

Puerto Rico Grid Privatization Flaws Highlighted in First Two Months of Operation

LUMA Contract Has Led to Delays, Damages and Poor Service for Puerto Rico Customers

Executive Summary

IEEFA reviewed the first two months of the implementation of Puerto Rico's contract with LUMA Energy, the private operator hired to manage the island's electric transmission and distribution system. The privatization of the grid, first announced in 2018 by former Gov. Ricardo Rosselló, is a key element of the Financial Oversight and Management Board (FOMB) plan to transform the island's electrical system. In this report, IEEFA finds that since the June 1 takeover:

- Puerto Ricans have experienced significant problems with the implementation of the contract, including longer service restoration times, voltage fluctuations and poor customer service. High-level government officials have acknowledged that service has worsened under LUMA, which already has been paid almost \$180 million.
- LUMA's problems stem from its shortage of experienced employees. It has hired fewer than 30% of the former Puerto Rico Electric Power Authority (PREPA) workers. LUMA has been trying to operate the system with about 60% of the number of PREPA employees who did the same work.
- LUMA has refused to provide information requested by the Puerto Rico Legislature, and no oversight documents related to LUMA's performance in the last two months have been made public.
- Implementation problems can be directly traced to flaws in the contract, including its treatment of PREPA's workforce and its weak oversight provisions.

LUMA was selected for this contract by an opaque procurement process that raised red flags about the due diligence conducted by Puerto Rican officials in charge of the contracting process.

The FOMB was charged with improving the effectiveness of government contracting and restoring public faith in the contracting process. However, the board has failed to demand greater transparency and stronger oversight of contracting processes. In this case, the board has aggressively defended a privatization contract that so far has resulted in worse service for the people of Puerto Rico.

Introduction

On June 1, LUMA Energy—a consortium of Houston-based Quanta Energy Services and Calgary-based ATCO—took over the operation of Puerto Rico’s electrical system. The privatization of Puerto Rico’s electrical system, announced in January 2018, was former Gov. Ricardo Roselló’s flagship initiative to transform the system after the devastation of Hurricane Maria.¹ Under a 15-year agreement, LUMA Energy now manages all of the non-generation aspects of the electrical system, including transmission, distribution, power dispatch, customer service and billing.

The deterioration in service quality experienced by Puerto Rico is a direct result of problems with the LUMA contract.

In this briefing note, IEEFA reviews the performance of LUMA Energy in its first two months of operations. We have found that the deterioration in service quality experienced by Puerto Rico is a direct result of problems with the LUMA contract, which has already funneled almost \$180 million to the consortium.²

IEEFA also notes the lack of transparent oversight over the contract and the ongoing lack of attention by the Financial Oversight and Management Board for Puerto Rico to much-needed electrical system contracting reform.

First Two Months of LUMA Contract Implementation Reveal Significant Problems

IEEFA recognizes that LUMA Energy has inherited a difficult situation. Puerto Rico’s electrical grid has long been in a state of disrepair, with years of deferred maintenance even before Hurricane Maria killed thousands of people and destroyed the island grid.³ And the privatization of the grid has become a highly politicized issue, in large part due to the government’s hostility to labor and to questions raised about the contract procurement process (see below).

¹ El Nuevo Dia. [Ricardo Rosselló anuncia un modelo de privatización para la AEE](#). January 22, 2018.

² This includes the \$159 million invoiced by LUMA Energy during the front-end transition period prior to June 1st as it prepared to take over the system (LUMA Energy. [Monthly Report for the Period Ending May 2021](#). June 14, 2021) and the \$19 million in fixed fees that it has earned during the first two months as operator of the system ([Puerto Rico Transmission and Distribution System Supplemental Terms Agreement](#), Section 3.3).

³ Jeremy Fisher and Ariel Horowitz. Expert Report: State of PREPA’s System, Load Forecast, Capital Budget, Fuel Budget, Purchased Power Budget, Operations Expense Budget. Puerto Rico Energy Bureau Case No. CEPR-AP-2015-0001. November 23, 2016.

Nevertheless, it appears evident that the quality of service has declined under LUMA, specifically as it relates to outage restoration times and communication with customers.

