



GOVERNMENT OF PUERTO RICO  
PUERTO RICO PUBLIC-PRIVATE PARTNERSHIPS AUTHORITY

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DATE: December 21, 2023

TO: Hon. Pedro Pierluisi Urrutia  
Governor  
La Fortaleza  
San Juan, Puerto Rico

SENATE OF PUERTO RICO  
OFFICE OF THE SECRETARY  
21 DIC 2023 PM3:12



FROM: Public-Private Partnerships Authority

SUBJECT: Compliance Report of the Front-End Transition Period ("Front-End Transition"), in connection with the Agreement for Operation and Maintenance of the Transmission and Distribution System of the Electric Power Authority ("PREPA"), by and among LUMA Energy, LLC, LUMA Energy ServCo, LLC, PREPA and the Public- Private Partnerships Authority as administrator.

Please acknowledge receipt of the Compliance Report.



[Stamp: OFFICE OF THE CHIEF OF STAFF, THE FORTALEZA

Time: [hw: 2:26 pm]

DEC 21 2023

Name:

Signature:

CC: Hon. José L. Dalmau Santiago, President - Senate of Puerto Rico  
Hon. Rafael Hernández Montañez, Speaker - House of Representc  
Committee on Public-Private Partnerships of the Legislative Assem

# Front-End Transition Period



Prepared by: Yardley Knox LLC

To: Public-Private Partnerships Authority  
Front-End Transition Period

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## INTRODUCTION

The Puerto Rico Electric Power Authority ("PREPA") and the Puerto Rico Public-Private Partnerships Authority ("P3A"), also known as the Authority or Administrator, have executed an Operation and Maintenance Agreement ("O&M Agreement") for PREPA's Transmission and Distribution ("T&D") System with LUMA Energy, LLC and LUMA Energy Servco, LLC, collectively referred to as the Operator or LUMA. This contract, signed on June 22, 2020, grants the Operator the responsibility to operate and maintain PREPA's T&D system for a period of 15 years.

The O&M Agreement is framed pursuant to Act No. 29-2009, known as the Public-Private Partnerships Act, enacted on June 8, 2009, as subsequently amended ("Act No. 29"), and Act No. 120-2018, the Puerto Rico Electric System Transformation Act ("Act No. 120"). The Authority has been designated as the O&M Agreement Administrator.

Section 10 (d) of Act No. 29 requires the P3A to submit annual reports on the development of the projects and the contractors' compliance with the public-private partnership contracts in force. In compliance with this legal provision, a Monitoring has been carried out to evaluate the Operator's performance and compliance during the period from the effective date of the O&M Agreement, June 22, 2020, through May 31, 2021 ("Evaluation Period"). This period comprises the Front-End Transition phase, which precedes the commencement of operation and maintenance services on June 1, 2021. It should be noted that the O&M Agreement is divided into three distinct periods: the Front-End Transition period, the operation and maintenance services period, and the Final Transition period.

Prior to the O&M Agreement's Commencement Date on June 22, 2020, several conditions had to be met, including the acceptance and/or authorizations by certain entities involved in the O&M Agreement, such as the P3A, the Puerto Rico Energy Bureau ("PREB"), PREPA and the Fiscal Oversight and Management Board ("FOMB").

The purpose of the Monitoring carried out is to evaluate the Operator's performance and compliance during the Front-End Transition period. The Monitoring report will provide a comprehensive assessment of the key aspects of the O&M Agreement, highlighting compliance with legal and contractual provisions and the discharge of obligations applicable to the parties during the evaluation period. In addition, the report is expected to provide recommendations and corrective actions to ensure efficient and effective management during the next periods of the O&M Agreement.



## **T&D SYSTEM OPERATION AND MAINTENANCE AGREEMENT**

The O&M Agreement establishes the terms and conditions for LUMA to assume the operation and maintenance responsibilities of the system as of June 1, 2021. The O&M Agreement is detailed and consists of 20 Articles, 15 Annexes and 8 Exhibits, and sets forth LUMA's obligations and responsibilities.

Under the O&M Agreement, PREPA remains the owner of the T&D System assets, and LUMA has no ownership interest in them. In addition, the P3A acts as the Administrator of the O&M Agreement and among its many responsibilities are to review the budget submitted by LUMA to ensure that the funds allocated are sufficient to carry out the responsibilities set forth in the O&M Agreement and to supervise the Operator's compliance with the clauses set forth therein.

## **SCOPE OF MONITORING**

Monitoring review is the process of checking compliance of an activity against a standard or norm, with the objective of identifying deficiencies and/or preventing future problems, ensuring compliance with policies, procedures and regulations.

Yardley Knox was retained by the P3A to conduct monitoring of LUMA's compliance with the terms of the O&M Agreement during the front-end transition period, which runs from June 22, 2020 through May 31, 2021. To conduct this process, Yardley Knox prepared a Monitoring Plan outlining the terms of the O&M Agreement that were evaluated to determine whether the Operator was in compliance during the evaluation period.

The Monitoring Plan includes a description of the areas reviewed and the evaluation methodology. The following sections detail each of the topics included and the areas evaluated in accordance with the provisions of the O&M Agreement and its Appendices. The sections of the O&M Agreement that were included in the monitoring process were selected after a thorough review of the terms and conditions of the O&M Agreement, particularly the Handover Checklist.

## **SCOPE OF THE MONITORING PROCEDURE**

In the context of compliance monitoring, Yardley Knox and the Administrator collaborated in identifying areas and documents requiring review, and a checklist was developed detailing the terms of the O&M Agreement that were to be reviewed to assess compliance during the scoping period. The checklist includes a list of documents to be monitored on the following topics related to the O&M Agreement:



- Compliance With System Remediation Plan
- Development of Goods and Services Procurement Manual
- Compliance with preparation of System Operation Principles
- Guarantee Fulfillment
- Compliance with all applicable insurance policies
- Compliance with preparation of Initial Budgets
- Compliance with Performance Metrics review
- Compliance with preparation of Emergency Response Plan.
- Compliance with preparation of the T&D System Physical Security Plan, Data Security Plan and Vegetation Management Plan.
- Compliance in the preparation of "Back-End Transition Plan".
- Compliance with Employment Offers to PREPA Employees
- Compliance with Material System Agreements and Power Generation Agreements that are Material
- Compliance with all governmental permits, authorizations, licenses and certifications required for commencement of O&M services.
- Compliance with Development of Shared Services Agreement

## FRONT-END TRANSITION PERIOD

The front-end transition period refers to the period of time from the Effective Date of the O&M Agreement, namely June 22, 2020, to June 1, 2021, the Commencement of Operations date.

During this term, LUMA conducted a comprehensive assessment of the facilities, information and performance of the electrical system. In addition, they developed programs to improve operational efficiency, increase customer satisfaction and bring the infrastructure up to industry standards. They also developed plans, budgets, performance metrics and System Operation Principles that were submitted to PREB for review and approval before LUMA assumed operation of the transmission and distribution system.

Pursuant to the O&M Agreement, LUMA was compensated for expenses incurred during this period, including employee time and documented reasonable costs and expenses. In addition, LUMA was paid a flat fee of \$60 million.

## TREATMENT OF ADMINISTRATIVE EXPENSES

Section 4.1(c) provides that no later than ten (10) business days from the effective date of the contract, PREPA shall file a motion with the Title III Court seeking administrative expense treatment for any accrued and outstanding amounts that the

Owner is required to pay in accordance with this Agreement during the Front-End Transition Period, including the Front-End Transition Service Fee.

## SYSTEM REMEDIATION PLAN

Section 4.1 (d) states that the parties to the contract acknowledge and agree that certain components of the T&D System do not meet the performance standards required in the O&M Agreement, and therefore it is necessary that the Operator be allowed a period of review, planning, remediation and replacement in order to meet the contractual standards. To this end, it requires LUMA to have a System Remediation Plan ("SRP") for the purpose of establishing a plan to remediate, replace and stabilize T&D System equipment, systems, practices and services, as necessary, to enable the Operator to perform O&M services in compliance with contractual standards. Section 4.5(k) requires that the SRP be delivered and approved by PREB or otherwise finalized for purposes of this Agreement pursuant to Section 4.1(d)(iii) and provides that if PREB fails to respond within 90 days the same shall be deemed approved.



## IMPLEMENTATION

Pursuant to the requirements of Section 4.1(d) of the O&M Agreement, the Operator filed the SRP with the P3A and PREB in a timely manner.



## EVALUATION METHODOLOGY

For this section, we evaluated that both the submission and approval of the SRP complied with the terms established in the O&M Agreement. For this purpose, the dates of submission by the SRP Operator were taken into consideration.

<b>- Presentation of the System Remediation Plan</b>	<b>Compliant</b>
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Section 4.1(d) of the O&M Agreement requires LUMA to submit the SRP to PREB for approval.

According to the evidence provided by the Operator, the plan was submitted to the P3A on February 3, 2021. It was approved on February 23, 2021, and then submitted to PREB on February 24, 2021, so we consider that the Operator complied with the contractual requirement.

**PREB Approval of Plan Compliant**

Section 4.5(k) of the O&M Agreement provides that, prior to the commencement of operations of LUMA on June 1, 2021, the SRP: (i) must have been approved by PREB; or, (ii) must have been finalized pursuant to Section 4.1(d)(iii). Pursuant to the aforementioned Section of the O&M Agreement, for purposes of compliance with the O&M Agreement, the SRP shall be deemed terminated if PREB does not respond within ninety (90) days of the Operator having submitted the SRP to them.

On February 24, 2021, LUMA submitted the SRP to PREB. On April 6, 2021, PREB declared the SRP incomplete and requested LUMA to submit the required changes within 10 days. LUMA submitted several revisions to PREB, as required, and on June 22, 2021, upon review of LUMA's SRP Petition, PREB determined that LUMA had developed a reasonable approach to identify and prioritize both physical asset deficiencies and business process deficiencies, and had developed initiatives designed to remediate those systems. Therefore, PREB conditionally approved the SRP and directed LUMA to submit reports every two months on the progress of the SRP, beginning September 15, 2021. Therefore, PREB's submission and approval of the SRP is considered to be in compliance.

