

COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION

IN RE: REVIEW OF RATES OF
THE PUERTO RICO ELECTRIC
POWER AUTHORITY

NO. CEPR-AP-2015-0001

SUBJECT: PREPA'S
ADDITIONAL RESPONSES TO
THE COMMISSION'S 3rd ROI

**PREPA'S ADDITIONAL RESPONSES TO THE
THIRD REQUIREMENTS OF INFORMATION
OF THE STAFF OF THE ENERGY COMMISSION**

TO: THE PUERTO RICO ENERGY COMMISSION
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COMES NOW the Puerto Rico Electric Power Authority ("PREPA"), and submits the following responses to the Third Requirements for Information of the Staff of the Puerto Rico Energy Commission (the "Commission"), dated July 7, 2016 (the "3rd ROI").¹ PREPA timely responded to inquiry under Section A.1 on July 11, 2016, the date requested. In compliance with the Instructions in the 3rd ROI, PREPA has by letter dated July 14, 2016, requested additional time to respond to Questions CEPR-SH-001-001 (B.1. in the outline), CEPR-SH-001-003 (B.3 in the outline) and CEPR-SH-001-010 (C.2 in the outline). For ease of reference, the Questions in the 3rd ROI are quoted, in bold, before each response.

¹ PREPA makes a general, standing objection to any request for information or documents to the extent, if any, that it calls for any document or information that is not subject to disclosure or discovery because it is privileged, attorney work product, or subject to any other exemption from disclosure or discovery.

A. PREPA'S Organizational Chart

1. **Please provide, on or before July 11th, 2016, a chart detailing PREPA's organizational structure, identifying all key management positions, departments or directorates and detailing the hierarchical structure currently in place.**

PREPA responded to this request on July 11, 2016.

B. Questions for Witness Quintana

1. **CEPR-SH-001-001: Direct Testimony at 8-9 - You state that PREPA's "operational and support areas" are: Generation, Transmission and Distribution, Customer Service; Finance; Environmental Protection and Planning; Human Resources and Labor Affairs; Legal Affairs; and Infrastructure and Operations Administration.**
 - a. **What is distinct mission for each of these areas?**

PREPA has respectfully requested an extension of time to respond to this Question.

- b. **For the top manager within each of these areas: (a) state the position title, (b) identify the person who holds the position, (c) provide the mission statement for that position, and (d) describe the procedures currently in place for performance reviews, including but not limited to: (i) criteria by which the manager is reviewed, (ii) frequency of review, (iii) who conducts the review, and (iv) consequences for the manager if the review is not satisfactory.**

PREPA has respectfully requested an extension of time to respond to this Question.

- c. **For the sub-managers who report directly to the person identified in response to the preceding sub-question, provide the same information described in the preceding sub-question**

PREPA has respectfully requested an extension of time to respond to this Question.

- 2. CEPR-SH-001-002: Direct Testimony at 9 - Concerning the four labor unions mentioned there: (a) provide a copy of the current union contract; and (b) state when the contract expires.**

The following response was provided by Javier Quintana, the Executive Director of PREPA.

- a. See Attachments CEPR-SH-001-002-JQ-1, CEPR-SH-001-002-JQ-2, CEPR-SH-001-002-JQ-3, and CEPR-SH-001-002-JQ-4.
 - b. The UEPI contract expires on September 15, 2018. The UITICE contract expires on January 27, 2017. The UPAEE contract expires on June 30, 2017. The UTIER contained an original stated expiration date of August 24, 2012, but also has an automatic renewal clause, and remains effective and valid.
- 3. CEPR-SH-001-003: Describe and assess the flexibility that PREPA's top management has to calibrate the compensation of PREPA employees based on the quality of performance. Answer separately for executives, managers and line employees. Your answer should evaluate the extent to which PREPA's flexibility is constrained by Section 11 of Act 66-2014 and Act 66-2013.**

PREPA has respectfully requested an extension of time to respond to this Question.

- 4. CEPR-SH-001-004: Describe, objectively, the working relationship between the Chief Restructuring Officer and the Executive Director, addressing without limitation the following questions:**
 - a. Does one of you report to the other, or do you both report to the Board?**

The following response was provided by Javier Quintana, the Executive Director of PREPA.

The Chief Restructuring Officer and the Executive Director both report to the Governing Board. They work together in relation to the restructuring and recovery.

- b. Precisely what authority is held by each, the Executive Director and the Chief Restructuring Officer, including but not limited to the authority to issue orders to, and hire and fire, PREPA's managers and other employees?**

The following response was provided by Javier Quintana, the Executive Director of PREPA.

The authority of the Chief Restructuring Officer (CRO) was established as part of the Forbearance Agreement of August 14th, 2014 (as subsequently amended from time to time) between PREPA and certain of its creditors and include;

1. Provide overall leadership of the restructuring process
2. Serve as the primary point of contact of behalf of PREPA in communications and negotiations with PREPA's creditors
3. Provide expert testimony with respect to any case filed by PREPA under provisions of Chapter 2 and/or Chapter 3 of the Puerto Rico Public Corporation Debt Enforcement and Recovery Act
4. Serve on and participate in the Integrated Resource Plan ("IRP" committee
5. Lead PREPA's process to develop a comprehensive business plan (the "Business Plan") which will serve as the underpinning for the overall Restructuring
6. Work alongside PREPA's CEO to improve PREPA's worker protection and safety record
7. Work alongside PREPA's CFO to lead the efforts for any revenue improvement and cost reduction plans that are necessary or appropriate for the implementation of the Business Plan
8. Work alongside PREPA's CFO to oversee and implement cash and liquidity management/preservation activities
9. Work alongside PREPA's CEO to improve analysis, tracking and collection efforts and related processes for accounts receivables
10. Work alongside the CEO to review, refine and implement improvements to PREPA's capital expenditure plan, including the timing and amount of capital expenditures
11. Work alongside the CEO to develop generation, transmission, distribution and other operational improvements
12. Attend and participate in all meetings of the Board

13. Subject to the approval of the Board and CEO, appoint additional officers that report to the CRO, with responsibilities for specific operational and financial aspects of the Restructuring

The authority of the Executive Director includes duties specified by law and the exercise of both specific and general authorities lawfully delegated to the Executive Director by the Governing Board. It is not practical to itemize each particular delegation but, in general, "The Executive Director shall be the executive officer of the Authority and shall be responsible for the implementation of its policy and the general supervision of the administrative and operational phases of the Authority."

