

Written Statement of Walter M. Higgins  
May 8, 2018

***Introduction***

This written statement is submitted on behalf of Mr. Walter M. Higgins. Mr. Higgins serves as the Chief Executive Officer of the Puerto Rico Electric Power Authority (PREPA). He has held that position since March 20, 2018. Mr. Higgins' statement addresses the current status of operations at PREPA, the general status of its electric grid, the progress made in the restoration process, and certain issues related to the restructuring/reorganization of PREPA's resources.

***Status of Current Operations and General Status of the Grid***

Based on the most recent available information, the current status of line restoration is as follows: Over 98.25% of all customers now have power available to their premises. Overall progress on transmission line restoration is 80%, calculated as completed line segments divided by total line segments. Specifically, 15 of the 17 230 kV lines are restored, and 67 of 86 of the 115 kV lines are restored. 74% of the towers, poles, conductors, and insulators have been repaired. To date, over 52,000 power poles, 10,000 transformers, and 29 million feet of new power cables have been delivered to the Island, representing approximately 95% of the supplies required for the line restoration effort.

Based on the most recent available information, the status of PREPA's generation operations is as follows: The average daily peak demand is currently approximately 2100 MW. PREPA operates 15 available generating units with the capability of producing 3250 MW. PREPA has 12 generating units out of service for repairs or other operating factors and 4 generating units out of service for economic reasons.

With respect to the restoration of distribution facilities and based on the most current available information, PREPA's current load is 90% of comparable 2017 levels. At this point, 96% of PREPA's 342 distribution substations and 53 of 56 transmission centers are energized. In addition, PREPA has restored approximately 87% of the linkages between substation Communication Remote Units (CRUs) and the central customer billing system.

***Liquidity and Business Continuity Plan***

With respect to PREPA's cash flow, PREPA received a loan from the Government of Puerto Rico in February 2018. Since it received the loan, PREPA has consistently collected slightly more than \$50 million of accounts receivable per week, and it projects collections to remain near that level through the end of PREPA's fiscal year on June 30, 2018. PREPA currently believes that these weekly collections, coupled with the loan, will permit PREPA to continue to operate under current conditions without the assistance of additional financing through the end of the current fiscal year and into Fiscal Year 2019. It is worth noting that the continuity of restoration and mitigation/hardening work on the grid is dependent on the continuing receipt of federal funding, which is being closely coordinated with FEMA. Moreover, current liquidity at PREPA - including the \$300 million loan from the Government of Puerto Rico - amounts to a reserve of less than two

months of necessary operating expenses, which in my view is low for a company of this magnitude that is now entering another hurricane season. PREPA and the Puerto Rico Fiscal Agency and Financial Advisory Authority are exploring various options to address potential liquidity needs.

Our team is also working towards updating its business continuity plan in coordination with the Puerto Rico State Agency for Emergency and Disaster Management and FEMA. PREPA is evaluating the challenges faced and lessons learned during 2017 to: (a) identify additional steps and actions that will reduce risk and allow for faster recovery periods; and (b) improve coordination and resource alignment with other federal, state, and municipal entities. Synchronizing local and federal continuity plans will leverage the risk mitigation and recovery capabilities of the relevant emergency entities to ensure a calibrated and resilient response if/when needed.

### ***Restoration Challenges and Successes***

It would be difficult to understand the challenges PREPA has faced during the restoration process without first recognizing the unprecedented level of devastation caused by the onslaught of hurricanes Irma and Maria. The path of Irma primarily affected the northern portion of the Island, while the route of Maria nearly cut the Island in half from the southeast corner to the northwest corner. Hurricane Maria was the strongest hurricane to impact Puerto Rico since 1928 and is reported to have had sustained winds of up to 155 miles per hour and up to 40 inches or more of rain in some regions. The devastation was considerable with transmission towers toppled, power poles snapped in half or knocked over, and some substations flooded. PREPA's infrastructure was fragile prior to the hurricanes due to the poor maintenance of the power grid on Puerto Rico. These circumstances led to total system failure and a resulting blackout that I believe was longer and deeper than ever experienced elsewhere in the United States

