

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION**

**IN RE: ADOPTION OF THE REGULATION
ON RATE FILING REQUIREMENTS FOR
THE PUERTO RICO ELECTRIC POWER
AUTHORITY**

No.: CEPR-MI-2015-0004



ORDER

Act 57-2014, as amended, known as the Energy Transformation and RELIEF Act (the Act), declared that the electricity generated, transmitted and distributed in Puerto Rico must be affordable, and that the costs must be just and reasonable. Section 6.4 of the Act provides the Commission with "primary and exclusive" jurisdiction to approve, in accordance with Section 6.25 of the Act, the "rates and charges established by" PREPA for electric power service.

On May 29, 2015, the Puerto Rico Energy Commission (the Commission) issued its First Order on Rate Case Proceeding in the matter *In re: Review of Rates of the Puerto Rico Electric Power Authority*, CEPR-AP-2015-0001, which initiated the first rate review proceeding in the Commonwealth of Puerto Rico, and described the procedural steps the Commission will take to manage the case and approve new rates for the Puerto Rico Electric Power Authority (PREPA). That First Order also stated that the Commission would issue a regulation on filing requirements in order to "prescribe, among other things, the information that PREPA must provide when it submits its formal application for new rates."¹

Today, this Commission approves and enacts —through the emergency procedure established in Act No. 170 of August 12, 1988, as amended, known as the Uniform Administrative Procedures Act, and authorized in Article 6.20 of Act 57-2014, as amended— the Regulation on Rate Filing Requirements for the Puerto Rico Electric Power Authority. The Commission has decided to use the emergency procedure to adopt and enact this Regulation considering the importance and the need to review PREPA's current rates in order to approve new just and reasonable rates for the electric power service in the Commonwealth of Puerto Rico.

The purpose of this Regulation is to establish the information PREPA must include in its formal application proposing new rates, as well as the formats and instructions for filing

¹ First Order on Rate Case Proceeding, p. 1-2, available at <http://energia.pr.gov/wp-content/uploads/2015/05/CEPR-AP-2015-0001-29-mayo-2015-First-Order-on-Rate-Case-Proceeding.pdf>.

that information, to ensure that the Commission has all the elements it needs to fulfill its statutory mandate to review PREPA's proposal and approve just and reasonable rates. In a rate review procedure, the Commission determines (a) how much revenue PREPA needs to operate efficiently and attract capital on reasonable terms; (b) which classes of customers will be responsible for paying which shares of this revenue; and (c) the actual rates customers will pay, specifically, how their individual consumption decisions will affect their monthly bills. Underlying these three considerations is a single goal: to make PREPA an efficient, low-cost, reliable producer that is financially solvent and fiscally responsible.

For the Commission to properly review the rates proposed by PREPA in its formal application, it must determine whether the costs and commitments reflected in those rates are prudent and reasonable. The purpose of a rate case is not to approve rates equal to costs, regardless of the reasonableness of those costs; its purpose is to approve rates reflecting *only reasonable* costs. Therefore, the filing requirements in this Regulation require each of PREPA's witnesses to include his or her opinion about the reasonableness of the costs that are the subject of his or her testimony. This requirement applies not only to costs and commitments not yet incurred, but also to any past costs or commitments that the witnesses assert cannot now be avoided. Furthermore, for any such past costs that a witness determines were unreasonable or unnecessary, the witness shall explain what actions PREPA will take to avoid or minimize such costs in the future.

This Regulation that we adopt today requires PREPA to provide the type of information that utilities in the United States routinely submit to justify their proposed rates. In addition to this routine information, the requirements include information specific to PREPA's unique situation. That uniqueness arises from the following factors, among others: (a) because PREPA has never had an independent regulator, its current rates reflect costs that no independent body has determined are prudent and reasonable; (b) PREPA is experiencing serious financial stress; (c) PREPA's bondholders have required PREPA's Governing Board to hire a restructuring team whose decisions and recommendations will affect many aspects of PREPA's operations and costs; and (d) PREPA and its bondholders are in the midst of negotiations about the level and timing of PREPA's debt obligations. These factors, individually and cumulatively, will have a profound effect on PREPA's management, operations and cost structure.

Pursuant to Article 6.25 of Act 57-2014, in the first rate review procedure this Commission shall also consider:

- i. The efficiency, capacity, and suitability of the facilities and the service;
- ii. Direct and indirect costs related to the generation, transmission, and distribution of energy, including stranded costs and costs attributable to the loss of energy due to theft or inefficiency;
- iii. Expenditures related to PREPA's debt repayment;
- iv. All charges and costs included under the Fuel and Purchased Power Adjustment Clauses, as of the effective date of the Energy Transformation and RELIEF Act;
- v. PREPA's capacity to improve the service provided and its facilities;



- vi. The conservation of energy and efficient use of alternative energy resources;
- vii. Data related to the effect of special laws, subsidies, and contributions; and
- viii. Any other data or information that the Commission deems necessary to evaluate and approve rates.

The Commission must understand these factors, and their effect on PREPA's costs, in order to comply with its mandate to approve just and reasonable rates. Through this Regulation and the filing requirements established therein, the Commission is requiring the information that will be needed to give appropriate attention to all these factors—and any other factors that PREPA or intervenors bring to the Commission's attention.

After the Commission issues a final order approving PREPA's new rates, a new filing requirements regulation will be developed to govern the contents of formal applications to be filed in future rate cases to modify the rate approved by the Commission. For the adoption of those new rules, the Commission intends to follow the ordinary regulatory procedure established in the Uniform Administrative Procedures Act, which includes, at a minimum, a thirty (30) day period for public comment before the new rules enter into effect.

Be it hereby notified and published.

[Signature]

Agustín F. Carbó Lugo
Chairman

[Signature]

Ángel R. Rivera de la Cruz
Associate Commissioner

[Signature]

José H. Román Morales
Associate Commissioner

I certify that the Puerto Rico Energy Commission has so agreed on July 24, 2015. I also certify that on this date a copy of this Order was notified to PREPA by electronic mail sent to n-vazquez@aepr.com and n-ayala@aepr.com.

