COLUMN

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Our Last Card, Competitive Costs

The cost of energy is a factor of the economic endeavor. If a city or country does not count on production costs within the scope of costs of its region, it falls into disadvantages in front of its counterparts. A similar analysis applies to the global competitive environment. Cities, countries and regions with low electricity costs have lower production costs and better opportunities for citizens and businesses to invest in competitive production, resulting in a growing economy.

If the east and southeastern region of the U.S. is identified as the Puerto Rico domestic economic region, the island must have, at a minimum, production costs and a regulatory framework that maintains and improves on the standards of that region. For example, in December 2015, the average energy cost per sector for the eastern and southeastern states were in a range between 16.70 cents per kilowatt-hour (kWh) in Connecticut and 8.36 cents per kWh in West Virginia, according to the Energy Information Administration. An average per sector cost that is greater than 16.70 cents per kWh is not feasible if Puerto Rico intends to consider trade in that region.

A similar analysis applies to the realm of global competitiveness. Considering islands with which Puerto Rico competes, such as Ireland and Singapore, with a manufacturing sector percentage of the gross domestic product (GDP) similar to that of Puerto Rico of $48.5 billion. Ireland with a manufacturing sector GDP of $50.16 billion had an industrial electricity tariff for the third quarter of 2015 of 12.46 cents per kWh and Singapore with a manufacturing sector GDP of $55.4 billion had a basic industrial peak tariff for the same period of nearly 14.67 cents per kWh. While these islands reflected those competitive energy costs, Puerto Rico's average industrial tariff for that same period was 17.49 cents per kWh.

Current energy costs in Puerto Rico for May, considers an average overall cost of nearly 17 cents per kWh and an average industry tariff of close to 14.5 cents per kWh. Even with low oil prices at the same level of costs as natural gas, we are not in an optimal competitive position—which would be one of energy costs of about 10 cents per kWh—but are within the competitive range, if sustainable through time. The Puerto Rico Electric Power Authority's current proposed increase of 4.2 cents per kWh, takes us out of the competitive scope, making the island much less attractive for investments in the industrial sector and other important sectors of our economy.

Puerto Rico, as part of its recovery from its current economic stagnation, needs all possible tools and strategies addressed to detour the island from its current declining trend. An increase in energy cost of nearly 25% will have an inflationary effect in the economy, with dangerous effects in the short and medium term, which could spread out of its borders, as the combination of a declining economy and increase in production costs impact the profitability of the private sector with a direct impact on government tax collections.

Puerto Rico is in its zero hour. Our only and immediate card left to guide us out of our current economic crisis is to foster our economic development, based on low, competitive and sustainable production costs, especially on energy cost related to electricity service. This task concerns all of us consumers, investors, bondholders, regulators, the private sector, and the local and federal governments. It is then our responsibility to ensure that the correct decisions are taken, including current regulatory proceedings on energy that will have a direct effect in electricity costs, debt restructuring and other key aspects that will drive us out or sink us into a long lasting crisis. ■

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