5. **CEPR-SH-001-005: Describe any succession plans that exist to address the hypothetical departures of Dr. Quintana and Ms. Donahue.**

The following response was provided by Javier Quintana, the Executive Director of PREPA.

The role of Chief Restructuring Officer occupied by Ms. Donahue is a temporary position. A critical component of the work being carried out by the restructuring team is to properly document and transition to PREPA all operational and/or process improvement initiatives. In addition, PREPA employees are directly involved with the execution of all operational improvement work streams to ensure proper transition and knowledge transfer of critical tasks. As such, the succession plan for Ms. Donahue is the orderly transition of the roles and responsibilities of the CRO team to PREPA.

The members of PREPA's Governing Board choose the Executive Director. No formal "succession plan" has been established in advance for a hypothetical departure of Javier Quintana Méndez. The Board then in place at the time of such a departure would have the legal and practical responsibility of implementing a search and selection plan, as well as selecting the final appointee. The Directors that report to the Executive Director have a strong knowledge of PREPA and its operations and have the ability to fill the position in the interim until a new Executive Director is selected.

6. **CEPR-SH-001-006: Direct Testimony at 12-13 - You describe the business plan as containing the following elements: "implementing revenue improvement and cost reduction plans, overseeing cash and liquidity management activities, improving PREPA's ability to analyze, track, and collect accounts receivable, improving PREPA's capital expenditure plan, and developing plans to improve PREPA's generation, transmission, distribution, and other operations." With respect to each of these elements (and any others not mentioned):**
 - a. **Describe the quantitative and qualitative goals for improvement;**

The following response was provided by Javier Quintana, the Executive Director of PREPA.

The details of the elements of the business plan are described in more detail within the panel testimony of Ms. Miranda, Mr. Sosa and Mr. Sales, but the quantitative and qualitative improvements include;

A. Improving PREPA's capital expenditure plan

Modernizing and improving PREPA's infrastructure is an essential part of the business plan and the capital expenditure was in large part developed based on the IRP. The plan includes ~\$3.2 billion of investments in new infrastructure with the objectives of enabling PREPA to comply with environmental regulations, integrate renewables, and improving system reliability and efficiency.

B. Improving fuel procurement and generation

The business plan projects annual run-rate savings of ~\$135 million as well as one-time liquidity improvements of ~\$86 million. These savings are supported by several key initiatives, including;

- i. Improved fuel forecasting process which has enabled PREPA to reduce inventory levels. The forecasting process is imbedded in a new Sales and Operations Planning (S&OP) process
- ii. Fuel RFP processes for fuel oil #2 and #6 and LNG reducing adders and improving credit terms
- iii. Improved coordination between functions enabling PREPA to continually optimize dispatch
- iv. Root cause analysis of forced outage events to identify systemic addressable problems. Key corrective actions focused around training of key personnel, improved preventative maintenance planning and execution. Improving reliability of PREPA generation fleet is projected to enable reduced spinning reserve which in turn leads to incremental fuel savings

C. Improvements to Customer Service and collection efforts

The business plan projects annual run-rate savings of ~\$200 million as well as one-time liquidity improvements of ~\$165 million. These savings are supported by several key initiatives, including;

- i. Non-government collections have been improved through the implementation of a program including streamlining service

suspension processes and targeting customer groups with high delinquency rates

- ii. Improvements to Government customer collections have focused on reconciling account to address disputed amount and subsequently negotiated payment plans with corporations and agencies
- iii. PREPA has also engaged third party collections firms to focus on severely past due accounts, which previously were not actively being pursued for collections
- iv. PREPA has reorganized its department focused on identifying and addressing electricity theft and is deploying improved technology and deploying more field agents to fight theft
- v. Actions are being taken to improving PREPA's customer experience. A comprehensive program is being executed and progress seen in several areas – call center wait times, for examples, has been reduced from twenty five to twelve minutes

D. Improvements within Operations and Infrastructure

The business plan projects annual run-rate savings of ~\$200 million as well as one-time liquidity improvements of ~\$165 million. These savings are supported by several key initiatives, including;

- i. PREPA is improving its vehicle fleet management processes by increased accountability via tracking of vehicle KPI's, such as out of service metrics. In addition, a vehicle renewal program is contemplated to modernize the fleet and increase vehicle safety and reliability. Finally, PREPA is conducting an RFP to outsource the maintenance and repair of light and medium duty vehicles in order to increase overall capacity to maintain the fleet
- ii. PREPA is increasingly using RFP processes to drive increase usage of standard SKU as well as secure more favorable pricing
- iii. Introduction of detailed metrics and closer coordination between procurement and warehousing is enabling PREPA to reduce its inventory levels and level of obsolete inventory

E. Improvements within Labor and Human Resources

- i. PREPA is working with DuPont, an industry leading firm, to develop a program to improve the safety culture at PREPA. The program will include employee training as well as new safety equipment.

Progress of the improvement program is being tracked through a dashboard

- ii. Approximately 1,100 employees have retired from PREPA since 2014 with significant additional retirees projected in the next few years. In response to this PREPA is developing a succession plan to identify potential candidates to fill critical roles as well as any training required to fill potential skill gaps
 - iii. A KPI dashboard have been developed and piloted and will be rolled out across PREPA directorates to ensure departments are aligned on key objectives and provide PREPA a consistent approach to deal with reviews and performance management
 - iv. PREPA has selected a new vendor for health benefits and is evaluating options relative to pension plan options
- b. Identify the managers responsible for achieving the improvement;**

The following response was provided by Javier Quintana, the Executive Director of PREPA.

