

COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY BUREAU

SECRETARIA
COMISION DE ENERGIA DE
PUERTO RICO

IN RE: REQUEST FOR
PROPOSALS FOR CONVERSION
OF SAN JUAN UNITS 5 AND 6 TO
NATURAL GAS

NO. CEPR-AI-2018-0001

'18 AGO 31 P3:15

SUBJECT: PREPA'S COMPLIANCE
FILING AND MEMORANDUM ON
CONFIDENTIALITY FOR ITEMS DUE
AUGUST 31, 2018

**PREPA'S COMBINED COMPLIANCE FILING AND MEMORANDUM ON
CONFIDENTIALITY FOR ITEMS DUE AUGUST 31, 2018**

TO THE HONORABLE PUERTO RICO ENERGY BUREAU:

COMES NOW the Puerto Rico Electric Power Authority ("PREPA") and respectfully submits to the honorable Puerto Rico Energy Bureau (the "Bureau")¹ PREPA's Compliance Filing and Memorandum on Confidentiality for Items Due August 31, 2018, under the Bureau's Resolution and Order of August 24, 2018. This Compliance Filing consists of the information provided in the two Attachments here included.

The information and material being produced includes and responds to the following information or documents requested on the August 24, 2018 Order:

I. MATERIAL BEING PRODUCE

1. June 19, 2019 memorandum from the Director of Legal Affairs, recommending the use of the RFP process for the acquisition of services to procure a new fuel supply contract and conversion of San Juan Plant Units 5 & 6.

¹ References herein to the Bureau include the Puerto Rico Energy Commission when applicable.

2. Financial analysis that contains a range of prices for diesel fuel and natural gas, as described by the Puerto Rico Electric Power Authority during the Technical Conference. The analysis must include any fuel forecast and any other information that served as the basis for the financial model.

II. MEMORANDUM ON CONFIDENTIALITY

PREPA, pursuant Article 6.15 of Act No. 57-2014 and according to Section 1.15 of the Bureau Regulation on Adjudicative, Notice of Noncompliance, Rate Review and Investigation Procedures (Regulation No. 8543) has designated item 2 above as Confidential.

1. In brief, Puerto Rico Law recognizes the confidentiality of trade secrets. The principal law providing for the protection of the confidentiality of trade secrets, codified in Act 80-2011, is the "Industrial and Trade Secret Protection Act of Puerto Rico." Act 80-2011 recognizes that information should be protected when it has the potential for financial or commercial value. The Legislative Assembly noted that "failure to protect trade secrets could leave companies at the mercy of any competitor or former employee who gains knowledge of any such secret, whether directly from the owner or by other means." As a public body whose costs are ultimately borne by citizens of the Commonwealth, PREPA also has a strong interest in protecting the trade secrets of actual and prospective vendors and contractors who entrust PREPA with that information in confidence as part of business and financial dealings. Violating those protections (e.g., by public release of confidential vendor or financial data) could not only harm those other parties, but also threaten PREPA's ability to acquire goods and services from the markets at the lowest cost, ultimately harming customers.

2. Act 80-2011 defines a trade secret as any information that:

... has a present or a potential independent financial value or that provides a business advantage, insofar as such information is not common knowledge or readily accessible through proper means by persons who could make a monetary profit from the use or disclosure of such information; and [f]or which reasonable security measures have been taken, as circumstances dictate, to maintain its confidentiality.

3. Trade secrets may take a variety of forms, including "a process to manufacture, treat or preserve materials, a formula or recipe, a project or pattern to develop machinery, or simply a list of specialized clients that constitute a specific market which provide the owner with an advantage over his/her competitors." However, these examples are not exhaustive, and the Legislative Assembly reinforced in the Statement of Motives of Act 80-2011 that the broad definition of a trade secret includes "any confidential information with trade or industrial value, which its owner reasonably protects to prevent its disclosure."

