

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

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

NO. CEPR-AP-2015-0001

SUBJECT: MOTION FOR LEAVE
TO FILE REVISED TESTIMONY

PREPA’S VERIFIED MOTION FOR LEAVE TO FILE REVISED TESTIMONY

TO THE HONORABLE PUERTO RICO ENERGY COMMISSION:

COMES NOW the Puerto Rico Electric Power Authority (“PREPA”) and requests that the Puerto Rico Energy Commission’s (the “Commission”) accept for filing the revised direct testimony of Mr. Ralph Zarumba, PREPA Exhibit (“Ex.”) 12.0 Rev. In support of this Motion, PREPA states:

1. On May 27, 2016, PREPA filed its Petition and supporting materials seeking review and approval of temporary¹ and revised permanent rates.

2. Attachment B to PREPA’s Petition includes as PREPA Ex. 12.0 narrative testimony of Mr. Ralph Zarumba addressing the manner in which the revenue requirement for PREPA’s proposed temporary rates should be converted to percentage increases in particular charges. Specifically, Mr. Zarumba in PREPA Ex. 12.0 discusses the calculation of temporary rates under two scenarios – (1) the application of a uniform percentage change in base rates across all customer classes and (2) the application of a specific percentage change in base rates for each customer class – and ultimately proposes that the Commission approve the

¹ The official English translation of the PREPA Revitalization Act, Act No. 4-2016, uses the term “temporary” rates, while the Commission’s Regulation No. 8720 uses the term “provisional” rates.

implementation of temporary rates under the second scenario. Zarumba Dir., PREPA Ex. 12.0, 3:54 – 5:109.

3. PREPA is also aware that the proposed temporary rate design could be affected by the requirements of Section 3.9 of Act No. 22-2016, which addresses revisions to certain “fixed block” rates applicable to certain Customers who are residents of public housing. The proposed revision to PREPA Ex. 12.0 makes explicit how PREPA would propose to establish temporary rates without altering the charges applicable to those fixed blocks and provides the Commission with additional data concerning the other residential charges. This information will be helpful to the Commission, and its acceptance will not prejudice the Commission or the rights of any other party.

4. Attachment A hereto is a “redlined” copy of PREPA Ex. 12.0 Rev. showing the proposed changes. Attached hereto as Attachment B is a “clean” copy of that testimony, as revised and attested to by Mr. Zarumba.

WHEREFORE, the Puerto Rico Electric Power Authority respectfully requests that the Commission grant this Motion and accept PREPA’s Attachment B (PREPA Ex. 12.0 Rev.) as a replacement for the original PREPA Ex. 12.0.

WE HEREBY CERTIFY that the foregoing Motion and attachments were sent via email to the Commission’s legal counsel, Lcdo. Alejandro J. Figueroa Ramírez, at the following addresses: legal@energia.pr.gov and afigueroa@energia.pr.gov.

RESPECTFULLY SUBMITTED,

IN SAN JUAN, PUERTO RICO, THIS 24th DAY OF JUNE, 2016

PUERTO RICO ELECTRIC POWER AUTHORITY

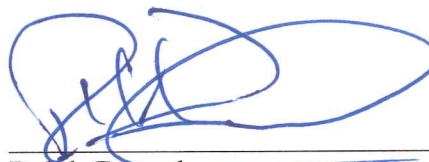
Nelida Ayala Jimenez
TSPR No. 10896
General Counsel
Puerto Rico Electric Power Authority
P.O. Box 363928
San Juan, Puerto Rico 00936-3928
Tel. 787-521-4431; 787-521-4433
Email: n-ayala@aepr.com

VERIFICATION

I, Ralph Zarumba, of legal age, and resident of Evanston, Illinois, in my capacity of Director, Navigant Consulting, Inc., under oath declare as follows:

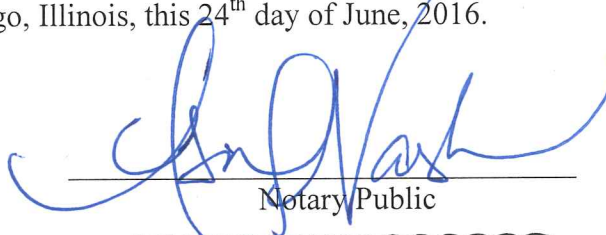
1. My name and personal circumstances are those stated above.
2. I have reviewed PREPA's above Motion.
3. In my capacity as Director, Navigant Consulting, Inc., I have been duly authorized to provide this Verification in support of the Motion.
4. The information included in the Motion is true on the basis of my personal knowledge or on the basis of the information supplied to me by employees of PREPA and other advisors to PREPA.

