

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

IN RE: REVIEW OF RATES OF  
THE PUERTO RICO ELECTRIC  
POWER AUTHORITY,

Petitioner.

No.: CEPR-AP-2015-0001

SUBJECT: VERIFIED PETITION  
FOR APPROVAL OF PERMANENT  
AND TEMPORARY RATES

**VERIFIED PETITION FOR APPROVAL OF  
(1) “PERMANENT” RATES AND (2) TEMPORARY RATES**

TO THE HONORABLE PUERTO RICO ENERGY COMMISSION:

Comes now the Puerto Rico Electric Power Authority (“PREPA”, “AEE”, or the “Authority”), a publicly-owned electric utility and instrumentality of the Government of the Commonwealth of Puerto Rico (the “Commonwealth”), and respectfully submits this Verified Petition (“Petition”) to the honorable Puerto Rico Energy Commission (the “Commission”). PREPA requests that the Commission review, approve, and establish: (1) new electric service rates to be effective until and unless subsequently revised (“permanent” rates)<sup>1</sup> and (2) temporary (provisional) rates<sup>2</sup> to be effective during the interim period until new permanent rates are approved and become effective.

As established by the testimony and other materials submitted with this Petition, the approval and establishment of new rates for PREPA is essential in order for PREPA to meet its obligations to its Customers; make investments essential to improving service, reliability, and


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<sup>1</sup> As discussed later in this Petition, these new rates – and the charges or the formulae that they include – are “permanent” in the sense that they will remain in effect until changed. These rates are not, however, literally “permanent”. They are subject to modification by PREPA’s proposed formula rate mechanism (“FRM”) and its associated review and reconciliation processes, and in future rate cases.

<sup>2</sup> The recently issued official English translation of the PREPA Revitalization Act (the “Revitalization Act”), Act 4-2016, uses the term “temporary” rates, while the Commission’s Regulation No. 8720 uses the term “provisional” rates.

efficiency; comply with environmental and other legal mandates such as integrating and increasing the use of renewable energy; implement and capture the benefits of PREPA's proposed financial restructuring; and to increase the transparency and stability of its rates. PREPA's purpose is to reduce the all-in costs of electricity to Customers over time and, ultimately, to transform itself into a modern self-sustaining utility that can meet Puerto Rico's needs now and in the future. Because of time-critical liquidity needs, PREPA also requests that the Commission approve temporary (provisional) rates for PREPA. These temporary rates are also supported by materials attached to this Petition.

The rates PREPA proposes are just and reasonable, are consistent with sound fiscal and operational practices, and allow PREPA to provide an adequate service at the lowest reasonable cost to guarantee the security and reliability of Puerto Rico's electric utility system. This Petition and the materials that accompany it comply with all legal requirements applicable to a request by PREPA for the approval of permanent and temporary rates and for all other relief requested herein.



This filing is made pursuant to Article 6A ("Article 6A") of Act 83-1941 as amended by Article 9 of the Revitalization Act; (2) Article 6.25 ("Article 6.25") of the Puerto Rico Energy Transformation and RELIEF Act, Act 57- 2014 (the "RELIEF Act"), as amended by Article 18 of the Revitalization Act; and (3) in the alternative, as to the proposed temporary rates, under 27 L.P.R.A. § 261c ("Section 261c") as adopted by Act 21-1985. This filing also complies with, including submitting the materials required by, the Commission's Regulation No. 8720.

In support of its proposed rates, PREPA states and supports with the testimony and materials submitted in accordance with the Commission's rules, as follows:

## **I. EXECUTIVE SUMMARY AND BACKGROUND**

1. PREPA needs new rates to meet the electric service needs of Puerto Rico; to make essential investments to improve service, reliability, and efficiency; and to comply with environmental and other legal mandates such as integrating and increasing use of renewables. But, new rates are required to do more than just meet minimum operational needs and legal compliance; they are essential to other crucial objectives for Puerto Rico reflected in the PREPA organic Act (Act 83-1941) and the RELIEF Act, as amended by the Revitalization Act. The new rates make it possible for PREPA to implement and capture the benefits the financial restructuring negotiated with PREPA's key creditors and enabled by recent legislation. They also include tariff revisions that will provide Customers with more transparent bills. Though they modestly increase rates in the short run, they make it possible to maintain rates at stable levels significantly below historical highs and, ultimately, to bring down the costs of energy and reduce rates over time from what would inevitably otherwise result.

2. The need for new rates to address PREPA's revenue needs is significant and acute. PREPA's base electric service rates have not changed for approximately 25 years, while the costs of providing reliable electric service, the need to invest in and support infrastructure, and the need for and costs of complying with legal mandates including environmental regulations have all grown substantially. The overall gap between the funds recovered by PREPA's existing rates and the rates PREPA needs to recover its operating expenses, debt service costs, and investment needs (*i.e.*, the "revenue deficiency"), even after taking into account its recent efficiency gains and the benefits of PREPA's negotiated debt restructuring<sup>3</sup>

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<sup>3</sup> The revenue requirements underlying the permanent and temporary rates proposed by PREPA assume that the restructuring is completed and much of its legacy debt is legally or economically defeased as currently

(which the once implemented), is (1) approximately \$730 million per year, which consists of about \$503 million (that are revenues belonging to the PREPA Revitalization Corporation (“PREPARC” or “CRAEE”), to be collected by PREPA as a servicer through Transition Charges under the proposed debt restructuring that, in part, is before the Commission in Case No. CEPR-AP-2016-0001); plus (2) about \$222 million that is the revenue deficiency that is sought to be addressed (along with other objectives) in this rate review. Those figures together yield a shortfall of about 4.2 cents per kilowatt hour (“kWh”), of which about 2.9 cents is associated with the Transition Charges and about 1.3 cents is associated with the base rates involved in this rate review.

3. The persistent revenue deficiency PREPA has experienced over the last few years has already impacted PREPA’s systems, PREPA’s costs, and, at times, PREPA’s services. PREPA, for example, must fund what capital investment it can make almost exclusively from operating revenues. As a result, PREPA’s generation fleet is outdated and inefficient and, in addition to the need to build, replace, and/or repower generation, PREPA’s transmission system needs extensive reconstruction. PREPA’s transmission system, in its current state, does not readily accommodate unplanned outages and makes integration of renewable generation difficult. Transmission limitations and conditions are key causes of high forced outage rates, poor efficiency, low reliability, and high costs that are ultimately borne by PREPA’s Customers. They constrain the ability of generation to operate optimally, reduce reliability, and will lead to even worse reliability unless funds become available to maintain and improve PREPA’s system. Finally, investments required to comply with environmental mandates and to implement cost


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anticipated. If that does not occur, because of an adverse decision in this rate case or otherwise, the PREPA revenue requirements would inevitably be substantially greater, as would Customers’ total electric costs.

saving improvements in the generation portfolio have been deferred or not made due to the lack of adequate capital.


4. In the near term, PREPA also faces a liquidity crisis. PREPA is carrying approximately \$9 billion of debt and faces payments due to creditors of over \$1.1 billion on or before July 1, 2016. As of the date of this filing, PREPA has approximately \$530 million in cash, including \$146 million that is held in Government Development Bank (“GDB”) accounts subject to a moratorium. PREPA has exhausted all of its debt service reserves because it has not been able to make any monthly sinking fund payments since late 2014. Thus, PREPA faces a liquidity crisis as well as a debt and cost recovery crisis. Unless temporary rates are approved as soon as lawfully allowed, PREPA will exhaust its cash reserves before new permanent rates can be put in place.

