluded that spending in Fiscal Year 2017 was potentially understated by a range between $360 million and $810 million.

The Board acknowledged that the Governor revised his proposed plan to accommodate the best available spending, revenue and economic projections. The revised plan also includes substantial increases in the depth of reductions being made to balance the budget including hundreds of millions of dollars in reductions to healthcare programs, to the University of Puerto Rico and to public employment. The Fiscal Plan, as certified, provides funds for less than 25 percent of contractual debt service due between now and 2026.

In addition to the Governor's changes, the Oversight Board inserted two amendments requiring (i) higher pension cuts averaging 10 percent, to be implemented in a progressive manner, and (ii) to the extent necessary, cancellation of the Christmas bonus for public employees and a public employee furlough program of up to 4 days per month.

These additional measures are acutely painful, but their implementation may be necessary for liquidity, achieving structural balance, funding essential services and pensions, as well as providing some funding for debt service.

As stated before, on March 13, 2017, the Oversight Board certified the Governor's Fiscal Plan for the Commonwealth, with the two amendments I just described, and provided the Government until April 30, 2017 to submit its proposed budget in accordance with the certified Fiscal Plan.

In conclusion, the Oversight Board stands ready to review the PREPA RSA upon its submission for the Board's consideration. The Board supports efforts to lower energy costs and ameliorate projected electricity rate hikes to avoid exacerbating the prevailing negative economic growth trend.

Thank you, Mr. Chairman. And thanks to all the members for your interest in and attention to this matter.

QUESTIONS SUBMITTED FOR THE RECORD TO ANA J. MATOSANTOS

Questions Submitted by Rep. Bishop

Question 1. In your testimony, you state: "under PROMESA section 104(i)(3), the PREPA RSA is deemed to be consistent with PREPA's debt sustainability and the Oversight Board has no power to say otherwise."

Section 104(i) states: "The Oversight Board shall issue a certification to a covered territory or a covered territorial instrumentality if the Oversight Board determines, in its sole discretion, that such territory or covered territorial instrumentality, as applicable, has successfully reached a voluntary agreement with holders of its Bond Claims to restructure such Bond Claims" if a fiscal plan has been certified in a manner that provides for a sustainable level of debt. There are other qualifiers if the fiscal plan has not been approved.

Section 104(i)(3) states: "Any voluntary agreement that the territorial government or any territorial instrumentality has executed before May 18, 2016, with holders of a majority in amount of Bond Claims . . . shall be deemed to be in conformance with the requirements of this subsection."

So, the plain language of the statute deems that the pre-existing voluntary agreement for PREPA meets the requirement for a certified fiscal plan that provides for a sustainable level of debt. Furthermore, it deems the PREPA deal as being in conformance with the certified plan, isn't that correct?

If those criteria are met, then the statute dictates that the Board is to issue a certificate saying so, isn't that correct?

Why hasn't the Board done so?

Answer. As mentioned in my testimony. the RSA has not been presented to the Board for its review and approval as the prior administration did not submit it for review and the current administration sought amendments to the agreement. The Board remains committed to taking action on the RSA consistent with the PROMESA statute when an RSA is submitted to the Board.

Question 2. In your testimony, you state: "The Board could approve the implementation of the PREPA RSA, as amended, in a Title III case, making it possible for PREPA to address other contractual obligations driving significant costs."

Could not the same be achieved through the Board's approvals of the fiscal plan and budgets for PREPA?

Answer. The mechanism provided by Title III to address reductions in PREPA's operational costs is different in nature from the process of certifying PREPA's fiscal plan and budget. Under Title III , existing contractual arrangements can be judicially modified, whereas no such option exists under the certification process.

Question 3. In your testimony, you state: "The sacrifices the implementation of Puerto Rico's certified Fiscal Plan will require from the people of Puerto Rico and other Commonwealth creditors are far greater than anything being asked of PREPA's creditors."

Do you agree that the Commonwealth government and PREPA are two different entities?

Do you agree that the circumstances leading to the accumulation of debt are different?

Do you agree that the Commonwealth government and PREPA have different revenue streams?

Do you agree that the Commonwealth government and PREPA have different securitizations, different debt obligations?

Answer. Yes, I agree.

Question 4. So, is it your testimony that the financial situation of the Commonwealth government should govern how the PREPA debt should be restructured, or should each be examined as separate entities?

Answer. The Commonwealth and PREPA are separate entities and should be examined as such. As discussed in my testimony, the intersection between PREPA and the economic and demographic reality in the Commonwealth requires careful consideration as PREPA plays an important role in the economy of Puerto Rico and the economic and demographic reality of Puerto Rico impacts PREPA's future. As repeatedly acknowledged in PROMESA, the energy situation of Puerto Rico is a key issue affecting economic development. Hence, the priority for critical projects that reduce the cost of energy given priority under Title V of PROMESA.

Questions Submitted by Rep. Grijalva

Question 1. Has the Board received the report? [Referring to the report under PROMESA Section 208(b) setting forth tax abatement agreements granted by the Commonwealth.]

Answer. Pursuant to Section 208(b) of PROMESA, the Secretary of the Treasury of the Commonwealth of Puerto Rico provided tax-related information in a report (with attachments) dated February 28, 2017, copies of which are attached. Subsequently. a representative of the Board met with the Secretary to request additional information to satisfy the requirements of Section 208(b) of PROMESA, and on March 30, 2017, the Board wrote to the Secretary to follow up on such request. A copy of the Board's letter is attached.

Question 2. How could a fiscal plan be agreed to that cuts Government spending for public services and for payment of debts so drastically that does not require any further contribution from companies that represent a third of the GDP and high net worth individuals on top of that who pay so little in tax now?

Answer. The certified Fiscal Plan includes corporate tax reform to maintain the current level of revenues including contributions from pharmaceutical and other companies. Further. it includes other measures to increase revenues by hundreds of millions of dollars annually, including through efforts to increase collections. The fiscal plan includes changes to generate an additional $1.5 billion in revenue to close the fiscal gap. Puerto Rico has a track record of assuming higher revenue projections and not realizing those revenues. The fiscal plan strikes a balance between increased revenue, deep reductions, restructuring and structural changes to encourage economic growth.

Attachment—[Attachment can be found on page 32 with Mr. Carrión's responses.]

Mr. LaMalfa. OK. Thank you. We appreciate your testimony.

We will go now to Mr. Spencer for 5 minutes.

STATEMENT OF STEPHEN SPENCER, MANAGING DIRECTOR, HOULIHAN LOKEY, MINNEAPOLIS, MINNESOTA, ON BEHALF OF FRANKLIN ADVISERS, INC. AND OPPENHEIMER FUNDS, INC.

Mr. Spencer. Chairman LaMalfa, Ranking Member Torres, Vice Chairman González, and members of the Subcommittee, thank you for inviting me to testify today. I am here on behalf of Franklin Advisers and Oppenheimer Funds, who invested in PREPA bonds for more than 500,000 retail investors throughout the United States.

It is important to remember who Puerto Rico's bondholders are. Beyond our half-million investors, there are hundreds of thousands more in every state and in every congressional district, including over 60,000 bondholders on the island.

For almost 3 years, I have been working to advance a consensual restructuring of PREPA's debt on behalf of Franklin, Oppenheimer, and other bondholders. And look how much we have achieved:

(1) Our deal offers the surest route back to the capital markets. It issues new, safe bonds, like bonds issued by utilities in New York and California that will get PREPA back into the capital markets to fund new, clean, and reliable power generation.

(2) Our deal serves as a template for restructuring other Puerto Rico debts. The PREPA deal is the first and, so far, the only major restructuring agreement in Puerto Rico. It can be used as a model for successful restructuring by other government agencies such as Puerto Rico's sewer water authority.

(3) Our deal stabilizes PREPA. In July 2014, PREPA faced a crisis. It could not get credit to buy fuel, and reserves dwindled to a few days' supply in peak hurricane season. To prevent disaster, bondholders gave PREPA hundreds of millions in bondholder reserve accounts, and literally kept the lights on.

(4) Our deal provides cash for PREPA and savings for ratepayers. Since the crisis, creditors have invested hundreds of millions to support PREPA, and we have allowed PREPA to pass along over $2 billion in rate reductions from lower fuel costs. Under our deal, creditors will cut debt service by nearly $2 billion more.

(5) Our deal has been approved by Puerto Rico's legislature, which passed legislation to implement the deal by the Puerto Rico Energy Commission, which approved the deal after months of public hearings, a first in Puerto Rico, and by the Puerto Rico courts.

Finally, when Congress passed PROMESA, they included provisions that encourage pre-existing voluntary arrangements and agreements like the PREPA deal. Congress gave Puerto Rico a tool to restructure; we are simply trying to use it. Despite these accomplishments, critics of the PREPA deal have directed misguiding or misleading attacks against it.

For example, they say the deal raises rates. False. To quote the Puerto Rico Energy Commission, "Restructured debt costs are far lower than they would be without restructuring."

PREPA's post-deal rates are significantly lower than comparable island utilities. Critics say, "Debt should be cut further." False. No other public utility monopoly has ever cut its debt service. PREPA is the first. Bondholders have given enough to avoid litigation that we would eventually win.

