



DEFINITIVE PROPOSAL FORM 1.8

OPERATIONAL AND FINANCIAL PROPOSALS

Luma Energy (the Qualified Respondent) hereby acknowledges and affirms that the information included in the following table (i) constitutes its full and complete submission for Definitive Proposal Form 1.8 and (ii) meets the requirements described in Section 4.1.8 (*Operational and Financial Proposals*) 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.

A. OPERATIONAL PROPOSALS

1. The proposed Target Service Commencement Date pursuant to Section 1.1 of the O&M Agreement.
2. The proposed amount of Owner funding for the Outage Event Reserve Account pursuant to Section 7.5(d)(i) of the O&M Agreement.
3. The proposed weekly amount of Delay Liquidated Damages and related maximum cap, pursuant to Section 4.8(a) of the O&M Agreement.
4. The proposed amount of the Operator Damage Cap pursuant to Section 14.6(d) and Annex XIV of the O&M Agreement.
5. The proposed caps per Contract Year and in the aggregate for all Losses during the Term of the Operator’s Liability to Owner Indemnitees under Section 18.1 of the O&M Agreement, including Disallowed Costs pursuant to Section 18.3(a)(i) of the O&M Agreement.

B. FINANCIAL PROPOSALS

1. The anticipated total amount associated with the proposed Front-End Transition Service Fee pursuant to Section 4.6(b) of the O&M Agreement, based on the Qualified Proponent’s proposed Target Service Commencement Date (as provided in response to Item A(1) above) and including an indicative calculation using a format similar to the chart provided below:

1. Front-End Transition Hourly Fully Allocated Rates per ManagementCo or Affiliate Employee Category (to be included as <u>Annex V</u> to the O&M Agreement)	[\$[•]
2. Anticipated Number of Hours (per Employee in each category identified in <u>Annex V</u> to the O&M Agreement)	[•]hrs
3. ANTICIPATED TOTAL MAN-HOUR COSTS (product of #1 and #2 above)	[\$[•]
4. Proposed Profit Margin Percentage	[•]%
5. ANTICIPATED TOTAL PROFIT MARGIN AMOUNT (based on percentage proposed on #4 above)	[\$[•]
6. Estimated reasonable and documented costs and expenses incurred by ManagementCo (without markup for profit)	[\$[•]

7. ANTICIPATED FRONT-END TRANSITION FEE (the sum of #3, #5 and #6 above)	\$[•]
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2. The proposed amounts per Contract Year of the Fixed Fee pursuant to Section 7.1(b)(i) and Annex VIII of the O&M Agreement:

Contract Year	Fixed Fee
1	\$[•]
2	\$[•]
3	\$[•]
4	\$[•]
5	\$[•]
6	\$[•]
7	\$[•]
8	\$[•]
9	\$[•]
10	\$[•]
11	\$[•]
12	\$[•]
13	\$[•]
14	\$[•]
15	\$[•]

3. The proposed maximum amounts per Contract Year of the Incentive Fee pursuant to Section 7.1(c)(i) and Annex VIII of the O&M Agreement, including related assumptions and rationales:

Contract Year	Proposed Maximum Incentive Fee (based on the indicative Performance Metrics included in <u>Annex VIII</u> of the O&M Agreement)	Proposed Maximum Incentive Fee (assuming changes are made to the indicative Performance Metrics included in <u>Annex VIII</u> of the O&M Agreement)
1	\$[•]	\$[•]
2	\$[•]	\$[•]
3	\$[•]	\$[•]
4	\$[•]	\$[•]
5	\$[•]	\$[•]
6	\$[•]	\$[•]
7	\$[•]	\$[•]
8	\$[•]	\$[•]
9	\$[•]	\$[•]
10	\$[•]	\$[•]
11	\$[•]	\$[•]
12	\$[•]	\$[•]
13	\$[•]	\$[•]
14	\$[•]	\$[•]
15	\$[•]	\$[•]

