

GOVERNMENT OF PUERTO RICO
PUBLIC SERVICE REGULATORY BOARD
PUERTO RICO ENERGY BUREAU

2019 DEC 26 PM 4: 38

IN RE: REQUEST FOR APPROVAL OF
AMENDED AND RESTATED POWER
PURCHASE AND OPERATING
AGREEMENT WITH ECOELÉCTRICA
AND NATURAL GAS SALE AND
PURCHASE AGREEMENT WITH
NATURGY

CASE NO.:
NEPR-AP-2019-0001

SUBJECT:
Request for Confidential Designation of
Documents Regarding Gas Price and
Projected Savings of Agreements Regarding
Approval of Amended and Restated Power
Purchase Agreement with EcoEléctrica and
Natural Gas Sale and Purchase Agreement
with Naturgy

**MOTION INFORMING APPROVAL BY FOMB OF THE PUERTO RICO ELECTRIC
POWER AUTHORITY'S AMENDED AND RESTATED POWER PURCHASE AND
OPERATING AGREEMENT WITH ECOELÉCTRICA AND NATURAL GAS SALE
AND PURCHASE AGREEMENT WITH NATURGY AND REQUEST FOR
TECHNICAL CONFERENCE TO DISCUSS MOTION FOR RECONSIDERATION**

TO THE PUERTO RICO ENERGY BUREAU:

COMES NOW the Puerto Rico Electric Power Authority ("PREPA") through the undersigned legal representation and respectfully sets forth and pray:

On November 5, 2019, PREPA requested that the Puerto Rico Energy Bureau ("PREB") review and approve the Amended and Restated Power Purchase and Operating Agreement between EcoEléctrica, L.P. ("EcoEléctrica") and PREPA, and the Amended and Restated Natural Gas Sale and Purchase Agreement between Naturgy Aprovevisionamientos, S.A. ("Naturgy") and PREPA, (together the "Agreements"). With the submission, PREPA thoroughly explained to PREB the details of the transaction, its compliance with the Puerto Rico Energy Public Policy Act approved April 11, 2019 ("Act 17-2019") and the current and proposed IRP. PREPA also demonstrated that the Agreements fully contemplate and allow for the aggressive introduction of

renewables as required by Act 17-2019 and the Renewable Portfolio Standards of Act 82-2010. The Agreements will also enhance the flexibility, reliability and resilience of Puerto Rico's electrical grid and will yield immediate savings for PREPA costumers at a rate of an estimated \$100 million per year.

On November 27, 2019, without evaluating the merits of the transaction, the PREB denied without prejudice PREPA's request and entered Resolution and Order granting PREPA leave to refile its Petition *after* PREB issues a Final Resolution regarding the proposed Integrated Resource Plan ("IRP") that is pending approval.

Thereafter, on December 9, 2019 PREPA filed Request for Reconsideration of the PREB's November 27, 2019 Resolution and Order denying without prejudice the approval of the Agreements.

On December 16, 2019 Ecoeléctrica followed suit and filed "Petition of Ecoeléctrica, L.P. to Intervene ("Petition to Intervene"). At the time, Ecoeléctrica submitted to the PREB that "it is an interested party [in the transaction] and its intervention in [the] proceeding...will contribute to the development of a more complete record and will assist [PREB] in its eventual determination regarding PREPA's motion for reconsideration".

In response to PREPA's Request for Reconsideration, on December 18, 2019, PREB entered Resolution whereby it notified that "it will consider the Request for Reconsideration filed by PREPA".

For the purpose of establishing a fuller record, on December 19, 2019, PREPA submitted to PREB "*Request for Confidential Designation of Documents Regarding Gas Price and Projected Savings of Agreements Regarding Approval of Amended and Restated Power Purchase Agreement with EcoEléctrica and Natural Gas Sale and Purchase Agreement with Naturgy*" ("Submittal and

Request for Confidential Designation of Documents”) whereby PREPA submitted supplemental information related to the approval of the Agreements.