 **EVALUATION SUMMARY**

The table below presents a summary of LUMA's and PREB's compliance with the submission and approval of documentation required by Section 4.1 (d) of the O&M Agreement.

*TABLE 1: SUMMARY OF SYSTEM REMEDIATION PLAN EVALUATION*

Criterion- System Remediation Plan	Result
Submission of SRP to P3A and PREB	C
PREB Approval of the Plan	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**GOODS AND SERVICES PROCUREMENT MANUAL**

Section 4.1(e) requires the Operator to prepare a manual describing guidelines for the procurement of goods and services, the contractual provisions to be included in any contract with federal funds, and the administrative and contract monitoring processes, including rules and methods for:

- Address organizational and employee conflicts of interest;
- Avoid procurement of unnecessary or duplicate goods or services;
- Award rewards or remuneration to responsible subcontractors;

- Maintain historical records of purchases of goods and services;
  - Administration of material contracts;
  - Dispute resolution;
  - Selection of transactions for the acquisition of goods and services;
  - Conducting technical evaluations;
- In the event of an emergency or major disaster, ensure that the response to such an emergency with federal funds complies with the requirements for the use or management of such funds.

Section 4.1(f) of the O&M Agreement requires the Operator to prepare a manual describing the guidelines for the procurement of goods and services, the contractual provisions to be included in any contract with state funds or from other sources, ("Non-Federal Funding Procurement Manual"), and the administrative and contract monitoring processes, including rules and methods equal to those listed in the previous paragraph, except for the item related to the use of federal funds in case of emergency, and adds that the responsible parties must keep the manual up to date, with those laws that apply. In the case of federal funds, Section 4.5 (j) of the O&M Agreement requires approval from FEMA, DHS and OIG.



## IMPLEMENTATION

As documented in the Handover Checklist ("HOC", "Handover Checklist"), in its Article 7.08, the process of drafting and reviewing the Procurement Manuals began in August 2020. During this month, the review of PREPA's policies and procedures began to identify differences between federal and local rules and laws, and with the Office of Recovery and Reconstruction (COR3), which manages federal restoration funds.

During the month of October<sup>1</sup>, 2020, LUMA continued with the process of compiling and evaluating PREPA procedures and protocols. During the months of April and May 2021, LUMA submitted a Procurement Manual for review and responds to the comments of P3A and COR3. At the request of P3A and COR3 LUMA prepared a combined procurement manual<sup>2</sup>, establishing the rules for handling federal and non-federal funds. This is to ensure uniformity in procurement procedures with state funds versus procurement procedures with federal funds, as required by applicable federal regulations.

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<sup>1</sup> At this point, it was estimated that the process for reviewing and drafting the Procurement Manual was 40% complete.

<sup>2</sup> COR3 and P3A exempted LUMA from preparing two separate manuals.

 **EVALUATION METHODOLOGY**

The Administrator provided us with the consolidated Procurement Manual, approval request letters, and approval letters. These documents were reviewed together to determine if the provisions of the O&M Agreement described above were complied with.

 **EVALUATION**

- **Goods and Services Procurement Manual** **Compliant**

On June 1, 2021, the Operator, the Administrator and PREPA signed a Limited Waiver Agreement. Among the agreements executed under said Waiver Agreement were included Sections 4.1 (e) and 4.1 (f) of the O&M Agreement, which required the completion of one Procurement Manual for federal funds and another Manual for non-federal funds. However, the Operator completed a consolidated Procurement Manual, which was reviewed and approved by COR3, thereby exempting LUMA from preparing two separate manuals. The Procurement Manuals, according to the provisions of the O&M Agreement were to be prepared and approved by P3A, COR3, prior to the date of commencement of operations. P3A and COR3 approved the Procurement Manuals in a timely manner, thus complying with this requirement.

- **Goods and Services Procurement Manual Approval** **Compliant**

The Procurement Manual was submitted and approved by P3A on May 28, 2023 and by COR3 on May 31, 2023, and submitted on June 2, 2023 to FEMA, DHS, and OIG, as requested in letters sent to them for such purposes. The Administrator understands that such The Administrator clarified, however, that the parties held several discussions with FEMA regarding the preparation and content of the Procurement Manual and that FEMA welcomed the preparation of a combined procurement manual that would establish rules for the preparation of the procurement manual. The Administrator clarified, however, that the parties held several discussions with FEMA regarding the preparation and content of the Procurement Manual and that the agency welcomed the preparation of a combined procurement manual that would establish the rules for purchases with federal and non-federal funds.

**Result:** The waiver related to the Procurement Manuals was approved on June 1, 2021. According to the provisions of the O&M Agreement, these manuals had to be prepared and approved prior to the date of commencement of operations; therefore, this requirement was complied with.

 **EVALUATION SUMMARY**

The Operator complied with the submission and approval of the Goods and Services Procurement Manual prior to the start date of operations. The table below presents a summary of the evaluation.

*TABLE 2: SUMMARY OF THE GOODS AND SERVICES PROCUREMENT MANUAL*

Criteria	Result
Manual Submission	C
Manual Approval	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**PRINCIPLES OF SYSTEM OPERATION**

Section 4.1 (h) of the O&M Agreement requires LUMA to prepare the System Operation Principles (SOP) based on the industry standards and rules that govern the dispatch and control of energy. Said principles must be consistent with the guidelines presented in document number 1 ("Schedule" 1) attached to Annex I of the O&M Agreement, Scope of Services, hereinafter Attachment Number 1. Once the SOPs are completed, they must be submitted to P3A for review and comments, and to PREB, incorporating the Administrator's comments, for review and approval.

 **IMPLEMENTATION**

As part of the Front-End Transition Period activities, LUMA is required to prepare a report on the operating principles related to power dispatch, in accordance with the contractual requirements summarized in the O&M Agreement Requirements section 4.1(h).

On February 25, 2021, LUMA submitted the SOP Report to PREB for review and approval, and in the Motion presented, explains the process they used to work through their projects in three phases: assessment, analysis and planning.

 **EVALUATION METHODOLOGY**

We verified that LUMA submitted the SOP Report to PREB. In addition, the process LUMA followed to develop the SOPs, the key factors for power system management, the organization of the SOP document, the sections included, and the priorities established were verified.

We verified whether the document compiling the SOPs was prepared, following the requirements established in Section 4.1 (h) and Annex I of the O&M Agreement, and that it has been submitted to and approved by PREB.

 **EVALUATION**

**- Submission of System Operation Principles Report Compliant**

LUMA submitted the SOP Report on February 25, 2021, within the established time frame, covering the topics indicated in the O&M Agreement and its Annex I.

**- SOP approval by PREB Compliant**

PREB evaluated the SOP report and determined to approve it contingent on LUMA’s implementing the necessary requirements to comply with public energy policy.

LUMA submitted the SOP Report within the established timeframe, covering the topics indicated in the O&M Agreement and its Annex I, with the conditional approval of PREB, which required submitting reports prospectively.

 **EVALUATION SUMMARY**

The table below presents a summary of the evaluation of the System Operation Principles report.

**TABLE 3: SUMMARY OF EVALUATION OF SYSTEM OPERATION PRINCIPLES**

Criteria	Result
Submission of the System Operation Principles Report	C
Approval of the System Operation Principles Report	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**HANDOVER CHECKLIST - AGREEMENT ANNEX II**

Section 4.2 sets forth the conditions that LUMA must have satisfied by June 1, 2021, the date of commencement of operation and maintenance services. Section 4.2(b) requires LUMA to provide the Administrator and PREB with a progress report on each of the items listed in the Handover Checklist on or before the tenth day of each month,



"HOC"), which is included in Annex II of the Agreement. This Monthly Report details the main tasks to be carried out during the Front-End Transition Period, as detailed below:

- Transition and General Administration
- Goals for T&D Services
- System Remediation Plan
- Customer Service
- Information Technology Systems
- Financial Administration
- Federal Funds
- Human Resources
- Other Activities
- Asset Procurement (Supply Chain)
- Final Transition Plan
- Additional Requirements



## IMPLEMENTATION

In accordance with the provisions set forth in Section 4.2 of the O&M Agreement, the Operator has satisfied the obligation to prepare Monthly Reports containing a detailed description of the efforts and tasks performed, the progress of each activity, significant achievements, pending regulatory issues, relevant tasks or activities to be performed in the next month, pending issues, pending activities that could affect the success of the project, invoices sent for payment, reports processed during the month and the percentage of progress of each activity as required by the O&M Agreement.



## EVALUATION METHODOLOGY

During the monitoring, we obtained the Handover Control Lists (HOCs) and Monthly Reports for the Front-End Transition Period. We reviewed the completeness of the HOCs, that they were submitted within the timeframe established in the O&M Agreement, and that the information contained therein was consistent with our observations in other areas of the monitoring.

In our evaluation of each particular section of the Agreement, we include our observations for each area or section of the HOC.

 **EVALUATION**

A table indicating the extent to which the Operator has complied with the progress report for each of the elements detailed in the HOC as set forth in Annex II of the Agreement is presented below:

**Submission of Progress Report ("HOC") Compliant**

The Operator satisfied the requirement set forth in Section 4.2 (b) of the O&M Agreement by providing the Administrator and PREB with a progress report for each of the items detailed in the HOC.

*TABLE 4: PROGRESS REPORTING AS REQUIRED IN SECTION 4.2(B)<sup>3</sup>*

<i>Month</i>	<i>Filing Date</i>
June 2020	July 10, 2020
July 2020	August 10, 2020
August 2020	September 14, 2020 <sup>4</sup>
September 2020	October 12, 2020 <sup>5</sup>
October 2020	November 10, 2020
November 2020	December 10, 2020
December 2020	January 15, 2021
January 2021	February 10, 2021
February 2021	March 12, 2021
March 2021	April 12, 2021 <sup>6</sup>
April 2021	May 13, 2021
May 2021	June 14, 2021

In a communication dated May 24, 2021, the Administrator notified having received from the Operator the last Front-End Transition Period Closing Report, dated May 17, 2021. After reviewing the tasks and activities detailed in the report, the Administrator confirmed the areas that were completed and presented them in tabular form in Attachment A attached to its letter.