Critics say the deal does not restructure PREPA operations. False and misleading. Only PREPA can restructure operations. We agreed to reduce debt service to support PREPA's efforts to do so.

They say the deal does not support renewable energy. False. The deal provides nearly $2 billion of debt service savings for PREPA to invest in new generation, including renewables.

They say the deal does not support private generation or public-private partnerships. False again. The deal does not stop P3 deals, it gets them going by avoiding years of litigation.

Finally, they say the PREPA deal is not executable. False. PREPA's fiscal plan provides a detailed description of the executable creditor agreement. The plan also shows that, without a deal, PREPA faces either a liquidity crisis or a large, immediate rate hike.

We find ourselves in a strange position. The government, including the Energy Commission and PREPA, itself a government agency, has approved the deal, but the new administration will not commit to close it. The Governor wants to jam us into pay-nothing bonds for 7 years.

Changing a fully baked deal is wrong. It is reckless, and it is unnecessary. With creditor support, PREPA has actually improved over the last few years. Rates are dramatically lower today than they were in 2014. Completing the deal keeps PREPA on a path to better operation with lower rates benefiting all Puerto Ricans.

We have extended our agreement 15 times. The last extension expires in 9 days—9 days, Mr. Chairman. The new administration must commit to close this deal now. Without it, their public disclosure yesterday indicates PREPA will soon run out of cash. Failure to close our deal helps no one. Failure hurts Puerto Rico's restructuring negotiations. It hurts municipal borrowers in places as disparate as the U.S. Virgin Islands, Illinois, and Guam. And it hurts the people of Puerto Rico.

Members of the Committee, thank you for your legislative oversight on this important matter. I look forward to your questions.

[The prepared statement of Mr. Spencer follows:]

PREPARED STATEMENT OF STEPHEN J. SPENCER, MANAGING DIRECTOR, FINANCIAL RESTRUCTURING GROUP, HOULIHAN LOKEY

INTRODUCTION

Chairman LaMalfa, Ranking Member Torres, Resident Commissioner González, and members of the Subcommittee, thank you for inviting me to testify today regarding the Puerto Rico Electrical Power Authority ("PREPA") and its Restructuring Support Agreement ("RSA")—the "PREPA Transaction."

My name is Stephen J. Spencer. I am testifying on behalf of certain funds managed by Franklin Advisers Inc. ("Franklin") and OppenheimerFunds, Inc.

("Oppenheimer") in connection with their investment in $1.7 billion in bonds issued by PREPA.[1]

Franklin and Oppenheimer are Puerto Rico's largest bondholders and have been among Puerto Rico's largest investors, providing capital to finance critical infrastructure, such as roads, bridges and hospitals for more than 30 years. Over half a million individual retail investors across the United States invested in Puerto Rico bonds through Franklin and Oppenheimer. Untold thousands have invested through other funds, and at least another 340,000 individuals have invested directly in Puerto Rico bonds.

The PREPA Transaction is backed by holders or insurers of about 70 percent of all of PREPA's financial debt.

Bondholders agreed to a 15 percent principal haircut, a 5-year holiday on principal payments, and a reduced interest rate—cutting debt service by billions of dollars over the next decade. The PREPA Transaction would be implemented through a proceeding under Title VI of PROMESA.

The PREPA Transaction works because the new bonds would be "securitized"—that is, the new bonds will not be paid out of PREPA's cash-flow, but by a separate charge.

Under the PREPA Transaction, total electrical rates paid by Puerto Ricans will be 25 percent below what Puerto Rican law otherwise requires.

The PREPA Transaction does more than simply refinance PREPA's debt and restore access to capital markets—the first and last goal of PROMESA. The deal also puts PREPA on the path to fiscal responsibility—another goal of PROMESA. The deal also permits public-private partnerships and facilitates necessary capital investment—another goal of PROMESA.

This deal is a crucial step in PREPA's journey from crisis to financial health—a journey from poor maintenance to capital improvement—a journey from Puerto Rico's reliance on diesel fuel to a more diversified energy base that includes cleaner natural gas.

After 14 months of negotiation, my clients signed the PREPA Transaction in November 2015. The PREPA Transaction was authorized by Puerto Rico's legislature in February 2016, its implementation was approved by Puerto Rico's Energy Commission in the summer of 2016, and its constitutionality was recently upheld by a decision in a local Puerto Rican court.

In 2016, Congress wrote provisions into PROMESA to help certain voluntary, "pre-existing" agreements, like the PREPA Transaction, that were entered into shortly before the passage of PROMESA. As a result, the PREPA Transaction is the only deal exempt from Oversight Board review and is ready to be finalized under PROMESA Title VI.

My clients even agreed to additional concessions in January 2017. To be clear, the January 2017 deal is the deal inked in November 2015; the only changes are concessions by creditors, not by PREPA or Puerto Rico.[2] The deal is executable.

Failure to close this deal would have ramifications far beyond PREPA.

Failure to close a deal negotiated over 2 years would call into question Puerto Rico's good faith in negotiating other restructurings—of great concern to Franklin and Oppenheimer, who hold over $6 billion of other Puerto Rico bonds.

Failure would damage, if not destroy, Puerto Rico's ability to use securitization as a tool to restructure other entities such as the Puerto Rico Aqueduct and Sewer Authority, which is looking to use the PREPA Transaction as a model.

Failure would have ramifications beyond Puerto Rico. It will negatively impact other challenged government entities as diverse as the U.S. Virgin Islands, Guam, the city of Chicago, and the state of Illinois.

Finally, failure to close this deal would be bad for the people of Puerto Rico. The deal puts PREPA on a sound financial footing, but without it, PREPA is approaching imminent default and a liquidity crisis that could turn off the lights with the next operational hiccup or major storm.

We have extended our Restructuring Support Agreement 16 times; the last extension expires 9 days from this hearing, on March 31. PROMESA's stay expires May 1.

[1] For the PREPA negotiations, I advise both Franklin and Oppenheimer, along with the investment interests of five separate asset investors.

[2] See PREPA's draft Fiscal Plan at pages 73–75. *Fiscal Plan,* Commonwealth of Puerto Rico, Puerto Rico Elec. Power Auth., at 73–75 (Feb. 2017) [hereinafter "PREPA's Fiscal Plan"], *available at* http://caribbeanbusiness.com/wp-content/uploads/2017/02/PREPA-Fiscal-Plan.pdf.

PREPA AND PREPA DEBT

PREPA is a public corporation that generates most of—and delivers all of—the electric power consumed in Puerto Rico. PREPA sets and collects rates for its services to customers. Since 2014, PREPA's rates have been subject to review by the Energy Commission.

Puerto Rican law specifically requires that the Energy Commission approve a rate that is sufficient to cover all debt service on PREPA's bonds.[3]

PREPA has issued approximately $8.3 billion of outstanding revenue bonds to the public. The bonds are secured by PREPA's net revenues from its electric generation and distribution system, as well as reserve accounts held by the trustee. Approximately 30 percent of PREPA's outstanding debt is insured by three separate monoline insurance companies.

PREPA also owes approximately $700 million in expired lines of credit that were used to purchase fuel for its generation.

LIQUIDITY CRISIS AND CREDITOR ORGANIZATION

PREPA has faced severe internal and external challenges. In the words of its former chief restructuring officer, Lisa Donahue of AlixPartners, PREPA had "a lack of institutionalized processes and procedures, outdated systems and information technology and frequent changes of employee positions and responsibilities with each electoral cycle every four years."[4]

PREPA started experiencing liquidity difficulty due, in part, to its existing rate structure, which charges a fixed "base" rate for non-fuel expenses, like administrative costs and debt service, and a floating rate for fuel costs, which fluctuates with the price of oil.[5]

PREPA's base rate had not changed from 1989 to 2015, even as its costs rose significantly.

PREPA's cash flow further suffered from a serious failure in collections: it persistently allowed individual customers, other public corporations, government agencies, and municipalities to avoid paying their bills.[6]

On June 28, 2014, the government of Puerto Rico enacted Act 71–2014, entitled the Puerto Rico Public Corporation Debt Enforcement and Recovery Act ("DERA").[7] Governor Alejandro García-Padilla and the Puerto Rico Legislative Assembly intended for DERA to provide Puerto Rico with its own insolvency regime for certain large government-owned businesses, including PREPA.[8]

DERA signaled a dramatic escalation of political and financial risk for creditors. PREPA suffered a liquidity crisis as major vendors, including the utility's critical fuel suppliers, refused to ship their products to the Company on standard trade credit terms. Over the following weeks, the situation at PREPA rapidly deteriorated. By the end of July 2014, PREPA's fuel reserves fell to a level where the Company was left with only a few days of fuel supply. PREPA's resources were dangerously depleted, and brownouts were on the horizon as the island approached the peak of hurricane season. At the same time, mostly as a result of surging oil prices, PREPA's all-in rates for consumers rose to a high of approximately 28 cents per kilowatt-hour ("kWh").

To resolve the liquidity crisis and avert the potential for much wider chaos stemming from disruptions in Puerto Rico's power supply, PREPA's major creditors entered into around-the-clock negotiations with the island's advisors on a potential forbearance agreement.

[3] Puerto Rico Elec. Power Auth. Organic Act of May 12, 1941, Act No. 83–1941, § 6A(c), as amended.