Today, December 26, 2019 the Fiscal, Oversight and Management Board (“FOMB”) approved the Agreements. (Attachment 1). PREB has yet to rule on Ecoeléctrica’s Petition to Intervene, on PREPA’s Request for Reconsideration or on PREPA’s Submittal and Request for Confidential Designation of Documents.

PREPA once again submits to the PREB that the timely approval of the Agreements is a matter of public interest and essential for the reliability and resilience of Puerto Rico’s electrical grid in compliance with the Puerto Rico Energy Policy. PREPA fully supports Ecoeléctrica’s intervention in the proceeding as Ecoeléctrica can provide PREB valuable technical information regarding the transaction. To adequately discuss the merits of PREPA’s Petition for Reconsideration and the merits of the Agreements, PREPA request that the PREB schedule a technical conference on any of the following available dates: **January 9, 10, 14 or 15, 2020**. The conference will allow PREPA to explain to the PREB any questions it has regarding the Agreements, the benefits of the same and their importance for a comprehensive transition to renewables.

WHEREFORE, PREPA requests the PREB to **TAKE NOTICE** of the FOMB’s approval of the Agreements and **SCHEDULE** a technical conference to address PREPA’s Request for Reconsideration and the negotiated Agreements.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 26th day of December 2019.

/s Maraliz Vázquez Marrero
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/s Katiuska Bolaños
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CERTIFICATE OF SERVICE

We hereby certify that, on this same date we have filed the above motion at the office of the Clerk of the Puerto Rico Energy Bureau; and a courtesy copy of the filing was sent via e-mail to EcoEléctrica legal counsel: Carlos Colón Franceschi; ccf@tcm.law

In San Juan, Puerto Rico, this 26th day of December 2019.

/s Katiuska Bolaños
Katiuska Bolaños

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FOR PUERTO RICO**



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BY ELECTRONIC MAIL

December 26, 2019

Astrid I. Rodríguez Cruz
General Counsel
Puerto Rico Electric Power Authority

Re: EcoEléctrica and Gas Natural Aprovevisionamientos Contracts Amendments

Dear Ms. Rodríguez-Cruz:

In accordance with the contract review policy of the Financial Oversight and Management Board for Puerto Rico ("FOMB") established pursuant to Section 204(b)(2) of PROMESA, we have reviewed the proposed contracts amendments between the Puerto Rico Electric Power Authority ("PREPA") and two entities: (i) EcoEléctrica, L.P. ("EcoEléctrica") for the Power Purchase and Operating Agreement; and (ii) Gas Natural Aprovevisionamientos ("Naturgy") for the Gas Sale and Purchase Agreement.

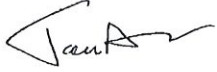
After reviewing the proposed contracts amendments, the FOMB concludes "Approved". This conclusion is made with the understanding that PREPA will abide by its commitment to evaluate the most cost-effective way to continue seeking savings related to the renegotiation of its Power Purchase and Operating Agreements as well as to continue to pursue further opportunities to reduce costs, for the benefit of ratepayers of Puerto Rico.

Please note that our review is solely limited to the compliance of the proposed contract with the applicable fiscal plan and no other matters. For the avoidance of doubt, the review performed by the FOMB does not cover a legal review of the contractual documentation or the contracting process, including without limitation: (i) compliance with contracting requirements under applicable laws, rules, and regulations, both federal and local and (ii) compliance with applicable laws, rules, and regulations governing procurement activities, both federal and local. In addition, the FOMB has not engaged in any due diligence or background check with respect to the contracting parties nor whether the contracting parties comply with the requirements under the applicable contract.

This letter is delivered as of the date hereof and we reserve the right to provide additional observations and modify this letter based on information not available when the review was conducted. In addition, during the course of our review, we may receive information which we may determine to refer to the relevant authorities.

This letter is issued only to PREPA and solely with respect to the proposed contracts amendments.

Sincerely,

A handwritten signature in black ink, appearing to read "Jaime A. El Koury", with a stylized flourish at the end.

