

RFP Cost Model Evaluation

Post-Bid Escalation Comparison

December 19, 2019



Terms of Use for PowerAdvocate Benchmarking and Cost Model Data

The following contractually agreed-upon terms of use apply to benchmarking data and Cost Intelligence models

- The information in this presentation is for P3's internal purposes only
- Benchmarking data represents normalized ranges of commercial terms in the supply market in a manner that compares Customer's own data and performance against those normalized ranges
- Benchmarking data and cost models are PowerAdvocate's proprietary and confidential data, and may not be disclosed to third parties, including suppliers or other consultants, without the prior written permission of PowerAdvocate
- P3 may disclose to third parties summaries or overviews of the key conclusions arising out of the benchmarking data so long as in doing so it does not disclose the benchmarking data itself and does not attribute the benchmarking data to PowerAdvocate

Excerpts from contract:

"Except as otherwise ... approved in writing by PowerAdvocate, Customer will not disclose to any third parties (including third-party consultants) the Cost Intelligence models [or] ... the benchmark data ... and will not post on its intranet, or otherwise distribute internally to persons who are not registered Users, the Cost Intelligence models...."

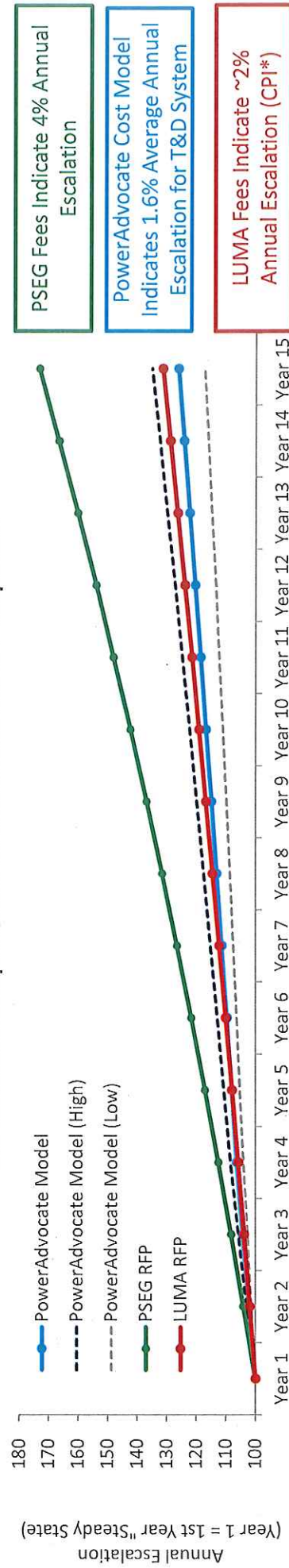
Customer may "deliver written reports and oral summaries to third parties containing Customer's analysis of benchmarking reports and overviews and key conclusions arising from such benchmark reports data so long as those reports, documentation or summaries contain only insubstantial portions or excerpts (but not benchmarking data ranges) and do not attribute the benchmarking data to PowerAdvocate or otherwise identify PowerAdvocate as the source of the benchmarking data."

"Users may disclose item-level ... cost models, as well as written reports and summaries containing their analysis of [models] to non-Users within its organization and to individual third-party suppliers in the normal course of its procurement activities solely as needed in the context of the items being purchased/negotiated at the time of the disclosure with such individual supplier."

T&D System – “Steady State” Operator Fee YOY Escalation Comparison

PowerAdvocate Cost Model indicates annual Operator costs to escalate an average of 1.6% annually upon achieving “Steady State” operations of T&D Power System

