

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

TABLE OF CONTENTS

I. INTRODUCTION 1

 A. Witness Identification 1

 B. Summary of Testimony..... 1

II. TEMPORARY RATES 1

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").

11 **B. Summary of Testimony**

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 increases for each tariff class will be applied to all components of base rates equally within each class. 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 the existing Tariff GRS and the proposed Tariff GRS capturing the proposed temporary increases.

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 table below provides the percentage increase, by tariff class, which PREPA proposes to be applied to each component of base rates for purposes of the temporary rates.

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

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.


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

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

PL

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

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

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

147 A. Yes.

ATTESTATION

Affiant, Ralph Zarumba, being first duly sworn, states the following:

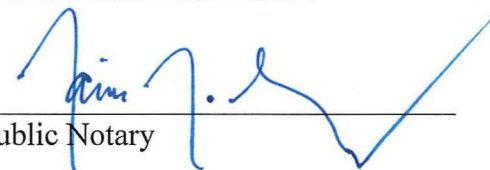
The prepared pre-filed Direct Testimony and the Schedules and Exhibits attached thereto and the Schedules I am sponsoring constitute the direct testimony of Affiant in the above-styled case. Affiant states that he would give the answers set forth in the pre-filed Direct Testimony if asked the questions propounded therein at the time of the filing. Affiant further states that, to the best of his knowledge, his statements made are true and correct.



Ralph Zarumba

Affidavit No. 3,574

Acknowledged and subscribed before me by Ralph Zarumba, of the personal circumstances above mentioned, in his capacity as a Director of Navigant Consulting, Inc., who is personally known to me or whom I have identified by means of his driver's license number from Illinois 2651-7345-9297, in San Juan, Puerto Rico, this 26th day of May 2016.



Public Notary



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LEY 47
4 DE JUNIO DE 1982