February 27, 2025

At the request of the P3A, FTI was requested to prepare a cost-benefit analysis of a proposal related to the fuel incentives in the Genera OMA. In their proposal Genera has agreed to forego all incentive payments for the term of the Genera O&M Agreement in exchange for a lump sum payment of $110 million to be paid in monthly installments during a period of eleven (11) months.

Background:

After several months of reviewing the Genera Fuel Optimization Plan, it has become apparent to all parties that the approach described in the OMA will be very difficult to administer over the 10-year Term of the OMA. This is primarily because of the following:

- Individual annual unit and plant performance tests which are required in the OMA to establish output and hear rate by unit for each fuel that a unit is capable of burning require outages to conduct. The purpose of these tests is to provide a baseline for each units efficiency and capacity limitations which then LUMA can use to determine the most optimal economic dispatch. These tests have not been able to be scheduled primarily due to operational issues as well as generation shortages that have prevented the required schedule outages. Without these, LUMA is using estimated performance for economic dispatch as had been done previously by PREPA.
- Documenting actual fuel cost savings versus avoided costs, while desirable, is difficult to track. Avoided costs were not initially included in the OMA but do, in fact, provide substantial benefits to PREPA.

The OMA is a 10-year agreement. The incentives and penalties are documented in Annex II (Section III) of the OMA, as seen in Exhibit 1, and can be summarized in part as follows:

> *The Operator's financial compensation is directly tied to performance in providing O&M and Decommissioning Services. During the Mobilization and Demobilization Periods, neither incentives nor penalties shall apply. Furthermore, adjustments to incentives and penalties may be negotiated in good faith in the event of Force Majeure occurrences, except for Forced Outages.*
>
> ***O&M Services Incentives and Penalties***
>
> *The Operator's performance is assessed across six categories, with financial incentives for exceeding defined targets and penalties for underperformance. The total incentive amount is subject to an annual cap of $100 million, with any excess carried forward to future contract years.*
>
> 1. ***Operation Cost Efficiency** – The Operator may earn an incentive payment based on actual cost savings, which is equal to the Operating Budget minus actual expenditures. Subject to the Annual Incentive Cap, the Operator receives 50% of the actual savings.*
> 2. ***Equivalent Availability Factor (EAF)** – Incentive payments are based on exceeding EAF targets for Baseload and Peaking Units, while penalties apply for failing to meet them. Performance calculations adhere to IEEE 762-2006 standards, with adjustments allowed for Force Majeure and Owner Fault events.*

3. ***Safety Compliance*** *– Incentives are awarded for maintaining low incidents of Lost Time Injuries (LTI), Recordable Injuries (I&I), and Fatalities/Severe Injuries. Exceeding predefined limits incurs penalties, with recurring non-compliance triggering a Minimum Performance Threshold Default.*
4. ***Environmental Compliance*** *– The Operator earns incentives for maintaining full compliance with environmental regulations. Any violations result in financial penalties, with consecutive non-compliance leading to a Minimum Performance Threshold Default.*
5. ***Reporting Obligations*** *– Timely responses to Administrator's information requests are required. Delays exceeding 15 sequential days result in penalties of $100,000 per occurrence, with a maximum annual penalty of $1 million.*
6. ***Fuel Optimization*** *– The Operator is entitled to 50% of actual fuel cost savings achieved through efficiency initiatives. Savings are calculated pursuant to the Fuel Optimization Plan and based on the applicable assumptions in the current approved budget, and be an amount equal to the difference between the budgeted cost and the actual cost of the relevant budget items.*

Avoided Incentive Payment Analysis:

In order to evaluate Genera's proposal, FTI conducted an analysis using the following assumptions:

Assumptions	
$110M	paid to eliminate any incentives
$(15.52)M	has been agreed upon avoided incentive payment
11	is the number of monthly installment payments
$100M	is the maximum assumed annual incentive payments earned for the term of the OMA
$50M	is 50% of the maximum assumed annual incentive payments earned for the term of the OMA
August	is the month that annual incentive payments are assumed to be made (2 months after Fiscal YE)

Two sensitivities were analyzed.

- Sensitivity 1: Assuming Genera earned 100% of their allowed incentives, which is capped at $100 million per year.
- Sensitivity 2: Assuming Genera only earn 50% of their allowed incentives, assumed to be $50 million per year.

Using the above assumptions, the analysis resulted in the following Net Present Values (NPVs) for the cases run.