5. PREPA also needs new rates to improve the transparency of its charges and Customer bills, as well as to bring its rate design more in line with its costs of service. For example:

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- All of PREPA’s fuel and purchased power costs, even those that are fixed, are currently recovered through a variable adjustment mechanism. PREPA relies on a markup of those variable fuel and purchase power charges to recover the costs of Contributions in Lieu of Taxes (“CILT”) and of many subsidies. Recovering these costs through such a markup further exaggerates volatility and makes it more difficult for PREPA to cover the costs of CILT and subsidies in times such as these when fuel costs are low.
  - PREPA’s rates do not transparently distinguish between PREPA’s core operational costs or the costs of CILT and subsidies. The costs of CILT and

essential public subsidies are obscured, and included in other charges, including in the markup on Fuel and Purchased Power.


6. The Legislature has provided PREPA with tools to implement its transformation into a modern self-sustaining utility. The Legislative Assembly established a process, which this Petition initiates, to close the revenue deficiency through both temporary and periodically-updated permanent rates. The law also gives PREPA other tools, which it has already been using to move forward:

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- **Financial Restructuring:** This process started with PREPA's August 2014 through 2015 forbearance agreements with PREPA's fuel line lenders and certain PREPA bondholders that provided PREPA with approximately \$550 million in liquidity relief and allowed PREPA to continue operating without having to repay approximately \$735 million due to its fuel line lenders. Without this relief, PREPA would have run out of money. In December 2015, PREPA successfully negotiated with major creditors a Restructuring Support Agreement (as amended or restated from time to time, the "RSA") covering approximately 70% of PREPA's outstanding debt, and extending the period of forbearance. The Revitalization Act then created PREPARC (CRAEE), which has separately sought from this Commission, in Case No. CEPR-AP-2016-0001, a Restructuring Order and proposes to issue Restructuring Bonds that are an essential component of PREPA's debt restructuring.
  - **Implementing a Modern Business Plan.** PREPA has developed a five-year business plan and recovery program that includes significant operational reforms contemplated by the Recovery Act and related to PREPA's governance,

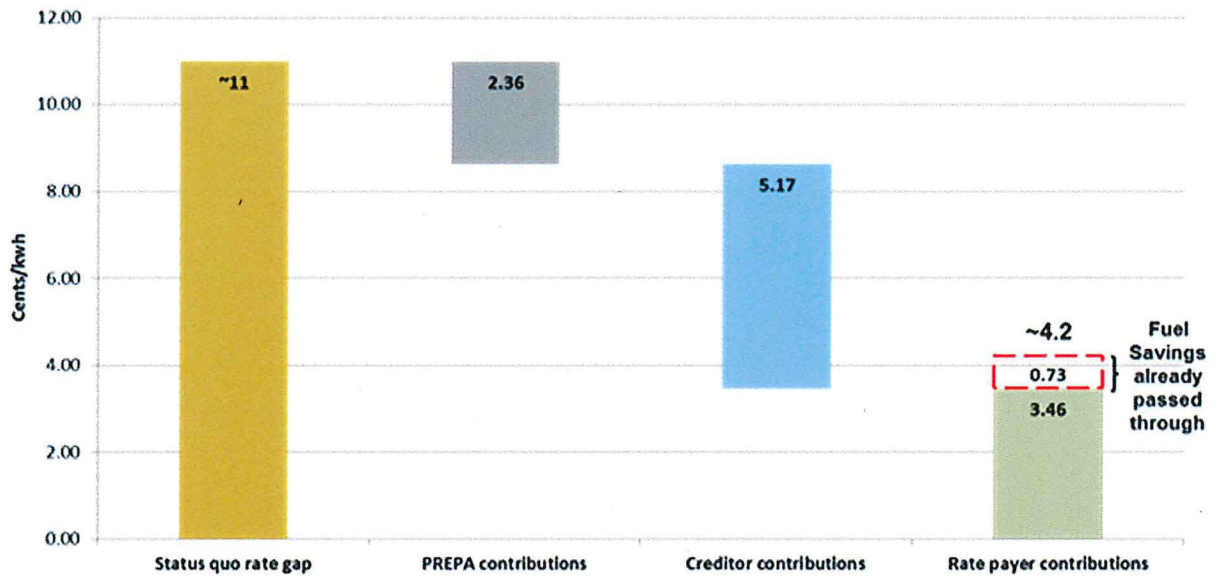
collections and billing processes, and CILT, and it permits PREPA to run a request for proposal (“RFP”) process and evaluate the notion of public-private partnerships for the modernization of its generation fleet and upgrading of its transmission and distribution systems.

This rate proposal will work together with those tools to continue PREPA’s transformation on all fronts.

7. PREPA’s financial restructuring plan and concrete efficiency improvements have already played a major role in mitigating the required rate increase. On the financial front, the proposed securitization, aspects of which are before the Commission in Docket No. CEPR-AP-2016-0001, addresses more than 70% of PREPA’s outstanding debt. It envisions a 15% discount off principal and a five-year principal holiday on debt now reflected in uninsured PREPA’s bonds, as well as a weighted-average interest rate on new securitized debt that is projected to be lower than the weighted-average interest rates on PREPA’s existing bonds. The restructuring of PREPA’s existing debt is expected to yield at least \$725 million of present value savings to PREPA’s Customers. Through its business plan and operational efficiencies, PREPA has achieved \$165 million in one-time cash generation savings and approximately \$200 million in recurring annual savings. Since June 2014, PREPA has reduced head count by more than 1,100 full-time employees (“FTE”), generating annual payroll savings of approximately \$124 million. These efforts narrow the gap between costs and revenues and cut the size of this rate increase by about \$124 million in total. However, as illustrated in the chart below, despite these actions and improvements, a revenue deficiency remains that new rates must bridge. In this chart, the revenue deficiency is expressed in cents per kilowatt hour (“kWh”).



### Projected 2017 PREPA rate deficiency



8. The new rates will support capital investment and maximize efficiency over time. They will enable PREPA to modernize its generation fleet, and thereby reduce long-term costs of supply as well as to comply with federal environmental law; to integrate more renewable energy; to promote cost-effective energy efficiency and demand response; to restore a deteriorated transmission grid that is in need of reconstruction and additions even apart from adding any new generation plants to the fleet; and to take into account the benefits of PREPA's transformation process, including cost savings already achieved or estimated to occur.

9. The proposed temporary rates serve to address PREPA's significant cash flow problems in the interim period before the new "permanent" rates go into effect.

10. The PREPA recovery plan and the RSA reflect an equitable sharing of burdens by all stakeholders, including PREPA's management and employees through labor and operational savings, governments and municipalities through timely payment of energy bills and reform of the CILT system, and PREPA's creditors through creating a sustainable capital structure.

Throughout this process, PREPA has been very clear that its recovery plan is not and cannot be built solely by charging Customers more. It must be an equitable process with shared burdens and shared benefits, and PREPA must itself continue to improve and become more efficient.

11. PREPA proposes new rates that will result in Customers' bills being lower than those Customers paid when fuel prices were higher. Under PREPA's current rates, the overall average charge for electric service including fuel costs is 17.8 cents/kWh. Under the proposed "permanent" PREPA rates, the overall average charge for electric service including fuel costs and the Transition Charges proposed in the securitization proceeding increase by approximately 2.5 cents/kWh or 14% in FY 2017 from FY 2016, based on projections of fuel prices declining in 2017. If fuel prices remain flat in FY 2017 and resemble those prevailing in FY 2016, rates will increase by about 4.2 cents/kWh or 24%. Even with the proposed increase of 2.4 cents/kWh, over the three years between FY 2017 and FY 2019, total average charges would be 3% lower than those prevailing in FY 2014-2016, which averaged 22.6 cents/kWh.

