



# GOVERNMENT OF PUERTO RICO

## Puerto Rico Public-Private Partnerships Authority

December 2, 2019

Re: The Potential Transformation of the Puerto Rico Electric Sector

### I. INTRODUCTION

In January 2018, the Government of Puerto Rico announced its intent to transform and modernize the electric system through private operation or ownership of the assets of the Puerto Rico Electric Power Authority ("PREPA").

PREPA is currently a vertically-integrated utility serving approximately 1.5 million customers across Puerto Rico. The Government of Puerto Rico, the Financial Oversight and Management Board ("Oversight Board") and PREPA have identified certain key objectives that will be considered as part of this transformation process including, without limitation, delivering low-cost electricity to ratepayers of Puerto Rico, increasing energy resiliency and reliability, deploying new technologies, investment and financial strength and exercising industry best-practices and operational excellence.

In the context of the proposed transformation, the Puerto Rico Public-Private Partnerships Authority ("P3A") is conducting a procurement process to select a private operator under an Operation and Maintenance ("O&M") agreement for PREPA's transmission and distribution ("T&D") system. The prospective transformation of PREPA-owned generation assets may involve a similar O&M agreement, a sale, lease, concession or other similar structures, and could entail a single or a series of transaction(s).

The P3A and Citigroup Global Markets Inc. ("Citi"), advisor to the Oversight Board, are pleased to announce the solicitation of market feedback from parties interested in participating in potential generation-focused transaction(s). This letter ("Letter") outlines the questions and protocols that will be followed for this stage of the generation transformation process.

### II. AVAILABLE INFORMATION

Enclosed with this Letter is an overview of the PREPA generation portfolio. In addition to these materials, interested participants may also refer to the PREPA Fiscal Plan certified by the Oversight Board in June 2019, the Fiscal Plan for Puerto Rico certified by the Oversight Board in May 2019 and the ongoing PREPA Integrated Resource Plan ("IRP") for certain additional information relevant to the transaction(s). Copies of the Fiscal Plans can be found at <https://oversightboard.pr.gov/fiscal-management-responsibilities> and the IRP can be found at <http://energia.pr.gov/en/dockets/?docket=CEPR-ap-2018-0001>.

### III. INTERESTED PARTY FEEDBACK

The P3A is seeking written responses from parties that are interested in participating in potential generation-focused transaction(s). These written responses will help the Government of Puerto Rico, the P3A and the Oversight Board develop a proposed transaction structure to be included in a later process to be run by the P3A.





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## Puerto Rico Public-Private Partnerships Authority

### **Questions**

- Please describe your view of how Puerto Rico's electric generation operations can best be transformed.
- Please describe your interest in participating in / relative merits of the following three potential transaction structures:
  - i. Please describe your initial view on the opportunity to participate in a transaction(s) to acquire all or a portion of PREPA's generation fleet.
  - ii. Please describe your initial view on the opportunity to participate in a transaction(s) to enter into a concession agreement or provide O&M services to all or a portion of PREPA's generation fleet. In this context you should assume that PREPA (or other government entity) retains title and ownership of the generation fleet.
  - iii. Please describe your appetite for investing in new generating facilities and / or other capital investments in PREPA's existing generation fleet.
    - Please describe the key due diligence items that would be necessary in order to be in a position to make a binding proposal to acquire or provide O&M services to the existing generation fleet.
    - Are there timing considerations that would influence your ability to participate in such a transaction(s)?
    - Please describe how you would approach any potential environmental liabilities / decommissioning responsibilities at the facilities.
    - Please provide your preliminary views of the treatment of the collective bargaining agreement / employees in a transaction(s).
    - For each of the three potential transaction structures described above, how should fuel sourcing and supply agreements be approached?
    - Please feel free to share other terms and conditions that would be relevant to your potential participation in the process.

### **IV. PARTICIPANT RESPONSE PROTOCOL**

The P3A requests that parties wishing to participate in the solicitation of feedback concerning a potential generation-focused transaction(s) submit written responses no later than December 13, 2019. Any submissions received after that date may be considered at P3A's discretion. Written submissions will only be accepted via email and should be submitted to [P3Genproject@p3.pr.gov](mailto:P3Genproject@p3.pr.gov). Under no circumstances should PREPA, the Government of Puerto Rico, the Oversight Board or any of their affiliates be contacted directly, nor should any responses to this Letter be posted publicly.

In addition to the written answers, please let us know if you would like to have the opportunity to further discuss your feedback directly with the P3A. The P3A intends to consider all feedback received in this process, whether or not such feedback is supplemented by a further meeting or discussion.

Please note that the solicitation of feedback in no way constitutes an offer to take part in a generation-focused transaction(s). The ultimate transformation process will be run in accordance with the relevant legislation enacted by the Legislative Assembly of Puerto Rico and the applicable rules and regulations promulgated by the P3A. Any and all attempts to circumvent the processes established herein, or those processes that may be established as part of the ongoing legislative and judicial proceedings, may result in the disqualification of the transgressing party from continued participation in the transformation of the Puerto Rico electric sector. This market sounding exercise does not commit the Government of Puerto Rico, P3A,





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PREPA or the Oversight Board to enter into a contract with any interested market participant or proceed with a generation-focused transformation process as described herein. Participants in this feedback solicitation will not be given any preference in future phases on this transformation process.

### V. PRELIMINARY TRANSFORMATION PROCESS TIMELINE

The P3A, in consultation with key process stakeholders, has developed a preliminary timeline for the completion of the transformation process. This timeline is only indicative and may be subject to change. This timeline, as well as a brief summary of the key components of each phase of the process, is as follows:

- i. Market Sounding (Q4 2019)
  - Invite market participants to provide feedback on the proposed generation-focused transformation process
  - Receive written feedback, which will be considered and potentially incorporated into the transaction process
- ii. Request for Qualifications ("RFQ") Process (Q4 2019 – Q1 2020)
  - RFQ materials, requirements and procedures published publicly
  - RFQ responses received and evaluated
  - Qualified parties notified and admitted into the next phase (RFP phase)
- iii. Request for Proposals ("RFP") Process (Q1 2020 – Q3 2020)
  - RFP process materials are published to participating parties
  - Detailed due diligence inclusive of Q&A, site visits and access to relevant subject matter experts
  - Distribution of definitive documentation
  - Evaluation of RFP responses and negotiation of definitive documentation
  - Selection of winning RFP and, to the extent applicable, approvals obtained from the various authorities
- iv. Closing Period (Q3 / Q4 2020)
  - Completion of all relevant closing procedures

The P3A reserves the right to make adjustments to the preliminary timeline based on responses provided as part of this solicitation of feedback, or for any other reason deemed prudent to the successful completion of the transformation process.

