

Antonio L. Medina Comas

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President Convergent Strat, LLC & Former FOMB Member

Edison Aviles Deliz

Chairman Puerto Rico Energy Bureau

Government of Puerto Rico

Dear Edison,

Upon reviewing and analyzing the Fuel Optimization Plan, my first impression is that it is a micro analysis of a much more complex situation. The Fuel Optimization Plan seems to focus in finding quick wins and immediate savings for the O&M company, instead of attaining a real optimization that benefits the generation system in a long term.

Here is a brief analysis of some of the initiatives I think are important to evaluate in a broader perspective.

1- Comments about Initiative I fixed premium reduce in FO and/or ULSD

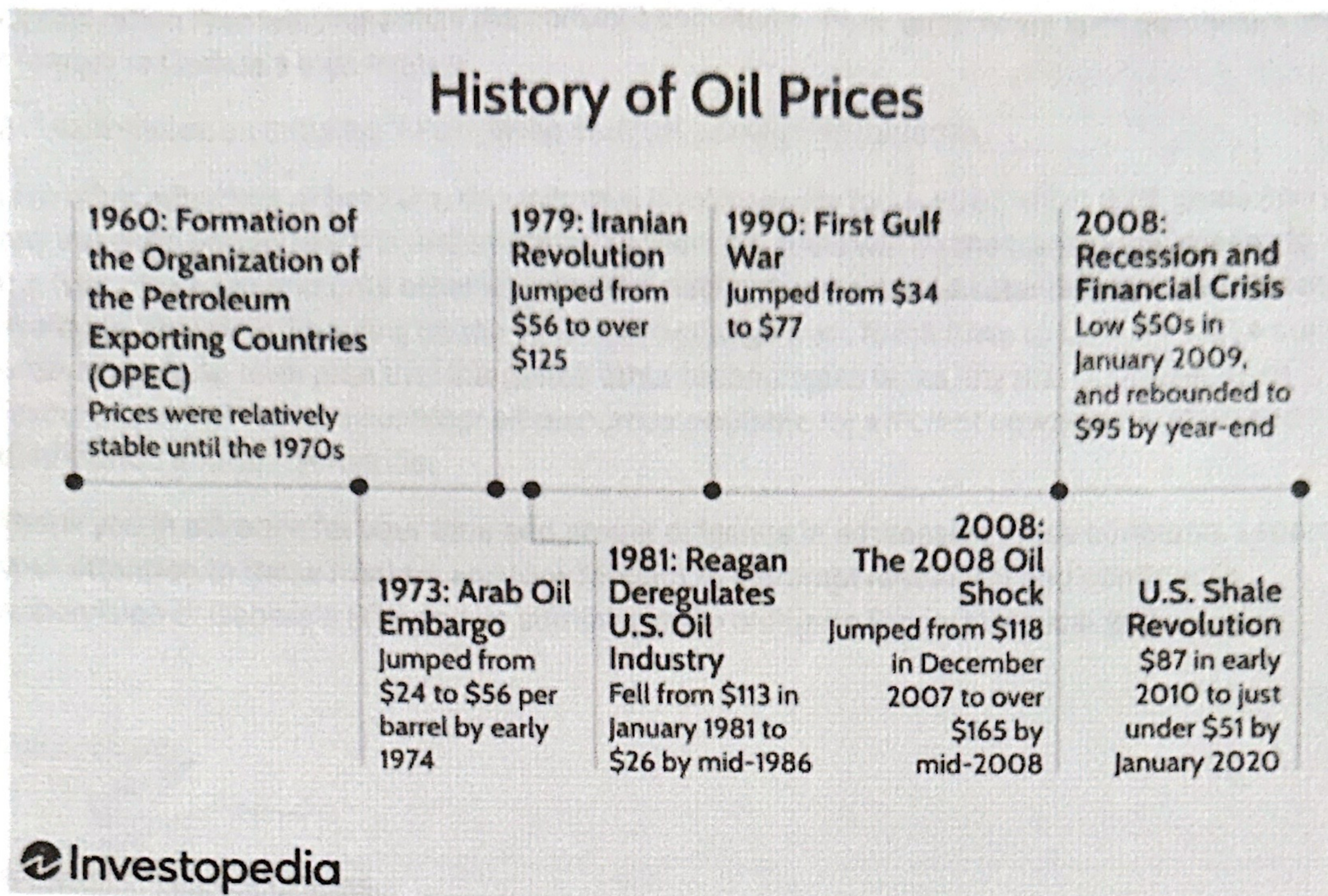
K The Fuel Optimization Plan does not clearly establish the methodology it will use to achieve savings. Although the Plan includes and acknowledges the changes of several factors that impact price, it fails to establish or even explain how the variation of these factors, that have direct impact on the escalator and adder, will result in benefits in the price, especially considering timing and other variable conditions.

