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Puerto Rico Asks Buyers of Rickety Power System to Rewrite Rules.

- **After Maria, investors get blank slate to rebuild and profit**
- **Almost 10,000 customers still lack electricity months later**

Now that Puerto Rico's massive and moribund public power utility is almost back from the dead, Wall Street is weighing what its parts might be worth.

The bankrupt U.S. commonwealth's investment bankers last week started sounding out suitors for the eight-decade-old monopoly known as Prepa, whose rickety infrastructure was almost erased by Hurricane Maria in 2017. The halting efforts to repair the damage and improve the antiquated grid have been the central obstacle in recovery. Now, the government is so eager to find a solution that it is even asking companies that might privatize the system how they would prefer it to be regulated.

But it wasn't immediately clear who would want a utility business on a broke island whose population has been increasingly fleeing to the mainland. Meanwhile, residents — some still in the dark — worried that a deal would enrich mainland profiteers at their expense.

"We are tired of people coming here to get rich and take advantage of us," said Melissa Diaz, 48, a homemaker and mother of one who lives in San Juan.

Nowhere But Up

Proponents, including Governor Ricardo Rossello, say service and pricing can only improve if a company takes the utility off its hands. The authority for decades has been a honey pot for politicians of all parties and a font of patronage. Its dated infrastructure relies on shipped-in oil, a notoriously expensive fuel. But the commonwealth, which owes creditors and pensioners around $120 billion, is in no position to shoulder upgrades on its own. Just Friday, the parties in the painful bankruptcy appeared to have a tentative deal on the central question of who can claim sales-tax revenue. But dozens of other matters remain pending, and no one knows how much Puerto Rico will owe, much less when it will be able to raise money again in the bond market.

So while the power system's status quo appears untenable, even with hurricane aid pouring in, nobody knows what the energy future will look like in private hands — or exactly what oversight new owners would face. Indeed, the government is portraying the market as a blank slate. It has said that its base scenario would include selling generation assets and retaining transmission and distribution holdings, while transferring those operations to a private concessionaire.

Divide and Profit

AES Corp. Chief Executive Andres Gluski said in an interview last week in San Juan that he's considering a proposal. He declined to give details, but said he's already floated ideas to the government. He said the commonwealth should divide its system into eight microgrids that are more resistant to a whole-island collapse like the one after Maria.

“We want to continue contributing to the future of Puerto Rico,” said Gluski, whose company already runs a coal-fired plant and a solar plant on the island.

The commonwealth is also open to alternatives it hasn’t yet considered. In a June 4 letter, its bankers from Citigroup Inc. and Rothschild & Co. asked interested parties to submit in writing a description of the circumstances in which they would be most willing to bid.

Your Call

One section of the questionnaire asked about companies’ preferred regulatory environment and the role they envisioned for the power authority, the Puerto Rico Energy Commission, a four-year-old oversight body whose role is likely to evolve as private capital arrives. For instance:

“Please present your views regarding the structure and authority of the Puerto Rico Energy Commission (‘PREC’). Please be as specific as possible including naming the features you consider important.”

And later:

“What, in addition to standard items … should the regulator have authority to approve? Please provide an explanation for your answer.”

While the elected government and its partners will have the ultimate say, the documentation suggests a rare opportunity for companies to influence every aspect of their work environment — for better or for worse.

“I don’t know that asking the firms how they’d like to be regulated is the recipe for good regulation,” said Manuel Teodoro, a professor of political science at Texas A&M University who has studied water-utility privatization in the U.S. He said there’s nothing inherently wrong with seeking out different points of view, as long as the private sector isn’t the only one that gets heard.

Solid Partner
Of course, the answers to the questionnaire might vary with the assumptions about the eventual structure of the deal. Under the base scenario — in which Puerto Rico would retain ownership of the transmission and distribution business — the question would really be about how to regulate the government entity.

Under such arrangements, privately run generation companies would have contracts with the commonwealth, as would the operator of the state-owned transmission division.

“You’d want to make sure that, if I’m going to have a contract to operate this utility, that the utility can live up to its obligations,” said Paul Patterson, who covers utilities, not including Prepa, as an analyst for Glenrock Associates.

Pricey Power

Teodoro said privatization is typically associated with improvements in service, while public utilities generally have the edge on lower prices. But because Puerto Rico’s infrastructure is so inefficient and its bureaucracy so unwieldy, its electricity prices are already well above private mainland rates — a burden on the 44 percent of island residents who can’t afford basic necessities. (Puerto Rico’s residents are U.S. citizens, but their poverty rate is twice as a high as Mississippi, the poorest state.)

“The important thing is to create a strong regulatory commission to ensure the energy rates will not

increase, further aggravating Puerto Ricans' economic situation," said Jose Caraballo Cueto, a professor at the University of Puerto Rico and president of the island's economists' association.

The Prepa workers' union known as Utier opposes privatization. Angel Figueroa, its president, said the island's consumption rates are relatively low and its needs massive, so he's suspicious of why anyone would invest. He said the only explanation is that buyers see a benefit in the billions of federal dollars allocated to mend the grid after Maria.

Prepa employees fix power lines following Hurricane Maria.Photographer: Xavier Garcia/Bloomberg
But for all the apprehension, many Puerto Ricans wonder what other alternatives they have. A full week into the 2018 Atlantic hurricane season, close to 10,000 power customers are still without electricity.

"After living more than four months without electricity after Maria, for me they can sell everything," said Carlos Vega, a 32-year waiter who lives in the Bayamon municipality outside San Juan. "Surely, whoever comes will do a better job than all the governments that have passed through."

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