In mid-July, the governor's chief of staff admitted that the outage situation had deteriorated since LUMA took over.⁴ In early August, the Independent Consumer Protection Office said it had received about twice as many monthly complaints under LUMA than it had when PREPA managed the grid; the complaints have been primarily related to service disruptions and equipment damaged by voltage fluctuations.⁵ Island mayors have also complained about LUMA's service:

- San Lorenzo Mayor Jaime Alberio said conditions in the community of 37,000 are “worse than it was six weeks ago ... In San Lorenzo, the number of outages hasn't increased. What has increased is the response time—to unacceptable, ridiculous levels.”⁶
- Juana Diaz Mayor Ramón Hernández Torres acknowledged previous problems with PREPA but said their crews typically arrived at the city of 46,000 within four or five hours of a reported problem. Now, he said, LUMA crews are taking two or three days to arrive.⁷
- Maricao Mayor Wilfredo Ruiz complained that five of the seven communities in his 6,000-person municipality had been without power (and water, due to lack of electricity for the pumps) for eight days earlier in the summer.⁸
- The mayors of Hormigueros, Aguadilla, Juana Diaz, Villalba, Dorado, Las Piedras, and others also have complained of poor communication with LUMA and voltage fluctuations that have damaged homes and appliances.⁹

LUMA and its lead regulator, the Public-Private Partnership (P3) Authority testified to the Puerto Rico Senate in early August that the company has made progress. LUMA argued that its performance with respect to outages in June and July of 2021 was superior to PREPA's during the same months of 2020. The P3 Authority's executive director testified there had been an increase in outages when LUMA

⁴ El Vocero. [La secretaria de Gobernación pide acción inmediata a la empresa LUMA Energy](#), July 14, 2021.

⁵ La Perla del Sur. [Contra LUMA: Se disparan los reclamos de abonados por daños y mal servicio](#). August 4, 2021.

⁶ Radio Isla. [Confirman que LUMA tiene 235 brigadas para trabajar en todo Puerto Rico](#). July 16, 2021.

⁷ Telemundo PR. [Con velas en mano: residentes de Juana Diaz realizan vigilia contra LUMA](#). July 15, 2021.

⁸ NotiUno. [Desesperados ciudadanos de cinco sectores de Maricao que llevan 8 dias sin agua y sin luz](#). July 7, 2021.

⁹ Telemundo PR. [En ruta hacia los primeros dos meses: pasamos por los Rayos X a LUMA](#), July 21, 2021. Also see: El Vocero. [Alcaldes del este denuncian falta de comunicación con LUMA](#). July 2, 2021; El Vocero. [Alcalde de Dorado cataloga como desastre la transición de LUMA](#). June 21, 2021; Periodico La Perla. [A dos semanas de LUMA: reina la frustración entre alcaldes de la zona sur](#). June 16, 2021; El Nuevo Dia. [Alcalde de Aguadilla decreta estado de emergencia ante la falta de energía eléctrica](#). June 15, 2021; Primera Hora. [Denuncian falta de luz en varios municipios del oeste y le reclaman a LUMA](#). June 5, 2021.

started service but that outages have since declined to levels experienced under PREPA (while also stating that he did not have any historical PREPA data). He also said LUMA was “not where we wanted them to be” with respect to customer wait times.¹⁰

The highly politicized environment surrounding the implementation of the contract and the lack of public documentation makes it difficult, if not impossible to evaluate the claims; neither PREPA nor LUMA has released independently-verified information. The claim that LUMA has improved service relative to PREPA is also very difficult to reconcile with the high volume of customer complaints since June 1.

What is clear, however, is that LUMA lacks adequate personnel, and that there has been a lack of transparency and public oversight over the implementation of the contract.

Lack of Personnel

Delays in service restoration and poor customer service can be directly linked to LUMA’s shortage of trained and experienced personnel. PREPA had about 4,300 people working in the areas that were privatized. It has been difficult to get precise data on LUMA’s workforce, but PREPA has said 3,118 ex-PREPA workers transferred to other government jobs rather than work for LUMA, implying that fewer than 1,200 transferred to LUMA.¹¹ More than 500 of the approximately 800 linemen that PREPA had previously had were transferred to other government agencies.¹² (PREPA had already seen its number of linemen fall from approximately 1,200 more than a decade ago, prior to the onset of the agency’s fiscal crisis.)¹³

LUMA Chief Executive Officer Wayne Stensby testified to the Puerto Rico Legislature earlier this summer that the consortium had a workforce of 2,550 people, including 440 linemen, which he said was sufficient to respond to the outages and other current problems in Puerto Rico.¹⁴ That is in contrast to his March testimony estimating that 800 linemen would be needed to operate the transmission and distribution system.¹⁵

Clearly, more than half of LUMA’s workforce consists of new employees who lack prior experience with Puerto Rico’s electrical system. There is no indication that LUMA planned to start operations with so few employees and no public analysis indicating that PREPA was overstaffed with technical employees. Instead, it appears that LUMA underestimated the lack of interest on the part of skilled PREPA workers

¹⁰ Puerto Rico Senate. [Hearing on Resolution RS01](#). August 3, 2021. (See 2:38:28 and 3:14:18 to 3:28:45).

