



DEFINITIVE PROPOSAL FORM 1.7

APPROACH TO PERFORMANCE METRICS

PSEG Puerto Rico LLC (the Qualified Respondent) hereby acknowledges and affirms that the attached documentation (i) constitutes its full and complete submission for Definitive Proposal Form 1.7, (ii) meets the requirements described in Section 4.1.7 (*Approach to Performance Metrics*) of the RFP and (iii) addresses the topics below, at a minimum.

Capitalized terms not defined herein shall have the meaning set forth in the Request for Proposals for Puerto Rico Electric Power Transmission and Distribution System issued by the Puerto Rico Public-Private Partnerships Authority on February 1, 2019 (as amended, the “RFP”) or the final form of the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement (the “O&M Agreement”). If there is a term defined in both, and their definitions conflict, the definition in the O&M Agreement shall prevail.

1. Views on the indicative Performance Metrics described in Annex VIII (*Performance Metrics*) to the O&M Agreement.
2. Detailed description and background of the key personnel that the Qualified Respondent expects to be designated to become part of the planning team that will prepare a revised Annex VIII to the O&M Agreement during the Front-End Transition Period.
3. Description of how the Qualified Respondent would approach the suggestion of alternative Performance Metrics during the Front-End Transition Period and views regarding potential changes that the Qualified Respondent believes should be made to the indicative Performance Metrics described in Annex VIII (*Performance Metrics*).
4. Proposed timeline and key milestones for the development and finalization of the Performance Metrics, including a description of its proposed approach to coordinating review by, and responses to comments from, PREB.
5. Views and approach to the Incentive Fee, including:
 - a. a maximum proposed Incentive Fee amount per Contract Year based on the indicative Performance Metrics included in Annex VIII of the O&M Agreement;
 - b. a maximum proposed Incentive Fee amount per Contract Year assuming changes were made to the indicative Performance Metrics included in Annex VIII of the O&M Agreement; and
 - c. a detailed explanation of the Qualified Respondent's views on how the agreed-upon maximum annual Incentive Fee should reduce or otherwise change the proposed Fixed Fee.
6. Detailed description of the proposed approach to engaging with the relevant regulatory bodies, including PREB, in proceedings to amend, adjust and/or modify the Performance Metrics.
7. Views on the initial and subsequent optimal time periods for baseline, target and minimum performance levels, as well as the actual levels of achievement for those time periods, for the proposed Performance Metrics.
8. Detailed description of the Qualified Respondent's views on the form and scope of Major Outage Event Performance Metrics, Minimum Performance Thresholds and Key Performance Metrics.

9. Description of the assumptions or dependencies regarding the Project that impact Performance Metrics and any risk associated with Performance Metrics and proposed mitigation strategies.
10. Description of the methods, processes, tools and techniques that will be used for performance measurement and how they will integrate with the O&M Services (*e.g.*, contract management, staffing management, communication management, cost management, subcontractor management, project monitoring and control, risk management, etc.).
11. The Qualified Respondent's ability and commitment to meet the Performance Metrics and earn the Incentive Fee.

PSEG Puerto Rico LLC

QUALIFIED RESPONDENT

Company Name

Daniel Eichhorn

Name of Qualified Respondent's
Authorized Official

President - PSEG Puerto Rico LLC

Title



Signature of Qualified Respondent's
Authorized Official

November 25, 2019

Date

1.7 Approach to Performance Metrics

1.7.0 PSEG Puerto Rico's Approach to Performance Metrics

PSEG Puerto Rico will establish a continuous improvement program to enhance our performance, operational efficiency and PREPA's cost effective delivery of services to customers

PSEG Puerto Rico will begin the transformation of PREPA's T&D System to positively impact the Customer Service, Technical and Operational and Financial Performance metrics. So that future performance improvement under the OMA is accurately reflected, the Front-End Transition will:

1. Establish mutually agreed upon performance measures.
2. Establish the people, systems and processes to enable the measurement of the agreed upon performance measures and set a baseline from which future results will be measured.
3. Evaluate the underlying data for all performance metrics to ensure the starting baseline results reflect a mutually agreed upon degree of accuracy.
4. Develop mutually agreed upon targets and timelines.

