



# **Puerto Rico Transmission & Distribution Front End Transition Services Invoice Evaluation Manual**

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## 1. INTRODUCTION

Section 4.6 (Front-End Transition Period – Front-End Transition Compensation) of the Puerto Rico Transmission and Distribution Operation and Maintenance Agreement (“O&M Agreement”) between the Puerto Rico Electric Power Authority (“PREPA”), LUMA Energy, LLC (“LUMA” or “Operator”), LUMA Energy ServCo, LLC and the Puerto Rico Public-Private Partnerships Authority (“P3A” or “Administrator”) governs the rights and responsibilities of the parties with respect to compensation during the transition. The P3A, as Administrator and the party designated with the duty to oversee compliance with the O&M Agreement, has the obligation to evaluate and review invoices submitted by LUMA and authorize the disbursement of funds by PREPA. Likewise, LUMA is required to provide the P3A with a monthly invoice describing in reasonable detail the prior calendar month’s Front-End Transition Services and the corresponding Front-End Transition Service Fee, as well as additional supporting documentation evidencing the provision of the Front-End Transition Services and the calculation of the Front-End Transition Service Fee. Further, the P3A is entitled to dispute amounts included in LUMA’s invoices and delay payment of disputed amounts (see Section 4.6(d) of the O&M Agreement) until such disputes are resolved.

In order to efficiently provide for LUMA’s compensation, the O&M Agreement requires that PREPA open and maintain the Front-End Transition Account, which shall continuously include an amount equal to the estimated Front-End Transition Service Fee for the following four and a half (4.5) months. PREPA is required to replenish the Front-End Transition Account within ten (10) business days from the start of each calendar month (see Section 4.6(c) of the O&M Agreement). The parties negotiated the funding levels for the Front-End Transition Account in order to ensure the efficient payment of undisputed amounts within thirty (30) days of the P3A receipt of an invoice. Moreover, in order to guarantee the efficient payment of LUMA’s invoices, the parties contemplated a streamlined review process whereby the P3A, as Administrator, would perform a review of LUMA’s invoices on PREPA’s behalf and direct PREPA to make the necessary payments. As discussed in detail below, the P3A established processes and mechanisms to properly evaluate LUMA’s invoices to protect the interests of the people of Puerto Rico.

The Public Private Partnership’s Act, Act No. 29-2009 (as amended, “Act 29”), provides the P3A with the right to “execute contracts for professional, expert or consulting services to assist the [P3] Authority in the discharge of its responsibilities” (see Act 29, Section 6(a)(ix)). As such, in order to comply with its duty to evaluate the invoices submitted by LUMA, the P3A engaged both a technical advisor (“FTI Consulting”) and a financial consultant (“Eclipse Management”) to review and verify LUMA’s invoices.

The O&M Agreement provides that Owner shall pay LUMA, in monthly installments, a “Front-End Transition Service Fee” that is the aggregate amount equal to:

“[(a)] (i) the hourly fully allocated cost rate for each category of ManagementCo employee or Affiliate personnel providing Front End Transition Services, as set out in Annex V (Front End Transition Hourly Fully Allocated Rates); multiplied by (ii) the number of hours worked by each ManagementCo employee or Affiliate personnel in such category providing Front End Transition Services; plus [(b)] (iii) a fixed fee in the amount of US\$60,000,000”.