12. The new rates PREPA proposes are just and reasonable and consistent with sound fiscal and operational practices that allow for the provision of reliable service and legal compliance at the lowest reasonable cost. PREPA's new rates reflect the costs of providing the reliable electric utility service that the Commonwealth needs. They also reflect PREPA's efforts to restructure and to improve its operations and lower its costs in the short and long terms. In particular, PREPA proposes to:


- Establish base rates that allow it to meet its obligations to its Customers; meet its annual capital investment requirements, which are essential to service, reliability, and efficiency, until PREPA can regain access to financing at reasonable cost; and

comply with legal mandates; and implement and capture the benefits of the restructuring.

- Establish fixed and other charges on the bill that provide greater rate transparency and stability.
- Separately and transparently state charges that recover the costs of CILT and subsidies, instead of relying on an artificial and inadequate fuel markup.
- Mitigate rate increases that would impact Residential Customers, including especially low income Customers.
- Establish rates that coordinate with Transition Charges supporting PREPA's restructuring and avoid any duplicate or over-recovery of debt costs.

As discussed in more detail below, PREPA also proposes a formula rate mechanism (FRM)<sup>4</sup> that annually updates and reconciles – with regulatory oversight and review by this Commission – certain PREPA's charges to ensure that PREPA neither over- nor under-recovers its actual applicable costs of providing reliable service in a legally compliant manner. Establishing such an FRM is part of the recovery plan set forth in the RSA.

13. PREPA also presents, as required by Section 2.16 of Regulation No. 8720, alternative permanent rates that do not include an FRM. Because an FRM is a requirement of the RSA, PREPA's alternative non-FRM rate proposal presumes that restructuring under the RSA does not proceed. In that circumstance, PREPARC does not issue securitized Restructuring



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<sup>4</sup> As described further herein and in testimony that accompanies this Petition, an FRM is a rate that adjusts the charges for specified classes of electric utility service in accordance with a specified formula, subject to review in accordance with law, and in response to changes in input values, such as the utility's costs of service. The FRM that PREPA proposes also updates and reconciles the resulting charges and revenues annually to ensure that they neither over- nor under-recover PREPA's actual applicable costs of serving its customers. An FRM is authorized by law, as referenced in Section II of this Petition.

Bonds, legal PREPA debt is not thereby defeased, no Transition Charges are collected, and the costs of existing PREPA debt remains as part of the alternative revenue requirement and is recovered through PREPA rates. Without the benefit of creditor concessions amounting to \$600 million, of permanent deleveraging, five year liquidity relief of nearly \$800 million, and additional relief associated with the fuel lines of credit, this alternative proposal would result in significantly higher rates over PREPA's primary rate proposal.

14. Finally, PREPA has immediate revenue needs that cannot be met under existing rates, including needs that will go unmet during the period while PREPA's request for new permanent rates is being considered by the Commission. PREPA, therefore, also requests that the Commission approve interim temporary rates to remain in effect pending the effective date of new "permanent" rates.

15. PREPA respectfully requests, as provided for by the applicable law, that this honorable Commission review this Petition and the materials filed with and attached to it, and approve both the proposed permanent rates and the proposed temporary rates.


## **II. PARTIES, JURISDICTION, AND STRUCTURE OF THIS PETITION**

16. PREPA is a publicly-owned corporation and instrumentality of the Government of the Commonwealth having a legal existence and personality separate and apart from that of the Government of the Commonwealth. PREPA is an electric power generation, transmission, and distribution utility. PREPA (under its predecessor name) was created by virtue of Act No. 83 of May 2, 1941, as amended. PREPA is subject to the control of its Governing Board and to regulation, as and to the extent provided by law, by this honorable Commission.

17. The Commission has jurisdiction over this Petition and the relief requested herein. This Petition is submitted under, and seeks approval of rates pursuant to: (1) Article 6A;

(2) Article 6.25; and (3) in the alternative, as to the proposed temporary rates, under Section 261c. The proposed FRM is consistent with Article 6A(c)'s "periodic adjustments" language. The proposed rates are also consistent with other applicable law, including but not limited to the Commission's Regulation No. 8543 and its Regulation No. 8720, the latter of which also contains provisions regarding FRMs, to the extent that those regulations' provisions are applicable following the enactment of, and consistent with, the RELIEF Act and the Revitalization Act.

18. This Petition and the materials that accompany it comply with all legal requirements applicable to a request by PREPA for the approval of permanent and temporary rates and for all other relief requested herein. The materials supporting this Petition also include documents and data made available to the Commission in advance of, or contemporaneously with, this Petition, as called for the regulations of the Commission, which PREPA incorporates herein.<sup>5</sup> This Petition serves both as: (1) a high level summary of the law pertaining to PREPA's filing and (2) a high level summary of the filing and of how it meets the applicable law. The remainder of this Petition is organized into five major Sections:

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- III. THE NEED FOR NEW PREPA RATES
  - IV. LEGAL STANDARDS AND REQUIREMENTS  
FOR THIS PETITION AND THIS PROCEEDING
  - V. ATTACHMENTS TO THIS PETITION
  - VI. BRIEF SUMMARY OF DIRECT TESTIMONY
  - VII. PRAYER FOR RELIEF

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<sup>5</sup> To avoid confusion in the designation of documents that accompany this Petition: (1) attachments to this Petition as such are designated as "Attachments", except that (2) testimony and documents attached to testimony are referenced as "Exhibits" or "Ex."

### **III. THE NEED FOR NEW PREPA RATES**

#### **A. The Need For Rates That Reflect PREPA's Costs And Capital Needs**

19. PREPA's existing rates were established in 1989. The existing rates do not support the investment needed to modernize generation on the Island, to meet legal requirements including compliance with environmental regulations, or to reduce the expected long term costs of generation and electric supply. PREPA's current rates also do not recover its costs of operating and providing service, including its debt service, and will not cover its costs going forward. The disparity -- referred to as its "revenue deficiency" -- between PREPA's total costs<sup>6</sup> and its "revenue requirement" -- the funds PREPA must recover through its base rates to meet its obligations to its Customers and under the law, and to make the investments required to reduce long-term costs and assure continued service -- amounts annually to many hundreds of millions of dollars, as discussed further below. A revenue shortfall has existed for a number of years.

20. The analysis performed by independent experts, and presented in testimony attached to this Petition, shows that for Fiscal Year 2014 (July 2013 to June 2014) PREPA's applicable costs exceeded its applicable revenues by \$720 million. For Fiscal Year 2015, the estimated figure is \$470 million. For Fiscal Year 2016, the estimated figure is (\$40) million, even taking into account the negotiated forbearance in the payment of debt. For Fiscal Year 2017, the estimated deficiency in the absence of new rates is about \$730 million, as noted earlier, plus another \$146 million associated with funds subject to the Government Development Bank moratorium. This Fiscal Year 2017 revenue deficiency calculation already takes into account the implementation of the agreed upon debt restructuring, including the Transition Charges and the

<sup>6</sup> For purpose of this rate proposal, PREPA's costs are primarily analyzed using a Fiscal Year 2014 (July 2013 through June 2014) "test year" updated for "known and measurable" changes identified and expected to occur through Fiscal Year 2017. Quantifying and analyzing PREPA's costs in this matter is consistent with the regulations of the Commission. Regulation No. 8720, Section 1.08(B)(23).

resulting debt cost savings resulting from the restructuring. If the debt restructuring is not implemented, then the revenue deficiency figures for Fiscal Year 2017 will continue to be significant. PREPA's revenue deficiencies are not sustainable, legally or practically.

