

**GOVERNMENT OF PUERTO RICO
PUBLIC SERVICE REGULATORY BOARD
PUERTO RICO ENERGY BUREAU**



**IN RE: THE UNBUNDLING OF THE ASSETS
OF THE PUERTO RICO ELECTRIC POWER
AUTHORITY**

CASE NO.: NEPR-AP-2018-0004

**SUBJECT: Unbundling of Assets, Request of
Information and Production of Documents.**

ORDER

I. Introduction

On August 7, 2018, pursuant to the provisions of Act 57-2014¹, the Puerto Rico Energy Bureau ("Energy Bureau") issued a Resolution and Order commencing a rulemaking proceeding for the adoption of the regulation that will govern the wheeling² mechanism in Puerto Rico and seeking preliminary comments from the general public and stakeholders.³ Comments were filed by several interested parties. The Energy Bureau reviewed these comments and has taken them under advisement as it develops the proposed wheeling regulation to be released for public comment in the very near future.

The Energy Bureau's mandate to implement wheeling is clear. In the August 7 Order, the Energy Bureau noted that pursuant Act 57-2014, it has the power and duty to develop and regulate the wheeling mechanism.⁴ Furthermore, Act 57-2014 states that, in regulating wheeling, the Energy Bureau must consider, among others, "(t)he criteria that must be considered in determining the rates to be charged for transmission and distribution services, so that the costs remain at a reasonable level, thus making the use of this mechanism feasible,

¹ Known as the *Puerto Rico Energy Transformation and RELIEF Act*, as amended. See Act 57-2014, Article 6.30.

² Act 57-2014 defines the term "Wheeling" as "the transmission of electricity from one system to another through Puerto Rico's electric power grid, according to the wheeling provisions of Act No. 73-2008, as amended, known as the 'Economic Incentives Act for the Development of Puerto Rico.'" *Id.* at Article 1.3 (tt).

³ In Re: Regulation on Wheeling, Case No. CEPR-MI-2018-0010, Resolution and Order, August 7, 2018 ("August 7 Order").


⁴ August 7 Oder, note 1. Moreover, the policy and legislative mandate for wheeling extends back to Act 73-2008, when the legislature instructed the Puerto Rico Energy Power Authority ("PREPA") to develop a wheeling regulation. See Act 7-2008, §2. PREPA did not comply with such mandate in the seven years from the enactment of Act 73-2007 to the approval of Act 57-2014.

and promoting production of energy and the competitiveness of Puerto Rico in terms of service costs and availability, thus safeguarding the interests of the People.”⁵

II. Energy Bureau Ruling and Order

One of the components of the Wheeling regulation will be the requirement for PREPA to unbundle its rates and separate out the charges for generation, transmission and distribution, along with any non-bypassable charges such as those associated with stranded costs or the debt obligations to bondholders. This is an implementation component for the wheeling mechanism, as those interested in participating in wheeling will need for the Energy Bureau to establish the rates for transmission and distribution, and any stranded cost charges as well as the avoided generation charge. The Energy Bureau seeks to implement wheeling as quickly as possible. As noted, a key component to accomplish this will be a proceeding on unbundling rates which would commence once the wheeling regulations are finalized.⁶

On June 21, 2018, the Puerto Rico Legislature enacted Act 120-2018⁷, which states in pertinent part:



Based on the legal and proprietary powers that the People of Puerto Rico and its Government have over PREPA, it is the intent and the policy of this Legislative Assembly to expedite a fair and transparent process for the establishment of Public Private Partnerships in connection with any functions, services, or facilities of the public corporation, and to sell the power generation assets thereof, thus placing such assets in the private hands of those who show a fair balance between the commercial interests and the sense of social responsibility; and who have the operational, technological, and financial capacity to transform the electric power system into one that is modern, offers reasonable rates, provides universal access, and has efficient and environmentally-friendly energy sources, as well as an infrastructure that is as resistant or resilient as possible to weather and natural events; with financial and legal conditions that are reasonable for the People of Puerto Rico; and promotes broad access and swiftness in the rendering of direct services to its customers.⁸

⁵ See August 7 Order, p. 1.

⁶ Note that the full procedural schedule for this proceeding will be established by the Energy Bureau via a Resolution to that effect on or about January 2019.

⁷ Known as the *Puerto Rico Electric Power System Transformation Act*.