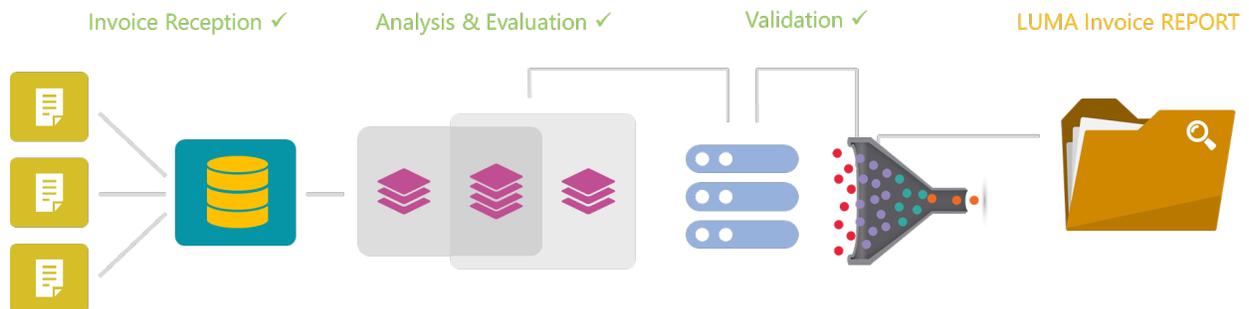
*Section 4.6(b) of the O&M Agreement*

In order to verify the first prong of the Front-End Transition Service Fee, the P3A, with the assistance of Eclipse Management, performs an extensive review of LUMA’s monthly invoices. LUMA’s invoices are produced using an automated web-based tool that registers employee timesheets. Said web-based tool has been reviewed by Eclipse Management to ensure that it is fully automated and does not allow for an individual to tamper with employee timesheets. LUMA’s monthly invoice includes the details of each employee’s identification, position, area of work, and incurred hours, together with their hourly rate. Eclipse Management validates that each employee’s rate is in compliance with the O&M Agreement and validates the number of hours billed per employee. Further, an analysis is undertaken by both Eclipse Management and FTI Consulting to track the progression of the Front-End Transition and confirm that labor is provided in an efficient manner to avoid duplication.

Eclipse Management also reviews LUMA’s invoices to verify the amount of Pass-Through Expenditures. Copies of each contract with Front-End Subcontractors and any other third-party contractor are reviewed to identify the terms and conditions, rates, scope of work and duration of each Subcontract and third-party contract. An extensive review of each Front-End Subcontractor’s and third-party contractor invoice is performed to ensure compliance. Before any amount is approved for payment, additional information is requested in order to clarify any discrepancies. FTI Consulting, on behalf of the P3A, reviews the monthly reports delivered pursuant to the O&M Agreement that detail LUMA’s performance of the Front-End Transition Services, which include a copy of the Handover Checklist updated to reflect LUMA’s progress (see Section 4.2(b) of the O&M Agreement). LUMA’s reports include detailed status updates, including the percentage of completion for all Front-End Transition activities. As part of its review, FTI Consulting issues follow-up request for information from LUMA in order to verify its monthly reports. Through its review of the monthly reports, and participation of various planning teams established pursuant to the O&M Agreement, FTI Consulting is fully briefed on a weekly basis as to the status of the Front-End Transition. FTI Consulting’s review of the monthly report is meant to support and confirm Eclipse Management’s review of the progression of the Front-End Transition. In addition, FTI Consulting reviews LUMA’s invoices to ensure that payments are permitted pursuant to the terms of the O&M Agreement. This review of LUMA invoices is meant to identify the need for additional details necessary to verify whether the services provided by Front-End Transition Subcontractors are permitted under the O&M Agreement. Furthermore, FTI Consulting reviews LUMA’s monthly estimates of any additional funding needed for the Front-End Transition Account. This

review of LUMA’s estimates is done in order to determine their reasonableness and to ensure that the LUMA’s estimates are consistent with past requests.

The steps taken to evaluate the invoice are portrayed in the following picture:



## 2. INVOICE EVALUATION PROCESS

Section 4.6 of the O&M Agreement requires LUMA to provide P3A, on or prior to the tenth (10th) day of each month during which Operator is performing Front-End Transition Services, with a monthly invoice describing in reasonable detail the prior calendar month’s Front-End Transition Services and the corresponding Front-End Transition Services Fee.

As soon as P3A receives LUMA’s invoice, it is uploaded to a secured Virtual Data Room (“VDR”) and the Invoice Evaluation Process begins.

The following 5 areas of LUMA’s invoices are evaluated:

- a. Format
- b. Administrative Documents
- c. Fees
- d. Supporting Documents
- e. Compliance with the O&M Agreement

After LUMA’s invoice is reviewed, Eclipse Management creates the Invoice Validation Report (“Report”), which is a comprehensive account of LUMA’s monthly invoice evaluation. The Report is shared with PREPA and LUMA. Any additional information or document received after the Report is issued is incorporated in the next Report.



### 3. EVALUATION RESULTS

The outcome of the invoice evaluation may have several different results. “Format” or “Administrative Document” findings have the effect of halting the disbursement of the whole invoice.

