COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION

IN RE: REVIEW OF RATES OF THE PUERTO RICO ELECTRIC POWER AUTHORITY	**No.:** CEPR-AP-2015-0001 **SUBJECT:** INITIAL RATE REVIEW

FIRST ORDER ON RATE CASE PROCEEDING

The rates currently charged by the Puerto Rico Electric Power Authority (PREPA) were last revised in 1989. A lot has changed since then, in relation to PREPA's management and operations; the universe of residential, commercial and industrial customers in Puerto Rico; the cost of living and the cost of operations; environmental regulations; the use of renewable energy sources; and PREPA's financial condition.

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Act 57-2014, as amended, known as the Energy Transformation and RELIEF Act, declared as a principle of public policy of the Commonwealth of Puerto Rico that the electricity generated, transmitted and distributed in Puerto Rico must be affordable, and its costs must be just and reasonable. To carry out this purpose, Section 6.4 (a)(1) provides the Commission with exclusive primary jurisdiction to approve, in accordance with Section 6.25 of the Act, rates and charges established by PREPA in connection with any electric power service.

Pursuant to its authority under Section 6.25 of Act 57-2014, as amended, and Section 13.03 of Regulation No. 8542, known as the Regulation on Adjudicative, Notice of Noncompliance, Rate Review and Investigation Proceedings, the Commission initiates this proceeding to establish just and reasonable rates to be charged by PREPA. This Order directs PREPA to file a request for new rates consistent with the requirements of this Order, and with the rate filing regulation to be issued by the Commission in the near future. This Order also describes the procedures the Commission will use in this proceeding.

We recognize that the public has a profound interest in what the rates will be. The Commission takes seriously its obligation to set new rates and to set them expeditiously. At the same time, we ask the public for its patience in a period fraught with uncertainty, during which events can occur that might affect the process.

Regulation on Rate Filing Requirements

To ensure that the Commission has the information it needs to set just and reasonable rates, the Commission will issue a regulation on rate filing requirements. The

rate filing regulation will prescribe, among other things, the information that PREPA must include when it submits its formal application for new rates, as well as the format for the formal application. As explained further below, under "Formal Application," for the purposes of this first rate case the rate filing regulation will require PREPA to submit certain information to the Commission as that information becomes available to PREPA.

Formal Application

PREPA shall submit a formal application for new rates consistent with the regulation on filing requirements. The application shall include written direct testimony from expert witnesses (which must be sworn to by the witnesses), together with any exhibits to their testimonies, and all information required by the rate filing regulation. The application shall also contain a public notice consistent with the form established by the Commission, as discussed below. PREPA shall accompany its application with a proposed procedural schedule, taking into account each of the steps listed below.

PREPA is undergoing a major internal restructuring while also negotiating with its bondholders. Therefore, the Commission takes notice that several events might affect the availability of some of the information PREPA needs to calculate its proposed rates. However, much of the information necessary to calculate proposed rates, such as audited financial statements and knowledge about future changes in current costs, is already available, or will soon be available, to PREPA. Hence, as noted above, the regulation on filing requirements will require PREPA to submit specific cost information to the Commission as that information becomes available to PREPA. By doing so, PREPA will help the Commission to expedite the rate proceeding. The regulation on filing requirements will make clear this distinction between (a) cost information to be submitted before PREPA submits its formal application and (b) the formal application itself.

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Public Notice

In submitting its formal application for new rates, PREPA shall include a draft of a public notice. In the forthcoming regulation on filing requirements the Commission will specify the content and form of the public notice, and the methods by which PREPA shall publish the notice. The purpose of this public notice is to inform the public that PREPA has filed an application for proposed new rates. The public notice will (a) explain the procedure the Commission will follow to establish new rates; (b) explain how the public can participate in the Commission's proceeding; and (c) specify the date by which persons must seek to intervene in the docket if they wish to participate in the formal technical proceedings, and the information their petition to intervene must contain.

Order Accepting the Formal Application and Inviting Interventions

After receiving PREPA's formal application, the Commission will determine if PREPA's submission has satisfied the regulation on filing requirements. If PREPA's application is insufficient, the Commission will return it to PREPA with an explanation of how the filing needs to be amended. If PREPA's application is sufficient, the Commission

will issue an order formally accepting the application, approving the proposed notice to the public, and directing PREPA to publish the notice to the public. This order will also invite organizations and individuals wishing to participate in the technical hearings to submit petitions to intervene by a specified date. Petitions to intervene shall include a proposed schedule for the technical hearings, taking into the account the steps set forth below. Petitioners may opt to submit their proposed schedules individually or jointly.

Public Hearings

Pursuant to Section 8.01(I) of Regulation 8543, the Commission will hold public hearings at various locations. At these public hearings, consumers may voice their concerns regarding PREPA's application. The Commission will also invite written comments from the public through various methods.

Procedural Order Accepting Interventions and Establishing Procedures for Formal Technical Hearings

After the Commission has determined that PREPA's formal application is complete, the Commission will issue an order establishing procedures for formal technical hearings. These hearings will provide for a thorough examination of PREPA's submission, as well as the views presented by the Commonwealth Energy Public Policy Office, the Independent Consumer Protection Office and intervenors. The procedural order will (a) determine which petitions to intervene have been granted and the rights and obligations of those intervenors, (b) establish the schedule on which each step of the proceeding will occur, and (c) establish or clarify any other matters necessary for completing this proceeding expeditiously. The procedural order will also include a protective order specifying how PREPA or any other party may obtain confidential treatment of materials they submit in discovery or as part of their testimony.