Improvements are being implemented across all directorates and initiatives executed at many levels throughout the organization. That being said, the primary leads for each of the improvement areas discussed above include;

Improvement	PREPA lead
Improving PREPA's capital expenditure plan	The Planning and Environmental Protection Directorate coordinates overall CapEx plan. This Directorate is also involved with strategic projects with dedicated project teams, such as AOGP as an example. Outside strategic projects, execution of individual projects reside within each of the Directorates
Fuel procurement and inventory	The fuels office within the Operations and Infrastructure Directorate is responsible for fuel procurement and inventory
Generation (forced outage	Generation Directorate

and spinning reserve)	
Customer Service and collections	Customer Service Directorate
Vehicle fleet, procurement, inventory	Operations and Infrastructure Directorate
Labor and HR	Human Resources Directorate

c. Describe the consequences for such managers if the improvement is achieved or not achieved; and

The following response was provided by Javier Quintana, the Executive Director of PREPA.

PREPA is in the early stages of rolling out KPI's across the organization. These KPIs will be used, among other purposes, for performance management. The expectation is the ability to meet KPI's, on a go forward basis, will be a component of the annual review process and be a factor determining future career advancement opportunities.

d. Describe the procedures by which Dr. Quintana or Ms. Donahue assess the performance of the managers responsible for achieving the improvement.

The following response was provided by Javier Quintana, the Executive Director of PREPA.

PREPA has established a PMO office charged with monitoring the execution of strategic projects. The PMO is providing status reports on a periodic basis. In addition the CRO office, together with the individual Directorates in charge of improvements provide regular updates to the CRO, the Executive Director, and PREPA's Governing Board on the progress of implementation efforts.

7. CEPR-SH-001-007: Direct Testimony at 13 - You state that an integrated resource plan (IRP) "is vital to whether PREPA will succeed with its recovery."

a. What is your assessment of PREPA's performance in preparing its IRP and presenting it to the Commission?

The following response was provided by Javier Quintana, the Executive Director of PREPA.

The IRP that is pending before the Energy Commission in case no. CEPR-AP-2015-0002, is the first IRP prepared by PREPA. PREPA required the assistance of competitively selected outside independent experts to prepare the IRP and to assist PREPA in revising the IRP and otherwise participating in the IRP case, as discussed further below. The original IRP was required to be prepared in a relatively short amount of time under Act 57-2014, and even then PREPA needed to seek certain waivers.

As the Commission is aware, the IRP was revised in response to deficiency findings, and later a Supplemental IRP was prepared and submitted in response to later deficiency findings (and the Supplemental IRP itself later was supplemented). The Supplemental IRP also reflects directives, guidance, and questions from the Commission as well as input from intervenors in the IPR case.

The Commission has not yet issued a final order in the IRP case.

While it is difficult to make a generalization that covers such a complicated and highly regulated process that was conducted over more than year and that does not yet have a final outcome, PREPA would characterize the work of Siemens and PREPA as having been diligent, careful, efficient, and effective in preparing the original IRP and in the subsequent stages of this matter, within the time constraints imposed by Act 57 and the other applicable time and resource constraints. PREPA believes this was shown in, for example, the Supplemental IRP, the technical conference, and the oral argument.

PREPA believes that the Supplemental IRP, if approved, will allow PREPA to greatly benefit its customers and the Island in a cost-effective manner that complies with applicable law.

Please note that many of the remainder of the subparts of this Response to Question CEPR-SH-001-007 address matters that also have already been addressed in the IRP case. PREPA will not repeat here all of the voluminous information and materials supplied there.

b. What individual(s) made the decision to hire Siemens to prepare the IRP?

The following response was provided by Javier Quintana, the Executive Director of PREPA.

The decision of hiring Siemens to prepare the IRP was made by PREPA's Governing Board as part of the competitive process required for awarding contracts in

the Commonwealth of Puerto Rico. Following, there is a summary of the process followed by PREPA which resulted in hiring Siemens for preparing the IRP.

First, it should be noted that, during the months of August to November of 2014, PREPA engaged on the preparation of a first stage of the IRP with Leidos Engineering, LLC ("Leidos"). This first stage was a requirement of the Forbearance Agreement PREPA entered with its creditors, which established temporary conditions for the payment of its debt. The first stage of the IRP was made as a preliminary step for compliance with the timeline of the Forbearance Agreement and is not linked to the IRP required by Act 57-2014. Therefore, the report made by Leidos for this first stage does not comply with the requirements of Act 57-2014, besides being an incomplete document. The decision of hiring Leidos to prepare the first stage of the IRP was also made by PREPA's Governing Board as part of a competitive process.

Although the first stage of the IRP prepared by Leidos did not fully comply with Act 57-2014 requirements and its primary purpose was to comply with the Forbearance Agreement, the process followed for awarding its contract served to evaluate different companies conducting integrated resources planning studies in the industry. As part of this competitive process, PREPA and its consultants prepared a request for proposal ("RFP") and sent it to five (5) different companies known to perform integrated resources planning studies:

- (1) Alstom Caribe, Inc.
- (2) Black & Veatch
- (3) Filsinger Energy Services
- (4) Leidos Engineering, LLC
- (5) Siemens Industry, Inc.

Of these companies, Black & Veatch indicated that they did not wish to participate in the RFP. Hence, PREPA and its consultants evaluated the proposals of the other four (4) companies based on the quoted price, the proposed study strategy, the proponent's experience, and proposed delivery schedule. The analysis of the proposals was based on giving a weight to these criteria. Then, each proposal was verified to determine how much percent it complies with such criteria. The evaluation of these proposals resulted in the following order of preference (higher to lower score):

- (1) Leidos Engineering, LLC
- (2) Siemens Industry, Inc.

(3) Alstom Caribe, Inc.