⁸ Act 120-2018, §3.

Given this legislative mandate, the Energy Bureau determined that it is reasonable to anticipate that PREPA is in the process of ascertaining the value of all of its assets and the appropriate charges associated therewith. Therefore, the unbundling of its rates and separation of the charges for generation, transmission and distribution, along with any non-by-passable charges should be part of this process. In order to further aid the Energy Bureau in the development of the wheeling regulation and the expeditious prosecution of an unbundling proceeding thereafter, the Energy Bureau places PREPA on notice that PREPA shall file an unbundling plan on or before May 31, 2019. The Energy Bureau is also interested in obtaining any and all work done to date by PREPA concerning its unbundling plans.

Therefore, the Energy Bureau hereby **OPENS** the docket for the unbundling of PREPA's assets; **ORDERS** PREPA to produce all documents and information as set forth in **Appendix A** to this Order on or before **January 25, 2019**; and **ORDERS** PREPA to file an Unbundling Plan on or before **May 31, 2019**, which shall include the following items:

- 1) An updated embedded cost of service study;
- 2) An updated marginal cost of service study;
- 3) An updated unbundling study; and
- 4) A Total System Long-Run Incremental Cost (TSLRIC) study which should (i) estimate the costs needed to build an optimal new system from scratch; regardless of embedded costs and the existing assets; (ii) present the cost of rebuilding the system with the best available technology, assuming no prior system exists; and (iii) provide total system long-run incremental costs separately for generation, transmission, distribution, and customer costs.

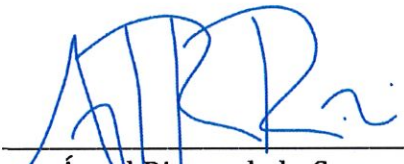
Be it notified and published.




Edison Avilés Deliz
Chairman



Lillian Mateo Santos
Associate Commissioner



Ángel Rivera de la Cruz
Associate Commissioner



José J. Palou Morales
Associate Commissioner



CERTIFICATION

I hereby certify that the majority of the members of the Puerto Rico Energy Bureau has so agreed on December 28, 2018. The Associate Commissioner Ferdinand A. Ramos Soegaard did not intervene. On this date a copy of this Order was notified by electronic mail to the following: j-morales@aepr.com, n-vazquez@aepr.com, c-aquino@aepr.com, and n-ayala@aepr.com. I also certify that today, December 28, 2018, I have proceeded with the filing of this Order issued by the Puerto Rico Energy Bureau and I have sent a true and exact copy to the following:

Puerto Rico Electric Power Authority

Attn.: Javier Morales Tañón, Esq.
Nitza D. Vázquez Rodríguez, Esq.
Carlos M. Aquino Ramos, Esq.
P.O. Box 363928
General Post Office
San Juan, PR 00936-3928

For the record, I sign this in San Juan, Puerto Rico, today, December 28, 2018.

Wanda I. Cordero Morales
Interim Clerk

APPENDIX A



I. Instructions

- 1) Except where the context indicates otherwise, all words used in singular will be deemed to include the plural.
- 2) The responses for each question must be provided in writing, separately. The questions must be answered by supplying any information of which PREPA has knowledge or that has been obtained by PREPA's representatives, employees, contractors, consultants or agents or as a result of any investigation conducted.
- 3) Each response must indicate the person responsible for that response.
- 4) The document in which the responses will be submitted shall be accompanied by a certification signed, before a notary public, by PREPA's authorized representative stating that he or she has read the document and that, to the best of his or her knowledge, information and belief upon a reasonable investigation, the content of the document and attachments is true or correct.
- 5) All responses must be submitted in the Word or searchable PDF format. Analyses prepared using an electronic spreadsheet program such as *Microsoft Excel* must be provided in its native format with formulas and cross-references intact. Under no circumstances may a printed document, scanned and converted to an image PDF/JPEG format be presented if there is already a version in Word, searchable PDF or Excel. Documents filed in violation of the aforementioned will be deemed as not having been filed. The presentation of PDF images will only be allowed for those documents that do not exist in a digital version, or for which PREPA does not have a digital version.
- 6) When the production of a document is applicable, the response must identify the document being produced (*e.g.*, title, date, author, number of pages), the format and method in which the document is being produced.⁹
- 7) If the information, data or documents requested do not exist, the person to whom the Request for Information is directed shall so specify it in his or her reply to that request.
- 8) Unless otherwise provided, the term "any" includes the term "all" and vice versa.

