




---

**In re: The Unbundling of the Assets of the Puerto Rico Electric Power Authority  
Case Number: NEPR-AP-2018-0004**

1 message

---

**Jordan, John J.** <john.jordan@nationalpfg.com>  
To: "comentarios@energia.pr.gov" <comentarios@energia.pr.gov>  
Cc: 

Thu, Sep 24, 2020 at 1:32 PM

Attention: Edison Avilés-Deliz, Chairman, Puerto Rico Energy Bureau

Dear Mr. Avilés-Deliz,

National Public Finance Guarantee Corporation (“National”) hereby submits these comments regarding the April 27, 2020 Cost of Service Study (the “COSS”) prepared by Resource Insight, Inc., in response to the Puerto Rico Energy Bureau’s (the “Bureau”) solicitation of stakeholder feedback. National is the single largest creditor of the Puerto Rico Electric Power Authority (“PREPA”), and holds or insures a large amount of the outstanding bonds issued by other Commonwealth entities, and therefore has a significant stake in PREPA’s implementation of energy wheeling. National submits these comments in order to highlight the importance of updating the draft COSS with improved data as well as removing references to selling PREPA’s generation assets.

**John Jordan | Managing Director – Risk Management | National Public Finance Guarantee Corporation | Phone (914) 765-3556 | Mobile (914) 216-8626 | [john.jordan@nationalpfg.com](mailto:john.jordan@nationalpfg.com) | [www.nationalpfg.com](http://www.nationalpfg.com)**

---

This e-mail, including any attachments, is intended only for use by the addressee(s) named herein and may contain legally privileged and/or confidential information. If you are not the intended recipient of this e-mail, you are hereby notified any dissemination, distribution or copying of any part of this e-mail is strictly prohibited; please contact the sender and permanently delete the original and any copies of it.

---

---

 **National's Comments re Cost of Service Study.pdf**  
113K

In re: The Unbundling of the Assets of the Puerto Rico Electric Power Authority  
Case Number: NEPR-AP-2018-0004

September 24, 2020

VIA E-MAIL to [comentarios@energia.pr.gov](mailto:comentarios@energia.pr.gov)  
Attention: Edison Avilés-Deliz, Chairman, Puerto Rico Energy Bureau

Dear Mr. Avilés-Deliz,

National Public Finance Guarantee Corporation (“National”) hereby submits these comments regarding the April 27, 2020 Cost of Service Study (the “COSS”) prepared by Resource Insight, Inc., in response to the Puerto Rico Energy Bureau’s (the “Bureau”) solicitation of stakeholder feedback.<sup>1</sup> National is the single largest creditor of the Puerto Rico Electric Power Authority (“PREPA”), and holds or insures a large amount of the outstanding bonds issued by other Commonwealth entities, and therefore has a significant stake in PREPA’s implementation of energy wheeling. National submits these comments in order to highlight the importance of updating the draft COSS with improved data as well as removing references to selling PREPA’s generation assets.

### Background

Since 2018, the Bureau has taken several steps toward implementing retail energy wheeling in the related proceeding numbered CEPR-MI-2018-0010. Among other things, it solicited two rounds of stakeholder comments on draft wheeling regulations and ultimately adopted a final version on December 12, 2019.<sup>2</sup> It instituted the instant proceeding in December 2018, ordering PREPA to file by May 31, 2019 an Unbundling Plan that would facilitate the implementation of wheeling.<sup>3</sup> This Unbundling Plan was to incorporate four studies, including two cost of service studies.<sup>4</sup>

PREPA responded that it had not prepared any studies to support unbundling since the rate review in 2015.<sup>5</sup> The Bureau therefore determined that, “in order to ensure that the process for permitting wheeling goes forward, the Energy Bureau will undertake to hire a consultant to perform the necessary studies.”<sup>6</sup> On July 3, 2019, the Bureau informed PREPA that it had hired a

---

<sup>1</sup> See *Order re: Report on Cost Allocation Methods and Unbundling; Requirements for Information and Production of Documents*, Case No. NEPR-AP-2018-0004 (Sept. 4, 2020) (the “COSS Order”).

<sup>2</sup> See *Resolution re: Adoption of Regulation on Electric Energy Wheeling*, Case No. CEPR-MI-2018-0010 (Dec. 12, 2019).

<sup>3</sup> *Order re: Unbundling of Assets, Request of Information and Production of Documents*, Case No. NEPR-AP-2018-0004, at p.3 (Dec. 28, 2018).

<sup>4</sup> *Id.*

<sup>5</sup> *PREPA’s Compliance Filing for Information Due January 25, 2019*, Case No. NEPR-AP-2018-0004, at App’x A p.1 (Jan. 25, 2019).

<sup>6</sup> *Resolution and Order re: PREPA’s Compliance Filing of January 25, 2019*, Case No. NEPR-AP-2018-0004, at p.2 (Feb. 8, 2019).

consultant, and established a discovery process for furnishing that consultant with the necessary information.<sup>7</sup> PREPA appears to have submitted some type of information during this process, but its submissions are not publicly available.<sup>8</sup>

Over a year after this discovery process began, the Bureau issued an order attaching a *Report on Cost Allocation Methods and Unbundling Issues for Puerto Rico*, prepared by Paul Chernick of Resource Insight, Inc.<sup>9</sup> The COSS is dated April 27, 2020, which, as the Bureau noted, is prior to its final order on PREPA's IRP.<sup>10</sup> In the COSS Order, the Bureau: (i) solicited stakeholder comments on any aspect of the COSS, to be filed by September 25, 2020 (with any reply comments due by October 9, 2020); (ii) directed PREPA to file comments on the COSS; and (iii) directed PREPA to respond to certain information requests listed in an appendix.<sup>11</sup> National submits these comments in response to the first part of the COSS Order.