PREPA Avoided Incentive Payment Analysis

Cases	Discount Rate 8%	10%	12%
Genera Proposal ($110M)	106	105	104
$100M Avoided Incentive Payments (Sensitivity 1)	697	644	598
$50M Avoided Incentive Payments (Sensitivity 2)	349	322	299

Assuming the 10% discount rate, as shown in the table above, the NPV of PREPA's avoided future incentive payments ranges from $322 million to $644 million. As a result, the $110 million lump sum to be paid over 11 months is beneficial to PREPA.

It should be noted that all penalties for safety, reporting, environmental violations and equivalent availability remain as noted above.

Sincerely,

Ellen S. Smith

Ellen S. Smith

FTI Consulting

Senior Managing Director

Exhibit 1

Annex II (Section III) of the OMA

III. Incentives and Penalties

A. General.

In each Contract Year, Operator shall be (i) eligible to receive financial incentive compensation in the form of an Incentive Payment or (ii) subject to potential Penalty, in each case, based on Operator's performance in providing the O&M Services and/or the Decommissioning Services, as applicable, with respect to the performance categories described in this Section III of Annex II (*Compensation – Incentives and Penalties*); provided that no Incentive Payment shall be paid to, and no Penalty shall be incurred by, Operator during the Mobilization Period or the Demobilization Period. Following any O&M Fixed Fee Adjustment, the maximum Incentive Payment that Operator is entitled to earn for such Contract Year(s) shall be correspondingly subject to Pro Rata reduction.

Upon the occurrence and continuation of any Force Majeure Event (other than a Force Majeure Event that is a *Forced* Outage), Operator and Administrator shall negotiate in good faith adjustments or modifications to the relevant categories of Incentives and Penalties, as applicable, which shall apply during the duration of such Force Majeure Event.

Certain categories of *Incentives* and Penalties include minimum standards of performance that Operator must meet, as set forth in Section III.B of Annex II (*Compensation – Incentives and Penalties – O&M Services Categories*) (each, a "Minimum Performance Threshold"). Failure to meet one or more Minimum Performance Thresholds may trigger a "Minimum Performance Threshold Default" pursuant to Section 14.1(l) (*Events of Default by Operator – Failure to Meet Minimum Performance Threshold*).

All Incentives and *Penalties* for any Contract Year containing more or less than three hundred and sixty-five (365) calendar days shall be automatically increased or decreased (as applicable) on a Pro Rata basis.

B. O&M Services Categories

To incentivize Operator to meet certain targets in performing the O&M Services, Operator shall be evaluated in six (6) categories: (i) Operation Cost Efficiency, (ii) Equivalent Availability Factor (EAF), (iii) Safety Compliance, (iv) Environmental Compliance, (v) Reporting Obligations and (vi) Fuel Savings, as described in this Section III.B of Annex II (*Compensation – Incentives and Penalties – O&M Services Categories*). For each Contract Year, the maximum amount payable by Owner to Operator based on the aggregate sum of (a) the amounts payable to Operator with respect to the following five (5) incentive categories described below, (i) Operation Cost Efficiency, (ii) Equivalent Availability Factor (EAF), (iii) Safety Compliance, (iv) Environmental Compliance and (v) Fuel Savings, for all applicable Legacy Generation Assets *minus* (b) the amount of any Penalties (the sum of (a) and (b), the "Aggregate I&P Amount"), shall be an amount equal to US$100 million (the "Annual Incentive Cap"); provided, however, that to the extent that the Aggregate I&P Amount accrued for any Contract Year exceeds the Annual Incentive Cap, the amount of such accrued excess shall be carried over into subsequent Contract Years and shall be payable by Owner to Operator to the extent that the accrued Aggregate I&P Amount in any subsequent Contract Year is less than the Annual Incentive Cap for such Contract Year.

1. Operation Cost Efficiency

The applicable Operating Budget for each Contract Year shall be the benchmarks for determining Operator's cost efficiency in such Contract Year, subject to adjustments for Force Majeure Events and Owner Fault. Operator shall receive an O&M Incentive Payment based on a percentage of the total amount of cost savings achieved by Operator in the delivery of the O&M Services as compared to the approved Operating Budget.

Measurement Parameter: Actual expenditures as a percentage (%) of the approved Operating Budget, where actual savings equal the Operating Budget minus actual expenditures.

Criteria:	
>95% but <99%	Operator receives 50% of the actual savings
>90% but ≤95%	Operator receives 50% of the actual savings
>85% but ≤90%	Operator receives 50% of the actual savings
≤85%	Operator receives 50% of the actual savings

For each Contract Year, the maximum O&M Incentive Payment payable to Operator under the Operation Cost Efficiency category shall be subject to the Annual Incentive Cap, which shall be subject to Pro Rata reduction following any O&M Fixed Fee Adjustment.