[Signature]

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 24 Julio 2015, I have proceeded with the filing of this Order and I have sent a copy thereof to:

Puerto Rico Electric Power Authority

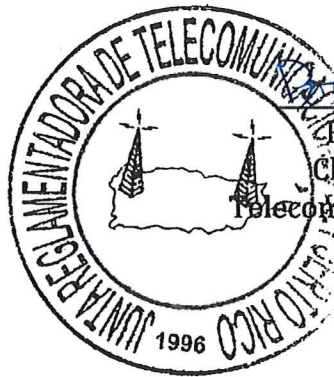
To the Attention of Nélida Ayala and Nitza D. Vázquez Rodríguez

PO Box 363928

Post Office Headquarters

San Juan, PR 00936-3928

For the record, I sign this in San Juan Puerto Rico, today 24 Julio 2015.



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





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Comisión de Energía de Puerto Rico

**REGULATION ON RATE FILING REQUIREMENTS FOR THE PUERTO
RICO ELECTRIC POWER AUTHORITY**

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REGULATION ON RATE FILING REQUIREMENTS FOR THE PUERTO RICO ELECTRIC POWER AUTHORITY

CHAPTER I - GENERAL PROVISIONS

ARTICLE I.- GENERAL PROVISIONS

Section 1.01.- Title.

This Regulation shall be known as the Regulation on Rate Filing Requirements for the Puerto Rico Electric Power Authority.

Section 1.02.- Legal Basis.

This Regulation is adopted pursuant to Articles 6.3 and 6.25 of Act 57-2014, as amended, known as the Puerto Rico Energy Transformation and RELIEF Act; to Section 6B of Act No. 83 of May 2, 1941, as amended, known as the Electric Power Authority Act; and pursuant to Act No. 170 of August 12, 1988, as amended, known as the Uniform Administrative Procedure Act.

Section 1.03.- Purpose and Executive Summary.

This Regulation defines the specific financial and statistical information, reports and prefiled direct testimony that the Puerto Rico Electric Power Authority shall include in its formal application to the Commission for the first rate review case. The purpose of the filing requirements and instructions established in this Regulation is to ensure that the Commission has the information it needs to comply with its statutory mandate to review and approve PREPA's proposed rates to ensure they are just and reasonable. Also, this Regulation states the procedure to present and address any confidentiality claim that PREPA could have with regards to any information included in its formal application pursuant to this Regulation. As a result of the provisions of this Regulation and of Article 6.15 of Act 57-2014, PREPA cannot refuse to provide required information to the Commission on the grounds that PREPA believes the information is confidential or has not yet received the confidential designation it desires.

The filing requirements established in this Regulation for PREPA's formal application for the review of its rates not only require PREPA to submit the information that is usually required to utilities in rate procedures to justify their current or their proposed rates, but also requires PREPA to submit information specific to its unique situation. Thus, pursuant to this Regulation, PREPA's formal application for the first rate case in the Commonwealth of Puerto Rico will include detailed information related to PREPA's plant investment, cost of capital and debt service requirements, income statements, financial statements, projections and forecasts, and the cost of service, among other. In addition, it will include detailed

information about the proposed tariffs and their effects on the customers, as well as a description of the function of the companies operating within PREPA Holdings, like, for example, PREPA Networks, LLC.

Section 1.04.- Application.

This Regulation shall apply to PREPA's formal applications for rate review before the Commission.

Section 1.05.- Interpretation.

This Regulation shall be interpreted in a way that promotes the highest public good and the protection of the interests of the residents of Puerto Rico, and in such a way that the proceedings are carried out rapidly, justly and economically.

Section 1.06.- Provisions of Other Regulations.

The provisions of this Regulation may be supplemented by the provisions of other regulations of the Puerto Rico Energy Commission that are not incompatible with the provisions of this Regulation.

Section 1.07.- Unforeseen Proceedings.

When a specific proceeding has not been planned for in this or another Commission regulation, the Commission may conduct them in any way that is consistent with Act 57-2014, as amended.

Section 1.08.- Definitions.

- A) These definitions are to be used for this Regulation and are not intended to modify the definitions used in any other Commission rules or orders.
- B) For the purposes of this Regulation, the following terms will have the meaning established below, except when the context of the content of any provision clearly indicates something else:
 - 1) "Accounting System" shall mean accrual accounting in conformity with U.S. generally accepted accounting principles and with the Uniform System of Accounts for Electric Utilities prescribed by the Federal Energy Regulatory Commission.
 - 2) "Accumulated Depreciation" shall mean depreciation of electric utility plant recorded in account 108 of the Uniform System of Accounts for Electric Utilities as of a specific balance sheet date. For general ledger and balance sheet purposes, this account shall be regarded and treated as a single composite provision for depreciation. For purposes

of analysis, however, PREPA shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant: (1) Steam production, (2) Hydraulic production, (3) Other production, (4) Transmission, (5) Distribution, and (6) General. These subsidiary records shall reflect the current credits and debits to this account in sufficient detail to show separately for each such functional classification: (a) the amount of accrual for depreciation, (b) the book cost of property retired, (c) cost of removal, (d) salvage, and (e) other items, including recoveries from insurance.

