

ECONOMY

P3s at
Your Service

THINK STRATEGICALLY:

Puerto Rico focuses on LUMA, but we forget there are other 8 P3s

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These days, the subject of Public Private Partnerships (P3s) has become daily news because of the turmoil surrounding the frequent, long-lasting, and worrisome blackouts that are happening across Puerto Rico. Until last year, the Puerto Rico Electric Power Authority, known as PREPA, was the government's bankrupt monopoly in power generation, transmission, and distribution of electric power. On June 1, 2021, when LUMA Energy took over the transmission and distribution of energy some fourteen months ago, most called LUMA's results questionable, at best.

However, let me recall how the Public Private Partnership model began in Puerto Rico. Some might think that the Luis Muñoz Marín Airport P3 was the first, or PR 22 and PR P3 was the second. The first P3 in Puerto Rico was the Teodoro Moscoso Bridge, to design, build, finance, operate, and maintain the toll concession that began in December 1991 and opened to the public on February 28, 1994. The Teodoro Moscoso P3 has been a worldwide example of success.

In addition to the Teodoro Moscoso Bridge, we have the following P3's in operation or development:

1. **LMM Airport:** Aerostar Holdings
2. **PR22:** Abertis
3. **PR5:** Abertis
4. **Teodoro Moscoso Bridge:** Abertis
5. **AutoExpreso Toll Collections:** Professional Account Management
6. **Discover Puerto Rico:** Transferred to a Destination Marketing Organization private board of directors from the Tourism Company.
7. **Invest Puerto Rico:** Transferred PRIDCO's marketing and business development efforts to a private board.
8. **PREPA Transmission and Distribution:** LUMA Energy
9. **San Juan Ports:** Awarded to Global

Port Holdings
There has been a debate among Puerto Ricans against or in favor of privatization efforts using any of the government of Puerto Rico's assets or public services. The Puerto Rico Public-Private Partnerships Act of 2009 created the P3 model and legal framework. The P3 law also establishes the Regulation for the Procurement, Evaluation, Selection, Negotiation, and Award of Public-Private Partnerships.

Globally, P3s have been gaining acceptance as a tool to allow governments to meet their infrastructure needs by transferring the risk and operation to the private sector, with the government retaining the responsibility of supervising the awarded contracts. P3s have become a needed tool due to Puerto Rico's fiscal problems, limited liquidity, lack of access to capital markets, and dire need to revamp most infrastructure areas, especially in the aftermath of Hurricane Maria. Also, in a considerable part, the Island is under PROMESA, and the Financial Oversight and Management Board has favored the P3s use to loosen the government's grip on projects and areas to improve services and resiliency.

For several months, LUMA energy has become a lightning rod of criticism because of the lengthy, increasingly frequent blackouts across the Island, as well as its inability to communicate effectively, and other missteps. The LUMA situation has become so complicated that some want the LUMA contract to be rescinded.

Canceling LUMA's contract would be a colossal mistake, as it would damage Puerto Rico's reputation in the infrastructure markets, because the key constituents know that LUMA has not been given enough time to act, and the Public-Private Partnerships Authority has not done its job of assisting and managing LUMA and enforcing the contract. And because everyone in the segment knows that Puerto Rico's electric grid is fragile and not resilient, and the critical projects to rebuild it has not yet begun.

Also, as I was writing this piece, I reviewed several

front-page news stories from 1973 to 2022 with similar headlines:

- May 1973 “**Unstoppable Blackouts.**”
- November 2013 “**General Dissatisfaction with PREPA.**”
- February 2021 “**LUMA Promises to Reduce Blackouts.**”
- June 2021 “**Avalanche of Complaints Due to the Blackouts.**”
- July 2022 “**LUMA Defends its Management of the Blackouts.**”

Almost 50 years have passed since the 1973 headline of Unstoppable Blackouts. Puerto Rico's transmission and distribution system has suffered from a lack of maintenance due to the impact of the hurricanes Hugo, Georges, Irma, and Maria. Additionally, the constant political interventions, management changes, and the UTIER union's claims and protests, with its tendency to hold PREPA hostage and bankrupt the one formidable authority.