21. PREPA's revenue deficiencies prevent PREPA from investing in infrastructure essential to assuring reliability of service, satisfying legal requirements, improving efficiency, and providing a platform to reduce costs further in the future. In particular:

a. PREPA's generation facilities and systems must be maintained, as well as modernized and improved. PREPA relies heavily on burning a large amount of fuel oil to generate electricity, which leads to pollution problems and also can lead to price volatility and inefficiency. PREPA currently is engaged in working with the United States Environmental Protection Agency ("US EPA") to address compliance issues under the US EPA's Mercury and Air Toxics Standards, because some of PREPA's plants do not meet those standards, but PREPA also must comply with other applicable environmental laws. PREPA, moreover, is subject to a statutory Renewable Portfolio Standard setting increasing target levels of use of renewables building up to a 20.00% level in 2035.

b. PREPA's transmission system also must be maintained and improved. Significant portions of the system are need of reconstruction and additions even in the absence of any additions to its generation portfolio that could also require transmission expansion. In its current state, PREPA's transmission system lacks the resiliency to readily accommodate unplanned outages and its configuration and condition makes integration of renewable generation difficult and constrains the ability of generation to operate optimally. Transmission limitations and conditions are also key causes of high forced outage rates, poor efficiency, low reliability, and high costs that are ultimately

borne by PREPA's customers. The deterioration of the system will lead to even worse reliability unless funds become available to maintain and improve PREPA's system.

22. Planning for the future of PREPA's generation, transmission, and distribution systems is the subject of the separate Integrated Resource Plan ("IRP") proceeding pending before the Commission in Docket No. CEPR-AP-2015-0002.

23. PREPA's rates are also insufficient to continue to fund required debt service, at least without further slashing essential operations and investments. PREPA carries a very large debt balance, and the costs of repaying that debt would need to be included in rates to the extent such costs are not be reduced by restructuring. The rates to be approved by the Commission, in brief, among other things, as a matter of law must fully cover PREPA's debt costs. *See* Article 6A(c) and Article 6.25(b).<sup>7</sup> Fortunately, PREPA successfully secured a consensual restructuring with creditors representing over 70% of its debt, and extension of the period of forbearance, as indicated earlier. Upon its consummation, the agreed upon restructuring will significantly reduce the indebtedness of PREPA and thus will reduce the debt costs that must be passed through to customers in its "permanent" rates.

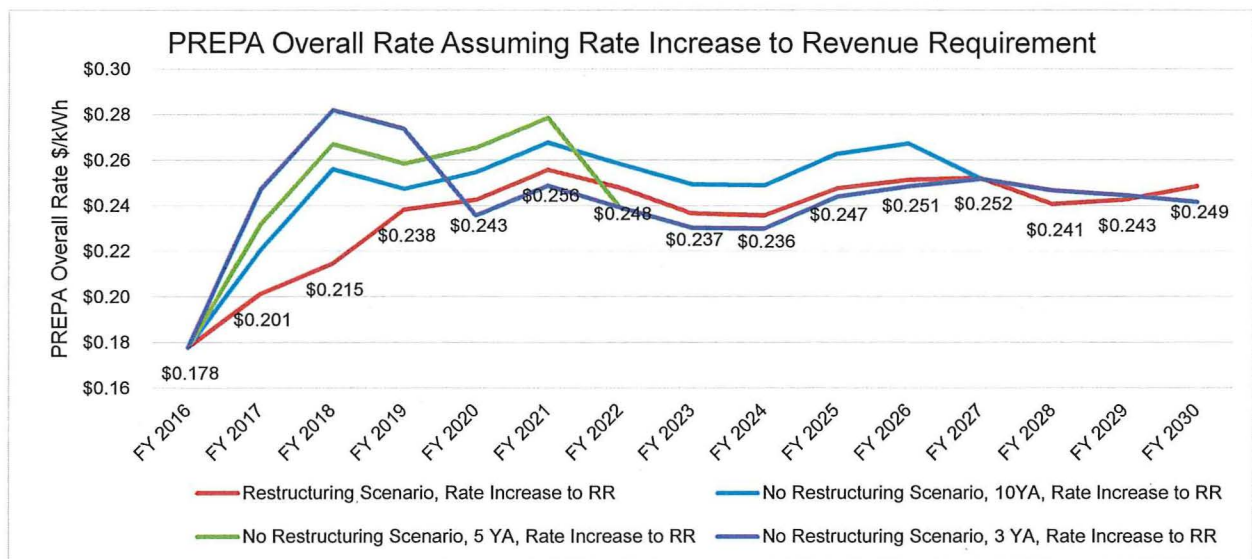
24. PREPA also has significant opportunities to benefit customers that it can only take advantage of if its debt is restructured and new rates are set. For example, addressing developments in natural gas markets and technology, and opportunities relating to renewables, energy efficiency, and demand response allow for the modernization of generation of electricity on the Island, while at the same time providing a platform for reducing the expected long term costs of generation. The process of transforming PREPA already has identified operational cost

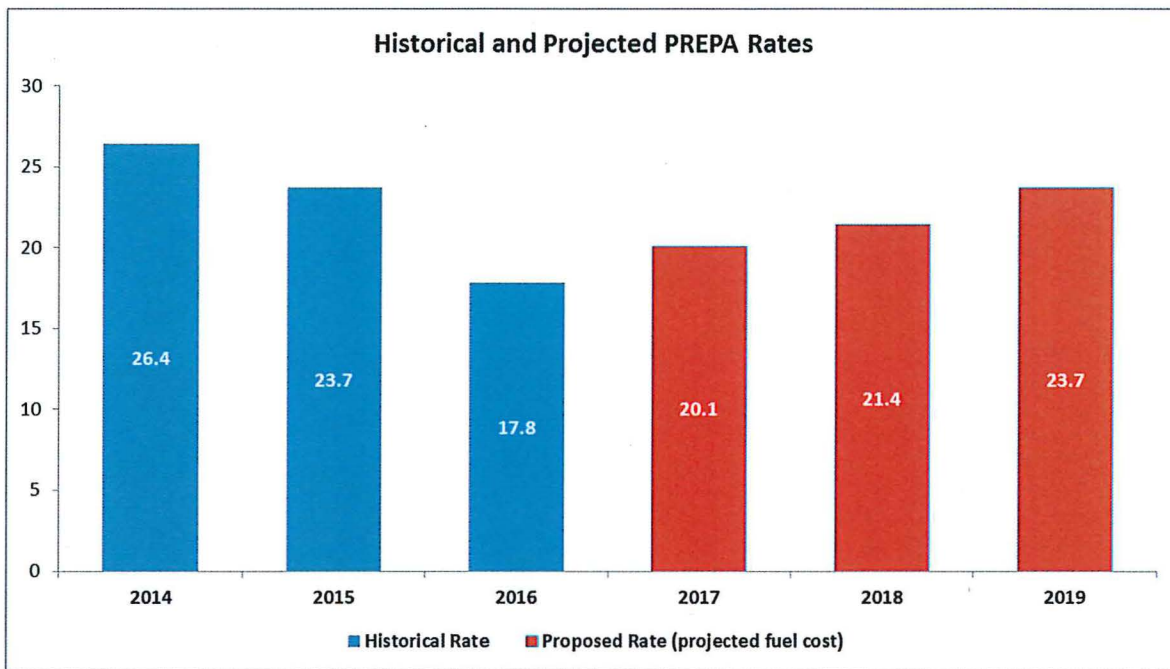
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<sup>7</sup> The legal standards for the permanent rates are discussed further in Section IV(A) of this Petition.

savings that have been achieved or that are estimated. The restructuring of PREPA and investment in modernized system and assets make possible further long-term cost savings that, in turn, can be passed on to Customers. In the absence of adequate rates, those opportunities and cost savings cannot be realized.