YOY Escalation Comparison of PA Cost Model and RFP Responses

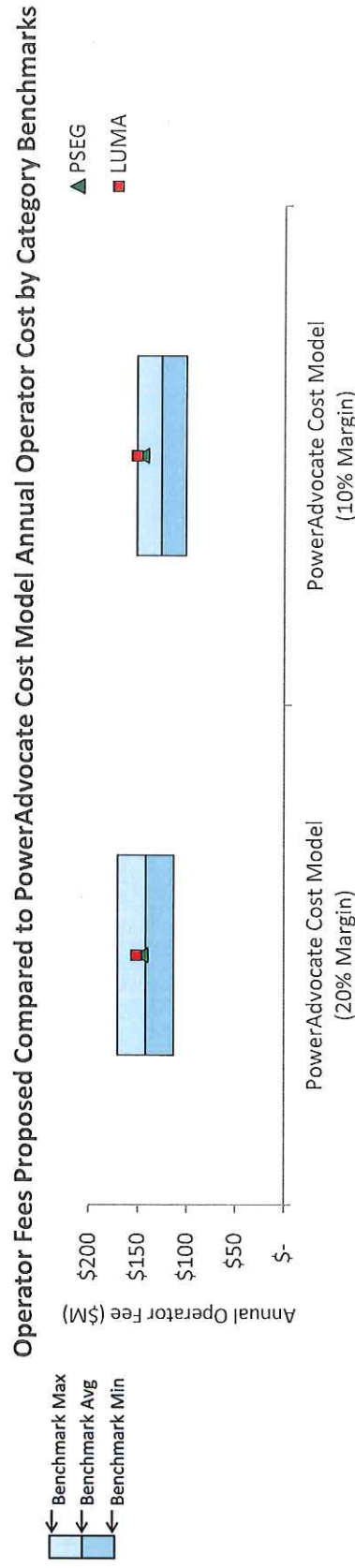


- The PowerAdvocate Cost Model provides forecasted High, Medium, and Low escalation scenarios, leveraging the category specific, bottoms-up methodology to determine forecasted escalation for P3's future state T&D system. As PowerAdvocate Cost Intelligence forecasts 5-years out, for years beyond 2024, the PowerAdvocate Cost Model escalates annually at average escalation of the last 10 years (1.6% annual escalation)
- Escalation Comparisons reflect how proposed escalation for P3's T&D System by PSEG and LUMA compare to the PowerAdvocate Cost Model normalized where all scenarios have achieved their first “Steady State” year as Operator’s of the T&D System. Annual “Steady State” escalations have been calculated as Total Fixed Fee + Incentive Fee for the first year each Operator has indicated they will have achieved their “Steady State”:
 - PSEG indicated “Steady State” would be achieved after 5 years, with proposed Fixed Fee + Incentive Fee indicating a 4% annual escalation
 - LUMA indicated “Steady State” would be achieved after 3 years, with proposed Fixed Fee + Incentive Fee indicating a ~2% annual escalation (assuming CPI annual escalation = 2%), where annual increases to Fixed Fee and Incentive Fee are calculated as Fee * Annual Change in CPI
- “Steady State” excludes any costs associated with Front End Transition period

*CPI referenced in LUMA response refers to “Consumer Price Index—All Urban Consumers— U.S. All Items Less Food and Energy (Identifier: CUUR0000SA011E)”

T&D System – “Steady State” Annual Operator Fee Comparison

Operator Costs estimated by leveraging PowerAdvocate bottoms-up benchmarking methodology indicate the proposed Operator fees (Fixed Fee + Incentive Fee) by both PSEG and LUMA are reasonable