June 24, 2016.



Ralph Zarumba

Sworn and subscribed before me by Ralph Zarumba, of the personal circumstances above mentioned, whom I personally know, in Chicago, Illinois, this 24th day of June, 2016.



Notary Public



ASHLEY NASH
OFFICIAL SEAL
Notary Public, State of Illinois
My Commission Expires
February 28, 2018

Attachment A

COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION

IN RE: THE PUERTO RICO ELECTRIC
POWER AUTHORITY

INITIAL RATE REVIEW

No. CEPR-AP-2015-0001

SUBJECT: TESTIMONY IN SUPPORT
OF TEMPORARY RATES

Direct Testimony of

RALPH ZARUMBA

Director, Navigant Consulting, Inc.

On behalf of the

Puerto Rico Electric Power Authority

May 27, 2016

[Revised June 23, 2016](#)

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I. INTRODUCTION

A. Witness Identification

Q. Please state your name, title, employer, and business address.

A. I am Ralph Zarumba and I am a Director at Navigant Consulting, Inc. (“Navigant”), a global business and advisory firm. My business address is 30 S. Wacker Drive, Suite 3100, Chicago, Illinois 60606.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Puerto Rico Electric Power Authority (“PREPA”), a publicly-owned (public power) electric utility and instrumentality of the Government of the Commonwealth of Puerto Rico (the “Commonwealth”).

B. Summary of Testimony

Q. What is the purpose of your testimony?

A. I am testifying in support of PREPA’s Petition requesting that the Puerto Rico Energy Commission (the “Commission”) approve and establish new rates for PREPA. More specifically, my testimony presents and supports PREPA’s proposed Temporary Rates.¹

II. TEMPORARY RATES

Q. Please describe the proposed Temporary Rates.

A. The testimony of Ms. Donahue, Managing Director of AlixPartners, LLP, and the Chief Restructuring Officer of PREPA, PREPA Exhibit (“Ex.”) 10.0, describes the challenging

¹ These temporary rates also sometimes are referred to as “provisional” rates, as in the Commission’s Regulation No. 8720, Section 2.02.

financial conditions faced by PREPA, and in particular its current and imminent liquidity (cash flow) issues. The proposed temporary rates are based on the revenue requirements and revenue deficiency calculated for purposes of establishing new “permanent” rates, as is addressed in the direct testimony of Mr. Stathos, also from Navigant, PREPA Ex. 11.0. Thus, the temporary rates, in terms of their underlying revenue requirements and revenue deficiency, are supported by the same information and materials that PREPA has submitted in support of the “permanent” rates. In order to maintain the operations of the utility until an order is issued in this proceeding and new “permanent” rates go into effect, however, which likely will be late in 2016, the company seeks temporary rates to address the concerns discussed by Ms. Donahue.

Q. Should the Commission adopt for purposes of establishing temporary rates the same tariffs that are proposed in this proceeding for the “permanent” rates?

A. No, while that is a theoretical possibility, that would not be the best approach. While the tariffs proposed by PREPA in this proceeding are equitable and cost justified, based on the testimony of the various witnesses, it is not the best course for the Commission to adopt those tariffs for purposes of establishing temporary rates for, among others, the following reasons:

1. In the tariffs, a significant number of changes are made in the fuel and purchased power cost adjustments. See PREPA Ex. 4.0. Among other things, baseline amounts of these costs are incorporated in base rates, and, moreover, subsidies that were previously captured in these tariffs have been unbundled into separate components to be recovered outside of those mechanisms. Those are significant

changes. I anticipate that the Commission will need to fully understand and rule on those changes before they are implemented, even on a temporary basis.

