

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO ELECTRIC POWER AUTHORITY**

**SECOND AMENDMENT**

**PROFESSIONAL SERVICES CONTRACT**

**2020-P00074B**

**APPEAR**

AS FIRST PARTY: The Puerto Rico Electric Power Authority (PREPA), a public corporation and government instrumentality of the Commonwealth of Puerto Rico, created by Act 83 of May 2, 1941, as amended, represented in this act by its Executive Director, Efran Paredes Maisonet, of legal age, married and resident of Bayamón, Puerto Rico. -----

AS SECOND PARTY: KPMG, LLP (KPMG), a Delaware registered limited partnership, registered to do business in Puerto Rico, represented in this act by its Managing Director, Mr. Orlando R. Torres Torregrosa, of legal age, married and resident of Bayamón, Puerto Rico, duly authorized to appear in representation of KPMG by Resolution dated March 9, 2021. -----

Both PREPA and KPMG are herein individually referred to as a Party and collectively referred to as the Parties. -----


**WITNESSETH**

In consideration of the mutual covenants and agreements contained in this Amendment, hereinafter stated, the Parties agree themselves, their personal representatives, and successors as follows: -----

STATE

WHEREAS: PREPA, by virtue of Act 83, has the authority to engage those professional, technical and consulting services necessary and convenient to the activities, programs, and operations of PREPA. -----

WHEREAS: The appearing Parties executed Contract 2020-P00074 on January 24, 2020 and effective until June 30, 2020, with a not to exceed amount of seven hundred forty-nine thousand six hundred dollars (\$749,600, the "Contract Amount") (the "Contract"). Through this Contract, KPMG provides PREPA with auditing services for the financial statement for Fiscal Year 2018. -----

 This Contract was previously authorized by PREPA's Governing Board, through Resolution 4733 of September 10, 2019. -----

WHEREAS: On June 26, 2020, the Parties executed the First Amendment of the Contract, to extend its term until June 30, 2021 with a maximum amount of seven hundred forty-nine thousand six hundred dollars (\$749,600). -----

WHEREAS: The Puerto Rico Treasury Department issued Circular Letter 1300-15-21 with non-extendable date for the compliance of the financial statements, for 2018, 2019 and 2020. This Circular Letter establishes as deadline for the 2018 financial statements, February 28, 2021 and for the 2019 and 2020 financial statements, September 30, 2021 and the drafts for August 31, 2021. -----


WHEREAS: On February 24, 2021, PREPA's Governing Board, through Resolution 4873, authorized to increase the Contract Amount by one million four hundred twelve thousand six hundred dollars (\$1,412,600), for a total amount of two million one hundred sixty-two

thousand two hundred dollars (\$2,162,200) until June 30, 2021 and an additional extension for Fiscal Year 2021-2022, subject to availability of funds.-----

THEREFORE: In order to achieve the deadlines established on Circular Letter 1300-15-21, and to continue receiving KPMG's services, the appearing Parties hereby agree to enter into this Second Amendment under the following:-----

#### TERMS AND CONDITIONS

FIRST: The Parties agree to amend the Article 1 of the Contract, Scope, specifically section 1.2, to read as follows:



1.2 Audit report in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, on the financial statements and required supplementary information of PREPA as of and for year ended June 30, 2018, June 30, 2019 and June 30, 2020, in accordance with Puerto Rico Treasury Department's Circular Letter 1300-15-21. (See Appendix C).-----

The remaining sentences and paragraphs of Article 1, not affected by this amendment shall remain unaltered and fully enforceable.-----

SECOND: The Parties agree to amend the Article 6 of the Contract, Payment, to increase its amount by one million four hundred twelve thousand six hundred dollars (\$1,412,600), from seven hundred forty-nine thousand six hundred dollars (\$749,600) to two million one hundred sixty-two thousand two hundred dollars (\$2,162,200) until June 30, 2021. The

payments to be made under this Second Amendment, will be charged to account 01-2425-24287-000-000.-----

The remaining sentences and paragraphs of Article 6, not affected by this amendment shall remain unaltered and fully enforceable.-----

THIRD: As for the original Contract, KPMG will comply with all applicable State Law, Regulations or Executive Orders that regulate the contracting process and requirements of the Commonwealth of Puerto Rico. Particularly: Act 237-2004, as amended, which establishes uniform contracting requirements for professional and KPMG services for the agencies and governmental entities of the Commonwealth of Puerto Rico.-----

A. KPMG shall provide, before the execution of this Second Amendment, the following:-

1. Filing of Puerto Rico Income Tax Returns

In compliance with Executive Order No. OE-1991-24 of June 18, 1991, KPMG hereby certifies that it has filed all the necessary and required income tax returns to the Government of Puerto Rico for the last five (5) years. As evidence thereof, KPMG has delivered to PREPA an Income Tax Return Filing Certificate, issued by the Treasury Department of Puerto Rico assuring that KPMG has filed its Income Tax Return for the last five (5) tax years. -----

2. Payment of Puerto Rico Income Taxes

In compliance with Executive Order No. OE-1991-24 of June 18, 1991, KPMG, hereby certifies that it has complied and is current with the payment of all income taxes that are, or were due, to the Government of Puerto Rico. As evidence thereof, KPMG has delivered to PREPA a certification issued by the Treasury Department of Puerto Rico

indicating that KPMG does not owe taxes, for all the concepts, to the Commonwealth of Puerto Rico; or is paying such taxes by an installment plan in full compliance with its terms. During the term of this Contract, KPMG agrees to pay and/or to remain current with any repayment plan agreed to by KPMG with the Government of Puerto Rico. -----

3. Compliance with Requirements of the Department of Labor and Human Resources of the Commonwealth of Puerto Rico. -----

Pursuant to Executive Order No. 1992-52, dated August 28, 1992 amending OE-1991-24, KPMG certifies and warrants that it has made all payments required for unemployment benefits, workmen's compensation and social security for chauffeurs, whichever is applicable, or that in lieu thereof, has subscribed a payment plan in connection with any such unpaid items and is in full compliance with the terms thereof.

As evidence thereof, KPMG has delivered to PREPA: -----


a. A certification issued by the Bureau of Employment Security (*Negociado de Seguridad de Empleo*) of the Puerto Rico Department of Labor and Human Resources certifying that KPMG does not owe any amount regarding Unemployment or Disability Insurance. -----

b. A certification issued by the Program for Social Security for Chauffeurs and Other Employees of the Puerto Rico Department of Labor and Human Resources certifying that KPMG has no debt with respect to such program. -----  
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4. Real and Personal Property Taxes

KPMG hereby certifies and guarantees that it does not have any current debt regarding property taxes that may be registered with the Government of Puerto Rico's Municipal Tax Collection Center (MRCC). KPMG further certifies to be current with the payment of any and all property taxes that are or were due to the Government of Puerto Rico. KPMG shall provide: -----



a. A certification issued by the MRCC, assuring that KPMG does not owe any tax accruing during the last five (5) years to such governmental agency with respect to personal property; or negative Debt certification issued by the MRCC with respect to personal property taxes and a sworn statement executed by KPMG indicating that: (i) its revenues are derived from the rendering of professional services, (ii) during the last 5 years (or the time in which it has been providing professional services) it has had no taxable business or personal property on the 1st of January of each year, (iii) that for such reasons it has not been required to file personal property tax returns, as required under Article 6.03 of Act 83-1991, as amended and (iv) that for such reason it does not have an electronic tax file in the MRCC's electronic system. -----

b. All Concepts Debt Certification issued by the MRCC assuring that KPMG does not owe any taxes to such governmental agency with respect to real and personal property; or Negative certification issued by the MRCC with respect to real property taxes. -----

