



GOVERNMENT OF PUERTO RICO
OFFICE OF THE GOVERNOR

Hon. Pedro R. Pierluisi
Written Submission

U.S. House of Representatives Committee on Natural Resources
Full Committee Hearing: Puerto Rico's Post-Disaster Reconstruction & Power Grid Development
November 17, 2022

Chairman Grijalva, Ranking Member Westerman, Resident Commissioner Gonzalez-Colón, and Members of the Committee:

Thank you for holding this hearing regarding the post-disaster reconstruction efforts and the transformation of the electric system of the U.S. territory of Puerto Rico. I am pleased to report that Puerto Rico is emerging from a challenging period with strength and optimism.

Successfully restructuring our public debt to sustainable levels is helping us rise from bankruptcy with renewed momentum. This new era of economic stability and progress-oriented policies is already working to restore investor confidence on the Island, which is evidenced by the economic upswing being felt across Puerto Rico.

We also strategically allocated federal funds related to the pandemic to mitigate the effect on our public health and our economy. This has helped provide a sustained rise in economic activity indexes for the past twenty months. In fact, even accounting for inflation and historic high fuel prices, our economy is growing, businesses are expanding, and tax collections are rising consistently.

All banks and co-ops in Puerto Rico have shown steady growth in the past two years, with increasing personal loans, positive movement in the mortgage sector, manufacturing indexes rising and bankruptcies decreasing.

Additionally, with an increase in the local minimum wage, and the impact of this Congress's inclusion of Puerto Rican families in the Child Tax Credit and the federal funding you allocated to increase our local Earned Income Tax Credit, the poverty rate on the island has decreased by 2 percent and is expected to decrease by 7 percent by next year.

Moreover, we have been able to create over 105,000 jobs in less than twenty months since I took office, and Puerto Rico's unemployment rate is at 5.8%, its lowest point in our history. Also, more people have joined the workforce, reaching levels we have not seen in almost 15 years, and last month 44 percent of businesses on the Island reported plans to increase their workforce.

As our economy recovers and we continue to promote our socioeconomic development, we must also ensure that Puerto Rico's energy system is reliable and resilient, we must speed up our reconstruction, and most critically, continue to protect the health of our people working with Congress to receive fair treatment in Medicaid and Medicare.

RECOVERY & RESILIENCY

Puerto Rico, this Committee, Congress, and the Biden Administration have committed significant resources to Puerto Rico's recovery after the ravages of the 2017 Hurricanes and their human and economic toll, as well as subsequent earthquakes, the COVID-19 pandemic, and the most recent Hurricane Fiona two months ago. I am pleased to report significant advances in these efforts during my administration.

The Puerto Rico Department of Housing (PRDOH), as the designated CDBG-DR Grantee, and the Central Office for Recovery, Reconstruction and Resiliency (COR3), as the designated FEMA Grantee, are working nonstop for the recovery of the Island. Both agencies will share a detailed update with this Committee, but I would like to highlight some important advancements. I also want to underline that the assistance provided by the Biden Administration to speed up access to these funds has been instrumental.

PRDOH has successfully obligated 70 percent (approximately \$7 billion) of the more than \$10 billion in CDBG-DR disaster recovery funds. In its Repair, Reconstruction and Relocation Program, out of over 12,000 eligible families, more than 6,400 families have been served, with 4,376 homes rebuilt and 2,027 housing vouchers granted. In addition, 1,341 residences are under construction and 973 in pre-construction.

The Buyer Assistance Program, with an allocation of \$295 million, has already helped 4,131 families acquire a new home. Under the Low-Income Housing Tax Credit Program, which has an allocation of \$963 million, 6 projects with 981 units under construction in its first phase, and the second phase aims to achieve the construction of 2,535 housing units through 17 projects that have already been selected and one has already begun construction.

