

December 14, 2019

To the P3 Team,

We thank you again for our meeting in San Juan on Thursday. As discussed at the meeting we are committed to this opportunity and look forward to the prospect of serving the electric customers of Puerto Rico. Your clarifying questions on our contract proposal at Thursday's meeting were extremely helpful in terms of providing us with greater insight into P3's concerns and causes us to be even more confident that we will be able to reach a mutually acceptable contract which will lead to a successful long-term partnership.

We heard your remaining concerns on the contract and we've continued to internally discuss ways to address them and help bridge any remaining gaps.

One of the concerns we heard from you related to termination rights, particularly those related to a situation where the Initial Budget, System Remediation Plan and/or the Performance Metrics as agreed to by the parties is changed by PREB. As an initial matter, I am certain that you can appreciate that the last thing that we want to do is to terminate the contract. Our interest lies solely with ensuring that we have the resources that we believe will enable us to make a meaningful improvement in the electric services received by PREPA's customers. We also fully appreciate the important role that PREB plays in ensuring that ratepayers receive reliable electric service and we will do our absolute best to assist PREB in executing its statutory responsibilities. We noted that we have considerable experience working with regulators and believe that this experience can be used to hopefully avoid an extreme situation which threatens the ongoing viability of the contract. In this regard, we noted a number of steps that we would take to try to resolve any issue that PREB might have with the budget at the earliest possible date both before the budget is filed with PREB for approval and in the event that we have concerns with PREB's determination with respect to the budget. We are more than willing to include those steps directly in the contract and believe this should give you further comfort of our commitment to make this work for all parties. These steps include:

- a) **Weekly Transition meetings** - Including PREB staff in our weekly Transition meetings so they are informed throughout the development of our System Remediation Plan, Initial Budgets, Performance Metrics and other items, and, to the extent comments are received (which we would not take as pre-judging our Plans and Budgets), we will seek to address them;
- b) **Periodic Reports during Transition** – we intend to provide ~weekly reports to the Administrator and PREB to report on Transition progress. To the extent PREB provides feedback, we will seek to address and adapt as appropriate;
- c) **Pre-filing conference** – We will hold a pre-filing conference with PREB Commissioners and Staff to walk them through our Plans and Budgets prior to our filing. We would endeavor to address concerns by PREB and/or its Staff prior to our submission of the Plans and Budgets.
- d) **Discovery process and meetings during PREB review** – Since the Initial Budgets are being prepared and reviewed on an expedited basis to meet the desire of Puerto Rico

stakeholders for a rapid transition, we are prepared to be available to PREB on an ongoing basis during their review to promptly field discovery requests on our filing and to have periodic review sessions where we can answer any questions they may have as they assess the Budgets, Plans and Metrics. We are accustomed to rate case processes and are prepared to dedicate time and resources to manage this process on an expedited basis.

e) **‘Settlement’ process following PREB’s Order** – to the extent there is a remaining gap, we can also commit to a good faith negotiation process with the Parties, including PREB, to try to reach a solution to any issues identified by PREB in its order, including adapting to a different budget (within reason), and with associated metric changes.

Again, our concerns simply relate to having sufficient funding to deliver meaningful system improvements and provide the level of service that the customers of Puerto Rico deserve. We recognize that there is always a balance between the desired service levels and customer rates, and that leads to setting priorities amongst projects. We believe that we have outstanding experience finding that balance in New Jersey and Long Island for many years, with our T&D rates being a compelling value for customers given our cost control efforts and being good financial stewards for our customers. We will work cooperatively with PREB and will build a relationship based on transparency and trust.

I would also note that our economic incentive is to find a way to complete transition expeditiously (given \$0 earnings proposed during the transition period) and over the long term (our compensation proposed in the first years is a much lower amount, and then escalates over time). These factors bias us towards reaching agreement quickly on the Initial Budgets and for ongoing Budgets.

Finally, regarding your other questions on our proposal regarding venue and the exit approach, we believe that there are other avenues to ensure that neither party has ‘home-court advantage’, perhaps such as arbitration, and believe the exit structure provides Puerto Rico a path to operate at the end of the contract (if the agreement was not extended for additional years), while providing you protections – our contract covenants, your audit rights, and your ability to make a contract claim against our guarantee post termination of the contract.

Given the opportunity to enter into negotiations as a preferred bidder, we are confident that we can reach mutually acceptable solutions, and offer the above paths as indications of our ability to find compromise and address stakeholder concerns.

We look forward to the next step in the process and the opportunity to serve as the Electric T&D system operator for Puerto Rico.

Sincerely yours,

Scott Jennings  
PSEG – SVP - Corporate Planning, Strategy and Utility Finance