2. The proposed tariffs require a number of changes in the code of PREPA's billing system, which I understand will require several months to complete. That makes those proposed changes in the "permanent" rates unavailable, as a practical matter, for temporary rates.
3. PREPA anticipates that the temporary rates, if approved, will be ordered subject to reconciliation and refund or surcharges. Therefore, the structure of the tariffs in which the temporary rates will be applied should be an "add-on" to the existing tariff structure.
4. My current understanding is that this "add-on" structure can be implemented more rapidly in PREPA's systems.

Q. Has the Commission provided guidance on the how the temporary rate should be implemented?

A.

Yes. On May 11, 2016, the Energy Commission issued a Resolution and Order in response to PREPA's Second Request for Waiver and / or Clarification of Regulation No. 8720. That order stated in part:

If proposing the establishment of Provisional Rates, PREPA shall provide for the Commission's consideration at least two (2) alternatives for the implementation of Provisional Rates. The first alternative must contemplate the application of a uniform percentage change in base rates across all customer classes. The second alternative shall contemplate the application of a specific percentage change in base rates for each customer class, provided that said percentage change must be applied uniformly within each class. All alternatives must be accompanied by a thorough explanation detailing its implementation, administration and impact on existing base-rates, along with any other information required by Section

2.02 of Regulation 8720 and any other information appropriate for the Commission to determine whether or not to establish Provisional Rates.

Q. What would be the percentage increase applied to base rates if a uniform percentage increase were ordered by the Commission?

A. The uniform percentage increase would be 20.7%, which is detailed in the table set forth later in my testimony.

Q. What is your recommended approach for the design of the temporary rates?

A. I do not recommend the uniform percentage increase as the best method. The preferable approach, in my opinion, is as follows:

1. Percentage increases to the existing base rates of PREPA have been developed by class of service (e.g., residential, commercial, and industrial). The percentage increases are listed in the table below.
2. The percentage increases by class of service have been adopted in the proposal based upon the base rate increase requested by PREPA, and the proposed allocation of the base rate increase. Note that the allocation of the rate increase has been significantly mitigated in the proposed base rates from a 100% embedded cost allocation, and therefore they reflect smaller increases for tariff classes, such as residential, than otherwise would be applicable with costs shifted to the commercial and industrial customer classes.
3. The percentage [temporary](#) increases for each tariff class will be applied, [equally within each class](#), to all components of base rates ~~equally within each class~~ [that can lawfully be adjusted at this time](#). For example, the existing base rate elements

of Tariff GRS include a fixed monthly charge, a charge for the first 425 kWh energy block and a charge for energy usage in excess of 425 kWh. All tariff elements in that class will be increased by the same overall base rate percentage ~~of 27.7%.~~ The table below provides, as an example, the existing Tariff GRS charges and the proposed Tariff GRS capturing the proposed temporary increases.

4. Given that the OEPPE has not yet completed and published the study referred to in Section 3.9(b)(4) of Law 22-2016, we believe that temporary rates can best be implemented within the Residential Class by holding constant the flat charges in Rates RFR 105, 106, and 107 for kWh use within the “maximum consumption” levels specified while increasing all other residential base charges by an equal percentage. This would result in a percentage increase in those other residential unit charges only slightly higher than the overall percentage increase in the residential revenue requirement. While I am not a lawyer, I believe this approach is consistent with Revitalization Act and Law 22 and the Commission’s regulations, and is just and reasonable. I also note that if OEPPE does publish the study referred to in Section 3.9 of Law 22 while this case remains pending, the Commission can take that study into account in setting new permanent rates to which the temporary rate will ultimately be reconciled.

A. Q. **Have you prepared estimates of the requested percentage increases to base rates requested by PREPA that would be used in establishing the temporary rates?**

Yes. The ~~table~~tables below ~~provides~~provide the percentage increase, by tariff class, which PREPA proposes ~~to~~ be applied to each unfrozen component of base rates for

purposes of the temporary rates. [It also quantifies the very minor impact on other residential charges of holding constant the rate elements fixed block rate elements of Rates RFR 105, 106, and 107.](#)

