NEGOCIADO DE ENERGÍA DE PUERTO RICO

[redacted]

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

1 message

Jordan, John J. <john.jordan@nationalpfg.com> Fri, Nov 13, 2020 at 4:44 PM
To: "comentarios@energia.pr.gov" <comentarios@energia.pr.gov>
Cc: [redacted]

Dear Mr. Avilés-Deliz,

On October 30, 2020, National submitted initial comments regarding the proposed "interim" unbundling proceeding, while also answering questions posed in the Bureau's October

14 Order.[1] These comments began by noting problems with the decision to set an Interim Unbundled Rate before unbundling is complete, including (i) undisputed data deficiencies in the

COSS; (ii) an apparent lack of focus on major, system-level changes that must occur before a retail wheeling market can be established; and (iii) the unsubstantiated justification that "eager"

wheeling participants need an Interim Unbundled Rate.[2] Next, the Initial Comments answered most of the Bureau's thirty-three questions regarding technical and operational aspects of

wheeling. Generally speaking, National emphasized that wheeling should not impose unfair costs or burdens on PREPA and, by extension, on its non-wheeling customers. After all, as the Bureau

noted in its October 14 Order,[3] this principle is dictated by applicable law.

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

National's Reply Comments on Interim Unbundling Proceeding.pdf

387K

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

November 13, 2020

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

Dear Mr. Avilés-Deliz,

On October 30, 2020, National submitted initial comments regarding the proposed "interim" unbundling proceeding, while also answering questions posed in the Bureau's October 14 Order.[1] These comments began by noting problems with the decision to set an Interim Unbundled Rate before unbundling is complete, including (i) undisputed data deficiencies in the COSS; (ii) an apparent lack of focus on major, system-level changes that must occur before a retail wheeling market can be established; and (iii) the unsubstantiated justification that "eager" wheeling participants need an Interim Unbundled Rate.[2] Next, the Initial Comments answered most of the Bureau's thirty-three questions regarding technical and operational aspects of wheeling. Generally speaking, National emphasized that wheeling should not impose unfair costs or burdens on PREPA and, by extension, on its non-wheeling customers. After all, as the Bureau noted in its October 14 Order,[3] this principle is dictated by applicable law.

No other stakeholders submitted comments by the October 30 deadline.[4] As ordered, PREPA submitted responses to the Bureau's questions.[5] Some of its responses appeared to focus on the mechanics of billing, to the exclusion of the more substantive issue of whether the proposed Interim Unbundled Rate is necessary and appropriately designed.[6]

On November 4, 2020, the Bureau held a technical conference regarding the Interim Unbundled Rate as well as operational and technical issues involved in implementing wheeling.[7] At the technical conference, PREPA clarified that it is in the process of retaining a consultant to assist with wheeling matters, but this consultant will not be retained in time to assist with the current round of comments due November 13—rather, the process could take three to four weeks

---

[1] All capitalized terms used but not otherwise defined herein shall have the same meaning as in National's initial comments. *National Public Finance Guarantee Comments*, Case No. NEPR-AP-2018-0004 (Oct. 30, 2020) (the "Initial Comments").

[2] *See id.* at pp.2-3.

[3] *See, e.g.*, October 14 Order at p.4.

[4] *See* Docket of Case No. NEPR-AP-2018-0004, https://energia.pr.gov/en/dockets/?docket=nepr-ap-2018-0004 (last visited Nov. 13, 2020).

[5] *PREPA's Motion in Compliance with the October 14, 2020 Order*, Case No. NEPR-AP-2018-0004 (Oct. 30, 2020).

[6] *See, e.g., id.* at p.3 (in response to a proposed calculation of Wheeling Credit, simply stating, "This is a non-complex change in the determined rate"), p.4 (in response to a proposed Imbalance Charge, stating, "Customer Service understands this is a Technical Subject. If this is a matter of billing a one-line item, we can do that").

[7] *See November 4, 2020 Virtual Technical Conference Discussion Topics*, Case No. NEPR-AP-2018-0004 (Oct. 30, 2020); https://www.youtube.com/watch?v=SB5l35A0YYU (last visited Nov. 13, 2020).

from November 4. The Bureau then went through the agenda topics. For many, the final outcome was that PREPA should respond more fully on November 13.

