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**PREPA Comments to AAFAF Recommended Organization Structure
HoldCo LLC, HydroCo LLC, PropertyCo LLC
May 3, 2023**

Following, the comments of the Puerto Rico Electric Power Authority (PREPA) to the organization structure recommended by AAFAF in its presentation of April 27, 2023:

Cover Page: No comments.

Slide 2:

Item 1: No comments.

Item 2: PREPA disagrees with the proposed process in the statement “Following reorganization commencement, work loads will be monitored to determine if additional FTEs are warranted, but the core objective is optimization of ongoing fixed labor operating expense”¹. It is against simple logic to reduce the existing staff, mobilizing current employees, before monitoring the workloads that PREPA will have after the commencement date of Genera PR, LLC (Genera). As the transformation of PREPA by means of the creation of subsidiaries to which PREPA’s different assets will be transferred is a whole new process, there is high uncertainty of what will be PREPA’s workload after each step of such transformation. Actually, when the transition of the transmission and distribution system operation and maintenance (O&M) to LUMA Energy, LLC (LUMA) took place, PREPA’s staff was significantly reduced, without the much-needed previous review of required functions and monitoring of PREPA’s workload, causing a serious disruption in the execution of PREPA’s duties and responsibilities. To address this disruption, PREPA’s management had to mobilized back many employees that, as of today, are still working at PREPA. Therefore,

¹ FTE means Full Time Employee.



PREPA strongly recommends avoiding repeating the same mistake committed during the transition to LUMA, when the transition to Genera takes place next July 1st. Instead, PREPA recommends monitoring its workload after Genera's commencement date, which will inform the decisions of reducing or increasing the staff accordingly to the workload and compliance with duties and responsibilities. It is simply illogic to present a strategy of "reacting" to workload needs "after creating the staff deficiency" due to had reduced the staff before "monitoring the workload needs". In addition, the "optimization of ongoing fixed labor operating expense" cannot be achieved by jeopardizing the compliance with duties and responsibilities, as not complying with these would likely expose PREPA to fines and penalties that will increase PREPA's operational expenses.

Item 3: PREPA is conscious and supports assigning as much as funds possible to the transformation of Puerto Rico's electrical system. In fact, especially during the past year and a half, PREPA's management has been focused on the repair and reconstruction of its generation and water assets and, accordingly, has effectively used its approved operational and Necessary Maintenance Expense (NME) budgets to follow its repair schedule. In addition, PREPA's current management and staff have sought additional income from the reimbursement of federal funds, which are being used to execute additional repair projects and O&M works and to comply with several financial commitments. All these efforts have been possible thanks to the work of the current staff, which include the support employees that are part of the HoldCo structure. It is stressed that after Genera's commencement date, PREPA will still be responsible of executing the water assets' reconstruction to be funded with federal funds (approximately \$1.5 billion), which require an adequate technical and administrative structure. Therefore, the operating budget assigned to PREPA shall consider that it provides enough labor funds, that currently are in the range of tens of millions, to execute these projects, which costs amount more than one billion dollars. It is stressed that PREPA could loose these federal funds assigned to the water assets reconstruction if it does not have enough employees to execute the required tasks. In

summary, the proposed actions to save \$18.5 million could jeopardized receiving more than \$1 billion in federal funds.

Slide 3:

“Non-Operational Functions Only”: Even though PREPA will transfer the O&M of its thermal generation fleet to Genera on July 1, 2023, PREPA will still have operational functions after that date, as it is still responsible for the operation of 28 hydroelectric units at 15 sites, 3 irrigation systems, and 20 dams and reservoirs. Therefore, it is not correct to state that, after that transition, PREPA will only retain limited functions like “legally mandated core financial reporting and record keeping, resolution of legacy legal obligations, financing activities (as required) and reporting, compliance functions”. The O&M of the water assets are under HydroCo, which will need the technical and administrative support provided by HoldCo, especially for the development of federally funded projects.

“Cross-Functional Resources”: Due to the specialized nature of a utility’s duties and responsibilities, it is simply not possible to “Leverage remaining resources through cross-functional sharing of personnel and responsibilities” in all or most instances. This, in addition to the current limitations in the availability of expert staff inside PREPA. For example, an expert in environmental protection does not have the skills set needed for developing the scope of work of an engineering, procurement, and construction project, and vice versa. Hence, it is not possible, nor practical, to assign a single employee to execute many different functions, even if the employee is supported by a consultant, mainly because the employee cannot be accountable for executing functions that are outside his or her expertise area. See the comment for Slide 35.

