

COMMONWEALTH OF PUERTO RICO  
PUERTO RICO ENERGY BUREAU

JUN 14 PM 4:04

**IN RE:** REVIEW OF THE PUERTO  
RICO ELECTRIC POWER  
AUTHORITY INTEGRATED  
RESOURCE PLAN

**CASE NO.:** CEPR-AP-2018-0001

**SUBJECT:** Informative Motion Regarding  
Flexible Distributed Generation Units RFQ

**INFORMATIVE MOTION  
REGARDING FLEXIBLE DISTRIBUTED GENERATION UNITS RFQ**

National Public Finance Guarantee Corporation (“National”) respectfully submits this Informative Motion to notify the Puerto Rico Energy Bureau (the “Bureau”) of a Request for Qualifications (the “RFQ”) issued by the Puerto Rico Public-Private Partnerships Authority (the “P3 Authority”) on April 16, 2019. The RFQ concerns a proposal for a private party to develop, construct, manage, own, and operate at least fifteen new mobile and/or fixed flexible distributed generation units, with a total capacity of approximately 450 MW.<sup>1</sup> The RFQ intends to replace the Puerto Rico Electric Power Authority’s (“PREPA”) existing flexible distributed generation units, which it describes as “well beyond their intended useful lives, with many units unavailable due to deferred maintenance issues.”<sup>2</sup> This project is inherently related to the ongoing Integrated Resource Plan (“IRP”) process. However, the RFQ deviates from PREPA’s February 13 and June 7 Draft IRPs and is otherwise inconsistent or ambiguous in several material respects. These deviations should be considered and remedied now, before acceptance of an IRP, to avoid a needless waste of the Bureau’s and PREPA’s resources. These deviations also reinforce the need for any P3 projects to conform to the IRP—and not the reverse. These inconsistencies are the

<sup>1</sup> See RFQ 2019-3 at pp.1, 14-16 (Apr. 16, 2019), available online at <http://www.p3.pr.gov/assets/rfq-2019-3-p3a-flexible-distributed-generation-units.pdf> (the “RFQ”).

<sup>2</sup> *Id.* at p.13.

unfortunate result of soliciting generation proposals before the IRP is complete. Therefore, National respectfully states as follows:

*First*, although the RFQ purports to be in line with PREPA's IRP,<sup>3</sup> it deviates in several material respects from both the February 13 Draft IRP and the June 7 Draft IRP.<sup>4</sup> In particular, the RFQ deviates from the June 7 Draft IRP<sup>5</sup> in at least the following ways:

- Whereas the IRP calls for installation of 414 MW of flexible distributed generation units at five sites, the RFQ calls for installation of 450 MW of units at seven sites.<sup>6</sup> Thus, the RFQ calls for installation of more capacity at more sites.
- Whereas the IRP calls for installation of eighteen 23 MW flexible distributed generation units, the RFQ calls for installation of at least fifteen units of up to 30 MW.<sup>7</sup> Thus, the RFQ reflects greater uncertainty about the ultimate configuration of units.

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<sup>3</sup> *Id.* at p.1. Presumably, this claim refers to the February 13 Draft IRP, because the RFQ was issued before the June 7 Draft IRP.

<sup>4</sup> As background, PREPA submitted a draft IRP to the Bureau on February 13, 2019. *Draft Puerto Rico Integrated Resource Plan 2018-2019, Rev. [1]*, Case No. CEPR-AP-2018-0001 (Feb. 13, 2019) (the "February 13 Draft IRP"). The Bureau rejected this prior draft IRP for various non-compliances and ordered PREPA to file a new draft within 30 days—i.e., by April 15, 2019. See *Resolution and Order on the Completeness of the Puerto Rico Electric Power Authority's Integrated Resource Plan Filing*, Case No. CEPR-AP-2018-0001 (Mar. 14, 2019).