5. Sales and Use Taxes

KPMG has delivered to PREPA: -----

a. Puerto Rico Sales and Use Tax Filing Certificate, issued by the Treasury Department of Puerto Rico assuring that KPMG has filed his Puerto Rico Sales and Use Tax for the last sixty (60) contributory periods. -----

b. KPMG's Certificate of Merchant's Registration issued by the Treasury Department of Puerto Rico. -----

6. Puerto Rico Child Support Administration (ASUME)

KPMG hereby certifies that it is not duty bound to pay child support, or if so, that KPMG is up to date or has a payment plan to such effects. As evidence thereof, KPMG has delivered to PREPA a certification issued by the Puerto Rico Child Support Administration (*Administración para el Sustento de Menores (ASUME)*) certifying that KPMG does not have any debt, outstanding debt, or legal procedures to collect child support payments that may be registered with ASUME. -----

7. Organization Documents

KPMG shall provide: -----

a. a Good Standing Certificate issued by the Department of State of Puerto Rico. ---

b. a Certification of Incorporation, or Certification of Organization or Certificate of Authorization to do business in Puerto Rico issued by the Department of State of Puerto Rico. -----  
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8. Dispensation

Any and all necessary dispensations have been obtained from any government entity and that said dispensations shall become part of the contracting record. -----

9. Rules of Professional Ethics

KPMG acknowledges and accepts that it is knowledgeable of the rules of ethics of his or her profession and assumes responsibility for his or her own actions. -----

10. KPMG hereby agrees to comply with the provisions of Act 2-2018, known as the Anti-Corruption Code for the New Puerto Rico (Act 2-2018). -----



KPMG shall furnish a sworn statement to the effect that neither KPMG nor any partner or managing director in the San Juan Office of KPMG, or any person performing equivalent functions for the San Juan Office of KPMG has been convicted of or has pled guilty to any of the crimes listed in Article 6.8 of Act 8-2017, as amended, known as the Act for the Administration and Transformation of Human Resources in the Government of Puerto Rico (Act 8-2017) or any of the crimes included in Act 2-2018.- KPMG hereby certifies that it has not been convicted in Puerto Rico or United States Federal court for under Articles 4.2, 4.3 or 5.7 of Act 1-2012, as amended, known as the Organic Act of the Office of Government Ethics of Puerto Rico (Act 1-2012), any of the crimes listed in Articles 250 through 266 of Act 146-2012, as amended, known as the Puerto Rico Penal Code (Act 146-2012), any of the crimes typified in Act 2-2018, or any other felony that involves misuse of public funds or property, including but not limited to the crimes mentioned in Article 6.8 of Act 8-2017.-----




PREPA shall have the right to terminate this Contract in the event KPMG is convicted in Puerto Rico or United States Federal court for under Articles 4.2, 4.3 or 5.7 of Act 1-2012, any of the crimes listed in Articles 250 through 266 of Act 146-2012, any of the crimes typified in Act 2-2018, or any other felony that involves misuse of public funds or property, including but not limited to the crimes mentioned in Article 6.8 of Act 8-2017.-----

Consequences of Non-Compliance

KPMG expressly agrees that the conditions outlined throughout this Section are essential requirements of this Contract. Consequently, should any one of these representations, warranties or certifications be incorrect, inaccurate or misleading, in whole or in part, there shall be enough cause for PREPA to render this Contract null and void. If any of the certifications listed in this Section shows a debt, and KPMG has requested a review or adjustment of this debt, KPMG hereby certifies that it has made such request at the time of the Contract execution. If the requested review or adjustment is denied and such determination is final, KPMG will provide, immediately, to PREPA a proof of payment of this debt; otherwise, KPMG accepts that the owed amount be offset by PREPA and retained at the origin, deducted from the corresponding payments. KPMG accepts and acknowledges its responsibility for requiring and obtaining a similar warranties and certifications from each and every contractor and subcontractor, if any previously approved by PREPA, whose service KPMG has secured in relation with the Services to be rendered under this Contract and shall deliver evidence to PREPA to comply with this requirement. -----

This paragraph shall not apply to consultants or subcontractors within the KPMG network or independent firms and entities controlled by, or under common control with, one or more KPMG member firms (together with KPMG, the “KPMG Firms” as defined in Appendix A) who provide services under this Contract.-----

KPMG understands and agrees that PREPA is prohibited to process any payment under the Contract until the enumerated certifications and sworn statement are submitted to PREPA. -----



FOURTH: The Parties acknowledge that PREPA is undergoing a transformation process, and therefore, both Parties agree that after the front-end transition period of a Partnership Contract, Sale Contract, or any other PREPA Transaction (as these terms are defined in Act 120-2018), PREPA may sell, assign, convey, transfer, pledge, mortgage, sublease, delegate, hypothecate, or otherwise dispose (each, a “Transfer”) any of its rights, title, or interest in this Contract as permitted by applicable law and at any time, without KPMG’s consent, and without cost, expense, or incremental liability to PREPA, to any future operator of Puerto Rico’s electric power transmission and distribution system or any of its affiliates, or to any governmental agency, body, public corporation or municipality of Puerto Rico; provided, that PREPA shall notify KPMG no later than thirty (30) days before the effective date of any such Transfer.-----

KPMG acknowledges that all of KPMG’s responsibilities and obligations under the Contract, such as work to be performed and services to be provided, etc., will continue in full force and effect until the expiration of the thirty (30) day period; provided that such transfer does not result in any violation of KPMG’s professional standards, including

independence. In such event, the Contract shall be terminated without any penalty to either party.-----

FIFTH: The Parties acknowledge that KPMG has submitted the certification titled "Contractor Certification Requirement" required in accordance with the Contract Review Policy of the Financial Oversight and Management Board for Puerto Rico, effective as of November 6, 2017 and amended on October 30, 2020, signed by the KPMG's Executive Director (or another official with an equivalent position or authority to issue such certifications). A signed copy of the "Contractor Certification Requirement" is included as an annex to this Amendment of Contract.-----

SIXTH: The Parties agree to supersede the Appendixes A and B of the Contract, which are included as part of this Second Amendment.-----

SEVENTH: All other terms and conditions, specifications, stipulations, insurances, and requirements established in the Contract, as amended, shall remain unaltered and fully enforceable.-----

In WITNESS WHEREOF, the Parties hereto have agreed to execute this Second Amendment in San Juan, Puerto Rico, on this 30 day of March, 2021.-----



Efran Paredes Maisonet  
Executive Director  
Puerto Rico Electric Power Authority  
Tax ID: 660-43-3747



Orlando R. Torres Torregrosa  
Managing Director  
KPMG, LLP  
Tax ID: 135-56-5207