“No Duplication of Systems or Functional Teams”: In addition to provide core IT, accounting, and Human Resources functions to HydroCo and PropertyCo, these subsidiaries require other services like, without limitation, legal services, technical and engineering support, environmental protection tasks, procurement functions, security functions, emergency management functions, and federal funds management.

Therefore, HoldCo should have sufficient specialized employees to provide all these services.

“Outsource Functions wherever Possible”: Currently, mainly due to PREPA’s staffing constraints, most of its offices regularly execute its functions with the support of outsourcing contracts. See attached contracts list. However, PREPA’s recent experience with outsourcing functions is that consultants and contractors’ rates are much higher than current PREPA’s employees labor expenses including marginal benefits expenses. For example, a typical consultant for executing a specific function can cost PREPA at least about \$300.00 per hour when PREPA’s employee’s maximum rate for executing the same task can be about \$65.20 per hour (~\$40.00 of base salary plus ~\$25.20 in current marginal benefits at 63%), which is about 80% less expensive. Therefore, Ankura’s proposal shall include an economic analysis of approving outsourcing contracts versus maintaining current employees executing PREPA’s functions, so the most affordable alternative can be chosen to comply with the following Ankura statement in Slide 2:

“It is critical to direct the maximum amount of available funds to investments in the transformation of the energy infrastructure to deliver safe, reliable, and affordable energy for the betterment of the Puerto Rican People.”

Slide 4: No comments.

Slide 5: PREPA disagrees with the total headcount proposed by AAFAF, especially the headcount recommended for HoldCo. AAFAF’s proposal reduces the current HoldCo employees’ number from 119 to 28 employees, a reduction of 91 employees or 76.5% of the staff. According to PREPA’s management experience, the proposed 28 employees are not enough to comply with PREPA’s duties and responsibilities after Genera’s commencement date. In addition, such significant reduction should be based on empirical data collected in Puerto Rico, particularly considering that Puerto Rico’s law system is much more complex and encompassing than other jurisdictions in the USA. It is stressed that PREPA must comply with much more laws and regulations than other utilities on the mainland. Therefore, PREPA is including the file *PREPA Proposed Organizational Structure* stating its required functions and the least, not optimal or

adequate, quantity of employees to execute such functions. PREPA recommends to initially make a reduction in the HoldCo headcount of no more than 33%, which amounts about 39 employees and leaves a minimum of 80 employees in HoldCo. Then, during the first quarter of fiscal year 2023-2024 (FY2024), AAFAF can monitor the performance of these 80 employees executing PREPA's workload and determine, with empirical information, any adjustment to HoldCo headcount. PREPA estimates that, under no circumstances, HoldCo headcount should be less than 71 employees, as shown in the attached file *PREPA Proposed Organizational Structure*. PREPA is conscious that after a thorough monitoring exercise after Genera's commencement date, this employees' number can be adjusted. See PREPA's comment to Item 2 in Slide 2.

Slide 6: PREPA disagrees with the following statement regarding proposed HoldCo headcount:

"Structure provides sufficient staff to:

- Address legacy legal, asset management, and compliance obligations
- Sustain ongoing responsibilities as owner of generation, transmission & distribution assets
- Provide accounting, IT, and HR support services to HydroCo LLC and PropertyCo LLC via shared services model
- Outsourcing to qualified, low-cost providers where feasible, is a key implementation strategy and will be required for regulatory compliance, IT, and Finance/Accounting support."

The proposed 28 headcount does not provide enough staff to address the above-mentioned functions, which, in turn, do not include all PREPA's functions, duties and responsibilities. See PREPA's comment for Slide 5 and file *PREPA Proposed Organizational Structure* for a complete summary of the required functions and the least, not optimal or adequate, quantity of employees to execute such functions.