National submits these reply comments to reiterate three main points. ***First***, the rush to set an Interim Unbundled Rate appears ill-advised and—even after the technical conference—remains unsupported by the record. National has observed on several occasions that the COSS is hampered by data deficiencies (as the COSS itself admits), and that unbundling should not proceed until these defects are remedied.[8] Proceeding with an even less data-driven "interim" rate[9] will likely harm PREPA, its ratepayers, and other stakeholders. Other utilities that have undertaken major transformations relied on deliberate, carefully planned roadmaps to guide them.[10] These roadmaps were painstakingly developed and meant to aid discussions surrounding market rules, technical and information system requirements, and more.

There is also no need to rush through an "interim" rate. While the Bureau speculated in the October 14 Order that "eager" potential wheeling participants need an Interim Unbundled Rate now, there is no record evidence of this. To the contrary, *no* potential wheeling participants submitted comments by the October 30 deadline, and they had only minimal participation in the November 4 technical conference. As such, there is not good cause to set an Interim Unbundled Rate at this time.[11]

Second, the proposed Interim Unbundled Rate suffers from flaws identified in National's Initial Comments and/or raised by PREPA at the November 4 technical conference. For example, the sum of the FCA and the PPCA is not a reasonable approximation of PREPA's variable costs, and it would be an overly generous credit to wheeling customers—at the expense of non-wheeling customers. As National previously noted, the PPCA represents the full cost of purchased power, including capacity charges and energy charges, and PREPA must maintain some level of additional capacity in order to serve as the provider of last resort for wheeling customers.[12] It is also possible that PREPA incurs the equivalent of a fixed charge in its fuel procurement costs—*e.g.*, a minimum

---

[8] *See generally Comments – National Public Finance Guarantee Corporation*, Case No. NEPR-AP-2018-0004 (Sept. 24, 2020); *National's Reply Comments*, Case No. NEPR-AP-2018-0004 (Oct. 9, 2020); *National Public Finance Guarantee Comments*, Case No. NEPR-AP-2018-0004 (Oct. 30, 2020).

[9] It is worth remembering that an "interim" rate may wind up being anything but—the last so-called interim rate was in place for *years*, not months. *See* Docket of Case No. NEPR-AP-2018-0003, https://energia.pr.gov/en/dockets/?docket=nepr-ap-2018-0003 (last visited Nov. 13, 2020). Thus, even slight imprecision in an "interim" rate could be quite costly in the long run.

[10] *See, e.g.*, N.Y. Independent System Operator, *Distributed Energy Resources Roadmap for New York's Wholesale Electricity Market* (Jan. 2017), https://www.nyiso.com/documents/20142/1391862/Distributed_Energy_Resources_Roadmap.pdf/ec0b3b64-4de2-73e0-ffef-49a4b8b1b3ca (last visited Nov. 13, 2020); Hawaiian Electric / Maui Electric / Hawai'i Electric Light, *Modernizing Hawai'i's Grid for our Customers* (Aug. 29, 2017), https://www.hawaiianelectric.com/Documents/about_us/investing_in_the_future/final_august_2017_grid_modernization_strategy.pdf (last visited Nov. 13, 2020).

[11] If the Bureau nonetheless determines to do so, it should at least (i) allow PREPA sufficient time to retain and onboard a consultant before continuing, and (ii) set a reasonable time limit on the "interim" rate to prevent it from becoming a *de facto* permanent rate.

[12] Initial Comments at p.7; *see also id.* at p.10 (noting that non-wheeling customers would be disadvantaged if wheeling Suppliers sold energy to PREPA at or near the sum of the FCA and PPCA, because they would be effectively paying twice for the capacity portion of the PPCA).

monthly charge and/or a minimum-take requirement.[13] At the technical conference, PREPA likewise stated that any credit for wheeling customers must account for the costs of maintaining standby generation, which include fuel, maintenance, and more. Also, PREPA's full costs are not covered by its current rates, which are outdated.

Finally, as a guiding principle, PREPA and its non-wheeling customers should not have to shoulder any additional costs that may arise from wheeling. This principle is consistent with the legislative and regulatory intent that "nonwheeling customers not subsidize wheeling customers."[14] Such costs could arise, for example, from a wheeling Supplier's default and/or failure to pay balancing charges, a wheeling customer's partial payment, a Supplier's over-reliance on PREPA to supply its wheeling customers with power, or improperly calibrated wheeling rates. Whatever the cause, the result will be the same absent adequate protections—a penalty on PREPA and its non-wheeling customers. That should not be allowed to happen.

There are challenges to overcome before a retail wheeling market can be established in Puerto Rico. As PREPA noted at the November 4 technical conference, further consideration must be given to many operational and technical aspects of this transition—not the least of which is how to interconnect new generation facilities and how these efforts will relate to the parallel effort to put PREPA's generation fleet under private operation. Respectfully, careful deliberation and planning is a better course than plowing ahead with an unnecessary Interim Unbundled Rate.

