

UNOFFICIAL TRANSLATION

COMMONWEALTH OF PUERTO RICO

17th Legislative
Assembly

1st Special
Session

SENATE OF PUERTO RICO

S. R. 601

November 2013

Introduced by Mr. *Bhatia-Gautier*

Referred to

RESOLUTION

To order the Committee on Ways and Means and Public Finance of the Senate of Puerto Rico to conduct a thorough investigation on all that pertains to the payment of the debt incurred by the Puerto Rico Electric Power Authority; evaluate financial alternatives to increase payment capacity and make it feasible; identify and develop any financial mechanism or mechanisms to implement such alternatives; and for other purposes.

STATEMENT OF MOTIVES

Through this resolution, the Legislative Assembly orders the Committee on Ways and Means and Public Finance of the Senate of Puerto Rico to conduct a thorough investigation on the feasible and timely ways to ensure that the Puerto Rico Electric Power Authority (hereinafter, "PREPA") meets its financial obligations to bondholders in light of the adoption of the Energy RELIEF Plan.

Currently, Puerto Rico's energy sector is controlled solely and exclusively by PREPA. Such entity is experiencing serious financial difficulties that weaken the Island's energy system. PREPA's audited financial statements for the fiscal

year ending on June 30, 2012, show a \$515.7 million deficit net worth, whereas the fiscal year ending on June 30, 2011, showed a \$169.5 million deficit. This means that such deficit increased by \$346.2 million after only one year. The items that reflect the most drastic changes in connection with such deficit can be found in the 2011 and 2012 audited statements where the costs of fuel increased from \$2.3 billion to \$2.9 billion, respectively, and contributions in lieu of taxes increased from \$246.8 million to \$283.1 million, respectively.

Moreover, PREPA's net book value as of June 30, 2012 was \$6.8 billion, whereas its liabilities amounted to \$8.9 billion. This last amount includes \$985 million in current liabilities due this fiscal year, and \$7.95 billion in long-term debt. In June 2013, PREPA issued an additional debt of approximately \$700 million to finance a portion of its Capital Improvement Plan, which adds up to nearly \$10 billion in PREPA bonds. Such debt was issued in the bond market at a 7% average yield, which is a significantly higher yield than the one that had been projected by the Government of Puerto Rico.

In view of the foregoing, this Legislative Assembly deems that the development and implementation of the Energy RELIEF Plan is necessary and urgent in order to responsibly 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.

To achieve the Energy RELIEF goals that we, as a people, have set for ourselves, it is necessary to ensure that PREPA meets its current obligations to bondholders and guarantees the repayment thereof. This Resolution shall require information and input from the Government Development Bank (GDB), PREPA,

and any other entity that the Committee may deem necessary to include in this investigation process.

BE IT RESOLVED BY THE SENATE OF PUERTO RICO:

1 Section 1.- The Committee on Ways and Means and Public Finance of the
2 Senate of Puerto Rico is hereby ordered to conduct a thorough investigation on all
3 that pertains to the payment of debt incurred by the Puerto Rico Electric Power
4 Authority; evaluate financial alternatives to increase its payment capacity and
5 make it feasible; identify and develop any financial mechanism or mechanisms to
6 implement such alternatives; and for other purposes.

7 Section 2.- The Committee shall submit a report on the investigation herein
8 ordered which shall include its findings and recommendations within a term that
9 shall not exceed one hundred and eighty (180) days as of the approval of this
10 Resolution.

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