PSEG Puerto Rico will use our Company's Operational Excellence Model (OEM) as shown in Figure 1.7.1 and Balanced Scorecard approach. PSEG Puerto Rico will assist PREPA in identifying areas for process improvement, recommend and implement best practices.



Figure 1.7.1 PSEG's Operational Excellence Model

The Balanced Scorecard will drive long-term strategy implementation, performance measurement, and performance improvements across PREPA's utility operations. This measurement system uses extensive benchmarking to ensure it evaluates performance not only against prior results but against the best in the industry. PSEG Puerto Rico will incorporate this approach for both measuring business performance and to identify opportunities for performance improvements.

The Operating Excellence Model integrates the best features of both Lean and Six Sigma process improvement tools in order to eliminate waste by streamlining processes and providing a systematic approach for accomplishing work. Process improvement teams will be deployed to evaluate specific processes and recommend improvements. PSEG Puerto Rico will implement the Operating Excellence Model to instill a culture of continuous improvement, empowering the ServCo employees to proactively identify opportunities for improvement, implement new approaches, and measure the results.

Moreover, PSEG Puerto Rico will develop and administer benchmark research, the goal of which is to increase operational efficiency and effectiveness and improve maintenance practices. We will monitor industry advancements and technological changes in the operation, maintenance, and repair of T&D Systems, including customer care and related services, and recommend improvements in current programs and practices.

1.7.1 Views on indicative Performance Metrics described in Annex VIII

PSEG Puerto Rico is well versed in the indicative Performance Metrics described in Annex VIII, given all the metrics measured across PSE&G, PSEG Long Island scorecards or other strategic measurement reports. Additionally, PSE&G and PSEG Long Island participate in numerous benchmarking studies where many of the metrics in Annex VIII can be understood against both industry performance and best practices. During Front-End Transition, PSEG Puerto Rico will provide robust recommendations on metrics across a diverse set of measures that will reflect results in employees, customers, operations, financials, and environment areas. Metrics will be aligned to PREPA's desired strategic outcomes in the Customer Satisfaction, Technical, Safety and Regulatory, and Financial Performance.

Overall Identified Performance Metric	View
J.D. Power Customer Satisfaction Survey (Residential)	JD Power does not currently survey in Puerto Rico. If JD Power begins to survey, baseline results will not be available for one year from the start of the survey
J.D. Power Customer Satisfaction Survey (Business)	JD Power does not currently survey in Puerto Rico. If JD Power begins to survey, baseline results will not be available for one year from the start of the survey
Average Speed of Answer (minutes)	Metric is effective for measuring performance and driving operational improvement
Customer Complaint Rate	Metric is effective for measuring performance and driving operational improvement
First Call Resolution	Metric is effective for measuring performance and driving operational improvement
Abandonment Rate	Metric is effective for measuring performance and driving operational improvement
OSHA Recordable Incidence Rate	Metric is effective for measuring performance and driving operational improvement

Overall Identified Performance Metric	View
OSHA Fatalities	Metric is captured in all other OSHA measures including Severe Injuries
OSHA Severe Injuries	Metric is effective for measuring performance and driving operational improvement
OSHA DART rate	Metric is effective for measuring performance and driving operational improvement
System Average Interruption Frequency Index (SAIFI)	Metric is effective for measuring performance and driving operational improvement
Customer Average Interruption Duration Index (CAIDI)	Metric is effective for measuring performance and driving operational improvement
System Average Interruption Duration Index (SAIDI)	Metric is effective for measuring performance and driving operational improvement
Customers Experiencing Multiple Interruptions (CEMI)	Metric is effective for measuring performance and driving operational improvement
Momentary Average Interruption Frequency Index (MAIFI)	Metric is effective for measuring performance and driving operational improvement
Operating Budget	Metric is effective for measuring performance and driving operational improvement
Capital Budget – Federally Funded	Metric is effective for measuring performance and driving operational improvement
Capital Budget – Non-Federally Funded	Metric is effective for measuring performance and driving operational improvement
Days Sales Outstanding	Metric is effective for measuring performance and driving operational improvement
Reduction in Network Line Losses	Metric is effective for measuring performance and driving operational improvement
Overtime	Metric is effective for measuring performance and driving operational improvement