Jaime A. El Koury
General Counsel

EcoEléctrica PPOA and Naturgy GSA – Puerto Rico Energy and Power Authority

Context

EcoEléctrica is a natural gas-fired generation facility located in the municipality of Peñuelas, Puerto Rico with 540MW of nameplate capacity. It has been in operation since 2000 and is owned by EcoEléctrica L.P., a consortium formed by Naturgy Energy Group S.A., Engie S.A. and Mitsui. EcoEléctrica has a Power Purchased and Operating Agreement (PPOA) with PREPA set to expire in March 2022. The facility includes an LNG regassification terminal, the only one under operation in the Island. This LNG facility is currently used to supply gas to both EcoEléctrica and Costa Sur, a PREPA-owned facility. The natural supplied to Costa Sur is purchased by PREPA from Naturgy, one of EcoEléctrica's shareholder, through a Gas Sale and Purchase Agreement (GSPA) that is set to expire in December 2020.

This review covers both the proposed contract amendment for the PPOA between EcoEléctrica and PREPA, as well as the proposed contract amendment for the GSPA between Naturgy and PREPA, as such amendments were approved by the PREPA Board of Directors. The current PPOA includes both a fixed capacity payment and a variable energy payment. The amended PPOA would alter this compensation structure by providing that PREPA would only pay a fixed capacity payment to EcoEléctrica. Similarly, PREPA proposes the GSPA be amended to include natural gas supply to both Costa Sur and EcoEléctrica. Previously, the fuel supply costs to EcoEléctrica were bundled and made part of the variable energy payment component. The practical result is that PREPA is transferring the cost of supplying fuel to EcoEléctrica from the PPOA with EcoEléctrica to the GSPA with Naturgy. PREPA proposes that both the PPOA and GSPA be extended until September 30, 2032.

Budget availability

PREPA's budget is sufficient to cover the costs of the proposed contracts for FY20

According to the information by PREPA, the proposed amendment to the PPOA has a maximum value of \$ 1.8 billion over the term of the PPOA and that the cost of the amended PPOA for the length of the contract is covered under the budget account number 01-2321-23235-000-000. For FY20, the cost of the amended PPOA would be covered under the "Purchased Power – Conventional Power" line item, which has a budget for FY20 of \$671M. This amount is enough to cover the proportion of the cost for the amended PPOA for FY20—\$77M—for the last 6 months of FY20.

With regards to the GSPA, PREPA has indicated that the contract amendment and extension has a maximum value of \$ 9.001 billion and that the total cost of the amended GSPA for the length of the contract is covered under the budget account number 01-2321-23215-000-000. For FY20, the cost of the amended GSPA would be covered under the "Fuel" line item, which has a budget for FY20 of \$1.140B. This amount is enough to cover the proportion of the cost for the amended GSPA for FY20—\$361M—for the last 6 months of FY20.

Fiscal Plan alignment

While the aggregate savings estimates submitted by PREPA (~\$81M) are in line with the savings target for renegotiation of conventional PPOAs included in the Fiscal Plan (\$80M), PREPA's estimates include some savings that are not related to the renegotiation of the contract (~\$36M), while other savings estimates do not match the same period of time the Fiscal Plan target refers to (~\$10M)

One of the initiatives in PREPA's June 2019 Certified Fiscal Plan relates to the renegotiation of existing conventional fuel PPOAs with the objective of achieving a run rate saving of \$80M in FY20. This initiative included both the EcoEléctrica PPOA and the AES PPOA, the only two conventional fuel PPOAs PREPA has in operation and the \$80M savings target was a joint target for both contract renegotiations. Based on current pace of Fiscal Plan implementation, PREPA does not expect that any renegotiation with AES will deliver savings in FY20 given discussions are ongoing.