## Contractor Certification Requirement

The following certification shall be provided to the Oversight Board and the Commonwealth's Contracting Government Entity by the Chief Executive Officer (or equivalent highest rank officer) of each proposed contractor under contracts submitted for review:

### **Re: Professional Service Contract for KPMG LLP to Audit the Financial Statements of the Puerto Rico Electric Power Authority (PREPA) as of and for the Years Ended June 30, 2018, 2019 and 2020**

1. The expected contractor's subcontractor in connection with the proposed contract<sup>1</sup> is the following:
  - KPMG Global Delivery Center (GDC), a professional share center controlled by KPMG. GDC provides certain professional services to the engagement teams of KPMG under the direct supervision of the engagement team. GDC is compensated on an hourly basis at a rate per hour of \$100.
2. Neither the contractor nor any of its owners<sup>2</sup>, partners, directors, officials or employees of its San Juan Office in Puerto Rico, has agreed to share or give a percentage of the contractor's compensation under the contract to, or otherwise compensate, any third party, whether directly or indirectly, in connection with the procurement, negotiation, execution or performance of the contract, except as follows:
  - GDC provides certain professional services to the engagement teams under the direct supervision of the engagement team. GDC is compensated on an hourly basis.
3. To the best knowledge of the signatory, and after performing the appropriate inquiry, no person has unduly intervened in the procurement, negotiation or execution of the contract, for its own benefit or that of a third person, in contravention of applicable law.
4. To the best knowledge of the signatory, and after performing the appropriate inquiry, no person has: (i) offered, paid, or promised to pay money to; (ii) offered, given or promised to give anything of value to; or (iii) otherwise influenced any public official or employee with the purpose of securing any advantages, privileges or favors for the benefit of such person in connection with the contract (such as the execution of a subcontract with contractor, beneficial treatment under the contract, or the written or unwritten promise of a gift, favor, or other monetary or non-monetary benefit).

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<sup>1</sup> As used herein, the term "contract" is inclusive of any amendments, modifications or extensions.

<sup>2</sup> For purposes of this certification, a contractor's "owner" shall mean any person or entity with more than a ten percent (10%) ownership interest in the contractor's business.

<sup>3</sup> The above certifications shall be signed by the Chief Executive Officer (or other officer with equivalent position or authority to issue such certifications) of the contractor.

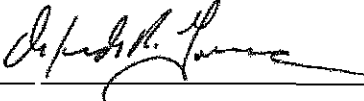
5. Neither the contractor, nor any of its owners, partners, directors, officials or employees of its San Juan Office in Puerto Rico or, to the best of its knowledge (and after performing the appropriate inquiry), its representatives or sub-contractors, has required, directly or indirectly, from third persons to take any action with the purpose of influencing any public official or employee in connection with the procurement, negotiation or execution of the contract, in contravention of applicable law.
  
6. Any incorrect, incomplete or false statement made by the contractor's representative as part of this certification shall cause the nullity of the proposed contract and the contractor must reimburse immediately to the PREPA any amounts, payments or benefits received from PREPA under the proposed contract.

Therefore, I hereby certify under penalty of perjury that the foregoing information is complete, true, and correct.

Name<sup>3</sup>: Orlando R. Torres

Position/Company: Managing Director, KPMG LLP

Date: March 1, 2021

Signature: 

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<sup>3</sup>The above certifications shall be signed by the Chief Executive Officer (or other officer with equivalent position or authority to issue such certifications) of the contractor.



KPMG LLP  
American International Plaza  
Suite 1100, 250 Muñoz Rivera Avenue  
San Juan, PR 00918-1819

Telephone +1 787 756 6020  
Fax +1 787 754 6175  
kpmg.com

March 22, 2021

Puerto Rico Electric Power Authority  
1250 Juan Ponce de Leon Avenue  
San Juan, Puerto Rico 00917

Attention: Mr. Nelson Morales Rivera, *Chief Financial Officer*

This letter (Engagement Letter) confirms our understanding of our engagement to provide professional services to Puerto Rico Electric Power Authority (PREPA).

### **Objectives and Limitations of Services**

#### *Financial Statement Audit Services*

You have requested that we audit PREPA's basic financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), with the objectives of obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to error or fraud, and issuing an auditor's report that includes our opinion as to whether the presentation of the financial statements conforms with U.S. generally accepted accounting principles.

Reasonable assurance is a high level of assurance but it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also will:

- Identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on the financial statements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall financial statement presentation, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Client's ability to continue as a going concern for a reasonable period of time.



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Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, fraud, and noncompliance with laws and regulations may exist and not be detected by an audit of financial statements even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

We will also perform certain limited procedures to the required supplementary information as required by auditing standards generally accepted in the United States of America. However, we will not express an opinion or provide any assurance on the information. Our report relating to the financial statements will include our consideration of required supplementary information.

We also understand that the financial statements will include a schedule of expenditures of federal awards (SEFA) and supplementary information which are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information will be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America with the objective of expressing an opinion as to whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Subject to the remainder of this paragraph, we will issue a written report upon completion of our audit of PREPA's financial statements addressed to the governing board of the Puerto Rico Electric Power Authority. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinion, add an emphasis-of-matter paragraph or other-matter paragraph to our auditor's report, or if necessary, withdraw from the engagement. If, during the performance of our audit procedures such circumstances arise, we will communicate to the audit committee our reasons for modification or withdrawal.

#### *Internal Control over Financial Reporting and Compliance and Other Matters*

We will obtain an understanding of PREPA's internal control relevant to the audit in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the PREPA's internal control.

The objective of our audit of the financial statements is not to report on PREPA's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of PREPA's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect



on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. This report will include any material weaknesses and significant deficiencies identified during the audit. This report will also include any of the following that we identify or suspect:

- Instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements or other financial data significant to the audit objectives.
- Instances of fraud that are material, either qualitatively or quantitatively, to the basic financial statements or other financial data significant to the audit objectives.

The report will describe its purpose and will state that it is not suitable for any other purpose.

In accordance with *Government Auditing Standards*, we will also communicate in writing when:

- Identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements comes to our attention during the course of our audit that has an effect on the financial statements or other financial data significant to the audit objectives that is less than material but warrants the attention of those charged with governance, or
- We obtained evidence of identified or suspected instances of fraud that have an effect on the financial statements or other financial data significant to the audit objectives that are less than material but warrant the attention of those charged with governance.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or instances of fraud directly to parties outside the auditee.

#### *Uniform Guidance Audit Services*

We will also perform audit procedures with respect to PREPA's major federal programs in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("the Uniform Guidance"). The Uniform Guidance includes specific audit requirements, mainly in the areas of internal control and compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of PREPA's major federal programs that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of the Uniform Guidance, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of PREPA's major federal programs. The tests of internal control performed in accordance with the Uniform Guidance are less in scope than would be necessary to render an opinion on internal control.

We will perform tests of PREPA's compliance with federal statutes, regulations, and the terms and conditions of federal awards we determine to be necessary based on the *OMB Compliance Supplement*. The procedures





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outlined in the *OMB Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material noncompliance, fraud, and noncompliance with laws and regulations may exist and not be detected even though the audit is properly planned and performed in accordance with *Government Auditing Standards*. The risk of not detecting material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In addition, we will prepare a written report (single audit report) which 1) provides our opinion on PREPA's compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major federal programs and 2) communicates our consideration of internal control over major federal programs. The single audit report will describe its purpose and will state that it is not suitable for any other purpose.