Table 1.7.1 High Level Overview of all Metrics

Year One and Year Two – Incentive Methodology

During the Front-End Transition, PSEG Puerto Rico will develop recommendations for metrics, implementation plan milestones and incentive metrics and targets. From our PSEG Long Island experience, Baseline Performance Levels often cannot be fully validated during the Front-End Transition timeframe. Accordingly, the weighting between the metrics and milestones in Contract Years 1 and 2 will reflect a balance between the required reliable data for data and will be adjusted in Year 3 as baseline data becomes reliable. PSEG Puerto Rico will make metric recommendations from Annex VIII as well as making additional recommendations based on PREPA’s business conditions and strategies to ensure that PREPA’s desired outcomes in the Customer Satisfaction, Technical, Safety and Regulatory, and Financial Performance categories are achieved.

PSEG Puerto Rico will develop the milestones associated with the agreed upon implementation plans. Each milestone will have both a quality and a timeliness component. For Contract Years 1 and 2, the level of performance shall be measured based on actual results achieved for that Contract Year. Implementation plans are measured as the percent of milestones complete that meet both the timeliness and quality component across all Implementation plan milestones. The incentive compensation scoring is prorated based on the percent milestones completed, with scoring ranging from a minimum of 0% and capped at 150%. See 1.7.2 and 1.7.3 for Scoring Parameters and the associated scoring Scenarios.

Scoring Parameters				
Incentive Compensation Parameters	50%	100%	125%	150%
Milestones Met Parameters	75%	90%	95%	98%

Table 1.7.2 Implementation Plan Scoring Parameters

Implementation Plan	Contract Year 1	Contract Year 2
Operational Excellence Model Implementation	12	1
Safety Culture Implementation	11	2
system Implementation	10	3
FRR Recommendation Implementation	9	4
Implement Business Continuity Plan	8	5
Storm Response Plan	7	6
Operations Manual	6	7
Risk Management Plan	5	8
Internal Controls and Audit Plan	4	9
Labor Relations Strategy	3	10
Community Outreach Plan	2	11
Economic Development Plan	1	12
Total Milestones	78	78
Milestone Achieved	58	71
Achievement Rate	74.4%	91.0%

Table 1.7.3 Illustrative Implementation Plans and Milestone Counts

Proration Scenarios Based on the Above Illustration

Illustrative prorated scores are based on the Scoring Parameters and illustrative Implementation Plans and milestone counts. Contract Year 1 Achievement rate of 74.4% is less than the incentive compensation parameter of 50% and as a result PSEG Puerto Rico will receive no award. Contract Year 2 Achievement rate of 91% is prorated between 100% and 125% and as a result PSEG Puerto Rico will receive an award of 105.1%.

1.7.2 Description of and background of the key personnel that are expected to be part of the planning team to revise Annex VIII during the Front End transition

Front-End Transition Team and Responsibilities	Team Lead and Qualifications
<i>Business Performance & Improvement</i> <i>Dennis L. Ciemniecki</i>	<ul style="list-style-type: none"> • 35 years of utility senior leadership experience nationally with investor-owned utilities with over 15 years at the Director / Vice President / Officer level in a variety of functions including customer service, operations, engineering, and regulatory relations • Founded and successfully grew a management consulting firm which focused on helping companies shape operational strategies and obtain real, measurable performance improvements • Oversees all activities in the diagnosis, analysis and documentation of business performance for both PSE&G and PSEG Long Island and assists operations in meeting planned financial and operational performance objectives • B.S. Mechanical Engineering, New Jersey Institute of Technology, Master of Business Administration (MBA) Rutgers University; and graduate of Kaplan-Norton Balanced Scorecard Strategy Execution Bootcamp. Lean Six Sigma Blackbelt
<i>Manager Performance Analysis & Reporting</i> <i>Robert W. Woudenberg</i>	<ul style="list-style-type: none"> • 35 years of diverse experience across various functions in Customer Operations and Asset Management and Centralized Services • Responsible for the Balanced Scorecard, Benchmarking and business improvement intelligence process for PSE&G and its associated lines of business • Recognized expert in performance measurement • Quoted several times in APQC's study "Using Metrics that Drive Bottom-Line Value" • Regular speaker at industry conferences exploring the balanced scorecard and benchmarking • Host companies from around the world explaining PSE&G's scorecard and benchmarking processes • B.S. Organizational Management, Thomas Edison University
<i>Manager Performance Analysis & Reporting</i> <i>PSEG Long Island</i> <i>Nicholas J. Nolau</i>	<ul style="list-style-type: none"> • 11 years of utility experience at PSEG with varying positions and experience – Lead for 5 years and 2 years at the manager level focused on performance business performance excellence and key performance metrics • Manages the PSEG Long Island process for Benchmarking, Scorecard, and other performance related initiatives for the PSEG Long Island OSA, Electric Operations, Customer Operations and Business Shared Services • BS – Business Administration with Concentration in Finance, Montclair State University, Lean Six Sigma Black Belt (Candidate)