- 3) "Base Rates" shall mean the rates charged by PREPA for the provision of electric service pursuant to a Commission-approved tariff. Base rates shall not include those costs included in the fuel adjustment clause or the purchased power clause.
- 4) "Bill Frequency Analysis" shall mean a sort of the numbers of bills in a customer class by usage, bill amount, or other feature.
- 5) "Bill Impact Analysis" shall mean an analysis that identifies the impact of a given set of rates on each customer class.
- 6) "Bondholder" shall mean any owner of a bond, registered in his/her name or unregistered; or the owner, according to the register, of any bond that at the time is registered in the name of a person other than the bearer.
- 7) "Cash Flow Statement" refers to the statement of cash flows from operations.
- 8) "Commission", "Energy Commission" or "PREC" refers to the "Puerto Rico Energy Commission" created by virtue of Act 57-2014, as amended, known as the Puerto Rico Energy Transformation and RELIEF Act.
- 9) "Cost of Debt" shall mean the interest payments with respect to bonds, required to be made in the test year (or other time period) and any amounts of debt premium or discount which are recorded as amortization in the test year (or other time period).
- 10) "Customer" refers to any natural or juridical person that has requested and obtained electric power or energy services from PREPA.
- 11) "Debt Service Coverage" shall mean the annual free cash flow available to cover annual debt service payments. Debt Service

Coverage for PREPA shall be consistent with the requirements of the 1974 Trust Agreement, as amended through the date of PREPA's rate filing application, and shall reflect as pro forma adjustments the impact of any amendments that are made during the period in which PREPA's rate filing application is being evaluated by the Commission.

- 12) "Debt Service Coverage Ratio" refers to the annual free cash flow available to cover annual debt service payments divided by the annual requirement to pay principal and interest on the debt.
- 13) "Depreciated Original Cost" shall mean the cost of property to the person first devoting it to public service, less the depreciation reserve, which depreciation reserve shall include accrued depreciation and amortization. Depreciated original cost shall not include any goodwill or going concern value, nor shall it include certificate value in excess of payment made or costs incurred in the initial acquisition thereof.
- 14) "Embedded Cost of Service" shall mean the total cost of providing electric utility service to all customers and to each class of customers, as calculated by the application of logical cost analysis and cost allocation techniques that are generally accepted in electric utility regulation in the United States.
- 15) "Exhibit" shall mean one or more schedules or documents that support a rate filing or testimony in a rate proceeding before the Commission.
- 16) "Formal Application" shall mean an application and required schedules, exhibits, written prefiled direct testimony and other documents filed by PREPA to initiate any rate proceeding under these Filing Requirements. PREPA shall prefile written direct testimony of witnesses sponsoring each exhibit and schedule in its rate application filing.
- 17) "Funds from Operations" shall mean earnings from net operating income plus depreciation, amortization, and other noncash items.
- 18) "Gross Revenue Conversion Factor" refers to any factor that is used to convert net income (or net operating income) into an equivalent revenue requirement amount, and may take into consideration elements such as uncollectibles, or other elements that impact the revenue requirement and that vary directly with changes in net income (or net operating income). An explanation and support must be provided for each item that is incorporated into the Gross Revenue Conversion Factor.

- 19) "Interest Coverage Ratio" refers to earnings before interest divided by interest expense for the same period. Also see Debt Service Coverage Ratio.
- 20) "Interest Expense" shall mean the amounts recorded in accounts 427 through 431 in the Uniform System of Accounts for Electric Utilities.
- 21) "Intermediate Year" and "Intermediate Periods" refers to the period between the end of the Test Year and the beginning of the Rate Year.
- 22) "Known and Measurable Change" shall mean verifiable and quantified changes that have occurred or are expected to occur after the test year in the capitalization, rate base, operations and maintenance expenses, revenues or other factors used in determining Embedded Cost of Service.
- 23) "Long Term Debt" refers to all debt obligated to be repaid in more than one year, including the bonds, convertible bonds, obligations, notes, interim bonds, receipts, certificates, or other evidence of indebtedness or obligations that PREPA is authorized to issue in accordance with the provisions of applicable statutes. It includes, without limitation, conventional long-term debt, variable-rate debt, senior and subordinated debt, capital lease obligations and other obligations that would be recorded in accounts 221 through 226 in the Uniform System of Accounts for Electric Utilities.
- 24) "Net Revenues" shall mean the excess of total revenue over operating expenses for a specified period.
- 25) "Non-recurring" refers to an item of revenue or cost that has taken place or will take place once, and is not expected to be an ongoing revenue or cost.
- 26) "Operating Expenses" refers to expenses recorded in accounts 500 through 935 per the Uniform System of Accounts for Electric Utilities.
- 27) "Original Cost Rate Base" shall mean an amount consisting of the depreciated original cost, prudently invested, of the property (exclusive of contributions and/or advances in aid of construction) at the end of the test year, used or useful, plus a proper allowance for working capital and including all applicable pro forma adjustments.
- 28) "Person" shall mean any natural or juridical person.
- 29) "Plan of Rider or Surcharge Administration" refers to a document which is prepared for each surcharge or rider, which explains the

purpose of the rider or surcharge, the authority for implementing the rider or surcharge, the specific reports and filing requirements associated with the rider or surcharge, and which has calculation and schedule forms pertaining to the rider or surcharge.

- 30) "Plant in Service" shall mean Electric Plant in Service pursuant to the definition in account 101 of the Uniform System of Accounts for Electric Utilities, which specifies that this account shall include the original cost of electric plant, included in accounts 301 to 399, prescribed in the Uniform System of Accounts, owned and used by the utility in its electric utility operations, and having an expectation of life in service of more than one year from date of installation, including such property owned by the utility but held by nominees. "Plant in Service" shall also include unclassified construction costs of completed plant actually in service as described in account 106 of the Uniform System of Accounts for Electric Utilities, as of the end of the test year. For unclassified plant actually in service, at the end of the test year, account 106 shall include the total of the balances of work orders for electric plant which has been completed and placed in service but which work orders have not been classified for transfer to the detailed electric plant accounts. For the purpose of reporting to the Commission the classification of electric plant in service by accounts is required, the utility shall also report the balance in account 106 tentatively classified as accurately as practicable according to prescribed account classifications. The purpose of this provision is to avoid any significant omissions in reported amounts of electric plant in service.
- 31) "PREPA" or "Applicant" refers to the Puerto Rico Electric Power Authority, a corporate entity created by virtue of Act No. 83 of May 2, 1941, as amended, which, according to its statute, is currently an electric power generation, transmission, and distribution company.
- 32) "Pro Forma Adjustments" shall mean adjustments to actual test year results and balances.
- 33) "Projected Year" and "Rate Year" refers to the twelve (12) month period immediately following the estimated date on which new rates established in the rate case would be in effect.
- 34) "Projections" refers to estimates of future results of operations based upon known facts or logical assumptions concerning future events.
- 35) "Proof of Revenue" refers to a schedule showing a pro forma revenue statement which provides the expected or estimated adjusted billing units, proposed prices, and the resulting base rate revenue and fuel

and purchased power revenue for the proposed rate classes. The statement shall also list other revenue. The total adjusted sales volume used in this proof of revenue shall correspond to the total adjusted sales volume in Schedule H-2.