So, when public and private sector leaders call for the LUMA contract to be rescinded, we must ask ourselves:

- What exactly are we returning to?
- Is it fair to judge LUMA for the fragility of Puerto Rico's electric grid?
- How high have we raised our expectations for the energy system, considering it was hastily repaired after Hurricane Maria?
- On September 2020, FEMA approved nearly \$9.5 billion for the Puerto Rico Electric Power Authority (PREPA) – the largest funding allocation in the history of the federal agency's public assistance program. So we must ask if any construction using these funds has begun. The magnitude of the funding allocation, while enough to build a new electric grid, will take ten to twelve years to complete. Using just \$1 billion of these funds means \$83,333 million in monthly projects. Does the island have such specialized construction capabilities?
- Has the Public Private Partnership authority performed all supervision duties to manage LUMA's contract properly?

Consider that when the Request for Proposals for the PREPA Transmission

and Distribution contract was being considered, not more than five entities submitted a bid for the P3 agreement. In other words, there weren't many companies after the PREPA P3. Here are the five known bidders:

1. **Duke:** An energy holding company with 28,000 people serving 7.6 million customers, and covering 95,000 square miles across six states.
2. **Exelon:** A utility services holding company serving more than 8.9 million utility electric customers and 1.3 million utility gas customers.
3. **ITC:** Has 16,000 circuit miles of transmission in four (4) operating companies across seven states, with approximately 700 employees.
4. **PSEG:** Has approximately \$43 billion in assets, and a market capitalization of about \$27 billion. This is a utility with more than 100 years in operation, more than 2.2 million electric and 1.6 million gas customers, and approximately 7,200 employees.
5. **Quanta Consortium:** This is an integrated infrastructure solutions provider for the electric power, oil, gas, and telecommunication industries with more than 41,000 employees and over \$10.5 billion in annual revenues. ATCO is an experienced operator of T&D systems and natural gas T&D utilities in North America. ATCO operates more than 54,000 miles of T&D lines, servicing over 165,000 square miles of territory, and employs approximately 7,000 people.

Quoting directly from the P3 RFP for PREPA's transmission and distribution system, the company awarded the contract duties, including:

- Operation and maintenance of the T&D assets and system, including street lights and meters
- Control center operations, including generation scheduling and economic system dispatch
- Integration of renewable generation and distributed energy resources
- Power procurement
- End-customer metering, service, and support (including billing and collections)
- New service requests for secondary

- and primary connected customers
- Outage management and restoration
- Coordination of emergency planning and storm restoration and recovery
- Interfacing with regulators, including environmental compliance
- General system planning, including sourcing, designing, and implementing system growth and improvement
- Acting as a servicer in connection with any charges imposed in respect to legacy obligations
- Ongoing public reporting
- In addition to the services performed by the operator of a T&D system, the Authority intends for the Private Partner to administer the federal disaster recovery funding available for restoring the T&D system. Under certain circumstances, the Private Partner may be able to make capital investments in the T&D system not otherwise paid for by federal disaster recovery funding.

As we review the duties LUMA Energy assumed on June 1, 2021, to make the contract work, the Public Private Partnership Authority had to take a hands-on approach to make sure the company was complying with performing its duties as required by the contract.

The need to ensure the service improves is critical as we review JP Power's most recent benchmarks that rank 144 utilities based on six criteria – power quality, reliability, price, customer care, and communication. Both LUMA and PREPA had the lowest score in the group.

The frequency of power outages in Puerto Rico is 300% worse than other companies in the rankings, and the duration of the blackouts was 200% worse.

We have also had 10 Governors in almost 50 years, and each one bears part of the responsibility for what we are experiencing today, given that many of their actions impacted PREPA's management.

An effective P3 requires government monitoring to ensure that the contractual duties and performances comply. Additionally, any stateside or foreign

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