The Federal Audit Clearinghouse requires the single audit reporting package, which includes the audited financial statements, to be submitted in a PDF format which is text searchable, unencrypted, and unlocked. This Engagement Letter serves as PREPA's authorization for the submission of the reporting package in this format.

#### *Prior Year Adjustments*

You have requested we audit and report on adjustments made by you to previously-issued financial statements that were reported on by the predecessor auditor. Such adjustments relate to an understatement of legal claims contingencies (Prior Year Adjustments).

We will conduct our audit of the Prior Year Adjustments in accordance with auditing standards generally accepted in the United States of America with the objective of applying sufficient procedures to satisfy ourselves as to the appropriateness of the Prior Year Adjustments.

In conducting the audit of the Prior Year Adjustments, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis to support our audit of the Prior Year Adjustments. We also will assess the accounting policies used and significant estimates made by management, and evaluate the overall presentation related to the Prior Year Adjustments.

In any event, however, we are not being engaged to audit, or apply any procedures to the previously-issued financial statements other than with respect to such Prior Year Adjustments and, accordingly, we will not express an opinion or any other form of assurance on the previously issued financial statements.

#### *Offering Documents*

In the event PREPA requests our involvement with a future exempt filing that will include or incorporate by reference these financial statements and our audit report(s) thereon, professional standards require us to be separately engaged. The specific terms of our future services with respect to future exempt offerings will be determined at the time the services are to be performed and will be subject to the negotiation, agreement, and execution of a specific engagement letter or contract.



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In the event Client does not engage us to be involved with the offering document, then PREPA agrees to include the following language in the offering document:

"KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement."

#### **Our Responsibility to Communicate with the Audit Committee**

We will communicate our planned scope and timing for our audits with the audit committee, including significant risks identified in planning our audit of the financial statements.

We will report to the audit committee or those charged with governance the following matters:

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.
- Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinion in the auditor's report, and the effect of uncorrected misstatements related to prior periods.
- Significant difficulties and disagreements with management, if any, encountered during our audits.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Significant findings from the compliance audit.

We will also read minutes, if any, of relevant committee meetings for consistency with our understanding of the communications made to the audit committee and determine that the audit committee has received copies of all material written communications between ourselves and management. We will also determine that the audit committee has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any instances of noncompliance or suspected noncompliance with laws and regulations, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the audit committee any instances of noncompliance or suspected noncompliance with laws and regulations, unless they are clearly inconsequential, material errors in the financial statements, and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

#### **Management Responsibilities**

The management and those charged with governance of PREPA acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S. generally accepted



accounting principles, of the financial statements and all representations contained therein. Management also is responsible for:

- a. identifying and ensuring that PREPA complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known instances of noncompliance or suspected noncompliance with laws, regulations and provisions of contracts and grant agreements;
- b. providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or single audit report within 14 calendar days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report(s), the report(s) will indicate management did not provide written responses;
- c. distributing the reports issued by KPMG.

Management also is responsible for the design, implementation, and maintenance of programs and controls to prevent, deter, and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

The management *and those charged with governance* of PREPA also acknowledges and understands that they have responsibility for the preparation of the SEFA and supplementary information in accordance with the applicable criteria. Management is also responsible for providing us written representations regarding the supplementary information. Management is also responsible for including our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information, and for including the audited financial statements with any presentation of the supplementary information that includes our report thereon or making the audited financial statements readily available to intended users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

Management of PREPA *and those charged with governance* also acknowledges and understands that it is their responsibility to provide us with: i) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements and the compliance requirements applicable to its federal programs such as records, documentation, and other matters; ii) additional information that we may request from management for purposes of the audits; and iii) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. As required by auditing standards generally accepted in the United States of America, we will make specific inquiries of management *and those charged with governance* about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon, taken as a whole. Because of the



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importance of management's representations to the effective performance of our services, PREPA will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this Engagement Letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

In relation to compliance with the program requirements applicable to its federal programs, management acknowledges and understands its responsibility for:

- Identifying the PREPA's government programs and understanding and complying with the compliance requirements.
- Establishing and maintaining effective controls that provide reasonable assurance that the PREPA administers government programs in compliance with the compliance requirements.
- Evaluating and monitoring the PREPA's compliance with the compliance requirements.
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.

In addition to the Uniform Guidance requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, the Uniform Guidance also requires PREPA to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (auditee sections).

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of PREPA.

Certain provisions of the Uniform Guidance allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. PREPA agrees to notify KPMG of any such request by a granting agency and to work with KPMG to modify the terms of this Engagement Letter as necessary to accommodate such a request.

To facilitate our audit planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented, prior to June 30, 2020.

#### **Non-audit service - Assistance in Preparing Financial Statements**

We will assist management in preparing the financial statements and related notes in accordance with U.S. generally accepted accounting principles. With respect to the preparation of the financial statements and



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related notes, our assistance to management will be limited to providing word processing and reproduction assistance.

We may also provide advice and recommendations to assist management of PREPA in performing its responsibilities. We will not assume management responsibilities on behalf of PREPA.

PREPA agrees to:

- Assume all management responsibilities, including determining the accuracy and completeness of the financial statements and notes.
- Assign a suitable employee with appropriate skills, knowledge and/or experience to oversee the financial statement preparation assistance and evaluate the adequacy and results of the services.
- Accept responsibility for the results of the financial statement preparation assistance.

#### **Dispute Resolution**

Any dispute or claim between the parties shall be submitted first to non-binding mediation and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution ("IICPR"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forgo litigation over such disputes in any court of competent jurisdiction.

Mediation shall take place at a location to be designated by the parties using Mediation Procedures of the IICPR, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in San Juan, Puerto Rico and shall be governed by the Federal Arbitration Act, 9 U.S.C. §§ 1, et seq. Party-selected arbitrators shall be selected from the lists of neutrals maintained by either the IICPR or by JAMS, Inc., but the chair of the arbitration panel does not have to be selected from those specific lists. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in IICPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm, enforce or vacate any final award entered in arbitration, in any court of competent jurisdiction, provided that any party moving to enforce, confirm or vacate any such agreement or award, as the case may be, will file such motion under seal unless prohibited under applicable court rules. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

#### **Other Matters**

In the event that any term or provision of this Engagement Letter shall be held to be invalid, void or unenforceable, then the remainder of the Engagement Letter shall not be affected, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.



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This Engagement Letter shall serve as PREPA's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and PREPA and between KPMG and outside specialists or other entities engaged by either KPMG or PREPA. PREPA acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

In an effort to facilitate efficient communication between KPMG and PREPA related to the audit and to track engagement progress during the course of the engagement, KPMG may provide PREPA with access to certain online tools. If such access is provided to PREPA, PREPA shall be responsible for: (i) its users' access and use of such tools (including the information its users may upload to such tools and compliance with all laws and regulations applicable to use or access by PREPA's users outside of the United States (e.g. export control and data privacy laws and regulations)), and (ii) protecting the security of the account credentials in its possession for each user including timely informing KPMG when PREPA individuals' access should be removed. PREPA acknowledges that it shall not provide third parties (agents or contractors) with access to such tools without KPMG's written consent, use such tools as a system of record, nor use such tools other than for purposes of the audit engagement.