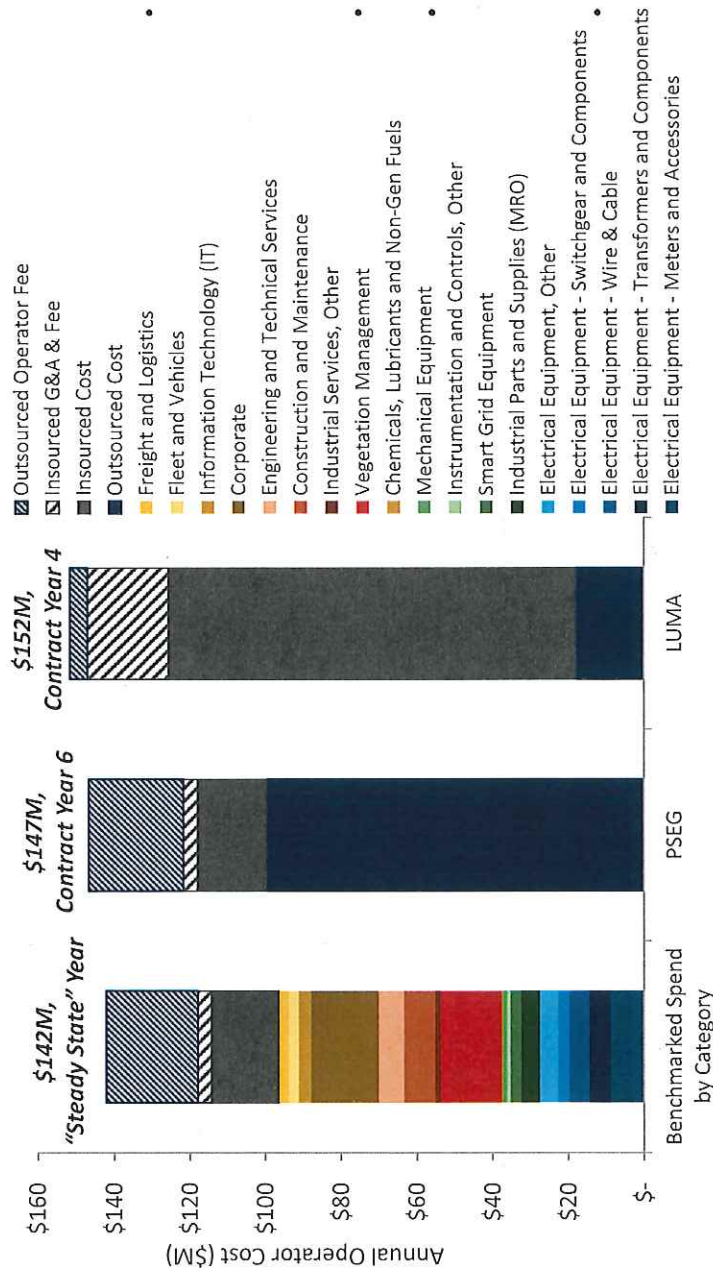


- The PowerAdvocate Cost Model leveraged a category specific, bottoms-up methodology to determine approximate Operator Costs for P3's future state T&D system. Benchmarks comparisons above represent scenarios where PowerAdvocate Operator costs have been adjusted to include 20% and 10% margins in order to compare a total “Steady State” annual Operating Cost using benchmarked values to the PSEG and LUMA proposals; PowerAdvocate benchmarks for Annual Operator Fees include a +/- 20% range
- Annual “Steady State” escalations have been calculated as Total Fixed Fee + Incentive Fee for the first year each Operator has indicated they will have achieved their “steady state”:
 - PSEG indicated “Steady State” would be achieved after 5 years, with proposed Fixed Fee + Incentive Fee of \$147M at Contract Year 6
 - LUMA indicated “Steady State” would be achieved after 3 years, with proposed Fixed Fee + Incentive Fee of \$152M at Contract Year 4
- Where Operator Costs assume 20% margins, PSEG (Contract Year 6) and LUMA (Contract Year 4) initial “Steady State” Operator Fees are 3% and 7% above PowerAdvocate's benchmark average respectively.
- Where Operator Costs assume 10% margins, PSEG (Contract Year 6) and LUMA (Contract Year 4) initial “Steady State” Operator Fees are 16% and 20% above PowerAdvocate's benchmark average respectively.

T&D System – “Steady State” Annual Operator Cost Breakdown Comparison

Comparison of PowerAdvocate Model to Proposed Annual Operator Fees during each bidder’s first “Steady State” Contract Year indicate PSEG and LUMA operating costs are reasonable

“Steady State” Comparison of PA Cost Model Breakdown to Proposed Annual Operator Cost



- Comparison across annual “Steady State” total Operator Fees demonstrates both PSEG and LUMA fees are in line with PowerAdvocate results of the bottoms-up T&D System Operator Cost by Category benchmarking utilized to develop the T&D System Cost Model.
- As LUMA and PSEG proposed operating models differ significantly between Insourced and Outsourced Costs:
 - The Cost Model and PSEG model assume 15% Insourced Cost and 85% Outsourced Cost
 - LUMA model assumes 85% Insourced Cost and 15% Outsourced Cost
- An “Outsourced Operator Fee”(or “Margin”) of 20% has been applied to Outsourced Costs
- An “Insured G&A and Fee” (or Overhead and Profit) has been applied to Insourced Cost following a review of PowerAdvocate data to determine industry averages of G&A (11%) and Fee (5%) applied to costs of insourced activities.