(4) Filsinger Energy Services

As can be seen, Leidos had the higher score followed by Siemens. The results of the proposals evaluation were presented to PREPA's Governing Board, whose members decided to award the first stage of the IRP to Leidos. As a result of this decision, PREPA hired Leidos to prepare the first stage of the IRP.

Then, during the months of December of 2014 and January of 2015, PREPA started the process of developing the final IRP to be presented to the Commission on July 1, 2015, in compliance with Act 57–2014. This final IRP was to include a detailed analysis of the generation system, along with the corresponding transmission analysis, and of demand side management (“DSM”) strategies. These analyses were going to take place simultaneously with a cost of service & electrical rate study and the development of the final business plan for PREPA's restructuring. Also, the consultant to be hired by PREPA for developing the final IRP were going to use PREPA's previous studies, like the renewables integration and power system reliability studies, and to be interacting with other PREPA consultants in charge of the business plan and the rates study.

In order to comply with the timeframe established by Act 57–2014, time was of the essence for developing the final IRP. After a thorough evaluation of this situation, PREPA found that the selection of the suitable consultant would greatly impact PREPA's compliance with this timeframe. Among other things, the suitable consultant for helping PREPA comply with the timeframe would be one that has a strong knowledge of Puerto Rico's electrical system, uses the same analysis tools as PREPA, like PROMOD and PSS/E, has effectively completed previous technical studies at PREPA, and has experience performing IRPs. Following these criteria, PREPA identified the two (2) companies with the higher scores for the first stage of the IRP RFP process, Leidos and Siemens, as the best candidates for preparing the final IRP.

Thus, PREPA and its consultants requested Leidos and Siemens to prepare proposals for developing the final IRP in compliance with Act 57–2014. PREPA evaluated both proposals based on the company's available resources to comply with the timeframe, their prior work at PREPA, the software and tools to be used in the studies, and the quoted price. The main differences between Leidos and Siemens proposals were found on the companies' prior work at PREPA and the quoted price. Leidos had only performed one study for PREPA, the first stage of the IRP, while Siemens had prepared at least three (3) prior studies for PREPA: the wheeling, renewables integration, and reliability studies. The contracts for these prior studies were the result of RFP processes. On the other hand, the quoted price by Leidos was almost \$1.5 million higher than the price quoted by Siemens.

As can be seen, Siemens proposal for the final IRP had more advantages than the proposal by Leidos, especially in the cost criterion. Therefore, the results of the

evaluation of Leidos and Siemens proposals were presented to PREPA's Governing Board, whose members decided to award the final IRP to Siemens. As a result of this decision, PREPA hired Siemens to prepare the final IRP.

c. Before selecting Siemens, did anyone at PREPA assess Siemens's experience in energy efficiency, demand-side management or renewable energy?

The following response was provided by Javier Quintana, the Executive Director of PREPA.

Yes. As part of any RFP process, PREPA requires that the proponents provide evidence of their experience performing the tasks that are essential in the project, study or service to be contracted. Therefore, PREPA evaluated the experience of Siemens and Leidos preparing IRPs, in compliance with the industry standards regarding supply and demand resources. Both companies showed that they have experience in energy efficiency, demand-side management, and renewable energy. In fact, regarding renewable energy, Siemens performed PREPA's Renewable Generation Integration Study in 2014.

d. Does PREPA believe that Siemens had a conflict of interest because it was responsible for preparing the IRP while having a profit interest in potentially supplying generating plants that would be called for by the IRP?

The following response was provided by Javier Quintana, the Executive Director of PREPA.

No. This question already was explored in the IRP case. PREPA respectfully submits that the question treats all of the companies and divisions within Siemens as if they were a single operating entity and a single corporation, but neither is the case.

The division of Siemens Industry, Inc., in charge of performing energy studies is the Energy Management Division. Under this division, Siemens Power Technologies International (Siemens PTI) is responsible for providing power system consulting services and planning studies. Siemens PTI operates independently from the power generation division in charge of supplying generating plants. It is noted that Power Technologies International (PTI) was an independent company created for providing power system consulting services and developing power system analysis tools and software, before Siemens Industry, Inc. acquired it and its name changed to Siemens PTI. In fact, PREPA has used PTI's tools long before it became Siemens PTI.

Furthermore, regarding the final IRP development, it is noted that PREPA requested Siemens to simulate generating units from different suppliers, others than

Siemens. Siemens developed key operational parameters of the representative future generation resources, primarily relying on published vendor as well as vendor-supplied performance and cost information available in GT Pro performance software. The selections of the generation resources are representative of each particular technology class and do not represent final recommendations of particular equipment or suppliers. In fact at minimum of two potential suppliers were considered for each particularly technology class, except for the repowering of Aguirre Combined Cycle, as explained in the IRP. Siemens simulated generating units from General Electric, which is now Alstom, MHI, Wartsila, and Hitachi. In fact, Siemens recommended that the repowering of Aguirre Combined Cycle shall be done with Hitachi generating units, not Siemens.

As part of any contracted project, PREPA supervises its development and completion, including avoiding any conflict of interest. This is particularly important in projects related to power generation. In the energy business, there exist few companies which have enough resources to develop power generation projects. Examples of these companies are Alstom, General Electric (which is now Alstom), and Siemens. All of these companies also provide power system consulting and planning services. So, there is a high probability that the available consultants for performing a power system study are also suppliers of generating units. In these cases, PREPA is responsible to closely supervise the development of such projects, avoiding any conflict of interest.

Moreover, PREPA is required to follow an RFP process to award a contract for developing new generation as required by Act 57-2014. It is noted that Act 57-2014 states that the Commission will actively participate in the RFP process and evaluation for any new generating plant. For this purpose, PREPA and the Commission are in the process of developing a joint regulation for the procurement, evaluation, selection, negotiation and award of contracts for the purchase of energy and to regulate the process for the modernization of generation fleet, pursuant to Act 83-1941, as amended, and Act 57-2014, as amended.

e. At what point did PREPA's leadership learn that Siemens had both roles?