### VI. CONCLUSION

The P3A and Citi look forward to receiving market feedback related to the potential transformation of PREPA. On behalf of the Government of Puerto Rico, P3A, the Oversight Board, PREPA and all other stakeholders, we would like to thank you for your interest in this opportunity and look forward to your response.





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### Disclaimer

The Letter and attached presentation (the "Presentation," and collectively with the Letter, the "Materials") are being posted publically, but intended for a limited number of parties who, it is believed, may be interested in participating in the generation-focused transformation of the Puerto Rico electric sector (the "Transaction") through private ownership, concession or operation of the generation assets of the Puerto Rico Electric Power Authority ("PREPA" or the "Company"). These Materials are furnished solely for the purpose of evaluating the transaction described hereby.

The Materials has been prepared based on information provided by the Company. Citi has not conducted any investigation with respect to such information, and the P3A, the Oversight Board and the Company expressly disclaim any and all liability for representations, expressed or implied, contained in, or for omissions from, these Materials or any other written or oral communication transmitted to any interested party in the course of its evaluation of the Transaction. Only those particular representations and warranties that may be made by the Company in a definitive written agreement, when and if one is executed, and subject to such limitations and restrictions as may be specified in such agreement, shall have any legal effect.

In addition, these Materials may include certain statements provided by the Company with respect to the Company's historical and anticipated performance. Estimates of future performance reflect various assumptions made by the Company that may or may not prove accurate, as well as the exercise of a substantial degree of judgment by management as to the scope and presentation of such information. No representations or warranties are made as to the accuracy of such statements or estimates of anticipated performance. Actual results achieved during projection periods may differ substantially from those projected.

These Materials shall remain the property of the Company and the P3A.

These Materials does not constitute an offer or invitation for the sale or purchase of the securities, assets or business described herein and shall not form the basis of any contract.



December 2019

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**\*Subject to Common Interest Agreement\***

# Puerto Rico Electric Power Authority – Generation Market Sounding Response Summary

**DRAFT**

# Executive Summary

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- The generation market sounding phase, launched by the Puerto Rico Public Private Partnership Authority (“P3A”) and Citi on December 2, 2019, has concluded
- The P3A received 14 market sounding responses
  - 4 respondents were third party providers of O&M services for power plants
  - 7 respondents were strategics with experience in power-related infrastructure
  - 3 responses were “non-conforming” with only interest in development of new power / energy / infrastructure projects
- Market sounding respondents indicated an interest in various opportunities as part of the transformation
  - 8 of the respondents expressed interest in purchasing and operating legacy generation assets
  - 4 of the respondents indicated interest in providing dedicated O&M services for generation assets with an additional 4 strategics expressing interest in providing O&M services in some capacity
  - 12 of the respondents stated an interest in developing future generation or infrastructure assets
  - Many respondents expressed they would be interested in multiple transaction structures and preferences were largely dependent on respondent area of expertise (e.g. O&M providers expressed interest in the O&M transaction)
- Nearly all respondents agreed that privatization generally makes sense for Puerto Rico, and noted the need to build out modernized generation that is more efficient and utilizes less carbon intensive fuel types (e.g. natural gas)
- Areas of importance across all respondents include:
  - Ability to re-develop sites after legacy asset useful life
  - Expected regulatory framework and clarity on transaction structures
  - Credit support

# Key Takeaways from the Generation Market Sounding

Market sounding respondents provided generally consistent feedback on a number of key items. However, respondents' feedback was shaped by transaction of interest (i.e. O&M vs. asset sale).

## • **Single vs. Multiple Owners / Operators**

- Within the context of an O&M contract, a single operator model was generally supported where the operator could achieve efficiencies leveraging resources across the fleet
- However, respondents interested in asset ownership differed in opinion with some suggesting a single party should own or operate legacy generation with other respondents suggesting there should be multiple parties (up to 4 – 6)
  - The argument for a single owner / operator is the ability to achieve synergies and efficiencies of scale across the system
  - However, some respondents noted that a single entity should not own the majority of the generation in Puerto Rico for market competition purposes

## • **Future Development Rights**

- Respondents interested in asset ownership expressed interest in future generation / infrastructure projects and the need to deploy capital and upgrade Puerto Rico's generation infrastructure
- Interest in acquiring legacy generation was pre-conditioned on the ability to have development rights to replace all or a subset of acquired generation as respondents expressed the assets' remaining useful life make investment unjustifiable without future development prospects

## • **Credit Support**

- For respondents interested in asset ownership / development, creditworthiness of all counterparties is a key concern; some respondents explicitly expressed a need for a creditworthy counterparty or strong repayment guarantee
- Suggestion of a potential structure where PPOA payments are senior to debt payments and come "off the top" from customer payments

## • **Transaction Structure / Framework**

- Many respondents indicated an interest in more than one transaction structure
- Most respondents did not opine on a "preferred" structure, but some suggested that they thought a generation asset sale with private generation owners is the best approach
  - Respondents who specialize in O&M and do not own generation only expressed interest in the O&M transaction
- The importance of having clarity of transaction structure with key stakeholder buy-in (e.g. PR Government, PREB, FOMB, etc.) was mentioned
- Various structures proposed for fuel supply, however differed with transaction structure (i.e. O&M vs. asset-sale)
- Sufficient diligence timing (~6 months) with many respondents noting the urgency to engage private party as soon as possible to prevent further degradation of system
- Respondents focused on acquiring PREPA assets differed on willingness to assume environmental liabilities with some willing to price in limited risk transfer, but others leaving it with PREPA or other entity
  - O&M providers were unwilling to accept any environmental liability
- Clarity on site demarcation

# Illustrative Due Diligence Items

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In the market sounding, respondents provided key areas and items required for due diligence. These responses may help inform the population of a confidential dataroom for the RFP phase of this process.