4. The anticipated total amount associated with the proposed Back-End Transition Service Fee pursuant to Section 16.4(b) of the O&M Agreement and including an indicative calculation using a format similar to the chart provided below:

1. Anticipated Back-End Transition Hourly Fully Allocated Rates per Operator or Affiliate Employee Category	\$[•]
2. Anticipated Number of Hours (per Employee in each category)	[•]hrs
3. ANTICIPATED TOTAL MAN-HOUR COSTS (product of #1 and #2 above)	\$[•]
4. Proposed Profit Margin Percentage (should match the profit margin for the Front-End Transition Period)	[•]%
5. ANTICIPATED TOTAL PROFIT MARGIN AMOUNT (based on percentage proposed on #4 above)	\$[•]
6. Estimated reasonable and documented costs and expenses incurred by the Operator (without markup for profit)	\$[•]
7. ANTICIPATED BACK-END TRANSITION FEE (the sum of #3, #5 and #6 above)	\$[•]

5. The proposed amounts per contract year of the Operator Termination Fee pursuant to Section 14.6(c)(i) and Annex XII of the O&M Agreement:

Contract Year	Operator Termination Fee
1	\$[•]
2	\$[•]
3	\$[•]
4	\$[•]
5	\$[•]
6	\$[•]
7	\$[•]
8	\$[•]
9	\$[•]
10	\$[•]
11	\$[•]
12	\$[•]
13	\$[•]
14	\$[•]
15	\$[•]

6. The proposed amounts per contract year of the Owner Termination Fee pursuant to Section 14.6(c)(ii) and Annex XIII of the O&M Agreement:

Contract Year	Owner Termination Fee
1	\$[•]
2	\$[•]
3	\$[•]
4	\$[•]
5	\$[•]
6	\$[•]
7	\$[•]
8	\$[•]
9	\$[•]
10	\$[•]
11	\$[•]
12	\$[•]

13	\$[●]
14	\$[●]
15	\$[●]

* * *

Proposed amounts should be provided by the Qualified Respondent in nominal US dollar terms.

The Qualified Respondent may supplement each answer provided under this form with brief explanations on the rationale behind each answer (written in concise form).

[Signature page follows]

Luma Energy

QUALIFIED RESPONDENT

Company Name

Gerald Albert Ducey, Jr.

Name of Qualified Respondent's
Authorized Official

Authorized Representative

Title

Signature of Qualified Respondent's
Authorized Official



Date

November, 25th 2019

DEFINITIVE PROPOSAL FORM 1.8

OPERATIONAL AND FINANCIAL PROPOSALS

November 25, 2019



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A. OPERATIONAL PROPOSALS

1.0 TARGET COMMENCEMENT DATE

The proposed Target Service Commencement is January 1, 2021 based on a target completion of the Front-End Transition Plan of December 2, 2020, and assuming a January 20, 2020 Effective Date. Please see Form 1.5 for additional details as to the basis for this date, and why we are confident we will be able to deliver.

2.0 OWNER FUNDING FOR OUTAGE EVENT RESERVE ACCOUNT

Our consortium proposes Outage Event Reserve Account funding of \$30 million based on benchmarks of storm reserve accounts in Southeastern US jurisdictions. In our view, determining an adequate reserve is imperative to providing immediate and appropriate emergency response, and we would like to work collaboratively with PREPA, the Authority and PREB to determine the appropriate value during the Front-End Transition. We anticipate refining our views on an appropriate Outage Event Reserve amount as we develop the Emergency Response Plan and better understand the costs associated with Hurricane Irma and Maria. As such, we do not believe the Outage Event Reserve Account amount should be part of the scoring factor.

Further, we see the potential for the amount to be adjusted over the life of the contract based on prevailing industry best practices and execution of the System Remediation Plan (reducing as the system is hardened). The Consortium would like to work collaboratively with the Administrator to determine the appropriate value throughout the term of the O&M Agreement.