Slides 7 and 8:

1. It is clarified that more than 90% of the budget deficit of \$209 million corresponds to the generation (GenCo) budget and, thus, less than 10% of this deficit corresponds to the HydroCo, PropertyCo, and HoldCo aggregated budget. In fact, PREPA is requesting an aggregated budget of approximately \$85 million for these

subsidiaries, which represents approximately 7% of the projected revenues² for FY2024. It is stressed that more than 20% of FY2024 projected revenues are assigned to deductible expenditures, most of which, in turn, correspond to fees to be paid to the private operators LUMA and Genera. It is noted that the private operators' fees, that amount approximately \$181.4 million in PREPA's proposed budget but could amount up to \$251.3 million as proposed by Genera, constitute funds destined for the private operators gain and are subtracted from the "available funds to investments in the transformation of the energy infrastructure" mentioned in Slide 2 of AAFAF's presentation. On the other hand, PREPA's requested budget for its subsidiaries will be destined to execute required duties and responsibilities in compliance with current law, in addition to needed works and tasks to its water assets infrastructure, which is essential to agriculture, industrial, and residential uses.

2. PREPA disagrees with the following statements:

- “• Ankura projections reflect appropriate benchmarks and industry metrics, optimizing labor expense while fulfilling post commencement scope of responsibilities.
- Organizational structure for HoldCo LLC, HydroCo LLC, and PropertyCo LLC reflect all mandated functions and supporting roles.”

As explained before, the appropriate metrics shall include Puerto Rico's laws and regulations context, which is stricter than others in the mainland. The Ankura proposed structure does not consider several laws in Puerto Rico and, thus, such structure does not fulfill "post commencement scope of responsibilities". The presented structure does not "reflect all mandated functions and supporting roles". See file *PREPA Proposed Organizational Structure*. In Slide 14, Ankura stated that there is no benchmark for the headcount of the Executive Director Office and the Operations Area (Asset Management and Regulatory), but across the presentation it assumed that, after Genera commencement date, this headcount can be significantly reduced. However, there are no concrete reasons nor specific

² These projected revenues correspond to the base rate projected collections.

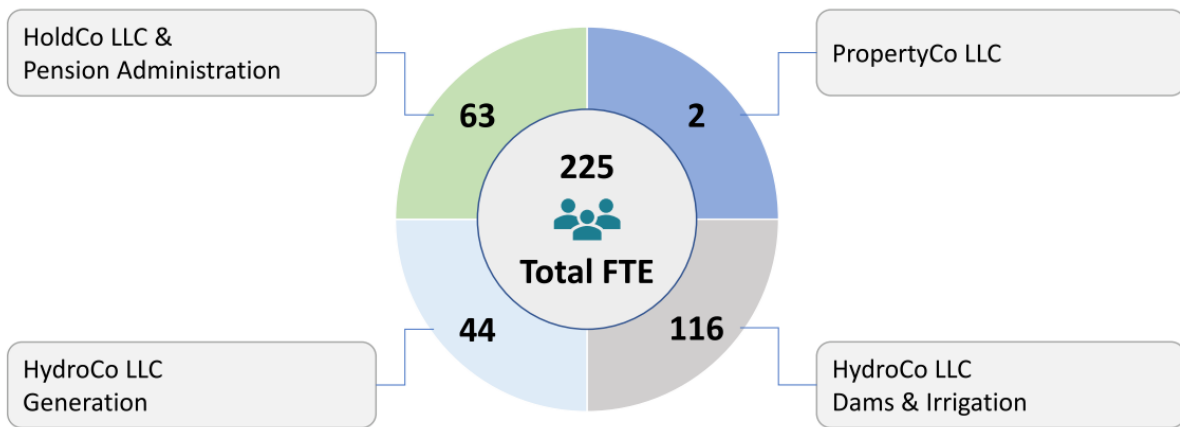
details provided for Ankura's proposed dramatic headcount reduction of 81% in the Executive Director Office and of 84% in Asset Management and Regulatory. Even though the reduction of the current total headcount during the transition to Genera will be approximately 67%, Ankura is proposing a headcount reduction of 76.5% in HoldCo, in addition to the above-mentioned reductions to the Executive Director and Asset Management and Regulatory offices. Therefore, Ankura shall present a valid justification for the proposed staffing reduction.