PREPA then proceeded to request three separate extensions of the deadline to file a new draft IRP. See *PREPA's Clarification Questions and Motions Regarding Schedule*, Case No. CEPR-AP-2018-0001 (Mar. 26, 2019) (first motion to extend); *PREPA's Informative Motion and Motion to Extend Due Date for Revised IRP*, Case No. CEPR-AP-2018-0001 (May 3, 2019) (second motion to extend); *PREPA's Motion to Extend Schedule*, Case No. CEPR-AP-2018-0001 (May 31, 2019) (third motion to extend). The deadline was ultimately extended, including over the dissent of a commissioner, to June 7, 2019 (June 14, 2019 for updated testimony)—i.e., almost two months later than the original deadline. See *Resolution and Order re: PREPA's Motion to Extend Schedule*, Case No. CEPR-AP-2018-0001 (June 5, 2019).

On June 7, 2019, PREPA filed a new draft IRP. See *Draft Puerto Rico Integrated Resource Plan 2018-2019, Rev. [2]*, Case No. CEPR-AP-2018-0001 (June 7, 2019) (the "June 7 Draft IRP"). As of this writing, PREPA has not submitted supporting testimony.

<sup>5</sup> All these deviations are materially the same as the RFQ's deviations from the February 13 Draft IRP.

<sup>6</sup> Compare June 7 Draft IRP, Case No. CEPR-AP-2018-0001, at p.10-6 (June 7, 2019), with RFQ at pp.14-16. The June 7 Draft IRP also contemplates over 650 MW of peaking unit generation by the 2030s. June 7 Draft IRP at p.8-47.

<sup>7</sup> Compare *id.*



- There is also inconsistency between the IRP and the RFQ regarding the location of several flexible distributed generation units.<sup>8</sup>
- The below table illustrates these deviations:

*Table 1. Deviations between IRP and RFQ*

| Location          | IRP (Units x MW) | RFQ (Units x MW) |
|-------------------|------------------|------------------|
| Costa Sur         | -                | 2 x 30 = 60 MW   |
| Carolina (Daguao) | 5 x 23 = 115 MW  | 2 x 30 = 60 MW   |
| Jobos             | 2 x 23 = 46 MW   | 2 x 30 = 60 MW   |
| Palo Seco         | -                | 3 x 30 = 90 MW   |
| Mayagüez          | 4 x 23 = 92 MW   | -                |
| Vega Baja         | -                | 2 x 30 = 60 MW   |
| Caguas (Yabucoa)  | 5 x 23 = 115 MW  | 2 x 30 = 60 MW   |
| Aguirre           | -                | 2 x 30 = 60 MW   |
| Cayey             | 2 x 23 = 46 MW   | -                |
| <b>Total MW</b>   | <b>414 MW</b>    | <b>450 MW</b>    |

National respectfully informs the Bureau of these deviations so that it may take any steps necessary to ensure that the IRP process is conducted efficiently and accurately.<sup>9</sup>

*Second*, ambiguities surround the cost and timing of the RFQ project, which both appear to have been underestimated. Originally, officials had reportedly suggested that the units would cost approximately \$17 million each (*i.e.*, approximately \$255 million total), and would begin coming online in 2020.<sup>10</sup> Next, the February 13 Draft IRP stated that the total cost would be

<sup>8</sup> Compare *id.* While some inconsistent locations are geographically close to each other, it is not clear whether any other differences in terms of site suitability (*e.g.*, interconnection, permitting) were considered.

<sup>9</sup> It is especially important for the Bureau to be informed of these deviations because the P3 Authority has represented that “[n]o information is expected to be exchanged with PREB prior to the finalization of the [flexible generation] contract negotiation process.” RFQ 2019-03 Questions and Responses Log, at Question No. 15 (May 10, 2019), available online at <http://www.p3.pr.gov/assets/p3a-generation-peakers-rfq.pdf>.