- 36) "Prudently Invested" shall mean investments which at the time made were necessary to provide utility service, and which were neither dishonest nor wasteful.
- 37) "Rate Base Elements" shall mean test year Plant in Service, Accumulated Depreciation, and each other balance sheet account, and Working Capital which comprise the items that are included in rate base.
- 38) "Rate Schedule" refers to a schedule of rates and conditions for a specific classification of customers or for other specific services.
- 39) "Rider" shall mean each rate mechanism that recovers a defined cost or changes in a cost outside of PREPA's base rates. A Rider may address recovery of cost for fuel, purchased power, or other costs, and requires Commission approval.
- 40) "Short Term Debt" shall mean debt to be repaid in one year or less from the date it was incurred.
- 41) "Statement of Financial Position" refers to the balance sheet. It is one of the main financial statements and it reports an entity's assets, liabilities, and the difference in their totals. The amounts reported on the statement of financial position are the amounts as of the final moment of an accounting period.
- 42) "Surcharge" shall mean each rate mechanism that recovers a cost or changes in a cost outside of PREPA's base rates for a specified period of time. A surcharge may address recovery of cost for fuel, purchased power, or other costs, and requires Commission approval.
- 43) "Test Year" shall mean the one-year historical period used in determining rate base, operating income, interest coverage ratio and debt service coverage ratio. The historical test year to be used in the formal application is the most recent twelve (12) month period for which audited financial statements exist.
- 44) "Typical Bill Analysis" refers to an estimation of the total bill and each component of the bill of one or more representative hypothetical members of a class.

45) "Working Capital" refers to a proper allowance for cash, materials, inventories, and supplies and prepayments.

- C) Every word used in the singular in this Regulation, shall be understood to also include the plural, unless the context indicates otherwise.

Section 1.09.- Dates and Terms.

In computing any time period established in this Regulation, or by order of the Commission, the day of the occurrence of the event, act or omission that triggers the period shall not be counted and the fixed period shall begin to accrue the day after. If a period ends on a Saturday, Sunday or legal holiday, the period shall be extended until the next day that is not a Saturday, Sunday or legal holiday.

Section 1.10.- Language.

- A) If there is a discrepancy between the Spanish version and the English version of this Regulation, the provisions of the English version shall prevail.
- B) The formal application and any other document filed pursuant to this Regulation shall be in the English language. At its discretion, the Commission may order PREPA to submit a translation to the Spanish language of the formal application and of any other document filed by PREPA in accordance with the provisions of this Regulation.

Section 1.11.- Severability.

If any article, provision, word, sentence, paragraph or section of this Regulation is disputed, for any reason, before a court and declared unconstitutional or void, such ruling shall not affect, damage, or invalidate the remaining provisions of this Regulation, but their effect shall be limited to the article, provision, word, sentence, paragraph or section that is declared unconstitutional or void. The nullity or invalidity of any article, word, sentence, paragraph or section in any specific case, shall not affect or jeopardize in any way its application or validity in any other case, except when it specifically and expressly invalidates for all cases.

Section 1.12.- Forms.

The Commission shall establish the forms it deems necessary to conduct the proceedings pursuant to this Regulation, and shall inform the public via its website. Notwithstanding, the fact that the Commission has not adopted one or more forms, is in the process of reviewing them, or the Internet website is out of service, shall not relieve anyone of their obligation to comply with the provisions stated herein or the Commission's orders.

Section 1.13.- Mode of Submission.

The forms, documents and appearances required by virtue of this Regulation or any order of the Commission, must be submitted before the Commission in electronic format according to the instructions, which, from time to time, the Commission establishes through an order in relation to the electronic filing system.

If the electronic filing system is temporarily not operating or out of service, the forms, documents and appearances required by virtue of this Regulation or by any order of the Commission, shall be submitted before the Commission through the means, in the forms, in the place, and terms of the instructions that, from time to time, the Commission establishes by way of an order.

Section 1.14.- Effect of Submission.

The presentation of a document whose content has been formulated by the undersigned party, shall be equivalent to certifying that the content of said document is true and that, according to the signer's best knowledge, information and belief, formed after reasonable inquiry, the document is based on facts, arguments, judicial sources and correct information.

Section 1.15.- Confidential Information.

If in compliance with the provisions of this Regulation or any of the Commission's orders, a person has the duty to disclose information to the Commission considered to be privileged pursuant to the Rules of Evidence, said person shall identify the allegedly privileged information, request the Commission the protection of said information, and support, in writing, its arguments for a claim of information of privileged nature. The Commission shall evaluate the petition and, if it understands the material merits protection, proceed according to what is set forth in Article 6.15 of Act 57-2014, as amended.

Section 1.16.- Validity.

Pursuant to Article 6.20 of Act 57-2014, as amended, this Regulation shall enter into effect immediately after its submission to the Department of State and the Legislative Library of the Office of Legislative Services.

CHAPTER II – FILING REQUIREMENTS

ARTICLE II.- FORMAL APPLICATION CONTENT

Section 2.01.- In general; Information required from PREPA for its first rate case before the Commission.