[4] *PREPA Revitalization Act: Hearing Before the Puerto Rico S. Comm. on Energy Affairs and Water Resources*, 17th Legis. Assemb., 2 (P.R. Nov. 10, 2015) (testimony of Lisa Donahue, Chief Restructuring Officer of PREPA).

[5] Changes in the price of natural gas and purchased power also affect the fuel charge, but to a far lesser degree.

[6] *See generally Accounts Receivable and CILT Report*, FTI Capital Advisors, LLC, 16–17, 29–30 (Nov. 15, 2014) [hereinafter *FTI Report*], *available at* http://www.aeepr.com/Docs/restructuracion/PREPA%20AR%20and%20CILT%20Report%20Final.pdf.

[7] DERA was later struck down by the federal courts as pre-empted by Section 903 of the Bankruptcy Code. *Puerto Rico v. Franklin California Tax Free Trust*, 136 S. Ct. 1938 (2016).

[8] DERA specifically excluded most major municipal issuers of debt in Puerto Rico, other than PREPA, PRASA, and PRHTA. *Governor Alejandro García-Padilla Presents Bill for Debt Enforcement and Recovery of Public Corporations*, Commonwealth of Puerto Rico, Government Development Bank for Puerto Rico, 2 (June 25, 2014), *available at* http://www.gdb-pur.com/documents/06-25-14-PressRelease-RecoveryAct-Final.pdf.

The major parties to the negotiations included PREPA; the Government Development Bank ("GDB"), Puerto Rico's fiscal agent; an ad hoc group of PREPA bondholders, including Franklin and Oppenheimer, holding over 35 percent of PREPA bonds (the "Ad Hoc Group"); its monoline insurers; and parties involved in the fuel lines.

FORBEARANCE AGREEMENT AND BUSINESS STABILIZATION

During several weeks in the summer of 2014, PREPA, Puerto Rico (acting through its fiscal agent GDB), and PREPA's major creditors worked to hammer out a compromise. Negotiations resulted in an extended forbearance and consent agreement (the "Forbearance Agreement"), which allowed PREPA to avoid the threat of imminent default.

In return, PREPA agreed to hire a chief restructuring officer and to develop a comprehensive 5-year business plan. The objective of the business plan was for PREPA to make detailed financial projections and to identify important operational and structural reforms to be implemented.

The original Forbearance Agreement was executed on August 14, 2014 and was extended 13 times.[9] As part of the Forbearance Agreement, creditors extended liquidity to PREPA to help PREPA stabilize its business. They did so by allowing PREPA to make payments of debt service from reserve accounts instead of from cash from PREPA's general fund, suspending PREPA's obligations to transfer revenues to accounts controlled by the Trustee, and voluntarily agreeing to postpone some of their upcoming principal and interest payments.

OPERATING PRESSURES ON PREPA EASE

PREPA achieved further stability through favorable developments affecting its operations and financial performance and through reforms implemented by its chief restructuring officer.

PREPA and other island-based electric utilities face challenges that mainland utilities do not. They include an absence of naturally occurring local fuel sources, which means they must rely on imported fuel, primarily fuel oil. Importing gas requires a high-pressure liquefied state, which is much more expensive than gaseous state pipeline deliveries on the mainland. An island utility needs more generating capacity and more individual generating units than a mainland utility does, since a mainland utility can draw from neighboring networks in order to provide reliable service during maintenance or outages.[10] These challenges result in higher rates for island utilities than for mainland utilities.

Despite these factors, a sustained drop in the price of oil since 2014 allowed PREPA to pass along significant electricity cost savings to customers, including a savings of more than $0.5 billion in Fiscal Year 2015, an incremental $1.3 billion of savings in Fiscal Year 2016, and another incremental $0.5 billion of savings in the first 4 months of Fiscal Year 2017.[11]

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[9] *PREPA Reaches Agreements with Creditors*, Commonwealth of Puerto Rico, Government Development Bank for Puerto Rico (Aug. 14, 2014), *available at* http://www.gdbpr.com/documents/PREPA_Aug14Forbearance_PressRelease_081414_FINAL.pdf. The original Forbearance Agreement can be found at: http://www.gdbpr.com/documents/BondholderForbearanceAgreementEXECUTED.pdf.

[10] For more information on the rates of comparable island electric utilities, PREPA's historical rate, and the rate that PREPA's customers are projected to pay after the PREPA Transaction, see attached Annex A, which was prepared by Houlihan Lokey.

[11] *Monthly Report to the Governing Board: June 2015*, Commonwealth of Puerto Rico, Puerto Rico Elec. Power Auth., at 4 (June 2015), *available at* http://www.aeepr.com/INVESTORS/DOCS/Financial%20Information/Monthly%20Reports/2015/June%202015.pdf (listing a total fuel adjustment surcharge for all customer classes of $2,633,256,000 in fiscal year 2013–2014 and $2,129,834,000 in fiscal year 2014–2015); *Monthly Report to the Governing Board: June 2016*, Commonwealth of Puerto Rico, Puerto Rico Elec. Power Auth., at 4 (June 2016), *available at* http://www.aeepr.com/INVESTORS/DOCS/Financial%20Information/Monthly%20Reports/2016/June%202016.pdf (listing a total fuel adjustment surcharge for all customer classes of $1,365,977,000 in fiscal year 2015–2016); *Monthly Report to the Governing Board: November 2016*, Commonwealth of Puerto Rico, Puerto Rico Elec. Power Auth., at 4 (November 2016), *available at* http://www.aeepr.com/INVESTORS/DOCS/Financial%20Information/Monthly%20Reports/2016/November%202016.pdf (listing a total fuel adjustment surcharge for all customer classes of $592,656,000 in fiscal year-to-date as of November 2016); *Monthly Report to the Governing Board: November 2014*, Puerto Rico Elec. Power Auth., at 4 (November 2014), *available at* http://www.aeepr.com/INVESTORS/DOCS/Financial%20Information/Monthly%20Reports/2014/November%202014.pdf (listing a total fuel adjustment surcharge for all customer classes of $1,113,188,000 in fiscal year-to-date as of November 2014).

PREPA's financial situation also improved as a result of reforms PREPA's chief restructuring officer and management implemented, which have yielded significant benefits to PREPA and its customers. Over the past 2 years, PREPA revamped its fuel inventory and fuel procurement procedures, creating a one-time benefit of $36 million and a recurring annual benefit of $23 million.[12] PREPA also developed new ways to combat electricity theft, generating additional revenue of $70 million per year.[13] PREPA improved operational efficiency in other ways by reforming its capital maintenance practices, reducing labor costs through attrition, and improving its billing and collection procedures.[14] These and other initiatives together generated $271 million in one-time cash savings and $254 million in recurring annual savings for PREPA.[15]

NEGOTIATING THE PREPA TRANSACTION

Building on the Forbearance Agreement, PREPA and its financial creditors began the task of negotiating a comprehensive debt adjustment agreement, which culminated in a series of agreements with the Ad Hoc Group,[16] the fuel line lenders, and two of its monoline insurers[17] in late 2015, and finally with the last of its insurers in June of 2016.[18] These agreements were memorialized in greater detail in a comprehensive Restructuring Support Agreement (the "RSA").

Economic Components of the PREPA Transaction

The RSA contemplates the creation of a new, special purpose, bankruptcy-remote public corporation called the PREPA Revitalization Corporation ("PREPARC") through the enactment of new legislation. (The necessary Puerto Rican legislation passed in February 2016 and is discussed more fully below.) That new legislation grants PREPARC the authority to levy a mandatory, non-bypassable securitization charge (a "transition charge") on customers' electric bills. The transition charge is collected by PREPA but does not belong to PREPA.[19] PREPARC will issue new securitization bonds secured by the transition charge. PREPARC has no operations and will have an independent board.

This securitization structure is based on widely used public utility "stranded cost" securitizations, which have been used in New York, California, Louisiana, and several other states.

The transition charge is based on historical energy usage and will have a quarterly "true-up" to adjust the transition charge upwards or downwards to ensure, on the one hand, that the charge always covers debt service and, on the other, that customers are not charged more than is required for debt service. The transition charge and true-up mechanism were approved by Puerto Rico's public utility commission (the "Energy Commission"), as discussed below. At current oil prices, the transition charge plus the PREPA charges to customers for electricity are less than historical electricity costs and the rates at other comparable island utilities.[20]

[12] *Puerto Rico Elec. Power Auth. Operational Transformation: Hearing Before the Puerto Rico S. Comm. on Energy Affairs and Water Resources*, 17th Legis. Assemb., 7 (Oct. 4, 2016) (testimony of Lisa Donahue, Chief Restructuring Officer of PREPA).

[13] *AlixPartners' Hand-Over Strategy to the Governing Board*, Commonwealth of Puerto Rico, Puerto Rico Elec. Power Auth. (Feb. 1, 2017), *available at* http://www.aeepr.com/jg/docs/PREPA_Exit%20Strategy%2002-01-2017%20final.pdf.

[14] *Puerto Rico Elec. Power Auth. Operational Transformation: Hearing Before the Puerto Rico S. Comm. on Energy Affairs and Water Resources*, 17th Legis. Assemb., 5–13 (Oct. 4, 2016) (testimony of Lisa Donahue, Chief Restructuring Officer of PREPA).

