NEPR

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

IN RE: REVIEW OF LUMA'S INITIAL BUDGETS	**CASE NO.**: NEPR-MI-2021-0004 **SUBJECT**: Motion to Supplement the October 7 Filing

MOTION TO SUPPLEMENT THE OCTOBER 7 FILING

TO THE HONORABLE PUERTO RICO ENERGY BUREAU:

COMES NOW the Puerto Rico Electric Power Authority (PREPA), through its counsel of record, and respectfully submits and prays as follows:

1. On September 20, 2022, the Energy Bureau of the Public Service Regulatory Board of Puerto Rico ("Energy Bureau") issued a *Resolution and Order* ("September 20 Order") amending the procedural calendar and scheduling the continuation of the virtual technical conference to be held on October 18, 2022.

2. The September 20 Order also directed PREPA to provide on or before October 7, 2022, the following documents:

> i) all documentation submitted before the Financial Oversight and Management Board for Puerto Rico ("FOMB") pertaining Fiscal Year 2022, including the four (4) quarterly reports for FY 2022; and
>
> ii) all documents filed with FOMB regarding Fiscal Year 2023 Certified Budget as well as the responses provided by the FOMB.

September 20 Order at p. 2.

3. On October 7, 2022, PREPA filed a *Motion in Compliance with the September 20 2022 Order* submitting documents responsive to the September 20 Order.

4. PREPA has identified the following additional documents which are also responsive to items (ii) of the September 20 Order:

a. PREPA's Response to the Financial Oversight and Management Board for Puerto Rico's ("FOMB") May 25, 2022, Notice of Violation dated May 31, 2022.

b. PREPA's Response to the FOMB's June 7, 2022, Notice of Violation dated June 16, 2022.

c. PREPA's Response to FOMB's June 28, 2022, Notice of Violation dated June 29, 2022.

5. These documents are presented to the Energy Bureau as Exhibit A to this motion.

WHEREFORE, it is respectfully requested that the Energy Bureau accepts Exhibit A as a supplemental response in compliance with the September 20 Order.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, on this 14th day of October 2022.

f/ Joannely Marrero Cruz
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CERTIFICATE OF SERVICE

It is hereby certified that I have filed the foregoing with the Clerk of the Energy Bureau using the electronic filing system and that I have served a copy to Margarita Mercado Echegaray, margarita.mercado@us.dlapiper.com.

In San Juan, Puerto Rico, on this 14th day of October 2022.

f/ Joannely Marrero Cruz
Joannely Marrero Cruz

Exhibit A

GOVERNMENT OF PUERTO RICO
PUERTO RICO ELECTRIC POWER AUTHORITY
Executive Director I Josué A. Colón Ortiz I director_ejecutivo@prepa.com

May 31, 2022

BY ELECTRONIC MAIL
jaime.elkoury@promesa.gov

Mr. Jaime A. El Koury
General Counsel
Financial Oversight and Management
Board for Puerto Rico (FOMB)
PO Box 192018
San Juan, Puerto Rico 00919-2018

Dear Mr. El Koury:

The Puerto Rico Electric Power Authority (PREPA) is in receipt of the FOMB's letter dated May 25, 2022, requesting certain revisions and additional supporting information related to PREPA's proposed Fiscal Plan (Proposed Plan) submitted by PREPA on May 11, 2022. PREPA hereby responds to the FOMB's letter.

As noted in FOMB's letter, this Proposed Plan is the first to be developed after LUMA's assumption of responsibility for the operation and maintenance of PREPA's T&D System. PREPA believes it is necessary to expand on what this means in practice for better understanding and consideration of all relevant stakeholders.

Since June 1, 2021, LUMA is responsible for T&D System Operation Services as defined in the Operations and Maintenance Agreement (T&D OMA[1]), which was approved by the FOMB as part of the T&D privatization process under the certified fiscal plan.[2] As a result, LUMA is now responsible for T&D and Customer Service functions, in addition to administrative responsibilities that include data, recordkeeping, and reporting.[3] Further, and pursuant to the T&D OMA, since June 1, 2021, LUMA acts as agent of PREPA in the discharge of all the duties, tasks, and responsibilities described in the T&D OMA and as necessary to operate and maintain the T&D System, including responsibility for certain regulatory matters before any Governmental Body (defined to include FOMB) and compliance with governmental approvals and applicable law (which includes PROMESA, and the fiscal plans and budgets certified by the FOMB).[4] As such, LUMA, as agent of PREPA, has the express obligation to prepare and provide PREPA with all information submittals and provide, on a timely basis, all such information to FOMB as required under PROMESA. To that end, instances where LUMA provided or should provide information responsive to the FOMB's May 25th letter as part of this response are noted below.

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[1] Puerto Rico Transmission & Distribution System Operation and Maintenance Agreement dated as of June 22, 2020, by and among PREPA, P3A, and LUMA Energy Servco, LLC.
[2] See 2020 PREPA Fiscal Plan as Certified by FOMB on June 29, 2020.
[3] See generally, Article 5 (O&M Services) of the T&D OMA.
[4] See generally, Article 5, Sections 5.2, 5.6, et al.

Based on the foregoing developments, the practice of attributing PREPA with responsibilities, omissions, demands, and deliverables should be reconsidered, as PREPA - together with other key stakeholders including the FOMB - continues advancing the historic transformation of Puerto Rico's energy sector, including PREPA's own transformation. With the execution of the historic T&D OMA in 2020, and more specifically as of June 1, 2021, when LUMA assumed relevant responsibilities for T&D O&M Services, the space that once was occupied solely by PREPA is now also occupied by LUMA as a key stakeholder. PREPA, as System Owner and despite repeated good faith attempts, has found it increasingly difficult to obtain information from LUMA, its agent under the T&D OMA. This, notwithstanding the clear and express language in the T&D OMA[5] pursuant to which LUMA is obligated to provide PREPA with financial and operational system information, including Generation information, to support PREPA's required disclosures and the preparation of reports and other documents to satisfy PREPA's reporting requirements under applicable law.

I. Progress to Date

PREPA agrees that, once the transformation of Puerto Rico's energy sector is complete, the Island and its residents will benefit from modern, efficient, and reliable energy services, a more diversified fuel mix, reduced fuel costs anchored in renewable sources, and increased operational efficiencies. PREPA's documented efforts to date already have advanced on many of these objectives including (a) increasing reliability of the legacy power plants (through comprehensive maintenance and repair schedules), (b) increasing diversification of fuel mix and costs through conversions to LNG, and a much-improved fuel procurement process for diesel and Bunker C fuels; (c) advancing the IRP mandated Tranche 1 renewable energy procurement process (for up to 1,000 MW of renewable energy and 500 MW of battery energy storage); (d) improving operational efficiencies at its power plants; (e) optimizing the submittal of generating units repairs projects for federal funds reimbursement; (f) developing a clear path to environmental compliance; and (g) stabilizing its finances with historical reporting and transparency on cash flows, 13-week cash flow budgets, related reporting, A/P, and A/R tracking and monitoring.

There remain key objectives that must be achieved, although some delays and challenges have presented themselves. These, however, are a result of the interactions and dealings between the growing stakeholder group now involved in energy sector transformation matters, which include LUMA, the Puerto Rico Public-Private Partnerships Authority (P3 Authority), FOMB, the Puerto Rico Energy Bureau (PREB), and the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), in addition to PREPA.

[5] See Article 3, Section 3.8 - Reporting Obligations. In accordance with Section VI of Annex I (Scope of Services) Operator shall provide (i) System Information (both financial and operational), as available, to support Owner's financing activities, including Owner's administration of debt service and Owner's required disclosure and tax requirements, and (ii) assistance to Owner and Administrator in connection with Owner's preparation of reports and other documents to satisfy Owner's reporting requirements.

Additionally, PREPA has had success, amidst substantially reduced and restricted resources (human and budgetary), in completing or advancing key initiatives under the 2021 Certified Fiscal plan including:

- Fuel Procurement: with two of its major supply contracts up for renewal during FY2022, PREPA undertook a competitive procurement process to obtain the best available market prices. PREPA issued RFPs for both diesel and Bunker-C during the summer of 2021 and completed the evaluation and selection process by the end of September and October, respectively. On October 29, 2021, PREPA executed the proposed $606 million fuel contract with Puma Energy Caribe LLC for Bunker-C fuel supply for the Aguirre, Costa Sur, San Juan, and Palo Seco power plants. The contract price adder negotiated under PREPA's enhanced procurement process represents an approximate 33% price reduction compared to the current minimum adder of $4.28 with a credit cap of $200 million and a sixty-day credit term. Then on November 18, 2021, PREPA executed a $265.5 million diesel fuel supply contract with Novum Energy Trading Inc. for the San Juan, Palo Seco, Aguirre, Mayagüez, and Cambalache power plants, and PREPA's gas turbines. The contract includes payment for fuel at market prices and a fee for logistics and delivery, known as a price adder. The price adder negotiated under PREPA's enhanced procurement process is about 19% lower than the $9.63 adder of the prior diesel supplier, Puma Energy Caribe LLC, which was PREPA's sole provider of diesel fuel since 2014.

