

# Initial Budgets

## Docket ID: NERP-MI-2021-0004

### Information Response Round 1 to: PREB

**Reference:** RFI-LUMA-MI-21-0004-210405-PREB-008

**Request:**

Submit an updated Generation Budget based on the information provided by PREPA and include supporting documentation.

**Response:**

As per Section 4.2(e) of the OMA, LUMA is required to submit the Generation Budget as part of its Initial Budget filings “provided that for purposes of the Generation Budget, [LUMA] shall only be required to submit (if received by [LUMA]) the Generation Budget as prepared by [PREPA] and delivered to [LUMA] by [PREPA]. LUMA shall have a reasonable time to review such Generation Budget prior to completing and submitting the balance of the Initial Budgets to [P3A].”

As of the date of filing this response, LUMA has not received the PREPA Generation Budget, and is unable to provide the requested information. While the Generation Budget remains PREPA’s responsibility, LUMA proposes that the PREB approve LUMA’s allocation of the Generation Budget for the Fiscal Year 2022 in lieu of the PREPA Generation Budget.

**LUMA’S ACTIVITIES TO RECEIVE THE PREPA GENERATION BUDGET**

LUMA’s activities to receive the PREPA Generation Budget, were two-fold, LUMA regularly communicated with PREPA’s executives regarding the Generation Budget requirements in the OMA and worked with the Generation Directorate to provide support in developing the required initial budget.

LUMA’s activities included:

- Actively requesting the PREPA Generation Budget and enquiring on status of this request through:
  - Ongoing bi-weekly PREPA/LUMA meetings, with the PREPA Generation Budget being a regular topic on the agenda from the inception of these meetings in August 2020, with increased focus starting in October 2020,
  - Ongoing weekly PREPA/LUMA CFO meetings, with PREPA Generation Budget being a regular topic on the agenda from the inception of these meetings in November 2020, and
  - Weekly PREPA Governing Board updated meetings.
- Formal request for information to PREPA for its Generation Budget.
- Assisting the PREPA Generation Directorate team with a detailed line by line understanding of past PREPA Generation Budgets and support in developing the required forecasted budgets. Additional details provided below.

LUMA provided support where possible to encourage PREPA to complete its Generation Budget, considering the following:

- PREPA Generation Directorate personnel were not familiar with, and required clarification regarding, several aspects of the OMA,
- Information on potentially what will be or will not be included in “GenCo” based on LUMA’s understanding of the OMA and the shared services,

Below outlines LUMA’s support to PREPA in the Generation budget development process during Fall and Winter 2020. Activities resulted in a LUMA supported and reviewed bottoms up Generation Budget and a PREPA Draft Requested Budget. The following activities were undertaken by LUMA:

1. **Planning for budget development required by OMA** – in September 2020 LUMA developed and presented to PREPA budget input templates, a budget instruction memo and a detailed schedule to develop a bottoms-up Generation budget estimate in the new, three-year planning horizon required by the OMA. LUMA further reconciled the budget input templates to PREPA’s historical expenditure reports for each plant and Category of Expense (KOE). LUMA also facilitated a budget preparation workshop with the Generation management team describing what would be required over the upcoming two months to develop budgets required by the OMA.
2. **Field verification of budget process and proposed projects** – LUMA conducted a two-day workshop with each of the four major plant’s management and budget coordination teams to explain how the GridCo-GenCo separation would occur, and why these detailed budgets were required. The LUMA teams also reviewed the historical O&M and capital (non-federally funded) expenditures and budget preparation process on a line-by-line basis and field verified proposed major projects with visual inspections to validate the prioritization of those projects.
3. **Compilation of each plant’s budgets into a GenCo summary budget** – LUMA conducted an initial allocation of the budgeted line items from each plant based upon historical data and consolidated into a Generation budget in the format required by the OMA and reviewed with the Generation Directorate’s management and budget coordination teams. LUMA provided direction and templates for how the Generation Directorate was to develop a PREPA initial budget.
4. **Continued follow-up and offering of assistance to PREPA** – From when LUMA’s consolidated Generation budget was provided to PREPA on September 23<sup>rd</sup> to October 26<sup>th</sup>, LUMA communicated by phone, text or email with PREPA at least 26 times to enquire about status, offer additional assistance and discuss schedule and missed deadlines.
5. **LUMA received draft requested Generation budget from PREPA** – LUMA was provided a draft requested Generation budget from the Generation Directorate which included a significant increase in spending over the previous year’s budget. LUMA notes that, based on discussions with PREPA personnel, this is consistent with previous budgeting processes where PREPA Directorates request budgets in excess of last year’s budget and the finance team reduces initial budgets to align with previous years’ budget. LUMA conducted a high-level review.

