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The 58MW Oriana Solar Farm in Puerto Rico. Pic: Sonnedix

Photo:

# Renewables can play a big role in Puerto Rico's fresh start

OPINION | Things are looking up again for renewables in Puerto Rico after several years in the doldrums due to financial instability, writes Jeffrey Karp

by Jeffrey Karp  
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Just two years ago, the future seemed promising for renewable energy development in Puerto Rico. Much of the groundwork was established, numerous developers had entered into Power Purchase Agreements (PPAs) with the state-owned utility, PREPA, and discussions were ongoing with funding sources.

However, decades of fiscal irresponsibility and bad deals finally caught up with Puerto Rico, leading to a terrible debt crisis. The government defaulted on bonds, sales taxes escalated to 11% (higher than any mainland state), and businesses began fleeing the island.

The generous incentives that initially had attracted development dried up. For the last couple of years, energy investment has been at a virtual standstill, with the exception of Oriana Energy's solar plant that commenced operations in May 2017.

Despite these setbacks, and with the Commonwealth's [government's] bankruptcy filing in May 2017, the Puerto Rican government now has a second chance to regain its financial footing, and the development of renewable energy may play an integral part in accomplishing such a task.

In 2010, the Commonwealth enacted Renewable Energy Portfolio Standards (REPS) that required 12% of the island's electricity to come from renewable sources by 2015 and 20% by 2035. Following the enactment of the REPS, utility PREPA entered into dozens of PPAs with renewable energy developers agreeing to purchase the power to be generated. By the end of 2015, Puerto Rico had 318MW of renewables in place, according to latest available data from the International Renewable Energy Agency.

However, as Puerto Rico became mired in its debt crisis, developers were unable to secure financing as investors grew fearful of funding long-term energy deals with PREPA. Adding to the uncertainty, due to PREPA's financial woes, the utility serially renegotiated the terms of developers' PPAs, which only served to make investors more jittery about financing the underlying renewable energy projects. Eventually, most of the agreements expired before the power plants could be financed or built.

Despite its financial travails, Puerto Rico's commitment to renewable energy has not waned. In June 2016, Congress passed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). The legislation, intended to provide Puerto Rico with a pathway out of its debt crisis and establish a baseline for fiscal responsibility, also established the framework within which investment may occur. In providing a blueprint for interested investors, PROMESA also reaffirmed Puerto Rico's commitment to renewable energy.

Recognising that PREPA was incapable of shouldering the burden of energy development entirely on its own, PROMESA emphasised the need for public-private partnerships that shifted the initial funding burden to private investors. In April 2017, a P3 Summit was held to encourage developers and investors to collaborate with the Commonwealth on a wide variety of infrastructure projects, including energy, water, waste management, and transportation. The presentation on the energy sector reaffirmed Puerto Rico's commitment to achieving the REPS of 20% renewable energy by 2035.

*"Puerto Rico appears primed for renewed interest by energy investors."*

In setting the stage for infrastructure investment, PROMESA created an Oversight Board, which has authority over revitalisation and infrastructure development. Importantly, the Oversight Board may "fast-track" projects deemed "critical," such as projects that reduce the Commonwealth's reliance on oil and diversify its energy sources. Moreover, the Oversight Board gives priority to privately-funded projects.

Following PREPA's recent settlement with its bondholders, we understand the utility is ready to reengage with developers to amend PPAs that have been in limbo for several years. Many of these developers already have performed much of the engineering for these renewable energy projects. Once PREPA amends the extant PPAs, the underlying projects would qualify as "existing projects," which would enable the Oversight Board to prioritise them.

In light of these recent fiscal and regulatory developments, investors again are inquiring about "shovel ready" renewable energy projects that require funding. Investors also may have gained a level of comfort having seen Oriana Energy successfully reengage in Puerto Rico. Since May 2017, the company is operating the largest solar plant in the Caribbean at 58MW, the power from which PREPA is purchasing pursuant to a renegotiated PPA.

Puerto Rico appears primed for renewed interest by energy investors. For several years, investors have been unwilling to accept the risks inherent in financing long-term energy projects in which PREPA is the counterparty. More recently, these concerns have shown signs of abating as PREPA has successfully engaged with its bondholders, and the

Oversight Board created by the PROMESA legislation appears to have imposed an acceptable level of fiscal discipline on the Commonwealth.

With solar energy on the cusp of coming to Puerto Rico, the question is which financiers will enter the market soon enough to bathe in the sunlight.

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