The validation results can be the following:

1. Approved
2. Not Approved
3. Partially Approved pending Administrative Document(s)
4. Partially Approved pending Supporting Document(s)
5. Partially Approved pending Fee Adjustment / Review

### 4. INVOICE FORMAT EVALUATION

The following items are evaluated as part of the Format Validation:

1. Bill To
2. Date
3. Invoice Number
4. Terms
5. Non-interest clause

The following table contains the findings for each of the items mentioned above:

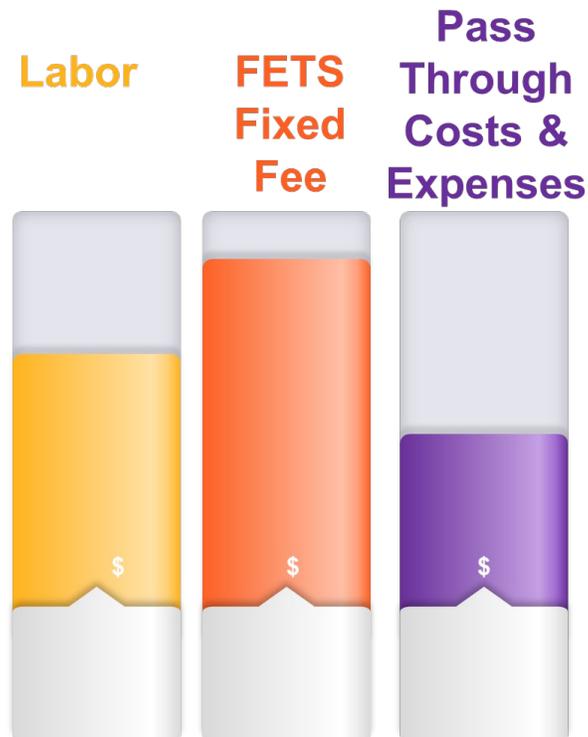
FORMAT VALIDATION		
Item	Validation	Comments
Bill To	✓	Submitted to the P3A to be PAID by PREPA
Date	✓	DATE
Invoice Number	✓	FETS-XXX-01
Terms	✓	Net 30
Non-Interest Clause	✓	Non-interest certification clause included

### 5. FRONT END TRANSITION SERVICES FEES

The fees section of LUMA’s invoice includes the following items:

1. Front-End Transition Services (FETS) Fixed Fee
2. Labor
3. Pass-Through Costs & Expenses

In every Report, the amounts for each concept are illustrated through the graph below:



## 6. FETS FIXED FEE

Section 4.6 (b) (iii) of the O&M Agreement states that the Front-End Transition Service Fixed Fee shall be in the “amount of US\$60,000,000 (the “Front-End Transition Service Fixed Fee”) (payable in monthly installments equal to one twelfth (1/12) of the Front-End Transition Service Fixed Fee, commencing on the Effective Date, and in the event of a partial month, the monthly installment shall be adjusted on a Pro Rata basis; provided that, (A) in the event the first month is a partial month, then any balance of the Front- End Transition Service Fixed Fee outstanding in the twelfth month shall be paid with the last installment of the Front-End Transition Service Fixed Fee; and (B) if the Service Commencement Date occurs prior to the expiration of the twelfth (12th) month following the Effective Date, then any balance of the Front-End Transition Service Fixed Fee then outstanding shall be paid in full to Operator on the Service Commencement Date).”

In order to release the FET Fixed Fee, LUMA must provide the following administrative documents to the Administrator:

Administrative Documents	
1	Income Tax Filing Certificate (Model SC 6088)
2	Certification of No Debt (Model SC 6096)
3	Operator's Merchant's Registration Certificate (Form SC 2918)
4	Puerto Rico Sales and Use Tax returns filing Certification (Form SC 2942)
5	Puerto Rico Sale and Use Tax (IVU) Debt Certificate (Model SC 2927)
6	Withholding Exemption "Relevo Hacienda"
7	Property Tax Filing Certificate (Propiedad Mueble)
8	All Concepts Debt Certification
9	Employer Registration Certificate and debt certificate for unemployment insurance and temporary disability (workmen's compensation)
10	Employer Registration Certificate and chauffeur's
11	Social security debt certification
12	State Insurance Fund Policy Certification (CFSE)
13	ASUME Withholding Compliance Statement Certificate
14	Certificate of Good Standing
15	Certificate of Existence or to do Business in Puerto Rico or Incorporation Certificate
16	No Conviction Sworn Statement (Law 8 – 2017)
17	Sworn Statement - Law 2 - 2018
18	Guarantees

The validation of all the Administrative Documents, enables the release of the FET Fixed Fee.