Except as permitted by law or as set forth in this paragraph, neither party shall acquire hereunder any right to use the name or logo of the other party or any part thereof, and any such use shall require the express written consent of the owner party. PREPA agrees that KPMG may list PREPA as a client in KPMG's internal and external marketing materials, including KPMG websites and social media, indicating the general services rendered (e.g., "PREPA is an Audit client of KPMG LLP"). Further, for purposes of the services described in this Engagement Letter only, PREPA hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of PREPA solely for presentations or reports to PREPA or for internal KPMG presentations and intranet sites.

PREPA and KPMG acknowledge and agree that each shall comply with all applicable United States export control laws and regulations in the performance of each party's respective responsibilities under the Engagement Letter. Unless requested by KPMG to allow it to complete its audit, PREPA will not provide KPMG, or grant KPMG access to, (a) information (including technical data or technology), verbally, electronically, or in hardcopy, (b) software or (c) hardware, that is controlled for export by the United States government under the Arms Export Control Act of 1976, Export Control Reform Act of 2018, the International Traffic in Arms Regulations ("ITAR"), Export Administration Regulations ("EAR"), Department of Energy Part 810 Regulations or Nuclear Regulatory Commission Part 110 Regulations, except information, software or hardware that is classified as EAR99 under the EAR ("Export Controlled Information"). If KPMG requests Export Controlled Information from PREPA, PREPA shall provide KPMG with notice of provision of Export Controlled Information at least 48 hours prior to providing such Export Controlled Information to KPMG.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this Engagement Letter. The audit documentation for this engagement is the property of KPMG.

In the event that KPMG is requested or required by law, rule, regulation or governmental, regulatory or self-regulatory body (including by deposition, interrogatory, request for documents, subpoena, civil investigative demand, legal regulatory or similar process) to disclose PREPA's confidential information ("Legal Demand"), KPMG shall, unless prohibited by law or such Legal Demand, provide immediate written formal notice, within



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five (5) business days after receiving the Legal Demand, to PREPA, in order to permit it to seek appropriate protective order. So long as KPMG gives notice as provided herein, KPMG shall be entitled to comply with such Legal Demand to the extent required by law, subject to any protective order or the like that may have been entered in the matter. In the event KPMG is required by law, rule, regulation or Legal Demand in a proceeding or investigation to which KPMG is not a named party or respondent, to produce KPMG's documents or personnel as witnesses or for interviews, or otherwise to make information relating to the services provided under the Engagement Letter available to a third party, PREPA shall reimburse KPMG for its professional time, at a blended rate of \$200 per hour, and expenses, including reasonable attorneys' fees and expenses, or others, when incurred and paid in producing documents or personnel or providing information pursuant to such request. This section shall not apply to requests directly related to KPMG's Peer Review Program.

*OK*  
Pursuant to *Government Auditing Standards*, and subject to applicable provisions of laws and regulations, we are required to make appropriate individuals and certain audit documentation available in a timely manner to others, including the Office of the Comptroller of the Commonwealth (the Office of the Comptroller), upon request. In addition, we may also be requested to make certain audit documentation available to the Office of the Comptroller pursuant to authority provided by law or regulation. If so requested, access to such audit documentation will be provided. Furthermore, the Office of the Comptroller may obtain copies of selected audit documentation. Such regulators may intend, or decide, to distribute the copies or information contained therein to others, including other government agencies.

KPMG, as an accounting firm, has an obligation to comply with applicable professional standards. Certain professional standards, including AICPA Code of Professional Conduct Section 1.700, "Confidential Client Information Rule," adopted by the American Institute of Certified Public Accountants and similar rules adopted by the boards of accountancy of many states, prohibit the disclosure of client confidential information without client consent, except in limited circumstances. KPMG represents to PREPA that KPMG will treat PREPA's confidential information in accordance with applicable professional standards.

KPMG may work with and use the services of other members of the international KPMG network of independent firms and entities controlled by, or under common control with, one or more KPMG member firms (together with KPMG, the "KPMG Firms") to provide services to PREPA. The KPMG Firms, together with the entities comprising KPMG International, shall be referred to herein as the "KPMG Parties." In connection with the performance of services under this Engagement Letter, the KPMG Firms may, in their discretion, utilize the services of third party service providers within or outside of the United States to complete the services under this Engagement Letter. KPMG Firms and such third parties may have access to your confidential information from offshore locations. In addition, KPMG uses third party service providers within and outside of the United States to provide, at its direction, back-office administrative and clerical, or analytical services to KPMG and these third party service providers may in the performance of such services have access to your confidential information. In particular, KPMG's audit technologies, software productivity tools and certain technology infrastructure and, necessarily, your confidential information, may be hosted in cloud environments operated by KPMG Firms or such third party service providers. In addition, for purposes of fulfilling our professional responsibilities, such as maintaining independence and performing conflict checks, PREPA will be listed as a client in internal KPMG Parties' systems accessible on a need to know basis to KPMG Parties. KPMG represents that it has technical, legal and/or other safeguards, measures and controls in place to protect your confidential information from unauthorized disclosure or use.

You also understand and agree that the KPMG Firms, with the assistance of third parties as outlined above, may use all PREPA's information for other purposes consistent with our professional standards, such as improving the delivery or quality of audit and other services or technology to you and to other clients, thought leadership projects, to allow you and other clients to evaluate various business transactions and opportunities,



and for use in presentations to you, other clients and non-clients. When your information is used outside of the KPMG Firms or such third parties assisting them as outlined above, PREPA will not be identified as the source of the information.

It may be necessary or convenient for PREPA to use KPMG-owned or -licensed software, software agents, scripts, technologies, tools or applications (collectively "KPMG Technology") designed to extract data from PREPA's electronic books and records systems or other systems (collectively, "Systems"), in connection with the audit. PREPA understands and agrees that it is solely responsible for following appropriate change management policies, processes and controls relating to use of such technology (including without limitation appropriate backup of PREPA's information and Systems) (collectively, "Change Management Processes") before such KPMG Technology is utilized to extract data from the Systems. In the event PREPA fails to use such Change Management Processes or if such Change Management Processes prove to be inadequate, PREPA acknowledges that the Systems and/or KPMG Technology may not function as intended. In consideration of the foregoing, KPMG hereby grants PREPA the right to use KPMG Technology solely to facilitate PREPA's necessary or convenient provision of information to KPMG in connection with the audit, and this grant does not extend to any other purposes or use by third parties outside of your organization without our prior written approval, provided that third party contractors of PREPA having a need to know in order to perform their services to PREPA are permitted to use KPMG Technology to the extent necessary for such parties to perform such services, so long as PREPA exercises the same level of care to protect such KPMG Technology and KPMG confidential information as it uses to protect its own confidential information, but in no event less than reasonable care. Other than as expressly permitted hereby, PREPA agrees to keep KPMG Technology confidential, using no less than a reasonable standard of care to protect it from unauthorized disclosure or use, and to notify KPMG of any legal compulsions to disclose it, in accordance with the provisions governing legal demand of confidential information which appear in this engagement letter with respect to which the KPMG Technology is being used, *mutatis mutandis*. If the KPMG Technology is subject to any third party license terms and conditions before being provided to PREPA, PREPA may be required to accept such terms and conditions before using the KPMG Technology, in which case KPMG will provide such license terms and conditions to PREPA in writing before PREPA elects to use the KPMG Technology.