[15] PREPA's Fiscal Plan at 11.

[16] *PREPA Reaches Agreement with Ad Hoc Bondholder Group*, Commonwealth of Puerto Rico, Puerto Rico Elec. Power Auth. (Sept. 2, 2015), *available at* http://www.aeepr.com/aeepr2009/noticiasread.asp?r=DLGZEKPRAG.

[17] *Assured Guaranty and PREPA Enter Restructuring Support Agreement*, Assured Guaranty Ltd. Investor Relations and Corporate Communications (Dec. 24, 2015), *available at* http://www.businesswire.com/news/home/20151223005779/en.

[18] *PREPA Reaches Agreement with Its Creditors*, Commonwealth of Puerto Rico, Puerto Rico Elec. Power Auth. (June 30, 2016), *available at* http://www.aeepr.com/aeepr2009/noticiasread.asp?r=UUOHMSWEVE.

[19] In addition to serving as PREPARC's servicer, PREPA will continue its usual functions, including energy generation and distribution and assessing and collecting rates related to the same.

[20] See Annex A.

The major components of the transformation of PREPA's debt under the PREPA Transaction are:

- *Uninsured PREPA Bonds*. Uninsured bondholders will exchange existing uninsured PREPA bonds for new PREPARC securitization bonds. In exchange for the protections the securitization offers, **bondholders will accept an exchange ratio of 85 percent of the par value of the original bonds: that is, bondholders would voluntarily take a 15 percent haircut in the principal amount of their bonds. The new securitization bonds would have a 5-year principal moratorium and a reduced interest rate.**[21]
- *Monolines*. Two of the monoline insurers[22] will receive the benefit of securitization bonds issued by PREPARC, referred to as "mirror bonds," that will economically defease the existing insured PREPA bonds. These insured bonds will be paid out of the transition charge, rather than out of PREPA's revenues. In exchange, these monolines will provide surety bonds to fund a portion of the debt service reserve funds.[23] Those reserve funds will help the securitization bonds achieve higher ratings and correspondingly lower interest rates, provide further stability for bondholders, and reduce PREPARC's need for cash reserves to cover potential shortfalls in bond payments.

The PREPA Transaction produces substantial savings on debt service by reducing outstanding principal of uninsured PREPA bonds by 15 percent, lowering the interest rate, and offering a 5-year moratorium on principal payments. Under the terms of the PREPA Transaction, total debt service is reduced by approximately $1.1 billion in the first 5 years and $1.7 billion in the first decade.[24]

The passage of PROMESA in 2016 generated additional savings for PREPA. It meant that PREPA could use Title VI of PROMESA—which was drafted to accommodate voluntary, "pre-existing" agreements such as the PREPA Transaction—to apply the deal it reached with the Ad Hoc Group to all uninsured bondholders, not just those bondholders who were part of the RSA.

Without the PREPA Transaction, PREPA's rates would go up substantially from where they are today and where they would be after the PREPA Transaction is completed in order to pay the full 100 percent of debt service at existing interest rates, as required by Puerto Rican law.

Noneconomic Components of the PREPA Transaction

The RSA also contains several key noneconomic components. These include improvements related to (i) operations, (ii) governance, (iii) collections and billing processes, (iv) statutorily mandated subsidies, including a contribution in lieu of taxes ("CILT"), (v) a new rate structure and approval by the Energy Commission of a new PREPA rate, and (vi) a capital investment plan, including Energy Commission approval of a new integrated resources plan and moving forward with public-private partnerships.

PREPA has a documented history of political interference compromising its decision making.[25] The top 200 PREPA administrative positions, as well as—until recently—the majority of the board of directors, are political appointees.[26] The large

[21] The full terms of the exchange offer can be found in the RSA at Annex D and Schedule I–B thereto. *See* PREPA Public Disclosure, Electronic Municipal Market Access, Municipal Securities Rulemaking Board, Exhibit A (June 30, 2016), *available at* http://emma.msrb.org/ES1020690.pdf.

[22] PREPA's third monoline insurer, Syncora Guarantee Inc. ("Syncora"), agreed to a variety of different treatments of the PREPA bonds that it insures or owns. The full terms of Syncora's treatment can be found in the RSA at Annex D and at Schedule II–A thereto. *See* PREPA Public Disclosure, Electronic Municipal Market Access, Municipal Securities Rulemaking Board, Exhibit A (June 30, 2016), *available at* http://emma.msrb.org/ES1020690.pdf.

[23] The full terms of their treatment can be found in the RSA at Annex D and Schedule II thereto. *See* PREPA Public Disclosure, Electronic Municipal Market Access, Municipal Securities Rulemaking Board, Exhibit A (Mar. 15, 2016), *available at* http://emma.msrb.org/ES1000543.pdf.

[24] See Attachment 3.03 of the PREPARC Verified Petition for Restructuring Order. In re: Puerto Rico Electric Power Authority Revitalization Corporation Verified Petition for Restructuring Order, No. CEPR–AP–2016–0001, Petition for Restructuring Order, Attachment 3.03 (April 7, 2016), *available at* http://energia.pr.gov/wp-content/uploads/2016/04/TransitionCharge-2.pdf.

[25] Charles R. Babcock, *Alleged Puerto Rican Bribery Money Will Be Returned*, Wash. Post (Dec. 9, 1980), https://www.washingtonpost.com/archive/politics/1980/12/09/alleged-puerto-rican-bribery-money-will-be-returned/a46e8a90-09df-454c-84fc-a9e9b45bb0d3.

[26] Section 4(a) of Act No. 83 of May 2, 1941, as amended through Act 57–2014 (22 L.P.R.A. § 194(a)), states that six of the nine PREPA Board members are appointed by the Governor.

Continued

number of patronage positions at PREPA ensures that politics and political connections heavily influence corporate decision making and can stymie necessary reforms to PREPA.

Politics has also played a central role in PREPA's historical mismanagement, from procurement scandals for key goods and services such as fuel oil, to basic mismanagement like PREPA's failure to collect over $150 million for energy consumed by other government agencies.[27,28]

The RSA allows PREPA to use debt service relief from the PREPA Transaction to support PREPA's operational restructuring initiatives through modernization of PREPA's aging power generation platform and other contractual, structural and managerial reforms. Modernization will also give PREPA flexibility to integrate alternative energy sources.

The RSA also helps PREPA provide for necessary capital expenditures, as required under PROMESA. PREPA now has the opportunity to invest in highly efficient conventional generation assets, natural gas generation assets, and renewable generation assets of its choosing, which could add greater diversity and stability to power price and supply. Going forward, Puerto Rico will benefit from more stable, lower cost power generation—*but* the PREPA Transaction is a key predicate. Without it, PREPA will not have sufficient funding to commit to these investment initiatives without a far greater increase in electric rates resulting from higher interest costs. Disputes with creditors, including litigation over creditor rights, could deter private capital commitments the Governor has stated he intends to seek.

The PREPA Transaction will also allow PREPA to fulfill one of the critical goals of PROMESA: regaining access to the capital markets. The issuance of new securitization bonds under the PREPA Transaction will mark Puerto Rico's first major new issuance of long-term financing since the passage of DERA locked it out of the capital markets. Securitization financing is a well understood structuring technique with an excellent track record of helping other utilities to service legacy debt obligations at lower cost.[29] All but one of the major securitizations from 2006–2014 were rated AAA, according to a 2015 Moody's report on the universe of utility securitizations.[30] By executing the PREPA Transaction, PREPA and the island will be taking a major step toward reducing the political risk that has prevented Puerto Rico from issuing any new debt financing and will be compliant with one of the fundamental elements of PROMESA: restoring Puerto Rico's access to the capital markets on reasonable terms. The structure and regulatory approval process for the new securitization bonds is something that Puerto Rico can emulate in other new bond issues.

Finally, the PREPA Transaction is being executed within the legal and regulatory framework established by Puerto Rico's executive and legislative branches and can and should be executed pursuant to Title VI of PROMESA.

ENERGY COMMISSION APPROVAL

As part of a full and transparent process, the Energy Commission reviewed PREPARC's petition seeking approval of the securitization mechanism for the proposed bond exchange under the PREPA Transaction. After extensive public hearings, the Energy Commission approved the transition charge in a voluminous report that found that the petition complied with all the requirements of Puerto Rican law.[31]

PREPA's 200 top managers are also politically appointed and change with every administration, according to the testimony of PREPA's chief restructuring officer: "[I]t's the top two hundred (200) people in that organization that switch out every four (4) years; so you've got no continuity for long-term strategic or financial planning." *Puerto Rico Electric Power Authority Business Plan and Recovery Plan: Hearing Before the Puerto Rico S. Comm. on Energy Affairs and Water Resources*, 17th Legis. Assemb., 84 (Apr. 14, 2015) (testimony of Lisa Donahue, Chief Restructuring Officer of PREPA).

[27] *See generally* Amended Complaint, *Marrero Rolon v. Autoridad de Energia Electrica a/k/a P.R. Elec. Power Auth.*, No. 15–cv–1167, Docket No. 367 (D.P.R. Aug. 5, 2016).

[28] The FTI Report showed that PREPA had $151.5 million of receivables 120+ days old. *See FTI Report*, at 16.

