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Executive Director

BY ELECTRONIC MAIL

January 18, 2024

Mr. Lionel Santa Crispín
General Counsel
Puerto Rico Electric Power Authority

Re: CIRO One Salinas, LLC

Dear Mr. Santa Crispín:

In accordance with the Contract Review Policy of the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), established pursuant to Section 204(b)(2) of PROMESA, we have reviewed the proposed amendment to the Amended and Restated Power Purchase and Operating Agreement (the “Amended and Restated PPOA”) between the Puerto Rico Electric Power Authority (“PREPA”) and CIRO One Salinas, LLC (“CIRO One”) (the “Proposed Amendment”).

After reviewing the Proposed Amendment, the Oversight Board concludes “**Approved with observations.**” Observations related to the Proposed Amendment are set forth in Appendix A attached hereto. In sum, the Proposed Amendment is aligned with Puerto Rico’s renewable energy goals by mitigating costs arising from inflation and supply chain issues, increasing capacity for energy production, improving system efficiency, and reducing long-term energy costs. The Proposed Amendment does not represent any changes to the existing economic pricing terms of the Amended and Restated PPOA. As such, the Proposed Amendment maintains competitive pricing when compared to the weighted portfolio average of the Tranche 1 PPOA amendments.

Our review is solely limited to compliance of the Proposed Amendment with Section 204(b)(2) of PROMESA, which seeks to ensure proposed contracts promote market competition and are not inconsistent with approved Fiscal Plans. For the avoidance of doubt, the review performed by the Oversight Board does not constitute a legal review of the contractual documentation or the contracting process, including without limitation: (i) compliance with contracting requirements under

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Recipient: Mr. Santa Crispín

applicable laws, rules, and regulations, both federal and local; and (ii) compliance with applicable laws, rules, and regulations governing procurement activities, both federal and local.

In addition, the Oversight Board has not engaged in any due diligence or background check with respect to the contracting parties nor whether the contracting parties comply with the requirements under the applicable contract. Any material changes to the Proposed Amendment or the original contract must be submitted to the Oversight Board for review and approval **prior to execution**.

This letter is delivered as of the date hereof and we reserve the right to provide additional observations and modify this letter based on information the Oversight Board was not directed to when the review was conducted. In addition, during the course of our review, we may receive information that we may refer to the relevant authorities.

This letter is issued only to PREPA and solely with respect to the Proposed Amendment.

Sincerely,



Jaime A. El Koury
General Counsel

APPENDIX A

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PUERTO RICO ELECTRIC POWER AUTHORITY – CIRO ONE SALINAS, LLC

Background

On July 1, 2020, PREPA's submitted 16 proposed renegotiated non-operational PPOAs (the "Non-Operational PPOAs") to the Oversight Board for review and approval. On August 17, 2020, after careful consideration, the Oversight Board rejected the Non-Operational PPOAs, given PREPA's lack of a formal process to assess the capabilities of the providers and the Non-Operational PPOAs' negative impact on energy rates on the Island at the time.

Recognizing the importance of developing renewable energy projects, the Oversight Board agreed to the development of projects capable of generating up to 150 MW given their minimal increases to energy rates and potential benefits. PREPA selected CIRO One and Xzerta Tec Solar 1 LLC to generate 90 MW and 60 MW of renewable energy for a term of **25 years**, respectively. On March 1, 2021, the Oversight Board approved the Amended and Restated PPOA. PREPA and CIRO One executed the Amended and Restated PPOA on July 14, 2021.

Fiscal Plan Alignment

The Proposed Amendment, which constitutes the first amendment to the Amended and Restated PPOA between PREPA and CIRO One, contemplates a 50 MW increase to CIRO One's renewable energy production, from 90 MW to **140 MW**. It has the **same pricing economic terms and conditions of the Amended and Restated PPOA**, namely: a first-year cost of ~\$99/MWh, including a 2% annual increase starting on July 1st of each year.

The Proposed Amendment represents a significant advancement in Puerto Rico's commitment to renewable energy and is aligned with the broader goals of sustainability and economic efficiency in the energy sector. Specifically, the Proposed Amendment is designed to mitigate costs arising from inflation and supply chain issues by increasing the capacity for energy production, improving system efficiency, and reducing long-term energy costs. With a Levelized Cost of Energy of approximately ~\$115/MWh,¹ the CIRO One project remains competitive when compared to the weighted portfolio average of the Tranche 1 PPOA amendments projects of ~\$133/MWh.

The Oversight Board has previously expressed concerns with the 34% cost increase in the Tranche 1 PPOA amendments from their originally approved contracts in 2022.² The Proposed Amendment stands in stark contrast to the 34% average price hike seen in other Tranche 1 PPOA amendments. It focuses on enhancing capacity without increasing costs and capitalizing on the increased volume of added production capacity. As such, the Proposed Amendment's approach of maintaining price stability while boosting capacity aligns with the strategic objective of deploying affordable renewable energy with the goal of improving system reliability.

¹ Excluding interconnection costs.

² See FOMB - Statement - Renewable PPOA - Amended Contracts, dated September 13, 2023: [FOMB - Statement - Renewable PPOA - Amended Contracts.pdf - Google Drive](#)

APPENDIX A

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On November 30, 2023, the Puerto Rico Energy Bureau (“PREB”) issued a Resolution and Order (NEPR-AP-2021-0001) approving the Proposed Amendment following an analysis based on alignment with Puerto Rico’s public energy policy.³ PREB emphasized that the Proposed Amendment was approved under the same economic terms and conditions as the Amended and Restated PPOA and concluded that the cost structure of the Proposed Amendment is fair, reasonable, and in accordance with public interest. Furthermore, phase 1 of CIRO One’s project is nearing completion and is expected to be ready for interconnection in the coming months, providing additional generation capacity to Puerto Rico’s power grid.

As we have previously stated, a key tenet of Puerto Rico’s electrical power grid transformation is the expedient deployment of renewable generation at overall affordable pricing levels. The Oversight Board understands that the Proposed Amendment is aligned with Puerto Rico’s energy goals, to the extent it is expected to mitigate cost impacts and enhance system reliability, which should lead to a more resilient and efficient energy infrastructure for Puerto Rico’s energy customers.

For all the above, the Oversight Board **approves** the Proposed Amendment.

This review was conducted on the basis of information submitted by PREPA. The Oversight Board has not independently verified the information included in the submission. Should the Oversight Board become aware of any inaccuracies or misrepresentations – whether intentional or not – it would re-evaluate its assessment.

³ <https://energia.pr.gov/wp-content/uploads/sites/7/2023/11/20231130-AP20210001-Resolucion-y-Orden.pdf>.