In addition, in its capacity as O&M Agreement Administrator, with the assistance of its technical, financial and legal consultants, the Administrator reviewed several documents prepared by LUMA prior to the start of operations, which were approved.

<sup>3</sup> It is clarified that out of the twelve (12) reports that LUMA was required to deliver, four (4) were delivered less than five (5) days after the date stipulated in the O&M Agreement.

<sup>4</sup> LUMA requested an extension of time to submit the report.

<sup>5</sup> October 10 fell on a Saturday, so LUMA delivered the report on the next business day.

<sup>6</sup> April 10 fell on a Saturday, so LUMA delivered the report on the next business day.

**TABLE 5: LINE ITEM COMPLIANCE AND ADMINISTRATOR'S COMMENTS**

<b>HOC #</b>	<b>ITEM</b>	<b>APP COMMENTS</b>
1.01	Governmental Approvals	Satisfactorily Completed
1.02	Plan to Address Gaps in Assets, Technology, Processes, etc. (plan to include cost estimates)	Satisfactorily Completed
1.03	Initial Budgets - PREB Rate Order Filing (Initial Budgets Approvals)	Approved
1.03	PREB Rate Order Filing (Liability Waiver Approvals)	Satisfactorily Completed
2.01	Development and implementation of an operation take- over plan for transmission and sub transmission assets outside and inside of legacy PREPA power plants and substations.	Satisfactorily Completed
2.02	Development and implementation of an operation take- over plan for the electric distribution system	Satisfactorily Completed
2.03	Emergency Response / Disaster Recovery / Business Continuity Planning	Satisfactorily Completed
2.0301	Transition plan for respective control center(s)	Satisfactorily Completed
2.0302	Transition Plan for O&M Activities	Satisfactorily Completed
2.0304	Fleet Management Plan	Satisfactorily Completed
2.0305	Asset Management Plan	Satisfactorily Completed
2.0306	Ops Technical Training	Satisfactorily Completed
2.0307	Safety Management Plan	Satisfactorily Completed
2.0308	Engineering Plan	Satisfactorily Completed
2.0309	Identification of real estate	Satisfactorily Completed
2.0310	Materials Management and Warehouse Plan	Satisfactorily Completed
2.0311	System Operations Plan	Satisfactorily Completed
2.0312	Vegetation Management Plan	Satisfactorily Completed
2.04	Update Emergency Operations Manual and Business Continuity/Disaster Recovery Plan	Satisfactorily Completed
2.05	Environmental Exposure Management Plan	Satisfactorily Completed
3.01	Remediation Plan Proposal	Satisfactorily Completed
3.02	Development of Improvement Initiatives	Satisfactorily Completed
3.03	Consolidate Assessment and Initiative Plans from All Areas	Satisfactorily Completed
3.04	Development of System Remediation Plan	Satisfactorily Completed
3.05	System Remediation Plan Approved	Approved
3.05	Approval of System Remediation Plan	Satisfactorily Completed
4.01	Evaluating customer service facilities and assets	Satisfactorily Completed
4.02	Evaluating and updating customer service policies and procedures	Satisfactorily Completed
4.03	Development of a meter reading plan	Satisfactorily Completed
4.04	Development of a Customer Service Transition Plan	Satisfactorily Completed

<i>HOC #</i>	<i>ITEM</i>	<i>APP COMMENTS</i>
4.05	Development and implementation of a service start and shut off plan	Satisfactorily Completed
4.06	Development of a meter asset management plan	Satisfactorily Completed
4.07	Development and implementation of customer service technology	Satisfactorily Completed
4.08	Development of Non-Technical Energy Loss Reduction Plan	Satisfactorily Completed
4.09	Establish Integration Between Customer Services & T&D Ops	Satisfactorily Completed
5.01	Development of an IT / OT communication plan and acceptance criteria	Satisfactorily Completed
5.02	Develop IT OT Systems Remediation Plan	Satisfactorily Completed
5.03	Evaluating IT / OT Applications and Infrastructure	Satisfactorily Completed
5.04	Development of Cyber Security and Business Continuity Plan	Satisfactorily Completed
5.05	Development of an IT Asset Management Program	Satisfactorily Completed
5.06	Development of an IT/OT Transition Plan and Schedule	Satisfactorily Completed
5.07	Commencement Cutover Planning	Satisfactorily Completed
5.08	Training and Communication Plan	Satisfactorily Completed
6.01	Determine Approach to Budgeting & Reporting over FET & Provide Samples of Proposed Budget / Reporting	Satisfactorily Completed
6.02	Description of Approach to Complying with Initial Budget Delivery Obligations Under OMA	Satisfactorily Completed
6.03	Formalizing changes to control processes	Satisfactorily Completed
6.04	Establishing a financial accounting system and account structure.	Satisfactorily Completed
6.05	Preparing Initial Budgets & Other Financial Forecasts	Satisfactorily Completed
6.06	Establishing bank accounts	Satisfactorily Completed
6.07	Evaluating and updating the payroll and labor cost reporting systems.	Satisfactorily Completed
6.08	Establishing a delegation of authority matrix and process.	Satisfactorily Completed
6.09	Processes & Procedures and Overall Internal Controls	Satisfactorily Completed
7.02	Policies and Procedures	Satisfactorily Completed
7.03	Staffing Plan	Satisfactorily Completed
7.04	Surge Staffing	Satisfactorily Completed
7.05	Project Worksheet Assessment	Satisfactorily Completed
7.06	Handoff of Project Worksheet Activity from COR3 and Vendors	Satisfactorily Completed
7.07	Project Procurement Planning	Satisfactorily Completed
7.08	Drafting, Revising and Finalizing Federal Funding Procurement Manual	Satisfactorily Completed

<i>HOC #</i>	<i>ITEM</i>	<i>APP COMMENTS</i>
8.01	Draft, Revise and Finalize Operator Employment Requirements	Satisfactorily Completed
8.02	Recruitment and Staffing	Satisfactorily Completed
8.03	Redesign New Org	Satisfactorily Completed
8.04	Proposed Recruitment and Staffing Plan	Satisfactorily Completed
8.05	Standup Human Capital Management (HCM) System	Satisfactorily Completed
8.06	Communication Plan	Satisfactorily Completed
8.07	Training Plan	Satisfactorily Completed
8.08	Total Rewards Retirement Program	Satisfactorily Completed
8.09	Occupational Health and Wellness Plan	Satisfactorily Completed
8.10	Compliance Plan	Satisfactorily Completed
8.11	Employee Engagement Plan	Satisfactorily Completed
8.12	Develop a Community Investment Plan	Satisfactorily Completed
9.02	Emergency Response Plan	Satisfactorily Completed
9.03	Non-Federal Funding Procurement Manual	Satisfactorily Completed-
9.04	Physical Security Plan	Satisfactorily Completed
9.05	Data Security Plan Approval	Satisfactorily Completed
9.06	Vegetation Management Plan Approval	Satisfactorily Completed
9.07	System Operation Principles - Regulatory Approvals	Approved
10.01	Evaluate existing procurement and subcontracting policies, procedures and systems and review as required.	Satisfactorily Completed
10.02	Plans and Procedures for assuming responsibility for securing use of assets, facilities, IT / OT, etc.	Satisfactorily Completed
10.03	Assuming Existing Subcontracts (ID System Agreements)	Satisfactorily Completed
11.01	Develop Back-End Transition Plan	Satisfactorily Completed
12.01	Confirmation of Acceptable Operator Security	Closing Item Subject to Further Completion
12.02	Required Insurance (Delivery of insurance certificates)	Closing Item Subject to Further Completion
12.03	Baseline Performance Levels	Approved
12.04	Back-End Transition Plan	Approved
12.06	Operator Representations and Guarantees	Closing Item Subject to Further Completion
12.09	Section 4.4 Governmental Approvals	Satisfactorily Completed
12.10	Section 4.5: Conditions Precedent to Service Commencement Date	Closing Item Subject to Further Completion
12.11	Section 4.7: Closing the Front-End Transition Period	Closing Item Subject to Further Completion
12.12	Service Commencement Begins	Closing Item Subject to Further Completion

 **EVALUATION SUMMARY**

The table below presents a summary of the evaluation of progress reporting.

*TABLE 6: SUMMARY OF PROGRESS REPORT SUBMISSION EVALUATION*

Criteria	Result
Monthly Progress Report Submission	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**GUARANTEES**

Article 8 of the O&M Agreement provides that on or before the effective date of the Agreement and during the term of the Agreement, LUMA must maintain in effect a Guaranty. In addition, the Operator must deliver to the Administrator and notify PREBPRESB of the audited financial statements of the Guarantor. Section 4.2 (c) establishes that LUMA must execute and deliver to P3A the affidavit evidencing that such Guaranty is in force. Exhibit D ("Exhibit D") includes the form of the Guaranty agreement.

 **IMPLEMENTATION**

Pursuant to the requirements of Article 8 and Annex D of the O&M contract, the Operator executed and filed the guarantee agreements between Quanta Services, Inc., Guarantor and PREPA, and Canadian Utilities Limited, Guarantor and PREPA.

 **EVALUATION METHODOLOGY**

As part of the monitoring procedures, we obtained documentation to verify whether LUMA executed and delivered to P3A the Guaranty required in the O&M Agreement, following the Exhibit D format, whether LUMA executed and delivered to P3A the affidavits attesting that such guarantee is in force and whether it complied with the requirements to deliver to the administrator the Guarantor's audited financial statements. However, it did not notify PREBPRESB.

**● Submission of Guarantees and Affidavit Compliant**

According to the evidence provided by the Operator, the guarantee documents were prepared following the format set forth in Annex D of the O&M Agreement and the following documents were prepared in the format set forth in Annex D of the O&M

Agreement and the certifications and affidavits required in the Agreement were obtained; therefore we consider it to be in compliance.

**● Submit Financial Statements of Guarantors Partially Compliant**

The O&M Agreement requires that audited financial statements of the guarantors be submitted to the Administrator with notice and copy to PREBPREG, these were submitted to the Administrators, but PREBPREG was not notified.

