

July 15, 2016

VIA ELECTRONIC MAIL:

n-ayala@aepr.com; c-aquino@aepr.com

Ms. Néida Ayala Jiménez
General Counsel
Puerto Rico Electric Power Authority (PREPA)
PO Box 363928
San Juan, PR 00936-3928

Re: *In re*: Review of Rates of the Puerto Rico Electric Power Authority, No. CEPR-AP-2015-0001; Requirement of Information No. 4-A

Dear Ms. Ayala,

Pursuant to the provisions in Article VIII of Regulation No. 8543, known as the Regulation on Adjudicative, Notice of Noncompliance, Rate Review and Investigation Proceedings (Regulation 8543), the staff of the Puerto Energy Commission (Commission Staff) is conducting discovery in the matter *In re*: Review of Rates of the Puerto Rico Electric Power Authority, No. CEPR-AP-2015-0001.

Through this letter, the Commission Staff issues its third round of requirements of information. PREPA shall submit, **on or before July 29th, 2016**, the information, data or documents, as appropriate, in digital format, required herein. PREPA shall submit such information, data or documents in accordance with the following instructions:

I. Instructions

A. In General

1. Unless the context requires otherwise, all words used in the singular shall be deemed to also include the plural.
2. Responses to questions must be made in writing, separately and under oath. Questions should be answered by supplying any information which PREPA has knowledge of or information obtained by their representatives, employees, contractors, agents or representatives, or as a result of any investigation conducted. Each response shall state the person responsible for that response.
3. When production of a document is required, the response should identify the document produced, the format or formats in which the document was produced, and the method and date it was delivered to the Commission Staff.

The identification of the document shall include: the name or title of the document, the document date, and the name of its author.

4. If information, data or documents required for any requirement do not exist, the person to whom this request for information is directed shall so specify in his or her reply to that request.
5. Except where the context indicates otherwise, the term "any" includes "all," and vice versa.
6. PREPA shall have a continuing duty to update, correct or amend its answers and notify the Commission Staff of any additional information obtained after said request and which is the subject of this requirement of information.
7. For purposes of this requirement of information, the term "document" means any material, no matter the form, type, nature or description, whether electronic, handwritten or typed, printed, engraved, photographed or copied, and no matter by whom it was originated, prepared, produced, reproduced, published or disseminated. The term "document" includes all types of publications, reports, magazines, books, pamphlets, brochures, folders, records, and/or volume set of attached or unattached papers.
8. For purposes of this requirement of information, the term "information" includes data and documents.
9. Digital Format: **All documents must be submitted in the Word or searchable PDF format.** Analyses prepared using an electronic spreadsheet program such as Excel will be provided in native format with formulas and cross-references intact. Under no circumstances may a printed document, scanned and converted to an image in Personal Document Format (PDF), be presented if there is already a version in digital text. In view of this, the presentation of PDF images of documents that were originally produced in digital text will not be allowed. The presentation of PDF images will only be allowed for those documents that do not exist in a digital version, or for which PREPA does not have a digital version.
10. If PREPA finds it necessary to request an extension of time for the production of part of the required information, it shall do so in writing and submit its request to the Commission's Staff on or before *July 29th, 2016*. In its request, PREPA shall state the efforts undertaken thus far in order to produce the required information, and the reasons pursuant to which it will not be able to produce it within the original period, and which, according to PREPA, justify the granting of the requested extension, along with the specific date by which PREPA commits to provide a full response. However, on or before *July 29th, 2016*, PREPA shall produce all the required information that, up until that date, it has been diligently able to obtain, organize, and process in accordance with the instructions established in this letter.

B. Allegedly Confidential or Privileged Information and Documents

The Commission Staff recognizes that PREPA may assert that some of the documents responsive to these questions warrant confidential treatment. Section 1.15 of Regulation No. 8543, together with the provisions of Articles 1.4 and 6.15 of Act 57-2014, as amended, govern the information that may be unavailable for public access because it is privileged or confidential, as well as the general guidelines for the Commission to determine what information is privileged and confidential and the treatment to be given to protect such information.

Specifically, Section 1.15 of Regulation 8543 provides that when a person has the duty to submit to the Commission information that, in his or her view is privileged or confidential, that person shall (i) identify the information which he or she considers to be privileged or confidential, (ii) request the Commission to protect this information, and (iii) state in writing the arguments in support of his or her request for protection. Once the matter is submitted to the Commission, it shall proceed as provided in Article 6.15 of Act 57-2014 if the Commission determines that the information produced and identified deserves protection.