Description	Residential	Commercial	Industrial	Other Public Authorities	Agriculture	Public Lighting	Total
Proposed Revenues	\$ 1,196,542,850	\$ 1,696,416,924	\$ 410,395,047	\$ 5,681,514	\$ 5,377,623	\$ 148,360,436	\$ 3,462,774,395
Less Existing Revenues	\$ 941,044,877	\$ 1,381,638,286	\$ 321,820,878	\$ 4,372,707	\$ 4,350,054	\$ 83,446,944	\$ 2,732,815,143
Less Transition Increase	\$ 180,034,106	\$ 243,286,531	\$ 69,920,305	\$ 981,047	\$ 770,236	\$ 8,272,012	\$ 503,264,236
Necessary Increase - Provisional Rate - \$	\$ 89,442,098	\$ 62,236,612	\$ 14,496,588	\$ 196,971	\$ 195,950	\$ 55,688,572	\$ 222,256,790
Provisional Rate as % of Existing Reve	9.5%	4.5%	4.5%	4.5%	4.5%	66.7%	8.1%
Existing Base Rate Revenues	\$ 323,359,623	\$ 582,996,554	\$ 112,059,739	\$ 1,519,456	\$ 1,710,490	\$ 53,677,066	\$ 1,075,322,929
Provisional Rate as % of Base Revenue	27.7%	10.7%	12.9%	13.0%	11.5%	103.7%	20.7%
Sales (kWh)	6,177,445,685	8,347,803,435	2,399,150,327	33,662,320	26,428,846	283,834,568	17,268,325,180
Provisional Rate as \$/kWh	0.0145	0.0075	0.0060	0.0059	0.0074	0.1962	0.0129

Description	Residential	Commercial	Industrial	Other Public Authorities	Agriculture	Public Lighting	Total
Proposed Revenues	\$ 1,210,574,978	\$ 1,687,240,561	\$ 406,256,203	\$ 5,550,976	\$ 5,316,490	\$ 147,255,564	\$ 3,462,194,772
Less Existing Revenues	\$ 941,044,877	\$ 1,381,638,286	\$ 321,820,878	\$ 4,372,707	\$ 4,350,054	\$ 83,446,944	\$ 2,736,673,745
Less Transition Increase	\$ 180,034,106	\$ 243,286,531	\$ 69,920,305	\$ 981,047	\$ 770,236	\$ 8,272,012	\$ 503,264,236
Necessary Increase - Provisional Rate - \$	\$ 89,495,996	\$ 62,315,745	\$ 14,515,020	\$ 197,221	\$ 196,200	\$ 55,536,609	\$ 222,256,790
Existing Base Rate Revenues	\$ 336,883,759	\$ 575,362,352	\$ 108,374,490	\$ 1,398,357	\$ 1,655,564	\$ 54,712,428	\$ 1,078,386,949
Provisional Rate as % of Existing Revenues	9.5%	4.5%	4.5%	4.5%	4.5%	66.6%	8.1%
Provisional Rate as % of Base Revenues	26.6%	10.8%	13.4%	14.1%	11.9%	101.5%	20.6%
Sales (kWh)	6,177,445,685	8,347,803,435	2,399,150,327	33,662,320	26,428,846	283,834,568	17,268,325,180
Provisional Rate as \$/kWh	0.01449	0.00746	0.00605	0.00586	0.00742	0.19567	0.01287

Filing requires provisional rate to be a % of Base Rates. \$/kWh is shown for demonstration purposes.

Description	RFR 105	RFR 106	RFR 107	Total
Customer-Months	73,112	370,706	39,443	483,261
First Block kWh	21,553,402	179,178,589	26,339,732	227,071,723
Existing Charge	\$ 30.00	\$ 40.00	\$ 50.00	
Intended Increase (\$/customer)	\$ 7.97	\$ 10.63	\$ 13.28	
Intended Increase (\$)	\$ 582,682	\$ 3,939,250	\$ 523,923	\$ 5,045,855
Additional Increase Necessary from Other Residential Customers as % of Existing Revenues				0.5%
Additional Increase Necessary from Other Residential Customers as % of Base Revenues				1.5%

Description	Residential	Commercial	Industrial	Other Public Authorities	Agriculture	Public Lighting
Provisional Rate as % of Base Revenues, excl. RFR First Block Charge	28.1%	10.8%	13.4%	14.1%	11.9%	101.5%

Q. Is this approach consistent with your understanding of the parameters indicated by the Commission for temporary rates?