6. **Reviewed draft Generation Budget from PREPA** - In response to a request from PREPA, LUMA reviewed PREPA's draft requested Generation budget over a two-week period. Activities included:
  - a. Reviewing detailed line items for each plant through half day calls with six to seven LUMA and PREPA personnel,
  - b. Reviewing significant new increases in O&M budget with.
7. **Conclusion of PREPA's Draft Generation Budget** – Based on a detailed review of PREPA's proposed O&M budget increase, LUMA failed to see the justification of such expenditures. LUMA also reviewed the non-federally funded capital expenses (NME) and a prioritization based on improvements to plant availability and Resource Adequacy.
8. **Presentation of initial budgets to PREPA Senior Management** – in early December, LUMA presented two budget compilations to PREPA's CFO – the LUMA-reviewed Generation budget and the draft PREPA requested Generation budget – along with a high-level assessment of issues with PREPA's budget preparation process. Approximately one week after LUMA's presentation to PREPA, LUMA was informed that PREPA could complete the budget from there and LUMA's team discontinued further assistance.

From the working drafts within Fall 2020, LUMA's opinions included:

- The Generation Directorate should continue FY2021 operating budget assumptions for FY2022 and beyond, until third party operator is selected.
- LUMA reviewed a potential increase over last year's non-federally funded capital expenditures in order to improve plant reliability and Resource Adequacy above existing levels. As such, , assuming similar operational expenditures to FY2021, under LUMA's allocation for Genco there is allowance for more non-federally funded capital than budgeted in FY2021.
- Strict project controls over each step of the engineering, procurement and construction cycle will be needed to effectively manage any capital expenditures and execute planned outage scope in the allotted time.

### GENERATION ACTIVITIES

LUMA encourages Genco to focus on implementing the capital projects that will increase reliability and restore derated capacity which has been lost. This includes, for example, previously deferred generator maintenance, as well as potential boiler repairs. In addition, the LUMA team reviewed the benefits of improving black start capability and Automated Generation Control (AGC) and Automated Voltage Regulator (AVR) capability which could allow available plants to be operated more efficiently.

The other major area of focus that would support improved system operations are to better utilize several management tools that have been installed but have not been fully utilized. The installed tools include data systems such as the OSIsoft PI, as well as various refurbishments to equipment and procedures that improve communications between the plants and the System Dispatch Center. The optimization of these existing management tools will support many of the elements of the System Operation Principles.

### GENERATION BUDGET SCHEDULE

The following Generation Budget Schedule, also included in Microsoft Excel format, is based on LUMA's reviewed Generation Budget and supports the allocation made by LUMA in the Initial Budgets. Please refer to RFI-LUMA-MI-21-0004-210405-PREB-001 Attachment 1 for supporting workpapers of LUMA's allocation of the Generation Budget. The schedule does not include any federally funded capital expenditures which may be available for generation.

(In \$000s)

1	2	3	4	5
	2020 PREPA Fiscal Plan FY 2021 Budget	FY 2022	Initial Budgets	
			FY 2023	FY 2024
<b>Labor</b>				
1 Salaries, Wages and Benefits	68,206	68,206	70,542	70,565
2 <b>Total Labor Operating Expense</b>	<b>68,206</b>	<b>68,206</b>	<b>70,542</b>	<b>70,565</b>
3 <b>Non-Labor Operating Expense</b>				
4 Materials & Supplies	15,416	15,416	15,416	15,416
5 Transportation, Per Diem, and Mileage	3,415	3,415	3,415	3,415
6 Utilities & Rents	6,534	6,534	6,534	6,534
7 Communications Expenses	1	1	1	1
8 Professional & Technical Outsourced Services	4,995	4,995	4,995	4,995
9 Other Miscellaneous Expenses	7,459	7,459	7,459	7,459
10 <b>Total Non-Labor / Other Operating Expense</b>	<b>37,821</b>	<b>37,821</b>	<b>37,821</b>	<b>37,821</b>
11 <b>Total Operating &amp; Maintenance Expense</b>	<b>106,027</b>	<b>106,027</b>	<b>108,363</b>	<b>108,386</b>
12 <b>Generation Non-Federally Funded Capital</b>	<b>98,463</b>	<b>103,973</b>	<b>91,637</b>	<b>66,614</b>
13 <b>Total Generation Budget</b>	<b>204,490</b>	<b>210,000</b>	<b>200,000</b>	<b>175,000</b>

The information contained in the table above is considered **confidential**.