As also described in the Optimization Plan, the escalator is the specific reference of the international oil price (i.e. Platts, Brent) that continuously fluctuates up and down.

The reason why historically PREPA just used the comparison of premiums in their competitive processes (RFPs) is because the escalator (or adder) was the same for all proponents and the lower the premium, the lower the price PREPA would obtain.

This approach works for comparing fuel proposals, but not to project future pricing of fuels and even less to forecast savings in fuel purchases.

Finally, a representation of saving regarding fuel optimization should use the cost of the kwh and break down until fuel cost to better understand the impact of fuel optimization in the electric cost to the consumers



As a clear example, the adder is just between 5% - 10% of the price formula and the escalator around 90-95% of the formula. That means that considering that the oil price fluctuation could be as low of 10% or as high to 100%, the effect of the adder in the formula is just marginal and the savings regarding the fuel price are just luck.

2- Comment on Spot Purchases option for fuels

Although this is a strategy that could, in certain conditions and situations, improve the fuel price and generate savings, the initiative should consider a group of factors and variables to assure transparency and fair implementation.

The fuel contracts are granted after a formal and detailed procurement process via RFPs that specify a fixed price premium that is publicly posted in several regulatory agencies. The proponents make their best efforts to offer the best price, assuring that they have the logistic and financial capability to carry on the contract, and have factored in other suppliers' cost-related risks, considering the volume estimated in the RFP. Spot purchases from companies that have the advantage of knowing the current fuel price but were not selected in a competitive process, do not have price restrictions and there is just no transparency. The process is by itself contrary and in violation of the competitive process promoted by the RFPs.

The spot purchase provisions have always been a part of the terms and conditions of PREPA's fuel contracts. But the clause was activated during emergencies, or during "unexpected" supply shorts. Implementing and promoting spot purchases as a commercial strategy or as part of the Fuel

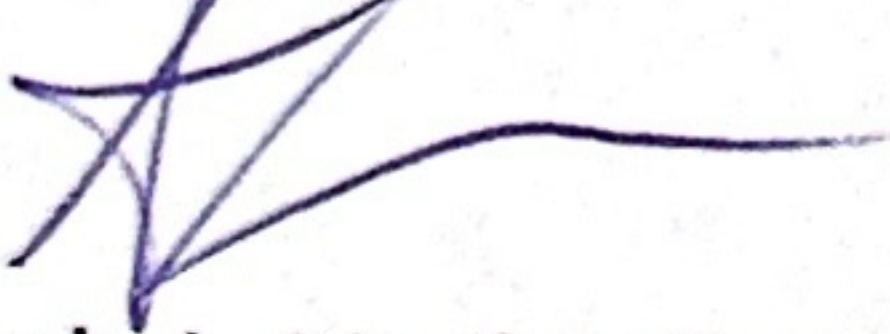
Optimization Plan will jeopardize the contract continuity. Plus, large scale spot purchases are contrary to Genera's own Manual

3- Comments on Initiative 7 Fuel Swap and fuel conversion initiative,

Like other initiatives of the Plan, this initiative is excessively focused on short term goals and lacks any strategic projection. It is understandable that LNG fuels will be the transitional means to save the Island's power grid until other sources like Aeolic, hydrogen and solar technologies become available. However, focusing on the short-term change from fossil fuels to LNG without a concrete wide-range long-term plan that integrates other technologies lacks any real optimization of resources. A FOP should consider all resources available for efficient power generation and distribution and/or microgrids.

Thank you in advance for your time and proper diligence in addressing these concerns. I appreciate your attention to these matters and look forward to a prompt resolution and continuous supervision of Genera's FOP and its administration of Puerto Rico's electrical grid.

Respectfully,



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