Except as otherwise provided for in this Engagement Letter, neither party may assign, transfer or delegate any of its rights, obligations, claims or proceeds from claims arising under or relating to this Engagement Letter (including by operation of law, in which case the assigning party will, to the extent legally permissible, give as much advance written notice as is reasonably practicable thereof) without the prior written consent of the other party, such consent not to be unreasonably withheld. Any assignment in violation hereof shall be null and void.

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

#### *Reports, Services and Associated Fees*

Appendix I to this Engagement Letter lists the reports we will issue and the services we will provide as part of this engagement and our fees for professional services to be performed under this Engagement Letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this Engagement Letter.

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March 22, 2021  
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Our engagement herein is for the provision of annual audit services for the financial statements and the Uniform Guidance for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this Engagement Letter we will provide the services set forth in Appendix I as a single engagement for each of PREPA's subsequent fiscal years until either those charged with governance or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by those charged with governance.

This Engagement Letter, the contract for professional services related to the 2018, 2019 and 2020 audits of PREPA, and any exhibits, attachments and appendices hereto, and amendments thereto agreed in writing by the parties, shall constitute the entire agreement between KPMG and PREPA with respect to the subject matter hereof and thereof, and supersede all other previous oral and written representations, understandings or agreements relating to the subject matter of this agreement.

We shall be pleased to discuss this Engagement Letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this Engagement Letter. Please sign and return it to us to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Very truly yours,

KPMG LLP

Orlando R. Torres  
*Managing Director*

Enclosure

ACCEPTED

Puerto Rico Electric Power Authority

\_\_\_\_\_  
Authorized Signature [Audit Committee]

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

**Reports, Services and Associated Fees**

Based upon our discussions with and representations of management, our fees for services we will perform are estimated as follows:

Audit of the Statements of Net Position (Deficit),  
Statements of Activities, Statements of Cash Flows and  
related notes to the financial statements of PREPA as of  
and for the years ended

June 30, 2018 (on a standalone basis) \$ 756, 000

June 30, 2019 and 2020 (on a comparative basis) 1,081,100

Required Supplementary Information (Unaudited)  
includes:

Schedule I, Supplementary Schedule of Funding  
Progress Post Employment Health Plan

Schedule II, Schedule of Changes in the Authority's Net  
Pension Liability and Related Ratios (Presented three  
years only)

Notes to the Schedule of Changes in the Authority's Net  
Pension Liability and Related Ratios

Schedule III, Schedule of Employer Contributions  
Pension Plan

Additional supplemental information (UNAUDITED)  
includes:

Schedule of Expenditures of Federal Awards

Schedule IV, Sources and Disposition of Net Revenues  
Under the Provisions of the 1974 Agreement, Statement  
of Revenues, Expenses and Changes in Net Position  
and Reconciliation of Net Income

Schedule V, Supplemental Schedule of Sources and  
Disposition of Net Revenues under the Provisions of the  
1974 Agreement

Schedule VI, Supplemental Schedule of Funds Under  
the Provisions of the 1974 Agreement

Schedule VII, Supplemental Schedule of Changes in  
Cash and Investments by Funds


Schedule VIII, Supplemental Schedule of Changes in  
Long Term Debt and Current Portion of Long Term Debt

Notes to Schedules IV VIII Information Required by the  
1974 Agreement

Single audit for the year ended 2018	87,000
Single audit for the year ended 2019	46,000
Single audit for the year ended 2020	48,000

Other Reports:

The other reports that we will issue as part of and upon completion of this engagement are as follows:



Report	Fee
Independent Auditor's Report and Schedule of Unmodified Gross Assets, in relation to the audit of the consolidated financial statements of PREPA as of	
June 30, 2018	25,600
June 30, 2019	23,000
June 30, 2020	23,500
	<hr/>
Total for all audit services	<u>\$2,090,200</u>

The above estimates are based on the level of experience of the individuals who will perform the services, contemplate an estimate of approximately 10,160 professional hours to be incurred at a blended rate of \$200 per hour for 2018 and \$210 per hour for 2019 and 2020. In addition, expenses for items such as lodging, per-diem, out-of-town meals, air and ground transportation (all together "Travel, Expenses") are billed for reimbursement as incurred, if necessary for the performance of the services, which shall be previously authorized by PREPA. The audit fee is a fixed fee and the estimated professional hours provided herein are with the only purpose of facilitating progress billing under a percentage of completion method. The above estimate however, does not include professional time and legal costs incurred in connection with legal proceedings or investigations (Legal Demand) as provided under the Other Matters section which should be billed separately.

Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Professional standards prohibit us from performing services for audit clients where the fee for such services is contingent, or has the appearance of being contingent, upon the results of such services.

Professional standards also indicate that independence may be impaired if fees for professional services are outstanding for an extended period of time; therefore, it is important that our fees be paid promptly when billed. If a situation arises in which it may appear that our independence would be questioned because of past due unpaid fees, we may be prohibited from issuing our audit report and associated consent.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client.

Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

All fees, charges and other amounts payable to KPMG under the Engagement Letter do not include any sales, use, excise, value added, income or other applicable taxes, tariffs or duties, payment of which shall be PREPA's sole responsibility, excluding any applicable taxes based on KPMG's net income or taxes arising from the employment or Independent contractor relationship between KPMG and its personnel.



KPMG LLP  
American International Plaza  
Suite 1100, 250 Muñoz Rivera Avenue  
San Juan, PR 00918-1819

Telephone +1 787 756 6020  
Fax +1 787 754 6175  
kpmg.com

March 22, 2021

Puerto Rico Electric Power Authority  
1250 Juan Ponce de Leon Avenue  
San Juan, Puerto Rico 00917

Attention: Mr. Nelson Morales Rivera, *Chief Financial Officer*

This letter (Engagement Letter) sets forth our understanding of the terms and objectives of our engagement and the nature and limitations of the services KPMG LLP ("KPMG") will provide.

We will apply the following agreed-upon procedures to the schedules of the Puerto Rico Electric Power Authority (PREPA) including the calculation of the contribution in lieu of taxes (CILT) and disposition of Net Revenue (Management's Schedules) that will be prepared by management of PREPA for the years ended June 30, 2018, 2019 and 2020. PREPA is responsible for its compliance with the calculation and payment of the CILT. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which our report is being prepared or for any other purpose. Execution of this Engagement Letter will signify PREPA's agreement to the procedures and to its responsibility for the sufficiency of the procedures for its purposes.