The following response was provided by Javier Quintana, the Executive Director of PREPA.

It is publicly known that Siemens Industry, Inc. has a division in charge of performing power system studies and another division for supplying generating units. So this information has always been available to all PREPA officials. This question already was explored in the IRP case. PREPA respectfully submits that the question treats all of the companies and divisions within Siemens as if they were a single operating entity and a single corporation, but neither is the case. Please, see the answer to subpart d of the response to this Question.

f. How much has Siemens charged PREPA for its work on the IRP?

The following response was provided by Javier Quintana, the Executive Director of PREPA.

This question already was explored in the IRP case, although PREPA here will give an updated answer. Siemens has charged for its work in the IRP the quantity of \$1,464,529.41.

g. Of that amount, how much has PREPA paid thus far?

The following response was provided by Javier Quintana, the Executive Director of PREPA.

This question already was explored in the IRP case, although PREPA here will give an updated answer. The amount paid so far is \$ \$1,435,300.70.

h. What is your assessment of Siemens's performance regarding the IRP?

The following response was provided by Javier Quintana, the Executive Director of PREPA.

The IRP prepared by Siemens was developed in coordination with PREPA. The process undertaken by PREPA and Siemens in developing the IRP is consistent with the standard approach in the industry. The IRP was presented to PREPA's Governing Board previous to the submission for evaluation and approval of the Commission.

i. Knowing what you know now about Siemens's performance, would PREPA hire Siemens again--either to prepare an IRP or to supply generating plants?

The following response was provided by Javier Quintana, the Executive Director of PREPA.

PREPA respectfully submits that this question also treats all of the companies and divisions within Siemens as if they were a single operating entity and a single corporation, but neither is the case.

As explained in the answer to subpart b. of this Question CEPR-SH-001-007, PREPA is required to follow an RFP procedure to award a contract for developing a project or study. Therefore, if PREPA would have to prepare an additional IRP or to develop a generating plant, it will start an RFP with multiple suppliers, which could

include the applicable Siemens entity for the given task. Once the RFP process is completed, PREPA would hire the proponent with the best proposal, which shall comply with PREPA's specifications for the project. The proponent with the best proposal could be any of the suppliers participating in the RFP process. It is noted that Act 57–2014 states that the Commission will actively participate in the RFP process and evaluation for any new generating plant. Hence, PREPA shall comply with the Commission requirements on this matter.

- 8. CEPR-SH-001-008: Direct Testimony at 21 - Dr. Quintana states that "PREPA is seeking a revenue requirement of approximately \$3.5 billion." But the Miranda panel testimony at 39 states that the revenue requirement is \$2.959 billion. Explain the difference, and propose a means of describing PREPA's revenue requirement, and the increase from the status quo, that will be consistent across all witnesses and all discussions.**

The following response was provided by Javier Quintana, the Executive Director of PREPA.

The two figures simply represent the difference between (1) a figure that is the sum of PREPA's proposed base rate revenue requirement plus the amount that PREPA is to collect as a servicer in relation to the securitized bonds under the debt restructuring versus (2) PREPA's proposed base rate revenue requirement standing alone.

Based on PREPA's modified cash basis approach in its May 27, 2016, rate filing, the amount for (1) is \$3,462,194,772 for FY 2017 (FY 2014 adjusted for known and measureable adjustments through FY 2017). That is what Dr. Quintana was referencing on page 21 of his direct testimony (PREPA Exhibit ["Ex."] 1.0). The amount for (2) is \$2,958,930,536. That is reflected in the business plan panel testimony (PREPA Ex. 3.0) on page 39. The difference is the \$503,264,237 of what can be called Transition Charge Revenue.

Pages 3 and 4 of the revenue requirement panel testimony (PREPA Ex. 5.0 Rev.) contains these two tables which set forth the above numbers in a clear manner, and which also reflect two alternative ways of calculating the revenue requirement:

Overall Revenue Requirement (including Transition Charge Revenue)

Method	Revenue Requirement	Revenue Deficiency
Modified Cash Basis	\$3,462,194,772	\$725,521,027
Cash Basis	\$3,520,836,180	\$784,162,435
Accrual Basis	\$3,518,296,631	\$781,622,886

Revenue Requirement (excluding Transition Charge Revenue)

Method	Revenue Requirement	Revenue Deficiency
Modified Cash Basis	\$2,958,930,536	\$222,256,790
Cash Basis	\$3,017,571,944	\$280,898,199
Accrual Basis	\$3,015,032,394	\$278,358,649

Thus, as PREPA Ex. 5.0 Rev. explains on pages 3-4, the total revenue deficiency (cost recovery shortfall) is \$725,521,027, which is comprised of the \$503,264,237 of Transition Charge Revenue plus the base rate revenue deficiency of \$222,256,790.

PREPA has thought it important and useful to present these figures in both forms, i.e., with and without Transition Charge Revenue, to provide context.

This is a base rate case. Thus, the figure sought to be recovered through the proposed "permanent" base rates is the base rate revenue requirement, \$2,958,930,536, not the total revenue requirement of \$3,462,194,772, which includes the additional \$503,264,237 of Transition Charge Revenue.

C. Questions for Witness Donahue

1. **CEPR-SH-001-009: Concerning Ms. Donahue's relationship with PREPA:**
 - a. **What is the likely termination date? Is that date based on a contract term or is it based on some measurement of progress by PREPA?**

The following response was provided by Lisa Donahue, Chief Restructuring Officer ("CRO") of PREPA.

The current amendment to the contract between PREPA and AlixPartners is set to expire on August 15th, 2016. Unless the contract is further amended the current termination date therefore is August 15th, 2016. It is possible further amendments will be executed, but no definite decision regarding this has been taken at this point in time.