25. Balanced against these benefits and requirements, the projected impacts on average charges under the proposed rates are modest given the severity of the situation, and more than offset by expected savings, efficiencies, and reductions in fuel costs. PREPA projects the following overall change in average charges:





26. The difficulties faced by PREPA and its Customers cannot be remedied, and the related opportunities from which they can benefit cannot be achieved, without new electric rates. PREPA thus seeks to put into effect new rates to remain in effect until changed (the “permanent” rates). PREPA proposes that those rates include a formula ratemaking mechanism, as noted above, which is authorized by Article 6A(c) and Regulation No. 8720. In addition, Article 6A(c) provides for rates established in this rate review to remain in effect during three year cycles, subject to periodic adjustments that may be authorized by the Commission. *See also* Article 6.25. Article 6A(d) also provides for modification of rates, including but not limited to modifications made through a rate review process initiated by the Commission when it is in the best interest of customers. *See also* Article 6.25(b) and (c).

27. In addition, setting new rates also allows the Commission to meet other legal requirements for new rates. The Commission must establish a mitigation plan as provided for by Article 6A(c), and PREPA and the Commission must establish a plan to implement a new transparent bill under Article 6A(c) and under Article 6B(c) of Act 83-1941 as amended by

Article 11 of the Revitalization Act. *See also* Article 6.25(b). PREPA's proposals supported by this Petition meet those requirements.

**B. The Need For Formula Rates**

28. PREPA's rate proposal contains an FRM as authorized by law. Specifically, Article 6A(c) provides, among other things, that "[t]he Commission shall approve a rate that ... remains in effect during three (3)-year cycles, *except for periodic adjustments* authorized by the Commission as part of the rate approved, and unless the Commission *motu proprio* decides to conduct a review." (Emphasis supplied.) Section 2.16 of Regulation No. 8720 also contemplates a formula providing that: "PREPA may 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."

29. Consistent with the applicable statute and the Commission's rules, PREPA's proposed FRM would make "periodic adjustments" and call for full rate cases every three years and the filing contains a complete rate case as an alternative to the FRM proposal. Specifically, rates are revised every year to reflect updated cost and usage information, and there is an in-depth examination of the cost components, allocation studies, interclass revenue allocation adjustments and rate design every three years. Thus, in Year 1 and in Year 4 and every third year thereafter, PREPA proposes to file the base case which is the equivalent of a standard case with all of the costs, rate base and financial data required to establish a revenue requirement. This filing also includes a fully allocated cost-of-service study, interclass revenue allocation and individual class rate designs. Using the regulatory review process established by the Revitalization Act, the Commission examines the PREPA filing and rules on the appropriateness of the proposal, which includes the cost categories included, the level of the costs included,

allocations of the costs and the final rates. This becomes a template for updating the rates during the interim – years 2 and 3 – using updated costs. The rate structure for each class remains the same with no change to the interclass revenue allocation during the interim years. However, the rate components are recalculated using updated billing determinants in each interim filing.

30. The FRM also is contemplated under the RSA and the Revitalization Act. The Act indirectly calls for the filing of an FRM through Article 9 of the Act at 6A(c)(ii) that provides that, among other things, that “[t]he Commission shall approve a rate that ... complies with the terms and provisions of the agreements entered into with or in benefit of buyers or holders of any bonds or other financial obligations of the Authority.”

31. The FRM is necessary for PREPA to meet its debt obligations and stay on course in its rebuilding process which over time will bring significant improvements to current processes and customer service. The FRM ties rates more closely to actual costs which is crucial because PREPA has no ability to absorb revenue deficiencies and has no additional borrowing capability. Thus unforeseen revenue deficiencies affect PREPA and its customers harshly. Even minor gaps between costs and revenues can be disruptive to PREPA’s business and ability to provide quality service. The proposed formula mechanism updates the rates to stay commensurate with actual costs allowing PREPA to better absorb the cost volatility that is part of everyday business for a utility.

32. The use of an FRM does not ever put PREPA in a position of over- or under-recover costs as compared to traditional ratemaking. There is no difference from the traditional approach in terms of the components used to calculate the revenue requirement, or the calculation itself. Both approaches build a revenue requirement based on cost of capital plus

overhead and all operating costs. There is no difference in how interclass cost allocation and rate design are determined.

33. The FRM is not only an important part of achieving the beneficial restructuring of PREPA's debt, but it also will have major benefits for Customers as well as PREPA in terms of accuracy in cost recovery, stability, and reducing ratemaking disputes.

**C. The Need For Temporary Rates**

34. PREPA, in addition to seeking new "permanent" rates, also is seeking (1) temporary (provisional) rates under Article 6A(e) and Article 6.25(d) and under Regulation No. 8720, Section 2.02, which would be subject to a later reconciliation in relation to the new permanent rates, as discussed further below; or alternatively (2) the same temporary rates adopted as temporary or emergency rates under Section 261c. PREPA's cash flow situation is difficult and it should be addressed before the new permanent rates become effective. If the instant rate review takes a full 180 days as specified in the statutes, then the new permanent rates might not go into effect until January 2017 at the earliest. See further discussion below.

35. PREPA proposes, consistent with Article 6A(e) and Article 6.25(d), that the temporary rates go into effect no later than 30 days from the Commission's approval of the temporary rates, which should be no later than 30 days from the filing of this Petition, and that the temporary rates should remain in effect until the new "permanent" rates go in effect.

36. Temporary rates are needed to avoid a severe liquidity crisis this summer. As noted above, PREPA has approximately \$9 billion of debt and, on account of that debt, over \$1.1 billion will be due to creditors on July 1, 2016. As of the date of this filing, PREPA has approximately \$530 million in cash, including \$146 million that is held in GDB accounts subject to a moratorium. PREPA has exhausted all of its debt service reserves because it has not been

able to make any monthly sinking fund payments since late 2014. In addition, PREPA faces the need to replenish its self-insurance fund, which helps protect PREPA against unexpected needs, *e.g.*, extraordinary maintenance and repair costs following a hurricane. Neither the Transition Charges nor the proposed permanent rates are designed to address PREPA's serious cash flow problems in the period before the new permanent rates go into effect. PREPA faced a similar severe debt and liquidity crisis in the summer of 2014, which threatened its ability to operate, including its ability to purchase fuel to run its power plants and thus to keep the lights on in Puerto Rico. At that time, PREPA faced maturities of approximately \$735 million in revolving credit lines and \$400 million in principal and interest payments due under its power revenue bonds. PREPA's cash position was extremely low, and oil prices were at unusually high levels. PREPA obtained forbearance agreements from its key creditors that gave it breathing room to work on its debt and liquidity crises. Eventually, the forbearance agreements were extended and became the foundation for the Restructuring Support Agreement (RSA) among PREPA and creditors holding approximately 70% of its outstanding financial debt. The recurrence of a similar situation must be avoided.

37. The proposed temporary rates are a bridge designed to enable PREPA to manage its cash flow issues in the immediate interim period. It goes without saying that PREPA's running out of cash before the restructuring can be implemented would be extremely harmful to PREPA, its Customers, and the entire Commonwealth. A large electric utility cannot operate without a significant amount of cash. Given its financial situation, PREPA no longer has access to capital markets on reasonable terms. PREPA creditors have not agreed to extend financing to allow PREPA to meet its financial obligations in July 2016, and even if they had, PREPA would

still need to increase rates immediately to cover necessary costs, such as maintenance, capital expenditures and other operating expenses.

38. In the alternative, under Section 261c, PREPA may institute temporary or emergency rates, ones that are not subject to advance Commission approval, and that are not subject to reconciliation, under the terms of Act 21-1985 standing alone, unlike temporary rates under Article 6A and Article 6.25. Section 261c does provide, however, for a required report by PREPA (as to a temporary rate) and for a public hearing after the institution of the temporary or emergency rates.