We will perform the following procedures for each of the years ended June 30, 2018, 2019 and 2020 (referred to below as June 30, 20XX):

- Re-compute totals, subtotals and calculations in Management's Schedules containing the computation of the CILT and the disposition of Net Revenues.
- Obtain a detail of the CILT made to municipalities for the fiscal year ended June 30, 20XX, which includes the energy sales (actual dollar consumption), CILT, accounts receivable and the payment of contribution in lieu of taxes by municipalities, and will agree the actual dollar consumption per the municipalities for the year ended on June 30, 20XX, to the Account Statement per municipalities and the Summary of Accounts Receivable.
- Agree the actual CILT for the last five fiscal years ended on June 30, 20XX, to the prior audited financial statements. We will recalculate management's calculation of the average CILT for those five years.
- Agree Net Revenues [defined on the Trust Agreement dated on January 1, 1974] (the 1974 Agreement) per Management's Schedule, to the respective supplemental schedule accompanying the audited financial statements for the year ended June 30, 20XX.
- Agree other appropriations (subsidies) to PREPA's General Ledger.
- Re-compute net income subject to CIL T (the amount of the excess of the Net Revenues over the other appropriation) for the fiscal year ended June 30, 20XX based on PREPA's computation.
- Re-compute CILT based on 20% of the net income subject to contribution in lieu of taxes based on PREPA's computation.



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- Agree the Contractual Obligations, as defined in the 1974 Agreement to the corresponding supplemental schedule accompanying the audited financial statements for the year ended June 30, 20XX.
- Agree the Residential Fuel Subsidy and Hotel Subsidy Program amounts per Management's Schedules to Note \_\_ of the audited financial statements for the year ended June 30, 20XX.
- Agree the Rural Electrification and Irrigation Subsidy to PREPA's General Ledger as of June 30, 20XX (end of the year).
- Agree the Payment of Principal of Line of Credit used for settlement of the municipalities per Management's Schedules to PREPA's bank statements.
- Agree the CILT to municipalities figures included in Management's Schedules to Note \_\_ of the audited financial statements for the year ended June 30, 20XX.

PREPA acknowledges its responsibility for determining the scope of the engagement, including PREPA's compliance with the calculation and payment of the CILT and criteria used in evaluating the calculation of the CILT, agreeing to the procedures and the sufficiency of such procedures for PREPA's purposes. At the conclusion of the engagement, PREPA agrees to supply us with a representation letter that will include PREPA's assertion about PREPA's compliance with the calculation and payment of the CILT based on the criteria and will include:

- a. an acknowledgment of its responsibility for complying with the calculation and payment of the CILT and for establishing and maintaining effective internal control over compliance,
- b. a statement that management has performed an evaluation of PREPA's compliance with the calculation and payment of the CILT,
- c. if applicable, management's interpretation of any requirement in the calculation of the CILT that have varying interpretations,
- d. a statement that all known matters contradicting PREPA's assertion of compliance or compliance with the calculation and payment of the CILT and any communication from regulatory agencies or others affecting PREPA's assertion of compliance or compliance with the calculation of the CILT have been disclosed to us, including communications received between the end of the period addressed in the written assertion and the date of our report,
- e. a statement acknowledging its responsibility for the assertion of compliance and compliance with the calculation of the CILT, selecting the criteria, when applicable, and determining that such criteria are appropriate for its purposes,
- f. a statement that it has provided us with access to all records relevant to PREPA's compliance with the calculation and payment of the CILT and the agreed-upon procedures,
- g. a statement that any known noncompliance occurring subsequent to the period covered by our report have been disclosed to us, and
- h. other matters as we may deem appropriate.



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March 22, 2021  
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If such a representation letter is not provided, which includes the aforementioned assertion, it may be necessary for us to withdraw from the engagement.

Our engagement to apply agreed-upon procedures will be performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. Because the agreed-upon procedures referred to above do not constitute an examination or review, we will not express an opinion or conclusion on PREPA's compliance with the CILT. Our report will include a statement to that effect. In addition, we have no obligation to perform any procedures beyond those referred to above.

Our written independent accountants' agreed-upon procedures report will include a list of the procedures performed (or reference thereto) and the related findings. Our report will also contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. We have no responsibility to update our report for events and circumstances occurring after the date of such report.

Our report is intended solely for the use of specified user(s), and is not intended for use by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Our report will include a statement to that effect. If you request that additional specified users of the report be added, we will require that they acknowledge, in writing, their agreement with the procedures and their responsibility for the sufficiency of the procedures for their purposes.

If we are unable to complete the agreed-upon procedures referred to above, we will discuss the matter with you during the engagement. In such circumstances, we may conclude that we will not issue a report as a result of this engagement.

Because of the importance of management's representations to the effective performance of our services, PREPA hereby releases KPMG and its personnel from and against any and all claims, liabilities, costs, and expenses relating to our services under this Engagement Letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

PREPA will indemnify, defend, and hold KPMG and its personnel harmless from and against any and all claims, liabilities, costs, and expenses asserted against KPMG by any third party to the extent resulting from or attributable to (i) that party's use or possession of, or reliance upon, KPMG's report or reference to KPMG's services hereunder as a result of PREPA's disclosure of such report or reference thereto other than to the specified user(s) or (ii) any misrepresentations in the representation letter referred to above. The foregoing indemnification obligation shall apply regardless of whether the third party claim alleges a breach of contract, violation of statute or tort (including without limitation negligence) by KPMG.

#### **Dispute Resolution**

Any dispute or claim between the parties shall be submitted first to non-binding mediation and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution ("IICPR"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forgo litigation over such disputes in any court of competent jurisdiction.



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Mediation shall take place at a location to be designated by the parties using Mediation Procedures of the IICPR, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in San Juan, Puerto Rico and shall be governed by the Federal Arbitration Act, 9 U.S.C. §§ 1, et seq. Party-selected arbitrators shall be selected from the lists of neutrals maintained by either the IICPR or by JAMS, Inc., but the chair of the arbitration panel does not have to be selected from those specific lists. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in IICPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm, enforce or vacate any final award entered in arbitration, in any court of competent jurisdiction, provided that any party moving to enforce, confirm or vacate any such agreement or award, as the case may be, will file such motion under seal unless prohibited under applicable court rules. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

#### **Other Matters**

All disputes between the parties (whether based in contract, tort, statute, regulation, or otherwise and whether pending in court or in an arbitral forum) shall be governed by and construed in accordance with the substantive and procedural laws of the Commonwealth of Puerto Rico, including without limitation, its statutes of limitations, without regard to the conflict of laws provisions of the Commonwealth of Puerto Rico or any other state or jurisdiction. In the event that any term or provision of this Engagement Letter shall be held to be invalid, void or unenforceable, then the remainder of the Engagement Letter shall not be affected, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

This Engagement Letter shall serve as PREPA's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and PREPA and between KPMG and outside specialists or other entities engaged by either KPMG or PREPA. PREPA acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

In an effort to facilitate efficient communication between KPMG and PREPA related to the attest engagement and to track engagement progress, KPMG may provide PREPA with access to certain online tools. If such access is provided to PREPA, PREPA shall be responsible for: (i) its users' access and use of such tools (including the information its users may upload to such tools and compliance with all laws and regulations applicable to use or access by PREPA's users outside of the United States (e.g. export control and data privacy laws and regulations)), and (ii) protecting the security of the account credentials in its possession for each user including timely informing KPMG when PREPA individuals' access should be removed. PREPA acknowledges that it shall not provide third parties (agents or contractors) with access to such tools without KPMG's written consent, use such tools as a system of record, nor use such tools other than for purposes of the attest engagement.

