

COMMONWEALTH OF PUERTO RICO  
PUERTO RICO ENERGY BUREAU

SECRETARIA  
COMISION DE ENERGIA DE  
PUERTO RICO

IN RE: PUERTO RICO ELECTRIC POWER  
AUTHORITY RATE REVIEW

NO. N.EPR-AP-2018-0003 '18 SEP 17 P3:28

**SUBJECT:** PREPA's Petition for a  
Temporary Modification of the Adjustment  
Clause Related to Hurricanes Irma and  
Maria

**PREPA'S PETITION FOR A TEMPORARY MODIFICATION OF THE  
ADJUSTMENT CLAUSE RELATED TO HURRICANES IRMA AND MARIA**

The Puerto Rico Electric Power Authority ("PREPA") respectfully requests that the honorable Puerto Rico Energy Bureau (the "Bureau") grant PREPA approval for a temporary modification of its "Adjustment Clause" – the provision within PREPA's Electric Service Rates<sup>1</sup> that addresses the determination of fuel and purchased power cost factors and reconciliations of these costs – related to Hurricanes Irma and Maria.

**I. INTRODUCTION**

The proposed temporary modification of the Adjustment Clause, in brief, is designed to reconcile fuel and purchased power costs for the period during which the Hurricane-related emergency made normal reconciliation of those costs impossible or impractical, to reduce short-term bill impacts on customers, to apply adjustments to customer bills in a manner that are reasonable and consistent with the existing tariff structure, and to allow for the prompt application of fuel cost reimbursements from the Federal Energy Management Administration ("FEMA") and the reconciliation of the FEMA reimbursements.

<sup>1</sup> PREPA's Electric Service rates (its schedule of rates) is available, in Spanish and English, on PREPA's web site, on this web page, as Facturación 1 and 2, respectively: <https://www.aeepr.com/Aeees/ley57.asp>. The Adjustment Clause appears on pages 72-74 in the Spanish version and pages 74-76 in the English version.

## II. DISCUSSION

### A. The Existing Tariff Provisions

1. PREPA's Electric Service Rates provide for the pass through of fuel and purchased power costs. The Adjustment Clause addresses the determination of the Fuel Purchase Clause ("FPC") and Power Purchase Clause ("PPC") factors and reconciliations related to those costs. The purpose of the FPC is to recover the cost of fuel consumed in PREPA's generating units, while the purpose of the PPC is to recover the cost of purchased power. Under the existing Adjustment Clause language: (1) PREPA updates the factors each month and (2) reconciles costs versus revenues for the month two months earlier (this reconciliation process of estimated costs versus actual costs is defined as the "Adjustment"). In addition, under the existing Adjustment Clause language, PREPA also may defer cost recovery of the Adjustment for fuel (Adjustment<sub>C</sub>) and purchased power (Adjustment<sub>CE</sub>) and then apply them over a period of up to three months.

2. The FPC and PPC operate in the same manner: they each calculate a "factor," which is multiplied by each customer's monthly consumption, to calculate the total amount owed and that will be billed under the respective clause. Each clause requires PREPA to estimate the cost of fuel consumed or purchased power acquired in the upcoming billing month. In addition, it includes the reconciliation associated with the second previous month (e.g., June for an August bill) for fuel and purchased power. Also, each clause requires that PREPA estimate net generation for the upcoming billing month and include the 0.89 gross up factor to comply with the 11% contribution in lieu of taxes and the appropriate efficiency factor within the calculation of the FPC and PPC factors. After the close of the billing month, PREPA reconciles the actual cost of fuel and purchased power against the amounts recovered from customers under the clause during the billing period. If the actual cost was lower than the amount recovered from customers, then the result is a negative Adjustment (*i.e.*, a credit to the customers) to be included in the bill

corresponding to two months after. If the actual cost is higher than the amount recovered from customers, then the result is a positive Adjustment (*i.e.*, a charge to the customers) to be included in the bill corresponding to two months after.

**B. The Effects of the Hurricanes**

3. Due to Hurricanes Irma and Maria and their effects, however, PREPA had not updated the FPC and PPC factors since September 2017, and PREPA had not applied Adjustments related to August 2017 onward. During that period, bills have been rendered using the FPC and PPC factors in effect prior to the Hurricanes.

4. After Hurricanes Irma and Maria struck Puerto Rico in September 2017, PREPA's manpower was focused on restoring power to its customers and was unable to calculate updated monthly FPC and PPC factors. The restoration efforts continued well into the second quarter of 2018. In addition, the Hurricanes caused significant damage to PREPA's communications infrastructure and its ability to process meter reads from automated customer meters, thereby making it impossible to bill most of our customers. The process of repairing this communications infrastructure continues to this day. As a result of these Hurricane related consequences, and due to PREPA's concerns that any deployment of the Adjustment element of the FPC and PPC may create a "billing shock" for its customers at a time when they were going through a very difficult and challenging period themselves, the FPC and PPC factors have remained the same since September 2017.

5. Other circumstances outside of PREPA's control caused the costs of fuel and purchased power to increase significantly during the restoration. First, during PREPA's restoration efforts, it has been necessary to increase use of peaker plants and to use emergency power generation, rather than PREPA's normal dispatch of generation, to restore and provide service. These peaker and emergency units are less efficient, and costlier to run, than PREPA's



baseload generation. In practical terms, this has meant that PREPA has had to use additional higher cost diesel fuel than is normal as part of the post-Hurricane service restoration efforts. Compounding the effect of the increased use of diesel fuel, the price of that fuel increased during the period.