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## Select Diligence Requests<sup>1</sup>

- Site visits at each facility, with access to key personnel
  - Includes site access for Independent Engineer consultants to conduct site studies
- Technical specifications of the equipment
- Material agreements (insurance, fuel supply, etc.)
- Detailed maintenance records
- Budgets
- Employee / union agreements
- Phase I environmental reports
- Environmental / air / water permits
- Real estate rights / titles
- Safety programs and procedures and incident data
- Cash flow model
- Operating data (capacity factor, heat rates, run hours, maintenance cycles, etc.)
- Maps / drawing of facilities
- Environmental and safety records
- Organizational charts

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<sup>1</sup>. This list is intended to be representative, but not exhaustive, of what may be required to provide binding proposals.

# Detailed Market Sounding Feedback Summary

[To be made anonymous prior to wider distribution]

## NRG Energy Services

### NAES

### CAMS

Description of Participant	CAMS	NAES	NRG Energy Services
<p><b>Acquiring PREPA Assets</b></p>	<ul style="list-style-type: none"> <li>Provider of O&amp;M services for owners of electric generation assets</li> <li>Privately held services company that optimizes the performance of power generation, midstream, and oil and gas assets</li> <li>Offers a range of technical services to improve asset performance and reduce commercial risks, including engineering, cathodic protection and corrosion engineering, information technology, due diligence and environmental consulting</li> <li>Generally does not take equity positions in its managed portfolio, but would consider a possible small ownership in the PREPA portfolio in lieu of a corresponding reduction in corporate fees</li> </ul>	<ul style="list-style-type: none"> <li>Independent services company dedicated to delivering value to facilities across the power generation, oil &amp; gas, petrochemical, pulp &amp; paper, and manufacturing industries</li> <li>Provides operations, maintenance, fabrication, construction, engineering, and technical services to clients in the power, energy, and industrial sectors</li> </ul>	<ul style="list-style-type: none"> <li>Company that owns and operates power generation facilities</li> <li>Delivers operations and maintenance services geared towards improving the availability, reliability, and profitability of the owner's plants</li> <li>Not interested in acquiring the PREPA generation fleet</li> </ul>
<p><b>Providing O&amp;M Services</b></p>	<ul style="list-style-type: none"> <li>Welcomes the opportunity to provide O&amp;M services under the current PREPA ownership structure</li> </ul>	<ul style="list-style-type: none"> <li>Interested in supporting all facilities where PREPA would retain title and ownership, or also in the case should a private party(ies) own the fleet</li> <li>Only interested in O&amp;M services</li> </ul>	<ul style="list-style-type: none"> <li>Would like to assume operations of the PREPA generation fleet; believes best to do all or significant portion of plants</li> <li>Parent company may be interested in future development, under certain conditions including pre-existing business presence in Puerto Rico</li> </ul>
<p><b>Providing Capital for Investment</b></p>	<ul style="list-style-type: none"> <li>Existing environmental conditions would be the current owner's responsibility, respondent would take responsibility for any actions or inactions after taking over O&amp;M services</li> <li>On the behalf of PREPA or a private entity purchasing the facilities, can negotiate and administer the obligations under the offtake and fuel supply agreements</li> <li>Need diligence costs to be reimbursable</li> </ul>	<ul style="list-style-type: none"> <li>Will not take over or assume responsibility for environmental liabilities and assumes PREPA and/or its partner(s) will retain responsibility as the project Owner</li> <li>The fuel sourcing and supply agreements would be in the name of PREPA and/or its partner(s) Will negotiate a CBA generally consistent with the existing CBA</li> </ul>	<ul style="list-style-type: none"> <li>Will not assume any environmental liability other than for gross negligence and willful misconduct</li> <li>Fuel sourcing and supply is usually out of scope for an O&amp;M service provider – however, proponent has fuel procurement experience and it is possible to add</li> </ul>
<p><b>Other</b></p>			

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## Kindle Energy

### Consortio Energetico Palenque Ltd. ("CEP")

<p><b>Description of Participant</b></p>	<ul style="list-style-type: none"> <li>Operator of power generation and energy infrastructure</li> <li>Joint venture between Chilean PE firm and private holding company             <ul style="list-style-type: none"> <li>Chilean Private Equity firm dedicated to the development and management of projects in the Latin American energy sector; investment strategy is focused in greenfield and brownfield projects in the Latin America region, in countries such as Colombia, Peru and Chile, as well as some countries in Central America</li> <li>Private holding company with subsidiaries in the construction, health and energy sectors; owns the first natural gas distributor in the Dominican Republic and the Caribbean region starting operations in 2006</li> </ul> </li> </ul>
<p><b>Acquiring PREPA Assets</b></p>	<ul style="list-style-type: none"> <li>Is interested in acquiring all of PREPA's existing generation assets, with the intention of upgrading and modernizing Puerto Rico's electric generation, but still interested in acquiring a subset of the assets</li> <li>Transfer of some or all of the assets should also include conveyance of development rights to replace all or a subset of the acquired generation</li> </ul>
<p><b>Providing O&amp;M Services</b></p>	<ul style="list-style-type: none"> <li>Interested in participating in a transaction to enter into a concession agreement or to provide O&amp;M services to all or a portion of PREPA's generation fleet</li> </ul>
<p><b>Providing Capital for Investment</b></p>	<ul style="list-style-type: none"> <li>As an acquirer of existing generation, would develop dual fuel (natural gas and ultra-low sulfur diesel oil) generation to replace the existing fleet</li> <li>If there is the potential for investment in new facilities, then they are in a position to discuss such projects, including the addition of new LNG supply</li> </ul>
<p><b>Other</b></p>	<ul style="list-style-type: none"> <li>Any power purchase or concession agreement must provide sufficient credit support from the entity with whom the generation owner will be contracting</li> <li>Would acquire the PREPA assets, rather than the company itself, which means that the CBAs would remain with PREPA and its employees</li> <li>Being able to bid on all PREPA assets in a single bid is a critical feature of an RFP; the generation assets have far more value to a potential owner and operator as a fleet</li> <li>Transforming the current generation fleet to a new fuel will improve efficiency, but not to the extent were it would be similar to new generation equipment</li> <li>Two key objectives are transforming the current facilities to utilizing alternative fuels like natural gas (can reduce these costs and alleviate the volatility of oil prices) and to address the inefficiencies in the current facilities</li> </ul>