In the aftermath of the hurricanes, the most challenging predicament faced by the restoration effort has been the delivery of materials to the Island, especially materials needed to repair the transmission and distribution system. By December 30, 2017, approximately 3.5 months after the passing of Maria, only 14,000 power poles (27% of requirement), 2 transformers and 1.75 million feet of new power cables (6% of requirement) had been delivered to the Island. Materials shortages resulted, in part, from the active hurricane season in the United States. In addition, PREPA's system specifications have certain unique elements. As a result, time was required to fabricate some components. Moreover, the logistics of getting the large quantity of replacement parts to the Island also proved to be challenging. There were often times when restoration crews were working at a less than an efficient level simply because there were not enough materials on the Island to allow continued restoration efforts.

Another challenge was the loss of fiber optic and remote communication networks that provide the backbone for managing the operations of the power grid and compiling information from operations. The loss of this vital real-time and daily information inhibited PREPA's ability to monitor system operations and maintain a high level of customer service.

I believe PREPA and its employees, with exceptional assistance from a multitude of Federal and Puerto Rico agencies and many public and private utilities from all over the United States, met the

challenges presented by the hurricanes during the restoration process. PREPA has worked closely with these partners to ensure that power was, and continues to be, restored as quickly as possible, in material compliance with the laws of both Puerto Rico and the United States.

For the power grid, the key initial steps in the restoration process focused on reestablishing the capabilities of the system to its status prior to the storms. Unfortunately, the pre-storm PREPA power system did not meet power grid standards that are applied on the Mainland. This fact provides context for what can be described as a benefit of the restoration process. PREPA, with the support and guidance of FEMA and the United States Department of Energy, is working to harden the power grid and deploy the proper equipment and processes to meet power grid compliance standards. This initiative will continue to be deployed over the coming years and is expected to improve the reliability and efficiency of the system. In addition, the replacement of insulators, conductors and transformers decreases the age, and potential obsolescence, of this type of equipment on the grid. Moreover, the restoration has led to the installation of replacement communications equipment across the communication network. Since the advances in telecommunications equipment over the past years have been material, the installation will likely provide greater flexibility in deploying improved data management systems at the receipt points on the system. All of these facts benefit the people of Puerto Rico going forward and will be a positive factor in the transformation of the Puerto Rico energy grid.

To date, PREPA has submitted requests for reimbursement through project worksheets in the amount of \$1.6 billion, \$997 million of which has been obligated or advanced by FEMA. PREPA is in the process of preparing additional project worksheets in the amount of \$193 million. The restoration will continue until all of PREPA's customers receive electricity and are billing and paying on a regular basis.

### ***PREPA's Operations During the Transformation Period and Support of the Energy Sector's Transformation***

In January, Governor Rosselló announced a transformation of Puerto Rico's energy sector that is expected to take at least 12–18 months. The transformation envisions possibly engaging a private operator for the Island's transmission and distribution system through an effective mechanism (e.g., long term concession agreement) which is compliant with federal funding requirements and complimentary to the anticipated and planned reconstruction and hardening of that system following last year's storms. This transformation also contemplates a private ownership or operation of existing PREPA assets as well as development of greenfield generation projects. It is my understanding that these transactional approaches will be market tested.

PREPA will continue to operate during the transformation period and is focused on driving additional cost-saving initiatives and operational efficiencies. In order to initiate, advance and manage necessary reforms to PREPA's current business model, its Governing Board, with assistance from the Government of Puerto Rico, has implemented several organization changes. In 2017, the Governing Board created the Project Management Office (PMO), and named Fernando Padilla as PMO Director, to develop clear and specific policy rationales for project prioritization and implementation and to oversee engagement of external and internal stakeholders to ensure transparency in meeting transformational schedules. Also in 2017, the Governing Board

