

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

IN RE: DESIGN OF FUEL PROCUREMENT
HEDGING STRATEGY PROGRAM FOR THE
PUERTO RICO ELECTRIC POWER
AUTHORITY

CASE NO.: NEPR-MI-2022-0004

SUBJECT: Resolution to initiate
Administrative Procedures and Request of
Information to PREPA

RESOLUTION AND ORDER

I. Introduction

“One of the main causes of the prohibitive cost of electric power in Puerto Rico is the high cost of purchasing fossil fuels used to generate more than ninety-five 95% of our electricity. The upward trend in prices and the volatility of the price of fossil fuels in the face of geopolitical events and conflicts beyond our control have caused unprecedented economic impacts both in the past and in recent times. Although the final solution to this problem lies in relying as little as possible on these fossil fuels and moving towards electric power generation based on renewable sources, there are tools widely used by countless jurisdictions to mitigate these increases, at least at the short term.”¹

“One of these tools is hedging through the purchase of fuel in the futures markets. Futures markets are those financial markets listed on the stock exchange in which the purchase and sale of derivative contracts (futures contracts) is made to ensure a future price of a commodity, asset, or security. Through the purchase of these contracts, can be secured, for example, the purchase price of oil or natural gas, fuels used by the [Puerto Rico] Electric Power Authority for power generation. Thus, when the price of these fuels is at a relatively low level, the [Puerto Rico] Electric Power Authority could buy future contracts as a measure of protection against future upward fluctuations in the price of these fuels, thus achieving the stabilization of prices and avoiding having to pass this cost suddenly to the energy consumer through the bill.”²

It is part of the Puerto Rico Energy Public Policy “to ensure that the purchase of fuel for energy generation and the purchases of power for the transmission and distribution network are made at a reasonable price that takes advantage of the reductions in the costs of supplies according to the market, the geographical realities, and the realities of Puerto Rico’s electrical power infrastructure, among other factors; [...]”³

As part of the discharge of its ministerial duties⁴ and under Act No. 17-2019 the Energy Bureau of the Puerto Rico Public Service Regulatory Board (“Energy Bureau”) intends to develop and implement a Hedging Program for the Purchase of Fuels in Future Markets. Once developed, the Program will be made available to the Puerto Rico Electric Power Authority (“PREPA”) for its implementation and execution.

Paragraph (c) of Article 6.3 of Act 57-2014, establishes that the Energy Bureau has the duty and responsibility to take all necessary regulatory actions to guarantee reasonable electric services rates. Paragraph (z) of the referenced Article 6.3 establishes that the Energy Bureau will have the power to collect and analyze all kinds of reliable and opportune information relating to the generation, usage, and consumption of energy, may it be through oil, natural gas or any other fuel or renewable energy source.

¹ *Statement of Reasons, Senate Bill Num. 813, March 17, 2022, page. 2* (“P. S. 813”).

² *Id.*

³ Section 1.5(5)(c) of the *Puerto Rico Energy Public Policy Act*, Act No. 17-2019 (“Act 17-2019”).

⁴ See the *Puerto Rico Energy Transformation and RELIEF Act*, Act No. 57-2014, as amended (“Act 57-2014”).



II. Design of the Fuel Procurement Hedging Strategy Program

The Energy Bureau has acquired the professional services of Stone X Financial, Inc. ("Stone X") to develop a methodical and structured Fuel Procurement Hedging Strategy Program ("Fuel Hedging Program") on behalf the Energy Bureau and for PREPA's implementation.

The design of the project is divided in two phases:

Phase 1 - Risk Assessment

- Review procurement documentation and activities.
- Identify PREPA's price risk tolerances and risk management objectives.
- Assess current governance oversight and internal controls.
- Outline current procurement/hedge practices and reporting frameworks.
- Compare PREPA's current procurement practices to industry standards.
- Recommend how to bridge any gaps found.


Phase 2 - Hedge Plan/Policy Development

- Based on the Assessment findings, StoneX will develop a quantifiable and justifiable hedge plan for PREPA's input fuel price risk exposure.
- This hedge plan will include an infrastructure of oversight and internal controls in line with best practices.
- The hedge plan parameters and authorizations will be recommended based on the results of the Risk Assessment and to align with industry standards.

Once completed and approved by the Energy Bureau, the Fuel Hedging Program shall be implemented and executed by PREPA.

III. Conclusion

The Energy Bureau **ORDERS** PREPA, **within a term of fifteen (15) days** from the notification of this Resolution and Order to file before the Energy Bureau the following information as part of the Phase 1 of the development of the Fuel Hedging Program:

- 
- (1) What is PREPA's current generation input fuel exposure by fuel source/plant?
 - (a) Current natural gas, fuel oil, and diesel forecasts (volume and per unit price).
 - (b) Renewables portfolio related data.
 - (2) How many suppliers/contract agreements are currently in place to cover this exposure?
 - (a) Current energy commodity supply/sales agreements.
 - (b) Any currently procured positions/confirmations.
 - (3) How are commodity budgets for Input Fuel procurement set?
 - (a) Any documentation tied to natural gas, fuel oil and diesel budgets (volume and per unit price) setting methodology.
 - (4) What type of formal documentation is already in place to manage energy procurement/ hedging?
 - (a) Any Procurement/Hedge Based Policy and Procedural Documentation
 - (b) Documentation that will help the Energy Bureau ascertain PREPA's energy commodity procurement:
 - (i) Objectives
 - (ii) Risk Tolerances
 - (iii) Governance/internal controls
 - (iv) Reporting requirements.

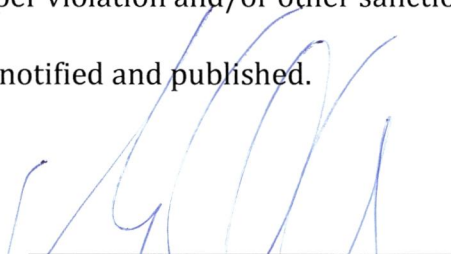


- (5) What type of reports (and what is the frequency) are in place to manage input fuel procurement/hedge activity?
- (a) Documentation/reporting that relates to commodity risk management/input fuel source operations.
 - (b) Any pertinent management meeting notes.

The Energy Bureau **ORDERS** PREPA to fully cooperate with Stone X in all matters described herein and any further pertinent requests issued directly from Stone X to PREPA.

The Energy Bureau **WARNS** PREPA that, pursuant to Article 6.36 of Act 57-2014, noncompliance with the Energy Bureau's orders or applicable legal requirements may carry the imposition of administrative fines of up to twenty-five thousand dollars (\$25,000) per day, per violation and/or other sanctions that the Energy Bureau may deem appropriate.


Be it notified and published.



Edison Avilés Deliz
Chairman



Lillian Mateo Santos
Associate Commissioner



Ferdinand A. Ramos Soegaard
Associate Commissioner



Sylvia B. Ugarte Araujo
Associate Commissioner

CERTIFICATION

I hereby certify that the majority of the members of the Puerto Rico Energy Bureau has so agreed on October 13, 2022. I also certify that on October 13, 2022, a copy of this Resolution and Order was notified by electronic mail to astrid.rodriguez@prepa.com; jorge.ruiz@prepa.com. I also certify that today, October 13, 2022, I have proceeded with the filing of the Resolution and Order issued by the Puerto Rico Energy Bureau.

For the record, I sign this in San Juan, Puerto Rico, today October 13, 2022.



Sonia Seda Gaztambide
Clerk