 **EVALUATION**

The following are the results of the evaluation of the guarantors' guarantees, affidavits and submission of financial reports as required by Article 8 and Section 4.2 (c) of the O&M Agreement.

 **EVALUATION SUMMARY**

The table below presents a summary of LUMA's compliance with the filing and execution of the Guarantees required by Article 8 and the affidavits set forth in Section 4.2(c).

*TABLE 7: SUMMARY OF EVALUATION OF EXECUTION AND DELIVERY TO P3A AND PREB OF THE GUARANTEE REQUIRED IN THE O&M CONTRACT*

Criteria	Result
Submission of Guarantees and Affidavit	C
Submit financial statements of guarantors to the Administrator with a copy to PREB.	PC
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**INSURANCE**

Section 4.2 (d) of the O&M Agreement, together with Article 10 and Annex XII, establish the specifications of the insurance coverage that the Operator must coordinate, execute and administer for the benefit of PREPA and the Operator. The required policies, as listed in Annex XII, must be purchased from insurers authorized to do business in Puerto Rico by the Insurance Commissioner, financially responsible and with an A rating by A.M. Best Company or a similar rating company. Premiums, deductibles and other charges will be reimbursable expenses within the O&M Agreement ("T&D Pass-Through Expenditures"); and in the event that any compensation is received for an insurance claim, the Operator has the right to receive those funds. The Operator must submit



the insurance certificates to the Administrator 60 days prior to the beginning of each Agreement year. The specific requirements for insurance coverage are detailed below.



## IMPLEMENTATION

In order to comply with the requirements of this monitoring, the Operator is expected to have arranged and obtained the required policies covering the established evaluation periods. For this purpose, it will be verified that such policies are in force from May 1, 2021 to May 31, 2022.



## EVALUATION METHODOLOGY

The Operator was requested to provide copies of the insurance certificates required by the Agreement for the specified period, in order to assess compliance. The certificates were reviewed to verify compliance with the requirements set forth in Annex XII and the relevant sections of the O&M Agreement. The Evaluation and Conclusion section details the insurance requirements as set forth in Annex XII of the Agreement. As part of the monitoring procedures, it was verified that LUMA has obtained the aforementioned insurances with an effective date no later than June 1, 2021.

### Section I

- Property Insurance
- General Liability Insurance
- Additional Liability Insurance
- Cyber Security
- Environmental Liability Insurance
- Heavy Equipment and Machinery Coverage
- Commercial Auto Coverage
- Liability Insurance
- Crime Insurance
- Property Insurance
- Construction Risk Insurance
- Civil Liability of Independent Contractors
- Fiduciary Liability
- Business Travel Accident Insurance

### Section II

- State Insurance Fund Corporation Insurance

- Fiduciary Liability Insurance
- Professional Liability Insurance

 **EVALUATION**

**A. SECTION I**

• **Property Damage Insurance** **Compliant**

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Under the terms of the O&M Agreement, the Operator is required to maintain an insurance policy covering property damage, business interruption and additional expenses, with a minimum coverage amount of \$550 million or the amount necessary to receive federal funding for the T&D System, whichever is greater. In addition, the deductible per occurrence cannot exceed \$2 million. During monitoring, the Operator was requested to submit a certificate of property insurance that met the above requirements. After reviewing the certificate, it was determined that the Operator met the minimum coverage requirements of \$550 million for the period evaluated, May 1, 2021 to May 1, 2022.

• **General Liability Insurance** **Compliant**

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The Agreement requires the Operator to obtain primary general liability insurance coverage of at least \$10 million per occurrence, with a deductible of no more than \$1 million. During our audit, the Operator was requested to provide a certificate of insurance indicating compliance with these requirements during the specified period.

- A certificate was received demonstrating compliance with the required limits from July 30, 2020 through July 30, 2021. In addition, the Administrator provided us with a certificate documenting the renewal of the policy, which was in effect from July 30, 2021 through July 30, 2022.

• **Additional Liability** **Compliant**

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In compliance with the requirements of the Agreement, the Operator is required to obtain Additional Liability Coverage for a minimum of \$65 million. This was delivered in two separate policies, one for \$25 million and the other for \$40 million, thus complying with the established requirement.

- The Operator provided a copy of the insurance certificate corresponding to the period from May 25, 2021 to July 30, 2021. Subsequently, the

Administrator provided us with the updated insurance certificate documenting the renewal of the policy, effective from July 30, 2021 to July 30, 2022.

● **Cyber Security Insurance** **Not Applicable**

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In order to comply with the requirements of the Agreement, the Operator was required to obtain cyber security coverage of at least \$20 million, with a maximum deductible of \$1 million. However, certain policies were not available due to market conditions, a matter that was addressed in the Limited Waiver granted by the parties prior to the commencement date of O&M services, i.e., June 1, 2021.

By means of the Limited Waiver, the Operator, the Administrator and PREPA, as counterparties to the Agreement, allowed the Operator to begin its operation and maintenance services, even though it had not complied with some of the conditions precedent to said start date (Refer to Exhibit C Pending Required Insurance) where it was granted an extension until July 1, 2021.<sup>7</sup>

● **Environmental Safety Coverage** **Compliant**

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During the corresponding period, the Operator submitted a copy of the environmental liability insurance certificate that complies with the limits established in the Agreement. This requires coverage of at least \$5 million per occurrence and \$25 million in the aggregate.

- The Operator provided a copy of the corresponding insurance certificate for the period June 1, 2021 to June 1, 2022.

● **Machinery and Boiler Liability** **Compliant**

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To comply with the requirements established in the Agreement, the Operator obtained a machinery and boiler insurance policy with a minimum coverage of \$200 million per accident, a \$10 million coverage for debris removal and an additional coverage of at least \$5 million for other expenses.

The Operator provided a copy of the certificate of insurance that met these requirements for the following period:

- During the period from May 1, 2021 to May 1, 2022, the Operator obtained \$200 million in coverage for machinery and boilers, and thereafter, on July 21, 2022,

<sup>7</sup> As of 5/2023 Administrator had granted a 3<sup>rd</sup> extension due to the positions of the underwriters in the market which does not consider cybersecurity risk to be insurable and would not reconsider until Multi-Factor Authentication (MFA) was fully implemented by PREPA.

provided an amended certificate of insurance that included the policy number and \$15 million in coverage for debris removal and other expenses.

● **Commercial Auto Insurance** **Compliant**

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Under the terms of the Agreement, the Operator must obtain insurance coverage for its fleet of commercial vehicles covering at least \$15,000 per accident, including liability, medical expenses and bodily injury.

- The Operator has submitted a certificate of insurance indicating that this contractual requirement has been met for the period from January 31, 2021 to January 31, 2022.

● **Aircraft Liability Insurance** **Compliant**

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Under the O&M Agreement, the Operator is required to obtain an aviation liability insurance policy covering physical damage of at least \$100 million per occurrence and \$250,000 per passenger, at least \$2.2 million for damage to engines and/or parts, and at least \$50,000 for rental expenses per accident.

- The Operator provided a copy of the insurance certificate indicating that the limits required in the O&M Agreement were met for the following period: January 20, 2021 to January 20, 2022.

● **Crime Coverage** **Compliant**

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In accordance with the O&M Agreement, the Operator is required to obtain a crime insurance policy with a minimum limit of \$10 million per occurrence and in the aggregate.

- The Operator submitted a copy of the insurance certificate for the following period with the limits required in the O&M Agreement, from April 30, 2021 to April 30, 2022.

● **Construction Risk Insurance Coverage** **Compliant**

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In compliance with the O&M Agreement, the Operator is required to obtain construction risk insurance coverage reflecting appropriate limits for each project in accordance with market conditions. However, due to certain market conditions, the Operator was exempted from obtaining certain insurance policies prior to the commencement date of O&M services, which was June 1, 2021. The Operator was granted an additional extension of time to obtain the related insurance policies.

Through the Limited Waiver executed on June 1, 2021, by the Operator, the Administrator and PREPA, the Operator was allowed to begin its operation and maintenance services, even though it had not complied with some of the conditions precedent to such commencement date (Refer to Exhibit C of the Limited Waiver).

- The Operator submitted a copy of the insurance certificate corresponding to the period from May 3, 2022 to July 15, 2022, in which it was evidenced that the limits required in the O&M Agreement for said period were complied with. It was established that the liability coverage per occurrence in any insured project has been \$50,000,000.00.

<b>● Liability Insurance</b>	<b>Compliant</b>
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In compliance with the O&M Agreement, the Operator was required to obtain liability insurance from PREPA's independent contractors with a limit of at least \$2 million per occurrence, including bodily injury and property damage. However, due to certain market conditions, it was not possible to obtain certain insurance policies prior to the commencement date of the O&M services. Therefore, through the Limited Waiver it was agreed to exempt the Operator from this obligation and a clause was included in Annex C of said document where the Operator indicated that it will not seek to obtain this coverage because it is considered duplicative and not necessary for its business. Consequently, the Administrator agreed to permanently cancel this requirement.

<b>● Directors and Officers Fiduciary Liability Insurance</b>	<b>Not Applicable</b>
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In Annex C of the Limited Waiver, a temporary suspension of the requirement to obtain fiduciary liability coverage of at least \$65 million for PREPA and its directors and officers was established, and a \$25 million coverage was allowed in its place, until a policy with reasonable financial terms can be obtained. In addition, it was permanently agreed to cancel the requirement for the Operator to provide a certificate of insurance for this concept.

- Accordingly, the Operator is not required to submit a certificate of insurance for this requirement in the future.

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● **Business Travel Accident Coverage** **Compliant**

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During the period specified in the contract, the Operator provided a copy of the certificate of insurance required by the O&M Agreement, which calls for business travel accident coverage with a minimum of \$150,000 per accident and \$3 million in the aggregate.

- Therefore, the operator complied with the requirement to obtain the necessary insurance coverage as stipulated in the Agreement.