39. If Section 261c were to be used to establish interim rates in this rate review, however, then PREPA, without waiving now or in the future any rights that it may have under Act 21-1985 or other applicable law, rather than unilaterally instituting temporary or emergency rates under Section 261c, is proposing temporary or emergency rates subject to the following: (1) that PREPA's proposal of temporary or emergency rates under Section 261c in this individual instance can be subject to advance review by the Commission parallel to that applicable to temporary rates under Article 6A and Article 6.25; and (2) that the temporary or emergency rates be subject to a reconciliation, but in a form that may be more practical and cost-effective than that applicable to temporary rates under Article 6A(f) and Article 6.25(e).

40. Article 6A(f) and Article 6.25(e) call for a reconciliation of temporary rates against permanent rates, and provide for adjustment of current and former bills based on any "difference" or "discrepancy" between the temporary rates and the permanent rates. PREPA proposes such a reconciliation, but wishes to elaborate on the particular reconciliation process it proposes and anticipates for temporary rates. In particular, if Article 6A(f) and Article 6.25(e) were to be read – which, in PREPA's view, they need not and should not be – to require

simplistically an individual comparison of the unit charges under the two sets of rates for each customer individually, that would enormously problematic and expensive for PREPA and, therefore, also for Customers. Moreover, the Commission's regulations dictate to some degree rate designs for the temporary rates that will necessarily differ significantly from the rate design of the permanent rates. A more practical and fair approach is to, *first*, recognize those factors in developing temporary rates that minimize the need for reconciliation by minimizing differences between the temporary and anticipated permanent rates, and, *second* to adopt a reconciliation method that reconciles the two rates on a Customer and/or rate class basis and applies any resulting refunds or surcharges over time to mitigate any rate or cash flow impact. Regulation No. 8720, Section 2.02, indicates, moreover, that the reconciliation may include upward or downward adjustments if necessary to ensure the temporary rates were just and reasonable. PREPA notes that the statutory provisions also include language regarding former customers. PREPA believes that it would be consistent with that language and fair for the calculations as to former customers to reflect their relative share of customer class revenues / costs.

41. Alternatively, if the Commission nonetheless believes that Article 6A(f) and Article 6.25(e) require some other form of reconciliation, and that that form is impractical or unfair, then the Commission could adopt the temporary rates as temporary or emergency rates under Section 261c, and PREPA voluntarily would agree, in the context of this particular rate review, to an alternative more practical and more cost-effective form of reconciliation.

**D. Incorporation of Other Materials**

42. The remainder of this Petition elaborates on the substance of PREPA's filing. To the extent legally necessary, this Petition incorporates the other components of the filing, including the testimonies and other materials called for by Regulation No. 8720.

#### IV. **LEGAL STANDARDS AND REQUIREMENTS FOR THIS PETITION AND THIS PROCEEDING**

##### A. **Legal Standards For The “Permanent” Rates**

43. Article 6A(C) states in part:

The Commission shall approve a rate that: (i) is sufficient to guarantee payment of principal, interest, reserves and any other requirements of bonds and other financial obligations that have not been defeased as part of the securitization provided in Chapter IV of the Electric Power Authority Revitalization Act, and reasonable costs of providing services of the Authority; (ii) complies with the terms and provisions of the agreements entered into with or in benefit of buyers or holders of any bonds or other financial obligations of the Authority; (iii) covers costs of the contribution in lieu of taxes and other contributions and subsidies required to the Authority under special laws; (iv) remains in effect during three (3)-year cycles, except for periodic adjustments authorized by the Commission as part of the rate approved, and unless the Commission *motu proprio* decides to conduct a review; and (v) takes into consideration the operational and administrative efficiencies and savings provided in the Creditors’ Agreements as reasonably estimated in good faith by the Authority and determined as of the filing date of the proposal to the Commission. As part of every rate proposal, the Authority may propose one or more charges in the rate that show in a transparent manner the amounts to be paid by customers on account of the obligations of the Authority to bondholders and other creditors. Except for the Transition Charge of the securitization structure, which shall be governed by the provisions of Chapter IV of the Electric Power Authority Revitalization Act and Article 6.25A of Act No. 57-2014, the Commission shall review such charges according to the financial obligations of the Authority so that they may be sufficient to guarantee the annual payment of the debts contracted with bondholders.

*See also* Article 6.25(b).<sup>8</sup>

44. Article 6A, Article 6B, and Article 6.25 also contain other specific requirements for the permanent rate. These include requirements, for example, relating to a mitigation plan and a new transparent bill.

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<sup>8</sup> Article 6A and Article 6.25 are lengthy and contain additional language regarding the rates to be approved. PREPA, in quoting any given statutory language, is not necessarily quoting the entire section.

45. General standards for PREPA's rates may be found in Article 6.21 of the RELIEF Act as well as in Article 6A and Article 6.25. In brief, PREPA's rates must be just, reasonable, and nondiscriminatory. The rates must be fair and reasonable and consistent with sound fiscal and operational practices that provide a reliable service at the lowest reasonable costs. These general provisions are subject, of course, to the more specific requirements set forth by Article 6A, Article 6B, and Article 6.25.

46. The Commission, as a preliminary matter, must conduct a review to determine the completeness of PREPA's filing under Article 6A(c).

47. The Commission subsequently must approve rates that meet the applicable legal standards and must do so within the 180 day period specified by the law. The Commission also must publish on its web site an itemization of the rates and changes approved and modified, under Article 6.25(g).

48. PREPA believes that its proposals conform with, and allow the Commission to comply with, all applicable legal standards.

**B. Information And Documents Requested By The Commission**

49. Article 6A(c) and Article 6.25(c) contain similar but not identical language to the effect that PREPA shall submit information requested by the Commission, including but not limited to documents on a list of subjects. PREPA will respond to such requests.

50. The Commission has established Regulation No 8720 to certain aspects of a PREPA rate filing including information to be submitted to the Commission with or in advance

of a rate filing.<sup>9</sup> The stated “Legal Basis” of Regulation No. 8720 is: Articles 6.3 and 6.25 of the RELIEF Act; Article 6B of Act 83-1941 as amended; and Section 2.13 of Act 170-1988, the Uniform Administrative Procedure Act (“Uniform APA”). Regulation No. 8720, § 1.02. The first three statutory provisions in the “Legal Basis” Section were amended, however, by the Revitalization Act. See Article 16 of the Revitalization Act (amending Article 6.3 of the RELIEF Act); Article 6.25; and Articles 10 and 11 of the Revitalization Act (repealing existing Article 6B of the RELIEF Act and replacing it with an amended version of former Article 6C of the RELIEF Act). In addition, Article 6A(b) provides in part that the Uniform APA applies to PREPA’s rates modification and review processes insofar as compatible with the rate modification and review processes in the Revitalization Act. *See also* Article 6.25(d). Regulation No. 8720 does refer to the Revitalization Act in various Sections, but it does not do so in the “Legal Basis” Section. Accordingly, as stated at the beginning of this Petition, PREPA is submitting this Petition pursuant to, among other authorities, Regulation No. 8720, to the extent that this regulation’s provisions are consistent with the RELIEF Act and the Revitalization Act.

51. Section 3.02 of Regulation No. 8720 requires PREPA to submit certain specified documents or categories of documents to the Commission prior to filing this Petition. PREPA has done so.