¹¹ Puerto Rico Electric Power Authority. [Board Meeting](#). June 30, 2021 (See 1:42:05).

¹² El Nuevo Dia. [Los trabajadores de la AEE transferidos a 76 agencias narran su nueva realidad](#). July 13, 2021.

¹³ Periodico La Perla. [UTIER reanuda negociaciones para evitar fuga de celadores](#). November 5, 2019.

¹⁴ Puerto Rico House of Representatives. [Hearing on Resolution RC243](#). June 23, 2021 (See 0:35:25, 1:32:30).

¹⁵ Puerto Rico House of Representatives. [Hearing on Resolution RC136](#). March 21, 2021 (See 4:54:30).

to transferring to a private operator who refused to recognize their union or offer the same level of benefits.

At the same time that LUMA lacks experienced and trained workers, several thousand ex-PREPA employees have been transferred to other positions within the government of Puerto Rico under Law 120-2018. The law prevents PREPA employees from losing their job, salary or benefits from a privatization transaction. Based on recent PREPA labor budgets, these transfers represent an additional cost to the bankrupt commonwealth government of approximately \$230 million annually.¹⁶

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The Puerto Rico Office of the Inspector General, an agency that received transferred PREPA employees, recently announced that it would delay paying their salaries because it had not received an additional budget to cover the costs of the new employees.¹⁷ The head of the commonwealth's Office of Management and Budget stated in July that there would be cuts to transferred workers' benefits, apparently in violation of Law 120.¹⁸

Lack of Transparency

It is difficult to assess the precise extent to which LUMA lacks an adequately staffed and trained workforce, and the extent to which it affects service, due to the company's lack of transparency. Unlike PREPA, which had to report key indicators every month (such as the number of outages, causes of outages and system reliability indices) to its governing board, LUMA is under no obligation to publish such information and it has not done so. No LUMA representative was present at PREPA's July monthly board meeting to report on contract implementation.¹⁹

LUMA has also refused to provide basic information requested by the Puerto Rico House of Representatives, preventing legislators from exercising their oversight authority. The information requested by the legislature includes a list of the employees that transferred from PREPA to LUMA; the number of linemen working for LUMA and their level of experience; and the number of reported outages.²⁰ The

¹⁶ Based on PREPA's FY 2021 certified labor operating budget of \$396 million and headcount of approximately 5,400.

¹⁷ Metro PR. [Empleados transferidos de AEE a OIG cobrarán tarde su sueldo acordado](#). July 16, 2021.

¹⁸ Periodico El Sol. [Presidente UTIER defiende derechos adquiridos de empleados trasladados de AEE](#). July 14, 2021. A Puerto Rico court ruling on June 30, 2021, reaffirmed the obligation of government agencies to provide benefits to transferred employees at the level they had previously been provided by PREPA. (Court of First Instance of San Juan, Case No. SJ2021CV03775).

¹⁹ Puerto Rico Electric Power Authority. [Board Meeting](#). July 28, 2021 (See 00:01:08).

²⁰ Telemundo PR. [En ruta hacia los primeros dos meses: pasamos por los Rayos X a LUMA](#). July 21, 2021.

House of Representatives took LUMA to court for information, winning rulings in the Court of First Instance, Court of Appeals and Puerto Rico Supreme Court. LUMA has asked the Supreme Court to reconsider its decision.²¹

Lack of Effective Oversight

Other than the efforts of the Puerto Rico Legislature, there has been no public oversight over the contract implementation, despite the widespread complaints of poor performance. The contract establishes the P3 Authority as the primary oversight entity.²² P3 Authority Executive Director Fermin Fontanes told the Puerto Rico Senate in August that the agency has received weekly reports from LUMA that include information on number of outages, response times, number of call center calls, average wait time and comments related to significant outages.²³ To date, these reports have not been made public. Fontanes also described the P3 Authority's oversight role as "much more passive" than that of the Puerto Rico Energy Bureau (PREB).²⁴