3.0 DELAY LIQUIDATED DAMAGES & MAXIMUM CAP

Our proposed weekly amount of Delay Liquidated Damages is \$769,231, with a maximum cap of \$40 million. This has been sized with respect to our proposed Front-End Transition economics.

4.0 OPERATOR DAMAGE CAP

Our proposed Operator Damage Cap is \$10 million. Our approach is consistent with the overall Owner Termination Fee schedule.

5.0 CAPS FOR ALL LOSSES DURING TERM OF OPERATOR'S LIABILITY TO OWNER INDEMNITIES

Pursuant to Section 18.3(a)(i), we propose a cap on Operator's Liability to Owner Indemnitees per Contract Year of \$110 million, and a cap in the aggregate for all Losses during the Term of \$36.67 million. This aggregate for all Losses during the Term cap is equivalent to a full Contract Year's fixed fee, which we believe to be an appropriate allocation of risk.

In addition, please see our Form 1.3, Section C as it relates to gross negligence and willful misconduct. We look forward to discussions regarding our approach.

B. FINANCIAL PROPOSALS



1.0 FRONT-END SERVICE FEE

Table 1: Front-End Service Fee

CATEGORY	VALUE
1. Front-End Transition Hourly Fully Allocated Rates per ManagementCo or Affiliate Employee Category (to be included as Annex V to the O&M Agreement)	
Vice President (and Above)	\$ 325
Senior Director	\$ 300
Director	\$ 275
Senior Manager	\$ 210
Field Crew Leader	\$ 205
Manager	\$ 200
Trainer	\$ 200
Field Technician	\$ 195
Engineer/Field Supervisor	\$ 160
Senior Analyst	\$ 160
Analyst	\$ 125
Administrative Support	\$ 50
2. Anticipated Number of Hours (per Employee in each category identified in Annex V to the O&M Agreement)	
Vice President (and Above)	11,180 hrs
Senior Director	9,640 hrs
Director	17,995 hrs
Senior Manager	17,240 hrs
Field Crew Leader	-
Manager	35,350 hrs
Trainer	4,000 hrs
Field Technician	-
Engineer/Field Supervisor	34,280 hrs
Senior Analyst	1,040 hrs
Analyst	7,520 hrs
Administrative Support	5,160 hrs
Total Internal	143,405 hrs
3. ANTICIPATED TOTAL MAN-HOUR COSTS (product of #1 and #2 above)	
Vice President (and Above)	\$ 3,633,500
Senior Director	\$ 2,892,000
Director	\$ 4,948,625
Senior Manager	\$ 3,620,400
Field Crew Leader	-
Manager	\$ 7,070,000
Trainer	\$ 800,000
Field Technician	-

Engineer/Field Supervisor	\$	5,484,800
Senior Analyst	\$	166,400
Analyst	\$	940,000
Administrative Support	\$	258,000
Total Internal	\$	29,813,725
4. Proposed Profit Margin Percentage		0%
5. ANTICIPATED TOTAL PROFIT MARGIN AMOUNT (based on percentage proposed on #4 above)	\$	0
6. Estimated reasonable and documented costs and expenses incurred by ManagementCo (without markup for profit)		
Legal Consultant	\$	6,175,000
IT Consultant	\$	13,176,000
Management Consultant	\$	8,102,535
Other Consultants	\$	3,644,800
Interviewer/Recruiter	\$	2,816,000
Translators	\$	1,530,000
T&E (@17% of total fees)	\$	11,093,870
Total "Other" Expenses	\$	46,538,205
7. ANTICIPATED FRONT-END TRANSITION FEE (the sum of #3, #5 and #6 above)	\$	76,351,930

Notes: (1) The Front-End Transition Hourly Fully Allocated Rates – We calculate fully loaded average hourly rates for each employee category based on our internal structures. We are available to discuss the methodology used in determining the rates. However, while we acknowledge that Owner and Administrator have the right to audit classifications of employees billed as well as the number of hours billed, as we are proposing one rate for each classification from ATCO and Quanta the actual rates to be charged as listed on Annex V are final. For further information, see Annex V. The weighted average rate is approximately \$208 / hr.