With this background, if any of the requirements of information require PREPA to submit information it understands is confidential or privileged, the following instructions shall be observed:

1. When submitting the information, PREPA shall (i) mark or identify the information as “confidential” or “privileged”; and “(ii) identify the reason why the document or information should be classified as “confidential” or “privileged”.
2. Along with the filing, PREPA shall submit a memorandum of law stating in writing the legal basis and sources to support its argument that the information or documents identified should be classified as “confidential” or “privileged”. In its memorandum, PREPA must connect each claim to a particular document or piece of information.¹ PREPA shall serve a copy of its memorandum of law to the intervenors currently participating in the proceeding.
3. Except for communications covered by attorney-client privilege, PREPA cannot fail to submit any information or document to the Commission on the grounds that it believes it is a confidential or privileged document or information. If PREPA claims that the information is attorney-client privileged, it must state the basis for this claim and affirmatively state that there is no other alternative way for PREPA to provide the information that would not be attorney-client privileged.
4. The Commission Staff will protect and maintain secure any and all information marked by PREPA as “confidential” or “privileged” unless the Commission rules otherwise.

¹ When handling “confidential” or “privileged” information, the Commission Staff will observe all the applicable rules from the *Normas Internas para el Manejo de Información Confidencial en la Comisión de Energía de Puerto Rico*. See, <http://energia.pr.gov/wp-content/uploads/2015/05/20150512141506478.pdf>

C. Questions about the Requirements

If PREPA has any question about any of the requirements of information made in this letter, it shall state its question or need for clarification in writing and submit it by electronic mail to the Commission Staff. While PREPA and the Commission Staff may have verbal discussions about PREPA's questions for efficiency purposes, all final questions and answers must be stated in writing. Verbal expressions and discussions about PREPA's questions will have no evidentiary value or effect.

II. Requirements of Information

A. Questions should be answered by the PREPA employee or representative most knowledgeable with the subject matter of question. PREPA shall clearly identify the person providing the answer and his or her relationship to PREPA.

1. CEPR-RS-01-01: Refer to PREPA's 1st submission in compliance with Completeness Order dated June 24, 2016, and to the Excel file, [Sch. A through F (Except for E-9, F-4) REV.xlsx]. Please provide a version of this Excel file (or its equivalent) with formulas and cross references fully intact.
2. CEPR-RS-01-02: When is PREPA anticipating having audited financial statements for fiscal year 2015? Please provide the audited financial statements for fiscal year 2015 as soon as they are available.
3. CEPR-RS-01-03: Schedule A-1 REV reflects Debt Service for Securitization for FY2017 of \$394,237,206 and \$109,027,031 for Gross-up for Collections Lag and Uncollectible Revenue, for a total PREPARC revenue requirement of \$503,264,236.
 - a. Please discuss PREPA's current best expectations of the timing of the securitization, including any schedule slippage that would affect the amounts estimated for FY2017.
 - b. To the extent that the estimated amounts noted above have been impacted by schedule slippage or other events, please identify, quantify and explain the impacts.
 - c. When does PREPA currently anticipate that the securitization will be completed?
4. CEPR-RS-01-04: Refer to Schedule A-1 REV and Schedule F-3 REV.
 - a. Are there any other costs included in PREAP's requested revenue requirement for FY 2017 for the AOGT besides the \$56,339,808 listed on Schedule F-3 REV? If so, please identify, quantify and explain all other AOGT costs that are included in PREPA's requested FY 2017 revenue requirement.

- b. Identify the anticipated funding source for the AOGT FY2018 amount of \$413,417,119 listed on Schedule F-3 REV and describe the current status of securing that funding, and the anticipated repayment terms and interest rate.
 - c. How will PREPA be accounting for the maintenance investment listed on Schedule F-3 REV? Will any of that be expensed in FY2017? If so, identify how much. Will any of that be capitalized to plant accounts in FY2017 and depreciated? If so, how much?
 - d. Prior to the current rate case filing, has PREPA ever included capital expenditures on a dollar-for-dollar basis in its annual revenue requirement, similar to what it is proposing to do with the \$336,557,808 of "Revenue Funded Capex" on Schedules A-1 REV and F-3 REV? If not, explain fully why not.
 - e. Are PREPA's advisors aware of any other regulated public utility in the United States that includes capital expenditures on a dollar-for-dollar basis in its annual revenue requirement? If so, please explain fully and provide specific citations to all known examples where this has been done.
5. CEPR-RS-01-05: Identify the personnel at PREPA who are responsible for purchasing fuel, including reviewing and approving fuel contracts, arranging for the transportation and delivery of fuel, measuring and assuring contract performance, and reviewing fuel invoices. Briefly describe the specific responsibilities of each person involved in the process.
6. CEPR-RS-01-06: Identify the personnel at PREPA who are responsible for purchased power, including reviewing and approving purchased power contracts, reviewing invoices, and measuring and assuring contract performance. Briefly describe the specific responsibilities of each person involved in the process.
7. CEPR-RS-01-07: Identify the personnel at PREPA who are responsible for properly calculating the Contribution In Lieu of Taxes (CILT). Briefly describe the specific responsibilities of each person involved in the process.
8. CEPR-RS-01-08: Identify the personnel at PREPA who are responsible for the Performance Improvement, including but not limited to the \$116,212,842 for Performance Improvement on Schedule A-2. Briefly describe the specific responsibilities of each person or group within PREPA that is involved in the process.