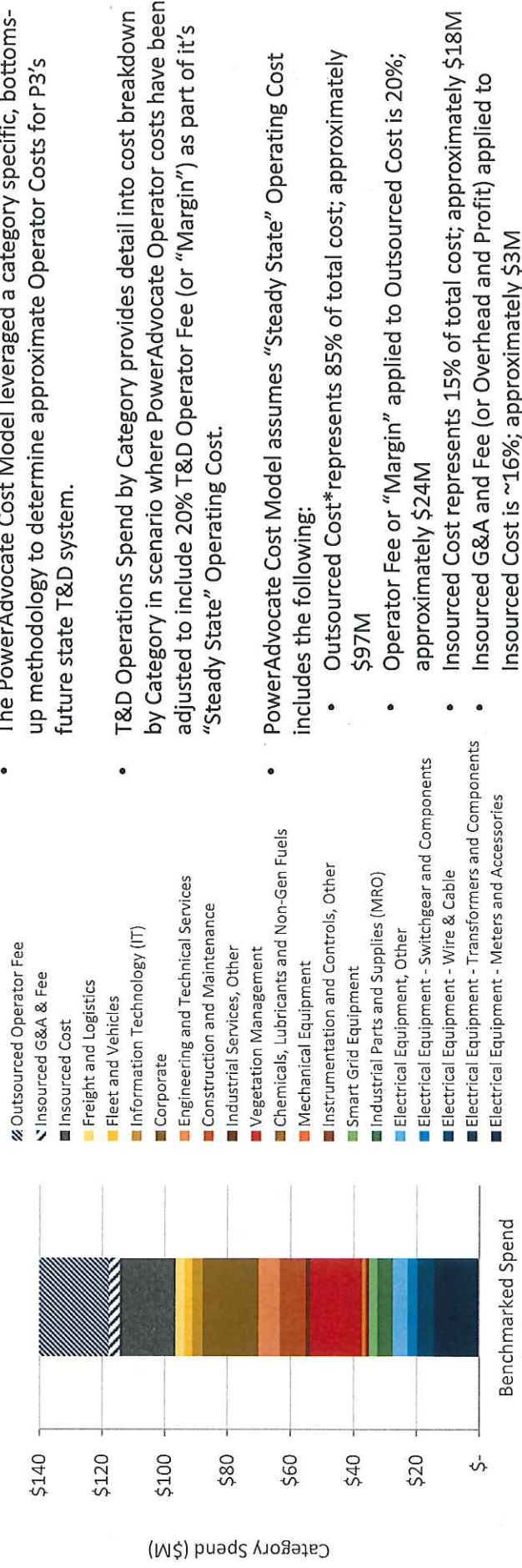
The Insured G&A and Fee serves to provide insight into cost adders associated within Insourced Costs that may be comparable to Outsourced Fees for the purposes of comparing the varying Insured/Outsourced models between bidders.

Note: “Benchmarked Spend by Category” breakdown reflects PowerAdvocate Cost Model breakdown represents breakdown of cost categories associated with custom P3 T&D System Cost Intelligence Model represented in escalation comparisons (Slide 3) and referenced as “PA Cost Model”

T&D System – “Steady State” Annual Operator Cost Model Breakdown

The T&D System Cost Model, built of relevant T&D spend categories, informs a baseline for the spend allocation of operating costs for P3’s T&D System and provides a benchmark to compare annual operating costs of RFP responses.