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# Detailed Market Sounding Feedback Summary

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## Eagle LNG

## EGE Haina

## InterEnergy Holdings & Arctas

Description of Participant	<ul style="list-style-type: none"> <li>Backed by a Houston-based private investment firm with over \$15bn of assets under management</li> <li>Would work with one of its partners on operating the power facility</li> </ul>	<ul style="list-style-type: none"> <li>Created in 1999 as part of the Dominican Republic's modernization of its energy sector</li> <li>Largest Public-Private Company in the Dominican Republic and operates ~1 GW of power generation</li> </ul>	<ul style="list-style-type: none"> <li>Consortium of privately-held project development firm and PE firm with experience in energy infrastructure, especially power generation, in the Caribbean and Latin American regions</li> <li>Portfolio of operating assets comprises a vertically-integrated utility and eight stand-alone power generation plants located in the Dominican Republic, Panama, Jamaica and Chile</li> <li>Privately held firm established in 2002 and is located in Houston Texas, USA; expertise in developing, acquiring, structuring, financing, optimizing and managing complex energy infrastructure assets and energy businesses</li> </ul>
Acquiring PREPA Assets	<ul style="list-style-type: none"> <li>Would be open to participate in a transaction that involves a portion of PREPA's generation fleet that includes the development of new small-scale LNG import terminals</li> </ul>	<ul style="list-style-type: none"> <li>Would participate in transactions to acquire a portion of PREPA's generation fleet</li> <li>To acquire a portion of PREPA's generation fleet should require modernizing the fleet by building new highly efficient combined cycle power plants with PPOAs that would warrant repayment of the investment</li> </ul>	<ul style="list-style-type: none"> <li>View acquiring PREPA generation assets favorably, provided that a single entity is not able to own a majority of the generation; that would result in an uncompetitive market</li> <li>Most generation should be via PPOAs which cover fixed O&amp;M, variable O&amp;M (including fuel costs), and new generation capacity payments for 12-18 years to optimize low rates; the capacity payments should be penalized if guaranteed performance and efficiency are not achieved</li> </ul>
Providing O&M Services	<ul style="list-style-type: none"> <li>Would be interested in providing O&amp;M services to PREPA's generation fleet</li> </ul>	<ul style="list-style-type: none"> <li>Only would do O&amp;M if adding new generation infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Prefer the option to buy a portion of PREPA's generation fleet outright, but an agreement to provide O&amp;M services could be made more attractive if it includes a purchase option</li> </ul>
Providing Capital for Investment	<ul style="list-style-type: none"> <li>Would be very interested in investing in new gas-fired generation</li> </ul>	<ul style="list-style-type: none"> <li>Very interested in investing in new capacity through competitive RFPs</li> </ul>	<ul style="list-style-type: none"> <li>Have already expressed interest in new natural gas-fired generation</li> </ul>
Other	<ul style="list-style-type: none"> <li>Believes converting to natural gas, integrating small renewable facilities (like rooftop solar) and distributing that generation are the best ways to transform Puerto Rico's electric generation operations</li> <li>Would like to encourage PREPA to consider conversion to natural gas-fired generation be a condition of the transaction</li> <li>The terms of existing PPAs and terms of the proposed PPA renewals would be critically important to this transaction and process</li> </ul>	<ul style="list-style-type: none"> <li>Strategy is to assume full responsibility of the acquired assets and the treatment of its liabilities, incorporating resolution costs in the valuation</li> <li>Believes the transformation of PREPA should not allow a single entity to acquire all of PREPA's generation fleet; prefers to be fully responsible for its fuel sourcing</li> <li>Terms and structure of the PPAs will be the most important factor</li> <li>A creditworthy counterparty or a strong payment guarantee is important</li> </ul>	<ul style="list-style-type: none"> <li>Would be helpful to get at least a preferred transaction framework agreed in advance between the PR government, PR Energy Bureau, and FOMB</li> <li>Bidders will be very concerned about prior environmental issues and assuming liability</li> </ul>