- PREPA Reorganization: as part of the transformation process, PREPA is undergoing a corporate reorganization that encompasses both legal, financial, and operational changes that meet the requirements of the T&D OMA and enable LUMA and the new private generation operators to effectively and efficiently control the T&D System and Legacy Thermal Generation assets, respectively. Throughout FY2022, PREPA has worked diligently and in good faith with the P3 Authority, AAFAF, LUMA, and other key stakeholders to advance and complete the necessary changes, including authorizing the creation of new subsidiaries and operating agreements among the parties, which are subject to PREB approval.

- Procurement Process for Legacy Generation Public-Private Partnership (P3): PREPA management and its advisory teams developed materials for and supported the administration of the Request for Proposal (RFP) and bidder due diligence process for the Legacy Generation P3, which the P3 Authority formally launched on November 10, 2020. The RFP was released to eight (8) highly qualified bidders. The goal of this project is to comply with Puerto Rico's energy policy as set forth by Act 17-2019 and the requirements of this and prior Fiscal Plans, to transfer the operation of the generation assets of PREPA to a private operator to significantly improve the operations of the legacy generation assets and achieve cost efficiencies. On December 22, 2021, proposals were received and are under review and evaluation by the P3 Authority's Partnership Committee.

- Renewable Power Purchase and Operating Agreements (PPOA) procurement: On February 22, 2021, PREPA launched the first of six (6) tranches of the renewable energy generation and storage resources RFP, to comply with legislative mandates and regulatory orders to increase renewable power capacity in Puerto Rico. The first tranche of the RFP sought to procure at least 1,000MW of renewable generation capacity and at least 500 MW / 2,000 MWh (effective duration of 4-hour capacity per MW), including at least 150MW of distributed energy storage Virtual Power Plants (VPPs). On February 2, 2022, PREB approved 18 of the solar PPOAs recommended by the Evaluation Committee totaling approximately 845MW of installed capacity. Compared to today's generation costs, installing additional renewable capacity should help lower generation costs, as well as provide rate stability. LUMA is now performing Interconnection Studies and a System Impact Study for these projects, as well as three Energy Storage projects totaling 220 MW recommended by the Evaluation Committee. These studies are expected to be finalized by the end of May 2022.

II. Remaining Challenges

FOMB highlights in its letter the requirement for reorganization and unbundling of PREPA pursuant to Act 17-2019, and applicable PREPA Certified Fiscal Plans. Some stakeholders impute PREPA with failure to make substantive progress in completing such corporate reorganization and unbundling. Unfortunately, the stakeholders repeat this erroneous allegation even after PREPA explained in writing the reasons and basis for the status of the corporate reorganization. In a recent letter dated May 17, 2022, PREPA makes it evident that it is not the sole actor nor the sole responsible party leading and completing such reorganization, since it is dependent on actions led by P3 Authority.[6]

For ease of reference, the following are the key points stated in PREPA's May 17th letter.

- In December 2021, PREPA's Governing Board (Governing Board) approved the creation of the three subsidiaries, GenCo, HydroCo, and PropertyCo, and the Capital Contribution Agreement for each of them. The Capital Contribution Agreement includes a list of the assets of each one of the subsidiaries, thus identifying and separating all PREPA's assets into GenCo, HydroCo, and PropertyCo (any assets not identified, as pertaining to GridCo, GenCo, or HydroCo will fall into PropertyCo).

- The P3 Authority requested PREPA to jointly approve the following documents: GenCo-GridCo-HydroCo Operating Agreement (GGHOA), the Agreed Operating Procedures (AOPs), and the Interconnection Agreement (IA). Drafts of these documents were discussed with the Governing Board during the December 2021 monthly meeting. The PREPA Governing Board understood, however, that, since these documents would control and establish the ground rules between GenCo, GridCo, and HydroCo, the responsible and

6 See Attachment A, letter from J. Colón Ortiz, P.E., PREPA Executive Director dated May 17, 2022.

logical next step was to submit to the Thermal Generation P3 Service Provider proponents the draft documents for their respective evaluation and comments – before execution. After all, one or more of the proponents and their anticipated operation of the Legacy Generation Assets will eventually be affected and governed by the terms and conditions of each of these documents during the term of the generation operation and maintenance agreement.

The P3 Authority agreed with the Governing Board's recommendation and proceeded to obtain comments from the respective Thermal Generation proponents. In February 2022, the P3 Authority notified PREPA that their consultants were evaluating the respective comments from proponents and would forward such comments to PREPA. While awaiting receipt of the proponents' comments from the P3 Authority, during the April 2022 monthly Governing Board meeting, the P3 Authority suggested that the various documents be approved on an "interim" basis until the Thermal Generation P3 Service Provider RFP is awarded and the corresponding operating and maintenance agreement is executed. PREPA management and the PREPA Governing Board requested from the P3 Authority, albeit unsuccessfully, an explanation and the underlying reasoning behind the proposal to approve the mentioned agreements on an "interim" basis – and how such a proposal would not defeat the objective of ensuring a level playing field for all relevant stakeholders that achieve operational, financial, and transactional alignment. PREPA still awaits formal delivery from the P3 Authority of comments received from Thermal Generation proponents regarding the mentioned draft agreements.

- Given the foregoing, and notwithstanding information that is yet to be received by PREPA and its Governing Board, the approval of interim agreements for the GGHOA, AOPs, and IA, as recommended by the P3 Authority, was considered, and approved during the May 2022 monthly meeting of the PREPA Governing Board. Similarly, the Governing Board approved that PREPA's management submits the documents for the creation of the subsidiaries to the PREB, for the Energy Bureau's review and approval. PREPA will be filing these documents once it receives and reviews all relevant information from the P3A who controls the drafting of these documents and conforms to supporting documentation from PREPA.

Once again, PREPA confirms to the FOMB that it has been, and continues to be, actively pursuing the remaining actions to complete its reorganization within the circumstances explained above. As mentioned in PREPA's May 17, 2022 letter to the FOMB, the proposed GGHOA is not the GridCo-GenCo PPOA referenced under the T&D OMA or in the Limited Waiver. PREPA had been willing to enter the GridCo-GenCo PPOA, as expressly called for under the T&D OMA, but LUMA / P3 Authority presented the alternative of signing the GGHOA instead. PREPA at the time did not take issue with this, in the continued spirit of advancing the overall transformation initiatives, although it is not consistent with the T&D OMA.

In its May 25th letter, the FOMB further contends that PREPA remains reliant on expensive generation and subject to volatile fuel prices – as if this continuation were PREPA's sole responsibility or fault. First, it is important to underscore, once again, that PREPA's current generation infrastructure cannot be decommissioned and substituted until a new modern and compliant generation is permitted, constructed, and safely and reliably interconnected with the electrical system. To that end, PREPA had recently undertaken significant efforts to correct its historical generation challenges, including: (a) permitting and converting San Juan Power Plant Units 5 & 6 to LNG; and (b) completing a historic IRP-required Tranche1 for about 845 MW of renewable energy generation. The procured renewable energy and battery storage projects now await approvals from LUMA (LUMA has indicated that the Points of Interconnection and Network Upgrade Studies would be completed by May 31, with interconnection studies remaining to be completed), who is undertaking pertinent studies for grid integration and the required Minimum Technical Requirements, or MTRs. Following LUMA's review and assessment, the PREB and FOMB must undertake their respective review and approvals processes – before the PPOAs are finalized and financeable, aside from securing relevant permitting requirements. It is worthy to note that given the delays in the procurement and approval processes, renewable proponents (through *Asociación de Productores de Energía Renovable*, *APER* by its acronym in Spanish) recently wrote to PREPA, FOMB, and PREB to indicate that current pricing would no longer be possible and that renewable energy system costs have increased substantially[7]. All the remaining milestones are beyond and outside the control of PREPA.

In addition to the foregoing, PREPA's role in procuring the additional renewable Tranches 2 – 6 was limited by the PREB and the responsibility for undertaking these renewable procurement tranches now resides with the Energy Bureau and its designated Independent Coordinator. To date, PREB has not officially commenced the next stage of renewable procurement, nor has it issued a resolution defining PREPA's roles and responsibilities in the development of these tranches processes.

Furthermore, and several years prior to these latest generation procurement efforts, PREPA had negotiated and renegotiated (under FOMB's stewardship) a total of 450MW of shovel-ready renewable energy projects with an average first-year energy price of $99 / MWh to achieve reduced energy costs. Yet, these efforts were nullified on August 17, 2020, when the FOMB responded by canceling all 450MW of shovel-ready PPOAs, instructing PREPA to instead undertake new PPOA procurements through the Tranche 1 RFP process.

These various distinct and increasingly complicated procurement, review, and approval processes have, no doubt, materially delayed Puerto Rico's ability to leverage new renewable energy generation capacity in time to meet its Renewable Portfolio Standard (RPS) targets. PREPA, however, is hardly the sole actor responsible for meeting those targets. Currently, PREPA is not procuring new energy generation projects. It is now incumbent on all those responsible for advancing and achieving those objectives – which includes LUMA, PREB, P3 Authority, and the FOMB in addition to PREPA – to act with increased urgency to collectively help achieve those milestones.