Except as permitted by law or as set forth in this paragraph, neither party shall acquire hereunder any right to use the name or logo of the other party or any part thereof, and any such use shall require the express written





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consent of the owner party. PREPA agrees that KPMG may list PREPA as a client in KPMG's internal and external marketing materials, including KPMG websites and social media, indicating the general services rendered (e.g., "PREPA is an attest client of KPMG LLP"). Further, for purposes of the services described in this Engagement Letter only, PREPA hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of PREPA solely for presentations or reports to PREPA or for internal KPMG presentations and intranet sites.

PREPA and KPMG acknowledge and agree that each shall comply with all applicable United States export control laws and regulations in the performance of each party's respective responsibilities under the Engagement Letter. Unless requested by KPMG to allow it to complete its attest engagement, PREPA will not provide KPMG, or grant KPMG access to, (a) information (including technical data or technology), verbally, electronically, or in hardcopy, (b) software or (c) hardware, that is controlled for export by the United States government under the Arms Export Control Act of 1976, Export Control Reform Act of 2018, the International Traffic in Arms Regulations ("ITAR"), Export Administration Regulations ("EAR"), Department of Energy Part 810 Regulations or Nuclear Regulatory Commission Part 110 Regulations, except information, software or hardware that is classified as EAR99 under the EAR ("Export Controlled Information"). If KPMG requests Export Controlled Information from PREPA, PREPA shall provide KPMG with notice of provision of Export Controlled Information at least 48 hours prior to providing such Export Controlled Information to KPMG.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this Engagement Letter.

The documentation for this engagement is the property of KPMG. If KPMG receives a subpoena; other validly issued administrative, judicial, government or investigative regulatory demand or request; or other legal process requiring it to disclose PREPA's confidential information ("Legal Demand"), KPMG shall, unless prohibited by law or such Legal Demand, provide prompt written notice to PREPA of such Legal Demand in order to permit it to seek a protective order. So long as KPMG gives notice as provided herein, KPMG shall be entitled to comply with such Legal Demand to the extent required by law, subject to any protective order or the like that may have been entered in the matter. In the event KPMG is requested or authorized by PREPA, or is required by law, rule, regulation or Legal Demand in a proceeding or investigation to which KPMG is not a named party or respondent, to produce KPMG's documents or personnel as witnesses or for interviews, or otherwise to make information relating to the service under the Engagement Letter available to a third party, or PREPA, PREPA shall reimburse KPMG for its professional time, at its blended rate, of \$200 and expenses, including reasonable attorneys' fees and expenses, expenses and other incurred in producing documents or personnel or providing information pursuant to such requests, authorizations or requirements.

KPMG, as an accounting firm, has an obligation to comply with applicable professional standards. Certain professional standards, including AICPA Code of Professional Conduct Section 1.700, "Confidential Client Information Rule," adopted by the American Institute of Certified Public Accountants and similar rules adopted by the boards of accountancy of many states, prohibit the disclosure of client confidential information without client consent, except in limited circumstances. KPMG represents to PREPA that KPMG will treat PREPA's confidential information in accordance with applicable professional standards.

KPMG may work with and use the services of other members of the international KPMG network of independent firms and entities controlled by, or under common control with, one or more KPMG member firms (together with KPMG, the "KPMG Firms") to provide services to PREPA. The KPMG Firms, together with the entities comprising KPMG International, shall be referred to herein as the "KPMG Parties." In connection with



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the performance of services under this Engagement Letter, the KPMG Firms may, in their discretion, utilize the services of third party service providers within or outside of the United States to complete the services under this Engagement Letter. KPMG Parties and such third parties may have access to your confidential information from offshore locations. In addition, KPMG uses third party service providers within and outside of the United States to provide, at its direction, back-office administrative and clerical, or analytical services to KPMG and these third party service providers may in the performance of such services have access to your confidential information. In particular, KPMG's technologies, software productivity tools and certain technology infrastructure and, necessarily, your confidential information, may be hosted in cloud environments operated by KPMG Parties or such third party service providers. In addition, KPMG Parties may have access to certain of your information in respect to engagement acceptance and other professional responsibilities such as maintaining independence and performing conflict checks. KPMG represents that it has technical, legal and/or other safeguards, measures and controls in place to protect your confidential information from unauthorized disclosure or use.

You also understand and agree that the KPMG Parties, with the assistance of third parties as outlined above, may use all PREPA's information for other purposes consistent with our professional standards, such as improving the delivery or quality of attestation and other services or technology to you and to other clients, thought leadership projects, to allow you and other clients to evaluate various business transactions and opportunities, and for use in presentations to you, other clients and non-clients. When your information is used outside of the KPMG Parties or such third parties assisting them as outlined above, PREPA will not be identified as the source of the information.

Except as otherwise provided for in this Engagement Letter, neither party may assign, transfer or delegate any of its rights, obligations, claims or proceeds from claims arising under or relating to this Engagement Letter (including by operation of law, in which case the assigning party will, to the extent legally permissible, give as much advance written notice as is reasonably practicable thereof) without the prior written consent of the other party, such consent not to be unreasonably withheld. Any assignment in violation hereof shall be null and void.

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This Engagement Letter and any exhibits, attachments and appendices hereto, and amendments thereto agreed in writing by the parties, shall constitute the entire agreement between KPMG and PREPA with respect to the subject matter hereof and thereof, and supersede all other previous oral and written representations, understandings or agreements relating to the subject matter of this agreement.

Based upon our discussions with and representations of management, we estimate that fees for these services in \$24,000 for each of 2018, 2019 and 2020 for a total of \$72,000. This estimate is based on the level of experience of the individuals who will perform the services contemplates an estimate of 120 professional hours to be incurred at a blended rate of \$200 per hour for 2018 and \$210 per hour for 2019 and 2020. In addition, expenses for items such as lodging, per-diem, out-of-town meals, air and ground transportation (all together "Travel Expenses") are billed for reimbursement as incurred, if necessary for the performance of the services, which shall be previously authorized by PREPA. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver the services within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed. The audit fee is a fixed fee and the estimated professional hours provided herein are with the only purpose of facilitating progress billing under a percentage of completion method. The above estimates however, does not include professional time and legal costs incurred in connection with legal proceedings or investigations (Legal Demand) as provided under the Other Matters section which should be billed separately.



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Our fees and expenses will be billed every two weeks as charges are incurred. All invoices shall be paid within thirty days after the date thereof. In the event any invoice is not timely paid as set forth herein, then upon five days prior written notice to you, KPMG may terminate its performance hereunder and will not be responsible for any loss, costs, or expense thereby resulting. It is understood that neither our fees nor the payment thereof will be contingent upon the results of our engagement.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

All fees, charges and other amounts payable to KPMG under the Engagement Letter do not include any sales, use, excise, value added, income or other applicable taxes, tariffs or duties, payment of which shall be PREPA's sole responsibility, excluding any applicable taxes based on KPMG's net income or taxes arising from the employment or independent contractor relationship between KPMG and its personnel.

We shall be pleased to discuss this Engagement Letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this Engagement Letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

Orlando R. Torres  
Managing Director

This Engagement Letter correctly sets forth the understanding of the Puerto Rico Electric Power Authority.

ACCEPTED

Puerto Rico Electric Power Authority

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date