A. Yes. I am not an attorney, but I am aware both (1) that the Commission's rules (Regulation No. 8720, Section 2.02) address the subject of how to implement temporary rates, in terms of the rate design; and also (2) that, in response to a motion filed by PREPA, the Commission issued the Resolution and Order on this subject on May

11, 2016, that I quoted above. PREPA's proposal meets with what I understand to be the "second alternative" as described in that order.

Q. Is using a uniform across the board percentage increase for all tariff classes a possible approach?

A. Yes, but it also is a significantly inferior approach to what PREPA is proposing. The Commission's May 11th order refers to a single across the board increase as the "first alternative." PREPA considered such an approach, but it is problematic for a number of practical and policy reasons. For example, it would result in rates that deviate greatly from PREPA's proposed base rates, which would be problematic for customers as well as PREPA. The problem would be even worse when it is considered that there later must be a reconciliation of the temporary rates. The single, across-the-board increase likely would result in much larger changes at the reconciliation stage than are necessary or useful. The reconciliation would be complicated, expensive, and difficult to administer, and likely would involve extensive surcharges to some customers and extensive refunds to others. If temporary rates are to be adopted, then the approach proposed by PREPA is the best alternative for customers as well as the utility.

Q. You have referred to the need to reconcile temporary rates. What is PREPA proposing with respect to reconciliation?

A. Again, I am not a lawyer. My understanding is that, if temporary rates are adopted under the approach established by Act 57, as amended by Act 4-2016, then the temporary rates will need to be reconciled, but that the statutes provide little detail on the nature of that reconciliation. The Commission's regulation also addresses the subject, but it also does

not establish all the details, and further, it provides for adjustments to ensure that the temporary rates were just and reasonable. PREPA accordingly proposes:

- a) reconciliation of the temporary rates versus the permanent rates in a manner that is overall just and reasonable, including adjustments if needed to achieve that purpose;
- b) refunds, if any, to be made in the form of bill credits, at least as to current customers (this would avoid PREPA and customers each having to make payments to the other at the same time, which is burdensome and inefficient, and could exacerbate PREPA's liquidity problems);
- c) refunds or surcharges to be credited or billed, in PREPA's discretion, but subject to Commission approval, over an up to 12 month period (reflecting that the temporary rates will be in effect over a period of several months and allowing for suitable management of the case flows); and
- d) as to former customers, calculation on a ratable customer class basis, without individualized research and back-billing (to avoid difficult and expensive administrative procedures).

^{A.} Q. **Does this conclude your testimony?**

Yes.

Attachment B

COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION

IN RE: THE PUERTO RICO ELECTRIC
POWER AUTHORITY

INITIAL RATE REVIEW

No. CEPR-AP-2015-0001

SUBJECT: TESTIMONY IN SUPPORT
OF TEMPORARY RATES

Direct Testimony of

RALPH ZARUMBA

Director, Navigant Consulting, Inc.

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May 27, 2016

Revised June 23, 2016

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1 **I. INTRODUCTION**

2 **A. Witness Identification**

3 **Q. Please state your name, title, employer, and business address.**

4 A. I am Ralph Zarumba and I am a Director at Navigant Consulting, Inc. (“Navigant”), a
5 global business and advisory firm. My business address is 30 S. Wacker Drive,
6 Suite 3100, Chicago, Illinois 60606.

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of the Puerto Rico Electric Power Authority (“PREPA”), a
9 publicly-owned (public power) electric utility and instrumentality of the Government of
10 the Commonwealth of Puerto Rico (the “Commonwealth”).

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12 **Q. What is the purpose of your testimony?**

13 A. I am testifying in support of PREPA’s Petition requesting that the Puerto Rico Energy
14 Commission (the “Commission”) approve and establish new rates for PREPA. More
15 specifically, my testimony presents and supports PREPA’s proposed Temporary Rates.¹

16 **II. TEMPORARY RATES**

17 **Q. Please describe the proposed Temporary Rates.**

18 A. The testimony of Ms. Donahue, Managing Director of AlixPartners, LLP, and the Chief
19 Restructuring Officer of PREPA, PREPA Exhibit (“Ex.”) 10.0, describes the challenging
20 financial conditions faced by PREPA, and in particular its current and imminent liquidity

¹ These temporary rates also sometimes are referred to as “provisional” rates, as in the Commission’s Regulation No. 8720, Section 2.02.