[29] For further reading on benefits of securitization financing, see Chris Mauro, *U.S. Municipal Focus: Municipal Securitization—A New Financing Trend in the Municipal Market?*, RBC Capital Markets (Nov. 6, 2014), *available at* https://www.rbccm.com/municipalfinance/file-826934.pdf.

[30] *Pre-Sale Report: Entergy New Orleans Storm Recovery Funding I, L.L.C.*, Moody's Investor Service (July 13, 2015). The exception is one issuer that was rated AA by Moody's.

[31] In re: Pet. for Approval of Transition Order Filed by the PREPA Revitalization Corp., No. CEPR–AP–2015–0002, Restructuring Order (June 21, 2016), *available at* http://energia.pr.gov/wp-content/uploads/2016/06/21-junio-2016-Restructuring-Order-English-1.pdf.

On January 10, 2017, the Energy Commission approved PREPA's rate case. The Energy Commission ruling confirms that "[t]he restructured debt costs will be recovered in a separate charge which is lower than the costs would be without restructuring." [32] PREPA's Fiscal Plan illustrates that the PREPA Transaction eliminates what would otherwise be an immediate rate hike of approximately 25 percent to close a substantial status quo rate deficit.[33]

THE PREPA REVITALIZATION ACT AND VALIDATION PROCEEDINGS

The PREPA Transaction required the passage of new legislation in order to successfully transform PREPA. This included provisions that would allow for operational reform, enable the securitization structure to reduce PREPA's debt load, and set forth the process by which the Energy Commission reviews the PREPARC transition charge and the PREPA rate. The portions of the legislation dealing with the securitization structure are modeled on structures that allow entities to recover similar "stranded cost" charges from utility customers in other states, such as the restructuring charge assessed on Long Island Power Authority customers in New York.

On November 4, 2015, members of the Puerto Rico Senate introduced legislation that would later become the PREPA Revitalization Act. Over the course of several months, legislative committees held hearings on the proposed legislation and received testimony from parties with different views on the PREPA Transaction. House legislators seeking to refine the legislation crafted and obtained passage of amendments to the bill. The legislation as amended was then debated on the Floor of both legislative chambers, passed by both chambers, and signed into law as the PREPA Revitalization Act on February 16, 2016.

The PREPA Revitalization Act contemplates the initiation of lawsuits by interested parties to challenge and, by a court order finding in favor of the securitization structure, the validation of the transactions contemplated under the RSA. Such validation proceedings are frequently used in municipal financing, including in the public utility context, in many U.S. states.

A critical component of the PREPA Transaction is the delivery of certain legal opinions as a condition to the issuance of the securitization bonds. The delivery of those legal opinions is dependent on the successful and expeditious completion of the validation proceedings.

The past few months have seen positive developments in the validation proceedings. In one of the cases, a Puerto Rico court upheld the PREPA Revitalization Act; this decision is now on appeal in the Supreme Court. Another group of cases challenging the Energy Commission's decision have been consolidated and will be briefed over the next few months. The remaining cases have been dismissed.

CHALLENGES AHEAD

Almost 3 years into the PREPA restructuring process, numerous important accomplishments and the majority of requisite steps to complete the deal have already been achieved.

Years have been spent putting the PREPA Transaction into action. But the PREPA Transaction is now in jeopardy.

The Oversight Board extended PROMESA's stay from February 15 to May 1 by certifying that an additional 75 days were needed "to seek to complete a voluntary process under title VI of this Act," [34] but as of this date neither PREPA nor AAFAF have delivered a proposed "modification" under Title VI or commenced a "voluntary process under Title VI."

The RSA is currently set to expire on March 31—just 9 days after this hearing. The current administration has refused to commit to the terms of the PREPA Transaction—even though PREPA's former chief restructuring officer warned that bondholders would likely recover 100 percent of claims on their revenue bonds in litigation.[35]

The consequences for rejecting the PREPA Transaction could be dire. At the very least, it will delay needed capital investment to upgrade the depreciated and inefficient generation infrastructure absent a significant increase in electric rates. More

[32] In re: Puerto Rico Electric Power Authority Rate Review. CEPR–AP–2015–0001, Final Resolution and Order (Jan. 10, 2017), *available at* http://energia.pr.gov/wp-content/uploads/2017/01/10-enero-2017-Restructuring-Order-English-1.pdf.

[33] PREPA's Fiscal Plan at 41.

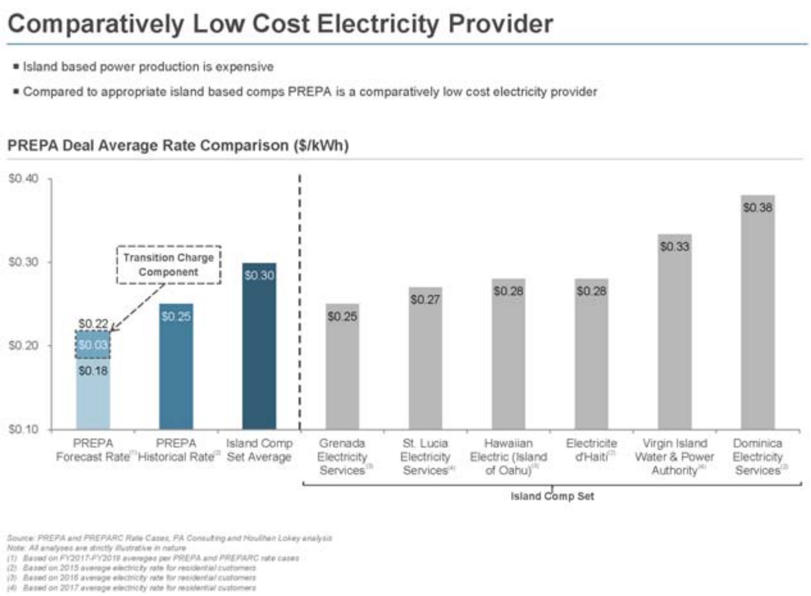
[34] Puerto Rico Oversight, Management and Economic Security Act of 2016, Pub. L. No. 114–187, § 405(d)(1)(B).

[35] *Donahue Warns of Dire Consequences if PREPA Deal Collapses*, Reorg Research (Dec. 1, 2016), *available at* http://platform.reorg-research.com/app#company/1869/intel/view/28192.

troubling, an expiration of the RSA in 9 days could precipitate another collapse in trade credit, draining PREPA of potentially hundreds of millions in liquidity virtually overnight. Unlike the 2014 liquidity crisis, PREPA has already spent cash in bondholder reserve accounts, leaving the company with no potentially available cash resources to purchase fuel, creating a very real possibility of rolling brownouts or outright service disruption as Puerto Rico enters its seasonal highpoint in electricity demand.

And finally, Puerto Rico has to communicate to the Federal Government, national and international markets that it can abide by its laws, its contracts, and the good-faith negotiations it enters with its bondholders; that there is certainty in doing business on the island regardless of which political party is controlling the government. That is the way Puerto Rico will dig itself out of its fiscal crisis and return to a path of economic prosperity, which we all as American citizens want to see.

Annex A



Mr. LaMalfa. Thank you, Mr. Spencer. I thank all the witnesses for your testimony.

I remind members of the Committee that Rule 3(d) does impose a 5-minute limit on questions, and I am going to be tougher on that 5-minute limit here now.

I will go ahead and recognize myself for the first 5 minutes. Let's move, please, to Mr. Carrión. OK.

Earlier in your testimony, you stated, "We believe the discussions with creditor groups need to yield a viable restructuring path on or before May 1, when the PROMESA stay expires, and before other tools under PROMESA are utilized, such as Title III."

So, would you define for the Committee the viable restructuring path? What do you mean by that?

Mr. Carrión. Right. Well, as you know—and I think the Governor touched on—the certified plan was just last week. And that, in essence, makes the process a little clearer, and it was essential that that be done before we can commence a viable restructuring conversation. Prior to that we were essentially listening, gathering information, and we hope to move forward with the government quickly in the coming days.

I can tell you that, from conversations with our attorneys, we are looking to put forward a mediation proposal before the general obligation bondholders and COFINA, and certain term sheets for other bondholders relatively soon. As I have stated in the past, we are in alignment with the government, we are all about Title VI and moving forward on these issues.

And we understand that Title III is there, but it is not our intent. It is only there as a last resort if we are not able to come to a consensual agreement. And if we are close to a consensual agreement, we would not be averse to forbearance with creditors, as well, if we were close.

Mr. LAMALFA. Let me follow up on that, then. Do you mean that the consensual negotiation must be fully complete in order to, in your words, yield a viable restructuring path—so does it need to be fully completed in order to get to that path?

Mr. CARRIÓN. No, Mr. Chairman. We have not had a conversation specifically about any particular creditor class, but we do not close the door to a forbearance agreement if we were close, but not there in time for the stay to end.

Mr. LAMALFA. OK, thank you.

Mr. Spencer, with looking at Puerto Rico, we will have to sit down with many different creditor groups and classes to begin negotiating on many forms of debt that make up the rest of the $70 billion on the island outside of PREPA's $9 billion.

How important is it that the creditor community have an open dialogue that is maintained with the full government of Puerto Rico, as well as the Oversight Board of PROMESA?

