

STATEMENT BY

**FERMÍN E. FONTANÉS GÓMEZ
EXECUTIVE DIRECTOR OF THE
PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY**

BEFORE THE

HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES

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Chairman Grijalva, Ranking Member Bishop and Committee Members, thank you for the opportunity to appear before you today to discuss the transformation of the Puerto Rico Electric Power Authority (“PREPA”). My name is Fermín Fontanés Gómez and I am the Executive Director of the Puerto Rico Public Private Partnership Authority (the “P3 Authority”).

Created pursuant to Act 29 as a public corporation of the Government of Puerto Rico affiliated with the Puerto Rico Fiscal Agency and Financial Advisory Authority, the P3 Authority is the government entity charged with executing the transformation of PREPA. As Executive Director of the P3 Authority, I am leading the efforts related to the transformation and recently oversaw the successful procurement process that resulted in the signing of an agreement between LUMA Energy, LLC and PREPA pursuant to which LUMA will operate, maintain, and modernize Puerto Rico’s transmission and distribution (“T&D”) system for a 15-year term.

The agreement with LUMA marks the culmination of a more than 18-month procurement process and represents a historic milestone in the Government of Puerto Rico’s objective of providing modern, affordable, resilient, and reliable power to the island, which will help serve as a driver of economic recovery and growth. The agreement with LUMA is also the first transaction of its kind since the Government enacted Act 120, a new legal framework for infrastructure PPPs, in June 2018. LUMA is a Puerto Rico company formed by Canadian Utilities Limited, ATCO Ltd.’s energy company, and Quanta Services Inc., which will work in conjunction with Innovative Emergency Management Inc. to assist with the administration of federal funding.

My testimony today will address the transformation of the T&D system and will address the following six topics: (i) the background and goals of the transformation that the contract with LUMA seeks to achieve, (ii) the procurement process for selecting LUMA, (iii) the benefits that LUMA will bring to the people of Puerto Rico, (iv) the impact of the transaction on rates, (v) the impact of the transaction on employees and (vi) the first step that this transaction represents in terms of transitioning PREPA to renewable energy sources.

Background and Goals of the Transformation

PREPA serves approximately 1.5 million customers and employs approximately 6,000 people in Puerto Rico. As the sole utility for the island of Puerto Rico, PREPA's purpose is to provide the people of Puerto Rico with reliable electric power, assist the sustainable development of Puerto Rico, and contribute to the general welfare as a service provider and employer on the island.

In recent years, PREPA has faced a number of significant challenges, including: (i) a lack of managerial continuity and long-term planning; (ii) a dated electrical system that is in poor condition due, in part, to substandard practices and chronic infrastructure underinvestment; (iii) significant leverage, which has led to the inability to access credit markets for long term capital investment; and (iv) a geographic mismatch between supply and demand since much of the generation is located in the South of the island while a majority of the demand is in the North, thereby exacerbating the fragility and instability of the whole system.

Puerto Rico's dated and fragile electric system has suffered operational and reliability challenges and has struggled to provide residents with reliable and affordable power, as evidenced by reliability, customer satisfaction, and safety metrics that stand well below U.S. mainland and other island utility industry standards. PREPA's challenges were highlighted and significantly exacerbated by hurricanes Irma and Maria, which struck Puerto Rico within two weeks of each other and led to mass destruction of PREPA's infrastructure and a complete failure of the electrical grid.

In the aftermaths of hurricanes Irma and Maria, the Government sought not only to rebuild the electric grid but to transform it into a reliable, resilient, modern and eco-friendly system and bring to bear U.S. mainland and other international best industry practices to PREPA. The Government determined that the most effective way to achieve these goals was to partner with a world-class private operator with the requisite expertise, experience, and know-how to effect the much-needed transformation of the electric system.

Procurement Process

The procurement process to select a partner for the T&D system was carefully designed to address a number of key considerations. First, the Government was keenly focused on implementing a robust, competitive and transparent procurement process to identify the private partner best positioned to accomplish the transaction's objectives. Second, from its inception, the procurement process was carried out in coordination with the Financial Oversight and Management Board for Puerto Rico (the "FOMB") given the need to align the process with the efforts to address PREPA's financial challenges and the Certified Fiscal Plan. Finally, given the importance of federal funding to support the transformation, the procurement process was designed to provide potential private partners with various opportunities to better understand the state of the recovery effort and the status of the various applications for federal funding.