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[7] See Attachment B - APER letter to Eng. Josué Colón, dated May 16, 2022

PREPA's remaining operational and fiduciary duty is to ensure that its legacy generation plants are as reliable, resilient, and compliant as possible, with sufficient backup reserves and black-start capacity, to minimize or avoid the risk of wide or prolonged legacy generation related outages. PREPA's management efforts to this end will continue within the existing budgetary and transformation challenges, until a private generation operator(s) is(are) selected and onboarded after the P3 Authority selection and approval by the FOMB. Accelerating approvals, construction, commissioning, and grid integration of new compliant and modern generation capacity, however, is key for Puerto Rico to achieve its RPS targets, among other service milestones.

In addition, in its May 25th letter, the FOMB mentions the need for PREPA to focus on the following matters. PREPA's response follows below.

- *Continuing to support and achieve the urgent transition of generation operations to private operators*
    - Response: PREPA has and will continue to support the generation operator procurement process – and will work on the transition when appropriate. However, as earlier explained, PREPA is hardly able to influence the timing or result of this procurement effort. This is the responsibility of the P3 Authority.
- *Making clear progress on its corporate reorganization as envisioned in the Energy Sector Transformation*
    - Response: PREPA's responses above confirm and expand on the status of its corporate reorganization and anticipated next steps, particularly, as mentioned in the letter to the FOMB of May 17, 2022, and as updated since.
- *Supporting the transition to renewable energy resources and compliance with regulatory requirements.*
    - Response: PREPA has been and continues supporting and working towards these objectives – as far as it can, given the new stakeholders involved and the multiple initiatives - as amply explained earlier in this letter. In particular, PREPA has diligently answered PREB's requests for information and has sought PREB's guidance to promptly move forward with the completion of the Tranche 1 RFP process and the commencement of the Tranche 2 RFP process. As mentioned, it is important to direct the concerns and oversight to LUMA and the PREB, as relevant.
- *Continuing the implementation of operational measures designed to improve administrative and operational efficiencies and increase service reliability until responsibility over such assets is transferred to a private operator(s).*

- Response: The current, proposed budgets seek to maintain sufficient headcount in order to maintain continuity of operations, maximize efficiencies and facilitate the transfer of generation operations to a private operator. The current generating units' repair schedule and other short-term operational actions are gradually increasing the dependable available generation capacity and reducing the operation of diesel-burning units when the operational reserve levels allow it.

- *Achieving financial sustainability through the restructuring and reform of its legacy debt and pension obligations.*

    - Response: Restructuring and reform of PREPA's legacy debt and pension obligations are matters that lie statutorily on the FOMB. PREPA has worked and continues to work with the FOMB, as requested, on its restructuring efforts and discussions with relevant stakeholders. Given the legal framework, however, it is FOMB that has control over and the ability to lead in this respect. PREPA, of course, will continue collaborating as relevant and necessary.

- *Improving cooperation with LUMA on joint initiatives, financial reporting, budget management, and other Shared Services.*

    - Response: PREPA is cooperating, and continues willing and able to cooperate, on all relevant efforts with LUMA. For cooperation to be effective, however, all parties involved must be equally committed. As earlier mentioned, and as FOMB representatives are aware[8], PREPA as System Owner and despite repeated good faith attempts, has found it increasingly difficult to obtain information from LUMA, pursuant to the T&D OMA. In fact, LUMA has canceled reports and information sharing that it had been providing to PREPA for purposes of its reporting responsibilities. This, despite the clear and express language in the T&D OMA[9], obligates LUMA to provide PREPA with financial and operational system information, including Generation information, to support PREPA's required disclosures and the preparation of reports and other documents to satisfy PREPA's reporting requirements under applicable law. PREPA management has sent LUMA and the P3 Authority, as Administrator under the T&D OMA, several letters[10] detailing these challenges and the contractual reporting requirements, without success.

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[8] PREPA representatives have discussed the information sharing challenges with FOMB's fiscal plan working group, headed by Mr. Fernando Bruno.

[9] See footnote 5.

[10] PREPA sent letters to LUMA and P3 Authority on October 15, 2021, and on December 2, 2021 raising its concerns with decreasing information sharing from LUMA and highlighting the reporting obligations under Sect. 3.8 of the T&D OMA.

<u>Detailed Discussion of required revisions to PREPA's Proposed Plan</u>

A. Transition to private operator and reorganization

- **GenCo P3**

<u>FOMB Comment</u>: The Proposed Plan must include a discussion, with estimated dates, on the remaining timeline for finalizing (i) the GenCo operator(s) transaction and (ii) the transition of the operation and maintenance of the legacy generation assets and its generation employees to the private operator(s).

<u>Response</u>: The timeline PREPA included in the Proposed Plan and is again providing in the Revised Proposed Plan is the best currently available information provided by the P3 Authority. PREPA reiterates the guidance provided here by the P3 Authority: "we expect to make the selection of the Preferred Proponent by the end of the 4th Quarter of FY 2021-2022. Contract Execution and the commencement of the mobilization period is expected to take place during the 1st Quarter of FY 2022-2023."

- **PREPA Reorganization**

<u>FOMB Comment</u>: The Proposed Plan must include a detailed discussion regarding the steps to be taken by PREPA to achieve the reorganization contemplated in the Energy Sector Transformation. The Proposed Plan must include a clear description of PREPA's reorganized corporate structure, including identifying all subsidiaries expected to be established in relation to its reorganization (GridCo, GenCo, HoldCo, HydroCo, and PropertyCo), as well as any other remaining subsidiaries (i.e., PREPA Holdings, PREPA Networks, LLC—now known as HUB Advanced Networks, etc.). For each of these entities, the Proposed Plan must include a description of each entity, operational scope, roles, responsibilities, and required roster size of operations over time (i.e., Organizational Charts).

- The Proposed Plan must include an exhibit showing PREPA's overall organizational structure in chart format, to reflect all contemplated subsidiaries.
- The Proposed Plan must include a detailed timeline with specific milestones that is consistent with the goal of a timely completion for PREPA's reorganization.
- The Proposed Plan must detail its plans (both short-term and long-term) for each of the above entities with an estimated timeline for execution of each of the proposed steps. PREPA must propose plans that consider the Energy Sector Transformation's objectives of reducing PREPA's day to day activities.
- The Proposed Plan must include clear descriptions of PREPA's plans with regard to each entity or subsidiary (e.g., processes contemplated for managing and divesting assets, transferring operations to third-party operators whether private or public, as applicable).

Response: PREPA has included in the Proposed Fiscal Plan a further updated and detailed proposed plan with milestones and dates.

B. Fiscal Measures

The Proposed Plan must be updated to reflect the following fiscal measures:

- **Legacy debt**

FOMB Comment: PREPA must illustrate the full impact of legacy debt service charges, assuming no debt restructuring, and clearly separate this impact from any other rate elements based on the fiscal plan's baseline load, while also clearly identifying all assumptions. Specifically, the Proposed Plan's Debt Chapter must include a discussion, as well as an illustration, of PREPA's unrestructured debt impact and cost to PREPA and ratepayers, in dollar amounts, energy rates (c/kWh), and on an average residential customer's monthly bill. Moreover, the Proposed Plan must include a debt sustainability analysis.

Response: PREPA had included the illustrative impact of legacy debt service assuming no debt restructuring in the Proposed Plan submitted on May 11th and has again included it in the Revised Proposed Plan.

- **FY2023 Pension Plan Employer Contributions**

FOMB Comment: The Proposed Plan includes an FY2023 employer contribution of $18 million for GenCo and HoldCo employees, representing a 30% reduction from the $27 million approved in FY2022. This is significantly below the $332 million actuarially determined contribution (ADC) identified in PREPA's model. PREPA Employee Retirement System ("PREPA ERS") is significantly underfunded, largely as a result of insufficient historical employer contribution levels. While the ability to pay benefits in the longer term is still being addressed, PREPA must contribute in FY2023 at a level that will not result in any incremental underfunding relative to its current employees (excluding employees that transferred to other government entities) and must provide supporting documentation related to the determination of the FY2023 contribution level including an assessment of the impact on the funded level of PREPA ERS.

Response: The PREPA ERS is severely underfunded. PREPA wishes to discuss this with FOMB, however, the statement asks that "PREPA must contribute in FY2023 at a level that will not result in any incremental underfunding relative to its current employees (excluding employees that transferred to other government entities)". FOMB's statement seems inconsistent with FOMB's own record, and the funding policy included in the FY2023 Central Government Budget. If FOMB were to apply the same level of funding to all former PREPA employees that transferred to the government and participate in the PREPA ERS, the Central Government's employer contribution would be much higher than the currently budgeted amount of approximately $14 million. As additional context and background, the FOMB has approved and certified the PREPA Fiscal Plans during fiscal years 2018-2022, authorizing employer contributions significantly below the ADC. It is reasonable to conclude based on the information available that based on the FOMB approved employer contributions, the PREPA ERS is undoubtedly heading towards a Pay-as-You-Go ("PAYGO") scenario. To that end, it is not clear to PREPA why FOMB is now requesting a higher employer contribution that would take already scarce operational funds needed to satisfy PREPA and LUMA operational needs, particularly when the amount suggested by FOMB would have a minimal, if any, impact on the overall health or longevity of the PREPA ERS (i.e., the proposed funding amount is estimated to only move the asset depletion dates by approximately two weeks). PREPA's reasoned view is that the FOMB should instead acknowledge the impact of long-term rate funding for the pension plan on PREPA's financial projections.