52. Sections 2.01 and 3.02 of Regulation No. 8720 require PREPA’s formal application for the initial rate review to include the information called for by Article II of the Regulation and the Appendix to the Regulation. Article II’s remaining Sections consist of: (1) a

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<sup>9</sup> On July 24, 2015, Regulation No. 8620 was adopted. However, on March 28, 2016, Regulation No. 8620 was replaced by Regulation No. 8720.

list of required Schedules and required documents, including in some instances work papers (Sections 2.03 through 2.15); (2) a Schedule that is required only if PREPA proposes an FRM, which is the case here (Section 2.16); (3) pre-filed written direct testimony and various requirements regarding same, including in some instances work papers (Section 2.18); (4) a draft public notice and various requirements regarding same (Section 2.18); (5) a provision that the Commission may ask for supplementary information (Section 2.19); and (6) a waiver provision (Section 2.20). PREPA is complying with items (1), (2), (3), and (4). With respect to item (5), PREPA will respond to such requests, if any. The Appendix to Regulation No. 8720 is an index of the Schedules required by item (1). As indicated above, PREPA is complying with item (1).

53. On March 30, 2016, PREPA filed a limited waiver request under Section 2.19 of former Regulation No. 8620; and, on April 12, 2016, the Commission ruled on that request, applying Regulation No. 8720. PREPA's filing reflects the Commission's rulings.

**C. Procedural Schedule**

54. The Commission's First Order on Rate Case Proceeding in this docket, dated May 29, 2015, directed PREPA to attach a proposed procedural schedule to this Petition. In compliance with this requirement, PREPA submits Attachment F to this Petition. As noted above, the law calls for the Commission to resolve the initial rate review within a 180 day period after the Commission determines that the filing is complete.

**D. Legal Standards For Temporary Rates**

55. Article 6A(e) states as follows:

(e) Temporary Rate. - Within thirty (30) days after the filing of rate modification request, the Commission may make, *motu proprio*, or at the request of the Authority, a preliminary evaluation to determine whether a temporary rate should be established. The temporary rate shall be established at the discretion of the Commission. If the Commission

establishes a temporary rate, such rate shall take effect sixty (60) days after the date of approval of the temporary rate, unless the Commission determines, at the request of the Authority, that it should take effect earlier, but never within less than thirty (30) days after the approval of the temporary rate. Said temporary rate shall remain in effect during the period of time needed by the Commission to evaluate the rate modification request proposed by the Authority and issue a final order thereon, and up to the date on which the new bill is implemented, which shall not exceed sixty (60) days after the approval of the rate, unless the Commission extends such term for just cause.

56. Article 6A(f) states in part as follows:

Upon issuing any order after the rate review process, the Commission shall order the Authority to adjust customer's bills to credit or charge any difference between the temporary rate established by the Commission and the new rate approved as a result of the rate review process. In the event a person ceases to be a customer during the effective term of the temporary rate, the Authority shall be required to issue a refund and shall be entitled to recover any difference between the temporary rate established by the Commission and the new rate approved as a result of the rate review process.

57. Article 6.25(d) states as follows:

(d) Temporary Rate. - Within thirty (30) days after the filing of the rate modification request, the Commission may make, *motu proprio*, or at the request of the Authority or requesting certified company, a preliminary evaluation to determine whether a temporary rate should be established. The Commission shall exercise its discretion in establishing the temporary rate, unless the Authority or requesting certified company contests the establishment of the temporary rate or the amount thereof, in which case the Commission shall decide whether it shall revise the amount of the temporary rate or desist from establishing the same. If the Commission establishes a temporary rate, such rate shall take effect sixty (60) days after the date of approval of the temporary rate, unless the Commission determines, at the request of the Authority, that the temporary rate should take effect earlier, but never within less than thirty (30) days after the approval of the temporary rate. Said temporary rate shall remain in effect during the period of time needed by the Commission to evaluate the rate modification request proposed by the Authority or the requesting certified company and up to the date on which the new bill is implemented, which shall not exceed sixty (60) days after the approval thereof.

58. Article 6.25(e) states in part as follows:

Upon issuing a final order after the rate review process, the Commission shall direct the Authority to adjust the customers' bills so as to credit or charge any discrepancy between the temporary rate established by the Commission and the rate approved by the Commission.

59. In addition, Section 2.02 of Regulation No. 8720 establishes a number of requirements for temporary rates. In brief: (1) Section 2.02(A) establishes a simple rate design for the temporary rates; (2) Section 2.02(B) requires PREPA to demonstrate how the temporary rates collect the new revenue requirement; (3) Section 2.02(C) requires a reconciliation mechanism; (4) Section 2.02(D) requires that if PREPA is requesting that the temporary rates go into effect before 60 days from the Commission's approval, then PREPA must propose a specific date within the allowable period; and (5) Section 2.02(F) requires testimony and exhibits supporting the need for the temporary rates (and the testimony must be separate from, but may reference, the testimony supporting the request for new permanent rates). Section 2.02 also contains three additional paragraphs relating to Commission proceedings regarding the temporary rates request, reconciliation, and public notices and notices in bills.

**E. Legal Standards For Temporary Or Emergency Rates Under Section 261c**

60. Section 261c states as follows:

Temporary or emergency rates may only be adopted for a period of one hundred and eighty (180) days, or while the circumstances which motivated the emergency prevail, and, in any case, they shall be in accordance with the procedures provided hereinbelow:

(a) When the change in rates is temporary or due to an emergency, a notice shall be issued to the public through the communications media before the rates become effective, apprising of the change or modifications in rates, and explaining, in general terms, the reasons or emergency situation for such determination.

(b) In every case that a temporary raise is decreed, the instrumentality involved shall issue a detailed report explaining the grounds or circumstances which brought about said decision. Said report shall be made available to the public in an accessible place no later than ten (10)

days before the date set for the beginning of the public hearings that shall be held pursuant to this chapter.

(c) When a temporary or emergency raise is decreed, public hearings will be held to consider said raise or change, within thirty (30) days following the effective date thereof. If the public hearings do not begin within the indicated term, the temporary or emergency raise shall not be effective nor valid. In these cases, the notice of public hearings, the holding of the hearings and the decision of the examining official shall be ruled by the provisions established in § 261b of this title.

*See also 27 L.P.R.A § 261b.*

61. As noted earlier, temporary or emergency rates under Section 261c, standing alone, are not subject to advance Commission review or to a reconciliation like that required for temporary rates under Article 6A and Article 6.25, although a report and a public hearing are required. Without waiving now or in the future any rights that PREPA may have under Act 21-1985 or other applicable law, notwithstanding the provisions of Section 261c, PREPA is proposing advance Commission review of its proposed temporary rates and is proposing a reconciliation.

## **V. ATTACHMENTS TO THIS PETITION**

62. This Petition is supported by an attached Verification.

63. PREPA has attached hereto its direct testimony and the exhibits attached thereto, consistent with the statutory requirements and Sections 2.16 and 2.17(D) of Regulation No. 8720. The testimony and exhibits, and the required notarizations, collectively are attached as Attachments A and B to this Petition. The testimony and exhibits are divided between (1) those supporting the request for new permanent rates (Attachment A); and (2) those supporting the request for temporary rates (Attachment B), although the latter in part references the former, in accordance with Section 2.02 of Regulation No. 8720.



64. PREPA has attached hereto the Schedules and other materials required by Article II of Regulation No. 8720. Those materials are attached as Attachment C to this Petition.<sup>10</sup>

65. Work papers for Schedules and direct testimony are referenced in certain Sections in Article II of Regulation No. 8720. PREPA also has attached hereto work papers for the Schedules and the direct testimony and exhibits, when applicable, as Attachment D to this Petition.

66. PREPA has attached the required draft form of public notice (under Section 2.18 of Regulation No. 8720) as Attachment E to this Petition.