<sup>10</sup> See PREPA Chief Touts New PREPA RSA Benefits, Discusses Potential Jones Act Waiver; Rosselló Administration Launches RFQs for Peaking Generation, Hydropower Projects, Reorg Research (Apr. 26, 2019).

approximately \$384 million (*i.e.*, approximately \$21 million per unit), and estimated that the operation date would be in 2021.<sup>11</sup> Now, the June 7 Draft IRP revises the cost estimate upward to \$433 million (or about \$1,050 per kW), which reflects an approximately 13 percent increase from the February 13 Draft IRP, and a 70 percent increase relative to the aforementioned statements by officials.<sup>12</sup> Meanwhile, the RFQ sets various parameters that will render the project more complex and likely increase total costs even further—*i.e.*, potentially significantly beyond the \$433 million estimate—including:

- The RFQ requires dual-fuel capability, such that the units can burn diesel or natural gas on a primary basis without any modifications.<sup>13</sup>
- The RFQ requires the units to be mobile and/or fixed but capable of relocation.<sup>14</sup> While the circumstances in which units would be moved are unclear, mobile units will likely be more expensive due to the unique equipment configurations required for transporting and recommissioning such units.
- The RFQ apparently contemplates the supply of trucked Liquid Natural Gas (“LNG”) fuel for certain units.<sup>15</sup> At the listed capacity factors, this could require delivery from multiple LNG trucks per day per unit, onsite cryogenic storage tanks, and vaporizers, among other things (including permitting). These requirements could further increase the cost.
- As reflected in the Q&A to date with potential bidders, other cost risks include the need for new source environmental permits and major modifications to the existing substations and transmission line interconnections.<sup>16</sup>

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<sup>11</sup> February 13 Draft IRP at p.10-7.

<sup>12</sup> June 7 Draft IRP at p.10-6. *See also id.* at p.1-9 (“2021 is assumed as the earliest commercial operation date.”).

<sup>13</sup> RFQ at p.15.

<sup>14</sup> RFQ 2019-03 Questions and Responses Log, at Question No. 34.

<sup>15</sup> *See* RFQ at pp.14-16 (identifying locations for flexible distributed generation units that are not equipped with LNG pipelines or other related infrastructure); June 7 Draft IRP at p.10-6 (“These new units will be capable of burning containerized natural gas delivered by truck with onsite tankage.”).

<sup>16</sup> RFQ 2019-03 Questions and Responses Log, at Questions No. 29, 33.



It is critically important for the IRP to incorporate accurate cost and timing projections.<sup>17</sup> Yet, the RFQ perpetuates uncertainty regarding these factors, and both have likely been underestimated. PREPA should promptly submit a complete analysis regarding the cost and timing of the flexible distributed generation units.<sup>18</sup>

*Finally*, National notes that the RFQ contains certain requirements that may affect the project's viability and therefore the IRP's modeling of flexible generation capacity. For example, the RFQ imposes a 98% unit availability guarantee despite also requiring fuel switching and mobility capabilities—including that the winning bidder must transport and install the units at alternate sites “at PREPA’s option.”<sup>19</sup> While this 98% availability guarantee is achievable for stationary natural gas units that are properly operated and maintained, it may become challenging in light of the conditions here. The RFQ also contemplates that the winning bidder will remove PREPA’s existing flexible distributed generation units, but it does not specify how this property will be disposed.<sup>20</sup> And it contemplates that the new units will be installed “in or near the foot print of the existing units,” but at the same time it does not require that the winning bidder pay for use of such land—which would be part and parcel of the very same generation assets that PREPA

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<sup>17</sup> The need for accurate projections is illustrated by issues with past projections. The San Juan conversion, for example, was originally expected to be operational by this month, but the project has reportedly fallen behind schedule. *See, e.g., New Fortress Energy Signs Contract to Supply Natural Gas to San Juan Power Plant*, BusinessWire (Mar. 5, 2019), available online at <https://www.businesswire.com/news/home/20190305005983/en/New-Fortress-Energy-Signs-Contract-Supply-Natural> (project expected to be complete by mid-2019); *Construction of the New Fortress Energy Facilities Will End in September*, El Nuevo Día (June 6, 2019), available online at <https://www.elnuevodia.com/negocios/empresas/nota/laconstrucciondelasinstalacionesdenewfortressenergyculminaraenseptiembre-2497965/> (according to PREPA Executive Director José Ortiz, construction is now expected to take until September 2019, with both units operating on natural gas by December 2019).