named the Transformation Advisory Council (TAC), and selected eleven energy industry and utility industry leaders to serve as TAC members, to provide PREPA with advice on developing a long-term vision and transformation execution plan for the Island's power system. PREPA also retained Todd W. Filsinger of Filsinger Energy Partners as Chief Financial Advisor (CFA) to develop and support ongoing financial and operational restructuring efforts, advance the transformation process, assume responsibility for budget and expense approvals, direct implementation of the Fiscal Plan and transformation process for PREPA, and to interact with the Oversight Board and other stakeholders. Mr. Filsinger has been active in the energy sector for over 25 years and is recognized globally as a leader and turn-around specialist in the energy sector, involved with major industry restructurings such as Calpine and Energy Future Holdings. And, as I stated previously, I assumed the role of CEO on March 20, 2018, with more than 40 years of top management experience, including: Sierra Pacific Resources (SPR) (now known as NVEnergy); AGL Resources and Atlanta Gas Light Company, notably the first deregulated natural gas utility in the United States; Louisville Gas and Electric Company; and Portland General Electric Company. As I understand it, I am the first non-political appointee ever selected to serve as the utility's chief executive.

The Governor also established the Office of Contract Procurement and Compliance (OCPC) through Executive Order 2017-66 in November 2017. The OCPC's mission is to ensure compliant and efficient PREPA procurement necessary to support recovery, restoration of power, and rebuilding of energy grid. Prior to final action, all qualifying PREPA procurements of over \$500,000 are reviewed and approved by OCPC, which provides independent review with recognized national and local technical experts to confirm that contracts and procurement are compliant with local and federal laws and regulations. The OCPC has also implemented procurement process controls and procedures to mitigate compliance risk, limit potential de-obligation risk, and enhance accountability and implement process enhancements, including automation and integration, monitoring and reporting to increase transparency, accountability and effectiveness.

Under the direction of its Governing Board and with these organizational improvements in place, PREPA will undertake or complete the following tasks in the near and medium term:

1. Complete the restoration of power to its customer base;
2. Ensure funding for continued operations, including billing all customers and securing external financing;
3. Provide all necessary assistance for the undertaking of the envisioned sector transformation, including mitigation efforts;
4. Prepare a revised and updated integrated resource plan;
5. Update projected maintenance expenditures; and
6. Implement the multiple projects and reforms contemplated by our operating plan.

PREPA is also focused on improving its cash flow through procurement process enhancements, cash distribution controls, collection of all insurance proceeds, maximizing federal funding for disaster recovery and mitigation, improving account maintenance and billing quality, and improving fleet and inventory management. PREPA's management is also emphasizing employee

productivity, customer service quality, and long-term power system infrastructure improvements through status quo operational initiatives and energy sector transformation.

PREPA has initiated a team-based Performance Improvement Initiative, known as WP180, focused on evaluating PREPA's operational and contractual business practices with the goal of identifying opportunities to increase operating efficiency and reduce costs. WP180 focuses broadly on areas of PREPA's operations including transmission/distribution, generation, administrative, customer relations, and human resources. WP180 also addresses PREPA's principal cost centers such as fuel and purchased power. The WP180 process has already identified and executed on near-term operational improvements to save money. For example, beginning in January 2018, PREPA shifted its dispatch to an economic dispatch saving millions in fuel costs. Another example is that beginning in late February 2018, PREPA increased LNG consumption at the Costa Sur plant to lower overall fuel costs.

Other potential cost reductions identified by PREPA in its fiscal plan include: behind the meter revenue recovery, public lighting outsourcing, reduction of non-technical losses, capacity and renewable PPAs. PREPA believes that it can save approximately \$100 million in non-fuel-and power purchase expenses and another approximately \$200 million in projected fuel and power purchase expenses, which it will seek to implement as part of the WP180 initiative.

In conclusion, while we acknowledge that there is much work to be done to prepare for the transformation of Puerto Rico's energy sector, PREPA believes it has made important strides during historically challenging circumstances, and it has made, and will continue perfecting, significant organizational changes to position the utility to play a pivotal role in, and ensure the future success of, Puerto Rico's energy sector transformation.