



Congressman Pedro R. Pierluisi
World Alliance for Decentralized Energy (WADE) Caribbean Energy Conference
Sheraton Puerto Rico Hotel
San Juan, Puerto Rico
May 15, 2014

Good afternoon. I want to thank David Sweet, the Executive Director of the World Alliance for Decentralized Energy, and all of the WADE leaders involved in planning this conference. This event helps connect leaders in government and industry so they can exchange ideas and learn from one another. It also helps us to better understand the various current and future energy-related challenges in Puerto Rico and to craft thoughtful and effective solutions to address these challenges.

As Puerto Rico's only elected representative in our nation's capital, I will offer brief remarks about federal policy affecting energy generation, distribution and consumption on the island, and will discuss some of the specific steps I have taken in Congress to reduce electricity costs for ratepayers in Puerto Rico. Now, as all of you are likely aware, on the local level, the Puerto Rico House of Representatives approved an energy reform package on Tuesday, over the unanimous opposition of the local political party I lead. The House bill differs in meaningful respects from a bill approved by the Puerto Rico Senate in March, which was also opposed by most—though not all—senators from my party. It remains to be seen how these bills will be reconciled and when and if a final product will become law.

It is absolutely essential for the Puerto Rico government to significantly reform our energy system, which is profoundly flawed and outdated, but it is just as essential that the reform be smart, serious, substantive and sustainable. I am mindful of the fact that, as the leader of the opposition party in Puerto Rico, it would be easy—and perhaps politically expedient—for me simply to criticize the efforts being made by the Governor and the Legislative Assembly, but I have not taken this approach. Instead, I have tried to make my criticism *constructive* by laying out in detail my vision for how the reform effort should be structured. I am happy to speak about my specific proposals—and how they may differ from the proposals put forward in the House and Senate bills—during the question-and-answer session. But my prepared remarks will focus on the federal angle.

Now, as all of you know, families and businesses in Puerto Rico pay far too much for electricity, which has a detrimental effect on our quality of life and our economy, straining family budgets and making Puerto Rico a less attractive place to invest and create jobs. According to the U.S. Energy Information Administration, households in Puerto Rico pay over 27 cents per kilowatt hour, compared to the U.S. national average of just under 12 cents. Likewise, businesses in Puerto Rico pay over 28 cents per kilowatt-hour, whereas the national average is just over 10 cents per kilowatt-hour. The logical questions are: why is this the case, and what can be done about it?

A significant factor leading to high electricity prices in Puerto Rico is the island's dependence on foreign oil to fire our power plants. Because the price for a barrel of oil is determined based on a the worldwide market, it is highly volatile, fluctuating based on political and other events that

affect supply and demand. These factors, of course, are completely outside of Puerto Rico's control, meaning the island is essentially held hostage to forces over which it has no influence.

Every reasonable observer understands that, to lower the price of electricity, Puerto Rico must reduce its reliance on foreign oil. To do so, we must convert our power plants to natural gas—which is cleaner and cheaper—and diversify our energy portfolio by increasing the use of renewable energy sources like solar and wind power. Unlike the price of oil, which is pegged to a global market, the price of natural gas is regionally based. This is important because, a few years ago, the United States emerged as the world's leading producer of natural gas.

As a U.S. territory, Puerto Rico should take full advantage of this new development. Right now, Puerto Rico's per capita consumption of natural gas—which we mainly import from Trinidad and Tobago—is less than one-tenth of the U.S. national average. That has to change, and it has to change fast.

Timely conversion of our power plants to natural gas is not only in the public interest; soon federal law will essentially require it. In 2011, the U.S. Environmental Protection Agency, under authority arising from the Clean Air Act, issued new regulations—known as the “Mercury and Air Toxic Standards” or MATS—to control air pollution from coal- and oil-fired power plants across the United States. MATS applies to five power plants in Puerto Rico, four of which burn oil and are operated by PREPA: namely, Aguirre, Palo Seco, San Juan and Costa Sur. The fifth plant affected by these new regulations is the coal-burning plant operated by AES in Guayama.

All affected plants in the U.S. are given three years—until April 2015—to comply with the new standards. Federal law, however, allows for two extensions. First, plants can obtain a one-year extension beyond April 2015 if they request—and are granted—an extension from the state air pollution control agency, which in our case is the Puerto Rico Environmental Quality Board. The EQB has already granted an extension request from PREPA for the Aguirre plant, and it is expected that the EQB will receive requests in connection with PREPA’s other plants. To place this in context, the Aguirre plant, which PREPA is in the process of converting to natural gas, is one of 98 power plants across the nation that have received a one-year extension.

Second, under the Clean Air Act, if power plants are not in compliance by April 2016, EPA has an ability to issue an administrative order for plants to operate in noncompliance for an additional year. In short, by 2017 at the latest, PREPA will need to convert to natural gas or, in the alternative, install expensive modern emissions-limiting filtration systems in order to comply with federal law, the cost of which would likely be passed on to ratepayers.

In Congress, I have taken a number of steps to facilitate conversion of Puerto Rico’s power plants from oil to natural gas. In particular, I have introduced legislation to connect Puerto Rico with the burgeoning U.S. LNG market. Unlike the contiguous states that receive energy supplies via pipeline, rail or truck, Puerto Rico—because it is an island—is dependent on maritime commerce. Accordingly, I introduced legislation that would enable the maritime transportation to Puerto Rico of LNG and other energy supplies produced in the United States. This bill would not only provide economic and environmental benefits to Puerto Rico, by helping to wean us off

our dependence on foreign oil, it would also benefit the United States as a whole, and in particular those states that produce or distribute natural gas, by opening a new domestic market.

