

PREPA: a serious lag in our competitiveness

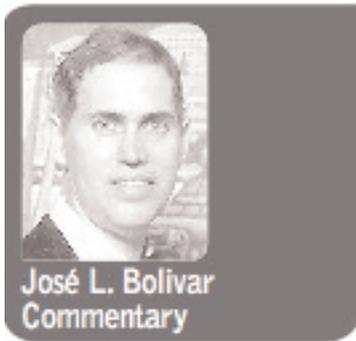
Recent statements by Governor Luis Fortuño have attested to the fact that the electric energy service is a lag on the Puerto Rican economy. Prestigious professional organizations, such as the Puerto Rico Manufacturers Association and the Chamber of Commerce, among others, have complained about the high cost of energy as well as its reliability. Yet, the Puerto Rico Electric Power Authority and specially its forerunner, the *Autoridad de las Fuentes Fluviales*, were created to lower the cost of electricity and to diversify its dependence from oil. Sixty years after its creation, and these goals elude us. Why? A historical overview provides some insight into what was hoped to achieve, and what we might hope to regain.

Antonio S. Luchetti, an engineering graduate from Cornell University class of 1910, was instrumental in establishing the *Utilización de las Fuentes Fluviales*. This entity was established to provide electric services not provided by private companies. Luchetti saw that private companies were operating very inefficiently, providing poor quality service at excessively high prices. Under his leadership the Ponce Electric Co. was acquired and the hydroelectric plants Carite and Toro Negro were built.

Despite the fact that Puerto Rico had no coal or oil for energy development, there were many water supplies to meet these goals. Luchetti, Executive Director of the *Utilización de las Fuentes Fluviales* (later known as the *Autoridad de las Fuentes Fluviales*, or AFF, and now called the *Autoridad de Energía Eléctrica* or PREPA), noted that to obtain the desired energy development, it was necessary for the insular government to buy the three private companies operating in the island: the Ponce Electric Co., the Porto Rico Railway Light & Power Company, and Mayagüez Light, Ice & Power Co. He estimated the value of the same at \$7 million.

For the power infrastructure to be built, it was necessary to issue bonds. Prior to 1938, these bonds would have been tied to the insular government's ability to pay. However, on June 25, 1938, the U.S. Congress amended the Organic Act of Puerto Rico, authorizing public corporations to issue bonds without affecting Puerto Rico's borrowing capabilities. It is important to note that what facilitates the formation of this program is a federal law, not a local initiative. As a result, Luchetti tries to take advantage of this initiative, only to have the Governor of Puerto Rico Blanton Winship veto the project in 1938 because he felt it was incompatible with the Jones Act.

Luchetti continued trying to revive this project through efforts in the U.S. Congress, but due to the reluctance of the insular Legislature, the project was unsuccessful. It was not until May 2, 1941, that newly appointed Governor Guy J. Swope signed the law creating the *Autoridad de las Fuentes Fluviales*.



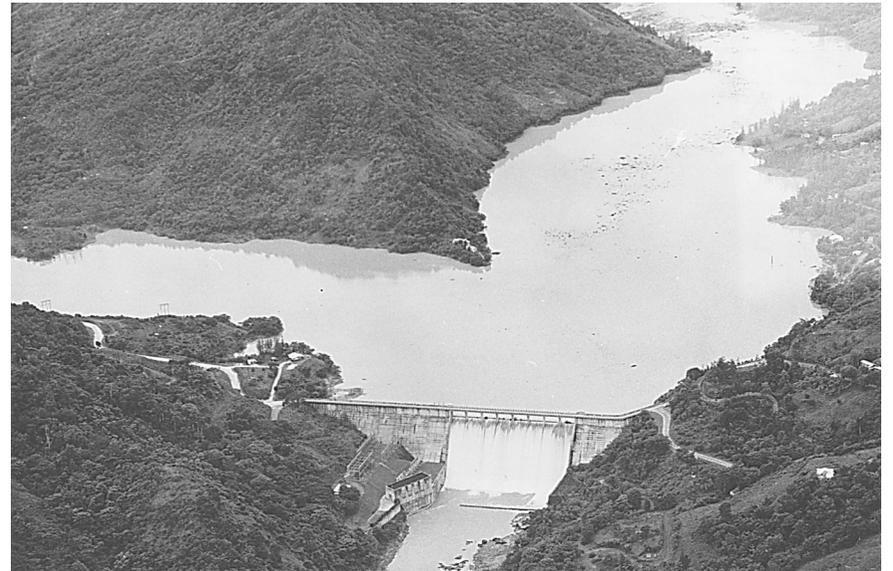
José L. Bolívar
Commentary

Toward the end of 1941, Governor Rexford G. Tugwell persuaded U.S. President Franklin D. Roosevelt to order the expropriation of the Porto Rico Railway Light & Power Company, using the powers that the president had in war time. We note that the first element of this institutional innovation is a federal provision in 1938 and the second is a presidential decree. That means that the local institutional innovation starts the Federal Government.

The expropriation of both the Mayagüez Light, Ice & Power Co. and the Porto Rico Railway Light & Power Company would take a few more years, due to legal actions taken by the former. The AFF estimated that the purchase of these two companies would stabilize the energy supply and pricing, securing the future economic development of the island. This was particularly noticeable as the World War II had caused a shortage of oil in Puerto Rico, and as a result, the power plants of Porto Rico Railway Light & Power Company and Mayagüez Light, Ice & Power Co. remained without regular supplies and could not produce electricity.