PA Cost Model Breakdown – T&D Annual Operations Spend by Category

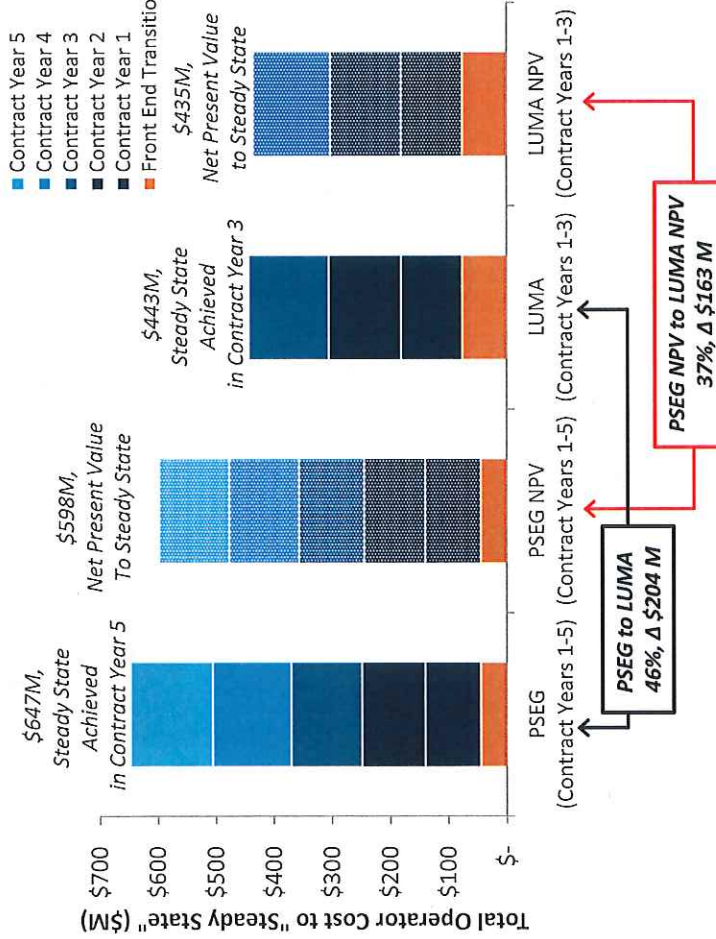


Note: PowerAdvocate Cost Model breakdown represents breakdown of cost categories associated with custom P3 T&D System Cost Intelligence Model represented in escalation comparisons (Slide 3) and referenced as “PA Cost Model”

T&D System – Comparison of Bidder's Total Operator Cost to Achieve "Steady State"

When Operator Fees are adjusted to Net Present Value for initial Contract Years needed to achieve "Steady State", PSEG's cost to achieve "Steady State" in 5 years is 37% greater than LUMA's cost to achieve "Steady State" in 3 years

Total Front End Cost + Contract Years to "Steady State"
(Comparison of Original Fees and Fees Adjusted to Net Present Value)