In the first rate case, PREPA shall file a formal application for rate review containing

the information required in this Chapter and pursuant to the schedules and presentation order specified in the Appendix to this Regulation. The substantive information required in this Regulation and its Appendix must be contained on PREPA's schedules together with the titles and schedule numbers provided in the Appendix.

Section 2.02.- Content of Schedules A-1 through A-5; Summary Information.

The formal application shall contain the following information, to be marked accordingly as Schedules A-1 to A-5:

- A) Schedule A-1 shall present a computation of the increase in gross revenue requirements being requested by PREPA. It shall include information on the test year Embedded Cost of Service and pro forma adjusted rate year Embedded Cost of Service as well as the debt service and interest costs. It will also include the proposed coverage on debt service and interest, as well as a comparison of revenues at proposed and current rates.
- B) Schedule A-2 shall contain a summary of the Results of Operations for the test year and with PREPA's pro forma adjustments.
- C) Schedule A-3 shall contain a summary of debt service and interest coverage requirements that are used by PREPA to develop its requested revenue requirement.
- D) Schedule A-4 shall present a summary of Plant in Service and Accumulated Depreciation for the test year, the previous two (2) years, and estimated for the next three (3) years, as well as projected construction expenditures for the three (3) years following the end of the test year.
- E) Schedule A-5 shall present PREPA's financial position, and changes in the financial position through the end of the test year, and as projected for the three (3) years subsequent to the test year.

Section 2.03.- Content of Schedules B-1 through B-3; Rate Base and Plant Investment.

The formal application shall contain the following information, to be marked accordingly as Schedules B-1 to B-3:

- A) Schedule B-1 shall present a summary of test year original cost rate base elements.
- B) Schedule B-2 shall present each pro forma adjustment to rate base (one column for each adjustment). PREPA shall discuss and explain each adjustment in prefiled direct testimony and shall provide supporting

workpapers showing the derivation of each adjustment.

- C) Schedule B-3 shall present a computation of Working Capital.

Section 2.04.- Content of Schedules C-1 through C-3; Test Year Income Statements.

The formal application shall contain the following information, to be marked accordingly as Schedules C-1 to C-3:

- A) Schedule C-1 shall present the test year income statement, showing the amounts recorded during the test year in each account in column 1; pro forma adjustments, by account, in column 2; and adjusted results in column 3.
- B) Schedule C-2 shall present the income statement pro forma adjustments (one adjustment per column). PREPA shall discuss and explain each adjustment in prefiled direct testimony and shall provide supporting workpapers showing the derivation of each adjustment.
- C) Schedule C-3 shall present the calculation of the Gross Revenue Conversion Factor. An explanation and support must be provided for each item that is incorporated into the Gross Revenue Conversion Factor.

Section 2.05.- Content of Schedules D-1 through D-5; Capitalization and Debt Service Requirements.

The formal application shall contain the following information, to be marked accordingly as Schedules D-1 to D-5:

- A) Schedule D-1 shall include a summary of capitalization, including long-term debt, short term debt, owners' equity, and any other components of capitalization that are being used to develop the revenue requirement.
- B) Schedule D-2 shall include an itemized listing of long-term debt and related interest and debt service requirements.
- C) Schedule D-3 shall include an itemized listing of short-term debt and related interest and debt service requirements.
- D) Schedule D-4 shall include information for capital leases and the related payment obligations for the test year and each of the three (3) years following the test year.
- E) Schedule D-5 shall include information for long-term purchased power agreements, including for payment obligations for the test year and each of

the three (3) years following the test year.

Section 2.06.- Content of Schedules E-1 through E-9; Financial Statements and Statistical Schedules.

The formal application shall contain the following information, to be marked accordingly as Schedules E-1 to E-9:

- A) Schedule E-1 shall show balance sheets for the beginning and end of test year, for the previous two (2) years, and estimated for the three (3) years following the test year.
- B) Schedule E-2 shall show income statements for the test year, for the previous two (2) years, and estimated for the three (3) years following the test year.
- C) Schedule E-3 shall show a statement of changes in financial position for the test year, for the previous two (2) years, and estimated for the three (3) years following the test year.
- D) Schedule E-4 shall show a statement of changes in owners' equity for the test year, for the previous two (2) years, and estimated for the three (3) years following the test year.
- E) Schedule E-5 shall show a listing of Utility Plant in Service and Accumulated Depreciation by account for the beginning and end of test year, for the previous two (2) years, and estimated for the three (3) years following the test year.
- F) Schedule E-6 shall show departmental/functional operating income statements for the test year, the previous two (2) years, and estimates for the three (3) years following the test year.
- G) Schedule E-7 shall show operating statistics, including debt service coverage, interest coverage, funds from operations, number of employees (in full time equivalents) and other operating statistics used to manage the business, for the test year, the previous two (2) years, and estimated for the three (3) years following the test year.
- H) Schedule E-8 shall show details of Contributions in Lieu of Taxes (CILT), including the test year amounts of CILT associated with each PREPA government client to which CILT applies. This schedule shall also show details of accounts receivable from each PREPA government client to which CILT applies as of the beginning and end of test year, including an aging of such accounts receivable. A schedule of accounts receivable aging for other PREPA government clients to which CILT does not apply will also be provided.

- I) Schedule E-9 shall include notes to the financial statements.

Section 2.07.- Content of Schedules F-1 through F-4; Projections and Forecasts.

The formal application shall contain the following information, to be marked accordingly as Schedules F-1 to F-4:

- A) Schedule F-1 shall contain projected income statements at present and proposed rates, for a minimum of three (3) years.
- B) Schedule F-2 shall contain projected changes in financial position and debt service coverage at present and proposed rates, for a minimum of three (3) years.
- C) Schedule F-3 shall list projected construction and capital expenditure requirements for each of the three (3) years following the test year.
- D) Schedule F-4 shall include a detailed description and references to supporting documentation used in developing the projections.

Section 2.08.- Content of Schedules G-1 through G-6; Cost of Service Study and Rate Design.