Mr. SPENCER. I think it is incredibly important. My clients in PREPA are also the largest investors in other Puerto Rico debt obligations—GO, COFINA, and other Puerto Rican debt issues. This deal sets the tone. This is why I think it is so important that we are focused on PREPA today, because it affects the broader restructuring negotiations that Puerto Rico intends to conduct.

We are very concerned about what is happening in PREPA. We are very concerned about the possibility that that deal falling apart could negatively impact Puerto Rico's broader debt restructuring and negotiations——

Mr. LAMALFA. Ripple through that.

Mr. SPENCER. Yes.

Mr. LAMALFA. Let me ask if Mr. Bergonzi would like to touch on that same question, too, please.

Mr. BERGONZI. Thank you. The dialogue is exceptionally important. I am just struck with the testimony I have heard today. Again, as the largest creditor of PREPA, we have had no positive engagement from this administration. We extended the RSA, along with the group represented by Mr. Spencer, in an effort to give the Governor time to get up to speed on the transaction, fully understanding that we have been living with it for over 2 years and he was going to have questions. So, I object to the term "rubber stamping." No one has asked him to do that.

But we have had zero outreach. In fact, until the plan that Rothchilds had put forward was blown out yesterday to all the public, we had not seen anything or heard anything about any asks on the part of the Governor as to how to improve this transaction——

Mr. LAMALFA. So, after 78 days you are feeling a little frustrated with that, then?

Mr. BERGONZI. Well, and 8 days from the expiry of the Restructuring Support Agreement.

Mr. LAMALFA. Yes.

Mr. BERGONZI. Yes. It is quite frustrating.

Mr. LAMALFA. What do you think the probability is of coming to an agreement on the RSA before March 31?

Mr. BERGONZI. Look, we have been constructive throughout this process. Our goal, as you have heard, is to get this deal done. We are, of course, eager to hear dialogue that is a little bit more on the terms of executing the RSA we have, rather than pitching a whole new transaction. But we would be all ears, and we are, at this point, quite concerned that we have not had that engagement.

Mr. LAMALFA. All right——

Mr. SPENCER. Chairman, if I could offer one thing?

Mr. LAMALFA. Certainly. I am going to——

Mr. SPENCER. Yes, relevant to the question asked.

Mr. LAMALFA [continuing]. Break my own rule here, but——

Mr. SPENCER. This is the first time I have met Mr. Carrión, the first time I have met Ms. Matosantos, the first time I have heard the Governor speak about the terms of a deal that we have been trying to advance for 3 years.

Mr. LAMALFA. OK, thank you. All right. Let me now turn it over to our Ranking Member, Mrs. Torres, for 5 minutes.

Mrs. TORRES. Thank you, Mr. Chairman.

Mr. Hernández, is it true—it is true, I should say—that PREPA officials acted recklessly with regard to their management of PREPA's indebtedness, as did Puerto Rico's elected officials. But doesn't the recent audit by the Puerto Rican Commission on Debt make it clear that PREPA's financial advisors, its engineers, lawyers, accountants, insurance companies, and perhaps bondholders bear some responsibility for PREPA's current, out-of-control debt practices?

And what legal steps, if any, have been taken to address these bad actors? And shouldn't there be an apportioning of liabilities in a kind of global settlement, rather than placing all of the responsibility on PREPA's failings on the ratepayers?

If you can be brief, sir.

Mr. BENÍTEZ. Yes. PREPA doesn't work with that, we are working to operate the company.

Mrs. TORRES. I understand that. But the company's lawyers and all of its advisors failed the company. And that is my question to you. Has PREPA, have they taken any actions toward these bad actors that led you where you are now?

Mr. BENÍTEZ. No, ma'am.

Mrs. TORRES. OK, thank you.

Mr. Spencer, I could not agree more with you when you said that this deal sets the tone. And when you say that the Governor and none of these folks have reached out to you, weren't their meetings public, sir, so you could have attended any of them?

Mr. SPENCER. We did. There were very many creditors in attendance, and it was hard to talk about the specifics of the PREPA agreement.

Mrs. TORRES. OK. Do you find it unusual that the Governor and PROMESA board has found that the Commonwealth has the ability to pay 25 percent of currently outstanding debt, but you are here today, sir, asking that PREPA's ratepayers pay 89 percent of the existing debt? Eighty-nine percent.

Mr. SPENCER. So, a couple of things. One, I disagree with the conclusions of the fiscal plan regarding the debt capacity of the Commonwealth—of Puerto Rico, excuse me. And we have not had a chance to do what we do in advising creditors in these restructuring negotiations and understand their underlying assumptions. We simply have not had any diligence.

With respect to the figure that you cite, again, I don't know where that comes from. We are providing a $.15 haircut on my client's debts.

Mrs. TORRES. Simple subtraction, right, 100 minus 15?

Mr. SPENCER. One hundred minus fifteen, so an $.85 recovery——

Mrs. TORRES. To the ratepayers?

Mr. SPENCER [continuing]. On the face amount——

Mrs. TORRES. To the ratepayers?

Mr. SPENCER. No, on the face amount of the bonds. We are exchanging bonds at $.85 a par, and we are offering a lower interest rate on the exchange debt.

Mrs. TORRES. Can you expand on your concerns that you have not been able to have some real-time conversations with the board, or with the Governor and the current administration?

Mr. SPENCER. It is a great concern, and I will address it in two areas.

One, with respect to PREPA, it is fair to say that staffers of the Governor were briefed when he was a candidate for governor, when he was the Governor-Elect; and we have been trying to, as the governor, continue our dialogue with him to educate them on any areas of the deal that we have struck that they do not understand.

But also, it is important to recognize that the Puerto Rico Electric Utility Commission issued an order approving our deal in an exhaustive public review process with thousands of pages of accompanying documentation. So, I don't understand where the confusion is on the part of the Governor.

Mrs. TORRES. That was on the previous administration, correct? And have you seen the public document that the Governor shared with us here today?

Mr. SPENCER. I have not.

Mrs. TORRES. Prior to today?

Mr. SPENCER. I have not seen the public document that he shared today. I don't know which one you are referring to.

Mrs. TORRES. Sorry, my time has expired. I yield back.

Mr. LAMALFA. Thank you. Now we will yield to our Vice Chair, Miss González, for 5 minutes.

Miss GONZÁLEZ-COLÓN. Thank you, Mr. Chairman. I would like to address the question to Mr. Bergonzi and Mr. Bryngelson. And I would like both of you to just answer directly the question.

Is the value of the total of the bonds, both of you, like, $2.1 billion? Yes or no?

Please, my time is limited, so yes or no.

Mr. BERGONZI. Sorry, I don't understand the question. Are you asking what our exposure is?

Miss GONZÁLEZ-COLÓN. Yes, what is the total value of the bonds both of you have——

Mr. BERGONZI. In PREPA or more widely?

Miss GONZÁLEZ-COLÓN. No, in PREPA.

Mr. BERGONZI. In PREPA is about $1.4 billion.

Miss GONZÁLEZ-COLÓN. OK.

Mr. BRYNGELSON. Sorry, we are an energy developer.

Miss GONZÁLEZ-COLÓN. OK.

Mr. BRYNGELSON. We are not on the bond side of things, so we have no bond exposure.

Miss GONZÁLEZ-COLÓN. Perfect, $1.4 billion, so the $2.1 billion that is public is not an official number?

Mr. BERGONZI. I think what you may be referring to is the amount of bonds that we, together with Assured, another monoline insurer, wrapped for PREPA. That is——

Miss GONZÁLEZ-COLÓN. Exactly, so it is going to be $2.1——

Mr. BERGONZI. I think—I have $2.2, but yes, I would have to check.

Miss GONZÁLEZ-COLÓN. If you took the same $.15 haircut, how much money will be if you are taking the same haircut, same as the creditors are taking? You will be $320 million, more or less?

Mr. BERGONZI. Well, we pay over time, so you would have to—as the bonds would come due, I suppose we would pay 15 percent—we would get 15 percent less than full recovery.

Miss GONZÁLEZ-COLÓN. Again, if you took the same $.15 haircut, it would be like $320 million, more or less?

Mr. BERGONZI. I think less.

Miss GONZÁLEZ-COLÓN. OK, less. For $440 million debt service contribution, how much are you charging for this surety?

Mr. BERGONZI. That has not been negotiated yet, I do not believe.

Miss GONZÁLEZ-COLÓN. Are you required to reserve any money against that amount?

Mr. BERGONZI. Yes, we have to reserve capital when we put these risks up.

Miss GONZÁLEZ-COLÓN. How much, 5 percent?

Mr. BERGONZI. I would have to check. It is a percentage of—it is dedicated by rating agency requirements. To maintain our ratings we have to put an appropriate amount of capital up every time we write a new policy.

Miss GONZÁLEZ-COLÓN. Publicly, it has been said it is 5 percent. So, can we say that it is, more or less, that amount?

Mr. BERGONZI. I don't know where that amount came from. I would rather check and get back to the Committee.

Miss GONZÁLEZ-COLÓN. I have a question for Mr. Spencer. You have been saying that—the argument that the deal will raise the rates is misleading, and that it isn't true that the rates will be increasing. Why is that?