2. Equivalent Availability Factor (EAF)

The overall annual Equivalent Availability Factor (as defined below) targets and Minimum Performance Threshold (Capacity and Heat Rate) value for Baseload Units and for Peaking Units shall be established pursuant to Section 5.22 (*O&M Services – Annual Performance Test*). The Annual Performance Test shall be performed within ninety (90) days from the Service Commencement Date and during the first thirty (30) days of each Contract Year thereafter. The agreed to Annual Performance Test will provide a baseline for Capacity and Heat Rate, which results Operator shall consider when proposing Equivalent Availability Factor targets, including factoring in planned maintenance. Operator shall submit proposed Equivalent Availability Factor targets and Minimum Performance Thresholds to PREB for its review and approval; provided that if PREB does not respond within thirty (30) days following its receipt of such results and proposed targets, PREB shall be deemed to have no objection to such results and proposed targets. Operator shall provide to Administrator a monthly report and an annual report of the Equivalent Availability Factors in accordance with the North American Electric Reliability Corporation' Generation Availability Data System protocols.

To the extent Operator's overall annual Equivalent Availability Factor for a Contract Year exceeds the Equivalent Availability Factor referenced above, Operator shall receive a graduated O&M Incentive Payment, and to the extent it falls below the targets referenced above, Operator shall be subject to an O&M Penalty, in each case, subject to a maximum cap as described below. The Equivalent Availability Factor shall be automatically adjusted for excusable events including Force Majeure Events and Owner Fault.

As used in this Section III of Annex II (*Compensation – Incentives and Penalties*), "Equivalent Availability Factor" shall be defined in accordance with IEEE 762-2006, *IEEE Standard Definitions for Use in Reporting Electric Generating Unit Reliability, Availability, and Productivity (*"IEEE 762-2006") as:

$$\text{EAF} = \frac{\text{(AH-EPDH-EUDH)}}{\text{PH}} \times 100\ \%$$

where:

- AH = Available Hours
- EPDH= Equivalent Planned Derated Hours
- EUDH = Equivalent Unplanned Derated Hours
- PH = Period Hours or number of hours that the Legacy Generation Asset was in active state

As used in this Section III of Annex II (*Compensation – Incentives and Penalties*), the aforementioned terms have the meanings ascribed to them in IEEE 762-2006.

The actual calculated Equivalent Availability Factor percent for each asset for a Contract Year in a category (Baseload Units and Peaking Units) shall be weighted that Contract Year by the ratio of its Tested Capacity to the total Tested Capacity for the category for that Contract Year to arrive at the overall Equivalent Availability Percent for that category of generation units for purposes of the Incentives and Penalties.

Measurement Parameter: Equivalent Availability Factor for Baseload Units

Criteria:	
>5% above Performance Target	Operator receives an Incentive Payment of US$***15 million***
>2.5% but ≤5% above Performance Target	Operator receives an Incentive Payment of US$***10 million***
>0% but ≤2.5% above Performance Target	Operator receives an Incentive Payment of US$***5 million***
≤Performance Target	Operator pays a Penalty of US$***5 million***

Measurement Parameter: Equivalent Availability Factor for Peaking Units

Criteria:	
>10% above Performance Target	Operator receives an Incentive Payment of US$***15 million***
>5% but ≤10% above Performance Target	Operator receives an Incentive Payment of US$***10 million***
>0% but ≤5% above Performance Target	Operator receives an Incentive Payment of US$***5 million***
≤ Performance Target	Operator pays a Penalty of US$***5 million***

For each Contract Year, the maximum aggregate O&M Incentive Payment payable to Operator with respect to the parameters of the Equivalent Availability Factor category shall be subject to the Annual Incentive Cap, which shall be subject to Pro Rata reduction following any O&M Fixed Fee Adjustment.

Minimum Performance Threshold for Equivalent Availability Factor Category: The Minimum Performance Threshold for the annual Equivalent Availability Factor for the applicable Legacy Generation Assets for the Baseload Units and for the Peaking Units shall be established pursuant to Section 5.22 (*O&M Services – Annual Performance Test*), subject to adjustments for Force Majeure Events and Owner Fault. Failure by Operator to achieve either Minimum Performance Threshold in two (2) consecutive Contract Years shall trigger a Minimum Performance Threshold Default pursuant to Section 14.1(l) (*Events of Default by Operator – Failure to Meet Minimum Performance Threshold*).

3. Safety Compliance

Operator shall receive an O&M Incentive Payment based on its performance for each Contract Year with respect to the safety compliance targets described below, which, for the avoidance of doubt, shall also include the performance of O&M Services by Operator's subcontractors. If, during any Contract Year, Operator performs below the relevant targets, Operator shall be subject to an O&M Penalty, as described below.