- b. **Assess in detail, with attention to each area of PREPA's management, PREPA's readiness to succeed once your relationship with PREPA ends.**

The following response was provided by Lisa Donahue, Chief Restructuring Officer ("CRO") of PREPA.

As discussed in the response to Question CEPR-SH-001-005, subpart a, a critical piece of the implementation of the improvements which are part of the business plan is the transition of projects to PREPA. PREPA leads are assigned to all initiatives as described in the answer to Quintana 6.b. and while at present time PREPA has varying degrees of preparedness for each improvement area, transition planning is integrated into all improvement projects. As such, the expectation is PREPA will be prepared and in a position to continue efforts following the conclusion of the AlixPartners assignment.

2. **CEPR-SH-001-010: Describe and assess the flexibility that PREPA's top management has to calibrate the compensation of PREPA employees based on the quality of performance. Answer separately for executives, managers and line employees. Compare and contrast such flexibility with that which exists in other companies with which you are familiar.**

The following response was provided by Lisa Donahue, the CRO of PREPA.

PREPA has respectfully requested an extension of time to respond to this Question.

3. **CEPR-SH-001-011: Donahue Direct Testimony at 18-19 - You state that "[c]onsistent with Schedule VI to the RSA," PREPA is seeking approval of, among other things, a formula rate mechanism. Does the RSA specifically require a formula rate mechanism, in that if the Commission does not approve one, or approves one not to PREPA's liking, the bondholder signatories to the RSA will not be bound by the RSA? Your response should cite any relevant clauses in the RSA.**

Please see PREPA's response to the Question CEPR-SH-001-014 related to Ms. Donahue's testimony in PREPA's responses to the Commission 2nd ROI.

4. **CEPR-SH-001-012: Donahue Direct Testimony at 20 - You state: "Management and other strategic decisions, including staffing and capital investment, too often have been based on political considerations rather than best practices or sound business judgment."**

The following response was provided by Lisa Donahue, the CRO of PREPA.

Before turning to its answers to each subpart of Question CEPR-SH-0001-012, PREPA notes that this Question and some others in the 3rd ROI seek information regarding historical acts and events that are primarily or exclusively relevant to a retrospective prudence investigation or an audit of past management at PREPA. PREPA knows, and its witnesses acknowledge in their testimony in this case, the need for change. Since approximately 2013, and especially in a more formal manner since 2014, PREPA's executives, Chief Restructuring Officer, managers, and many employees have focused on restructuring PREPA's finances and operations and on successfully improving the efficiency and reliability of its services. PREPA has done this in concert with the new regulatory structures created by the Legislative Assembly, the Governor, and the Energy Commission.

PREPA understands that the Commission or its staff may wish to inquire into past events that do not alter PREPA's proposed revenue requirement or the need for new rates. Ms. Donahue, the Chief Restructuring Officer of PREPA, testified (PREPA Ex. 2.0) concerning past actions in compliance with Section 2.17(C) of Regulation No. 8720. Ms. Donahue also explained why, as a practical matter and because of its limited resources, its public service demands, and the other significant accelerated regulatory and financial efforts now underway, PREPA presented objective data and analyses on that issue, but could not complete a separate backward-looking prudence investigation or management audit.

While PREPA does not object to these Questions, it can only respond based on the information now available. Should the Commission determine that retrospective investigations should be pursued further, PREPA will work constructively with the Commission. PREPA, however, respectfully asks that the Commission and Staff not make part of this first rate case issues that do not affect the new base rates PREPA needs going forward. PREPA reiterates that it will cooperate with lawful Commission investigations in future cases, and well as responding to lawful questions in this proceeding.

a. Describe all examples of such decisions of which you are aware.

The following response was provided by Lisa Donahue, the CRO of PREPA.

Staffing decisions for many roles in the top three levels of PREPA are Trust (or Confianza) positions. Historically individuals in these positions have changed in line with changes to the political landscape. This has also traditionally been case for the Governing Board which is appointed by the Governor. Another examples is the capital investment decision relating to the pipeline between Costa Sur and Aguirre where following a change in administration the project was abandoned and instead replaced by the Via Verde project which was never completed.

b. Do any of the individuals responsible for such decisions remain at PREPA, as employees or as members of the Board?

The following response was provided by Lisa Donahue, the CRO of PREPA.

The Chief Restructuring Officer has not performed an in-depth analysis of who made such decisions prior to the appointment and whether such individuals are still at PREPA.

c. To what degree has this situation been remedied?

The following response was provided by Lisa Donahue, the CRO of PREPA.

One of the key initiatives PREPA is pursuing is governance reform and depoliticizing PREPA through the appointment of an independent board. Russell Reynolds was hired to identify potential candidates for the new board and have done so independently. While the new Board members will still be appointed by the Governor, their terms will be staggered and no longer coincide with the political calendar. In addition, consistent with the new governance requirements set forth in the PREPA Revitalization Act, future board members will be identified through a similar process as the one PREPA is currently following – i.e. the slate of potential candidates will be identified and put forward by a professional third party search firm.

d. Have any such decisions been made since you assumed the position of PREPA's CRO?

The following response was provided by Lisa Donahue, the CRO of PREPA.

The Chief Restructuring Officer is not aware of any such decisions having been made since assuming the position at PREPA.

5. CEPR-SH-001-013: Donahue Direct Testimony at 20 - You state: "Staffing decisions have been made often without regard for prior experience or expertise given the nature of PREPA." Does PREPA today still employ individuals who have been hired "without regard for prior experience or expertise"?

The following response was provided by Lisa Donahue, the CRO of PREPA.

Staffing decisions for many roles in the top three levels of PREPA are Trust (or Confianza) positions. These positions are not mandated to be filled based on the prior experience or expertise of the person being selected. While the Chief Restructuring Officer is not aware of any such hiring since the commencement of the restructuring

process, given the number of such positions within PREPA it is likely individuals who were hired under these circumstances may remain in such positions today.