PREPA believes that a holistic solution for the PREPA ERS is needed. It is Government policy that no reduction in pension benefits should occur, and the revised Fiscal Plan includes the necessary funding to ensure that there is no reduction in benefits.

- **Pension Reform**

FOMB Comment: The Proposed Plan includes employer contributions to the PREPA pension system below actuarially determined amounts as identified by both PREPA's and the Oversight Board's financial advisors.

PREPA's pension system is in dire need of structural reform. As of March 31, 2022, PREPA ERS had total assets of $539 million, of which almost 1/3, or $157 million, was invested in "illiquid assets." Meanwhile, the liquid assets represent only approximately 10% of the present value of benefits owed to participants. This means that PREPA ERS currently only has 10 cents available for each dollar that it owes to plan participants. Currently, PREPA ERS on average pays approximately $20 million in benefit payments above and beyond any incoming contributions each month. At this rate, the assets will be depleted in ~19 months, before considering the impact of any losses in the equity markets or employee contribution rollovers pending from the LUMA transaction (currently estimated at ~$80 million). As stated in a letter to the Oversight Board dated May 13, 2021, the PREPA ERS determined it would disallow employees who transferred to LUMA from continuing to participate in the PREPA ERS pension plan, notwithstanding local law that authorized their continued participation. Stated simply, more than 18,000 current and future retirees are at risk of losing their pensions unless a meaningful effort to restructure and fund the pension system is made.

The Oversight Board has, in the past, proposed restructuring the pension system to provide for its adequate funding while mitigating any negative impact on customer's energy bills. PREPA has not provided a proposed pension reform that would satisfy the requirements of the Oversight Board. The Oversight Board believes that the pension system requires reform, as we have indicated in prior Fiscal Plans. To the extent that PREPA and the Government contend that no reform of the PREPA ERS is necessary, they must provide documentation, data, and full analysis to support their position.

In all events, the Proposed Plan must clearly illustrate the current state of the pension system, if left unrestructured, and the impact on PREPA and ratepayers, in terms of dollars, and energy rates (c/kWh) and on an average residential customer's monthly bill.

Response: The May 31 Revised Financial Model does not consider pension reform or full funding of the Actuarially Determined Contribution for FY2023, instead it includes the PAYGO funding necessary to ensure that no reduction in pension benefits would occur, consistent with Government policy.

C. Capital Expenditures

FOMB Comment: The Proposed Plan must provide transparency on capital planning and funding. This includes detailed descriptions of the capital improvement plans and their funding sources (including any cost-share requirements), especially for generation assets.

- **Transparency of capital plan interfaces, portfolios, and funding**

FOMB Comment: The Proposed Plan currently includes an overview of several relevant capital plans, including objectives, project prioritization criteria, and the project portfolio. The Proposed Plan must also include the following additional information:

- A description of the relationship between the PREPA 10-year Infrastructure Plan and the T&D System Remediation Plan ("SRP") developed by LUMA;
- A description of the prioritization and coordination framework to be used for the implementation of the PREPA 10-year Infrastructure Plan and the SRP; and,
- A discussion on the process by which PREPA and LUMA will ensure both plans are aligned and consistent with relevant FEMA rules and regulations.

Throughout the Proposed Plan, PREPA must ensure all capital program discussions are updated to reference the appropriate capital plan (e.g., 10-year Infrastructure Plan, SRP, Initial Budgets, etc.).

Response: PREPA has added language clarifying the relationship and distinction between the PREPA 10-year Infrastructure Plan and the T&D System Remediation Plan ("SRP") developed by LUMA. PREPA also clarifies that FOMB's request should not focus especially on generation assets. As the sub-recipient under the Federal Emergency Management Agency (FEMA) and the US Department of Housing and Urban Development (HUD) rules and procedures, PREPA – who owns the T&D and generation infrastructure – (and its ~1.4 million electric customers) is(are), in the end, the party(ies) financially responsible for the proper and compliant use of such federal funding. As such, transparency and real-time accountability for projects being paid with federal funds are paramount across the board, and in particular on projects managed by any private operators, including LUMA as PREPA's agent under the T&D OMA, and any future generation operator, in the interest of full compliance with federal requirements and our shared responsibilities to customers.

- **Sources and uses of federal funding**

FOMB Comment: The Proposed Plan does not include a clear and succinct overview of the uses and sources of anticipated federal funding and includes neither the federal funding in the core quantitative projections nor potential cost share in the budget. The Proposed Plan must include an overview of the following: (i) the expected amount of federal funding, including the Project Worksheet (PW) and source (e.g., FEMA 428, HUD CDBG-DR); (ii) any cost share requirement as well as the proposed source for funding for the corresponding cost-share requirement; and (iii) a description of the portfolio of projects ongoing or to be initiated using federal funds, including the entity responsible for undertaking the project (e.g., PREPA or LUMA) and current status and/or milestones. To reflect the risk associated with the cost-share requirements of federal funds available to PREPA, the Proposed Plan must include an illustration of the effect on electricity rates, in the event that PREPA has to resort to sourcing cost-share amounts from electricity sales. Specifically, the Proposed Plan must include a discussion of the rate impact if U.S. Department of Housing and Urban Development's Community Development Block Grant Disaster Recovery ("HUD CDBG-DR") funds are not available to cover all or a portion of the cost-share requirement.

Response: PREPA disagrees with the FOMB's assertion that the Proposed Plan does not include clear and succinct sources and uses of federal funding. The information provided in the Proposed Plan that was submitted on May 11th and now also included in the Revised Proposed Plan is the best available information as of the date of this letter.

D. Operational Measures

The Proposed Plan must provide additional transparency on operational measures. For generation-related operational and fiscal measures (or measures related to other functions not transferred to LUMA) the Proposed Plan must reflect:

- **Transparency on operational measures**

FOMB Comment: The Proposed Plan does not include a detailed description of proposed operational measures. Additionally, expected savings and expenses associated with the proposed operational measures are not clearly identified in expense projections. Finally, the Proposed Plan does not describe the link between each of the operational measures and the corresponding key performance indicator nor does the Fiscal Plan describe the projected effect on each indicator.

- For generation operational measures, the Proposed Plan must include the following information for each measure commencing, ongoing, or expected to be completed within the Proposed Plan forecast period: (i) expected future savings by year; (ii) timeline to completion; (iii) key milestones; and (iv) impact on key performance indicators. To ensure expected savings are included in forecasted expenses, the Proposed Plan must also identify expense line items impacted by savings achieved through measures.

Response: PREPA's operational measures were developed building upon and in alignment with the 2021 Certified Fiscal Plan and the transformation envisioned therein. It is noted that the repair and maintenance of the generating unit schedule were developed to increase the dependable available generation capacity to allow the system operator to mostly dispatch the cheaper units and reduce the operation hours of the more expensive diesel-burning units. Thus, reducing PREPA's fuel consumption expenses and consequently the energy cost to consumers. Moreover, PREPA sent various Fiscal Plan drafts to the FOMB, without any material comment or issue. FOMB had not raised any issue with the proposed operational initiatives until its May 25th letter.

- **Fuel Purchasing Strategy and Fuel delivery optimization**

FOMB Comment: The Proposed Plan outlines a new fuel purchasing strategy for a competitive RFP process but fails to consider that the most recent competitive procurement processes for fuel supply yielded substantial savings and that its existing fuel supply contracts may be extended, including at least one of them at PREPA's request. The Proposed Plan must include a clear implementation plan, including achievable milestones, within the current contracts' renewal clause timeframes, to complete a fuel needs analysis to address the decision of renewing or declining to renew current supply agreements in favor of a new fuel RFP.

Response: PREPA agrees that the potential renewal of current supply agreements should be considered. The Revised Proposed Plan includes the appropriate milestones for review and decision on the contract renewal clauses.

- **Vegetation Management**

FOMB Comment: Clearly defined Vegetation Management metrics, performance management, and reporting cadence are critical to ensuring the appropriate work is planned and completed to better maintain a safe, reliable, and resilient T&D system for PREPA (LUMA) customers. The Proposed Plan does not include reporting on Vegetation Management activities, which prevents an understanding of overall performance and progress in reducing outages, and outage frequency. The Proposed Plan must include the ongoing vegetation management plan and outline a standard reporting cadence of the currently available information (e.g., work orders, contractors bills/job completions, and percentage of outages caused due to vegetation issues).

Response (LUMA): LUMA's ongoing vegetation management activities, in accordance with LUMA's Vegetation Management Plan (VMP) as filed in NEPR-MI-2019-0005, include work to abate or mitigate immediate vegetation risk in the most critical locations, along with an ongoing program to clear and re-establish Rights-of-Way (ROWs) to standard widths. This includes immediate response for the highest risk sites, those that pose hazards to public safety or routinely experience tree-caused service interruptions and reclaiming ROW corridors (especially those impacting the T&D System).