The formal application shall contain the following information, to be marked accordingly as Schedules G-1 to G-6:

- A) Schedule G-1 shall show a fully allocated embedded cost of service study at present rates.
- B) Schedule G-2 shall show a fully allocated embedded cost of service study at proposed rates.
- C) Schedule G-3 shall show the total revenue at proposed rates and the allocation of revenue at proposed rates among the customer service classes.
- D) Schedule G-4 shall show the total expenses, by account, at proposed rates and the allocation of expenses at proposed rates among the customer service classes.
- E) Schedule G-5 shall provide explanations and calculations showing how each of the allocation factors used in the Embedded Cost of Service study was derived.
- F) In Schedule G-6, PREPA may present optional information, such as alternative methodologies and results for calculating the class Embedded

Cost of Service. An explanation shall be provided for each alternative method that is being presented by PREPA, along with detailed supporting calculations.

Section 2.09.- Content of Schedules H-1 through H-6; Effect of Proposed Tariff Schedules.

The formal application shall contain the following information, to be marked accordingly as Schedules H-1 to H-6:

- A) Schedule H-1 shall present a summary, by customer classification, of revenues at present and proposed rates.
- B) Schedule H-2 shall present an analysis of the revenue requirement by detailed class of service at present and proposed rates, showing the billing determinants, rates and revenues, by class of service.
- C) Schedule H-3 shall present and explain changes between current and proposed rates, by class of service.
- D) Schedule H-4 shall present a customer bill impact analysis, showing dollar and percent impacts for each customer class at varying levels of electric usage.
- E) Schedule H-5 shall present a bill count and bill frequency analysis.
- F) Schedule H-6 shall present a proof of revenue.

Section 2.10.- Content of Schedules I-1 through I-4; Required Reports.

The formal application shall contain the following information, to be marked accordingly as Schedules I-1 to I-4:

- A) Schedule I-1 shall include a copy of the Consulting Engineers' Report for the Fiscal Year that is being used as the historic test year.
- B) Schedule I-2 shall include audited financial statements and an independent auditor's opinion on such financial statements for the Fiscal Year that is being used as the historic test year.
- C) Schedule I-3 shall include the Chief Restructuring Officer's reports to PREPA's Board of Directors or Governing Board from September 2014 through the filing date, and shall be updated through the duration of PREPA's rate case as additional reports are prepared.
- D) Schedule I-4 shall include the Business Plan for the period encompassing the

Rate Year.

Section 2.11.- Content of Schedules J-1 through J-3; Tariffs.

The formal application shall contain the following information, to be marked accordingly as Schedules J-1 to J-3:

- A) Schedule J-1 shall present PREPA's proposed tariffs.
- B) Schedule J-2 shall present PREPA's current tariffs with changes shown in legal redline to derive PREPA's proposed tariffs.
- C) Schedule J-3 shall contain a draft Plan of Rider Surcharge Administration for each proposed surcharge or rider.

Section 2.12.- Content of Schedule K-1; Information on Affiliates.

The formal application shall contain the following information, to be marked accordingly as Schedule K-1:

- A) Schedule K-1 shall include descriptions of affiliates and a listing of their officers, directors and board members (if different from the officers or board members of PREPA). This description shall include a description of the function of the companies operating within PREPA Holdings, including (but not limited to): PREPA Networks, LLC (also known as PREPA.Net), InterAmerican Energy Sources, LLC, and Consolidated Telecom of Puerto Rico, LLC. A list of the officers and directors/board members of each of these companies if different from the officers or board members of PREPA.

Section 2.13.- Content of Schedules L-1 and L-2; Information on Fixed Charge to Pay Bondholders, Subsidies and Incentives.

The formal application shall contain the following information, to be marked accordingly as Schedules L-1 and L-2:

- A) Schedule L-1 shall present calculations for a proposed fixed charge showing the amount customers shall pay on account of PREPA's obligations to bondholders, which would guarantee the annual payment of PREPA's obligations to bondholders. The prefiled testimony shall explain the derivation of the proposed fixed charge.
- B) Schedule L-2 shall present a detailed listing of all subsidies that are reflected in the proposed rates. The prefiled testimony shall describe their legal basis, purposes and beneficiaries; and evaluate them in terms of their cost (both the magnitude of the cost and who bears the cost) and their benefits.

Section 2.14.- Content of Schedules M-1 and M-2; Base Rate Design.

Traditionally, rate design for residential consumers involves a two-part rate: (i) a fixed customer charge that recovers the distribution-level costs that vary with the number of customers, and (ii) a variable charge to recover all costs that vary with consumption, plus most of the utility's fixed costs (since the fixed customer charge recovers only a fraction of the total fixed costs). Some jurisdictions have revised their fixed customer charge to recover more fixed costs.

The formal application shall contain the following information, to be marked accordingly as Schedules M-1 and M-2:

- A) Schedule M-1 shall present a rate design proposal reflecting the traditional approach of fixed and variable charges, as described in the first sentence of this Section.
- B) If PREPA seeks an alternative (revised) rate design approach that seeks to recover a larger proportion of utility fixed costs by increasing fixed charge rates, rather than recovering such costs through the variable per-kilowatt-hour charge, then PREPA shall present on Schedule M-2 such rate design proposal.

If, in accordance to paragraph (B), PREPA presents an alternative (revised) rate design approach on Schedule M-2, the prefiled testimony shall describe the advantages and disadvantages of both approaches and shall show the effects of both approaches on the bills of residential consumers at different levels of consumption. The bill impact analysis for both, the traditional approach and the alternative (revised) approach that contains the increased customer fixed charges, shall be presented on Schedule H-4 and clearly labeled there.

Section 2.15.- Content of Schedule N-1; Optional Proposal and Required Information if PREPA's Filing Includes such Proposal.

PREPA may have the option to include with its rate case filing a proposal for a formula rate plan, subject to a requirement that these proposals be accompanied by the alternatives and additional information specified herein.