Measurement Parameter: OSHA Lost Time Incidents (LTI)

Number of LTI Incidents:	
3 or less	Operator receives an Incentive Payment of US$***10,000***
Between 3 and 5	Operator receives an Incentive Payment of US$***5,000***
>5	Operator pays a Penalty of US$***100,000***

Measurement Parameter: OSHA Recordable Injury or Illness (I&I)

Number of I&I Incidents:	
0	Operator receives an Incentive Payment of US$***10,000***
Between 1 and 3	Operator receives an Incentive Payment of US$***5,000***
>3	Operator pays a Penalty of US$***100,000***

Measurement Parameter: OSHA Fatality or Severe Injury

Number of Fatalities or Severe Injuries:	
0	Operator receives an Incentive Payment of US$***10,000***
≥1	Operator pays a Penalty of US$***100,000***

For each Contract Year, the maximum aggregate O&M Incentive Payment payable to Operator shall be subject to the Annual Incentive Cap and the maximum aggregate O&M Penalty that Operator may incur shall be US$100,000, in each case with respect to parameters of the Safety Compliance category described herein, and in each case which shall be subject to Pro Rata reduction following any O&M Fixed Fee Adjustment.

Minimum Performance Threshold for Safety Compliance Category: The payment of penalties by Operator on any of the safety compliance measurement parameters in two (2) consecutive Contract Years shall trigger a Minimum Performance Threshold Default pursuant to Section 14.1(l) (*Events of Default by Operator – Failure to Meet Minimum Performance Threshold*).

4. Environmental Compliance

Operator shall receive an O&M Incentive Payment based on its performance with respect to the environmental target described below. If, during any Contract Year, Operator performs below the relevant target, Operator shall be subject to an O&M Penalty, as described below.

Measurement Parameter: Violation of Consent Decrees and/or Notice of Violations (NOVs)

Number of Violations or NOVs:	
0	Operator receives an Incentive Payment of US$***10,000***
>1	Operator pays a Penalty of US$***25,000*** (for each violation or NOV)

For each Contract Year, the maximum aggregate O&M Incentive Payment payable to Operator shall be US$100,000 and the maximum aggregate O&M Penalty that Operator may incur shall be US$100,000, in each case with respect to parameters of the Environmental Compliance category described herein, and in each case which shall be subject to Pro Rata reduction following any O&M Fixed Fee Adjustment.

Minimum Performance Threshold for Environmental Compliance Category: The payment of an O&M Penalty by Operator under the Environmental Compliance category for two (2) consecutive Contract Years shall trigger a Minimum Performance Threshold Default pursuant to Section 14.1(l) (*Events of Default by Operator – Failure to Meet Minimum Performance Threshold*).

5. Reporting Obligations

In accordance with Section 5.14(c)(iii) (*Information – Information Access*) and Section 7.1(d) (*Service Fee – Reporting Obligation Charge*), Operator shall be subject to a charge based on its timeliness in responding to a reasonable request for information from Administrator. For every fifteen (15) sequential days during which Operator fails to provide a response to Administrator, Operator shall pay a penalty of US$100,000 (the "Reporting Obligation Charge").

For each Contract Year, the maximum aggregate Reporting Obligation Charge that Operator may incur shall be US$1 million, and in each case which shall be subject to Pro Rata reduction following any O&M Fixed Fee Adjustment, and in each case which shall be subject to Pro Rata reduction following any O&M Fixed Fee Adjustment.

6. Fuel Optimization

(a) Operator shall receive a "Fuel Optimization Payment" of fifty percent (50%) of any Actual Fuel Savings achieved during the relevant Contract Year.

(b) Operator shall prepare, and shall include in the Incentives and Penalties Report submitted pursuant to Section 7.1(c)(ii) (*Service Fee – Incentives and Penalties*), a detailed report (the "Fuel Optimization Report") (A) demonstrating actual realized savings in Fuel Costs achieved during such Contract Year for each Legacy Generation Asset as a result of any Fuel Cost Savings Initiatives pursued or implemented by Operator ("Actual Fuel Savings"), which shall be calculated pursuant to the Fuel Optimization Plan and based on the applicable assumptions in the then current approved budget (e.g., output, dispatch, Heat Rate, fuel costs, etc.), and be an amount equal to the difference between the budgeted cost and the actual cost of the relevant budget items and (B) setting out Operator's calculation of the Fuel Optimization Payment. The Fuel Optimization Report shall comply with, and all Fuel Cost Savings Initiatives shall be implemented in compliance with, the requirements set forth in Section 9.2(c) (*Anti-Corruption and Sanctions Laws – Policies and Procedures*).