## 7. LABOR

Section 4.6 (b) (i) and (ii) of the O&M Agreement states that the Labor fee “shall be an aggregate amount equal to: (i) the hourly fully allocated cost rate for each category of ManagementCo employee or Affiliate personnel providing Front-End Transition Services, as set out in Annex V (*Front-End Transition Hourly Fully Allocated Rates*); multiplied by (ii) the number of hours worked by each ManagementCo employee or Affiliate personnel in such category providing Front-End Transition Services.”

It is worth mentioning that there are no specific rates noted in Annex V of the O&M Agreement for LUMA’s Upper Management positions (President & CEO, Senior Vice-President, CFO). The costs associated with these positions were blended and captured as a single rate under the title Vice-President on the O&M Agreement Annex V rate sheet. The purpose of the development of the rate sheet at the time of bid submission was to incorporate a singular rate for the whole executive team which included the Upper Management. Eclipse Management will identify in the Monthly Invoice Validation Report the costs related to these LUMA’s Upper Management positions.

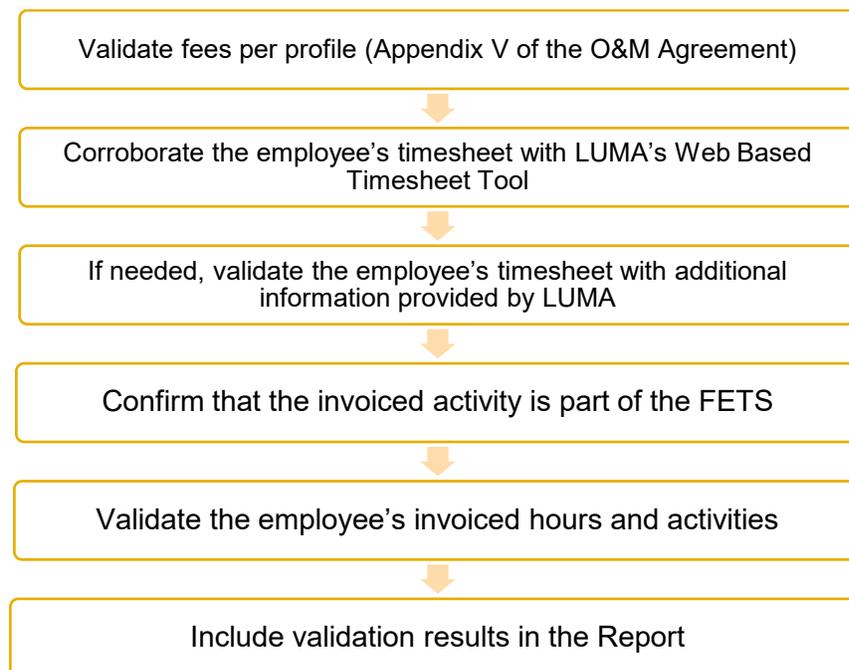
In order to validate and track the Labor part of LUMA's monthly invoice, Eclipse Management has developed a validation method that integrates all the documents and supporting information uploaded by LUMA into the VDR. This model lets Eclipse Management easily identify:

- a. the total amount of hours worked by each LUMA employee
- b. duplicate employees
- d. duplication in hours worked
- e. discrepancies in total hours worked
- f. differences in the invoiced activities

Through this method, Eclipse Management can easily identify any inconsistencies or differences that need to be considered before recommending the disbursement of funds. Furthermore, this method monitors the FETS progress, tracks its advancement on a percentage basis, enables a month to month comparison and identifies areas of risk.

Every month Eclipse Management validates the fees per profile to make sure that LUMA correctly applied said fees, as established in Annex V of the O&M Agreement. Likewise, every month Eclipse Management validates the employees Timesheets on the LUMA "Web Based Tool" and verifies them with additional details provided by LUMA. This enables Eclipse Management to corroborate the invoiced hours with the invoiced activity.