3. Regarding Ankura's savings projection of \$18.5 million, mainly obtained reducing the PREPA Proposed headcount from 387 to 225 (162 less employees), it is noted that these savings represent approximately 1.5% of FY2024 projected revenues. This savings percentage does not have a significant impact on the budget, especially when compare with other expenses that will likely result from the reduction in PREPA's staff. For example, as reducing its staff may likely cause noncompliance with laws and regulations, it is envisioned that PREPA will be subject to fines and penalties that can amount a significant amount of money. Also, PREPA's workload would mainly be done by consultants and contractors, which expenditures can be much more than the proposed \$18.5 million. According to PREPA's experience with contractors and consultants, the hourly rates of their individual employees fluctuate from \$200 to \$1,500. For example, currently the Asset Management and Regulatory office has contracts amounting more than \$25.5 million per year, mainly due to lack of staff to execute its works, which would get worse if this office headcount is further reduced. This situation repeats in other HoldCo's offices. See attached contracts lists. Therefore, the net savings of reducing HoldCo's headcount could be less than 1% of FY2024 projected revenues and there is a real possibility of ending with no savings at all or even with additional expenditures to the estimated \$18.5 million.
4. The outsourcing roles to external vendors projected for HoldCo by Ankura are specified only for IT and human resources, while executing PREPA's workload requires outsourcing services for other duties related to, without limitation, financial, legal, regulatory, technical, engineering, and federal grants

management. Ankura shall provide cost estimates for all needed services outsourcing contracts.

Slides 9 and 10: No comments.

Slide 11: Ankura concludes the following headcount amounting a total of 225 employees is sufficient to execute all PREPA's functions:



As explained in the comments above, PREPA disagrees with this statement, particularly with reducing the HoldCo headcount from 119 to 28 employees, a reduction of 76.5%. PREPA will not be able to comply with its duties, responsibilities, and obligations with such limited number of employees. See the comment to Slide 5.

Slides 12 to 14: Please, see the file *PREPA Proposed Organizational Structure* for PREPA's recommended HoldCo's minimum structure. As explained in the comments above, the Ankura proposed structure does not reflect all mandated functions and supporting roles, nor does it consider several laws in Puerto Rico and, thus, such structure does not fulfill post commencement scope of responsibilities. In addition, Ankura does not explain the criteria followed to dramatically reduce the headcount of the Executive Director and Asset Management and Regulatory offices (more than 80% of reduction in each case) in the absence of a benchmark. Besides the argument presented across the presentation regarding the expected significant reduction in responsibilities and functions after Genera's commencement date, Ankura does not present a thorough justification for

these headcount reductions. PREPA will not be able to comply with its duties, responsibilities, and obligations with such limited number of employees.

Slides 15 to 18: It is clarified that the O&M expenses of PREPA's irrigation systems should be covered with the corresponding energy bill rider, according to Puerto Rico's irrigation laws. These expenses should not be covered with the base rate revenues.

Slides 19 and 24: No comments.

Slides 25 to 34:

1. As explained in the comments above, PREPA disagrees with reducing the HoldCo headcount from 119 to 28 employees. PREPA will not be able to comply with its duties, responsibilities, and obligations with such limited number of employees. See PREPA recommendation in its comment to Slide 5.
2. It is clarified that PREPA's current employees' marginal benefits percentage is 63%, including medical plan, pension, and other benefits, while these slides present benefits amounting 25%. For uniformity, the file *PREPA Proposed Organizational Structure* presents the marginal benefits calculated with the 25% factor.
3. Ankura defined the Executive Director position as the "HoldCo LLC Administrator". It is clarified that PREPA's Executive Director position or Chief Executive Officer (CEO) will be the CEO of all subsidiaries, including GridCo, GenCo, HydroCo, and Property Co. Therefore, there is no such thing as the "HoldCo LLC Administrator" and the presentation shall be corrected.

Slide 35: Currently, PREPA does not have a dedicated office to respond to regulatory requests, including, without limitation, the Puerto Rico Energy Bureau (PREB), the Federal Fiscal Oversight and Management Board (FOMB), Puerto Rico Legislature, the Office of the Governor of Puerto Rico, the state and federal General Inspector Offices, and Puerto Rico Comptroller Office. As today, employees from different areas of PREPA provide information, testimonies, and answers, among others, to the Legal Affairs Directorate and the Operations Office, so these areas respond to all regulatory requests, due mainly to the limited number of employees at PREPA. Therefore, Ankura's

suggestion of an RFI Hub Team would only formalize what PREPA has been doing during recent years, given its staffing constraints, and should not result in further reducing HoldCo headcount. In fact, it is noted that particularly reducing the headcount of the Operations Office will adversely affect PREPA's response to these regulatory requests, due to the lack of expertise and knowledge needed to respond adequately.

PREPA is presenting the above-mentioned comments with the main intention of continuing the discussion of determining its optimal and adequate organizational structure after Genera's commencement date.



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Annexes