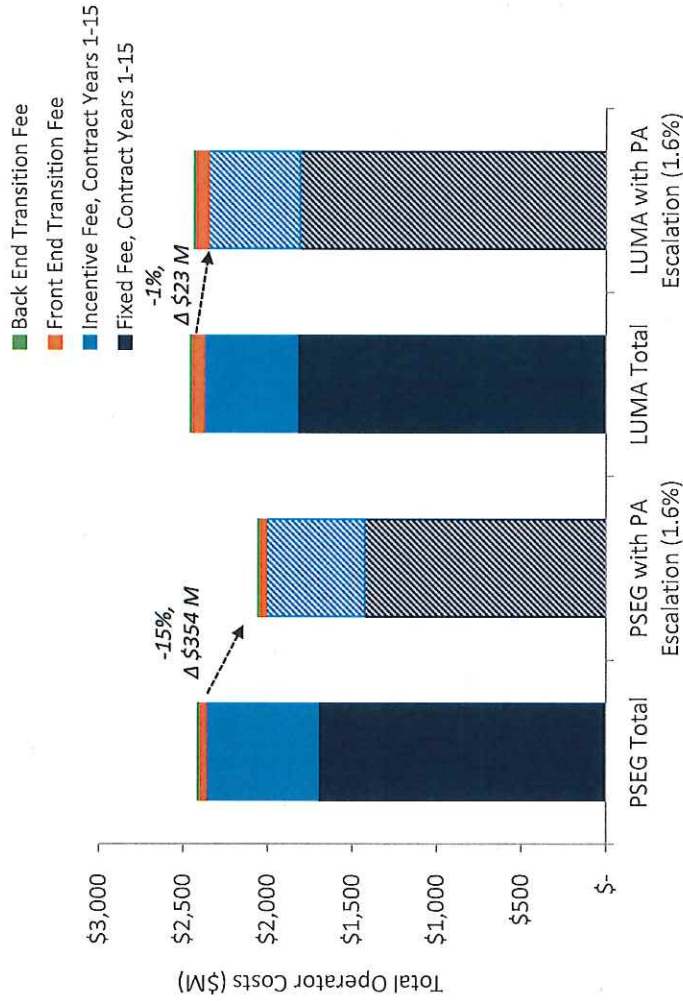
- Operator Cost to "Steady State" = Front-End Transition Fee + Fixed Fees and Incentive Fees for Contract Years needed to achieve "Steady State"
 - PSEG indicated "Steady State" would be achieved after Contract Year 5
 - LUMA indicated "Steady State" would be achieved after Contract Year 3
- Net Present Value (NPV) Scenario provides Operator Cost to Achieve "Steady State" where escalation has been removed from Fixed Fees and Incentive Fees for Contract Years after Contract Year 1. Front-End Transition Fees are not adjusted to NPV.

Operator Cost Area	PSEG	PSEG NPV Adjusted	LUMA	LUMA NPV Adjusted
Front-End Transition Fee	\$45 M	\$45 M	\$76 M	\$76 M
Contract Year 1	\$95 M	\$95 M	\$104 M	\$104 M
Contract Year 2	\$108 M	\$104 M	\$124 M	\$122 M
Contract Year 3	\$122 M	\$112 M	\$138 M	\$133 M
Contract Year 4	\$136 M	\$121 M	N/A (Steady State Achieved)	
Contract Year 5	\$141 M	\$121 M	N/A (Steady State Achieved)	
Total for Contract Year Fees to Achieve "Steady State"	\$602 M	\$553 M	\$367 M	\$359 M
Total Operator Cost to Achieve "Steady State"	\$647 M	\$598 M	\$443 M	\$435 M

T&D System – Comparison of 15 Year Operator Costs and PA Cost Model Escalation

Adjusting Bidder's annual Fixed Fee and Incentive Fee escalation to PowerAdvocate Cost Model average escalation of 1.6% annually presents opportunity for negotiations with both PSEG and LUMA

Comparison of 15 Year Total Proposed Operator Costs and Total Bidder Costs Adjusted to PA Cost Model Escalation



Note: LUMA Front-End Transition Fee includes cost of internal staff, while PSEG Front-End Transition Fee does not include cost of internal staff

Appendix – Cost Model Methodology Reference



P3 T&D System Cost Model

Review of Baseline Cost Model Methodology

September 13, 2019



T&D System Cost Model Overview

Cost Model Objective:

Create custom Cost Model to reflect T&D System Operations costs to provide insight into baseline yearly operational cost and movement over time to help validate bid pricing ranges and support negotiations

Modeling Approach:

Leveraged T&D spend data of large sample of mature, modern utilities to understand range of investments and spend for relevant T&D spend categories to inform baseline estimates representative of P3 future state grid