The following graph illustrates the steps taken to validate the Labor part of LUMA's monthly invoice:



The Report will provide a breakdown of the Labor fee. This breakdown includes:

- The total amount of hours worked by position
- Total cost of hours worked by position (Per Annex V of the O&M Agreement)
- Hours worked and related hourly rate
- Number of hours successfully validated
- Difference between hours invoiced and hours validated

Position	Hours Invoiced	Hours Validated	Difference	*Hourly Rate	Amount Invoiced	Amount Validated	Difference	Amount Recommended for Disbursement
Admin Support				\$ 50.00				
Analyst				\$ 125.00				
Directors				\$ 275.00				
Engineers				\$ 160.00				
Field Supervisor				\$ 160.00				
Field Tech				\$ 195.00				
Trainers				\$ 200.00				
Manager				\$ 200.00				
Senior Analyst				\$ 160.00				
Senior Director				\$ 300.00				
Senior Manager				\$ 210.00				
Vice President				\$ 325.00				
* Rates confirmed and validated as per Annex V of the O&M Agreement				TOTAL				

## 8. PASS-THROUGH COSTS & EXPENSES

Each month, LUMA shall include in their invoice all their reasonable and documented costs and expenses (Pass-Through Costs and Expenses) incurred during the previous month in the course of providing the Front-End Transition Services. Eclipse Management validates LUMA's Pass-Through Costs and Expenses by corroborating the following documents uploaded by LUMA in the VDR:



To validate reasonable per diem and travel expenses, Eclipse Management verifies that the supporting documentation provided complies with LUMA's Expense Manuals and those recommended by the Federal Defense Travel Management Office<sup>1</sup>.

## 8.1 SUBCONTRACTORS

Section 4.9 of the O&M Agreement establishes that "Operator shall provide Administrator (with copy to PREB) with a list of Front-End Subcontractors that Operator has engaged or intends to engage for the performance of any of the Front-End Transition Services in excess of US\$250,000 (each, a "Material Front-End Subcontractor"). Administrator shall have the right to approve any Material Front-End Subcontractor engaged by ManagementCo, which approval shall not be unreasonably withheld, delayed or conditioned."

When validating Subcontractors costs and expenses, Eclipse Management confirms with P3A that LUMA complied with their notification and the evaluation by the Administrator has been done. Once the Subcontractor has been evaluated, Eclipse Management carries out the evaluation described in Section 8.

## 9. REPORT

To prepare the Report, Eclipse Management studies, validates, and corroborates the following items:

1	LUMA's Monthly Invoice
2	LUMA's Monthly Report
3	LUMA's Administrative Documents
4	LUMA's Web Based Timesheet Tool
5	Annex V of the O&M Agreement, fees per profile
6	Third Party Contracts
7	Third Party Scope of Work
8	Third Party Work Orders
9	Third Party Invoices
10	LUMA's Subcontractor Notification
11	P3A Subcontractor Evaluation
12	LUMA's Expense Manual and the per diem rates recommended by the Federal Defense Travel Management Office
13	All supporting documentation

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<sup>1</sup> Defense Travel Management Office, *Per Diem Rates Query*, <https://www.defensetravel.dod.mil/site/perdiemCalc.cfm> (last visited on December 7, 2020).

The result of the evaluation is then captured in the Report prepared by Eclipse Management. This report is then submitted to the P3A for its review. After the Report is approved, the P3A shares the report with PREPA and LUMA. Any additional information or document received after the Report is issued is incorporated in the next Report and shared with the parties.

## 10. PREPA'S REVIEW PROTOCOL

Any time after the 10<sup>th</sup> day of the month, but before the 20<sup>th</sup> day of the month, PREPA may, by prior appointment, visit Eclipse Management's offices in order to observe the invoice review process, provide any feedback on the observed process, review backup documentation and ask for clarifications on any of these. Eclipse Management shall consider PREPA's comments and recommendations, if any, before issuing the Invoice Validation Report. This request shall be made to the P3A at least two (2) days before the date of the desired appointment.

The review appointment may last up to three (3) consecutive business days, from 9:00 a.m. to 5:00 p.m., unless otherwise agreed upon by the parties. The PREPA team may bring up to two (2) people to the appointment. During the appointment, the parties shall adhere to the procedure described in this Manual.