4. PREPA has made the confidentiality designations in this filing based on its careful assessment of the contents of the materials. Accordingly, PREPA respectfully requests that the Bureau accept the confidentiality designation and treat Item 2 as possession and review restricted to Commissioners and their staff only.

WHEREFORE, the Puerto Rico Electric Power Authority respectfully requests that the Honorable Puerto Rico Energy Bureau accept this Compliance Filing, including the Confidentiality designations. .

C

RESPECTFULLY SUBMITTED,

IN SAN JUAN, PUERTO RICO, THIS 31st DAY OF AUGUST, 2018

PUERTO RICO ELECTRIC POWER AUTHORITY



Nitza D. Vázquez Rodríguez

TSPR No. 9311

Senior Attorney

Puerto Rico Electric Power Authority

P.O. Box 363928

San Juan, Puerto Rico 00936-3928

Tel. 787-521-4499

Email: n-vazquez@aeep.com

CERTIFICATION OF FILING AND SERVICE

I hereby certify that on August 31, 2018, I have sent the above Filing to the Puerto Rico Energy Bureau through its Clerk via email to secretaria@energia.pr.gov and mcintron@energia.pr.gov; and to the office of the Bureau's internal legal counsel via email to legal@energia.pr.gov and sugarte@enrgia.pr.gov; provided that the Attachments are being provided in hard copy.



Nitza D. Vázquez Rodríguez

TSPR No. 9311

Senior Attorney

Puerto Rico Electric Power Authority

P.O. Box 363928

San Juan, Puerto Rico 00936-3928

Tel. 787-521-4499

Email: n-vazquez@aepr.com



EXHIBIT 3971

GOVERNMENT OF PUERTO RICO
Puerto Rico Electric Power Authority

June 19, 2018

Walter M. Higgins
Chief Executive Officer

Astrid I. Rodríguez Cruz
Astrid I. Rodríguez Cruz
General Counsel

2018 JUL -5 P 3:32
RECIBIDO - CHOFIA
DIRECTOR EJECUTIVO

Request for Proposals Process (RFP-81412) for the Fuel Supply in the North of Puerto Rico and Conversion of San Juan Power Plant Units 5 and 6.

San Juan Power Plant (SJPP) has the newest units of generation in the North of Puerto Rico, but not the most economical since they are currently only burning distillate #2 (diesel). With a total capacity of 440 MW, SJPP Units 5 and 6 have the capability to be converted to dual fuel to burn different types of fuel along with diesel, including liquefied natural gas (LNG), which can be more economical than diesel, lower maintenance costs, and could reduce the emissions to the environment. All the above-mentioned benefits are expected to have an impact in the increase of usage of these units. In recent years, the capacity factor of these units has been between 60% and 70%. With the units' conversion modification to an alternate gaseous fuel, the capacity factor may increase to 80% to 85% and a fuel requirement around 25,000,000 MMBTU per year.

Engineer William Ríos Mera, Generation Director, in memorandum dated June 20, 2018 states that PREPA is seeking to reduce the cost of generation to its clients and improve compliance with environmental requirements for the generating units. Also, recent events demonstrated, including hurricanes Irma and María, PREPA needs to have reliable and economic generation in the north of the Island and have to look for alternatives to strengthen the fleet in the San Juan area.

According to the information provided by Generation directorate PREPA's current price of diesel is approximately \$16 per MMBTU, and is expected that if we can start burning an alternate gas fuel like LNG, PREPA could be paying around \$10 per MMBTU like PREPA is paying in Costa Sur, which may translate in savings of about 39% in fuel expenses. Annual fuel savings around \$150 million may be expected.