The last hydroelectric plant built, Dos Bocas, was inaugurated in September 1942. This plant, with capacity of 22,500 kilo-amperes (KVA) became the most important hydroelectric power plant of the AFF. Its inauguration increased the total capacity of the power system by 21 percent and reduced the risk of maritime transport of oil during the war.

Nearing the end of World War II, there were hopes of a broad-based economic growth in Puerto Rico. While there was a decrease in energy consumption by military establishments, the projected return of 65,000 veterans in need of housing benefits, and thus spurred the Servicemen's Readjustment Act of 1944, also known as GI Bill, facilitating the purchase of homes. The development company was planning to build a hotel, various manufacturing plants, including glass and cardboard manufacturing, as well as one intended to supply ceramic tiles and shoes to the local market.



Jack and Irene Delano Collection/Luis Muñoz Marín Foundation

Dos Bocas dam in Utuado.

Moreover, the two cement plants that operated on the island, Puerto Rican Cement and Ponce Cement projected an increase of their power consumption by 1,000 KVA each, almost 10 percent of the generating capacity of the Dos Bocas dam.

To supply this additional demand, the AFF decided to schedule a bond issue of \$5 million to pay part of the cost of building a new hydroelectric plant near Utuado, which was begun in 1943. The plant would have a capacity of 22,000 KVA, virtually the same capacity of Dos Bocas, which had 22,500 KVA. When in operation, 43 percent of energy production of the island was generated by these plants.

Why was hydroelectric power abandoned in the years following these initiatives? Why has our dependence on oil increased, contrary to the initial goals of this agency? Certainly someone must be held accountable! However, it is interesting to note the reversal of one of the energy policies of long ago. At the time, private entities were seen as costly alternatives. Now they produce power at less than half the cost of PREPA.

A historical overview of the agency would have detected this divergence of goals long ago, and possibly prevented our current state of affairs.

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Pilot project on hypocrisy

Luis Fortuño's advertising agency has brought a group of advertising people from Argentina to work for less pay.

So from what I've been told, there are jobless Puerto Rican freelance workers at the De La Cruz advertising agency. These, easily gotten, green card holders and new re-engineering (this particular ad agency went through another one back in 1994) Barbarians from Bariloche, work up to a certain stage of the creative process and then, at the final stage, leave the leftovers of any project, to be the natives' responsibility.

What kind of move is this? Add these advertising professionals to the 30,000 public employees who'll be thrown out to the unemployment lines. How many of those art directors fired worked for the Fortuño campaign?

How come the agency which now gets all the billings from the most profitable accounts in government is firing our own talent, to hire foreigners for less, when they can probably have both, and then some?

Maybe this explains the lack of empathy with the people of Puerto Rico some advertisements on the air are now showing.

Maybe this is why cynicism is the tone and manner of certain radio and TV spots in reference to job hunting, a second wind in your career and the country's new emerging trend! These are the only guys who are going to get to the top in the amid our



uncertainty.

How many Puerto Ricans are working in Argentina today? Maybe these Tango tactics in our advertising industry are the followup stage of shipping our advertising productions off to Uruguay.

So don't cry for me Argentina.
Thank you very much.

*Carmen Amalia Dávila
from Condado on July 28*

Creditors paid up to date

It was most encouraging to read recently in the Daily Sun that suppliers to the government, which traditionally have had to wait months (sometimes years!) to be paid for work done or goods delivered, had been, as announced by Governor Fortuño, brought current on monies owed to them. Although it wasn't clear if this included huge amounts owed by agencies such as the Highway Authority, Ports Authority, Public Buildings to companies like building contractors and major suppliers, I can only hope they were included in this unprecedented and very welcome practice.

For the 30-plus years I've been on the island, it has long been apparent that our government has been in the business of putting private companies OUT of business, either through non-payment of, or non-compliance with, multi-million dollar contracts. Over the years, some of the biggest construction companies on the island — Redondo Construction being only one of many — have been forced to file for bankruptcy protection. And after having done so, finally accepting that the only alternative is total liquidation, all because millions were withheld from those private corporations by the political parties in power — whether they be PDP or NPP.

Furthermore, it has come to light in the past that some

government employees, charged with the task of making those payments, have sought to enrich themselves by demanding kickbacks from contractors with the promise of swifter processing of overdue invoices. And so the contractors, desperate to collect on the long-approved certifications for payment have had no choice but to shake hands with that particular devil.

And even more egregious than this, should a contractor have had the misfortune to belong to the party recently voted OUT of power, the new party justifies withholding payment by declaring that a complete audit must be performed of all invoices paid in the past, as well as for work still pending to be paid. The result? — Subcontractors cannot be paid by the contractor; laborers cannot be paid by the contractor; suppliers cannot be paid by the contractor; and in the end, the company gets flushed down the proverbial governmental toilet bowl.

And, unfortunately, this state of affairs has existed for decades, but may now be one which our new governor can finally rectify. It is certainly long overdue for a mandate which will protect private companies from being driven out of business by the heavy hand of those in power to do so. Frankly, in the atmosphere existing to the present, it is no small wonder some companies are forced into an unholy alliance not only to "pay for play" but even to "pay for pay," just to stay afloat.

Thus, it is my strongest hope that our Good Governor can finally close the books on the longheld government tradition of driving Puerto Rican businesses OUT of business.

*June Bennett
from Condado on July 29*

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