- A) If PREPA proposes a formula rate structure, it shall be presented on Schedule N-1. However, the formal application shall also include an alternative rate structure that is more typical of utility rate filings; specifically, one that does not envision either annual rate increases occurring outside of a base rate case, or "true-ups" for cost elements other than fuel and purchased power. The prefiled testimony shall describe the advantages and disadvantages of both approaches.
- B) The required alternative to the proposal or preferred solution presented on

Schedule N-1 must reflect care and rigor comparable to that reflected in PREPA's preferred solution.

Section 2.16.- Prefiled Written Direct Testimony.

- A) The formal application shall include a list of each PREPA witness and must identify the portions of PREPA's rate filing schedules and exhibits that are being supported by the testimony of each of the listed witnesses.
- B) Concurrently with the filing of PREPA's formal application, each witness listed pursuant to paragraph (A) of this Section shall file written testimony stating his or her qualifications, educational background, work experience, subject matter that is being addressed, conclusions and recommendations, and the basis for such conclusions and recommendations. Each witness' prefiled written testimony and report must include a statement and explanation concerning the witness's professional view on whether the costs the witness is addressing, are reasonable and prudently incurred. Each witness's prefiled testimony and report will also include a statement and explanation of whether such costs and recommendations represent existing (i.e. unavoidable) commitments or future (i.e. avoidable) commitments.
- C) Concurrently with its formal application and expert witness testimony, PREPA will present the testimony of its Chief Executive Officer or its Chief Restructuring Officer, or both, concerning whether PREPA's requested revenue requirement includes any costs (reflecting costs or commitments previously incurred as well as costs or commitments not yet incurred) that are not reasonable or prudently incurred.
- D) Each witness' prefiled written testimony must be accompanied by a signed, notarized statement that contains the following declaration: "Affiant, [(witness name)], being first duly sworn, states the following: The prepared Pre-Filed Direct Testimony and the Schedules attached thereto and the Schedules I am sponsoring constitute the direct testimony of Affiant in the above-styled case. Affiant states that he/she would give the answers set forth in the Pre-Filed Direct Testimony if asked the questions propounded therein at the time of the filing. Affiant further states that, to the best of his/her knowledge, his/her statements made are true and correct."
- E) Prefiled written testimony or accompanying workpapers must contain all analyses, facts and calculations necessary for the Commission to perform a comprehensive analysis and assign it the appropriate probative value.
- F) The formal application and prefiled written testimony shall avoid generalized or vague statements that would require time-consuming discovery to understand the supporting reasoning or to gather the supporting facts.

Section 2.17.- Public Notice.

PREPA shall include in its formal application a draft public notice. The purpose of this public notice is to (i) inform the public that PREPA has filed a formal application proposing new rates and (ii) describe how the public may participate in the rate review proceeding. The draft public notice shall contain, at minimum, the following information:

- A) The fact that PREPA has submitted a formal application proposing new rates, and the date of such application.
- B) The specific relief requested in the application, including the total dollars by which revenues will increase or decrease, and the average increase or decrease for customers of different classes.
- C) A statement indicating how a person may intervene, in the following form:
"Any person desiring to intervene in this proceeding must submit to the Puerto Rico Energy Commission a petition to intervene, in accordance with Section 5.05 of Regulation No. 8543, known as the Regulation on Adjudicative, Notice of Noncompliance, Rate Review and Investigation Proceedings, the provisions of Act No. 170 of August 12, 1988, as amended, known as the Uniform Administrative Procedure Act, and the interpretive case law. A petition to intervene shall be filed no later than [date to be inserted by the Commission], and must be served in accordance with the provisions in Regulation No. 8543."
- D) A statement about the procedures the Commission will follow in the proceeding, in the following form: "Upon receiving the formal application and the requests for intervention, the Commission will issue an order granting or denying the petitions to intervene, and determining who may intervene. Such order will also establish a schedule for (i) public technical hearings at which expert witnesses shall testify before the Commission and (ii) public citizen hearings at which members of the public may state their views to the Commission."
- E) A statement that more detailed information about PREPA may be found at [insert PREPA's web site] and more detail about the Commission may be found at [insert Commission's web site].

After inserting the appropriate information, the Commission will publish the public notice on its website and direct PREPA to publish the notice in newspapers of general circulation in Puerto Rico. PREPA shall also publish the notice on its website.

Section 2.18.- Additional information.

In addition to the information and content required in Sections 2.02 to 2.17 of this Regulation, the Commission may require by order that PREPA includes or submits supplementary information to that specifically required in this Regulation, either prior to or after the filing of PREPA's formal application.

Section 2.19.- Waivers.

In accordance to the provisions of this Section, PREPA may file a request for a waiver of any of the filing requirements upon a demonstration of good cause shown.

- A) Any waiver request shall provide a detailed explanation as to why the waiver is being requested along with an analysis of the advantages and possible disadvantages, to allow the Commission to thoroughly evaluate the waiver request.
- B) Any waiver request shall include the specific filing requirements requested to be waived, identifying the corresponding sections, subsections, schedules or provisions of this Article stating the filing requirements to be waived.
- C) Waiver requests are strictly limited to the following conditions which must be set forth in the request:
 - 1) The particular requirement is not applicable to PREPA; or
 - 2) The particular information required is not available to PREPA, in which case, PREPA shall describe the reasons the information is not available, all the actions taken by PREPA to obtain the information, and a date by which PREPA commits to provide the information.
- D) Any waiver request shall be filed no later than thirty (30) days prior to the filing date of the formal application.
- E) The Commission, after determining the existence of reasonable cause, may issue an order to waive compliance with any of the requested sections, subsections, schedules or provisions of this Article.

ARTICLE III.- FILING INSTRUCTIONS

Section 3.01.- Instructions on form and substance.