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	RIM Ventures	Shell	Veolia
<b>Description of Participant</b>	<ul style="list-style-type: none"> <li>Has financial backing from a corporation with \$140bn in assets and revenues of \$70bn annually</li> <li>Has experience in obtaining various Federal incentives not reliant on FEMA funding for its opportunities</li> </ul>	<ul style="list-style-type: none"> <li>One of the world's largest LNG shipping operators, managing and operating more than 40 carriers</li> </ul>	<ul style="list-style-type: none"> <li>Leader in sustainable renewable energy, solutions such as combined heat and power (CHP), solar photovoltaic (PV), and waste-to-energy</li> <li>Currently operates an environmental services company in Puerto Rico that has been operating for over 20 years</li> </ul>
<b>Acquiring PREPA Assets</b>	<ul style="list-style-type: none"> <li>Views the acquisition of PREPA's generation fleet to be the preferred method of transaction</li> <li>Is highly interested in acquiring the generation fleets located in Aguirre and Costa Sur specifically</li> </ul>	<ul style="list-style-type: none"> <li>Interested, along with partners, in acquiring all of PREPA's existing generation assets, with the intention of completely upgrading and modernizing Puerto Rico's electric generation; remains interested if only able to acquire a subset of the assets</li> <li>Notes that transfer of some or all of the assets should also include conveyance of development rights to replace all or a subset of the acquired generation</li> </ul>	<ul style="list-style-type: none"> <li>Would consider</li> </ul>
<b>Providing O&amp;M Services</b>	<ul style="list-style-type: none"> <li>Currently has little to no interest in a long-term O&amp;M or Concessionary contract with PREPA</li> </ul>	<ul style="list-style-type: none"> <li>As a standalone concession, would not be interested in O&amp;M services; but would bring in a partner for it, if it were part of a wider deal</li> </ul>	<ul style="list-style-type: none"> <li>Would perform O&amp;M</li> </ul>
<b>Providing Capital for Investment</b>	<ul style="list-style-type: none"> <li>Is not interested in investing in assets that it will not have direct ownership control over</li> </ul>	<ul style="list-style-type: none"> <li>Proposes to completely upgrade and modernize Puerto Rico's electric generation fleet</li> </ul>	<ul style="list-style-type: none"> <li>Would consider participating with existing financial/capital partners</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>Is interested in acquiring Costa Sur and Aguirre power generating assets for a total price of \$800mm with commitments of an additional \$800-940mm in upgrades and new equipment, assuming new independent Power Purchase Agreements of \$0.13 (all in) with fuel adjustments with a 2% escalator for 15-years and all fuel burning generation using natural gas delivered under the same contract</li> </ul>	<ul style="list-style-type: none"> <li>Believes the more time that passes without control of the PREPA assets being transferred to a competent, well-capitalized entity or entities, the worse the condition of the system at the time of transfer</li> <li>Would acquire the PREPA assets, rather than the company itself, which means that the CBAs would remain with PREPA and its employees</li> </ul>	<ul style="list-style-type: none"> <li>Offers a service for the analysis of supply contracts for our customers; part of this service includes an analysis of historical bills to insure that our client has not been over billed under their existing agreements</li> </ul>

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# Detailed Market Sounding Feedback Summary

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## Sunrun

### MHPS

### Decentricity

- A development company owned by a family office founded 3 years ago for the purpose of "gasifying" Puerto Rico
- Family office has expertise in Power generation by having built and operating the largest biofuel power plant in Japan
- Puerto Rico based development company that has participated in the successful development of multiple power generation projects in Puerto Rico
- Joint venture company that has invested more than USD\$1bn in the Americas
  - Commitment to Puerto Rico: servicing and converting San Juan Units 5 & 6 from fuel oil to natural gas
- Independent liquid petroleum pipeline operator in the United States; has helped serve the fuel needs of the Puerto Rico market through its Yabucoa terminal since 2010
- Leader in solar, storage & energy management

### Description of Participant

### Acquiring PREPA Assets

### Providing O&M Services

### Providing Capital for Investment

### Other

### Participant Interest

- Seeking to enter into a Joint Development Agreement (JDA) with well capitalized investment counterparties and discuss the opportunities that may arise from our ownership of the first and only natural gas pipeline in Puerto Rico
- Has an exclusive franchise granted by the Puerto Rico government to operate a natural gas pipeline in Puerto Rico
- Believes a pipeline project is the best option to provide Puerto Rico with the economic, environmental and system resilience benefits of gas-fired generation

- Working together to jointly develop a new integrated power generation solution near Yabucoa and Costa Sur
- Project consists of a new state-of-the-art combined cycle gas turbine power plant, LNG receipt and storage infrastructure and all associated logistics

- The parties plan to work with multiple different LNG suppliers to secure the most cost competitive and reliable LNG supply for Puerto Rico
- There will be a long-term fuel supply and sales agreement that is based on market index pricing

- Ready to deploy new aggregated, networked generating (solar) facilities, paired with storage

- Firmly believes that networked distributed solar and storage will play a critical role in rebuilding Puerto Rico's energy system while contributing to site-level resilience and reducing costs
- Can make a binding proposal now to provide energy/grid services via new aggregated, networked generating solar plus storage facilities, given that public rooftop space and related premises are made available by the pertinent governmental authorities

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December 2019

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**\*Subject to Common Interest Agreement\***

# Puerto Rico Electric Power Authority – Generation Market Sounding Response Summary

**DRAFT**

# Executive Summary

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- Nearly all respondents agreed that privatization generally makes sense for Puerto Rico, and noted the need to build out modernized generation that is more efficient and utilizes less carbon intensive fuel types (e.g. natural gas)
- Areas of importance across all respondents include:
  - Ability to re-develop sites after legacy asset useful life
  - Expected regulatory framework and clarity on transaction structures
  - Credit support

# Key Takeaways from the Generation Market Sounding

Market sounding respondents provided generally consistent feedback on a number of key items. However, respondents' feedback was shaped by transaction of interest (i.e. O&M vs. asset sale).

## • **Single vs. Multiple Owners / Operators**

- Within the context of an O&M contract, a single operator model was generally supported where the operator could achieve efficiencies leveraging resources across the fleet
- However, respondents interested in asset ownership differed in opinion with some suggesting a single party should own or operate legacy generation with other respondents suggesting there should be multiple parties (up to 4 – 6)
  - The argument for a single owner / operator is the ability to achieve synergies and efficiencies of scale across the system
  - However, some respondents noted that a single entity should not own the majority of the generation in Puerto Rico for market competition purposes

## • **Future Development Rights**

- Respondents interested in asset ownership expressed interest in future generation / infrastructure projects and the need to deploy capital and upgrade Puerto Rico's generation infrastructure
- Interest in acquiring legacy generation was pre-conditioned on the ability to have development rights to replace all or a subset of acquired generation as respondents expressed the assets' remaining useful life make investment unjustifiable without future development prospects

## • **Credit Support**

- For respondents interested in asset ownership / development, creditworthiness of all counterparties is a key concern; some respondents explicitly expressed a need for a creditworthy counterparty or strong repayment guarantee
- Suggestion of a potential structure where PPOA payments are senior to debt payments and come "off the top" from customer payments