Mr. SPENCER. Don't take my word for it. Take the Puerto Rico Utility Commission's word for it. They state that restructured debt costs are lower than they would be without restructuring.

They also state that, because PREPA is a non-government-owned utility, or a non-profit government-owned utility, debt costs must be recovered from customers.

So, to the rate issue, I think it is clear from the Energy Commission.

Miss GONZÁLEZ-COLÓN. Yes, but what the Energy Commission said is one thing, what the deal says is another thing. The deal says there will be an increase to pay the debt and to pay the service. So, that is the question I am asking to you.

Mr. SPENCER. But this is the Energy Commission's ruling on the deal, which states that restructured debt costs are lower than they would be if the restructuring were not put into effect.

Miss GONZÁLEZ-COLÓN. I will defer to you in your expertise besides the Puerto Rico Energy Commission. Do you understand that this deal will not increase in any way the rate of the kilowatt hour on the island?

Mr. SPENCER. Rates are lower under this deal than they would be without it——

Miss GONZÁLEZ-COLÓN. No, that is not the question. The question is there is going to be a high rate by this deal, yes or no?

Mr. SPENCER. There will not be a higher rate by this deal. As the EC states, this deal will lower the cost of debt service.

Miss GONZÁLEZ-COLÓN. But it will higher the rate.

Mr. SPENCER. There is confusion over this issue. Again, I would direct you to look at the exhaustive report from the Energy Commission on this particular issue.

Miss GONZÁLEZ-COLÓN. Thank you. I yield back. Mr. Chairman, I have different questions for the rest of the members of the Committee, so I will use the rules of the Committee and I will file those questions to the Committee in the next 2 days.

Mr. LAMALFA. OK. I will now recognize Mr. Soto for 5 minutes.

Mr. SOTO. Thank you, Mr. Chairman. As we understood from the Governor's testimony, energy is going to be the life blood of the Puerto Rican economy, and it is going to be so critical that we resolve this energy negotiation. And as our notes and our research have indicated, PREPA is not included in PROMESA.

So, my first question—please make your answers brief—to both Mr. Carrión and Ms. Matosantos is does the PROMESA board have any authority in this negotiation? Briefly, a yes or no would be helpful.

Mr. CARRIÓN. Yes, we do have authority. There are two issues. The RSA is the issuance of additional debt, or new debt, and so the board has to pass judgment on that. And then the other element I think Ana can touch on.

Ms. MATOSANTOS. The second element is Title VI. If it is going through—for approval through a Title VI process, that would also come to the board. So, there is one element that it is exempt from, but those other two remain.

Mr. SOTO. So, it is for prospective debt, but not past debt.

In your opinions—and this is, again, to Mr. Carrión and Ms. Matosantos—are PREPA creditors at an advantage over PROMESA-related creditors, currently, as it stands?

Mr. CARRIÓN. In my opinion, yes.

Ms. MATOSANTOS. Yes. Terms are more favorable here than on the fiscal.

Mr. SOTO. My next question is, could a new PREPA deal throw any PROMESA deal that you are working on off balance and make it harder to have a balanced PROMESA deal? Same two.

Mr. CARRIÓN. I would not like to speculate on that. We are looking at each separately. I have utmost sympathy, I must say, for the creditors, not just of PREPA, but for the entire creditors of Puerto Rico. At the end of the day, they are trying to recoup, and their only issue was they lent us money. And I understand where they are coming from.

Having said that, we look at each individual situation individually.

Mr. SOTO. Ms. Matosantos?

Ms. MATOSANTOS. I think the inter-relationship between PREPA cost and economic growth has been talked about. And the assumption around economic growth is critical to the surpluses that are assumed in the fiscal plan being available. There is a big inter-relationship between lower-energy costs, economic growth, and having the capacity to be able to fund essential services and fund debt service. So, there is definitely that linkage.

In terms of the RSA, a critical issue to consider is—the RSA basically changes the structure of the debt to a more secured debt. Is the 15 percent a level that makes sense, in terms of the reduction, in light of the change in the instrument?

Mr. SOTO. Mr. Chairman, this is just a comment for the Committee. With the $455 million July payment and a deal ending at the end of the month, if the parties are not able to come to agreement we should, as a Committee, consider whether to amend PROMESA to include PREPA negotiations, should the island not be able to negotiate on favorable terms that they can agree with to avoid rate hikes. Otherwise, we could see all these other creditors in PROMESA and the people, most importantly, under this deal still suffer under some of these exceptions like PREPA.

I know you put this hearing together with the potential in examining that today, and I, for one, am concerned, if they are not able to reach a deal, that we should examine a potential amendment. And I would yield back the rest of my time.

Mr. LAMALFA. All right. Thank you, Mr. Soto. We will yield to Mr. LaHood for 5 minutes.

Mr. LAHOOD. Thank you, Mr. Chairman, and thank the witnesses for being here today.

Chairman Carrión, when we passed PROMESA here there was a section there—section 201(b) made it clear that lawful priorities and liens set forth in the Puerto Rico constitution and related laws would be respected. And Puerto Rico's constitution states that when available resources are insufficient, constitutional debt shall be paid first.

When this plan was certified by the Oversight Board, it treats constitutional debt as a last expense. I guess what I am wondering is, how can the Oversight Board certify this plan if it violates section 201(b) of PROMESA?

Mr. CARRIÓN. Well, we felt that the plan is PROMESA-compliant, and we were assured that it is.

If you are referring to—if this is a question, Congressman, related to the GO or the COFINA situation, that issue is being litigated, and we hope to have those folks together and have mediation so that we can resolve that issue, moving forward.

Mr. LAHOOD. Do you believe it violates the Puerto Rico constitution?

Mr. CARRIÓN. No, I didn't say that. I am not an attorney, so I would defer to my attorneys with regards to that particular issue. We have not taken a position, the board has not taken a position on the GO, COFINA issue. Whenever we have intervened, it is to protect the stay and the people of Puerto Rico. But we have not taken a position as to the GO or the COFINA situation.

Mr. LAHOOD. Do you have concerns about that provision in PROMESA and the potential ramifications for the board on that?

Mr. CARRIÓN. No, I do not.

Mr. LAHOOD. Let me ask you, Mr. Chairman, when the Oversight Board and its advisors—well, let me ask you, did the board and your advisors perform a quantitative study to assess the potential impact the 77 percent haircut could have on financing and on the municipal market in Puerto Rico?

Mr. CARRIÓN. Ana, would you help me out with that?

Ms. MATOSANTOS. We considered all the different elements of PROMESA and considered the impact of this, as well as the impact on funding essential services, on pension benefits, and on other elements of not restructuring debt in the manner allowed under PROMESA.

Mr. LAHOOD. Yes. And what was your conclusion with that, or what did the study specifically tell you?

Ms. MATOSANTOS. Our conclusion is that the plan is PROMESA-compliant, that it requires significant sacrifice from a wide range of stakeholders, including creditors, but that it is a plan that moves toward structural balance and that meets the PROMESA requirements.

Mr. LAHOOD. And what about the concern about access to finance, or to the municipal market?

Ms. MATOSANTOS. Access to municipal markets would be something that would be achieved in the long term under this. The priority is first to restructure the debt to a sustainable level and to fully utilize the tools under the PROMESA Act to be able to balance the budget, restore economic growth, and fund essential services, pensions, debt, and other obligations.

Mr. CARRIÓN. And it was also an integral part of the conversation.

Mr. LAHOOD. Give me your level of confidence when you think about individual investors, the vast majority of municipal market investors, on their willingness to continue to invest in Puerto Rico after this kind of haircut.

Mr. CARRIÓN. Well, it is a very difficult situation, I concur. And I understand how problematic it is; but, as Ana stated, and as the fiscal plan demonstrates, we are asking for material sacrifices from all stakeholders, including our people. And we are in a difficult situation and we are in a tough spot, but we think that there is shared pain for everybody.

Mr. LAHOOD. Mr. Spencer, in your statement you say that a failure to close the PREPA deal will "negatively impact other challenged government entities as diverse as the U.S. Virgin Islands, Guam, the city of Chicago, and the state of Illinois." Can you elaborate on how the failure to close this deal will affect Illinois?

Mr. SPENCER. I advised the largest creditor in the city of Detroit's bankruptcy. We saw, after that plan was revealed, a negative impact in terms of a widening of spreads on Chicago bonds. The PREPA deal alone will be the single largest municipal restructuring deal, ever. If it goes badly, it will have an impact on municipal issuers at the lower end of the credit spectrum in municipal capital markets.

Mr. LAHOOD. Thank you.

Mr. LAMALFA. All right, thank you. We will do another quick second round of panel questions. For Mr. Bryngelson here, I wanted to just touch on one issue with the offshore gasport there, which you laid out would have great potential for cost savings, as well as reliability for the fuel supply and generation.

If an agreement cannot be reached between the government of Puerto Rico, PREPA, and the creditor community—the offshore gas project, what kind of jeopardy will that be in? Either in the short term or even completely at all? What do you see happening there?

Mr. BRYNGELSON. Well, we need PREPA to be able to move forward with that. The way the project is separated is it is a partnership between Excelerate and PREPA, where we provide the vessel. We have invested about $275, $280 million in that vessel. And PREPA would build the fixed infrastructure. Without the ability to move forward as a result of the restructuring process, the fixed infrastructure cannot be built and the project cannot come to fruition.