Since LUMA's commencement of operations on June 1, 2021, vegetation management activities have included responding to urgent outages, customer requests, and public safety requests as well as removing vegetation in close proximity to a conductor in various locations that routinely experience vegetation related outages. In addition, LUMA has completed an initial vegetation clearing, first herbicide treatment, and second herbicide treatment at all substation sites.

For the first time in Puerto Rico, LUMA has introduced the use of specialized equipment, including Skid Steer Mulchers, Small and Medium-Sized Forest Mulchers, and Mini-Giraffe Saws on ROWs. This use of specialized equipment to complete work has resulted in more effective and efficient vegetation management practices than historically has been seen in Puerto Rico. This application of specialized equipment has alleviated physically demanding work and, as a result, improved safety. LUMA has utilized this specialized equipment to LUMA conduct maintenance vegetation work on distribution lines and transmission lines in various regions across the island.

Under Act 17-2019, PREB will oversee the vegetation management program and LUMA reports on Vegetation Management activities in accordance Applicable Laws and PREB requirements including quarterly program updates within its Quarterly Report submitted within the Budgets proceeding NEPR-MI-2021-0004 and the System Remediation Plan proceeding NEPR-MI-2020-0019 and an annual summary of activities as part of its Emergency Response Plan. Further, LUMA reports on Vegetation Management spending and variance within Quarterly reports to the FOMB and monthly reports to P3 Authority and the FOMB.

- **Necessary Maintenance Expenses (NME) Reporting**

FOMB Comment: As part of the review process, PREPA must report additional supporting detail to its NME Budget, with specific projects by unit and accompanying costs on a project basis. To better understand prior NME performance, the Proposed Plan must include the historical trend for the last three fiscal years, where PREPA has not met its generation NME budget, and include a discussion on any reasons for such underspend and why it is now capable of implementing a more ambitious NME program. Going forward, PREPA must provide forecasted NME expenditures by project level detail, and the Proposed Plan must include a requirement for an NME expenditure report that includes that same level of detail, and which shall be submitted with the quarterly Budget to Actuals submission, including a walkthrough of NME deployment.

Response: PREPA has included with its submittal of the Revised Proposed Plan and financial model support the NME Analysis for FY2019, FY2020, and FY2021. These workbooks provide the requested detail and demonstrate the mistaken nature of the assertion that “PREPA has not met its generation NME budget” and the implication that no additional funds might be needed as a result.

E. Resource Planning and Industry Trends

The Proposed Plan follows a methodology that is consistent with the 2021 Certified PREPA Fiscal Plan, Act 17, and the Integrated Resource Plan (IRP) approved by PREB, while recognizing known and current events that affect the pace of modernization, transformation efforts, and current market environments. This includes certain adjustments or deviations from the IRP, such as the inclusion of electric vehicles (“EV”), the current pace of renewables uptake, and the market conditions for new renewable projects.

The Proposed Plan must include additional discussion on risks to the system and associated mitigation measures and include discussions on the impact of energy efficiency ("EE"), EV adoption, as well as residential and industrial use of Distributed Generation and Cogeneration ("DG/Cogen"), including sensitivity analyses, outlining the associated rate and load impacts, along with clarifying underlying assumptions.

Response: PREPA requests that the FOMB provide further clarification on the sensitivity analyses requested in its May 25th letter. As the FOMB knows, running load and generation dispatch scenarios is time-consuming and resource constraining. Although time is of the essence, PREPA is nevertheless willing to run additional scenarios with the assistance of LUMA, at the FOMB's request following clarification.

- **Energy efficiency uptake scenarios and their rate impact**

FOMB Comment: The Proposed Plan includes a single EE scenario that is consistent with the PREB-requested "Low EE" case in the IRP and is compliant with the Act 17-2019 legislative mandate of 30% load reduction from EE by 2040.

The uptake scenario in the Proposed Plan assumes a slower uptick in EE for FY2023 and FY2024, coupled with catch up in EE by FY2025 and a meeting of Act 17-2019 requirements. In light of this, the Proposed Plan must include a qualitative sensitivity analysis on EE adoption scenarios that may not meet the Act 17-2019 EE mandate, using (but not limited to), LUMA's operator experience, industry standards, additional EE programs that benefit residential customers, and the effect on rates and a load of each of the projected scenarios. The Proposed Plan must also include identified or potential funding sources that are being considered for the implementation of EE initiatives, including an illustrative discussion on their potential impact on rates and the average customer's monthly bill.

Response (LUMA): Given the nascent level of maturity of the EE market in Puerto Rico, forecasting the level of adoption is highly unpredictable as the level of program participation is dependent on external factors such as customer awareness and willingness, equipment availability, and price, and the level of funding available for customer incentives. Furthermore, a market of professionals specializing in the procurement, installation, and measurement of energy-efficient products and services does not exist and will need to be built up in order to achieve sustainable reductions from energy efficiency measures. An EE Baseline Study and an EE Potential Study are required to provide adoption scenarios and resulting rate and load impacts. The PREB is currently conducting the first ever Baseline and Potential Studies in Puerto Rico with results expected within 1-2 years.

However, some information is available from which to base qualitative scenario estimates of EE adoption in the near term. On January 21, 2022, the Energy Bureau issued a Resolution on Case No. NEPR-MI-2021-0005, through which it published the final Regulation for Energy Efficiency. Section 2.02 of the EE Regulation recommends energy savings targets of 0.1% of annual sales forecast in year 1 and 0.25% of annual sales forecast in year 2 of the Transition Period (FY23-24).

LUMA will file its EE/DR Transition Period Program Plan on June 6, 2022. This plan outlines pilots and portfolios of programs for energy efficiency, demand response, and education and outreach programs to be delivered over FY2023 and FY2024 in accordance with the Energy Efficiency and Demand Response Regulation. This Plan was designed to achieve the 0.1-0.25% savings targets specified in the EE Resolution. These estimates represent EE adoption scenarios that are achievable in the near term, assuming funding is made available to launch programs. Utility EE incentive and financing programs are primarily funded through a dedicated EE rate rider. Federal programs often provide grant funding for individual EE projects, but they do not provide stable, annual funding of the scale required to operate EE programs. The rate rider that would be required to fund the proposed EE and DR programs in FY23 would be approximately $0.000477/kWh. For a residential customer who consumes 300 kWh per month, this rider would amount to $0.14 per month.

- **Electric Vehicles (EVs)**

FOMB Comment: The Proposed Plan shows an increased load as compared to the 2021 PREPA Certified Fiscal Plan, mainly driven by more positive macros from the 2022 Certified Commonwealth Fiscal Plan and from incorporating the adoption of EVs by the Puerto Rico population. Notwithstanding, the effect of EVs only runs through FY2038 and then plateaus. The Proposed Plan must include EV adoption effects on load through the life of the Proposed Plan period, including underlying assumptions and major drivers supporting this forecast. The Proposed Plan must also provide qualitative sensitivity analyses on EV forecasts scenarios, outlining the assumptions, key drivers and potential impact on rates and load.

Response (LUMA): To develop a preliminary forecast of the impact of plug-in electric vehicle charging in PR, LUMA used the forecasted stock of National Average for light duty vehicle plug-in electric vehicle (PEV) as presented in the Integrated Resource Plan proceeding, CEPR-AP-2018-0001, PREPA ROI_1_18 Attach 3, contained in the PREPA response to the 1st set of Requirement for Information (ROI) from the Energy Bureau. This was the best available information as LUMA has not yet completed additional EV forecasting. The PREPA ROI response projected utility demand and energy impact per vehicle as well as the forecasted growth of the PEVs. The PREPA estimate of the per vehicle impact and forecasted growth rates in PEVs were then applied to the number of PEV vehicles registered in Puerto Rico in 2021 to develop projected PR PEV registrations and charging impacts for years 2022 to 2038. To extend the forecast of the PEV impacts to years 2039 to 2051, LUMA used the growth rate for the last year of the PREPA projections, (i.e., 10% growth in year 2038) for each of the additional years from 2039 to 2051. Using these projections, the estimated number of PEV registered in 2051 represents approximately 94% of the total current number of registered vehicles in Puerto Rico.

For the estimates, LUMA did not collect or use data associated with the percentage of electric vehicles sold in PR, light duty vehicle growth or percentages, or EV efficiency data as this data is currently unavailable.

Actual EV adoption rates may vary depending on many factors including, but not limited to, purchase price and battery costs, driving range, charging time, fuel and electricity prices, consumer characteristics, grid reliability and charging station network, vehicle availability and public policy mechanisms. The EV market is competitive and many of the factors affecting adoption are external to the energy sector in Puerto Rico.

- **Distributed Generation (DG) Uptake**

FOMB Comment: The Proposed Plan must include the assumptions and forecasted DG uptake, with scenario impacts not only on load, but also revenues and affordability of rates. The Proposed Plan must detail the proposed approach of dealing with DG uptake including net metering installations, options, and impact.