(2) Anticipated Number of Hours – For additional details, see Form 1.5.

(4) The Proposed Profit Margin Percentage is 0%, as discussed below.

(6) Estimated reasonable and documented costs and expenses incurred by ManagementCo, as detailed in Front-End Transition Plan on Form 1.5.

As we discuss in our Form 1.3, Section E, we propose a lump sum mobilization payment for the Front-End Transition Services (the Front-End Transition Service Fixed Fee) of \$60 Million, with a reduction in proposed annual Fixed Fee amount during the first four years of the O&M Services period. We look forward to discussing this in greater detail.

2.0 FIXED FEE BY CONTRACT YEAR

Table 2: Fixed Fee by Contract Year

CONTRACT YEAR	FIXED FEE, REAL DOLLARS
1	\$80M
2	\$94M+CPI
3	\$102M+CPI
4	\$110M+CPI
5	\$110M+CPI
6	\$110M+CPI
7	\$110M+CPI
8	\$110M+CPI
9	\$110M+CPI
10	\$110M+CPI
11	\$110M+CPI
12	\$110M+CPI
13	\$110M+CPI
14	\$110M+CPI
15	\$110M+CPI

3.0 INCENTIVE FEE MAXIMUM AMOUNTS PER CONTRACT YEAR

Table 3: Maximum Incentive Fee by Contract Year

CONTRACT YEAR	PROPOSED MAXIMUM INCENTIVE FEE (based on the indicative Performance Metrics included in Annex VIII of the O&M Agreement)	PROPOSED MAXIMUM INCENTIVE FEE (assuming changes are made to the indicative Performance Metrics included in Annex VIII of the O&M Agreement)
1	\$24M	\$24M
2	\$28M+CPI	\$28M+CPI
3	\$31M+CPI	\$31M+CPI
4	\$33M+CPI	\$33M+CPI
5	\$33M+CPI	\$33M+CPI
6	\$33M+CPI	\$33M+CPI
7	\$33M+CPI	\$33M+CPI
8	\$33M+CPI	\$33M+CPI
9	\$33M+CPI	\$33M+CPI
10	\$33M+CPI	\$33M+CPI
11	\$33M+CPI	\$33M+CPI
12	\$33M+CPI	\$33M+CPI
13	\$33M+CPI	\$33M+CPI

14	\$33M+CPI	\$33M+CPI
15	\$33M+CPI	\$33M+CPI

A thorough review of the Performance Metrics was performed and detailed in Form 1.7. The Consortium would like to work with PREPA and the Authority during the Front-End Transition period to establish the appropriate metrics and levels that will best align objective of the Authority and the Consortium. We fully believe that thoughtfully designed, appropriate and achievable Performance Metrics will allow the Consortium to excel in meeting the objectives of the Authority.

4.0 BACK-END TRANSITION SERVICE FEE

Table 4: Back-End Service Fee

CATEGORY	VALUE
1. Anticipated Back-End Transition Hourly Fully Allocated Rates per Operator or Affiliate Employee Category	
Vice President (and Above)	\$ 325
Senior Director	\$ 300
Director	\$ 275
Senior Manager	\$ 210
Field Crew Leader	\$ 205
Manager	\$ 200
Trainer	\$ 200
Field Technician	\$ 195
Engineer/Field Supervisor	\$ 160
Senior Analyst	\$ 160
Analyst	\$ 125
Administrative Support	\$ 50
2. Anticipated Number of Hours (per Employee in each category)	
Vice President (and Above)	5,590 hrs
Senior Director	4,820 hrs
Director	8,998 hrs
Senior Manager	8,620 hrs
Field Crew Leader	-
Manager	17,675 hrs
Trainer	2,000 hrs
Field Technician	-
Engineer/Field Supervisor	17,140 hrs
Senior Analyst	520 hrs
Analyst	3,760 hrs
Administrative Support	2,580 hrs
Total Internal	71,703 hrs

