

**UNOFFICIAL TRANSLATION**

COMMONWEALTH OF PUERTO RICO

17<sup>th</sup> Legislative  
Assembly

1<sup>st</sup> Special  
Session

**SENATE OF PUERTO RICO**

**S. R. 599**

November 20, 2013

Introduced by Mr. *Bhatia-Gautier*

*Referred to the Committee on Rules, Calendar, and Internal Affairs*

**RESOLUTION**

To order the Committee on Energy Affairs and Water Resources to conduct a thorough investigation on all that pertains to the viability of separating energy generation from energy transmission and distribution, which are presently all part of the Puerto Rico Electric Power Authority, into individually operating entities in order to create a free and competitive electricity market in the Island; evaluate any processes and requirements necessary to make such separation feasible; to study the effect that the aforementioned changes in Puerto Rico's electric power system could have on the Puerto Rico Electric Power Authority and the Island's economy; and for other purposes.

**STATEMENT OF MOTIVES**

Puerto Rico's energy history demonstrates that, despite the evolution and transformation of energy systems worldwide, ours has remained stagnant and inefficient for decades. While other jurisdictions have gradually reduced their dependence on oil, an expensive and toxic resource, sixty-eight percent (68%) of energy generation in Puerto Rico still depends on it. Depending on such resource as our main source of energy adversely affects our economy, because it makes us

dependent on the uncontrollable volatility of crude oil prices. Yet, this is only one of the factors that contribute to the rise in the cost of electricity that currently outrage the people of Puerto Rico.

Existing power plants in the Island also show an unsustainable inefficiency that contributes to our high electricity bills. The efficiency indicator of power generation or heat rate of most of these plants, specifically those belonging to the Puerto Rico Electric Power Authority, exceeds ten (10) BTU per kilowatt-hour (kWh). There are other technologies that generate power at a rate of seven point five (7.5) BTU/kWh. However, the Authority refrains from investing in these technical changes and continues operating with inefficient plants.

In addition to the aforementioned factors, Puerto Rico's energy sector currently has problems in other areas such as customer service, rate making, energy theft, grid inefficiency, noncompliance with Federal environmental standards, among many others. Consequently, most Puerto Ricans ask themselves, why have such issues not been properly and efficiently addressed and solved? Puerto Rico has been stuck in this situation for years because the Authority alone directs and controls the energy industry, a critical and essential sector for the wellbeing of the Island. The Puerto Rico Electric Power Authority manages, regulates, and supervises itself. It has the power to decide what to do, when, and how to do it without receiving orders or supervision. The Authority controls the generation, transmission, and distribution of energy in Puerto Rico. It is a state-owned monopoly whose structure does not incentivize reform or change.

In view of the foregoing, this Legislative Assembly deems necessary and imminent the development and implementation of an Energy RELIEF Plan to responsibly and conclusively solve Puerto Rico's energy issues. This reform addresses different energy-related subjects through technical, oversight, and public policy measures, all of which seek to render the production of electric power more

efficient and competitive so as to significantly reduce the costs thereof in both the short and long terms. Furthermore, considering how our energy sector should be organized in the long term, this Plan recognizes and declares that it is essential to create a free and competitive electricity market where the transmission and distribution of energy operates separately from the generation thereof. The investigation proposed herein is a crucial step to fully implement such Plan. It shall serve as a public study that incorporates national and international participation to specifically determine the time needed and the feasibility of the energy reform that the people demand.

The extensive structural change proposed herein is not a simple transformation, since it requires time and expertise to develop an appropriate and feasible plan consistent with the political and socioeconomic reality of Puerto Rico. However, its complexity should not justify maintaining our electric power system as a monopoly. Global energy trends are currently shifting toward free electricity markets and toward the separation of the transmission and distribution of energy from the generation thereof. This decentralized model was implemented in the United States in the 1970s, and has proven to be effective in most states. Likewise, countries known for achieving energy self-sufficiency and generating on a large scale are currently in the process of transforming their state-owned electric power systems into open and competitive systems.

For example, as a result of the nuclear crisis in Fukushima in 2011, Japan has been forced to explore new energy models that reduce energy costs and stimulate economic development in the country. Japan's Prime Minister, Shinzo Abe, recently introduced a bill to deregulate regional electricity monopolies that control and supply over seventy percent (70%) of electricity in Japan. Furthermore, Mexico, where *Petróleos Mexicanos* (PEMEX) and its electricity monopoly are protected by the country's Constitution and regarded as a national patrimony, has

also proposed to amend its Constitution to provide for the establishment of independent generators that may provide electricity to the Mexican people through PEMEX's grid. This bill was one of the proposals that won Enrique Peña-Nieto the presidency in December 2012, and has the support of two out of the three national parties.

Our goal is to reduce the cost of electricity in Puerto Rico, since it will allow us to position ourselves in the world as a business destination by becoming a more competitive place in terms of electricity costs. The investigation ordered under this Resolution shall lead to public discussions about the crucial subject of reforming Puerto Rico's electricity sector; such conversations and the information obtained therefrom shall be used to create a free, competitive, and decentralized electric power system.

***BE IT RESOLVED BY THE SENATE OF PUERTO RICO:***

1           Section 1.- The Committee on Energy Affairs and Water Resources of the  
2 Senate of Puerto Rico is hereby ordered to conduct a thorough investigation on all  
3 that pertains to the viability of separating energy generation from energy  
4 transmission and distribution, which are presently all part of the Puerto Rico  
5 Electric Power Authority, into individually operating entities aimed at creating a  
6 free and competitive electricity market in the Island; to evaluate any processes and  
7 requirements necessary to make such separation feasible; to study the effect that  
8 the aforementioned changes in our electric power system could have on the Puerto  
9 Rico Electric Power Authority and the Island's economy; and for other purposes.

10           Section 2.- The Committee shall submit a report on the investigation herein  
11 ordered, which shall include its findings and recommendations, within a term that  
12 shall not exceed ninety (90) days after the approval of this Resolution.

13           Section 3.- This Resolution shall take effect after its approval.