## **B. SECTION II**

Annex XII, Section II of the O&M Agreement establishes that the Operator must acquire and maintain the following policies for its own benefit, from the date of commencement of the O&M services:

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● **State Insurance Fund Coverage** **Compliant**

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The contract requires the Operator to obtain coverage from the State Insurance Fund. The Operator provided a Permanent Policy issued by the Puerto Rico State Insurance Fund Corporation based on a payroll estimate, which will be reviewed at the time of policy renewal.

- The Operator has complied with the requirement to obtain the insurance coverage required in this section of the contract.

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● **Fiduciary Liability** **Compliant**

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As set forth in Schedule XII of the O&M Agreement, the Operator is required to obtain fiduciary liability coverage with limits of not less than \$5 million per claim and in the aggregate. However, the Operator was only able to obtain coverage for \$1 million, as it is limited by the values of the plan assets. Through Exhibit C of the Limited Waiver, the parties agreed to suspend the requirement to obtain at least \$5 million in this coverage until the value of the assets justifies the coverage, in the meantime, the Operator must maintain coverage of at least \$1 million.

- The Administrator submitted a copy of the Operator's certificate of insurance for fiduciary liability coverage, dated May 3, 2022, effective May 5, 2021 through June 22, 2022, with an aggregate limit of \$1,000,000.

In conclusion, it is noted that the fiduciary liability coverage obtained by the Operator complies with the required amount as authorized by the Administrator and as agreed by the parties in the Limited Waiver.

● **Professional Liability Coverage** **Compliant**

The O&M Agreement establishes the Operator's obligation to obtain Professional Liability Coverage with minimum limits of \$5 million per occurrence and \$5 million in aggregate. In Schedule C of the Limited Waiver, the Operator was granted an extension of time until June 15, 2021 to obtain the coverage due to the wait for quotations.

- The Operator submitted a copy of the insurance certificate corresponding to the period from June 15, 2021 to June 15, 2022, with the limits required in the O&M Agreement.



**EVALUATION SUMMARY**

The evaluation indicates that the Operator has satisfactorily complied with the insurance requirements established in the O&M Agreement. Below is a table summarizing the findings of the evaluation.

**TABLE 8: SUMMARY OF EVALUATION OF INSURANCE REQUIRED BY THE O&M AGREEMENT**

Criteria	Result
Property damage coverage	C
General liability insurance coverage	C
Additional liability insurance coverage	C
Cybersecurity coverage	N/A
Environmental liability insurance coverage	C
Machinery and boiler insurance coverage	C
Commercial car coverage	C
Aeronautical liability insurance cover	C
Crime coverage	C
Construction risk insurance coverage,	C



Liability insurance for PREPA's independent contractors,	C
Covered fiduciary liability of at least \$65 million for wrongful acts by part of PREPA's directors and officers	N/A
Business travel accident coverage	C
State Insurance Fund Coverage	C
Fiduciary liability with limits of not less than \$5 million	C
Professional liability coverage	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

### INITIAL BUDGETS FOR FISCAL YEARS 2022, 2023 AND 2024

Section 4.2 (e) of the O&M Agreement requires LUMA to submit to P3A the Initial Budgets for the years 2022, 2023 and 2024, that they be reviewed within 30 days of receipt, and P3A is to submit its comments to LUMA, which in turn submits them to PREBPRESB for final approval, after considering P3A's comments. PREBPRESB must review them and either approve or deny them or propose modifications within 90 days, or they would be considered approved for purposes of the O&M Agreement. Section 4.1 (d) (iv) requires that Remediation System costs and expenses be included in such Initial Budgets.



### IMPLEMENTATION

The first version of the Initial Budgets was submitted to the Administrator on February 3, 2021, for review prior to submission to PREBPRESB. The Administrator utilized FTI Consulting to review the Initial Budgets and also several plans closely related to these budgets: System Remediation Plan, Performance Metrics and System Operation Principles. The Operator complied with the provisions set forth in Sections 4.2 (e) and 4.1 (d) (iv) of the O&M Agreement. LUMA submitted the Initial Budgets to the Administrator and PREBPRESB prior to the start date of the operation and maintenance services, which included the costs and expenses contemplated by the System Remediation System.

 **EVALUATION METHODOLOGY**

To perform the evaluation in this area, the Administrator provided us with the Initial Budget Report prepared by LUMA, the Administrator's Review Report and various documents generated by PREBPREG. These documents were reviewed together to determine whether the provisions of the O&M Agreement described above were met. Evaluation of the content of the Initial Budgets was outside the scope of the monitoring procedures.

**Initial budgets** **Compliant**

The Operator complied with the provisions set forth in Sections 4.2 (e) and 4.1 (d) (iv) of the O&M Agreement. LUMA submitted the Initial Budgets to the Administrator and PREBPREG prior to the start date of the operation and maintenance services, which included the costs and expenses contemplated by the System Remediation System.

**Approval of Initial Budgets by PREBPREG** **Compliant**

PREBPREG conditionally approved LUMA's initial budgets as included in Attachment A of the Resolution and Order "Determination on LUMA's Initial Budgets".

 **EVALUATION SUMMARY**

The table below presents a summary of the Operator's compliance with the provisions set forth in Sections 4.2(e) and 4.1(d) (iv) of the O&M Agreement to submit and obtain approval of the initial budgets for fiscal years 2022, 2023 and 2024.

*TABLE 9: SUMMARY OF COMPLIANCE ASSESSMENT OF INITIAL BUDGET DEVELOPMENT FOR FISCAL YEARS 2022, 2023 AND 2024*

Criteria	Result
Submission of initial budgets	C
PREB Approval	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**PERFORMANCE METRICS**

Section 4.2(f) requires that within the first 60 days from the effective date of the O&M Agreement on June 22, 2020, the parties shall appoint a task force comprised of representatives of all parties to the O&M Agreement for purposes of the review an possible revision of

the Performance Metrics included in Annex IX, including baselines, targets, and minimum performance levels. Such reviewed/revised metrics shall have been submitted to P3A for review and comment, and to PREBPRESB, incorporating the Administrator's comments, for review and approval. Section 4.1 (d) (iv) of the O&M Agreement requires that the Performance Metrics incorporate the preparation and implementation of the System Remediation Plan.

## IMPLEMENTATION

As part of the monitoring procedures, the resolutions and orders issued by PREBPRESB related to performance metrics were studied, as well as the subsequent motions submitted by LUMA and PREPA related to this issue. These motions, resolutions and orders start from May 14, 2019, when PREBPRESB ordered PREPA to submit a quarterly report of metrics and indicators, beginning on September 15, 2019 until September 30, 2021.

## EVALUATION METHODOLOGY

To perform the monitoring work in this area, the Administrator provided us with the Performance Metrics Report prepared by LUMA and submitted to P3A and PREB. These documents were reviewed together to determine if the provisions of the O&M Agreement described above were met.

## EVALUATION

<b>- Submission of Performance Metrics</b>	<b>Compliant</b>
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As set forth in the Limited Waiver dated June 1, 2021, it was determined that the Operator complied with the requirement related to PREB approval of the Performance Metrics required by Section 4.5(h) of the O&M Agreement, given that on February 25, 2021, the Operator submitted such metrics to PREB.

## EVALUATION SUMMARY

The Operator complied with the submission to PREB of the Performance Metrics as required by the O&M Agreement. The table below presents a summary of the evaluation.

**TABLE 10: SUMMARY OF THE EVALUATION OF THE PRESENTATION PERFORMANCE METRICS**

Criteria	Result
Performance Metrics Presentation	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

## EMERGENCY RESPONSE PLAN REQUIREMENTS OF O&M AGREEMENT

Section 4.2 (g) of the O&M Agreement requires the Operator to provide the Administrator and PREB with an action plan that includes the procedures and actions to be taken in the event of any emergency affecting the T&D System, effective as of the date of commencement of the operation and maintenance services, in accordance with the contractual standards. Said plan must include: fire management, environmental, atmospheric, health and safety, and any other situation that may be classified as an emergency. In addition, it must provide procedures to ensure compliance with the following areas:

- Adequate notification of the emergency to PREB, P3A and all governmental entities having jurisdiction over the T&D System.
- Measures to facilitate a coordinated response to the emergency by all relevant parts of government.
- Measures to minimize and address outages.
- Ensure that the personnel who will work on the emergency will be available, under the standards of the O&M Agreement and the federal funds Procurement Manual, in the event that the event is declared a major disaster.
- The Emergency Response Plan (ERP) should be reviewed and adjusted as required.



## IMPLEMENTATION

As required by Section 4.2(g) of the Agreement, the Operator submitted the Emergency Response Plan, which was evaluated for compliance. It was verified that the plan was submitted in due time and form by the Operator, and that it includes all the elements required in Section 4.2(g) and Annex III of the O&M Agreement.

 **EVALUATION METHODOLOGY**

On this point, an evaluation of the presentation and approval of the corresponding plan within the established term was carried out. In this regard, the dates of submission of the plan by the Operator and its approval by PREB were considered.

**● Submission of Emergency Response Plan Compliant**

In accordance with the requirements of Section 4.2 (g) of the O&M Agreement, LUMA is required to submit the Emergency Response Plan to P3A and PREB, for approval. Based on the evidence provided by the Operator, it was found that the plan was submitted on May 31, 2021, indicating that the Operator is in compliance with the contractual obligations.

 **EVALUATION**

This report presents the results of the evaluation of the requirements established in Section 4.2(g) of the O&M Agreement regarding the Emergency Response Plan. We evaluated and verified the requirements established in the contract and analyzed whether the Operator complied with the obligations to submit and obtain approval of the Plan by PREB.

 **EVALUATION SUMMARY**

The following table shows a summary of LUMA's and PREB's compliance with the submission and approval of the documentation required by Section 4.2(g) of the O&M Agreement, regarding the Emergency Response Plan.

**TABLE 11: SUMMARY OF EMERGENCY RESPONSE PLAN EVALUATION**

Criteria - System Remediation Plan	Result
Submission of the Plan by LUMA	<b>C</b>
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**T&D SYSTEM PHYSICAL SECURITY PLAN, DATA SECURITY AND VEGETATION MANAGEMENT PLAN**

Section 4.2 (h) and Annex II of the O&M Agreement require LUMA to develop and provide to P3A and PREB, the necessary action plans and procedures to maintain the physical security of the T&D System, data and information cyber security, and vegetation management plan. These should be effective and substantially complete, as of the date of commencement of operation and maintenance services.