In general, and based on the information submitted by PREPA, the proposed amendments to the PPOA and GSPA deliver savings to ratepayers. PREPA's estimates a total of \$81M in cost savings during FY20 resulting from the amendments to the PPOA and GSPA. According to PREPA, these savings are broken down as follows:

A. \$71M savings expected from the amended PPOA. The \$71M in savings are a combination of renegotiated contract terms and the displacement of more expensive plants through a higher utilization of EcoEléctrica.

a. **Renegotiated contract terms:** The amended PPOA contemplates a reduction in capacity payments from ~\$225M per year to ~\$148M per year. However, by removing from the PPOA the variable energy payment and procuring the fuel used for the EcoEléctrica through the GSPA, the average energy payment paid by PREPA is projected to increase from approximately ~5.6c/kWh in the current PPOA to ~6.8c/kWh in the GSPA.¹ **The net effect of the decrease in capacity payments and the increase in energy cost results in a net saving of ~\$35M per year.**

b. **Displaced generation:** According to PREPA, the amended PPOA is expected to result in an increased capacity factor for EcoEléctrica, which, combined with the displacement of more expensive bunker fuel generators, in particular from the Aguirre power station, is projected to result in ~\$36M in savings.²

B. \$10M savings expected from Costa Sur. These \$10M savings are the result of removing an oil hedge in the GSPA. Savings estimates from this change in the GSPA are expected to increase over time, based on current fuel price projections and may be different as fuel prices and expectations change.

The Oversight Board has concerns relating to the estimates presented by PREPA as explained below:

A. ~\$36M out of the ~\$71M savings of the savings attributed by PREPA to the amended PPOA and GSPA are driven by economic dispatching.

The savings projected by PREPA related to the displacement of fuel oil generation from the Aguirre power station are independent of the terms in the amended PPOA and GSPA and can be achieved by PREPA without the need to renegotiate any.³ As part of its submittal, PREPA argued that, as a result of the amended PPOA and GSPA, EcoEléctrica would have a cheaper marginal cost than Aguirre fuel oil generators (~6.8c/kWh for EcoEléctrica vs ~13c/kWh for Aguirre) and thus should be dispatched near full capacity. However, even under the existing PPOA, EcoEléctrica's marginal cost is cheaper than Aguirre's fuel oil generators. For example, even when, under the current PPOA, EcoEléctrica's load factor exceeds 76%, its marginal cost of ~10c/kWh is still lower than Aguirre's ~13c/kWh. Thus,

¹ The ~5.6c/kWh rate increases to ~10c/kWh for load factors beyond 76%.

² Assumptions for these extra ~\$36M savings include a displaced generation of 569,500 MWh, 12\$/MMbtu fuel prices and \$2.34/MWh for variable operations and maintenance cost.

³ Economic dispatch is a separate initiative in PREPA's Fiscal Plan and savings from improved dispatching decisions are accounted for as part of such initiative.

the increase in capacity factor and displacement of Aguirre is not attributed to the contract renegotiation.

B. The ~\$10M savings estimates from Costa Sur are estimated based on a 5-year average and not the 2020 value.

PREPA's advisors have estimated this number to be ~2M for 2020 and ~\$10M for the yearly average of the 2020-2024 period. Given the above, the initial impact for FY20 is expected to be of only \$2M.

Considering the above, the Oversight Board estimates that of the \$71M in savings projected for FY 20, approximately ~\$37M are attributable to the renegotiation of the PPOA and the GSPA. The remaining estimated savings are the result of improved economic dispatch, an initiative which the Oversight Board encourages PREPA to pursue fully. Nonetheless, the Oversight Board is of the opinion that, although below expected targets, the amended PPOA and GSPA will add value to PREPA's customers by reducing PREPA's cost of Fuel & Purchased Power which, when combined with the implementation of other initiatives, like vegetation management and economic dispatch, should deliver meaningful results to PREPA's ratepayers.

The Oversight Board also expects PREPA to continue seeking savings related to the renegotiation of its PPOA with AES as well as to continue to pursue further opportunities to reduce costs by optimizing its economic dispatch.

This contract review was conducted on the basis of information submitted by PREPA. The Financial Oversight and Management Board for Puerto Rico has not independently verified the information included in the submission. Should FOMB become aware of any inaccuracies or misrepresentations – whether intentional or not – it would re-evaluate its assessment.