(cash flow) issues. The proposed temporary rates are based on the revenue requirements and revenue deficiency calculated for purposes of establishing new “permanent” rates, as is addressed in the direct testimony of Mr. Stathos, also from Navigant, PREPA Ex. 11.0. Thus, the temporary rates, in terms of their underlying revenue requirements and revenue deficiency, are supported by the same information and materials that PREPA has submitted in support of the “permanent” rates. In order to maintain the operations of the utility until an order is issued in this proceeding and new “permanent” rates go into effect, however, which likely will be late in 2016, the company seeks temporary rates to address the concerns discussed by Ms. Donahue.

Q. Should the Commission adopt for purposes of establishing temporary rates the same tariffs that are proposed in this proceeding for the “permanent” rates?

A. No, while that is a theoretical possibility, that would not be the best approach. While the tariffs proposed by PREPA in this proceeding are equitable and cost justified, based on the testimony of the various witnesses, it is not the best course for the Commission to adopt those tariffs for purposes of establishing temporary rates for, among others, the following reasons:

1. In the tariffs, a significant number of changes are made in the fuel and purchased power cost adjustments. See PREPA Ex. 4.0. Among other things, baseline amounts of these costs are incorporated in base rates, and, moreover, subsidies that were previously captured in these tariffs have been unbundled into separate components to be recovered outside of those mechanisms. Those are significant

changes. I anticipate that the Commission will need to fully understand and rule on those changes before they are implemented, even on a temporary basis.

2. The proposed tariffs require a number of changes in the code of PREPA's billing system, which I understand will require several months to complete. That makes those proposed changes in the "permanent" rates unavailable, as a practical matter, for temporary rates.
3. PREPA anticipates that the temporary rates, if approved, will be ordered subject to reconciliation and refund or surcharges. Therefore, the structure of the tariffs in which the temporary rates will be applied should be an "add-on" to the existing tariff structure.
4. My current understanding is that this "add-on" structure can be implemented more rapidly in PREPA's systems.

Q. Has the Commission provided guidance on the how the temporary rate should be implemented?

A. Yes. On May 11, 2016, the Energy Commission issued a Resolution and Order in response to PREPA's Second Request for Waiver and / or Clarification of Regulation No. 8720. That order stated in part:

If proposing the establishment of Provisional Rates, PREPA shall provide for the Commission's consideration at least two (2) alternatives for the implementation of Provisional Rates. The first alternative must contemplate the application of a uniform percentage change in base rates across all customer classes. The second alternative shall contemplate the application of a specific percentage change in base rates for each customer class, provided that said percentage change must be applied uniformly within each class. All alternatives must be accompanied by a thorough explanation detailing its implementation, administration and impact on existing base-rates, along with any other information required by Section

2.02 of Regulation 8720 and any other information appropriate for the Commission to determine whether or not to establish Provisional Rates.

Q. What would be the percentage increase applied to base rates if a uniform percentage increase were ordered by the Commission?

A. The uniform percentage increase would be 20.7%, which is detailed in the table set forth later in my testimony.

Q. What is your recommended approach for the design of the temporary rates?

A. I do not recommend the uniform percentage increase as the best method. The preferable approach, in my opinion, is as follows:

1. Percentage increases to the existing base rates of PREPA have been developed by class of service (e.g., residential, commercial, and industrial). The percentage increases are listed in the table below.
2. The percentage increases by class of service have been adopted in the proposal based upon the base rate increase requested by PREPA, and the proposed allocation of the base rate increase. Note that the allocation of the rate increase has been significantly mitigated in the proposed base rates from a 100% embedded cost allocation, and therefore they reflect smaller increases for tariff classes, such as residential, than otherwise would be applicable with costs shifted to the commercial and industrial customer classes.
3. The percentage temporary increases for each tariff class will be applied, equally within each class, to all components of base rates that can lawfully be adjusted at this time. For example, the existing base rate elements of Tariff GRS include a

fixed monthly charge, a charge for the first 425 kWh energy block and a charge for energy usage in excess of 425 kWh. All tariff elements in that class will be increased by the same overall base rate percentage. The table below provides, as an example, the existing Tariff GRS charges and the proposed Tariff GRS capturing the proposed temporary increases.