The energy bureau requires quarterly monthly reporting on performance metrics, which include reliability indices, customer complaints and customer service metrics. LUMA's June-August quarterly report will be due September 20. The performance metrics do not include any data regarding the voltage fluctuations that have been a major focus of customer complaints.²⁵

Meanwhile, Gov. Pedro Pierluisi has designated an oversight committee headed by his chief of staff. A committee report scheduled to be released by the end of July has not yet been made public.²⁶

IEEFA notes both the P3 Authority—the lead entity that negotiated the contract—and the governor have a vested interest in LUMA's success. In the politically charged environment surrounding the LUMA contract, it is particularly important to have an oversight entity without the appearance of political bias that can provide transparent and independent monitoring, as well as independent verification of self-reported data. It is possible that PREB will play some of this role, although we note the contract eliminates PREB's ability to conduct any audit of LUMA not related to federally funded capital projects.

²¹ El Vocero. [LUMA Energy pide al Tribunal Supremo reconsideración para no entregar documentos solicitados por la Cámara](#). August 5, 2021.

²² Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement. June 22, 2020. Section 6.2.

²³ Puerto Rico Senate. [Hearing on Resolution RS01](#). August 3, 2021 (See 0:56:17).

²⁴ *Ibid.* (See 2:57:40).

²⁵ Puerto Rico Energy Bureau. [Resolution in Case No. NEPR-MI-2019-0007](#). May 21, 2021.

²⁶ Noticel. [Secretaría de la Gobernación con múltiples sombreros, ahora preside el Comité Timón que fiscaliza a LUMA](#). July 9, 2021.

LUMA Contract Was Fundamentally Flawed From the Beginning

The poor service that Puerto Ricans are experiencing under LUMA was predictable. The contract negotiated between the government of Puerto Rico and LUMA Energy established a hostile approach to labor relations by not recognizing the collective bargaining agreements of the existing PREPA unions and by not providing for the direct transfer of employees from the public entity to the private consortium. This is in contrast to the similar privatization of the Long Island Power Authority, often described by pro-privatization government officials as a model for the PREPA transaction.²⁷

LUMA's difficulty in hiring experienced PREPA workers was evident in the months leading up to the June 1 takeover.²⁸ The flip side of LUMA's hiring difficulties—that there would be a substantial number of skilled and experienced PREPA employees transferred to other government agencies, creating a significant expense for the commonwealth—was equally evident. However, this reality was not acknowledged by the FOMB until June 9.²⁹ It also was not reflected in the FOMB's certified budget for the commonwealth government for the current fiscal year (FY 2022). In fact, the two agencies that received the greatest influx of ex-PREPA employees (1,180 in total) had their payroll budgets cut by 10% for the 2022 fiscal year.³⁰

The poor oversight over LUMA was written into the contract, which assigned primary oversight responsibility for contract implementation to the P3 Authority and weakened the authority of the energy bureau. The contract limited PREB's ability to audit LUMA.³¹ The contract also made the P3 Authority responsible for reviewing LUMA's performance and determining an incentive fee for LUMA.³² PREB is also barred from proposing amendments to LUMA's performance metrics that “reduce the likelihood of Operator's [LUMA's] earning the Incentive Fee.”³³

²⁷ Centro de Periodismo Investigativo. “Senadores Republicanos promovieron “en voz baja” la privatización de la AEE”. November 29, 2018.

²⁸ For example, as of April 23, 2021, the executive director of PREPA stated that only 505 PREPA employees had accepted offers with LUMA. (Notiuno.com. [Continúa investigación a contrato de LUMA Energy a solo 39 días de que entre en vigor](#). April 23, 2021).

²⁹ Financial Oversight and Management Board. [Letter to Puerto Rico Fiscal Agency and Financial Advisory Authority](#). June 9, 2021.

³⁰ The Public Buildings Authority and the Department of Transportation and Public Works collectively absorbed 1,180 transferred PREPA employees (El Nuevo Dia. [Los trabajadores de la AEE transferidos a 76 agencias narran su nueva realidad](#). July 13, 2021). However the collective payroll budgets for these two entities fell from \$89.6 million for FY 2021 to \$80.5 million for FY 2022. (Also see: Financial Oversight and Management Board. [Certified Budget for the Commonwealth of Puerto Rico](#). June 30, 2020; Financial Oversight and Management Board. [Certified Budget for the Commonwealth of Puerto Rico](#). June 30, 2021).