⁹ In the event that in a future date additional, but not new answers are submitted, the document shall be identified in the same format changing the filing date. In the event an update is made to an already filed document, the document shall be identified with the same name as the first filing adding 1st Supp. and so on as necessary. For example: CEPR-MI-2018-0010, ROI, Set 1, [Month-Day-Year], 1st Supp. When submitting a document in response to a question the document shall be identified as follows, [Party], ROI_[Set Number], [Question Number], Attach [Sequence]. For example: PREPA, ROI_Set 1, Question 5, Attach 1.


9) PREPA has the continued duty to update, supplement, correct or amend its responses and to submit to the Energy Bureau any additional information obtained or prepared after a response to any requirement provided herein is given.

10) For purposes of this Request for Information:

- a) the term “document” means any material, regardless of its form, type, nature or description, whether electronic, handwritten or typed, printed, engraved, photographed or copied, and no matter by whom it was originated, prepared, produced, reproduced, published or disseminated
- b) the term “document” includes any types of publications, reports, magazines, books, pamphlets, brochures, folders, records, and/or volume set of attached or unattached papers; and
- c) publication, report, magazine, journal, brochure, binder, registry and/or group of volume of any document; and
- d) the term “information” includes data and documents.

11) Any request for confidentiality or privileged information or documents with respect to this Request for Information shall be made by PREPA in accordance with the Energy Bureau’s Resolution of August 31, 2016, as amended, the provisions of Section 1.15 of Regulation 8543 *Regulation on Adjudicative, Notice of Noncompliance, Rate Review and Investigation Procedures* and Articles 1.4 and 6.15 of Act 57-2014, as amended.

II. General

 In addition to the documents described below, provide any and all documents, workpapers, studies, reports, data and other information that relates to the unbundling of PREPA’s system into its functional components, including any valuation of assets and any valuation of rates and charges to all classes of end-use customers that PREPA has prepared and/or is preparing, among other things, in anticipation of the transactions contemplated on Act 120-2018.

III. Sale of Generation Assets

- 1) Describe in detail PREPA’s plans or analyses regarding the divestiture of generation assets.
- 2) Is PREPA in discussions with any potential buyers?
- 3) Have any asset valuation studies been performed? If so, when?



- 4) Please provide any asset valuation studies.

IV. Restoration Costs and Funding

- 1) Provide the restoration costs incurred to date related to the Hurricanes Irma and Maria.
- 2) Classify the restoration costs incurred to date related to the hurricanes as generation-related, transmission-related, distribution-related, billing, administrative and general, or fuel and purchased power.
- 3) Provide a projection of restoration costs going forward, classified as generation-related, transmission-related, distribution-related, billing, administrative and general, or fuel and purchased power costs.
- 4) For each of the costs describe above, please provide a detailed breakdown of all the costs that have been or will be incurred by PREPA and those that have been or will be provided by other entities, including, but not limited to, the Federal Emergency Management Agency or the U.S. Department of Energy.

V. Data on Current System

- 1) Has PREPA or its consultants conducted a new or updated embedded cost of service study since the 2016 rate case? If so, please provide this study.
- 2) Has PREPA developed any updated load shapes for customer classes since the 2016 rate case? If so, please provide any new information.
- 3) Has PREPA developed any updated demand allocators since the 2016 rate case? If so, please provide any new information.
- 4) Provide an accounting of generation-related equipment.
- 5) Has PREPA or its consultants developed an estimate of the market value of its generation assets? If so, please provide this data.
- 6) Provide an accounting of the current transmission system (circuit miles of lines by voltage level, miles of underground cable by voltage level, transformers, substations, and other equipment.)
- 7) Has PREPA or its consultants developed an estimate of the market value of its transmission assets? If so, please provide this data.



- 8) Provide an accounting of the current distribution system (circuit miles of lines by voltage level, miles of underground cable by voltage level, transformers, substations, and other equipment).
- 9) Has PREPA or its consultants developed an estimate of the market value of its distribution assets? If so, please provide this data.

VI. Data on Debt

- 1) Provide the current debt level and any associated debt service costs, if any, for the PREPA outstanding bonds and any other debt related to the ongoing proceeding under Title III of the *Puerto Rico Oversight, Management, and Economic Stability Act* (PROMESA).

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