67. PREPA has attached a proposed procedural schedule (as per the First Order on Rate Case Proceeding in this docket, dated May 29, 2015) as Attachment F to this Petition.

68. Attachment G to the Petition is an index that is described below.

## **VI. SUMMARY OF DIRECT TESTIMONY**

69. The following witnesses provide direct testimony in support of PREPA's requests for a new permanent rate and for a temporary rate and/or a temporary or emergency rate. Their testimony is very briefly summarized here. Attachment G to the Petition identifies the Schedules described in in Article II of Regulation No. 8720 that are being supported by the listed witnesses.

### **A. Testimony Supporting Request For New "Permanent" Rates**

70. **Javier Quintana-Méndez, P.E.**, Executive Director of PREPA, PREPA Ex. 1.0.


This testimony describes PREPA's function, mission and vision; overviews at a high level

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<sup>10</sup> Section 3.02 of Regulation No. 8720 provides that PREPA should provide items called for by Sections 2.03 through 2.18 even if PREPA previously has provided them to the Commission. PREPA is complying with this requirement.

PREPA's business plan and the ongoing program to improve PREPA's operations, including cost savings; presents a high level overview of PREPA's filing and the need for new rates, including identifying major cost drivers, in particular the need to fund modernization requirements in order to meet applicable legal requirements; and summarizes the testimony of the other witnesses. Finally, this testimony confirms PREPA's compliance with various formal and legal requirements relating to the filing.

71. **Lisa J. Donahue**, Managing Director, AlixPartners, LLP ("AlixPartners"), and Chief Restructuring Officer, PREPA, PREPA Ex. 2.0. This testimony discusses PREPA's financial situation, and how this rate review relates to the efforts to restructure PREPA's debt. This testimony also describes at a high level PREPA's business plan and the existing and ongoing efforts to reform PREPA and improve its operations, including development of the plan and operational cost savings achieved and operational cost savings that have been estimated. This testimony also presents information to address the subject matter of Section 2.17(C) of Regulation No. 8720 and explains the bases of this analysis and its necessary limitations in this rate proceeding.



72. **Sonia Miranda Vega**, Director, Planning and Environmental, PREPA, and **Antonio Perez Sales**, and **Virgilio Sosa**, Directors, AlixPartners, PREPA Ex. 3.0. This panel testimony in more detail presents and supports PREPA's business plan. The testimony discusses the development and nature of the plan, major components, cost savings, the merits (benefits) of the plan, why the plan is consistent with the proposed IRP, and why the plan is consistent with the proposed debt restructuring, and also addresses how these subjects relate to PREPA's revenue requirement.

73. **Ralph Zarumba**, Director, Navigant Consulting, Inc. (“Navigant”), and **Eugene Granovsky**, Managing Consultant, Navigant, PREPA Ex. 4.0. This panel testimony provides an overview of the permanent and temporary rate requests and presents and supports the proposed rate structure (design) for each set of rates. This testimony also discusses rate impacts (including the effects of renewable energy resources) and rate mitigation, and sponsors the proposed tariffs.

74. **Francis X. Pampush**, Director, Navigant Economics, Inc.; **Lucas Porter**, Managing Consultant, Navigant; **Dan T. Stathos**, Associate Director, Navigant, PREPA Ex. 5.0. This panel testimony addresses and supports PREPA’s revenue requirement (cost of providing its applicable services), both with the proposed debt restructuring and also in the scenario of the restructuring not being accomplished. This testimony addresses Fiscal Year 2014 (test year) costs and adjustments for known and measureable changes through FY 2017. This testimony also explains assumptions relating to the debt restructuring and the Transition Charges and Adjustment mechanism that are reflected in the revenue requirement. This testimony includes discussion of a long-run financial analysis of PREPA.

75. **Lawrence Kaufmann**, Ph.D., Senior Advisor, Navigant, PREPA Ex. 6.0. This testimony provides a benchmarking analysis that compares PREPA’s costs with those of other relevant utilities. This testimony also is pertinent to the subject matter of Regulation No. 8720, Section 2.17 (C).

76. **Ross C. Hemphill**, Ph.D., Senior Advisor, Navigant, PREPA Ex. 7.0. This testimony discusses and supports PREPA’s proposed FRM, explaining why the mechanism meets the needs of PREPA, protects customers, and meshes with the IRP process.

77. **Ralph Zarumba** and **Eugene Granovsky**, PREPA Ex. 8.0. This panel testimony presents and supports the allocated cost of service study, also known as an embedded cost of

service study, regarding PREPA's costs and their causation. The study provides data regarding cost allocation under both revenue requirement calculations presented in PREPA Ex. 5.0, *i.e.*, with and without the debt restructuring.

78. **Ralph Zarumba**, PREPA Ex. 9.0. This testimony presents a marginal cost of service study regarding PREPA's costs and their causation.

**B. Testimony Supporting Request For Temporary Rates**

79. **Lisa J. Donahue**, PREPA Ex. 10.0. This testimony describes PREPA's need for temporary rates and, in particular, the liquidity (cash flow) crisis that will impact PREPA without such temporary rates. This testimony also incorporates portions of PREPA Ex. 2.0.

80. **Dan T. Stathos**, PREPA Ex. 11.0. This testimony supports the calculation of the revenue requirement and revenue deficiency that underlie the temporary rates, which are the same revenue requirement and revenue deficiency that underlie the proposed "permanent" rates, and in doing so incorporates the applicable portions of PREPA Ex. 4.0 and the other testimony supporting the revenue requirement and revenue deficiency.

81. **Ralph Zarumba**, PREPA Ex. 12.0. This testimony presents and supports the proposed rate structure for the proposed temporary rates, including but not limited to the rate design and the reconciliation, and in doing so incorporates the applicable portions of PREPA Ex. 4.0.

**VII. PRAYER FOR RELIEF**

WHEREFORE, the Puerto Rico Electric Power Authority respectfully requests that this honorable Commission: (1) accept this Petition and, after following the processes required by law, establish the permanent rates and FRM proposed by PREPA; (2) in the interim, approve the temporary rates proposed by PREPA and/or alternatively approve the temporary or emergency rates proposed by PREPA; and (3) grant such other and further relief as is lawful and appropriate.

RESPECTFULLY SUBMITTED,

IN SAN JUAN, PUERTO RICO, THIS 27th DAY OF MAY, 2016

**PUERTO RICO ELECTRIC POWER AUTHORITY**

*me*  
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General Counsel  
Carlos M. Aquino Ramos  
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\*Admitted by Courtesy by the Supreme Court

By: 

### VERIFICATION

I, Javier Quintana-Méndez, of legal age, engineer and executive, married, and resident of Guaynabo, Puerto Rico, in my capacity of Executive Director of the Puerto Rico Electric Power Authority ("PREPA"), under oath declare as follows:

1. My name and personal circumstances are those states above.
2. I have reviewed the foregoing Verified Petition for Approval of (1) "Permanent" Rates and (2) Temporary Rates ("Petition").
3. In my capacity as Executive Director of PREPA, I have been duly authorized to provide this Verification in support of the Petition.
4. The information included in the Petition is true on the basis of my personal knowledge or on the basis of the information supplied to me by employees of PREPA and, with respect to legal points, by counsel for PREPA. I note that the Petition references the testimony of various witnesses. Those witnesses are responsible for the verification of their respective testimony under Section 2.17(D) of Regulation No. 8720.

In San Juan, Puerto Rico, this 26 day of May, 2016.

  
Javier Quintana-Méndez

Affidavit: 3,580

Sworn and subscribed before me by Javier Quintana-Méndez, of the personal circumstances above mentioned, whom I personally know, in San Juan, Puerto Rico, this 26 day of May, 2016.

  
Public Notary



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