3. ANTICIPATED TOTAL MAN-HOUR COSTS (product of #1 and #2 above)	
Vice President (and Above)	\$ 1,816,750
Senior Director	\$ 1,446,000
Director	\$ 2,474,313
Senior Manager	\$ 1,810,200
Field Crew Leader	-
Manager	\$ 3,535,000
Trainer	\$ 400,000
Field Technician	-
Engineer/Field Supervisor	\$ 2,742,400
Senior Analyst	\$ 83,200
Analyst	\$ 470,000
Administrative Support	\$ 129,000
Total Internal	\$ 14,906,863
4. Proposed Profit Margin Percentage (should match the profit margin for the Front-End Transition Period)	10%
5. ANTICIPATED TOTAL PROFIT MARGIN AMOUNT (based on percentage proposed on #4 above)	\$ 1,490,686
6. Estimated reasonable and documented costs and expenses incurred by the Operator (without markup for profit)	
Legal Consultant	\$ 3,087,500
IT Consultant	\$ 6,588,000
Management Consultant	\$ 4,076,565
Other Consultants	\$ 1,822,400
Interviewer/Recruiter	\$ 1,408,000
Translators	\$ 765,000
T&E (@17% of total fees)	\$ 5,551,236
Total "Other" Expenses	\$ 23,298,701
7. ANTICIPATED BACK-END TRANSITION FEE (the sum of #3, #5 and #6 above)	\$ 39,696,250

- (1) Back-End transition hourly rates are assumed to be equivalent to Front-End hourly rates by employee category in real 2019 dollars escalated to appropriate date of any Back-End Transition event. The weighted average rate is approximately \$208 / hr.
- (2) Our estimate for back-end transition costs assumes that PREPA employees will expend approximately 50% of the hours expended during transition by LUMA (total hours expended would be 1/3 PREPA and 2/3 LUMA). We use that same ratio for the Back-End Transition estimated total hours. LUMA expends 50% of the hours expended by PREPA or the successor operator (Total hours are 1/3 LUMA and 2/3 PREPA or successor operator).

We proposed a 10% profit markup of man-hour costs as we work towards transitioning the O&M Services to another operator. We will actively engage in and assist with the transfer of operatorship during this period as to maintain the continuity of service to customers. Unlike the Front-End

Transition Plan, these activities should not include efforts such as the development of multi-year System Remediation. As such this is reflected in our proposed profit markup and overall scale of work.

5.0 OPERATOR TERMINATION FEE PER CONTRACT YEAR

Table 5: Operator Termination Fee per Contract Year

CONTRACT YEAR	OPERATOR TERMINATION FEE
1	\$220M
2	\$220M + CPI
3	\$220M + CPI
4	\$220M + CPI
5	\$220M + CPI
6	\$220M + CPI
7	\$220M + CPI
8	\$220M + CPI
9	\$220M + CPI
10	\$220M + CPI
11	\$220M + CPI
12	\$220M + CPI
13	\$220M + CPI
14	\$220M + CPI
15	\$110M + CPI

Our proposed Operator Termination Fee is equivalent to two years of the Fixed Fee (reduced to one year in the Contract Year 15).

6.0 OWNER TERMINATION FEE PER CONTRACT YEAR

Table 6: Owner Termination Fee per Contract Year

CONTRACT YEAR	OWNER TERMINATION FEE
1	\$20M
2	\$20M
3	\$20M
4	\$20M
5	\$20M
6	\$10M
7	\$10M
8	\$10M
9	\$10M
10	\$10M
11	\$10M

12	\$10M
13	\$10M
14	\$10M
15	\$10M

The proposed Owner Termination Fee will ensure that our team is properly aligned to deliver the O&M Services in accordance with the Agreement. We are confident and excited at the opportunity to help transform the Puerto Rican electric infrastructure and believe, if we collaborate as we should, that this fee will not be relevant.