Submitted by:

/s/ John Jordan

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

---

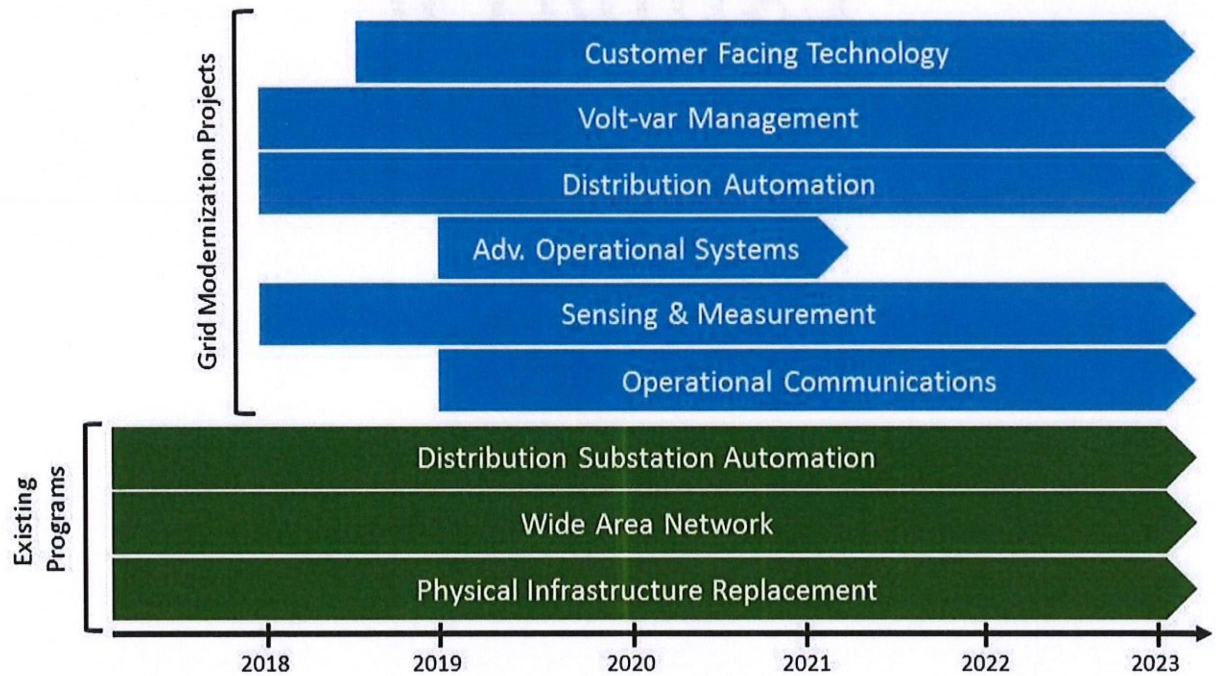
[13] To better understand these non-avoidable components of the FCA and PPCA, the Bureau could examine data already provided in other regulatory proceedings, such as for quarterly rate reconciliations (NEPR-MI-2020-0001) or in the prior investigation of the contract for conversion of San Juan units 5 and 6 (CEPR-AI-2018-0001).

[14] October 14 Order at p.4.

EXHIBIT A

as part of ongoing asset management programs. As part of a distribution automation effort, intelligent switches and lateral protection will begin in 2018 and continue as opportunities to enhance reliability are identified and old fuses are replaced with new lateral protection devices. Additionally, FCIs and Grid 20/20s will continue to be deployed where needed to enhance sensing and measurement. Upon Commission approval of a subsequent Grid Modernization application (and related procurements), the deployment of meters and associated customer-facing technologies, an operational communication network along with data management, and new advanced operating systems can begin.

Figure 28: Near-Term Grid Modernization Roadmap



8.2 IMPLEMENTATION RISKS

This Strategy is based on the adoption of new grid technologies to improve reliability and resiliency and to integrate and utilize DER. Adoption of new technologies and the use of DER as non-wires alternatives may pose certain risks that are recognized and summarized below. These are offered not as barriers to implementation but rather as prudent aspects to consider in implementation planning. As such, these risks and potential mitigations will be addressed in the Companies' subsequent detailed implementation plans and applications.