Table 1.7.4 Description of and Background of the Key Personnel to Revise Annex VIII During the Front End Transition

1.7.3 Description of the approach to suggestion of alternative Performance Metrics and views on making changes to indicative Performance Metrics during the Front-End Transition and views regarding potential changes that should be made to the indicative Performance Metrics described in Annex VIII

The PSEG Puerto Rico Performance Measurement Team will work with PSEG Puerto Rico executive leadership to understand PREPA's business conditions and strategies to ensure that PREPA's desired outcomes in the Customer Satisfaction, Technical, Safety and Regulatory, and Financial Performance categories are achieved.

During Front-End Transition, PSEG Puerto Rico Performance Measurement Team will complete an evaluation of performance metrics to make appropriate recommendations for both new and indicative

Performance Metrics. Recommendations will be based on existing business conditions and strategies, ensuring that indicative metric changes or new metric recommendations align to meet desired outcomes, actions and decision making. The recommendations will be presented to the Administrator and PREB. PSEG Puerto Rico will provide the following for metric recommendations in support of the Administrator and PREB's decision making process:

- Recommended Baseline Performance Level
 - Note from our experience at PSEG Long Island, Baseline Performance Levels often cannot be fully validated during Front End Transition timeframe and will continue in to contract years 1 and 2. Experience also shows that data rigor will improve through system enhancements and process improvements and will require Baseline Performance levels to be continually evaluated during contract years 1 and 2.
- Basis for the Baseline Performance Level
- Recommended Target Performance Levels
- Basis for the Recommended Target Levels
 - Note where the Recommended Target Level is based on benchmarking governed by non-disclosure agreements, the blinded benchmarking details will be reviewed with the Administrator
- Minimum Performance Level
- Basis for Minimum Performance Level

1.7.4 Proposed timeline and key milestones for the development and finalization of Performance Metrics

The Front-End Transition Team will conduct analyses and collect data as part of each functional area's due diligence review. The Front-End Transition Team will ensure it has the necessary resources, information, and infrastructure needed to thoroughly evaluate the performance metrics and determine which metrics will be baselined or require further monitoring.

The performance metric process would be a top priority during Front-End Transition. The timeline for completion will be dependent upon availability of resources and data from the Administrator and PREB to identify and establish the people, systems and processes to enable the measurement of the agreed upon performance measures and set a baseline from which future results will be measured, and to evaluate the underlying data for all performance metrics to ensure the starting baseline results reflect a mutually agreed upon degree of accuracy.

Our Company has experience in greatly improving performance data integrity and completeness which supports a rigorous adherence to our data driven management approach. Our Company's Long Island experience indicates that during years two or three following the Service Commencement Date, after new systems and processes have been implemented that improve data integrity and completeness, it may be necessary for PSEG Puerto Rico to make recommendations changing certain Baseline Performance Levels and Recommended target levels across multiple metrics. All such change recommendations and supporting information will be presented to the Administrator and PREB review and agreement with PSEG Puerto Rico.