Response (LUMA): The forecasted adoption curve takes into consideration historical applications by customer class LUMA received during the first year of operations. Growth was projected until Fiscal Year 2024 and then, linearly reducing growth using a two regression models, one for capacity and one for customers. Capacity values are then used in the residential solar rooftop forecast model by the Department of Energy (DOE). Saturation is achieved by fiscal year 2037 and very slow growth is projected after that. Several factors could affect actual application rates, including impetus to complete the application process and number of new PV's installed. There is a competitive market for PV installations in Puerto Rico and as such, market factors could affect the number of PV's installed, including but not limited to price, availability, grid reliability, market saturation, public policy mechanisms, and electricity prices.

When a net energy metering (NEM) customer is on the T&D System, they reduce load in two ways. First, customers consume less power from the grid as they instead consume the power generated by their solar panels. Second, customers provide power back to the grid for other customers to consume. NEM customers receive a credit equal to the full retail rate of the power injected back into the T&D System.

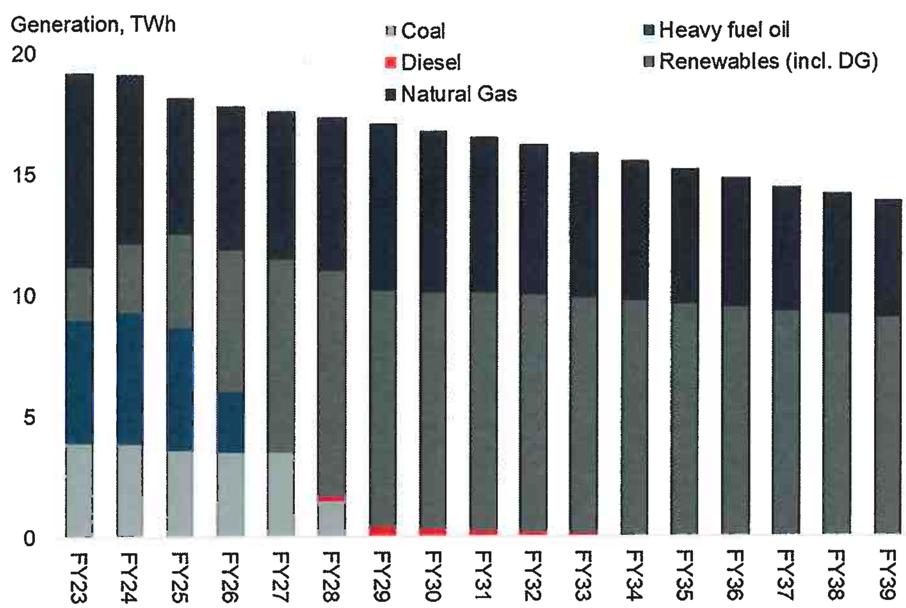
As per public policy, customers are allowed to interconnect DG systems to the grid prior to submitting an NEM application to the utility. In other words, the utility is not able to control whether the customer interconnects their system to the grid. If LUMA's technical studies later determine that upgrades are required to mitigate the grid impact of DGs, the proponent is responsible for paying for the cost of grid upgrades, which LUMA will then perform.

- **EcoEléctrica**

FOMB Comment: The Proposed Plan also assumes the EcoEléctrica facility is retired in FY2032 – when the current contract expires – at which point it is replaced by diesel fuel generation. The Proposed Plan must include a generation mix forecast in compliance with IRP-mandated retirement of diesel-fired base load generation resources. The Proposed Plan should not have the generation capacity of the EcoEléctrica plant replaced by diesel-fueled power plants. Instead, the Proposed Plan should consider in the above outlined sensitivity analyses, whether DG may be a potential replacement source. Otherwise, PREPA must explain the rationale and economic benefits of switching to diesel upon the termination of the current EcoEléctrica contract versus other generation sources.

Response: The FOMB appears to have confused the AES Coal plant, which The Proposed Plan has set to retire in FY2028, and the EcoEléctrica facility, which the Proposed Plan has set to retire in FY20**43**. PREPA and LUMA, and the IRP consultant Siemens PTI, have developed and included an IRP compliant forecast in both the Proposed Plan and the Revised Proposed Plan submitted with this letter. There is no requirement or constraint in the IRP that disallows all forms of diesel generation. PREPA and LUMA have discussed the generation forecast with FOMB and their advisors to specifically explain the increase in diesel generation after the AES plant retirement in FY2028. This increase in diesel generation is the outcome of the Aurora capacity expansion model cost optimization and the steadily declining fiscal plan load forecast – the model finds that it is more economic or less costly overall to burn a small amount of diesel for a few years after AES is retired than to add new capacity and retire diesel peaking units. The modeling result is consistent with the IRP in following the least-cost approach. Regarding the retirement of EcoEléctrica, the contract is assumed to be renewed in FY2032 for an additional 10-year term.

In the graphic below, the amount of diesel generation included in both the Proposed Plan and Revised Proposed Plan is highlighted in red. The percentage of total generation from Diesel resources never exceeds 3%, which would represent a *highly* optimized dispatch of the system. For context, over the past 5 years diesel generation has never dipped below 10% and averages over 15% on an annual basis.



- **Conditional Nature of Mentioned Gas Conversions**

FOMB Comment: All references to any proposed gas conversions in the Proposed Plan must include language that reflects their conditional nature, which requires receipt of PREB leave, waiver, or approval of them or in the alternative an amendment to the IRP to allow for such gas conversions.

Response: PREPA is including below the language that was contained within in the Proposed Plan, and again in the Revised Proposed Plan, which PREPA believes is thoroughly deferential and sufficiently descriptive of the regulatory requirements for natural gas conversions:

> "PREPA is seeking leave from the PREB to pursue the conversion of San Juan units 7-10 to natural gas as an essential step to achieve attainment with the 2010 1-Hour SO2 NAAQS in the San Juan air district and, consequently, avoiding costly sanctions, and achieving compliance with the Mercury and Air Toxics Standards (MATS) required by EPA, 40 CFR 63 Subpart UUUUU - National Emission Standards for Hazardous Air Pollutants which became effective on April 16, 2012, at the San Juan site."

- **Potential Risks on Renewable Capacity Deployment**

FOMB Comment: PREPA must include a qualitative discussion on the potential risks to the approved Tranche 1 Power Purchase and Operating Agreement ("PPOA") projects that may arise, if any, as a product of the results from the system interconnection study that LUMA will be completing by month-end.

Response (LUMA): As of May 31, 2022, LUMA completed the Points of Interconnection (POI) and Network Upgrade Studies required for the interconnection of Tranche 1 utility scale renewable energy and storage projects. The interconnection studies are a more precise evaluation of cost and schedule than previous estimates. Depending on the results of these studies, the cost to interconnect a facility may be higher or lower than the estimated cost presented during the facility study stage of the RFP process.

These costs are then reflected in revised PPOA prices (in kWh). As a result, PREB and the FOMB may have to reevaluate the costs of the PPOAs in kWh to determine the rate impact of these contracts and if they continue to be economically feasible for customers. Certain POI are currently planned within FEMA flood zones. There is a risk that the resource energy provider cannot mitigate this feasibly or economically. Any moved POI will require new studies to be completed. Approved PPOAs must comply with the Large Generator Interconnection Agreement (LGIA) and as such, may be subject to curtailment for system reliability issues which could affect the economic impact on ratepayers.[11]

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[11] Please also refer to Footnote 7. This LGIA compliance statement by LUMA is not necessarily shared by PREPA, as the PPOAs negotiation with Tranche 1 proponents did not include such requirement, nor was this a requirement for current operational utility scale renewable sources.

F. Financial Projections

The Proposed Plan's financial projections must be updated based on the following:

- **Deficit Projections**

FOMB Comment: The Proposed Plan currently includes an estimated FY2022 deficit of ~$956 million (which appears to be a calculation error of not accounting for actual Fuel & Purchased Power revenues in lieu of budgeted ones), and a projected deficit of ~$111 million for FY2023.

- Pursuant to PROMESA, PREPA must propose a Fiscal Plan that reflects balanced budgets in each fiscal year. For FY2022 estimated actuals, PREPA must include GridCo (LUMA) actuals until Q3 as provided in the most recent Budget-to-Actuals submitted on May 17, 2022, and use estimated amounts for Q4. Once accurate actuals are implemented in the model, PREPA (and LUMA) must strictly adhere to the Revised Certified Budget for FY2022.
- For FY2023 projections, the Proposed Plan must reflect the budget and budget allocation submitted to PREB by LUMA on April 1, 2022, which budget and budget allocation was determined by the Puerto Rico Public Partnership Authority ("P3A"), as Administrator under the T&D OMA, as compliant with the PREB issued 2017 Rate Order. To the extent, PREPA and LUMA agree to a different allocation, or PREB issues a determination modifying or amending such allocation (either on its own or as a result of a budget dispute, as defined in the T&D OMA), then the revised allocation may be reflected in the Proposed Plan.
- Furthermore, GenCo and HoldCo's budgeted amounts for FY2023 are hardcoded and not supported elsewhere in the model. Similarly, GridCo's "LUMA Efficiencies" line item is hardcoded with no supporting basis. The Proposed Plan must include the backup material supporting such amounts which have a large impact on the FY2023 Budget.