My bill involves the Jones Act, a 1920 law that generally requires all cargo transported between U.S. ports, including Puerto Rico ports, to be carried on vessels that are built and registered in the United States and that are owned and operated by U.S. citizens. My legislation responds to a 2013 report from the U.S. Government Accountability Office that I requested, which notes that there are not enough Jones Act-qualified vessels to meet current and future demand in Puerto Rico for energy products like LNG. When LNG export facilities open in the U.S. mainland starting in 2016, Puerto Rico—absent a legislative change—will be unable to take full advantage of this emerging market.

Congress has already recognized the need for some relief from the Jones Act to enable Puerto Rico to tap in to the domestic LNG market. In 1996, Congress enacted a law to enable a narrow universe of vessels to transport LNG or LPG between ports in Puerto Rico and other U.S. ports. The exception applies to two categories of vessels, namely: one, vessels built outside of the U.S. prior to October 1996; and two, vessels built in the U.S. prior to October 1996 that are not registered in the U.S.

While this exception is important in *principle*, it should be updated in order to have meaningful *practical* effect. This is because only a limited number of LNG tankers in the worldwide fleet are eligible to meet the 1996 exception, and this number will further diminish as these aging vessels are decommissioned. In addition, these vessels are more expensive to operate because of

their age, and that cost is passed on to the consumer in the form of higher rates. Finally, no LNG tanker has been built in the U.S. since the 1996 exception was enacted. In short, there is a small and shrinking universe of vessels that will be eligible to transport domestically produced LNG to Puerto Rico once that opportunity becomes available when export terminals open in the Gulf Coast. My bill would expand the universe of vessels available to transport LNG from the states to Puerto Rico by removing the requirement that such vessels be built prior to 1996.

While I believe this bill would be beneficial for Puerto Rico and the nation as a whole, it is important to candidly discuss the strong headwinds it faces. The powerful coalition of U.S. shipbuilders, mariners and owners are strenuously opposed to my bill on the grounds that any exception to the Jones Act—no matter how meritorious or narrowly-written—inevitably invites more requests for amendment. To counter this opposition, I am seeking to work with the natural gas industry in the hope they will endorse my bill.

Beyond my Jones Act legislation, I strongly support a bill pending in the U.S. Senate—called *the Omnibus Territories Act*—that would require the federal government to establish a team of experts to develop—and help implement—an action plan for Puerto Rico and the other U.S. territories to reduce reliance on imported oil, to transition to clean energy sources, and to lower electricity rates. I worked to ensure Puerto Rico was included in the scope of this provision when the bill was being drafted and processed through committee.

In general, a key component of my work in Congress has been to ensure that residents of Puerto Rico can reap the benefits of a clean-energy economy. There are two federal programs that help

finance public and private investment in renewable energy projects: first, the State Energy Program and, second, the Energy Efficiency and Conservation Block Grant Program, which—unfortunately—Congress recently ceased to appropriate funding for. Since the inception of the State Energy Program in 2009, the Puerto Rico Energy Affairs Administration—known as the AEE—has received hundreds of millions of dollars. It has used this federal funding to advance energy efficiency and renewable energy technologies in Puerto Rico through various initiatives, including providing rebates for energy-efficient retrofit projects; establishing revolving loan programs for private entities to finance energy projects; providing rebates to homeowners, businesses, and government facilities for the installation of solar energy systems; replacing conventional incandescent traffic lights with energy-efficient traffic lights; and making new buildings energy efficient.

Meanwhile, the AEE and at least 41 municipalities received grants totaling over \$15 million dollars through the Energy Efficiency and Conservation Block Grant Program, which they used to finance various projects in which buildings are taken completely or partially off the PREPA grid and instead receive their electricity from renewable energy sources.

I have also worked to improve Puerto Rico's treatment under two federal programs that help low-income families reduce their electricity bills, namely the Low Income Home Energy Assistance Program, known as LIHEAP, and the Weatherization Assistance Program.

Because it is a territory, Puerto Rico has long been treated unequally under LIHEAP, receiving far less funding than it would if it were a state. For two years, I urged the U.S. Department of

Health and Human Services to increase funding for Puerto Rico, and HHS finally agreed to do so last year. In Fiscal Year 2013, Puerto Rico received less than \$4 million dollars in LIHEAP funding.

As a result of HHS's decision, Puerto Rico is receiving nearly \$15 million in the current fiscal year, an increase of over \$11 million dollars. Over the next decade, if overall funding for the LIHEAP program remains the same, the increase I secured will represent about \$110 million dollars in additional funding. This money will be used to help about 500,000 individuals save between \$45 dollars and \$58 dollars a month on their electricity bills.

Finally, between 1978 and 2008, Puerto Rico was ineligible for funding under the Weatherization Assistance Program, which helps low-income families permanently reduce their energy bills by making their homes more energy efficient. Since I took office in 2009, Puerto Rico has received over \$2 million dollars in grants under this program, which has helped finance the installation of new energy-efficient refrigerators, air conditioning units, and solar water heaters in over 5,500 island homes.

Apart from these two programs, I was successful in enacting legislation that made Puerto Rico eligible for the Diesel Emissions Reduction Program administered by EPA, which provides grants to retrofit diesel motors in buses, ferries and small facilities to reduce their emissions. Anyone who has ever been stuck in Puerto Rico traffic behind a bus knows how important an achievement this is!

In closing, I believe there are important economic and environmental reasons why Puerto Rico needs to aggressively reform its energy sector. I have tried to do my part at the federal level to make it easier for Puerto Rico to convert to clean and cheaper energy sources and to ensure that the island receives improved treatment under federal programs designed to reduce the financial burden on households confronting high electricity bills.

Again, I appreciate the invitation to speak before you today and commend you for promoting the discussion of such an important issue. Thank you very much and I look forward to answering your questions.