8.2.1 Grid & Customer-Facing Technology Deployment

Interoperability of grid technologies is a key architectural dimension of this Strategy. Interoperability allows a more modular approach to technology investments and integration

EXHIBIT B

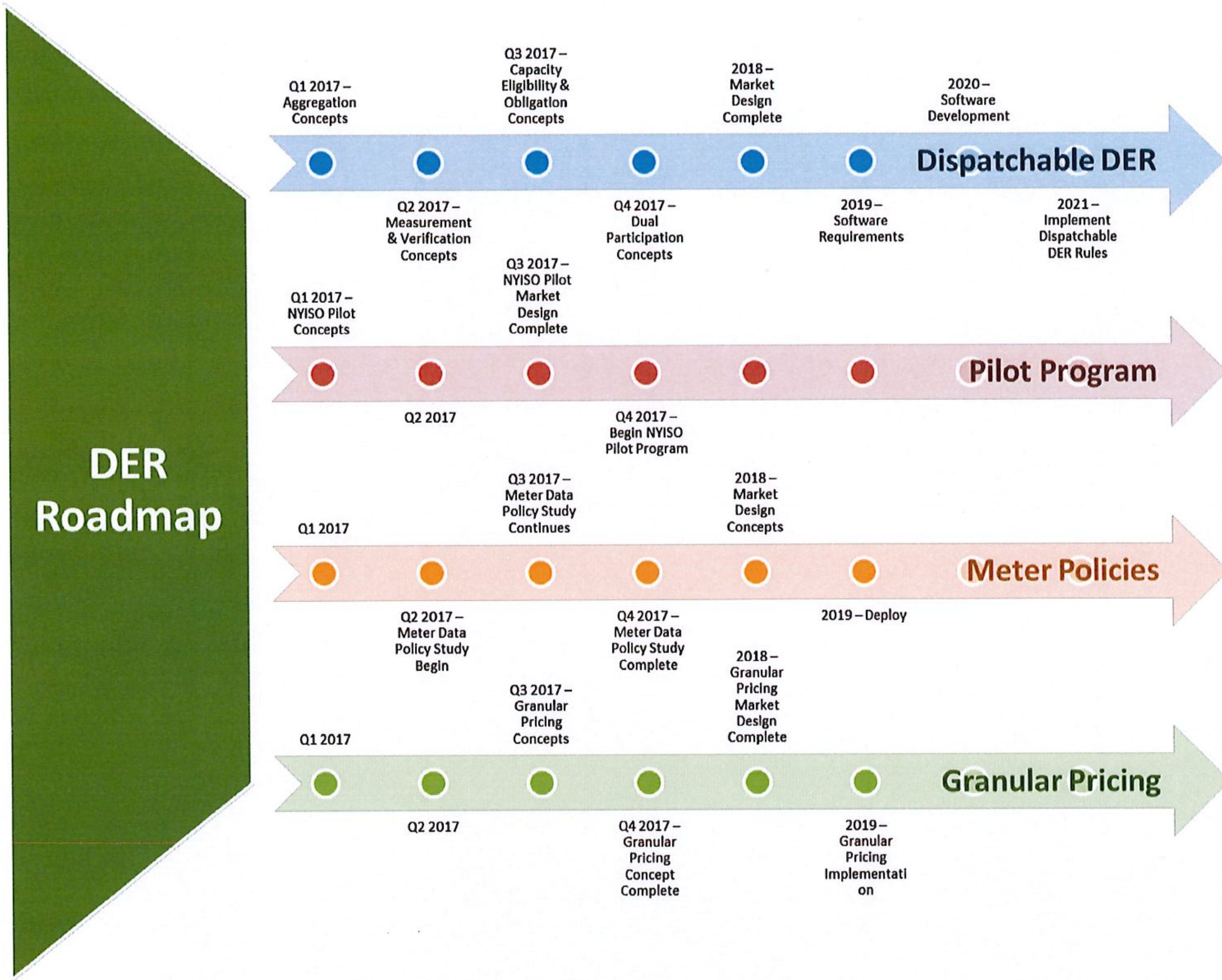


Figure 5 - DER Roadmap Timeline

IV. Current State of DER Integration

The number and type of DER operating in New York has grown over the last decade. Distributed behind-the-meter technologies are changing the way energy is produced, stored, and consumed. DER also address local needs for power quality, energy cost savings, carbon footprint reduction, and resiliency. Energy storage technology in particular has become more efficient and economical over the last decade leading to increased penetration.[7] Combined, these advances will allow consumers to

[7] Ultimately, the NYISO believes that DER applications will be a more effective and complete solution for grid operators and system planners with increased grid-scale storage capability.