As for COR3, FEMA has obligated over 91 percent (nearly \$30 billion) of the funding allocated for permanent work projects (which totals over \$32 billion), and almost 20 percent has already been disbursed. By thinking outside the box, COR3 developed the Working Capital Advance Program to advance 25 percent of the FEMA approved cost of a project, which now provides necessary cash flow for projects that were delayed due to municipalities or agencies not having enough capital to begin the design and construction processes. This program has been so successful in the few months since it was established that FEMA has approved its use for all public and private sector entities that have approved projects, and now has been expanded to up to a 50 percent advance for compliant recipients.

As of today, we have 2,132 projects under construction for a total cost of \$800 million in FEMA funding. Also, 1666 projects totaling over \$1,400 million are in the permitting process and should start construction soon. These are projects of all sizes and types, such as critical infrastructure, community improvements and utilities, all over Puerto Rico.



Furthermore, we have had significant progress in water and sewer infrastructure reconstruction, with multiple large projects already under construction, valued at \$116.3 million, along with others totaling \$294 million that are in the process of architectural and engineering work. Likewise, 26 additional water and sewer projects have been obligated by FEMA for another \$828 million.

ENERGY TRANSFORMATION

The transformation of our electric system is certainly one of our highest priorities. The Puerto Rico Electric Power Authority is still in bankruptcy, saddled with over \$9 billion in bonded debt, and burdened with an antiquated infrastructure that was devastated by Hurricanes Irma and María, and for which emergency restoration work took over a year to repair. The Government of Puerto Rico is hard at work with the Oversight Board trying to restructure its debt to affordable levels. We are also committed to achieving our comprehensive and ambitious public policy to transform our existing power generation assets, moving away from fossil fuels towards renewable energy, and converting our fragile and integrated electric grid into a modern, resilient and interdependent one that can serve Puerto Rican residents and businesses without blackouts.

By way of background, on June 20, 2018, the Government of Puerto Rico enacted the “Puerto Rico Electric Power System Transformation Act, Act No. 120-2018 (“Act 120”), with the stated goal of transforming Puerto Rico's energy system into a modern, sustainable, reliable, efficient, resilient, and cost-effective system.

On April 11, 2019, the Government of Puerto Rico then enacted Act 17-2019 (“Act 17”), further advancing our public policy, which mandates the delegation or transfer of the operation of the Puerto Rico Power Authority (“PREPA”) electric power generation, transmission and distribution, commercialization, and operation systems to the private sector through the execution of public-private partnership contracts (“P3 Contracts”), all to be done within certain specific milestones.

The first P3 Contract in connection with Puerto Rico's energy transformation was executed between PREPA, the P3 Authority, and LUMA Energy. LUMA is now in charge of the operation and management of the transmission and distribution assets of PREPA. LUMA also must lead the redesign and reconstruction of our electric grid to make it more modern, reliable, able to function interdependently with generation units to avoid island wide outages, and able to provide for the interconnection of microgrids and renewable energy systems.

It is also important to recognize that the \$9.5 billion in awarded by FEMA for the energy system reconstruction were approved in the later months of 2020. Since then, significant advances have been achieved.

While we recognize there have been delays, the path towards modernization has been set and we are committed to providing modern and reliable electric service to all on the island. The grid reconstruction by LUMA is underway, with hundreds of substations repaired, thousands of poles and streetlights replaced, and over 33,000 new solar customers connected.

Also, more than 389 FEMA funded projects have been approved by the Puerto Rico Energy Bureau, 90 projects are in the design phase, 43 projects are awaiting FEMA approval, 51 projects have already been approved by FEMA, and 40 projects are under construction.

Furthermore, work continues to safely integrate 1,000 MW of utility-scale renewable energy generation and 250 MW of energy storage into our system. Likewise, a second tranche of additional utility-scale renewable energy projects totaling 1500 MW with 500 MW of storage just finished the request for proposal process and proponents will be chosen soon by the Puerto Rico Energy Bureau.

In addition, the Puerto Rico Department of Housing is installing solar and battery systems on all homes rebuilt under its R3 program. It also has begun the process for the administration of \$1.3 billion in CDBG-DR funds for microgrids and energy storage systems for remote communities and first response agencies. The first of these projects will be built in our primary medical center, Centro Médico, for which proposals for its design and construction should be ready by the beginning of next year.