So, it has a short-term impact if something does not happen in the next several months here. We start to delay the project at least day for day. And ultimately, there will be a point where the project eventually does have to fall off, because there is only a certain amount of time that we can hold an asset that costly open for a project.

Mr. LAMALFA. So, reiterate what you think that would mean for the electricity ratepayers on the island.

Mr. BRYNGELSON. Well, it does not accomplish three of the things that are core tenets of what everybody is saying.

First is energy cost reduction. There would not be, through the diversification of natural gas, that same level of energy cost reduction. There is no other project out there that, within the next 5 years, because of the permitting process required, can bring natural gas as a fuel source. And that spills over, as well, to air emissions, the fines under the MATS rules that EPA will charge.

Also, the efficiency aspects of it. With the natural gas there is greater efficiency in power production. It also attracts IPPs who have a known source of fuel to be able to put in that generation, upgrade the system, bring more reliability to the system.

And, from the partnership perspective, I think it impacts the ability to attract partners to do these public-private partnerships, because we have been in this with PREPA off and on for 9 years under agreement since 2014, and working in the permitting process since 2011. So, I think it has a big detrimental impact on being able to bring more projects in on top of the other issues I discussed.

Mr. LAMALFA. So, if there was success on this agreement, it sort of becomes successful, and soon, do you think this would be like a green light for more additional infrastructure similar to this, or other ones that will be modernized——

Mr. BRYNGELSON. Absolutely, I do.

Mr. LAMALFA. Is it a pretty big positive green light for that?

Mr. BRYNGELSON. It is, because it does provide that fuel source for more power generation, but also shows that private projects can be done.

Mr. LAMALFA. Yes. OK. I thank you, and I will yield to recognize our Ranking Member, Mrs. Torres, for 5 minutes.

Mrs. TORRES. Thank you, Mr. Chairman.

Ms. Matosantos, welcome, and thank you for being with us today. As a Californian who has been through huge budget deficit, I respect your opinions on the issue at hand.

In proposing legislation to address Puerto Rico's debt crisis, the Obama administration and fellow House Members called on Congress to reform Puerto Rico's Medicaid program. The goal is to raise the standard of care and prevent Medicaid unstable financing from intensifying Puerto Rico's financial crisis.

There are still critical issues facing Puerto Rico's healthcare system, and the upcoming expiration of the ACA funding and limits imposed by the CAP Medicaid financing structure could greatly limit the island's economic recovery. Could you please explain to us why this is an important issue that needs to be addressed as part of the island's overall debt restructuring plan?

Ms. MATOSANTOS. I would be happy to. Puerto Rico's Medicaid funding is substantially below that funding available for other states. It receives a block grant that is in the neighborhood of $400 million. We take into consideration Medicaid and the State Children's Health Insurance Program.

Under the ACA, it receives temporary funding at a higher level. The reduction of that ACA funding will increase the deficit by $1 billion next year, and it rises in the future. A sustainable solution on Medicaid that provides parity for Puerto Rico would be material not only for the healthcare system and for the services that Puerto Rico is in a position to provide, but also for available resources for a variety of priorities, including the potential surpluses available for debt reductions in a whole host of different areas.

So, it is very material. It is $1 billion in the coming year, and it grows substantially in the future.

Mrs. TORRES. The Governor spoke to a plan that was created by his administration. Have you had an opportunity to look at that—and if, as he claimed, there would be more opportunities to insure more Puerto Ricans?

Ms. MATOSANTOS. The Governor's plan for the program reflected in the fiscal plan looks at making reductions to live within available resources. It reduces overall spending by about $750 million and growing into the future.

It does so through a variety of measures, including different—basically a cap on the amount spent per beneficiary to drive less utilization and to drive other savings. It also potentially looks at elimination of some benefits similar to what you are familiar with in California's actions.

It basically protects eligibility, but it makes a whole host of reductions in other areas to be able to protect access, but to generate the necessary savings in light of the fiscal situation.

Mrs. TORRES. Is it assuming current ACA benefits, or is it assuming the newly proposed healthcare plan?

Ms. MATOSANTOS. Puerto Rico's Medicaid program already provides less services than what is generally required on the mainland. It does not provide long-term care. It would be looking at additional benefit reductions in what are called the optional benefit categories, things like dental, things like vision, and some other benefits—but the program that is provided today is already narrower than what Medicaid covers on the mainland.

Mrs. TORRES. So that, in addition to encouraging people not to seek medical care?

Ms. MATOSANTOS. Looking at reducing costs to the extent possible, protecting the number of enrollees, but, yes, making due with substantial reduction.

Mrs. TORRES. Thank you. Mr. Chairman, I yield back.

Mr. LAMALFA. Thank you. Last we will go to our Vice Chair.

Miss GONZÁLEZ-COLÓN. Thank you, Mr. Chairman.

One thing. The Governor just said here that he was willing to sit and negotiate with good faith terms with all the stakeholders here. And I heard the creditors and the insurers, they know what the government offers. And, as a matter of fact, some government officials told me that each and every one of you last week, and even before that, some of them got some pushbacks from the insurers area.

So, my question will be is there any space to sit again with the government and have a common-sense dialogue to reach an agreement with common-sense terms with the Governor's proposition and your own positions on the table? Can we have that meeting? All of you.

Mr. BERGONZI. I would only take issue with you saying "again." That would imply that there were previous efforts. Yes, but we would like to talk. As long as we respect that this is a prenegotiated transaction, and that such changes are more at the margins——

Miss GONZÁLEZ-COLÓN. Yes——

Mr. BERGONZI [continuing]. I think we could have a constructive discussion. But if we are going to retrade the deal, as was released yesterday, that leaves us in a very awkward position.

Miss GONZÁLEZ-COLÓN. Again, I will say it "again." Are you willing to sit with the new administration—remember, there is a new administration in place. We are asking a governor who has been in place just 75 days——

Mr. BERGONZI. And has not contacted us.

Miss GONZÁLEZ-COLÓN [continuing]. To approve—fine.

Mr. BERGONZI. Not fine.

Miss GONZÁLEZ-COLÓN. The government of——

Mr. BERGONZI. No, it is not fine.

Miss GONZÁLEZ-COLÓN. Sorry, sir, I am having my turn. The government administration told me that they reached you last week, and even before. They get pushbacks from your staff. That is OK. My question now is, are you available to have that meeting?

Mr. BERGONZI. Absolutely.

Miss GONZÁLEZ-COLÓN. Yes or no?

Mr. BERGONZI. Yes, absolutely.

Miss GONZÁLEZ-COLÓN. Perfect. Can we have the same meeting with the creditors?

Mr. SPENCER. Vice Chairman González, we would be happy to sit with the Governor and discuss how to get this deal done.

[Speaking foreign language.]

Miss GONZÁLEZ-COLÓN. Thank you. Other questions I have here, and these will be for the Oversight Board. And I would love to have Ms. Matosantos and the Chairman of the Board to help me on this.

Are you involved in any way in this deal or in this agreement? Yes or no.

Mr. CARRIÓN. Are you referring to the RSA, the previous——

Miss GONZÁLEZ-COLÓN. Yes.

Mr. CARRIÓN. Well, we support the Governor's position as presented to us 2 weeks ago, and we support the RSA with certain improvements that he stated he was interested in negotiating. After that takes place, then we will pass judgment on that, based on what we asked of him. But we agreed that the way to go was what he was proposing.

Miss GONZÁLEZ-COLÓN. So, you will be able to join the effort to— the insurance, the creditors, and all the stakeholders here, again, just to assure something is achieved——

Mr. CARRIÓN. Sure.

Miss GONZÁLEZ-COLÓN [continuing]. In the best terms for the people of Puerto Rico, and everything involved.

Mr. CARRIÓN. That has always been our intent, of course.

Miss GONZÁLEZ-COLÓN. Question to Mr. Spencer. Are you open to amend that RSA?

Mr. SPENCER. We have an executable deal. I would agree with what Mr. Bergonzi said, that—are we willing to talk about ways to execute the deal? If those are the concerns of the Governor, we are willing to sit with the Governor and his team——

Miss GONZÁLEZ-COLÓN. Fair enough.

Mr. SPENCER [continuing]. To figure out how to get it——

Miss GONZÁLEZ-COLÓN. Fair enough. I will yield back. Thank you.

Mr. LAMALFA. All right. Thank you. I am going to thank the witnesses for their testimony, once again, and all the members of our Committee.

Again, if the Members have additional questions, witnesses can respond to those in writing. Under Committee Rule 3(o), members of the Committee, again, must submit these witness questions within 3 business days following today's hearing, and the hearing record will be held open for 10 business days for those responses.

So, if there is no further business, without objection, the Committee stands adjourned.

[Whereupon, at 12:40 p.m., the Subcommittee was adjourned.]

[LIST OF DOCUMENTS SUBMITTED FOR THE RECORD RETAINED IN THE COMMITTEE'S OFFICIAL FILES]

— The Government of Puerto Rico's Fiscal Plan, by the Puerto Rico Fiscal Agency and Financial Advisory Authority. February 28, 2017

— Puerto Rico's Government Reform Program: A New Path Forward, by the Government of Puerto Rico. October 13, 2016

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