Response: PREPA is presenting the April 1st FY2023 Generation Budget included as an attachment to this letter, which supports and provides justification for its FY2023 Budget request. To date, PREPA has not received any comments from FOMB on the thoroughly and thoughtfully developed budget proposal materials. Different from all prior fiscal plan years, FOMB has not engaged with PREPA to understand the budgetary needs, which PREPA finds surprising given the widely known challenges with the legacy generation fleet, which caused major outages during FY2022. FOMB historically has insisted on reviewing budgets based on a bottoms-up basis rather than top-down. In this instance, FOMB seems to be yielding approvingly to a top-down approach that results in the imposition of a cap on PREPA's budgetary expenses, without rationally considering the facts presented to the FOMB during the revenue allocation meetings described further below. The lack of engagement also results in FOMB not being able to understand PREPA's FY2023 budgetary needs.

FOMB states in the May 25th letter that "pursuant to PROMESA, PREPA must propose a balanced budget" when in fact FOMB historically has approved budgets with significant deficits (i.e., in the FY 2021 FOMB authorized a budget with an estimated deficit of $126MM for FY2021, which it later amended to cover LUMA's front-end transition over-budgeted amounts from $135 million to $180MM). PREPA is not explicitly seeking a deficit budget but instead requests that the FOMB engage with PREPA to understand the real operational budgetary needs, rather than imposing or allowing an arbitrary top-down cap on permissible expenses.

In an abundance of additional clarity and transparency about PREPA's budgeting efforts, which have included FOMB's participation, the following is a timeline summary of key meetings, discussions, and processes undertaken to responsibly develop the corresponding Generation Budget for FY2023 pursuant to the provisions of the T&D OMA.

- **February 3, 2022** – PREPA and LUMA representatives held a call to discuss fiscal plan load and generation forecast for the new FY2023 fiscal plan.
- **February 9, 2022** – Representatives from FOMB/PREPA/LUMA held a meeting to discuss the fiscal plan and the budget timeline proposed by FOMB (NOTE: there were no further meetings scheduled hereafter for reasons unknown to PREPA, which is a departure from the cadence of weekly touchpoint and working sessions established by FOMB and held during the development of prior years' fiscal plans and budgets).
- **March 11, 2022** – Given the April 1, 2022 deadline to submit a draft consolidated budget to the P3 Authority (and eventually the PREB), under the T&D OMA, and the fact that LUMA had not yet reached out to PREPA requesting the corresponding generation budget or, more importantly, proposing a revenue allocation as per last year's budget process and the T&D OMA requirements, PREPA advisors reached out to LUMA to schedule and hold a call on this same date with LUMA and PREPA representatives to inquire about timing of generation budget submission process and timeline, as well as a revenue allocation proposal for purposes of the T&D and Generation budget development exercise.
- **March 17, 2022** – Following PREPA's request of March 11, LUMA sent its proposed revenue allocation materials, recommending an initial revenue allocation that resulted in an approximate increase of $54MM to LUMA's T&D FY2023 budget and a corresponding reduction of $54MM to PREPA's generation budget, constituting a budget increase for LUMA and reduction to PREPA from the current FY2022 Generation budget (which in addition to impacting PREPA, would also impact any future anticipated private operator to be selected by the P3 Authority). The allocation proposed by LUMA was (a) incorrectly calculated; (b) inadequate for the needs and priorities of PREPA's legacy generation plants; and (c) inordinately rich and unbalanced in favor of T&D without evident reason given LUMA's financial performance to date combined with the availability of a historic amount of federal funds for modernization and reconstruction of the grid. PREPA representatives personally discussed this and the underlying reasoning with FOMB's fiscal plan working group.

Additionally, the initially proposed allocation (a) ignored historical trends where the bulk of NME/Capex spending was dedicated to power generation plant infrastructure instead of T&D; and (b) paradoxically ignored (or not) the fact that LUMA has available to it over ***$9bn*** dollars in FEMA obligated funds specifically for purposes of reconstructing and modernizing T&D infrastructure (which federally funded reconstruction work it has not yet begun). More specifically, based on the global FEMA settlement agreement with PREPA, LUMA has available (and is obligated to undertake under the T&D OMA) funds to reconstruct as follows, per asset class and amounts: (a) Transmission Assets - ***$2,642,131,654.47***; (b) Substation Assets - ***$781,890,093.70***; (c) Telecommunications and IT - ***$685,928,720.98***; (d) Distribution Assets - ***$5,499,837,404.90***; and (e) Building Assets - ***$125,088,362.54*** for an approximate total of ***$9.735 bn***.

- **March 23, 2022** – PREPA and its advisors held a courtesy meeting with the P3 Authority and its financial advisor, as Administrator under the T&D OMA, to discuss the foregoing, PREPA's views, and revised criteria for revenue allocation based on sound financial criteria and reasoning.
- **March 23, 2022** – FOMB/PREPA/LUMA held a first in person meeting to (a) convey PREPA's comments and disagreement with LUMA's overall proposed approach and results; and (b) discuss in detail the revenue allocation proposed by LUMA, the underlying reasoning and criteria, and PREPA's revised approach and proposal based on clearly articulated and supported criteria based on sound financial concepts and principles - for LUMA's understanding and team discussions.
- **March 29, 2020** – PREPA presented in a second meeting with FOMB/LUMA/P3A the revised revenue allocation materials based on the 2017 Rate Order, and the underlying reasoning, as envisioned under the T&D O&M Agreement, and as done by LUMA and FOMB during the FY2022 budget development process.
- **March 31, 2022** – LUMA presented PREPA with a counterproposal (via email and in an in-person meeting, which included P3 Authority and FOMB) to PREPA's proposed revenue allocation. LUMA's counterproposal deviated from the 2017 Rate Order (which itself was reliant on a methodology contrary to LUMA's own original revenue allocation proposal of March 17th).
- **April 1, 2022** – Given the foregoing impasse, PREPA submitted its proposed FY2023 Generation Budget to LUMA for consolidation with the T&D budget, in compliance with the T&D O&M Agreement. LUMA thereafter consolidated the PREPA budget with FY2023 T&D budget and submitted to the P3 Authority. PREPA's Generation budget was in line with the 2017 Rate Order and based on reasoned financial and operational criteria.

The above timeline and events set forth PREPA's good faith efforts to work collaboratively with LUMA and FOMB to establish the FY2023 revenue allocation. During its many meetings, discussions, and exchanges, PREPA had not received any indication from FOMB that it would not accept PREPA's proposed revenue allocation, nor has FOMB reached out to understand PREPA's budgetary process and needs. Instead, it appears that for this coming FY2023 the FOMB has *de* *facto* delegated to the PREB and to the P3 Authority the review and approval of PREPA's budgets, contrary to the framework described in the Commonwealth's Central Government Fiscal Plan.[12]

(LUMA) As required within the T&D OMA, Fiscal Year 2024 and 2025 are projections only and do not include a detailed basis or support. Efficiencies are a result of declining load (which to date has yet to be materially realized), anticipated results from the Load Recovery program, and efficiencies identified during FY2023.

FOMB Comment: Moreover, PREPA is proposing HoldCo costs, net of Title III related expenses, that approximately triple in FY2023 when compared to FY2022. The Proposed Plan must clearly explain the rationale behind such an increase, most importantly when such increase is contrary to the objectives of PREPA's Reorganization. Similarly, PREPA must budget for and project HoldCo costs that (i) decrease over time, (ii) are largely in line with the FY2022 Certified PREPA Fiscal Plan, and (iii) are compliant with the final budget allocation.

Response: PREPA's FY2023 HoldCo Budget is not contrary to the objectives of PREPA's Reorganization. PREPA is diligently moving toward implementing PREPA's Reorganization as envisioned under Act 17-2019 and the Certified Fiscal Plan, but it is PREPA's position that the reorganization must be undertaken in a responsible manner, ensuring that PREPA is able to comply with its legal and fiduciary obligations imposed by applicable law, and common-sense operational needs. Based on PREPA's experience-to-date managing the FY2022 Budget, it has become apparent that certain adjustments need to be made to ensure that PREPA is able to comply with its obligations.

The amounts included in the FY2023 budget are a result of PREPA's management experience post LUMA's commencement date and managing an insufficient FY2022 Budget. The FY2023 Budget seeks to address critical items such as environmental related requirements and challenges experienced with obtaining timely information from LUMA (which the FOMB is aware of), including operational and financial data necessary to ensure that PREPA complies with its obligations as the Owner of the Electric System and covered instrumentality, under PROMESA, as well as to ensure that generation operations have the necessary visibility to conduct operations in a safe and reliable manner. The FY2023 Budget is also responsibly designed to allow for the phase-out of shared services, as envisioned under the T&D OMA, and to allow for the orderly transition to Private Operators for the Legacy Generation Fleet. PREPA remains available to discuss its budgetary needs with FOMB to demonstrate that the FY2023 Budget is designed to advance PREPA's reorganization compliant with public policy.

[12] See 2022 Fiscal Plan for Puerto Rico, Page 142, Roles of the Oversight Board and PREB During the Transition Period.

- **Pension Plan Employer Contributions**

FOMB Comment: The Proposed Plan's employer contributions budget line item must be amended to include an FY2023 employer contribution for GenCo and HoldCo employees in an amount that does not contribute further to additional underfunding of the PREPA employee retirement system.