- 6. CEPR-SH-001-014: The Miranda *et al.* Direct Testimony at 31 states that "the executive directorate and executive team is oversized." Do you agree? What specific actions are being taken, by whom, to address this situation?**

The following response was provided by Lisa Donahue, the CRO of PREPA.

This was in part discussed in PREPA's response to the 3rd question related to Ms. Miranda, Mr. Sosa, Mr. Sales testimony in PREPA's responses to the Commission 2nd ROI. The restructuring team has been working with PREPA on an organizational blueprint which would address the concern relative to the number of direct reports to the Executive Director. PREPA is currently evaluating this proposal and have not yet decided on a definitive path how to address.

- 7. CEPR-SH-001-015: The Miranda *et al.* Direct Testimony at 33 states that PREPA's "organizational structure was redesigned with staffing levels to support operational priorities." Dr. Quintana (Direct Testimony at 8-9) states that PREPA's "operational and support areas" are: Generation, Transmission and Distribution, Customer Service; Finance; Environmental Protection and Planning; Human Resources and Labor Affairs; Legal Affairs; and Infrastructure and Operations Administration." Are these areas stated by Dr. Quintana the result of the redesign referenced by Ms. Miranda, or are they structure that needed to be redesigned?**

The following response was provided by Lisa Donahue, the CRO of PREPA.

The areas described above are the restructured areas. In addition, as discussed elsewhere in this document, PREPA has been provided with a proposed organizational blueprint to address the high number of direct reports to the Executive Director. This proposal is currently being evaluated by PREPA and no definitive decision on how to address or implement has been reached as of yet.

D. Questions for Witness Miranda

PREPA notes, and respectfully objects that the questions in the "Questions for Witness Miranda" section reference the business plan panel testimony (PREPA Ex. 3.0), which is the testimony of three witnesses, Sonia Miranda, Director of the Directorate of Planning and Environmental of PREPA; Antonio Perez Sales, Director, AlixPartners, LLP; and Virgilio Sosa, Director, AlixPartners, LLP. Furthermore, as reflected on page 3 of PREPA Ex. 3.0, the focus of Ms. Miranda's testimony is

“PREPA’s capital investment plan and the operational assumptions that are the basis for the revenue requirement”. As indicated on page 4, Mr. Perez’s testimony focuses on “the implementation of improvement programs and the results achieved in the areas of customer collections, reduction in energy theft and non-technical loss and improvement in the customer experience.” As indicated on page 5, Mr. Sosa’s testimony focuses on my work on PREPA’s fuels initiatives including those about process, controls and costs reduction.” Several of the questions posed as relating to the testimony of Ms. Miranda do not relate to the subject matter of her testimony, and, generally, those questions relate to the testimony of Mr. Perez and/or Mr. Sosa.

1. **CEPR-SH-001-016: Donahue Direct Testimony at 19-20 refers to "decades of mismanagement and poor decision making." Your Direct Testimony at p. 6 echoes these concerns.**

PREPA additionally respectfully objects that the reference to page 6 of PREPA Ex. 3.0 does not correctly state or characterize the relevant testimony on that page. The testimony on that page refers to difficulties faced by PREPA but does not discuss mismanagement or poor decision making by PREPA.

- a. **For your two and a half decades at PREPA, describe specific examples of mismanagement and poor decision-making that you observed.**

PREPA respectfully incorporates its above objections. In addition, PREPA objects and states that Ms. Miranda has been involved in the management of PREPA only for two periods, in the 2005 to 2008 period and since 2013, the latter period involving direct efforts to improve PREPA that became formal restructuring and recovery efforts in 2014.

- b. **For each example you described, what actions did you personally take to address these problems? What were the outcomes of your efforts?**

PREPA respectfully incorporates its above objections and statements and states that, as a result, there is not a predicate for this question.

2. **CEPR-SH-001-017: Miranda *et al.* Direct Testimony at 13 - You refer to "PREPA's CRO and PREPA's management team understanding and agreeing on a path to address PREPA's challenges." For the members of "PREPA's management team," identify the individuals and their position titles.**

PREPA respectfully incorporates its objections stated above under heading “D”. Answering further, PREPA hereby submits the following list of individuals which comprise its management team:

- Governing Board
 - Eng. Harry Rodríguez García - President
 - Prof. Luis R. Benítez Hernández - Vicepresident
 - Eng. Miguel A. Torres Díaz - Ex-Officio
 - Esq. Alberto Bacó Bagué - Ex-Officio
 - Esq. Carlos J. Bonilla Agosto
 - Ms. Enid Monge de Pastrana - Commercial & Industrial Customers Rep.
 - Esq. Luis R. Santini Gaudier – Residential Customers Rep
 - Esq. Carlos Gallisá Bisbal – Residential Customers Rep
- Executive Director – Dr. Javier Quintana
- Generation – Eng. Martín Pérez
- Transmission and Distribution – Eng. Faustino González
- Customer Service – Mrs. Carmen Flores
- Planning and Environmental Protection - Eng. Sonia Miranda
- Legal Affairs – Esq. Nélide Ayala
- Human Resources and Labor Affairs – Esq. Belkin Nieves
- Finances – CPA Ernesto Ramos

3. CEPR-SH-001-018: Miranda *et al.* Direct Testimony at 31 - You state that "the team encountered outdated human resource processes that were not conducive to a safe and productive workforce. Among the problems were inflexible work rules and high absenteeism."

PREPA respectfully incorporates its objections stated above under heading "D".

a. Please describe what you mean by "inflexible work rules."

The following response was provided by Antonio Perez Sales, Director, AlixPartners, LLP.

Collective Bargaining Agreements in place with PREPA's three Unions include significant restrictions that prevent PREPA from managing its workforce in the most efficient and productive way. Examples of inflexible work rules are: i) restrictions to change employee's responsibilities other than what is strictly included in the work descriptions approved by the Union; ii) restrictions in changing work schedules and work shifts; iii) restrictions and fines for subcontracting work to third parties; iv) restrictions to assign employees to activities across Unions; v) decisions on staffing of open positions based exclusively on seniority, as opposed to skills and aptitude; vi) no ability to implement part-time positions (for example, in the call center or commercial offices)

b. What is Ms. Miranda's understanding of the root causes of these two problems?