4. Given that the OEPPE has not yet completed and published the study referred to in Section 3.9(b)(4) of Law 22-2016, we believe that temporary rates can best be implemented within the Residential Class by holding constant the flat charges in Rates RFR 105, 106, and 107 for kWh use within the “maximum consumption” levels specified while increasing all other residential base charges by an equal percentage. This would result in a percentage increase in those other residential unit charges only slightly higher than the overall percentage increase in the residential revenue requirement. While I am not a lawyer, I believe this approach is consistent with Revitalization Act and Law 22 and the Commission’s regulations, and is just and reasonable. I also note that if OEPPE does publish the study referred to in Section 3.9 of Law 22 while this case remains pending, the Commission can take that study into account in setting new permanent rates to which the temporary rate will ultimately be reconciled.

Q. Have you prepared estimates of the requested percentage increases to base rates requested by PREPA that would be used in establishing the temporary rates?

A. Yes. The tables below provide the percentage increase, by tariff class, which PREPA proposes be applied to each unfrozen component of base rates for purposes of the

temporary rates. It also quantifies the very minor impact on other residential charges of holding constant the rate elements fixed block rate elements of Rates RFR 105, 106, and 107.

Description	Residential	Commercial	Industrial	Other Public Authorities	Agriculture	Public Lighting	Total
Proposed Revenues	\$ 1,210,574,978	\$ 1,687,240,561	\$ 406,256,203	\$ 5,550,976	\$ 5,316,490	\$ 147,255,564	\$ 3,462,194,772
Less Existing Revenues	\$ 941,044,877	\$ 1,381,638,286	\$ 321,820,878	\$ 4,372,707	\$ 4,350,054	\$ 83,446,944	\$ 2,736,673,745
Less Transition Increase	\$ 180,034,106	\$ 243,286,531	\$ 69,920,305	\$ 981,047	\$ 770,236	\$ 8,272,012	\$ 503,264,236
Necessary Increase - Provisional Rate - \$	\$ 89,495,996	\$ 62,315,745	\$ 14,515,020	\$ 197,221	\$ 196,200	\$ 55,536,609	\$ 222,256,790
Existing Base Rate Revenues	\$ 336,883,759	\$ 575,362,352	\$ 108,374,490	\$ 1,398,357	\$ 1,655,564	\$ 54,712,428	\$ 1,078,386,949
Provisional Rate as % of Existing Revenues	9.5%	4.5%	4.5%	4.5%	4.5%	66.6%	8.1%
Provisional Rate as % of Base Revenues	26.6%	10.8%	13.4%	14.1%	11.9%	101.5%	20.6%
Sales (kWh)	6,177,445,685	8,347,803,435	2,399,150,327	33,662,320	26,428,846	283,834,568	17,268,325,180
Provisional Rate as \$/kWh	0.01449	0.00746	0.00605	0.00586	0.00742	0.19567	0.01287

Filing requires provisional rate to be a % of Base Rates. \$/kWh is shown for demonstration purposes.

Description	RFR 105	RFR 106	RFR 107	Total
Customer-Months	73,112	370,706	39,443	483,261
First Block kWh	21,553,402	179,178,589	26,339,732	227,071,723
Existing Charge	\$ 30.00	\$ 40.00	\$ 50.00	
Intended Increase (\$/customer)	\$ 7.97	\$ 10.63	\$ 13.28	
Intended Increase (\$)	\$ 582,682	\$ 3,939,250	\$ 523,923	\$ 5,045,855
Additional Increase Necessary from Other Residential Customers as % of Existing Revenues				0.5%
Additional Increase Necessary from Other Residential Customers as % of Base Revenues				1.5%

Description	Residential	Commercial	Industrial	Other Public Authorities	Agriculture	Public Lighting
Provisional Rate as % of Base Revenues, excl. RFR First Block Charge	28.1%	10.8%	13.4%	14.1%	11.9%	101.5%

Q. Is this approach consistent with your understanding of the parameters indicated by the Commission for temporary rates?

A. Yes. I am not an attorney, but I am aware both (1) that the Commission's rules (Regulation No. 8720, Section 2.02) address the subject of how to implement temporary rates, in terms of the rate design; and also (2) that, in response to a motion filed by PREPA, the Commission issued the Resolution and Order on this subject on May 11, 2016, that I quoted above. PREPA's proposal meets with what I understand to be the "second alternative" as described in that order.