## • **Transaction Structure / Framework**

- Many respondents indicated an interest in more than one transaction structure
- Most respondents did not opine on a "preferred" structure, but some suggested that they thought a generation asset sale with private generation owners is the best approach
  - Respondents who specialize in O&M and do not own generation only expressed interest in the O&M transaction
- The importance of having clarity of transaction structure with key stakeholder buy-in (e.g. PR Government, PREB, FOMB, etc.) was mentioned
- Various structures proposed for fuel supply, however differed with transaction structure (i.e. O&M vs. asset-sale)
- Sufficient diligence timing (~6 months) with many respondents noting the urgency to engage private party as soon as possible to prevent further degradation of system
- Respondents focused on acquiring PREPA assets differed on willingness to assume environmental liabilities with some willing to price in limited risk transfer, but others leaving it with PREPA or other entity
  - O&M providers were unwilling to accept any environmental liability
- Clarity on site demarcation

# Illustrative Due Diligence Items

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In the market sounding, respondents provided key areas and items required for due diligence. These responses may help inform the population of a confidential dataroom for the RFP phase of this process.

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## Select Diligence Requests<sup>1</sup>

- Site visits at each facility, with access to key personnel
  - Includes site access for Independent Engineer consultants to conduct site studies
- Technical specifications of the equipment
- Material agreements (insurance, fuel supply, etc.)
- Detailed maintenance records
- Budgets
- Employee / union agreements
- Phase I environmental reports
- Environmental / air / water permits
- Real estate rights / titles
- Safety programs and procedures and incident data
- Cash flow model
- Operating data (capacity factor, heat rates, run hours, maintenance cycles, etc.)
- Maps / drawing of facilities
- Environmental and safety records
- Organizational charts

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<sup>1</sup> This list is intended to be representative, but not exhaustive, of what may be required to provide binding proposals.

# Detailed Market Sounding Feedback Summary

[To be made anonymous prior to distribution to the Board]

## O&M Provider 1

## O&M Provider 2

## O&M Provider 3

Description of Participant	O&M Provider 1	O&M Provider 2	O&M Provider 3
	<ul style="list-style-type: none"> <li>Provider of O&amp;M services for owners of electric generation assets</li> <li>Privately held services company that optimizes the performance of power generation, midstream, and oil and gas assets</li> <li>Offers a range of technical services to improve asset performance and reduce commercial risks, including engineering, cathodic protection and corrosion engineering, information technology, due diligence and environmental consulting</li> </ul>	<ul style="list-style-type: none"> <li>Independent services company dedicated to delivering value to facilities across the power generation, oil &amp; gas, petrochemical, pulp &amp; paper, and manufacturing industries</li> <li>Provides operations, maintenance, fabrication, construction, engineering, and technical services to clients in the power, energy, and industrial sectors</li> </ul>	<ul style="list-style-type: none"> <li>Company that owns and operates power generation facilities</li> <li>Delivers operations and maintenance services geared towards improving the availability, reliability, and profitability of the owner's plants</li> </ul>

Acquiring PREPA Assets	Acquiring PREPA Assets	Acquiring PREPA Assets	Acquiring PREPA Assets
	<ul style="list-style-type: none"> <li>Generally does not take equity positions in its managed portfolio, but would consider a possible small ownership in the PREPA portfolio in lieu of a corresponding reduction in corporate fees</li> </ul>		<ul style="list-style-type: none"> <li>Not interested in acquiring the PREPA generation fleet</li> </ul>

Providing O&M Services	Providing O&M Services	Providing O&M Services	Providing O&M Services
	<ul style="list-style-type: none"> <li>Welcomes the opportunity to provide O&amp;M services under the current PREPA ownership structure</li> </ul>	<ul style="list-style-type: none"> <li>Interested in supporting all facilities where PREPA would retain title and ownership, or also in the case should a private party(ies) own the fleet</li> <li>Only interested in O&amp;M services</li> </ul>	<ul style="list-style-type: none"> <li>Would like to assume operations of the PREPA generation fleet; believes best to do all or significant portion of plants</li> </ul>

Providing Capital for Investment	Providing Capital for Investment	Providing Capital for Investment	Providing Capital for Investment
			<ul style="list-style-type: none"> <li>Parent company may be interested in future development, under certain conditions including pre-existing business presence in Puerto Rico</li> </ul>

Other	Other	Other	Other
	<ul style="list-style-type: none"> <li>Existing environmental conditions would be the current owner's responsibility; respondent would take responsibility for any actions or inactions after taking over O&amp;M services</li> <li>On the behalf of PREPA or a private entity purchasing the facilities, can negotiate and administer the obligations under the offtake and fuel supply agreements</li> <li>Need diligence costs to be reimbursable</li> </ul>	<ul style="list-style-type: none"> <li>Will not take over or assume responsibility for environmental liabilities and assumes PREPA and/or its partner(s) will retain responsibility as the project Owner</li> <li>The fuel sourcing and supply agreements would be in the name of PREPA and/or its partner(s). Will negotiate a CBA generally consistent with the existing CBA</li> </ul>	<ul style="list-style-type: none"> <li>Will not assume any environmental liability other than for gross negligence and willful misconduct</li> <li>Fuel sourcing and supply is usually out of scope for an O&amp;M service provider – however, NRG has fuel procurement experience and it is possible to add</li> </ul>

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# Detailed Market Sounding Feedback Summary

[To be made anonymous prior to distribution to the Board]