Milestone	Timeframe
<i>Validation of Strategy, Objectives and Business Plans</i>	1-3 months after contract selection
<i>PSEG Puerto Rico Officer Performance Metric Validation Meeting</i>	1-3 months after contract selection
<i>Identify a Minimum of Five Metrics for Contract Year 1</i>	1-3 months after contract selection
<i>Finalization of Metric Recommendations to PREB (PREB To Provide Feedback Within 2 Weeks from Presentation)</i>	1-3 months after contract selection
<i>Metric Recommendations Aligned to Business Objectives and Strategy Presented to PREB</i>	3-5 months after contract selection
<i>Incorporate Input from PREB</i>	3-5 months after contract selection
<i>Complete Benchmarking for Supported Targeted Performance Levels</i>	3-5 months after contract selection
<i>Development of Baseline, Target and Minimum Performance Levels</i>	3-5 months after contract selection
<i>PSEG Puerto Rico Officer Performance Level Targets Review Meeting</i>	5-6 months after contract selection
<i>Metric Recommendations and Performance Level Presented to PREB</i>	5-6 months after contract selection
<i>Incorporate Input from PREB (PREB to Provide Feedback within 2 Weeks from Presentation)</i>	6 months through end of Front End Transition
<i>Negotiate Mutually Agreeable Agreed upon Final Performance Levels Meeting Contract Guidelines</i>	6 months through end of Front End Transition
<i>Delivery of Final Performance Metrics and Performance Level Targets</i>	6 months through end of Front End Transition

Table 1.7.5 Key Milestones for the Development and Finalization of Performance Metrics

1.7.5 Views and approach to the Incentive Fee, including:

- a) Maximum proposed Incentive Fee amount per Contract Year based on the indicative Performance Metrics included in Annex VIII of the O&M Agreement

The potential incentive fee is outlined in PSEG Puerto Rico's pricing schedule.

- b) Maximum proposed Incentive Fee amount per Contract Year assuming changes were made to the indicative Performance Metrics included in Annex VIII of the O&M Agreement

No changes would ever be made to the incentive pool value, but potential metrics can change under mutually agreeable terms.

c) Detailed explanation of the Qualified Respondent's views on how the agreed-upon maximum annual Incentive Fee should reduce or otherwise change the proposed Fixed Fee

The Incentive Fee does not impact the Fixed Fee or vice versa.

1.7.6 Description of the approach for to engaging with regulatory bodies in proceedings to amend, adjust and or modify performance metrics

PSEG Puerto Rico will focus on improving performance of operations, timing considerations, capital investments, major system implementations, and staffing considerations. The PSEG Puerto Rico Performance Measurement Team will work with executive leadership to understand PREPA's current business conditions and emergent strategies in order to achieve PREPA's desired outcomes in the Customer Satisfaction, Technical, Safety and Regulatory and Financial Performance categories are achieved.

The PSEG Puerto Rico Performance Measurement Team will complete an annual evaluation of performance metrics based on existing and emergent business conditions and strategies to ensure that existing indicative metric changes or a new metric recommendation better align to meet desired outcomes, actions and decision making. The recommendations will be presented to the Administrator and PREB prior to the start of the new measurement year. PSEG Puerto Rico will work closely with government officials and other stakeholders to explain how it will measure performance and implement improvements. In that regard, PSEG will provide the following for metric recommendations in support of the Administer and PREB decision making process:

- Recommended Baseline Performance Level
- Basis for the Baseline Performance Level
- Recommended Target Performance Levels
- Basis for the Recommended Target Levels
 - Note where the Recommended Target Level is based on benchmarking governed by non-disclosure agreements, the benchmarking details will be reviewed with the Administrator but legally the Administrator is not allowed to take possession
- Minimum Performance Level
 - Basis for Minimum Performance Level

1.7.7 Views on the time periods for baseline, target and minimum performance levels Improvement Metrics

The Target Performance Level will be based on agreed upon performance set during transition and would be negotiated by all parties as appropriate. Any benchmark source used to establish performance values and any adjustments to a Target Performance Level should reflect local and regulatory considerations and would be negotiated by all parties as appropriate. PSEG Puerto Rico will have the benefit of PSEG's extensive benchmarking capabilities.

Recommend Performance Ranges for agreed upon targets for the length of the O&M agreement.

Minimum Performance Level Line: Meets the Owners target level performance in 20 years. If the level of performance is worse than the Minimum Performance Level, the Operator is awarded zero points

25% Performance Level Line: Meets the Owners target level performance in 15 years. If the level of performance is worse than the 25% performance level line and better than the Minimum Performance Line, points are prorated between 0% and 25%.