### Comments

The COSS examines a number of cost allocation categories, as well as considering stranded costs and making recommendations for improving future cost of service studies. Such studies provide important information to utilities, influencing a broad range of decisions and activities that will likely have long-term systemic, economic, and customer effects, including customer equity among rate classes. These effects extend beyond the unbundling activity currently under consideration. National appreciates the efforts by the Bureau and Resource Insights to develop the COSS as an aid to implementing wheeling.

The current draft of the COSS, however, appears to be hindered by low-quality data—whether because necessary data is outdated, incomplete, or missing. These shortcomings in the data result in a number of assumptions, extrapolations, and estimates that may or may not be accurate. As such, National is concerned that the draft COSS may not provide a sufficiently reliable basis for PREPA and the Bureau to make optimal, or even appropriate, utility planning decisions. National is not aware of any cost of service study lacking so much critical data being accepted by a regulator in the United States, let alone being relied upon during the complicated process of establishing a retail energy wheeling program.

Resource Insights repeatedly identifies the deficient nature of the data underpinning many parts of the COSS. For example:

- The COSS “relies almost entirely” on cost data developed six years ago, in connection with a different regulatory proceeding. COSS at p.44; *see also id.* at p.5 (explaining that “PREPA did not provide updated data for this analysis,” so Resource Insights had to rely on data from a prior rate case). Yet, as the COSS also

---

<sup>7</sup> See *Resolution and Order re: Discovery Process*, Case No. NEPR-AP-2018-0004 (July 3, 2019).

<sup>8</sup> See *PREPA's Cover Filing for Attached Responses to ROIs and Confidentiality Designations and Motion for More Time on Certain Items*, Case No. NEPR-AP-2018-0004 (July 23, 2019).

<sup>9</sup> See COSS Order & App'x A.

<sup>10</sup> *Id.* at p.2 n.7. The final IRP order issued on August 24, 2020.

<sup>11</sup> *Id.* at pp.2-4.

notes, “[s]ome of [PREPA’s] cost inputs may be very different in the 2020s.” *Id.* To name a few of the changed circumstances, since 2014 there have been major hurricanes, earthquakes, a pandemic, large changes in fuel prices, renegotiated purchased power agreements, and the conversion or retirement of some generation assets. The 2014 cost data used in the COSS are likely not representative of PREPA’s cost data today.

- The COSS was not able to use granular data in assessing transmission costs, because PREPA does not know the relative cost of its transmission lines or break down the costs of its transmission facilities. *Id.* at pp.9-10, 21.
- The COSS was not able to use granular data in assessing distribution costs, because PREPA does track the length of conductors or conduit used in its secondary system or subdivide the costs by voltage. *Id.* at pp.11-12, 21. Thus, Resource Insights had to “borrow[] data from other utilities” and extrapolate for PREPA. *Id.* at pp.12-14.
- In determining the investment in PREPA’s units and plants, Resource Insights did not have access to disaggregated data, so it had to “rel[y] on industry cost estimates.” *Id.* at p.16.
- Resource Insights was not provided an estimated value for PREPA’s hydroelectric assets. *Id.* at p.19.
- PREPA was not able to provide certain load data, which required Resource Insights to “extrapolate[] from the data that were available.” *Id.* at pp.26-27.
- Resource Insights “needed to turn elsewhere for meter weights”—*i.e.*, to the meter weights for other utilities—because “[i]t does not appear that PREPA maintains data on meter costs by class or type of meter.” *Id.* at p.34.

These and similar issues mean that the COSS “will need to be refined as updated cost and load data become available.” *Id.* at p.1; *see also* COSS Order at p.3 (directing PREPA to provide information in order to “ensur[e] consistent and up-to-date data for the purposes of unbundling”).

Indeed, the draft COSS explicitly recognizes the need for revisions to reflect, among other things, current cost and sales data as well as improved data similar to what other utilities routinely collect. *See* COSS at p.44. Gathering such data would not only benefit this proceeding, but would also aid in “rate design and broader system planning”—after all, a COSS influences a broad range of decisions and activities beyond unbundling. *Id.* at p.45.<sup>12</sup> National calls the Bureau’s attention to these data deficiencies to ensure that the COSS is properly understood as a work-in-progress. **The draft COSS should not be used to proceed with unbundling until these deficiencies are addressed.**

---

<sup>12</sup> This revision process would also provide an opportunity for Resource Insights to incorporate updates related to the final IRP order, which was issued after the draft COSS.

Finally, National notes that the COSS refers to “Sales of some PREPA generation assets and/or sites.” *Id.*; *see also id.* at p.62 (referencing the “sale” of generation sites). National understands the potential generation transaction(s) to be contemplating the *operation and maintenance* of such assets/sites, not their sale. *See Request for Qualifications: PREPA Thermal Generation Facilities RFQ 2020-1*, at p.1 (P3 Authority Aug. 10, 2020), online at <https://aafaf.pr.gov/p3/wp-content/uploads/2020/08/Request-for-Qualifications-PREPA-Generation-Thermal-Facilities-RFQ-2020-1.pdf> (“The Project will **not** involve the sale of any of the Legacy Generation Assets.” (emphasis added)). To avoid giving the false impression that PREPA intends to sell some of its assets, such statements should be corrected in the updated COSS.

In sum, National believes that—before proceeding with unbundling—the COSS should be updated to: (i) reflect more relevant, high-quality data, thereby eliminating its present reliance on assumptions, extrapolations, and estimates; and (ii) eliminate any erroneous references to the sale of generation assets/sites.

Submitted by:

/s/ John Jordan

John Jordan  
Managing Director  
National Public Finance Guarantee Corporation  
E-mail: john.jordan@nationalpfg.com