<sup>18</sup> Notably, this information will also help potential bidders consider the terms of the investment, financing, and so on—which will ultimately fall on a single winning bidder under the RFQ. *Id.* at Questions No. 36 and 37. The P3 Authority has also indicated that it is “unable to confirm at this stage if federal funds may be available for this RFP process.” *Id.* at Question No. 21.

<sup>19</sup> RFQ at p.15.

<sup>20</sup> *Id.* at p.14.

seeks to sell to other private parties during its transformation.<sup>21</sup> Indeed, the RFQ does not seem to account for the parallel process of privatizing PREPA's generation assets, even though it intrinsically affects the assets being privatized. These internal inconsistencies and ambiguities should also be clarified for purposes of the IRP.<sup>22</sup>

This project is one among many in PREPA's unprecedented transformation and privatization. And it is happening in parallel with the development of PREPA's IRP, even though, ideally, the IRP would be complete before proposal solicitation. In these circumstances, key details must be accurate, up to date, and consistent across different contexts—otherwise, the entire process is put at risk. Because the flexible distributed generation unit RFQ materially deviates from both the February 13 Draft IRP and the June 7 Draft IRP, has resulted in differing and potentially inaccurate cost and timing estimates, and contains other inconsistencies or ambiguities, National respectfully submits this informative motion to apprise the Bureau of these issues bearing on the IRP process and the transformation and privatization more generally.

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<sup>21</sup> *Id.* at p.16; RFQ 2019-03 Questions and Responses Log, at Question No. 32.

<sup>22</sup> Collectively, the RFQ's complicated requirements—such as 98% availability, mobility, dual-fuel capability, and use of trucked LNG—also make it unlikely that there will be a large pool of qualified, interested bidders.

RESPECTFULLY SUBMITTED,

THIS 14th DAY OF JUNE, 2019

**CERTIFICATE OF SERVICE:** We hereby certify that on this same date a true and accurate copy of the foregoing motion was sent via electronic means to **Autoridad de Energía Eléctrica de Puerto Rico** to Nélida Ayala Jiménez, Esq., Nitza D. Vázquez Rodríguez, Esq. and Carlos M. Aquino Ramos, Esq. at [n-ayala@aepr.com](mailto:n-ayala@aepr.com), [n-vazquez@aepr.com](mailto:n-vazquez@aepr.com), [c-aquino@aepr.com](mailto:c-aquino@aepr.com); to the **Oficina Independiente de Protección al Consumidor**, to Hannia Rivera at [hrivera@oipc.pr.gov](mailto:hrivera@oipc.pr.gov); and to the **Oficina Estatal de Política Pública Energética** to Wilma I. López Mora at [wilma.lopez@ae.pr.gov](mailto:wilma.lopez@ae.pr.gov).

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RESPECTFULLY SUBMITTED,

THIS 14th DAY OF JUNE, 2019

**CERTIFICATE OF SERVICE:** We hereby certify that on this same date a true and accurate copy of the foregoing motion was sent via electronic means to **Autoridad de Energía Eléctrica de Puerto Rico** to Nélida Ayala Jiménez, Esq., Nitza D. Vázquez Rodríguez, Esq. and Carlos M. Aquino Ramos, Esq. at [n-ayala@aepr.com](mailto:n-ayala@aepr.com), [n-vazquez@aepr.com](mailto:n-vazquez@aepr.com), [c-aquino@aepr.com](mailto:c-aquino@aepr.com); to the **Oficina Independiente de Protección al Consumidor**, to Hannia Rivera at [hrivera@oipc.pr.gov](mailto:hrivera@oipc.pr.gov); and to the **Oficina Estatal de Política Pública Energética** to Wilma I. López Mora at [wilma.lopez@aepr.gov](mailto:wilma.lopez@aepr.gov).

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