The more than 18-month procurement process officially commenced with a market sounding in the summer of 2018 followed by the issuance of a request for qualification ("RFQ") on October 31, 2018. Based on the RFQ process, four proponents were qualified for the request for proposal ("RFP") phase. The RFP phase was launched on February 1, 2019 and culminated with the submission of proposals on November 25, 2019. From the end of November 2019 through the

end of January 2020, the P3 Authority worked with the partnership committed established to oversee the process to extensively review and analyze the proposals and then to negotiate and agree on a form of contract with LUMA as the preferred bidder. From February through June of 2020 the P3 Authority worked with LUMA to obtain the requisite consents and approvals to sign the contract.

During the RFP process, the P3 Authority provided proponents with extensive access to information related to PREPA and the T&D system – a data room with approximately 18,000 documents (totaling 149,181 megabytes of data), responses to over 700 diligence questions, and more 20 diligence calls and in-person meetings with bidders. Proponents were given the opportunity to review and comment on seven successive drafts of transaction documents and to discuss their comments in person at eight meetings. The robustness of the process is evidenced by the fact that LUMA expended over \$15 million of its own funds throughout the process to both diligence PREPA's assets and prepare its proposal.

Benefits of Transaction to the People of Puerto Rico

LUMA's proposal, which was largely translated into the contract, presents concrete and detailed plans and timelines for achieving substantial gains in safety, customer service, reliability, and resiliency, all of which result in immeasurable benefit to the Puerto Rican economy, a demonstrable leap in economic competitiveness, tangible and meaningful improvements in the every-day quality of life of Puerto Ricans, and better work conditions for employees.

In addition, LUMA projects that it will be able to generate significant cost savings throughout the life of the contract based on its approach to the O&M services and the expertise and know-how that it will bring to bear in performing the services. LUMA estimate that it will be able to reduce operational costs by fiscal year 2026 by approximately 30%, as compared to PREPA's 2019 fiscal plan. This represents a net reduction in costs of approximately \$100 million per year. LUMA also intends to implement a plan to reduce technical and non-technical energy losses, which will result in a reduction of approximately \$150 million in annual energy system costs. Between the reduction in O&M costs and the improvements in lost energy, LUMA estimates a savings of \$293 million per year in 2027, as compared to an annual service fee under the contract of \$141 million. This results in significant annual and cumulative net savings for Puerto Rico – \$323 million in cumulative savings by 2027 – and demonstrates that the contract will pay for itself.

LUMA's approach to the O&M services is also expected to result in federal disaster funding dollars being obligated for PREPA more effectively and rapidly. Indeed, the responsible management and administration of federal dollars by an experienced and qualified private operator is key to facilitating the disbursement of the funds, one of the most critical component to the ability to rebuild and upgrade the electric grid.

Finally, the contract establishes clear obligations and performance metrics with which LUMA must comply, and parent company guarantees backstop these obligations. Unlike a government entity, LUMA must perform in accordance with metric designed specifically to improve safety, reliability and resiliency of the system or else is held accountable for its failure to do so. Thus, LUMA is contractually incentivized to deliver results for the people of Puerto Rico.

Impact of the Transaction on Rates

Various critics of the transaction have argued that, notwithstanding the operational and technical savings that LUMA is able to generate, consumer rates will go up as a result of this contract. In response to this, it is important to underscore that LUMA is required to comply with all laws and regulations applicable to its operation of the T&D system, including those related to tariffs. In addition, LUMA is subject to regulatory oversight by the Puerto Rico Energy Bureau (“PREB”), and the contract specifically provides that all budgets prepared by LUMA must comply with rate orders established by PREB. The contract does not in any way eliminate, limit or restrict PREB’s authority with respect to establishing rate orders or exercising its regulatory oversight to protect consumers. Furthermore, the contract does not require a rate increase or establish a minimum rate for LUMA to operate.

It is also worth noting that the transaction was structured as a long-term O&M contract rather than a concession, a common structure for PPPs, for a variety of reasons but the most critical of which was a desire to minimize any impact on rates. In addition to potentially jeopardizing the tax-exempt status of PREPA’s legacy and restructured debt, which would have increased the amount of PREPA debt to be repaid, a concession posed greater risk to PREPA’s current and future eligibility for federal disaster relief funding. The Government was keenly focused on the fact that if a concession structure were to preclude federal disaster relief funding, it would likely lead to increased rates. This is because a key feature of the concession structure is capital investment by the private sector participant and, absent federal funding, the private investor would need to raise consumer rates in order to recoup its investment in the T&D system. With the specific view of avoiding these potential rate increases, the Government elected to pursue an O&M contract that would not have these effects.

Impact of the Transaction on Employees

Much has also been said about the impact of the transaction on employees. I want to make clear that no employee will lose their job as a result of this transaction – their jobs are specifically protected under existing law. Moreover, for those employees who end up working for LUMA, they will have access to world-class safety training, professional development opportunities, and exciting career paths, all of which has not been available to date for PREPA employees.