9. CEPR-RS-01-09: Identify the personnel at PREPA who are responsible for collecting billed revenue and minimizing uncollectible accounts. Briefly describe the specific responsibilities of each person or group within PREPA that is involved in the process.
10. CEPR-RS-01-10: Identify the personnel at PREPA who are responsible for establishing and administering employee benefits. Briefly describe the specific responsibilities of each person or group within PREPA that is involved in the process.
11. CEPR-RS-01-11: Refer to Schedule A-1 REV and Schedule A-2 REV.
 - a. Please reconcile the Total revenue amount for FY2017 of \$2,736,673,745 on Schedule A-1 REV with the Total Revenue amount for FY2017 on Schedule A-2 REV of \$2,775,598,590. Identify, quantify and explain each reconciling item.
 - b. Please reconcile the CILT Subsidy Recovery Required in Base Rate amount for FY2017 of \$37,685,194 on Schedule A-1 REV with the Contribution to municipalities (CILT) amount for FY2017 on Schedule A-2 REV of \$51,783,821. Identify, quantify and explain each reconciling item.
 - c. Please show in detail how the Special Customer Subsidies & Public Lighting amount for FY2017 on Schedule A-2 REV of \$168,312,921 is derived.
 - d. Please show in detail what amounts of principal and interest, by bond issue, and other debt instruments are included in the Debt Service (Principal & Interest) on Schedule A-1 REV of \$635,326,147 for FY2014 and \$314,389,739 for FY2017.
12. CEPR-RS-01-12: Refer to Schedule A-5 REV.
 - a. Why is the Accrued CILT asset amount exactly the same amount of \$668,840,403 for each year, FY2014 through FY2017?
 - b. Why is the Accrued CILT liability amount exactly the same amount of \$668,840,403 for each year, FY2014 through FY2017?
 - c. Show in detail how PREPA calculated or estimated the \$668,840,403.
13. CEPR-RS-01-13: Refer to Schedule A-1 REV and Schedule A-6. With respect to CILT and subsidies, please reconcile the FY2017 amounts for CILT Subsidy Recovery Required in Base Rate of \$37,685,194 on

Schedule A-1 REV with the FY2017 amounts for the following items on Schedule A-6.

	FY 2017
Contribution to municipalities (CILT)	\$51,783,821
Public Lighting	\$93,241,901
Special Customer Subsidies	\$75,071,019
Total Cost of Subsidies	\$220,096,742
CILT Subsidy Recovery Required in Base Rate	\$220,096,742

Identify, quantify and explain each reconciling item.

14. CEPR-RS-01-14: Refer to Schedule B-3. Please show in detail how PREPA calculated or estimated each of the following non-fuel performance improvement amounts and indicate the personnel and groups within PREPA that are responsible for achieving the improvement.

Non-fuel O&M Expense	2016	2017	2018	2019	2020
Customer Service	(13,083,333)	(23,750,000)	(30,500,000)	(31,005,000)	(31,515,050)
Procurement	(37,500,000)	(55,000,000)	(55,550,000)	(56,105,500)	(56,666,555)
Other, Net	(20,833,333)	(24,000,000)	(101,000,000)	(102,010,000)	(103,030,100)
Total Non-Fuel Performance Improvement	(71,416,667)	(102,750,000)	(187,050,000)	(189,120,500)	(191,211,705)

Responses to the requirements of information shall be submitted electronically by electronic mail to the following addresses: afigueroa@energia.pr.gov, tnegron@energia.pr.gov, and gbonet@energia.pr.gov. If responses are too voluminous to be sent by electronic mail, the responses shall be saved in a USB device and sent by mail with return receipt to: Cecilia Sánchez, 268 Muñoz Rivera Ave., World Plaza Suite 703, San Juan, PR 00918.

Cordially,

/s/Alejandro J. Figueroa Ramírez, Esq.

/s/Tania M. Negrón Vélez, Esq.