6. Together, those circumstances resulted in an aggregate backlog in recoveries of PREPA costs under the Adjustment Clause, for the period of August 2017 through May 2018, of \$135.9 million for the fuel clause, and \$45.3 million in the purchased power clause. Those amounts exclude costs for fuel or purchased power provided directly by FEMA or the United States Army Corps of Engineers (USACE) during the course of restoration efforts which will not be billed to PREPA customers. Pursuant to the federal Stafford Act and due to the Hurricanes, PREPA has received a reimbursement from FEMA for \$125.1 applicable to fuel cost recovery, which was received in July 2018. The effect of the FEMA reimbursement can be found in Attachment 1, referenced later in the petition.

7. PREPA has prioritized restoration of service to its customers and has acted promptly under the circumstances to evaluate the current amount of the backlog and to develop a proposal to remedy this issue that reduces the short-term impacts on customers. Arriving at a reasonable estimate of the unbilled and un-recovered amount has taken extended, significant efforts. Determining the applicable expected FEMA figure also has taken time and work.

**C. PREPA's Plan and Proposal**

**1. The Factors**

8. PREPA resumed updating the FPC and PPC factors beginning with August 2018 bills and included the fuel and purchased power reconciliation for June 2018 in the August 2018 bills. Normal operations under the Adjustment Clause would continue with September 2018 bills going forward.

9. Those actions are authorized by, and would be taken under, the existing tariff language.

**2. The Backlog**


10. Recommencing normal operations of the FPC and PPC going forward, however, does not address the backlog for the reconciliation period of August 2017 through May 2018. PREPA is submitting this Petition to the Bureau for approval of the "Temporary Modification of the Adjustment Clause" described in the following paragraphs.

11. The proposed Temporary Modification of the Adjustment Clause would allow PREPA to include the recovery of the pending amounts from August 2017 to May 2018, offset by the \$125.1 million for FEMA fuel cost reimbursements (the "Restoration Period Pending Amounts"), over a period of up to 9 months, along with the two months prior reconciliation. PREPA would use its best judgment to determine in its discretion the length of the recovery period, as discussed further below, and, the application of that reconciliation would begin with October 2018 bills, if the Bureau approves this proposal in time for such application, or in October 2018, if necessary. PREPA will reconcile (true up) the estimate over time as the FEMA reimbursements are received.

12. The central goals of PREPA's proposal are to recover and reconcile its fuel and purchased power costs accurately and in a manner that reduces short-term bill impacts on customers. Allowing PREPA to spread the recovery of the total amount owed over a period of up to ten months will allow PREPA, if needed, to reduce appropriately any short-term bill impacts on customers. In addition, allowing PREPA to revise the deferral for applicable offsets from FEMA will allow PREPA to promptly credit or bill (if applicable) customers for such funds, and allow for the incorporation of any adjustments required due to FEMA fuel cost reimbursements being different than estimated.

13. PREPA likely will choose a recovery period that allows the entire backlog to be billed in bills issued in Fiscal Year 2019 (July 2018 through June 2019).<sup>2</sup>

14. The approach proposed by this Petition, of applying the recovery backlog beginning with October 2018 bills and over an extended period of no more than nine months, is both practical and reasonable. As the Bureau is aware, post-Hurricane electric service restoration has been a very lengthy process. PREPA reached approximately 99% restoration in the second quarter of 2018. For practical reasons, meter reading and billing generally lags restoration. If PREPA were to try to engage in a complicated retroactive billing of individual customers based on the available data, the outcome could have anomalous and potentially inaccurate results, has the potential to be less equitable, and is not a practical solution based on PREPA's meter reading systems and the amount of human resource that would be invested in that task would be significant, given the limited number of employees currently at PREPA. For customers who were receiving electricity deliveries over multiple months when the PREPA communications were not able to provide the link between the customer meter and our billing systems, it is simply impossible for PREPA to determine in which normal billing cycle or month that the energy was consumed. Therefore, any process to allocate volumes by customer to the appropriate billing cycle would be an exercise of speculative estimation, with no basis on which to estimate accurately. Further, even if an algorithm for allocating restoration period energy use could be found to be satisfactory, PREPA's customer billing system is not set up to handle the retroactive billing analysis. There would be significant programming time and costs involved in such an endeavor. In contrast, recovering the net restoration period fuel and purchased power pending amounts over a forward

  
<sup>2</sup> Please note, again, that it is possible for FEMA to revisit the correctness of a reimbursement after it is made.



looking recovery period would be more consistent with the tariff and reasonable and would not require such Information Technology (IT) efforts or costs.

15. PREPA estimates that a **one-month** recovery of such an amount (inclusive of the FEMA reimbursement) would cause its customers' rates to increase by approximately \$0.038/kWh, all else being equal. Utilizing a **nine month** recovery period would result in increases to customer rates of about \$0.003/kWh.


16. In order to limit further increases in the backlogged recoveries under the Adjustment Clause caused by further delayed recovery, PREPA requests that the Bureau approve the Temporary Modification of the Adjustment Clause on an expedited basis, allowing PREPA to reflect the contemplated Adjustments beginning with October 2018 bills.

WHEREFORE, the Puerto Rico Electric Power Authority respectfully requests that the Bureau enter an Order approving the attached Temporary Modification of the Adjustment Clause, no later than September 29, 2018, to apply the changes to be applied to bills beginning with October 2018 bills.

RESPECTFULLY SUBMITTED,

THIS 17 DAY OF SEPTEMBER 2018

**PUERTO RICO ELECTRIC POWER AUTHORITY**



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