**IMPLEMENTATION**

Pursuant to the requirements of Section 4.2(h) and Annex II of the Agreement, the Operator submitted the T&D System Physical Security Plan, Data Security Plan and Vegetation Management Plan.



**EVALUATION METHODOLOGY**

For this item, we evaluated the preparation and presentation of the Physical Security Plan, Data Security Plan and Vegetation Management Plan in order to identify whether they were developed according to the stipulations of the O&M Agreement.

**● Submission of T&D System Physical Security Compliant**

As required by Section 4.2 (h) of the O&M Agreement, LUMA was to provide a plan of action and procedures necessary to maintain cyber data and information security, with the primary purpose of maintaining the integrity and confidentiality of the organization's data.

According to the evidence provided by the Operator, the plan was submitted to P3A on April 18, 2021 and to PREB on May 28, 2021 and is therefore considered to be in compliance.

**● Submission of Data Security Plan Compliant**

As required by Section 4.2 (h) of the O&M Agreement, LUMA was to provide a plan of action and procedures necessary to maintain cyber data and information security, with the primary purpose of maintaining the integrity and confidentiality of the organization's data.

According to the evidence provided by the Operator, the plan was submitted to P3A on April 21, 2021 and to PREB on May 29, 2021 and is therefore considered to be in compliance.

**● Submission of Vegetation Management Plan Compliant**

As required by Section 4.2 (h) of the O&M Agreement, LUMA was to provide a plan of action and procedures necessary to maintain cyber data and information security, with the primary purpose of maintaining the integrity and confidentiality of the organization's data.

According to the evidence provided by the Operator, the plan was submitted to P3A on April 12, 2021 and to PREB on May 31, 2021, so the Operator is considered to be in compliance.

**☑ EVALUATION**

The following are the results of the evaluation of the requirements of Section 4.2(g) Development of the T&D System Physical Security Plan, Data Security Plan and Vegetation Management Plan.

**☑ EVALUATION SUMMARY**

The table below presents a summary of LUMA and PREB compliance with the submission and approval of documentation required by section 4.2(g).

*TABLE 12: T&D SYSTEM PHYSICAL SECURITY PLAN, DATA SECURITY PLAN, AND VEGETATION MANAGEMENT PLAN EVALUATION SUMMARY*

Criteria	Result
Submission of T&D System Physical Security Plan	C
Submission of Data Security Plan	C
Vegetation Management Plan Submission	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**BACK-END TRANSITION PLAN**

Section 4.2 (i) of the O&M Agreement requires LUMA to complete and submit to the Administrator and PREB, for approval, the Final Transition Plan, as described in Annex III. This plan must include reasonable arrangements for the possible hiring of LUMA's employees by a successor operator, the costs of severance to employees not hired

by the successor, shall provide for the transition of O&M services, and the rights and responsibilities of each party in connection with the transition of the T&D System to PREPA, or to another successor operator.



## IMPLEMENTATION

In accordance with Section 4.2(i) of the contract, the Operator submitted the Back-End Transition Plan.



## EVALUATION METHODOLOGY

We conducted an evaluation of the development, submission and approval of the Final Transition Plan, as required in Section 4.2 (i) of the Agreement. We considered the dates of submission by the Operator, approval by PREB and whether all required elements are included in the plan, as established in Section 4.2 (i) and Annex III of the O&M Agreement.

### ● **Submission of "Back-End Transition Plan" to the Administrator** **Compliant**

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As required by Section 4.2 (i) of the O&M Agreement, LUMA was to prepare and submit the Final Transition Plan for the Administrator's approval. A copy of the Final Transition Plan was to be submitted to PREB. The Plan was prepared in accordance with the provisions of Annex III of the O&M Agreement. It was initially submitted on April 11, 2021 and approved by the Administrator on May 24, 2021.

### ● **Administrator Approval of the Plan** **Compliant**

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The Final Transition Plan was initially submitted to the Administrator on April 11, 2021. This was submitted following the parameters established by Section 4.2 (i) of the O&M Agreement and was approved by the Administrator through a processing letter addressed to LUMA on May 24, 2021.

### ● **Submission of "Back-End Transition Plan" to PREB** **Compliant**

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As required by Section 4.2 (i) of the O&M Agreement, LUMA was required to prepare and submit a copy of the Final Transition Plan to PREB. The Plan was prepared in accordance with the provisions of Annex III of the O&M Agreement. The Plan was received by PREB on June 15, 2021, according to PREB system receipt stamp.



 **EVALUATION**

The following are the results of the evaluation of the requirements of Section 4.2(i) Back-End Transition Plan.

 **EVALUATION SUMMARY**

The following table summarizes LUMA's degree of compliance in relation to the submission and approval of the required documentation as set forth in section 4.2 (i) of the contract.

**TABLE 13: SUMMARY OF THE BACK END TRANSITION PLAN EVALUATION**

Criteria	Result
Submission of Back-End Transition Plan to the Administrator	C
Approval of the Plan by the Administrator	C
Submission of the Plan to PREB	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**EMPLOYMENT EVALUATIONS**

Section 4.2 (j) of the O&M Agreement indicates that at least 90 days prior to the start of operations, the Operator must have interviewed and evaluated the PREPA employees applying for employment with LUMA. PREPA was to provide the Operator with a description of the work each employee was performing and the positions they held, date of employment, and salary.

Section 4.2 (k) requires that, at the time of recruiting employees, the Operator is to evaluate for employment those PREPA employees<sup>8</sup> who applied for employment with LUMA, and priority is given to them over other equally qualified candidates. Offers<sup>9</sup> of employment must have been available for 10 days, and once accepted are irrevocable until the date of commencement of O&M services.

<sup>8</sup> Excluding employees of PREPA's Generation System.

<sup>9</sup> The terms of employment established by LUMA must provide a base salary or hourly wage that is at least equal to that which the employee previously had, must include fringe benefits, as established in Act Number 26, and any other benefits required by Act Number 120, as modified or restricted by Acts Numbers 3, 26 and 66.

Annex IV of the O&M Agreement establishes the following requirements with which job applicants must comply.

- Authorization to work in the United States
- 18 years of age or older
- Verification of criminal record, previous employment, and references
- Drug testing and medical evaluation, if necessary for employment.
- Applicable driver's license, depending on the requirements of the position.

Each position was to have a detailed list of responsibilities that would help the employee meet the requirements of the position.

## IMPLEMENTATION

The procedures we carried out included compliance with sections 4.2(j) and (k) for the recruitment process of PREPA employees who wanted to fill positions in LUMA.

In order to comply with the contractual provisions, the Operator established a task force within the Human Resources Department, and also used external recruiters, to manage the recruitment and selection processes. This task force was responsible for meeting with the PREPA employees who would be evaluated for positions with the Operator, effective June 1, 2021, and providing them with guidance on the transition process.

Disclosure of available vacancies was done electronically, as was the job application form. Each applicant had to indicate if they were an PREPA employee, as they would be given priority in the evaluation and interview process. According to the information provided, interviews were conducted with all PREPA employees who expressed interest in participating in the process.

According to statistics provided by LUMA's Human Resources Department, as of June 1, 2021, a total of 1,167 PREPA employees began working within the organization, out of a total of 1,604 employees evaluated.

## EVALUATION

Based on the information provided by LUMA's Human Resources Department personnel, it is confirmed that the Operator has complied with the provisions set forth in Sections 4.2(j), 4.2(k) and 4.3(h) of the O&M Agreement.

These sections required, among other things, that, when carrying out the personnel recruitment process, the Operator would evaluate the job applications from PREPA employees and give them priority over other equally qualified candidates. It is also noted that job offers were available exclusively to PREPA employees up to 90 days prior to the date of commencement of O&M services.

 **EVALUATION SUMMARY**

The following table shows LUMA's compliance with the employee hiring process, giving priority to PREPA employees.

*TABLE 14: SUMMARY OF COMPLIANCE WITH SECTIONS 4.2(J), 4.2(K) AND 4.3(H) RELATED TO PAYROLL SAMPLE*

Criteria	Result
Giving priority to PREPA employees	C
Disclosure of vacancies for PREPA employees up to 90 days prior to the beginning of operations	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**AMENDMENTS TO SYSTEM AND POWER GENERATION AGREEMENTS**

Section 4.3 (d) states that PREPA and the Administrator agree that it is not their intention to amend or enter into new System Agreements or Power Generation Agreements unless: (i) PREPA and the Administrator understand that there is a need to execute a new agreement or amend an existing agreement, prior to the date that LUMA submits its Initial Budgets, in which case if this need is identified, it is the responsibility of the Administrator to notify LUMA and work together to implement the amendment or new contract.

If the need to amend an existing contract or execute a new contract is identified after LUMA submits its Initial Budgets to PREB, the impact that such contracts would have on the Initial Budgets should be evaluated.

 **IMPLEMENTATION**

During the Front-End Transition Period, we received information indicating that no additional acquisitions or modifications were made to existing contracts, either in relation to the System Agreements or the Power Generation Agreement.

● **Amendments to System and Power Generation Agreements** **Compliant**

During the Front-End Transition Period, we verified that there were no new agreements or modifications to existing agreements, both in relation to System agreements and Power Generation agreements. Therefore, it can be affirmed that the provisions of section 4.3 (d) are complied with.

 **EVALUATION SUMMARY**

The table below presents compliance with the System and Power Generation Agreement Amendments as set forth in section 4.3 (d) of the O&M contract.