50% Performance Level Line: Meets the Owners target level performance in 12 years. If the level of performance is worse than the 50% performance level line and better than the 25% Performance Line, points are prorated between 25% and 50%.

100% Performance Level Line: Meets the Owners target level performance in 10 years. If the level of performance is worse than the 100% performance level line and better than the 50% Performance Line, points are prorated between 50% and 100%.

125% Performance Level Line: Meets the Owners target level performance in 9 years. If the level of performance is worse than the 125% performance level line and better than the 100% Performance Line, points are prorated between 100% and 125%.

150% Performance Level Line: Meets the Owners target level performance in 8 years. If the level of performance is worse than the 150% performance level line and better than the 125% Performance Line, points are prorated between 125% and 150%. Performance is capped at 150%.

Reference Table 1.7.6 and Figure 1.7.2

Improvement Metrics Target Setting Template (Illustrative)							
Year	Target Performance Level	Minimum Performance Level	150%	125%	100%	50%	25%
		20 Yrs.	8 Yrs.	9 yrs.	10 yrs.	12 yrs.	15 yrs.
Baseline Performance Level (2020)			50.0	50.0	50.0	50.0	50.0
2021	10.0	48.0	45.0	45.6	46.0	46.7	47.3
2022	10.0	46.0	40.0	41.1	42.0	43.3	44.7
2023	10.0	44.0	35.0	36.7	38.0	40.0	42.0
2024	10.0	42.0	30.0	32.2	34.0	36.7	39.3
2025	10.0	40.0	25.0	27.8	30.0	33.3	36.7
2026	10.0	38.0	20.0	23.3	26.0	30.0	34.0
2027	10.0	36.0	15.0	18.9	22.0	26.7	31.3
2028	10.0	34.0	10.0	14.4	18.0	23.3	28.7
2029	10.0	32.0		10.0	14.0	20.0	26.0
2030	10.0	30.0			10.0	16.7	23.3
2031	10.0	28.0				13.3	20.7
2032	10.0	26.0				10.0	18.0
2033	10.0	24.0					15.3
2034	10.0	22.0					12.7
2035	10.0	20.0					10.0
2036	10.0	18.0					
2037	10.0	16.0					
2038	10.0	14.0					
2039	10.0	12.0					
2040	10.0	10.0					

Baseline Performance Level	50
Target Performance Level	10

Table 1.7.6 Improvement Metrics Target Setting Template

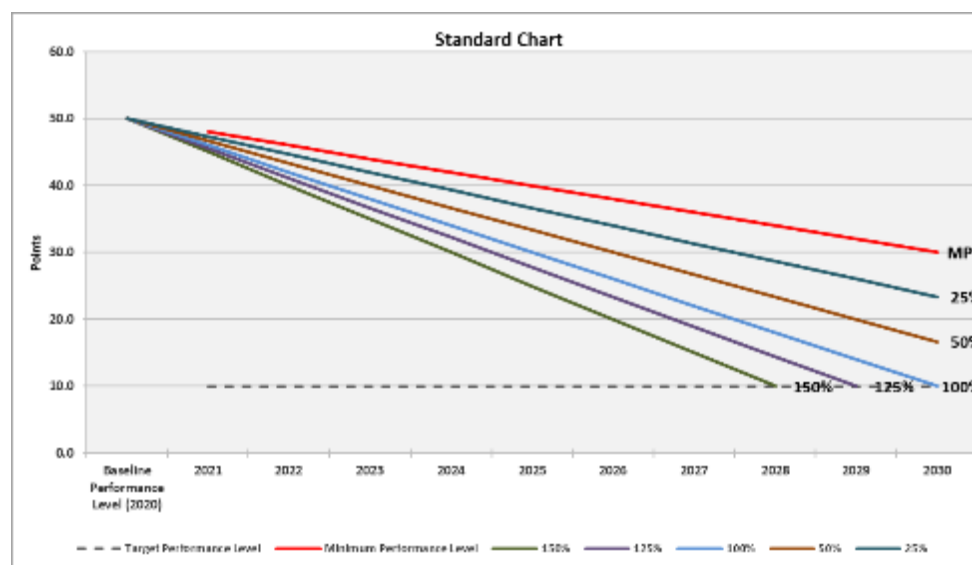


Figure 1.7.2 Standard Chart

Binary Metrics

PSEG Puerto Rico understands and agrees with the approach that has been outlined in Annex VIII.