³¹ Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement, June 22, 2020. Section 6.3.

³² Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement, June 22, 2020. Section 7.1(c).

³³ Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement, June 22, 2020. Section 7.1(d).

In addition to the labor and oversight issues that directly affect the quality of service, IEEFA has criticized other aspects of the contract that relate to the longer-term transformation of Puerto Rico's electrical system. In particular, we have noted that the contract contains no financial incentives or penalties for LUMA Energy to ensure Puerto Rico's energy goals are met.³⁴ In May 2021, PREB described LUMA's plans to integrate renewable energy into the grid as "sparse."³⁵ Similarly, the contract contains no incentives or penalties for LUMA Energy to meet financial savings targets to contribute to the commonwealth public policy goal of achieving rates at or less than 20 cents per kilowatt-hour (kWh).

The contract contains no financial incentives or penalties for LUMA Energy to ensure Puerto Rico's energy goals are met.

LUMA's selection as a contractor—made over bidders with more direct experience managing electrical systems—also raises red flags. LUMA Energy is a joint venture of Houston-based Quanta Energy Services and Calgary-based ATCO. Quanta has significant experience in building transmission and distribution lines, but none of the Quanta companies are electric utilities. ATCO is a holding company that includes Canadian Utilities, which owns several electric utilities. Their utilities combined are significantly smaller than PREPA, however, both in terms of annual revenues and customers served.³⁶ LUMA Energy won the bid for the PREPA contract against several experienced investor-owned utilities, including PSEG, the private company that manages the Long Island Power Authority under a similar concession arrangement.

The procurement process was conducted by a five-member committee responsible for reviewing bids and scoring them according to various technical, operational and financial criteria. The final scores were used to select the winning bidder. The individual committee member evaluation documents show:³⁷

- Four of the five committee members arrived at identical numerical scores in 37 of 38 categories.

³⁴ IEEFA. [Contract Between Puerto Rico, LUMA Energy Sets up Full Privatization, Higher Rates for Island Grid](#). October 2020.

³⁵ Puerto Rico Energy Bureau. [Resolution and Order](#). Case No. NEPR-MI-2021-0004, May 31, 2021, p. 33

³⁶ Canadian Utilities' electric utilities combined revenue in 2020 was \$1.4 billion, compared to \$3.2 billion for PREPA. (Canadian Utilities Limited [2020 Consolidated Financial Statements](#), p. 14-15; PREPA [Monthly Report to the Governing Board](#), December 2020, p. 21). Canadian Utilities' electric utilities serve a total of fewer than 300,000 customers (see: [Northland Utilities Limited](#), [ATCO Electric Yukon](#), and [ATCO Electric](#)).

³⁷ Bid evaluation documents were obtained by CAMBIO PR via a public records request to the Puerto Rico Public-Private Partnership Authority.

- Three members made the same numerical error in summing their scores.
- A report from FTI Consulting, a consultant to the P3 Authority, included recommended scores related to financial metrics (which accounted for 50% of the total scoring) that appear to have been copied directly onto the scoring sheets. It is unclear whose recommendations formed the basis for the remainder of the identical scores.

The scores were tabulated by the P3 Authority and used by the P3 Authority's executive director to recommend LUMA Energy as the winning bidder. A unanimous, up-or-down vote was conducted by email, and there is no record of further discussion in the procurement record.

The consultant-driven process shows a disturbing lack of independence on the part of the committee members who were chosen based on their professional expertise to represent the interests of Puerto Rico. It raises significant red flags about the due diligence conducted by the committee in evaluating bids.

The LUMA Energy Contract Is Symptomatic of Ongoing Contracting Reform Failure

In 2016, Congress passed PROMESA, the law that created the FOMB. The oversight board was given broad powers to approve budgets and fiscal plans for the government and bankrupt commonwealth corporations (including PREPA) to provide a path to regain access to capital markets. To ensure compliance with approved fiscal plans, the FOMB was given the authority to review proposed rules, contracts, regulations and executive orders and to prevent their implementation if they did not conform with the fiscal plan. PROMESA established that the FOMB's contract review policies "should be designed to make the government contracting process more effective, [and] to increase the public's faith in this process."³⁸

However, in the past five years, the FOMB has not taken a serious approach to electrical system contracting reform, despite the series of well-known contracting scandals that have plagued the electrical system.³⁹ Contracting reform should start with greater transparency and stronger oversight over contracting processes, which the FOMB has not provided.