## Potential Acquirer 1

### O&M Provider 4

<p><b>Description of Participant</b></p>	<ul style="list-style-type: none"> <li>Operator of power generation and energy infrastructure</li> <li>Joint venture between Chilean PE firm and private holding company</li> <li>Chilean Private Equity firm dedicated to the development and management of projects in the Latin American energy sector; investment strategy is focused in greenfield and brownfield projects in the Latin America region, in countries such as Colombia, Peru and Chile, as well as some countries in Central America</li> <li>Private holding company with subsidiaries in the construction, health and energy sectors; owns the first natural gas distributor in the Dominican Republic and the Caribbean region starting operations in 2006</li> </ul>
<p><b>Acquiring PREPA Assets</b></p>	<ul style="list-style-type: none"> <li>Is interested in acquiring all of PREPA's existing generation assets, with the intention of upgrading and modernizing Puerto Rico's electric generation, but still interested in acquiring a subset of the assets</li> <li>Transfer of some or all of the assets should also include conveyance of development rights to replace all or a subset of the acquired generation</li> </ul>
<p><b>Providing O&amp;M Services</b></p>	<ul style="list-style-type: none"> <li>Interested in participating in a transaction to enter into a concession agreement or to provide O&amp;M services to all or a portion of PREPA's generation fleet</li> <li>As an acquirer of existing generation, would develop dual fuel (natural gas and ultra-low sulfur diesel oil) generation to replace the existing fleet</li> </ul>
<p><b>Providing Capital for Investment</b></p>	<ul style="list-style-type: none"> <li>Any power purchase or concession agreement must provide sufficient credit support from the entity with whom the generation owner will be contracting</li> <li>Would acquire the PREPA assets, rather than the company itself, which means that the CBAs would remain with PREPA and its employees</li> <li>Being able to bid on all PREPA assets in a single bid is a critical feature of an RFP; the generation assets have far more value to a potential owner and operator as a fleet</li> </ul>
<p><b>Other</b></p>	<ul style="list-style-type: none"> <li>If there is the potential for investment in new facilities, then they are in a position to discuss such projects, including the addition of new LNG supply</li> <li>Transforming the current generation fleet to a new fuel will improve efficiency, but not to the extent were it would be similar to new generation equipment</li> <li>Two key objectives are transforming the current facilities to utilizing alternative fuels like natural gas (can reduce these costs and alleviate the volatility of oil prices) and to address the inefficiencies in the current facilities</li> </ul>

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# Detailed Market Sounding Feedback Summary

[To be made anonymous prior to distribution to the Board]

	Potential Acquirer 2	Potential Acquirer 3	Potential Acquirer 4
<b>Description of Participant</b>	<ul style="list-style-type: none"> <li>Backed by a Houston-based private investment firm with over \$15bn of assets under management</li> <li>Would work with one of its partners on operating the power facility</li> </ul>	<ul style="list-style-type: none"> <li>Created in 1999 as part of the Dominican Republic's modernization of its energy sector</li> <li>Largest Public-Private Company in the Dominican Republic and operates ~1 GW of power generation</li> </ul>	<ul style="list-style-type: none"> <li>Consortium of privately-held project development firm and PE firm with experience in energy infrastructure, especially power generation, in the Caribbean and Latin American regions</li> <li>Portfolio of operating assets comprises a vertically-integrated utility and eight stand-alone power generation plants located in the Dominican Republic, Panama, Jamaica and Chile</li> <li>Privately held firm established in 2002 and is located in Houston Texas, USA; expertise in developing, acquiring, structuring, financing, optimizing and managing complex energy infrastructure assets and energy businesses</li> </ul>
<b>Acquiring PREPA Assets</b>	<ul style="list-style-type: none"> <li>Would be open to participate in a transaction that involves a portion of PREPA's generation fleet that includes the development of new small-scale LNG import terminals</li> </ul>	<ul style="list-style-type: none"> <li>Would participate in transactions to acquire a portion of PREPA's generation fleet</li> <li>To acquire a portion of PREPA's generation fleet should require modernizing the fleet by building new highly efficient combined cycle power plants with PPOAs that would warrant repayment of the investment</li> </ul>	<ul style="list-style-type: none"> <li>View acquiring PREPA generation assets favorably, provided that a single entity is not able to own a majority of the generation; that would result in an uncompetitive market</li> <li>Most generation should be via PPOAs which cover fixed O&amp;M, variable O&amp;M (including fuel costs), and new generation capacity payments for 12-18 years to optimize low rates; the capacity payments should be penalized if guaranteed performance and efficiency are not achieved</li> </ul>
<b>Providing O&amp;M Services</b>	<ul style="list-style-type: none"> <li>Would be interested in providing O&amp;M services to PREPA's generation fleet</li> </ul>	<ul style="list-style-type: none"> <li>Only would do O&amp;M if adding new generation infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Prefer the option to buy a portion of PREPA's generation fleet outright, but an agreement to provide O&amp;M services could be made more attractive if it includes a purchase option</li> </ul>
<b>Providing Capital for Investment</b>	<ul style="list-style-type: none"> <li>Would be very interested in investing in new gas-fired generation</li> </ul>	<ul style="list-style-type: none"> <li>Very interested in investing in new capacity through competitive RFPs</li> </ul>	<ul style="list-style-type: none"> <li>Have already expressed interest in new natural gas-fired generation</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>Believes converting to natural gas, integrating small renewable facilities (like rooftop solar) and distributing that generation are the best ways to transform Puerto Rico's electric generation operations</li> <li>Would like to encourage PREPA to consider conversion to natural gas-fired generation be a condition of the transaction</li> <li>The terms of existing PPAs and terms of the proposed PPA renewals would be critically important to this transaction and process</li> </ul>	<ul style="list-style-type: none"> <li>Strategy is to assume full responsibility of the acquired assets and the treatment of its liabilities, incorporating resolution costs in the valuation</li> <li>Believes the transformation of PREPA should not allow a single entity to acquire all of PREPA's generation fleet; prefers to be fully responsible for its fuel sourcing</li> <li>Terms and structure of the PPAs will be the most important factor</li> <li>A creditworthy counterparty or a strong payment guarantee is important</li> </ul>	<ul style="list-style-type: none"> <li>Would be helpful to get at least a preferred transaction framework agreed in advance between the PR government, PR Energy Bureau, and FOMB</li> <li>Bidders will be very concerned about prior environmental issues and assuming liability</li> </ul>

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# Detailed Market Sounding Feedback Summary

[To be made anonymous prior to distribution to the Board]