Maintenance Metrics

PSEG Puerto Rico is confident that during the Term of the OMA, performance metrics will be managed to meet and exceed PREPA's expectations for performance. PSEG Puerto Rico also recommends that a Maintenance metric category be developed. Maintenance Metrics are those Performance Metrics for which satisfactory performance levels have been achieved. Upon achievement of PREPA's desired performance level, the metric will remain in the performance pool and become a Maintenance Metric. The general goal of Maintenance Metrics is to incent continued satisfactory performance each Maintenance Metric will have a specified "Minimum Performance Level," a "Points Earned Threshold," and an "Above Target Performance Threshold." The Minimum Performance Level is that level of performance below which potential Incentive Compensation may be reduced. The Points Earned Threshold Performance Level is that level of achieved performance at or above which the Operator shall be awarded the Base Points assigned to that Performance Metric. The Above Target Performance Threshold is that level of achieved performance at or above which the Operator shall be awarded points at a specified multiple of the Base Points. Maintenance Metrics incorporate award of points in prorated amounts (percentages of Base Points) based on actual performance relative to several ranges of performance illustrated in Figure 1.7.4 and listed below.

- **Target Range:** The range of performance for which the Operator will earn prorated points between 75% -125% of the Base Points. The Target Range of Performance for each Maintenance Metric shall be mutually established with negotiations with the Administrator and PREP. Where benchmarking is not available or not applicable, and as appropriate, will be based upon actual historical performance or other relevant data
 - **Below Target Range:** A range between the Points Earned Threshold (exclusive) and the Minimum Performance Level (inclusive), in which PSEG Puerto Rico will earn prorated points between 25%-75% of base points. The Minimum Performance Level shall mutually establish with negotiations with the Administrator and PREB. Although the Operator will not earn points for performance in the Below Target Range, such level of performance shall not constitute a failure to perform to the Minimum Performance Level for the subject Performance Metric
 - **Below Minimum Range:** A range comprised of all levels of performance that are unfavorable in comparison to the Minimum Performance Level. The Operator will not earn points for performance in the Below Minimum Range
 - **Above Target Range:** A range of performance that is considered to be in excess of Above Target Performance Threshold and is in excess of performance of the Target Range and shall be mutually established with negotiations with the Administer and PREB. The Operator will earn prorated points of 125%-150% of the Base Points for performance in the Above Target Range
- Reference Figure 1.7.3.

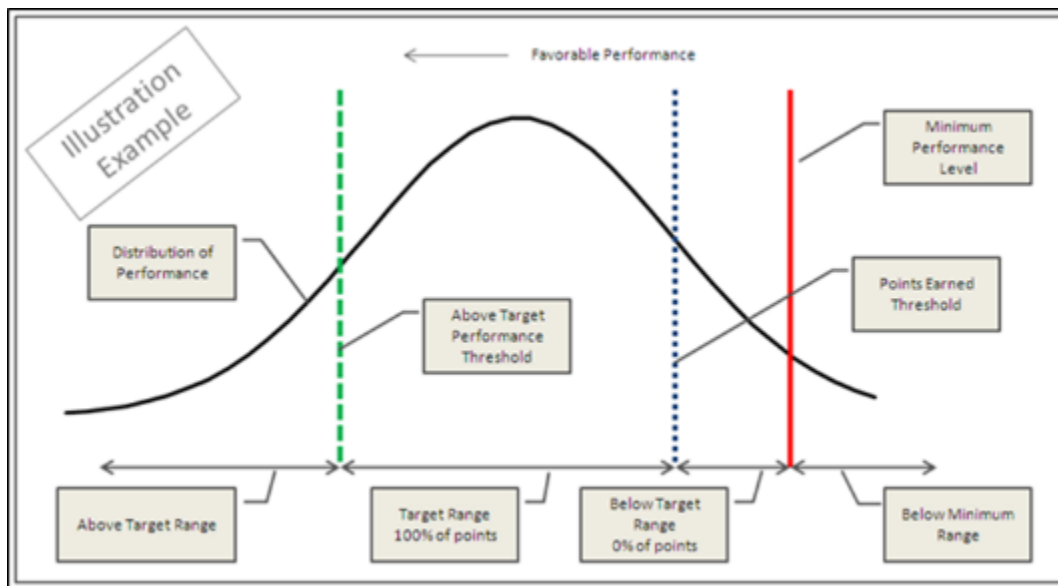


Figure 1.7.3. Example Maintenance Metric

1.7.8 Views on the form and scope of the Major Outage Event Performance Metrics, Minimum Performance Thresholds and Key Performance Metrics