*TABLE 15: SUMMARY OF EVALUATION OF AMENDMENTS TO SYSTEM AND POWER GENERATION AGREEMENTS*

Criteria	Result
Amendments to System and Power Generation Agreements	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**LICENSES AND PERMITS**

Section 4.4 of the O&M Agreement requires the Operator, the Administrator and PREPA to identify all governmental permits, authorizations, licenses and certifications necessary for the commencement of O&M services, and once identified, requires:

- Coordinate efforts for the transfer, assignment or issuance of permits, authorizations or licenses from PREPA to LUMA.
- Submit applications and make all necessary arrangements to obtain the necessary approvals for the start date of operations.
- PREPA shall provide a copy of its governmental approvals. The Administrator and the Operator must cooperate in the process of identifying, preparing, applying for, obtaining and maintaining the required governmental approvals, permits or licenses.
- The intention is that all permits and licenses be in the name of PREPA, with the Operator as co-applicant, as permitted by applicable law.

 **IMPLEMENTATION**

In accordance with the provisions established in the O&M Agreement, the Operator took action to obtain, identify and exclude generation-related permits, as it is only

required to work with T&D related permits. The actions taken by the parties are summarized below, highlighting the efforts made with PREB, the Department of Natural and Environmental Resources ("DNER" ) and the Office of Permit Management ("OGPe", its Spanish acronym).

## EVALUATION METHODOLOGY

A request was made for the permits or licenses processed by the Operator, the Administrator and PREPA to comply with the operation and maintenance services, in accordance with the provisions of Section 4.4 of the O&M Agreement.

The Administrator provided the following documents:

- A list of the T&D permits held by PREPA, including a summary of the steps taken for each of them, the pending issues and their current status.
- An approval letter issued by DNER dated March 17, 2021 and another approval letter issued by OGPe dated March 4, 2021, together with their respective letters, requesting a legal opinion and advice on LUMA's use of such permits.
- Authorizations from PREPA for LUMA to use its vehicles and the facility located in El Yunque.
- A Full Withholding Exemption Certificate on Payments for Services Rendered in Puerto Rico.

## EVALUATION

The following are the findings of the evaluation of Section 4.4 of the O&M Agreement, related to governmental permits, authorizations, licenses and certifications necessary for the commencement of O&M services, as well as the requirements necessary for the commencement of operations.

## EVALUATION SUMMARY

The following table summarizes the necessary requirements in terms of permits, authorizations, licenses and certifications for the start-up of O&M services.

**TABLE 16: SUMMARY OF EVALUATION OF PERMITS IDENTIFIED FOR OPERATIONS COMMENCEMENT**

Type of Permit	Status	Approval	Result
Spill Prevention and Control Plan (SPCC Plan)	Obtain confirmation from PREPA as to whether the Spill Prevention and Control Plan for the Palo Seco Substation is for generation or for T&D. LUMA must submit its application for this permit and will do so after the operations commencement date.	No	At the time of evaluation for the monitoring, there are steps remaining to obtain the permit.
Identification Number of Toxic Waste Generator	LUMA is evaluating whether the toxic waste generator identification number is needed and whether it is required to be applied for after the operations commencement date.	No	At the time of the evaluation for monitoring there are steps remaining to obtain the permit.
Authorization for Use of the Special Service of Forests	PREPA will evaluate the corresponding course of action and this authorization includes Generation and T&D. PREPA will confirm if it needs additional information.	We recommend having it 60-90 days prior to the start date, though it is not indicated in the regulations.	At the time of the evaluation for monitoring there are steps remaining to obtain the permit., as explained in the status column.
SPCC Plan for facilities with less than 1,300 gallons of storage - DNER	LUMA will revise these plans, as appropriate, following the date of start of operations.	No	At the time of evaluation for the monitoring there are steps remaining to obtain the permit., as explained in the status column.
Soil Injection Control Permit for Class V, Type C1	The DNER was consulted and in its reply of 3/17/2021 confirmed that LUMA may operate under the existing permit. There are facilities with soil injection that are not authorized and once they are evaluated, a determination will be made as to whether authorization will be requested.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring.
Light Pollution Abatement Plan (this initiative was not completed)	No action has been taken, as it is unclear whether it applies. No plan or permit is required.	N/A	N/A

Type of Permit	Status	Approval	Result
Underground Tank System Operating Permit	DNER was consulted and in its reply of 3/17/2021 confirmed that LUMA may operate under the existing permit.	Yes, and DNER confirmed that the PREPA permits are valid for LUMA.	Permit valid at time of evaluation for monitoring.
Air Emissions Permit	DNER was consulted and in a reply dated 3/17/2021 confirmed that LUMA can operate under the existing permit.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at time of evaluation for monitoring.
Number of Used Oil Generator Identification	The DNER was consulted and in its response of 3/17/2021 confirmed that LUMA can operate under the existing permit.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring.
Permission to Used Rubber Facility	The DNER was consulted and in its reply of 3/17/2021 confirmed that LUMA may operate under the existing permit.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring.
-Number of Biomedical Waste Generator Identification	The DNER was consulted and in its reply of 3/17/2021 confirmed that LUMA may operate under the existing permit.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring.
Reuse and Recycling Plan	The DNER was consulted and in its response of 3/17/2021 confirmed that LUMA can operate under the existing permit.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring.
Special permit for use of Communication Facilities	The DNER was consulted and in its response of 3/17/2021 confirmed that LUMA can operate under the existing permit.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring.
General Permit for Lead-based Paint Activities	N/A	N/A	N/A

Type of Permit	Status	Approval	Result
General Permit for Handling Asbestos-Containing Material (Incorporates Toxic Waste Handling Permit)	N/A	N/A	N/A
Concession for the use of territorial waters, submerged land or maritime-terrestrial zone	The DNER was consulted and in its reply of 3/17/2021 confirmed that LUMA may operate under the permit. existing.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring.
General Permit for Used Oil Storage Facility or Permit to Operate Non-toxic Waste Facility	The DNER was consulted and in its response of 3/17/2021 confirmed that LUMA can operate under the existing permit.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring.
Permit to Transport Used Oil	The DNER was consulted and in its reply of 3/17/2021 confirmed that LUMA may operate under the permit. existing.	Yes, and the DNER confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring.
Single Incident Operating Permit (Authorization to cut, prune, transplanting and planting trees)	The OGPe was consulted and in its reply dated 3/4/2021 acknowledged that LUMA could operate under the existing permit.	Yes, and OGPe confirmed that the PREPA permits are valid for LUMA.	Permit validated at the time of evaluation for monitoring. There are still steps to be taken in order to complete the required permits, as explained in the status column.
Vegetation Management Plan	The DNER was consulted and in its reply of 3/17/2021 confirmed that LUMA may operate under the existing permit. DNER confirmed that the regulations governing this plan are repetitive and that the plan is not required.	N/A	N/A



Type of Permit	Status	Approval	Result
Erosion Control and Sedimentation Prevention Permit, or OGPe Single Incident Operating Permit, or OGPe General Permit for Other Work (also covers dust emissions and solid waste generation)	OGPe was consulted and in its reply of 3/4/2021 acknowledged that LUMA could operate under the permit. existing.	Yes, and OGPe confirmed that the PREPA permits are valid for LUMA.	Permit validated at time of evaluation for monitoring.
Single Permit (covers Use Permit, Certificate, Fire Prevention Certificate, Sanitary License, Categorical Exclusion, and other licenses for business operation)	The OGPe was consulted and in its reply of 3/4/2021 acknowledged that LUMA could operate under the existing permit.	Yes, and OGPE confirmed that the PREPA permits are valid for LUMA.	Permit validated at time of evaluation for monitoring.
General Permit for Power Generator	The OGPe was consulted and in its reply of 3/4/2021 acknowledged that LUMA could operate under the existing permit.	Yes, and OGPE confirmed that the PREPA permits are valid for LUMA.	Permit validated at time of evaluation for monitoring.
Commercial Pesticide Application License	It must be determined whether it applies to the T&D operation and which entity should hold the licenses. PREPA should verify with Canales de Riego [Irrigation Channels].	Pending determination of whether it applies to T&D.	At the time of the evaluation for monitoring, there are attempts to obtain permit, as explained in the column of status.
Electric Service Company Certification	LUMA's registration with PREB was completed.	Completed	Permit validated at the time of monitoring evaluation.

Type of Permit	Status	Approval	Result
Vegetation Management Program	As part of the O&M Agreement, LUMA is required to prepare a vegetation management plan, which is in process.	Completed	Vegetation Plan. Refer to Section 11 of this Monitoring Report.
Permits for Helicopter Use for Vegetation Management	PREPA did not identify any permits for use of the helicopter, only inspections.	N/A	N/A
Helicopter Operating Certificate	LUMA must apply for the helicopter operating certificate, since it is not transferable.	N/A	N/A
Permits for Vehicles used in Operations	N/A	N/A	N/A
Radio Station Authorization	Pending completion of steps to coordinate filing of the application to include LUMA.	Pending inclusion of LUMA as a co-petitioner.	At the time of the evaluation for monitoring, there are steps remaining to obtain the permit, as explained in the status column.

## SHARED SERVICES AGREEMENT (SHARED SERVICES AGREEMENT)

Section 4.5(s) requires the development of a Shared Services Agreement ("SSA") between the parties, PREPA, LUMA and P3A, which establishes the terms and conditions under which the Operator, as PREPA's agent, will provide administrative services related to PREPA's assets, for a term not to exceed 3 years. The execution of this agreement is a condition precedent to the O&M Service commencement date.

## IMPLEMENTATION

On June 1, 2021, PREPA, the Administrator and the Operator agreed to the SSA with the objective of complying with the requirements of the O&M Agreement as specified in Section 4.5 and Annex VI.

 **EVALUATION METHODOLOGY**

As part of the monitoring procedures, the SSA was obtained and verified to be in compliance with the requirements set forth in Section 4.5 (s) and Annex VI of the O&M Agreement.

**● Shared Services Agreement Compliant**

The Shared Services Agreement complies with the parameters set forth in the Section 4.5 and Annex VI of the O&M Agreement.

 **EVALUATION SUMMARY**

The table below presents the compliance with the SSA, as established in Section 4.5 and Annex VI of the O&M contract.

*TABLE 17: SUMMARY OF SHARED SERVICES AGREEMENT EVALUATION*

Criteria	Result
Shared Services Agreement	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

**FEES PAID AND REIMBURSED TO THE OPERATOR DURING THE FRONT-END TRANSITION PERIOD**

Section 4.6 establishes the compensation of the Operator during the Front-End Transition Period ("FET").