Instead, the FOMB's reviews of high-profile contracts, including the LUMA Energy contract and the New Fortress Energy gas conversion contract (PREPA's largest power generation contract since Hurricane Maria), have not examined procurement

³⁸ PROMESA Sec. 204(b)(3)

³⁹ These include an oil pricing scandal that is the subject of a class-action lawsuit; renewable energy contracts that the Puerto Rico Energy Bureau found to inordinately profit developers; a contracting structure for financial consultants in which the consultants were entrusted with determining the reasonableness of their own fees; and the Whitefish contracting scandal for the rebuild of the grid after Hurricane Maria. See: IEEFA. [Multibillion-Dollar Oil Scandal Goes Unaddressed in PREPA Contract Reform and Privatization](#). July 2018.

processes at all.⁴⁰ The FOMB's policy is to review contracts to ensure their compliance with the relevant fiscal plan.⁴¹ However, the FOMB publishes little or no analysis of how it arrives at its determination of whether or not a contract is consistent. And the FOMB's fiscal plans and certified budgets lack the level of detail required to track savings across years and determine whether a specific project, such as the New Fortress Energy gas conversion project or the LUMA Energy contract, actually results in savings to ratepayers.

In this instance, the FOMB has declared the LUMA Energy contract to be consistent with the fiscal plans despite several glaring issues that have gone unaddressed by the board:

- The contract has created an additional annual labor expense of more than \$200 million to absorb transferred PREPA employees, which does not appear to be reflected in the FOMB's certified commonwealth budget.
- The commonwealth incurred an unbudgeted one-time expense of \$750 million to pay for reserve accounts required by LUMA under the contract.
- The FOMB has provided no analysis to support its contention that the LUMA Energy contract will result in reduced costs.⁴²
- The FOMB has stated that eroding and limiting the powers of PREB would be inconsistent with the PREPA fiscal plan,⁴³ without acknowledging that several provisions of the LUMA contract weaken the PREB's authority.
- FOMB has not explained how the LUMA contract is consistent with the fiscal plan's call for a rapid transition to renewable energy. Despite transferring significant responsibilities for generation planning and prioritization of new generation projects to LUMA,⁴⁴ the contract has no incentives or penalties related to achieving renewable energy goals. IEEFA fails to understand how this failure to provide any accountability for a central goal of the PREPA transformation is consistent with the fiscal plan.

⁴⁰ Financial Oversight and Management Board. [Letter to Executive Director of Public-Private Partnership Authority Re: Proposed Operation and Maintenance Agreement for the Puerto Rico Electric Power Authority's Transmission and Distribution System](#). April 13, 2020. Also see: Financial Oversight and Management Board. [Letter to PREPA CEO Re: New Fortress Energia LLC](#). March 4, 2019.

⁴¹ Financial Oversight and Management Board. [FOMB Policy: Review of Contracts](#). April 30, 2021.

⁴² Financial Oversight and Management Board. [Letter to Governor Pierluisi, Senate President Dalmau and House Speaker Hernandez](#). April 6, 2021.

⁴³ *Ibid.*

⁴⁴ [Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement](#), June 22, 2020. Sections 5.6(f) and 5.13(d).

Despite these flaws, the FOMB has aggressively defended the contract. It threatened to take the Puerto Rico Legislature to court if it passed a bill to delay contract implementation to resolve the contract's labor issues.⁴⁵

Conclusion

Many of the flaws previously identified with the LUMA Energy contract—including its weak oversight provisions and mismanagement of the electrical system's workforce—have led to predictable implementation problems in the first two months since LUMA took over operation of Puerto Rico's transmission and distribution system. Government officials have acknowledged that outages have worsened and customer complaints increased under LUMA. At the same time, LUMA's lack of transparency has further hindered oversight and created greater customer frustration.

Despite these flaws, the FOMB has aggressively defended the contract.

Ultimately many of the problems of the LUMA Energy contract are the responsibility of the FOMB, which has never taken seriously its responsibility to reform electrical system contracting. The FOMB's aggressive defense of the LUMA contract and refusal to open the door for amending the contract despite its clear deficiencies has so far led to even worse electrical service for the people of Puerto Rico.

⁴⁵ Financial Oversight and Management Board. [Letter to Governor Pierluisi, Senate President Dalmau and House Speaker Hernandez](#). April 6, 2021.

About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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