PSEG Puerto Rico supports the potential to still achieve incentive in case of a Force Majeure Event should PSEG Puerto Rico perform adequately during the Force Majeure Event. The form of the goal is affirmed but the function of how the goal will work was not identified in the OMA. PSEG Puerto Rico will work with the Administrator to identify appropriate target levels and function of how this OMA provision will work. PSEG Puerto Rico will need to baseline this provision in Contract Year 1 of operations and PSEG Puerto Rico recommends implementing this provision in Contract Year 2.

1.7.9 Description of the assumptions or dependencies that impact performance metrics and any risks and associated / proposed mitigation strategies

Performance metric results will be dependent on the funding commensurate with achieving the targeted levels. PSEG Puerto Rico will build O&M and CAPEX budgets that will provide PSEG Puerto Rico with the opportunity to achieve the targeted results identified.

1.7.10 Description of the methods, processes, tools and techniques that will be used for performance measurement and how they will integrate with the O&M Services (e.g., contract management, staffing management, communication management, cost management, subcontractor management, project monitoring and control, risk management, etc.)

PSEG Puerto Rico will treat performance measurement as a process with four major sub processes, annual planning, scorecard development, monthly reporting, and review meetings which will be supported by standard business intelligence and data reporting tools.

The performance measurement process will effectively communicate the metrics to PREB and PSEG Puerto Rico as well as have defined desired outcomes. Measures will reflect the integration of all O&M Services towards PREPA's desired outcomes in Customer Satisfaction, Technical, Safety and Regulatory and Financial Performance. For example, SAIDI results will represent T&D system performance for all aspects of O&M Services that relate to remediation, operation and maintenance of PREPA's T&D infrastructure.

PSEG Puerto Rico will also have analysts across all operation areas to ensure that results are understood and communicated. Continuous improvement efforts based on data driven management will occur across O&M services.

The annual planning process for performance measurement will consist of:

- Strategy validation
- Metric validation
- Target setting
- Initiative Development
- Performance Compensation Planning

The annual scorecard development process will consist of:

- Data / Report identification
- Data transformation structure
- Data warehouse build
- Create & Rebuild Scorecard, Analytical sheets

The monthly performance measurement reporting process will consist of:

- Data gathering
- Data transformation
- Data warehousing
- Production & Validation
- Strategic analysis / Initiative updates

The performance measurement review meeting process will include:

- Officer meetings
- Line of Business SLT meetings
- Operations meetings
- Review meetings
- Collaboration Review meetings

The technology used in execution of the performance measurement process will include:

- Tableau data visualization software
- Alteryx data preparation, data blending, and analytics software
- Data warehousing software
- Excel spreadsheet

1.7.11 The Qualified Respondent's ability and commitment to meet the Performance Metrics and earn the Incentive Fee

PSEG Puerto Rico is committed to meet or exceed PREPA's goals in the agreed upon timeframe and associated budgets. PSEG Puerto Rico has a management philosophy that starts with operational excellence. This philosophy is implemented every day through a focus on incremental performance and process improvements. A key tool that PSEG Puerto Rico will use in measuring and monitoring business performance, executing strategy and driving performance improvements is the Balanced Scorecard. PSEG has been recognized by Norton and Kaplan and has been inducted into the Balanced Scorecard Hall of Fame. PSEG Puerto Rico will incorporate their Balanced Scorecard approach and other tools and techniques to drive continuous improvement at PREPA by leveraging industry and national / international standards for quality and process improvement to benchmark performance, guide process improvement, and enable governance of critical functions. PSEG has been recognized as an industry leader for our use of benchmarking and best practices implementation.

Consistent and disciplined use of the Balanced Scorecard approach and peer benchmarks have resulted in steady and measurable performance improvements in both the PSE&G and PSEG Long Island.