Section 4.6 (a) specifies that no federal funds will be used to pay LUMA during this period, and that payments for services during the Front-End Transition Period will not be subject to any rebate, discount, or claim.

Section 4.6 (b) states that fees for services during the Front-End Transition Period shall be equal to the aggregate amount of:

- The hours worked by the personnel who provided services related to the Front-End Transition Period (Labor Hours), multiplied by the hourly rate established in Annex V of the O&M Agreement, applicable to each category of personnel;

- A fixed fee of \$60,000,000, payable in fixed monthly installments, and in the event that it is a partial month, the monthly installment shall be adjusted on a pro rata basis; providing that in the event that the first month of service is a partial month, any balance due shall be paid in the twelfth month; and
- All other costs and expenses incurred by LUMA that are reasonable and necessary and documented, without adding any profit margin, including the costs of any subcontractors providing front-end transition services.

Section 4.6 (d) O&M Agreement provides that on or before the 10th day of each month, the Operator shall provide the Administrator with a monthly invoice describing in detail the services provided during the previous month, and provides that all invoices must comply with the requirements set forth in Section 9.2 (c) of the O&M Agreement, Anti-Corruption Laws and Sanctions Laws - Policies and Procedures.

## IMPLEMENTATION

In compliance with the requirement to evaluate the invoices submitted by LUMA, the Administrator hired two consulting firms: FTI Consulting for the technical evaluation of the O&M Agreement, and Eclipse Management as financial consultant to review the invoices submitted by LUMA. Eclipse Management's role was to verify whether the invoices complied with the provisions of the O&M Agreement, as well as with the invoicing requirements established by PREPA and the contracting and payment processes "PREPA Invoicing Process" governed by Law 237 of 2004 and the Circular Letters of the Treasury Department. In addition, it had to verify compliance with Article 9.2 (c) of the O&M Agreement, related to applicable laws, governmental requirements and the necessary certifications from the Government of Puerto Rico. The Evaluation Manual established the procedure to be followed for the evaluation of LUMA's invoices, as well as for the evaluation of compliance with respect to the payment of the fixed fee, the processes and procedures for the reimbursement of the payment of the personnel that provided services related to the Front-End Transition Period, and the authorization procedure for the reimbursement of the costs and expenses of subcontractors.

Eclipse Management presented its results in a Monthly Validation Report, which was then reviewed by the Administrator to authorize PREPA to make payment to LUMA. The report was reviewed by the Administrator and discussed verbally, any Eclipse was notified of any changes or modifications.


**EVALUATION METHODOLOGY**

As part of our monitoring procedures, we reviewed all invoices submitted by LUMA during the Front-End Transition Period to ensure that they complied with the aforementioned contractual provisions.


**EVALUATION**

We conducted a review of the Monthly Validation Report issued by Eclipse Management, who was hired by the Administrator to review the invoices submitted by LUMA during the Front-End Transition Period, for each of the billed items, such as fixed fee, labor costs and other reimbursed expenses.

- Invoices submitted by LUMA during the Front-End Transition Period for each of the billed items: fixed fee, labor and other reimbursed costs and expenses.**

The invoices submitted by LUMA and the monthly reports submitted by Eclipse Management, who was hired by the Administrator to review the invoices, were reviewed to validate that there were no discrepancies between them.

*TABLE 18: LUMA INVOICES*

Date	Invoice Number	Result
August 6, 2020	FETS-0620-01	Invoice partial payment June 22-30, 2020. Only included fixed fee and labor.
August 10, 2020	FETS-0720-01	Invoice payment month July 2020
Sept 10, 2020	FETS-0820-01	Invoice payment August 2020
Oct 10, 2020	FETS-0920-01	Invoice payment month September 2020
Nov 10, 2020	FETS-1020-01	Invoice payment month October 2020
Dec 10, 2020	FETS-1120-01	Invoice payment month November 2020
Jan 10, 2021	FETS-1220-01	Invoice payment month December 2020
Feb 10, 2021	FETS-0121-01	Invoice payment month January 2021
Mar 10, 2021	FETS-0221-01	Invoice payment month February 2021
April 10, 2021	FETS-0321-01	Invoice payment month March 2021
May 10, 2021	FETS-0421-01	Invoice payment month April 2021
Jun 10, 2021	FETS-0521-01	Invoice payment month May 2021. This invoice includes the portion due for the month of June 2020, which being a partial month was payable in the 12 <sup>th</sup> Month,

The above table shows that LUMA sent on or before the 10th day of each month the invoices for fixed fee, labor and other costs and expenses, in compliance with the provisions of section 4.6 b of the O&M Agreement.

• **Fixed Rate Invoices** **Compliant**

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The first invoice corresponding to the front-end transition period was for a partial amount, covering the first nine days of the contract, from June 22 to June 30, 2020. The last fixed rate invoice for the front-end transition period, in the amount of \$8,500,000,000, includes the \$5,000,000 corresponding to the month of May 2021, as well as the proportional portion corresponding to the month of June 2020 that had not been billed due to it being a partial month.

• **Invoices by Labor Hours** **Compliant**

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LUMA's Invoice Validation Report provides a detailed summary of Labor Hours paid by position category, including the hourly cost and total hours worked. It has been confirmed, through information provided by Eclipse Management representatives, that the procedures set forth in the Evaluation Manual were applied to verify that the billed hourly costs were in compliance with the O&M Agreement.

• **Cost and Expense Reimbursement Invoices** **Compliant**

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During the Front-End Transition Period, reimbursement for other costs and expenses was authorized, in accordance with the provisions of the O&M Agreement. These costs were to be reasonable and necessary, properly documented and without adding any additional profit margin, including the costs of any subcontractors providing services during the Front-End Transition Period. As part of our monitoring processes, the amount requested in LUMA's invoice was validated against Eclipse Management's monthly reports as per the reports provided by P3.

 **EVALUATION SUMMARY**

The following are the results of the evaluation of section 4.6 that establishes the compensation of the Operator during the Front-End Transition Period ("FET") for fixed rates, Labor Hours and reimbursement of costs and expenses incurred by LUMA.

**TABLE 19: SUMMARY OF EVALUATION OF MONTHLY INVOICES FOR: FIXED RATES, LABOR HOURS AND CONTRACTOR COSTS AND EXPENSES TO BE REIMBURSED DURING THE TRANSITION PERIOD**

Criteria	Result
Monthly Invoices For: Fixed Fees, Labor And Contractors' Costs And Expenses To Be Reimbursed During The Transition Period	C
<i>Legend: C = Compliant • PC = Partially Compliant • NC = Non-Compliant • N/A = Not Applicable</i>	

## FINDINGS AND RECOMMENDATIONS

As a result of the monitoring carried out, findings and recommendations of great importance to ensure effective and efficient compliance with the O&M Agreement have been identified. This report provides a detailed description of the results obtained during the evaluation, highlighting areas requiring improvement, possible non-compliance and suggested corrective measures. The recommendations put forward are intended to strengthen the Operator's management and ensure the proper functioning of the system, aligned with the objectives and requirements established by the government agency.

**TABLE 20: FINDINGS AND RECOMMENDATIONS**

Agreement Section	Result	Description	Recommendations
Treatment of Administrative Expenses	C		
System Remediation Plan	C		
Goods and Services Procurement Manual	C		
System Operating Principles	C		
Guarantees	C	Submission of Guarantees and Affidavit	
	C	Submit audited financial statements of the guarantors to the Administrator with copy to PREB	The O&M Agreement establishes the obligation to notify PREB that the Guarantors' financial statements were delivered to the Administrator together with a copy of the same. This notification was not made and we recommend that, in the future, PREB be notified in a timely manner.

Insurance	C		<p>All required insurance was in compliance, except for two specific aspects. First, cybersecurity coverage was not available due to market conditions. Consequently, the Operator was granted a "Limited Waiver" and was given an extension until July 1, 2022 to obtain such coverage.</p> <p>Second, fiduciary liability coverage, with a minimum of \$65 million, for wrongful acts by PREPA directors and officers, exempted the Operator from submitting it in the future, therefore, it is no longer a mandatory requirement.</p> <p>We recommend ongoing monitoring of the Operator in connection with the obtaining of the cybersecurity coverage, in order to verify whether it has been possible to acquire it.</p>
Initial Budgets for the years 2022, 2023 and 2024	C	Submission of initial budgets	
	C	PREB approval	
Performance Metrics	C	Submission of Performance Metrics	
Emergency Response Plan	C	Submission of Emergency Response Plan	
Physical Security Plan for the T&D System, Data Security Plan, Vegetation Management Plan	C	Physical Security Plan for T&D System	
	C	Data Security Plan	
	C	Vegetation management	
Back-End Transition Plan	C	Submission of Back-End Transition Plan to Administrator	
	C	Approval of Plan by Administrator	
Job Evaluations	C	Giving priority to PREPA employees	
	C	Disclosure of vacancies for PREPA employees up to 90 days prior to start of operations	
Amendments to System and Power Generation Agreements an	C	Amendments to System and Power Generation Agreements	



Licenses and Permits	C	Section 4.4 of the O&M Agreement states that the Operator, the Administrator and PREPA must identify all permits, authorizations, licenses and government certifications necessary for the start-up of O&M services. These three parties worked together to identify the permits and authorizations applicable to the operation of energy transmission and distribution, and to carry out the necessary procedures. At the time of commencement of operations, the Operator has the necessary authorizations in PREPA's name and is in the process of becoming a co-petitioner, as required by the O&M Agreement.	
Shared Services Agreement	C	Shared Services Agreement	
Fees Paid and Refunded to Operator during the Front-End Transition Period	C	Monthly invoices for: Fixed Fees, Labor and Contractors' Costs and Expenses to be Reimbursed during the Transition period	

I CERTIFY: that this document has been prepared by Yardley Knox LLC, using information provided by the Electric Power Authority; by LUMA Energy, LLC, LUMA Energy ServCo, LLC, and by the Public-Private Partnerships Authority.



Tamara Torres / Authorized Representative, Yardley Knox LLC