The following response was provided on behalf of PREPA by Antonio Perez Sales, Director, AlixPartners, LLP.

Regarding inflexible work rules, PREPA's Unions have been opposed to negotiate any changes to the terms in the existing CBA's. PREPA has been able to implement some limited changes to work descriptions, work schedules and subcontracting to third parties following the enactment of Act 66-2014. This law will expire in July 1, 2017, resulting in a risk that some of the changes implemented or currently in implementation may have to be revised or reversed.

Regarding high absenteeism, a key reason for this problem is the lack of appropriate organizational mechanisms that reward employee behaviors that are aligned to PREPA's objectives, and discourage employee behaviors that are not supportive of PREPA's objectives.

PREPA otherwise respectfully objects and states that Sonia Miranda, Director of the Directorate of Planning and Environmental of PREPA, did not testify on this subject, has not held a position in human resources at PREPA, and is not in a position to supplement the above answer to this question.

c. What actions have been taken, by whom, to address these root causes?

The following response was provided by Antonio Perez Sales, Director, AlixPartners, LLP.

PREPA has held several rounds of meetings with its Unions to explain PREPA's restructuring objectives and plans, as well as the contributions expected from its employees, both unionized and non-unionized.

Following the enactment of Act 66-2014, PREPA has implemented actions to enable a more flexible and productive workforce, including, among others: changes to several work descriptions (for example field investigators in the Energy Theft Investigation area); changes to some work schedules to improve alignment to operational needs (for example, call center agents, linesmen and line construction workers in Transmission & Distribution); and is making significant progress in subcontracting with third parties several activities where significant pending backlog is degrading customer service (for example, call center, vegetation trimming, light vehicle fleet maintenance, collection of inactive accounts and maintenance of public lightning).

4. **CEPR-SH-001-019: Miranda *et al.* Direct Testimony at 31 - You state: "The team encountered low accountability and lack of leadership from top management. Often leaders and managers were placed in positions based on political affiliation vs. job qualifications."**

PREPA respectfully incorporates its objections stated above under heading "D".

- a. **For Ms. Miranda (since she was an employee under the conditions described in the quote): What do you mean by "low accountability"? What type of "accountability" would not be "low"?**

PREPA additionally respectfully objects to the phrase: "since she was an employee under the conditions described in the quote". That phrase assumes or appears to assume a state of facts about Ms. Miranda's personal employment by PREPA.

The following response was provided on behalf of PREPA by Antonio Perez Sales, Director, AlixPartners, LLP.

A high accountability organization is committed to achieving the goals of the enterprise. Each individual employee understands what is expected from her, what is his contribution to the goals of his immediate team and to the overall goals of the enterprise, and receives periodic, candid and constructive feedback on her job performance. Leaders, managers and employees are self-motivated and they are empowered and trusted to make decisions within their respective areas of responsibility.

PREPA otherwise respectfully objects and states that Sonia Miranda, Director of the Directorate of Planning and Environmental of PREPA, did not testify on this subject, has not held a position in human resources at PREPA, and is not in a position to supplement the above answer to this question.

- b. **Referring to the "leaders and managers [who] were placed in positions based on political affiliation vs. job qualifications": What steps have been taken to remedy this situation? To what extent is this situation an on-going problem within PREPA?**

The following response was provided by Lisa Donahue, the CRO of PREPA.

One of the key initiatives PREPA is pursuing is governance reform and depoliticizing PREPA through the appointment of an independent board. Russell Reynolds was hired to identify potential candidates for the new board and have done so independently. While the new Board members will still be appointed by the Governor their terms will be staggered and no longer coincide with the political calendar. In addition, consistent with the new governance requirements set forth in the PREPA

Revitalization Act, future board members will be identified through a similar process as the one PREPA is currently following – i.e. the slate of potential candidates will be identified and put forward by a professional third party search firm.

**SWORN STATEMENT IN SUPPORT OF ANSWERS
AS PER COMMISSION REQUIREMENTS**

I, Sonia Miranda Vega, of legal age, engineer, married, and resident of Vega Alta, Puerto Rico, in my capacity as Director of Planning and Environmental Protection, of the Puerto Rico Electric Power Authority ("PREPA"), under oath declare as follows:

1. My name and personal circumstances are those stated above. If called as a witness, I could testify competently as to the subject matter of this Affidavit.
2. The information supplied herewith comes from the records and information known by management and is held as true by the Puerto Rico Electric Power Authority.
3. I believe the information included in these answers is true on the basis of my personal knowledge or on the basis of the information supplied to me by employees and advisors of the PREPA. I have specified for each of the requirements copied above the person or persons who supplied the relevant information for answering.
4. For all the requirements set forth above, moreover, the PREPA's counsel assisted in preparing these answers. Such assistance was provided pursuant to the attorney-client privilege and/or work product doctrine, which the PREPA does not waive.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, on July 14, 2016.

Sonia Miranda Vega

Affidavit No. _____

Sworn and subscribed before me by Sonia Miranda Vega, of the personal circumstances above mentioned, whom I personally know, in San Juan, Puerto Rico, on July 14, 2016.

Notary Public

CERTIFICATE OF SERVICE

I hereby certify that I have sent the above PREPA'S RESPONSES TO THE THIRD REQUIREMENTS OF INFORMATION OF THE STAFF OF THE ENERGY COMMISSION to the Puerto Rico Energy Commission, to its General Legal Counsel, Gustavo Bonet Martinez, Esq., at gbonet@energia.pr.gov, and to Alejandro Figueroa Ramirez, Esq., at afigueroa@energia.pr.gov, to Tania M. Negrón Vélez, Esq., at tnegron@energia.pr.gov, and to legal@energia.pr.gov, on July 14, 2016.

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