In order to be effective, the formal application shall be complete in accordance to the content and provisions stated in Article II of this Regulation. The formal application shall comply with the following instructions:

- A) All schedules shall be mathematically correct and properly cross-referenced. The applicant shall ascertain that adequate detail has been provided to explain and support all significant items and amounts.
- B) Amounts may be rounded, where appropriate, to the nearest thousand.
- C) All schedules shall be numbered as provided in the Appendix. Schedules shall contain the preparation date, the date filed with the Commission, and, if amended or revised during the course of the proceeding, the date or each amendment or revision.
- D) Schedules shall be filed in searchable pdf format. Any schedules created with a spreadsheet program shall also be provided in native electronic spreadsheet format, unlocked. Testimony shall be filed in searchable pdf format.
- E) Headings on schedules shall clearly indicate the nature and intent of the schedule, pursuant to the corresponding Section of this Regulation, and the dates or time periods covered.
- F) At the date of filing, a minimum of ten (10) complete sets of the applicant's schedules and exhibits shall be provided to the Commission, in addition to an electronic copy of the complete set. The filing shall have an index, and Bates numbers.

Section 3.02.- Submission of information prior to the filing of the formal application.

In order to expedite the first rate review procedure by allowing the Commission to begin studying related materials prior to receiving the formal application, PREPA shall provide the following documents as they become available:

- A) Any and all reports made by PREPA's Chief Restructuring Officer to PREPA's Governing Board regarding its restructuring.
- B) Any and all agreements made between PREPA or its Governing Board members and any of the bondholders in addition to the Forbearance Agreement.
- C) The Business Plan referred to in the presentation titled "PREPA's Transformation A Path to Sustainability" and dated June 1, 2015.
- D) A copy of the Consulting Engineers' Report for the Fiscal Year ending June 30, 2014.

- E) Audited financial statements and an independent auditor's opinion on such financial statements for the Fiscal Year ending June 30, 2014.

The formal application shall be a complete application; it shall contain the information, content and full set of exhibits required in Sections 2.02 to 2.17 and set forth in the Appendix, regardless of whether PREPA had previously provided any of those items under this Section or any other Commission's order or regulation.

Section 3.03.- Noncompliance.

Failure to comply with any Section or portion of this Regulation may result in the disapproval by the Commission of part or all of PREPA's formal application, in addition to any other remedies, fines or penalties that the Commission sees fit.

CHAPTER III – TRANSPARENCY

ARTICLE IV.- PUBLIC NATURE OF THE FILING

Section 4.01.- Access to the filing.

When filing its complete formal application, PREPA shall simultaneously publish on its website a true and exact copy of the formal application submitted to the Commission, in order to provide complete access for those who want to examine the document. PREPA may only redact the content of the filing that is the object of a confidentiality claim presented and pending before the Commission in accordance with Section 4.02 of this Regulation.

Section 4.02.- Confidentiality claims.

The confidential nature of a document or information is not a basis for or reason to violate or avoid compliance with the Filing Requirements established in Chapter II of this Regulation. If PREPA understands that any information contained, pursuant to this Regulation or a Commission's order, in its formal application or in any supplement is of confidential or privileged nature, the following procedure shall be observed:

- A) When submitting its formal application to the Commission in full compliance with the provisions in Chapter II of this Regulation, PREPA shall (i) mark or identify the information that it understands is "confidential" or "privileged"; (ii) identify the reason why the document or information should be classified as "confidential" or "privileged"; and (iii) state in writing the legal bases and sources to support its argument that such information or document should be classified as "confidential" or "privileged". PREPA must connect each confidentiality claim to a particular schedule or document.
- B) The Commission will decide each confidentiality claim expeditiously. In its

decision, the Commission will state (i) which information and documents are confidential or privileged; and (ii) the rules that shall be observed to duly safeguard the information. If the Commission denies a confidentiality claim, the Commission will also state the time period after which the document or information will be available to the public. Such time period will give PREPA sufficient time to seek reconsideration or any other legal recourse in order to prevent disclosure if PREPA disagrees with the Commission's decision.

- C) Every employee and contractor of the Commission having access to the information marked as "confidential" or "privileged" by PREPA, the Commission or by a competent court, shall sign a confidentiality agreement with the Commission and comply with the protocol for the proper handling of confidential documents in paper form, in accordance with the *Normas Internas para el Manejo de Información Confidencial en la Comisión de Energía*.

This was agreed upon by the Commission in San Juan, Puerto Rico, the 24 of July of 2015.



Agustín F. Carbó Lugo
President

Ángel R. Rivera de la Cruz
Associate Commissioner

José H. Román Morales
Associate Commissioner

PUERTO RICO ENERGY COMMISSION
RATE APPLICATION FILING REQUIREMENTS

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K. Information on Affiliates

- K-1 A description of the function of the companies operating within PREPA Holdings, including (but not limited to): PREPA Networks, LLC (also known as PREPA.Net), InterAmerican Energy Sources, LLC, and Consolidated Telecom of Puerto Rico, LLC. A list of the officers and directors/board members of each of these companies if different from the officers or board members of PREPA.

L. Information on Fixed Charge and Subsidies and Incentives and Optional Additional Information

- L-1 A proposed fixed charge showing the amount customers shall pay on account of PREPA's obligations to bondholders, which would guarantee the annual payment of PREPA's obligations to bondholders.
- L-2 A description of any "subsidy or incentive related to electric power service," and the effects of such subsidy or incentive on the rates paid by nonsubsidized customers. (See Sec. 22 of Act 83, as amended by sec. 2.10 of Act 57.)

M. Optional Proposals and Required Information if PREPA's Filing Includes such Proposals

- M-1 Traditional Rate Design proposals will be shown on Schedule M-1
- M-2 Alternative Rate Design proposals, such as increased fixed charges, will be shown on Schedule M-2. Bill impact analysis of alternative rate design proposals for increased fixed charges will be shown, along with impacts of traditional rate design (required), for comparative purposes, on Schedule H-4

N. Optional Formula Rate Plan Proposal and Required Information if PREPA's Filing Includes such a Proposal

- N-1 (Optional) Formula Rate Plan proposals, if any are being made, will be shown on Schedule N-1