Q. Is using a uniform across the board percentage increase for all tariff classes a possible approach?

127 A. Yes, but it also is a significantly inferior approach to what PREPA is proposing. The
128 Commission's May 11th order refers to a single across the board increase as the "first
129 alternative." PREPA considered such an approach, but it is problematic for a number of
130 practical and policy reasons. For example, it would result in rates that deviate greatly
131 from PREPA's proposed base rates, which would be problematic for customers as well as
132 PREPA. The problem would be even worse when it is considered that there later must be
133 a reconciliation of the temporary rates. The single, across-the-board increase likely
134 would result in much larger changes at the reconciliation stage than are necessary or
135 useful. The reconciliation would be complicated, expensive, and difficult to administer,
136 and likely would involve extensive surcharges to some customers and extensive refunds
137 to others. If temporary rates are to be adopted, then the approach proposed by PREPA is
138 the best alternative for customers as well as the utility.

139 Q. **You have referred to the need to reconcile temporary rates. What is PREPA**
140 **proposing with respect to reconciliation?**

141 A. Again, I am not a lawyer. My understanding is that, if temporary rates are adopted under
142 the approach established by Act 57, as amended by Act 4-2016, then the temporary rates
143 will need to be reconciled, but that the statutes provide little detail on the nature of that
144 reconciliation. The Commission's regulation also addresses the subject, but it also does
145 not establish all the details, and further, it provides for adjustments to ensure that the
146 temporary rates were just and reasonable. PREPA accordingly proposes:

- 147 a) reconciliation of the temporary rates versus the permanent rates in a
148 manner that is overall just and reasonable, including adjustments if needed
149 to achieve that purpose;
- 150 b) refunds, if any, to be made in the form of bill credits, at least as to current
151 customers (this would avoid PREPA and customers each having to make
152 payments to the other at the same time, which is burdensome and
153 inefficient, and could exacerbate PREPA's liquidity problems);
- 154 c) refunds or surcharges to be credited or billed, in PREPA's discretion, but
155 subject to Commission approval, over an up to 12 month period (reflecting
156 that the temporary rates will be in effect over a period of several months
157 and allowing for suitable management of the case flows); and
- 158 d) as to former customers, calculation on a ratable customer class basis,
159 without individualized research and back-billing (to avoid difficult and
160 expensive administrative procedures).

161 Q. **Does this conclude your testimony?**

162 A. Yes.

ATTESTATION

STATE OF ILLINOIS)
)
COUNTY OF COOK) SS.

The undersigned, RALPH ZARUMBA, being of legal age, married, executive and consultant, and resident of City of Evanston, County of Cook, State of Illinois, in his capacities as Director of Navigant Consulting, Inc., states that the foregoing testimony, presented in written Question and Answer format, is true and correct to the best of his knowledge and belief.


IN WITNESS WHEREOF, I have hereunto signed my name this 24th day of June 2016.

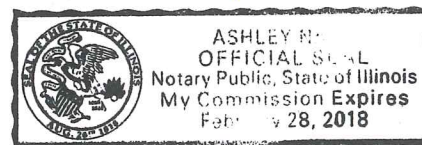

RALPH ZARUMBA

Director
Navigant Consulting, Inc.

Affidavit No. _____

Acknowledged and subscribed before me by Ralph Zarumba, of the personal circumstances above mentioned, in his capacities as Director of Navigant Consulting, Inc., who is personally known to me, in Chicago, Illinois, this 24th day of June 2016.


Notary Public



STATE OF ILLINOIS

Jesse White



Secretary of State

NOTARY PUBLIC

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby appoint and commission

ASHLEY NASH

County of COOK *residing at* 1519 S WOLF ROAD #201
PROSPECT HEIGHTS IL 60070

a Notary Public of the State of Illinois, for a commission term as specified below.



FEBRUARY 28, 2014

Commission Begins

FEBRUARY 28, 2018

Commission Expires

In Testimony Whereof, *I hereto set my hand and the State Seal*

this 28TH *day of* FEBRUARY *A.D.* 2014 .

Commission No.: 798767

Jesse White

Secretary of State