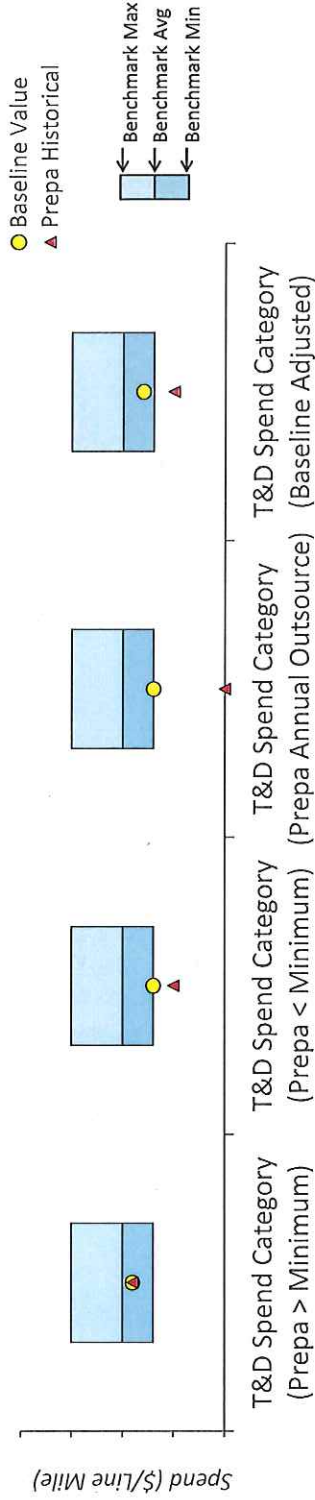
Determined baseline annual spend values for P3's T&D System using bottoms up methodology, leveraging T&D utility spend benchmarks by category to inform "typical" annual spend by Category

Developed P3 T&D System Cost Model, informed by baseline annual spend across key T&D categories, to reflect the cost allocation for the Construction, Operations, Maintenance, and Management of a T&D System

T&D System Category Spend Baseline Values

Determined baseline annual spend values for P3's T&D System using bottoms up methodology, leveraging T&D utility spend benchmarks by category to inform "typical" annual spend by Category

Illustrative Example: P3 Category Spend Benchmarking Methodology



Spend benchmarks were evaluated on a category-by-category basis to estimate a spend baseline appropriate for P3's future state T&D system:

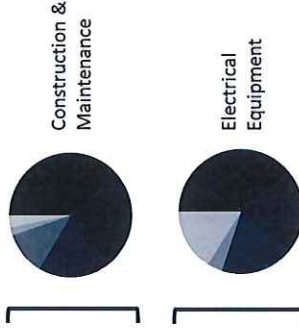
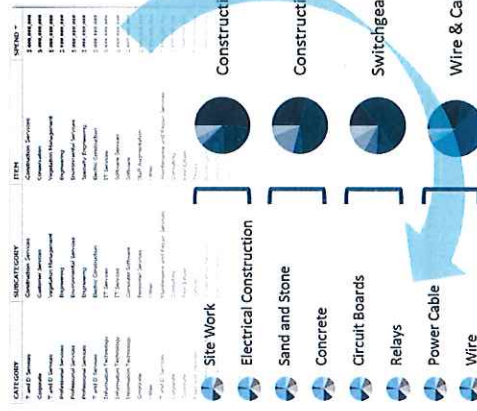
- Benchmarks were informed by PREPA historical spend by category; where PREPA historical spend exceeded the benchmark minimum, PREPA's historical category spend was utilized as the baseline value for annual category spend
- As benchmark minimums represent a true utility's spend by category, selected baseline values utilizing the benchmark minimum represent a conservative baseline estimate for annual category spend; where PREPA spend was below the benchmark minimum, or for items previously insourced that will be outsourced to future Operator, the benchmark minimum was used as the baseline category spend value.
- Benchmarks were informed by PREPA historical spend by category; where PREPA historical spend exceeded the benchmark minimum, PREPA's historical category spend was utilized as the baseline value for annual category spend
- All category spend baseline values were then evaluated and adjusted based on PowerAdvocate industry experience
- Normalized baseline values were then scaled to reflect estimated annual spend by category for the P3 T&D system for use in the Cost Model:

$$\text{Category Spend Baseline value} * \text{PREPA line miles} = \text{Estimated Annual Spend Baseline by Category}$$

Customized P3 T&D System Operations Cost Model

Developed P3 T&D System Cost Model, informed by baseline annual spend across key T&D categories, to reflect the cost allocation for the Construction, Operations, Maintenance, and Management of a T&D System

T&D System spend was matched to relevant item models, which are bucketed into Subcategories and rolled up into Categories.



Custom P3 T&D System Operations Cost Model

