



GOVERNMENT OF PUERTO RICO
PUERTO RICO PUBLIC-PRIVATE PARTNERSHIPS AUTHORITY

BY ELECTRONIC MAIL

November 26, 2021

LUMA Energy, LLC
644 Fernández Juncos Ave., Suite 301
San Juan, PR 00907
Attention: General Counsel
Email: legal@lumamc.com

with copy to:
LUMA Energy, LLC
644 Fernández Juncos Ave., Suite 301
San Juan, PR 00907
Attention: President/CEO
Email: wayne.stensby@lumamc.com

Re: Quarterly Report

Dear Mr. Stensby:

Reference is made to the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement dated as of June 22, 2020 (“O&M Agreement”) by and among (i) the Puerto Rico Electric Power Authority (“PREPA”),(ii) the Puerto Rico Public-Private Partnerships Authority (“P3 Authority” or “Administrator, (iii) LUMA Energy, LLC (“ManagementCo”), and (iv) LUMA Energy ServCo, LLC (together with ManagementCo, “LUMA”).

On November 15, 2021, LUMA submitted their first LUMA Energy Quarterly Report encompassing the period from July 1, 2021, through September 30, 2021 (“Report”). Pursuant to Section 2.0 of the Report, LUMA’s First Quarter Budget was \$136.2 million. However, LUMA’s First Quarter Actuals were \$172.8 million, representing a \$36.5 million or 27% Variance. In accordance with Section 6.2 (iii) of the O&M Agreement, please

provide a detailed explanation for LUMA's Budget Variance and specify what measures will be taken to ensure budget compliance moving forward. We kindly request you submit your response by December 6, 2021.

Sincerely,

A handwritten signature in blue ink, appearing to read "Fermín E. Fontanés Gómez". The signature is stylized and cursive.

Fermín E. Fontanés Gómez

Executive Director

Puerto Rico Public-Private Partnerships Authority

December 6, 2021

To: Puerto Rico Public-Private Partnerships Authority

Attention: Fermín E. Fontanés Gómez
Roberto Sanchez Vilella (Minillas) Government Center
De Diego Ave. Stop 22,
San Juan, PR 00907

Re: Quarterly Report Information Request

Dear Mr. Fontanés,

In response to the P3's letter received on November 26, 2021 requesting a detailed explanation of LUMA's first quarter budget variance and identification of what measures will be taken to ensure budget compliance moving forward, we provide the following:

1. Budget Variance – LUMA's Fiscal Year 2022 budget was created in December 2020 during the Front-End Transition Period ("FET") after five months of FET activity and before LUMA was able to learn many things about the condition of PREPA's assets, records, systems, facilities, etc. Furthermore, it was based on the assumption that PREPA would comply with its obligations under the Transmission and Distribution Operations and Maintenance Agreement (T&D OMA) to fully cooperate with and assist LUMA in a timely manner, including providing physical and system access and advancing federal funding activities during the first half of calendar year 2021.

LUMA's results for first quarter total operating expenditures (O&M) were \$156.4 million versus a budget of \$124.4 million, resulting in an unfavorable variance of \$32 million. In short, the condition of the T&D System and the utility organization, including most aspects of the scope defined under the T&D OMA, was significantly worse than was forecast within the budgets developed in December 2020. As such, additional effort and costs than budgeted have been required to stabilize a deteriorating T&D System. For context to the challenges faced by LUMA upon commencement, we refer you to pages 4-6 of the LUMA first quarter report for Fiscal Year 2022 for background on the scope and nature of PREPA's lack of cooperation and unexpected deficiencies and omissions that we discovered once operations began, and the extent to which they presented themselves across the T&D System and the PREPA organization. These pages also outline the significant, unanticipated and unbudgeted backlog of uncompleted work that LUMA inherited on June 1, 2021 and outline the substantial and multiple hurdles LUMA faced upon commencement.

The primary reason for the budget variance for Operating Expenditures relates to field and operations labor and related expenditures required during the quarter to safely and adequately address some of the backlog, stabilize the grid and to accomplish the task of



training and upgrading of the labor force in terms of job skills and safe processes and procedures. LUMA's proactive actions to support the workforce with on-the-job training and mentoring from qualified workers is necessary to reduce safety incidents, stabilize the grid to avoid additional outage impacts on our customers and work through the large backlog of work inherited from PREPA.

Additional significant expenditures in excess of budget related to the use of materials and supplies to support required increased stabilization and remediation efforts and costs to provide employees with the necessary tools, PPE and supplies to safely perform their work, costs incurred to repair existing fleet assets, bringing them in compliance with regulations, and security costs to ensure the safety of our employees in response to post-commencement security threats, protests and blockages of physical access to LUMA equipment and facilities.

LUMA's results for first quarter Non-Federally Funded Capital Expenditures were \$16.4 million versus a budget of \$11.8 million, resulting in an unfavorable variance of \$4.5 million. This variance is a result of LUMA's ability to start the capital work quicker than anticipated in the budgets and is largely viewed as a timing difference. The first quarter Non-Federally Funded Capital budget represents less than 10% of the annual Fiscal Year 2022 Non-Federally Funded Capital budget.

2. Planned Adjustments to Return to the Certified O&M Budget –

Of the unfavorable variances noted above, we expect that those related to materials and supplies (\$6.6 million) and security services (\$1.9 million) will normalize as we progress through the fiscal year and should not yield as significant unfavorable variances in future quarters. The largest variance, related to the additional mentorship and support from qualified field personnel (most of the \$26.4 million labor variance), is required to address safety, training and the significant backlog and state of the T&D System. In addition to these labor costs, LUMA also incurred other costs associated with this supervisory workforce. Such associated costs are included in the Transportation, Per Diem and Mileage items and contributed to that \$6.9 million variance.

We expect that the level of mentorship, training and support required within the first quarter can be reduced over the course of the year as we upgrade skills and we continue formal training and development of workers through LUMA's Lineman College and other sources. In this regard, we have started to modestly reduce our mentorship and training workforce and expect to continue to evaluate and make reductions whenever possible throughout the remainder of the fiscal year. Another dynamic impacting this variance in the future is the increasing labor budget during the fiscal year which will help to further reduce the labor variance. Despite the items noted above, we anticipate labor to be significantly over-budget for the fiscal year.



Additional measures we plan to take to offset the labor variance and bring our overall costs back within the certified budget include a reduction / deferral in non-federally funded capital and scrutiny of other planned operating and maintenance costs to determine where further reductions or deferrals can be identified and implemented. This plan is likely to include usage of the \$10.3 million of Excess Expenditures available to LUMA. We are also pushing hard to overcome the delays on Federally Funded projects inherited on June 1, 2021 and to obtain FEMA project approvals such that we can begin said work and allocate additional internal labor to these projects in the Fiscal Year 2022 budget; thus lowering our labor costs.

Additionally, LUMA will continue to examine revenues throughout the year and, where required, may request a budget amendment to utilize any unused revenues for the fiscal year. We do not anticipate requesting a modification to the Rate Order approved by the Energy Bureau in 2017.

LUMA is in the process of updating its forecast for the balance of the fiscal year with its teams to develop a more detailed plan to return to budget. We expect to be able to share additional details with the P3 prior to the holiday break.

Sincerely,

LUMA Energy LLC



Darren B. Miller
Chief Financial Officer

- C** Wayne Stensby, Chief Executive Officer, LUMA; Wayne.Stensby@lumamc.com
Mario Hurtado, Chief Regulatory Officer, LUMA; Mario.Hurtado@lumapr.com
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