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Formal Technical Hearing

Below is a brief description of the major parts of the formal technical hearing, each of which will be explained further in the forthcoming procedural order.

Discovery: Upon being admitted to the case, and according to the schedule established by the Commission in the procedural order, the intervenors may send data requests to PREPA. The purpose of data requests is to help the requestor to understand the basis for the rates proposed by PREPA. Intervenors may also request the Commission, -in accordance with Section 8.05 of Regulation 8543,- to order depositions to the extent that depositions are more efficient than written data requests or any other discovery mechanism. The procedural schedule will specify the time for response by PREPA to the information requests, including making any objections.

Additional pre-filed written testimony: Intervenors may submit pre-filed written testimony in response to PREPA's initial filing. PREPA then may file rebuttal testimony. Upon request of intervenors, the Commission will consider allowing intervenors to file surrebuttal

testimony. Each successive round of testimony will be limited to addressing the issues raised by the other parties in their last round of testimony.

Pre-hearing order: Near the time of the technical hearings, the Commission will issue a separate pre-hearing order, to establish the order of witnesses, the format for the formal technical hearings, and resolve any outstanding procedural issues. The Commission may choose to hold a pre-hearing conference to resolve any discovery disputes and to clarify its requirements for the technical hearing.

Formal technical hearing: At the technical hearing, the Commission will admit the pre-filed testimony into the record, taking account of any objections made. The Commission will question certain witnesses on their pre-filed testimony, and parties will have an opportunity to cross-examine each other's expert witnesses.

Briefs: After the technical hearing, the parties will have an opportunity to file direct and reply briefs, according to a schedule and format to be determined by the Commission. Each party's brief will describe the evidence, law and policy that support the outcome that party seeks.

Final order: After receiving the briefs, the Commission will analyze the entire record and deliberate on the issues of the case. Then, a final order based on findings of fact and conclusions of law and policy will establish PREPA's new rates. PREPA will then make a compliance filing of the new rates conforming to such order.

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Investigation No. CEPR-IN-2015-00002 Continues

In light of the broad investigation powers vested on this Commission and the heavy regulatory agenda stated by Act 57-2014 for our initial years of operations, on February 12, 2015, the Commission issued an order initiating an investigation in the matter *In re: Investigation on the Rates of the Puerto Rico Electric Power Authority*, CEPR-IN-2015-0002. The purpose of that investigation is to "obtain necessary information on the operations and performance of PREPA, from the technical, administrative, financial, accounting and tax perspective, to adequately carry out the Commission's powers and duties, and to evaluate the existing rates of that electric power company." During the investigation, the Commission has issued data requirements and created deadlines for PREPA's responses. These data requirements covered, among other things, PREPA's costs, and its financial, accounting and fiscal conditions. PREPA has complied with some of these requirements and is in the process of complying with others.

In accordance to statutory provisions, the Commission's work plan in the near future includes the evaluation and decision on PREPA's first Integrated Resource Plan, enacting a regulation on the Energy Relief Plan, evaluation and decision on PREPA's Energy Relief Plan, enacting a regulation on power purchase agreements, and enacting a regulation on wheeling. The Commission will continue the investigation CEPR-IN-2015-0002 in order to obtain information from PREPA -and from any other person- that may assist the

Commission in complying with said work plan, attaining the purposes of Act 57-2104[1] and adequately carrying out its powers and duties.[2] To that end, the Commission may use any of the mechanisms mentioned in Section 15.03 of Regulation 8543 to continue carrying out the purposes of investigation CEPR-IN-2015-0002.

In order to avoid confusion between the Commission's efforts to obtain information as part of said investigation and the Commission's orders to obtain information as part of the initial rate review case, -and considering that different rules apply to investigation and adjudicative procedures-, the Commission will specify, in each case, the procedure under which it is requiring information.

Be it hereby notified and published.

Agustín F. Carbó Lugo
Chairman

Ángel R. Rivera De La Cruz
Associate Commissioner

José H. Román Morales
Associate Commissioner

I certify that the Puerto Rico Energy Commission has so agreed on May 29 2015. I also certify that on this date a copy of this Order was notified to PREPA by electronic mail sent to n-vazquez@aeepr.com and j-concepcion@aeepr.com.

Mariana I. Hernández Gutiérrez
General Counsel

CERTIFICATION

I certify that this is a true and exact copy of the Order issued by the Puerto Rico Energy Commission. I further certify that today _____ 2015, I have proceeded with the filing of this Order and I have sent a copy thereof to:

[1] See, Section 6.3 (y) of Act 57-2014, as amended.
[2] See, Order of February 12, 2015 in the matter *In re: Investigation on the Rates of the Puerto Rico Electric Power Authority*, CEPR-IN-2015-00002

Puerto Rico Electric Power Authority
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For the record, I sign this in San Juan Puerto Rico, today _____ 2015.

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Rafael O. García Santiago
Clerk of the Puerto Rico
Telecommunications Regulatory Board