Further, the Department of Housing and the Green Energy Trust will use \$500 million in CDBG-MIT funds, which my administration has allocated to assist low- and moderate-income households in acquiring renewable energy systems. With this allocation, we expect to have 25,000 additional solar systems and solar communities across our Island.

The Green Energy Trust will also pursue other funding venues, including but not limited to the Investment and Infrastructure Jobs Act and the Inflation Reduction Act, which can finance programs that promote the development of green energy projects.

However, given Hurricane Fiona's recent impact on Puerto Rico, which brought over thirty inches of rain to some municipalities, combined with additional historic rainfall during the months of September and October, our electric system has suffered additional damages, causing major power outages. Last month, I formally requested emergency assistance from FEMA to stabilize our power system by providing additional generation assets and accelerating work on our transmission and distribution grid.

In response, FEMA created the Puerto Rico Power System Stabilization Task Force, which includes the U.S. Department of Energy, the U.S. Army Corps of Engineers and the Environmental Protection Agency (EPA), led by FEMA, which together with our administration's energy stakeholders developed a plan to stabilize our electric system to be able to provide reliable service to the residents of Puerto Rico, while we continue to carry our reconstruction projects.

FEMA has agreed to provide resources for this stabilization process that will include actions to assist Puerto Rico in increasing its power generation capacity and helping improve transmission and distribution of energy. The plan proposes to:

1. Install temporary generation through power barges and high-capacity portable generators.
 - a. FEMA has already identified available units and is making arrangements to hire and mobilize them to Puerto Rico.

2. Perform key short-term work in existing generation plants that allow for the reincorporation of units that are not operating at full capacity or that are out of service.
3. Perform key short-term improvements on the electrical grid, such as repairing key substations and transformers, and replacing high-voltage breakers.

The work that FEMA and its federal partners will be doing will be coordinated with our local stakeholders so that it is done systematically. With this aid, Puerto Rico will be able to focus all efforts on advancing the transformation and modernization of its electric system while our people have a stable service.

CONGRESSIONAL INTERVENTION AND ASSISTANCE

We respectfully ask this Committee and Congress to help us address some additional challenges that we are facing in our ongoing post-disaster reconstruction.

First, we ask for 100 percent federal match for energy related FEMA funded projects. This was done in other states where catastrophic damages occurred and will enable us to use the funds that we have earmarked for the local match for additional renewable energy projects and microgrids.

Second, we ask that FEMA be given Congressional authorization to adjust fixed costs estimates of approved permanent projects given the recent increase in the cost of construction materials and supply chain disruptions. Without this, there is a possibility that some projects will not have enough funding to be completed, putting Puerto Rico's resiliency and reconstruction at risk.

Thirdly, we ask that you support an amendment to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 *et seq.*) to authorize FEMA to consolidate disasters into a single award under DR-4339-PR for the administration of federal assistance. This request will ensure a sound approach to the recovery process and help lessen the administrative burden for both the Government of Puerto Rico and FEMA in managing both disasters.

Lastly, we support the proposal of Chairman Grijalva and other members of Congress to allocate \$5 billion in directed CDBG-DR funding for residential solar energy systems on the Island. This will provide necessary energy independence to residents of Puerto Rico and democratize access to renewable energy.

STATUS

In conclusion, 125 years of unequal treatment towards the American citizens living in Puerto Rico have taken a toll on our society. Even after the successful restructuring of our public debt and the rebuilding of our infrastructure, Puerto Rico will remain hindered until our century-long status question is resolved.

The people of Puerto Rico voted and chose permanent union with the United States through statehood as their path forward. So many Puerto Ricans have defended American democratic values at home and abroad that their lack of voting representation in Congress and voting rights is clearly unacceptable.



Governor Pedro R. Pierluisi
Written Statement to HNRC
17 November 2022

Congress should call for a vote on the political future of Puerto Rico and commit to implementing the will of the majority. After all, that is what democracy is all about. I thank you for favorably reporting HR 8393 out of this Committee and urge Congress to approve it.

Thank you.