(c) For the purpose of being able to determine Actual Fuel Savings and the corresponding Fuel Optimization Payment for any Contract Year that commences after one or more Fuel Cost Savings Initiatives have been implemented or are otherwise already accounted for in the relevant Budget, the Budgets for such Contract Year(s) shall include an addendum setting forth hypothetical budget allocations for the Fuel Costs that would be incurred in the absence of the Fuel Cost Savings Initiatives (for example (A) the cost of operation on diesel or heavy fuel oil of all Legacy Generation Assets that operated on diesel or heavy fuel oil as of the Effective Date and (B) the cost of transportation, testing and storage based on the fuel sources and transportation and storage methods utilized by Owner as of the Effective Date), and the Actual Fuel Savings shall be calculated by reference to such hypothetical budget allocations. The detailed methodologies for calculating Actual Fuel Savings and the Fuel Optimization Payment pursuant to this Section III.B.6(c) of Annex II (*Compensation – Incentives and Penalties – Fuel Optimization*) shall be included in the Fuel Optimization Plan. If the Parties have not agreed on the foregoing addendum within thirty (30) days of the commencement of any applicable Contract Year, either Party may submit such disagreement for resolution by an Independent Expert for an Expert Technical Determination in accordance with Section 15.4 (*Expert Technical Determination Procedure for Technical Disputes*).

C. Decommissioning Services Categories

To incentivize Operator to meet certain targets in performing the Decommissioning Services with respect to a Legacy Generation Asset, Operator shall be evaluated in accordance with the Decommissioning Costs Efficiency category, as described in this Section III.C of Annex II (*Compensation – Incentives and Penalties – Decommissioning Services Categories*).

1. Decommissioning Costs Efficiency

Prior to the commencement of Decommissioning Services for any Legacy Generation Asset, Operator shall propose a Decommissioning Budget and a timeline as part of its proposed Decommissioning Plan, in accordance with Section 16.1 (*Notice and Approval for Retirement of Legacy Generation Assets and Commencement of Decommissioning Services*). Upon completion of such Decommissioning Services, as agreed by Operator, Administrator and PREB:

- If (i) Operator's actual expenditures are consistent with or exceed the estimates included in the applicable Decommissioning Budget and (ii) Operator successfully completes the applicable Decommissioning Services on or before relevant Decommissioning Completion Date, no Incentive Payment shall be applicable.

- If (i) Operator's actual expenditures are below the estimates included in the applicable Decommissioning Budget and (ii) Operator successfully completes the applicable Decommissioning Services on or before relevant Decommissioning Completion Date, Operator shall be eligible to receive a Decommissioning Incentive Payment consisting of a percentage of the actual cost reduction as compared to the estimates included in the applicable Decommissioning Budget (subject to a maximum cap).

- Operator shall use reasonable efforts to perform the Decommissioning Services within the applicable Decommissioning Budget.

<u>Measurement Parameter</u>: Actual expenditures as a percentage (%) of the approved Decommissioning Budget, where actual savings equal the Decommissioning Budget minus actual expenditures.

Criteria:	
>95% but <99%	Operator receives 50% of the actual savings
>90% but ≤95%	Operator receives 50% of the actual savings
>85% but ≤90%	Operator receives 50% of the actual savings
≤85%	Operator receives 50% of the actual savings

For each Contract Year, the aggregate Decommissioning Incentive Payment payable to Operator under the Decommissioning Costs Efficiency category for all applicable Legacy Generation Assets shall be subject to the Annual Incentive Cap.

If the Decommissioning Services with respect to a Legacy Generation Asset are not completed by the applicable Decommissioning Completion Date, then Operator shall be subject to a Decommissioning Penalty consisting of one million dollars ($1,000,000) for each week, or for any portion of a week on a Pro Rata basis, by which the completion of the Decommissioning Services is delayed past the applicable Decommissioning Completion Date, up to a maximum of fifteen million dollars ($15,000,000) in the aggregate across all Legacy Generation Assets and Generation Sites.

<u>Minimum Performance Threshold</u>: In the event Operator (i) exceeds the costs and expenses included in the applicable Decommissioning Budget and/or (ii) fails to complete the Decommissioning Services before the Decommissioning Completion Date for any two (2) Legacy Generation Assets, Administrator (on behalf of Owner) may, in its sole discretion, engage an independent third party to perform any future Decommissioning Services with respect to any Legacy Generation Assets without either Party incurring, or becoming liable for, the payment of any penalty, premium or termination fee.