LUMA will need to hire thousands of employees, and all current PREPA employees will be given priority in hiring. The contract specifically requires LUMA to use reasonable efforts to interview all PREPA employees and evaluate them for positions at LUMA. It is important to note that, as recently as eight years ago, PREPA employed about 9,000 employees and today the number is closer to 6,000. There is no doubt that PREPA is currently understaffed, and this is without taking into account the work that will result from the expected influx of federal aid to rebuild the system.

All employees hired by LUMA will benefit from LUMA’s culture of *People First, Safety Always*, which ensures that every employee has the proper training, skills, and tools for the job. In accordance with Act 120, all of the LUMA employees will receive a compensation and benefits package that is equal to or better than the one provided by PREPA. As part of the transition to LUMA, employees will have the choice to stay with their existing pension plan or transfer to a

new LUMA plan. Finally, once LUMA hires its workforce, it expects to recognize the unions with majority status in the various bargaining units, in compliance with all applicable labor laws.

In addition, LUMA is in the process of establishing the LUMA College for Technical Training in Puerto Rico. This facility, which is being developed and built at LUMA's expense, will be used to train new craft skilled labor and will be open to anyone on the island. The curriculum and operations will be provided by the Northwest Lineman College, an accredited technical school recognized by the U.S. Department of Education with multiple campuses around the United States. This job training will expose employees of PREPA to training that will make them competitive not only in Puerto Rico but across the United States.

Any employee who elects not to join LUMA will have the right to maintain their employment with PREPA or transfer to another government agency within Puerto Rico. These rights are clearly established in Act 120 and cannot be taken away – not through the contract with LUMA or otherwise. Employees continuing with PREPA or another governmental agency will also retain their acquired rights under applicable law and the relevant collective bargaining agreement. Nothing in the LUMA agreement contravenes those acquired rights, and LUMA is required to comply with all federal and local laws.

First Step Towards Renewable Energy

Finally, with LUMA comes accountability – the accountability to meet Puerto Rico's goal of a renewable energy future. LUMA has demonstrated a deep understanding of the IRP and the Electric Grid Modernization Plan for Puerto Rico, which contemplate transforming the energy system through the incorporation of more renewables, micro-grids, and distributed energy resources. LUMA's commitment to complying with and achieving the renewable energy targets set forth in these plans is evidenced by LUMA's proposal to create (i) a detailed program to maximize the pace and magnitude of increased solar generation, with the stated goal of identifying opportunities that can be built in 18 to 24 months, and (ii) a transmission expansion plan that will play a key role in prioritizing which mini-grids are developed first. In addition, LUMA organizational structure includes the Utility Transformation Department, a department that will be dedicated to the transformation of the T&D System and responsible for the technical implementation of new initiatives, including distributed and renewable generation, interconnection standards, micro-grid and mini-grid design, and renewable energy.

LUMA's commitment to and focus on renewable energy is a first step towards the Government's renewable energy goals. LUMA efforts will be supplemented by Government initiatives aimed at PREPA's generation assets with a view towards reducing Puerto Rico's reliance on fuel oil and increasing the availability of renewable energy and natural gas. However, this first step with LUMA is a critical one. Puerto Rico will have a world-class operator that will be accountable for complying with the renewable portfolio standards and the goals of reaching 100% renewable generation by 2050 – something for which PREPA, as a Government-owned monopoly, has not been accountable.

Conclusion

The T&D transformation process took place against a background of unique and unprecedented challenges: two devastating hurricanes followed by a series of major in late 2019 and 2020; a prolonged and, at times, contested PREPA bankruptcy process; the delay of billions of dollars in federal aid; an unexpected change in government during the process; and strict shelter-in-place measures and other restrictions in mid-March to prevent the spread of COVID-19.

Notwithstanding these significant challenges, the Government was undeterred and forged ahead with its vision to transform PRPEA. It launched the T&D procurement process with the objectives of modernizing the utility, increasing T&D resiliency and reliability, deploying new technologies, delivering low-cost electricity, and implementing industry best practices and operational excellence through managerial continuity and long-term planning. The Government designed a robust, competitive, and transparent procurement process that attracted world-class participants and resulted in the selection of LUMA.

In partnership with LUMA, PREPA will finally deliver to the people of Puerto Rico what they deserve – a modern, affordable, resilient, and reliable electric energy system that will serve as a driver of economic recovery and growth. This partnership represents the most efficient and effective way to “build back better” as the Government has promised the citizen of Puerto Rico.

Thank you.