	Potential Acquirer 5	Potential Acquirer 6	Potential Acquirer 7
<b>Description of Participant</b>	<ul style="list-style-type: none"> <li>Has financial backing from a corporation with \$140bn in assets and revenues of \$70bn annually</li> <li>Has experience in obtaining various Federal incentives not reliant on FEIMA funding for its opportunities</li> </ul>	<ul style="list-style-type: none"> <li>One of the world's largest LNG shipping operators, managing and operating more than 40 carriers</li> </ul>	<ul style="list-style-type: none"> <li>Leader in sustainable renewable energy solutions such as combined heat and power (CHP), solar photovoltaic (PV), and waste-to-energy</li> <li>Currently operates an environmental services company in Puerto Rico that has been operating for over 20 years</li> </ul>
<b>Acquiring PREPA Assets</b>	<ul style="list-style-type: none"> <li>Views the acquisition of PREPA's generation fleet to be the preferred method of transaction</li> <li>Is highly interested in acquiring the generation fleets located in Aguirre and Costa Sur specifically</li> </ul>	<ul style="list-style-type: none"> <li>Interested, along with partners, in acquiring all of PREPA's existing generation assets, with the intention of completely upgrading and modernizing Puerto Rico's electric generation; remains interested if only able to acquire a subset of the assets</li> <li>Notes that transfer of some or all of the assets should also include conveyance of development rights to replace all or a subset of the acquired generation</li> </ul>	<ul style="list-style-type: none"> <li>Would consider</li> </ul>
<b>Providing O&amp;M Services</b>	<ul style="list-style-type: none"> <li>Currently has little to no interest in a long-term O&amp;M or Concessionary contract with PREPA</li> </ul>	<ul style="list-style-type: none"> <li>As a standalone concession, would not be interested in O&amp;M services; but would bring in a partner for it, if it were part of a wider deal</li> </ul>	<ul style="list-style-type: none"> <li>Would perform O&amp;M</li> </ul>
<b>Providing Capital for Investment</b>	<ul style="list-style-type: none"> <li>Is not interested in investing in assets that it will not have direct ownership control over</li> </ul>	<ul style="list-style-type: none"> <li>Proposes to completely upgrade and modernize Puerto Rico's electric generation fleet</li> </ul>	<ul style="list-style-type: none"> <li>Would consider participating with existing financial/capital partners</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>Is interested in acquiring Costa Sur and Aguirre power generating assets for a total price of \$800mm with commitments of an additional \$800-940mm in upgrades and new equipment, assuming new Independent Power Purchase Agreements of \$0.13 (all in) with fuel adjustments with a 2% escalator for 15-years and all fuel burning generation using natural gas delivered under the same contract</li> </ul>	<ul style="list-style-type: none"> <li>Believes the more time that passes without control of the PREPA assets being transferred to a competent, well-capitalized entity or entities, the worse the condition of the system at the time of transfer would be</li> <li>Would acquire the PREPA assets, rather than the company itself, which means that the CBAs would remain with PREPA and its employees</li> </ul>	<ul style="list-style-type: none"> <li>Offers a service for the analysis of supply contracts for our customers; part of this service includes an analysis of historical bills to insure that our client has not been over billed under their existing agreements</li> </ul>

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# Detailed Market Sounding Feedback Summary

[To be made anonymous prior to distribution to the Board]

## Non-Conforming 3

### Non-Conforming 2

### Non-Conforming 1

	Non-Conforming 1	Non-Conforming 2	Non-Conforming 3
<p><b>Description of Participant</b></p>	<ul style="list-style-type: none"> <li>A development company owned by a family office founded 3 years ago for the purpose of "gasifying" Puerto Rico</li> <li>Family office has expertise in Power generation by having built and operating the largest biofuel power plant in Japan</li> </ul>	<ul style="list-style-type: none"> <li>Puerto Rico based development company that has participated in the successful development of multiple power generation projects in Puerto Rico</li> <li>Joint venture company that has invested more than USD\$1bn in the Americas                             <ul style="list-style-type: none"> <li>Commitment to Puerto Rico: servicing and converting San Juan Units 5 &amp; 6 from fuel oil to natural gas</li> </ul> </li> <li>Independent liquid petroleum pipeline operator in the United States; has helped serve the fuel needs of the Puerto Rico market through its Yabucoa terminal since 2010</li> </ul>	<ul style="list-style-type: none"> <li>Leader in solar, storage &amp; energy management</li> </ul>
<p><b>Acquiring PREPA Assets</b></p>			
<p><b>Providing O&amp;M Services</b></p>			
<p><b>Providing Capital for Investment</b></p>	<ul style="list-style-type: none"> <li>Seeking to enter into a Joint Development Agreement (JDA) with well capitalized investment counterparties and discuss the opportunities that may arise from our ownership of the first and only natural gas pipeline in Puerto Rico</li> <li>Has an exclusive franchise granted by the Puerto Rico government to operate a natural gas pipeline in Puerto Rico</li> <li>Believes a pipeline project is the best option to provide Puerto Rico with the economic, environmental and system resilience benefits of gas-fired generation</li> </ul>	<ul style="list-style-type: none"> <li>Working together to jointly develop a new integrated power generation solution near Yabucoa and Costa Sur</li> <li>Project consists of a new state-of-the-art combined cycle gas turbine power plant, LNG receipt and storage infrastructure and all associated logistics</li> <li>The parties plan to work with multiple different LNG suppliers to secure the most cost competitive and reliable LNG supply for Puerto Rico</li> <li>There will be a long-term fuel supply and sales agreement that is based on market index pricing</li> </ul>	<ul style="list-style-type: none"> <li>Ready to deploy new aggregated, networked generating (solar) facilities, paired with storage</li> <li>Firmly believes that networked distributed solar and storage will play a critical role in rebuilding Puerto Rico's energy system while contributing to site-level resilience and reducing costs</li> <li>Can make a binding proposal now to provide energy/grid services via new aggregated, networked generating solar plus storage facilities, given that public rooftop space and related premises are made available by the pertinent governmental authorities</li> </ul>
<p><b>Other</b></p>			

Participant Interest

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