PO Box 364267 San Juan, Puerto Rico 00936-4267

*We are an equal opportunity employer and do not discriminate on the basis of race, color, gender, age, national or social origin, social status, political ideas or affiliation, religion; for being or perceived to be a victim of domestic violence, sexual aggression or harassment, regardless of marital status, sexual orientation, gender identity or immigration status; for physical or mental disability, for veteran status or genetic information

Engineer Ríos Mera recommended a request for proposal process to make an agreement with a company that can perform the design and conversion of units 5 and 6 to dual fuel, build the necessary infrastructure to transfer fuel to them, and supply fuel to both units. PREPA will not make any investment on the project until the units are commissioned and Units 5 and 6 are burning LNG or any other selected fuel. The contractor shall complete all works, and when the fuel supply starts, PREPA will make the payment for capital cost along with the fuel consumption. This agreement will have a 5-year term and the capital cost payments will be distributed over the whole contract duration. The 5-year contract will also have three extension options of five years each.

off
The enabling act of PREPA, Act of May 2, 1941, No. 83 as amended, in section 15 (22 LPRA Sec. 205) Construction and Purchase Contracts; Regulations for Bidders Presentation; Exemption, establishes:

- 1(a) All purchases and contracts of supplies or services, except professional services, made by PREPA, including contracts for the construction of works thereof, shall be made by calling for bids with sufficiently time in advance before the date the bids are open so that PREPA can guarantee proper knowledge and appearance of competitive bidders. Upon, comparing proposals and making adjudications, due consideration shall be given to such factors, in addition to whether the bidder has complied with the specifications, as the ability of the bidder to carry out construction work of the nature involved in the contract under consideration; the relative quality and adaptability of the materials, goods, equipment or services; the financial responsibility of the bidder and his expertise, experience, reputation of business integrity and ability to render repair and conservation services; and the deadline for the delivery or performance offered. PREPA may approve regulations for the presentation of bids.
- 2 The bid requirement will not be necessary:
 - (f) When in the judgment of the Governing Board, a competitive request for proposal (RFP) process for the acquisition of goods, equipment, materials or services must be carried out to encourage greater competition,

reduce the risk of collusion and promote the best possible terms and conditions in benefit of greater savings and reduction of costs and operational expenses of PREPA.

According to PREPA's Rules Regarding Levels of Approval for Document (Norma Sobre Niveles de Aprobación de Documentos de la Autoridad de Energía Eléctrica) it authorizes the Executive Director to sign all contracts exempted from the bid process in accordance with the enabling act of PREPA (Act 83 of the May 2, 1941, as amended) up to \$2,000,000. In addition, it will approve those that exceed this amount with the authorization of the Governing Board.

Administrative Bulletin No. OE-2017-066 delegated to the Fiscal Agency and Financial Advisory Authority (FAFAA), through the officer it designates for such purpose, act as Receiver of PREPA's procurement division and of any other division or office whose duties affect PREPA's procurement processes for goods and services to supervise and reform the processes for the purchase of goods and services by PREPA. To facilitate such receivership, Administrative Bulletin No. OE-2017-066 established the Office for Contract and Procurement Compliance (OCPC), and which shall evaluate and approve all procurement and purchases of goods and services by PREPA in excess of \$500,000. On June 11, 2018, the pertinent documents were sent to OCPC, for their approval. In addition on June 14, 2018, the Directorate of Legal Affairs submitted the authorization request for this process for the corresponding approval of the Office of Management and Budget (OMB). Therefore, the RFP cannot be published until the respective authorization of OCPC and OMB.

After evaluating the information and documents provided by the Generation Directorate and assuming as true and correct the aspects mentioned in his memorandum, the Legal Affairs Directorate recommends the RFP process to be used to acquire the services for fuel supply in the North and the possible conversion of San Juan Units 5 and 6, to encourage greater competition, reduce the risk of collusion and promote the best possible terms and conditions in benefit of greater savings and reduction of costs and operational expenses of PREPA. Also, due to the atypical and unique concept of this project, the RFP process will allow PREPA the flexibility to negotiate prices and options not only in the price of fuel but the additional facets of the potential contract to obtain the most advantageous solution for the people of Puerto Rico.

This recommendation is subject to the prior approval of OCPC, OMB and PREPA's Governing Board.

Annexes