Response: PREPA is including Employer Pension contribution amounts consistent with the historical percentage of salaries. PREPA and FOMB should collaborate to identify funding sources for the pension contributions without affecting operational needs. Moreover, the amount included in the FOMB Central Government Budget for FY2023 is inadequate and significantly below the percentage amount included by PREPA in the proposed FY2023 Budget.

- **GridCo Operator Fees**

FOMB Comment: Although LUMA's OMA has a 15-year term, the Proposed Plan must assume that GridCo will continue to be managed by a third-party private operator. Accordingly, the financial projections must account for GridCo Operator Fees through FY2042. After FY2042, expenses must be kept constant in real terms (c/kWh) until the end of the Fiscal Plan projection period.

Response: PREPA has incorporated the FOMB assumption that GridCo will continue to be managed by a third-party private operator after LUMA's 15-year term is complete in the revised Fiscal Plan Model.

- **Staffing Breakdown**

FOMB Comment: PREPA's current Certified Fiscal Plan for FY2022 includes headcount detail, which is not included in the Proposed Plan. To evaluate HoldCo and GenCo's roster compositions and the required budgeted amounts requested, the Proposed Plan must provide a staffing level breakdown for each entity.

Response: Confirmed, this detail was provided in connection with respective budget filings.

- **Aurora Modeling Assumptions**

FOMB Comment: PREPA's Proposed Plan model relies on multiple data sources, expert input, and dynamic load and economic dispatch modeling using a zonal model (Aurora model). The Proposed Plan must amend several inconsistencies and provide explanation of various modeling assumptions, including but not limited to:

- Generation and Economic Dispatch modeling: the Proposed Plan only calculates generation dispatch through 2042, assumptions for this generation and dispatch modeling must be provided.

- EV projections: the Proposed Plan must use correct EV projections after 2038.

Response: PREPA has provided the supporting Aurora data files to FOMB representatives via secure file share. Further, PREPA has included LUMA's guidance on EV projections after 2038 in the revised financial projections.

PREPA looks forward to continuing to work and collaborate with the FOMB, its fiscal plan team, and LUMA representatives, to continue advancing energy sector transformation initiatives in the most transparent and responsible way possible, for the benefit of the people of Puerto Rico.

PREPA remains available to meet with FOMB representatives and encourages such meetings to further discuss the foregoing responses and/or address any questions or comments thereto.

Cordially,

Josué A. Colón-Ortiz
Executive Director

Annexes

c Hon. Omar Marrero Díaz
PREPA Governing Board
FOMB Board Members
Mr. Fermín Fontanés Gómez
Mr. Wayne Stensby

GOVERNMENT OF PUERTO RICO
PUERTO RICO ELECTRIC POWER AUTHORITY
Executive Director I Josué A. Colón Ortiz I director_ejecutivo@prepa.com

May 17, 2022

BY ELECTRONIC MAIL

Mr. Jaime A. El Koury
General Counsel
Financial Oversight and Management
  Board for Puerto Rico (FOMB)
PO Box 192018
San Juan, Puerto Rico 00919-2018

Dear Mr. El Koury:

The Puerto Rico Electric Power Authority (PREPA) is in receipt of the FOMB's letter dated May 9, 2022, requesting information related to PREPA's unbundling of the electric system from a vertically integrated PREPA monopoly structure under the 2021 Fiscal Plan. As referenced in your communication, in 2021 we exchanged various letters informing of the status of such PREPA reorganization efforts, which the FOMB determined to be acceptable (the "PREPA Reorganization").

Following PREPA's filing of its April 2022 post-certification tracker ("implementation report"), the FOMB has some questions related thereto. Your letter further references a LUMA letter dated April 6, 2022, on that subject matter.

Against that backdrop, the FOMB requests PREPA to provide an update on the following:

1. *Status of the PREPA Reorganization, including the separation of certain PREPA assets and roles/responsibilities in different subsidiaries: GenCo, GridCo, HydroCo, PropertyCo, and those that will remain at HoldCo.*

    Response: In December 2021, PREPA's Governing Board (Governing Board) approved the creation of the three subsidiaries, GenCo, HydroCo, and PropertyCo, and the Capital Contribution Agreement for each of them. The Capital Contribution Agreement includes a list of the assets of each one of the subsidiaries, thus identifying and separating all PREPA's assets into GenCo, HydroCo, and PropertyCo (any assets not identified, as pertaining to GridCo, GenCo, or HydroCo will fall into PropertyCo).

2. *Status of the legal creation of the aforementioned subsidiaries. We understand the PREPA Governing Board has approved their creation as of its December 2021 meeting. If the Puerto Rico Energy Bureau ("PREB") is required to review the subsidiary organizational documents before their filing and registration to create the subsidiaries, please provide (a) an explanation as to why PREPA hasn't filed a motion for their approval at this time, and (b) the date by which PREPA intends to do so. Please provide the draft organizational documents for these entities as well.*

   Response: The Puerto Rico Public-Private Partnerships Authority (P3A) requested PREPA to jointly approve the following documents: GenCo-GridCo-HydroCo Operating Agreement (GGHOA), the Agreed Operating Procedures (AOPs), and the Interconnection Agreement (IA). Drafts of these documents were discussed with the Governing Board during the December 2021 monthly meeting. The PREPA Governing Board understood, however, that, since these documents would control and establish the ground rules between GenCo, GridCo, and HydroCo, the responsible and logical next step was to submit to the Thermal Generation P3 Service Provider proponents the draft documents for their respective evaluation and comments – before execution. After all, one or more of the proponents and their anticipated operation of the Legacy Generation Assets will eventually be affected and governed by the terms and conditions of each of these documents during the term of the generation operation and maintenance agreement.

   The P3A agreed with the Governing Board's recommendation and proceeded to obtain comments from the respective Thermal Generation proponents. In February 2022, the P3A notified PREPA that their consultants were evaluating the respective comments from proponents and would forward such comments to PREPA. While awaiting receipt of the proponents' comments from the P3A, during the April 2022 monthly Governing Board meeting, the P3A suggested that the various documents be approved on an "interim" basis until the Thermal Generation P3 Service Provider RFP is awarded and the corresponding operating and maintenance agreement is executed. PREPA management and the PREPA Governing Board will seek from the P3A an explanation and the underlying reasoning behind the proposal to approve the mentioned agreements on an "interim" basis – and how such a proposal would not defeat the objective of ensuring a level playing field for all relevant stakeholders that achieves operational, financial, and transactional alignment. PREPA also awaits formal notification from the P3A with the comments received from Thermal Generation proponents regarding the mentioned draft agreements.

PREPA and the P3A have a meeting scheduled for this week to clarify the foregoing. Assuming adequate clarification, PREPA will proceed with Governing Board consultation by next week, after which it would submit relevant documentation to the PREB.

As requested by the FOMB we include a copy of the draft organizational documents of the above-mentioned subsidiaries.

3. *Status of the execution of the GGHOA.*

   Response: Based on the foregoing chronology, the approval of the interim GGHOA, AOPs, and IA, as recommended by the P3A, will be considered during the May 2022 monthly Governing Board meeting.

   The documents for the creation of the subsidiaries have not been submitted to the PREB, pending the approval of the GGHOA, AOPs, and IA.

4. *An update regarding steps taken by PREPA to address the challenges and complexities associated with the creation of GridCo. Please include relevant facts and details and a timeline for its completion as well.*

   Response: As agreed to by and between the P3A, LUMA, and PREPA, informed to FOMB in September of 2021, and based on the recommendation of PREPA's bankruptcy attorneys, the documents related to the creation of GridCo will be finalized once PREPA's debt restructuring process is completed. As of the date hereof, the most complex part of this effort, which is the separation of transmission and distribution assets, is already defined/completed.

5. *It has been asserted by PREPA that the PREPA Reorganization cannot move forward until the Thermal Generation P3 Service Provider has been selected. Please provide an explanation as to this assertion, as this was a condition precedent to the T&D OMA which was to be executed substantially before a Generation P3 was meant to be completed.*

   Response: It is not clear to PREPA what the FOMB (or LUMA in its April 6th, 2022, letter) refers to with the above allegation. PREPA clarifies that, as mentioned above, its Governing Board has expressed concern about completing this process without first receiving input and comments from the Thermal Generation proponents. PREPA has not asserted that the reorganization plan cannot move forward until the Thermal Generation P3 Service Provider has been selected. The above additional responses provide relevant context.

Please know that PREPA has kept LUMA timely informed about the status and pending developments and milestones related to corporate reorganization, some of which are outside of PREPA's direct control. Furthermore, PREPA, the P3A, and LUMA meet formally at least once a month, during the Governing Board's monthly meetings, to discuss transition and transformation matters including corporate reorganization, where all the issues raised by LUMA in its April 6th letter were addressed in some manner. Based on all the foregoing, it is puzzling to learn that LUMA asserts that there is no evident and quantifiable progress in the reorganization and transformation of PREPA since December 2021, when it is apprised of the status of deliverables and the underlying reasons for bonafide delays in completing certain transactional milestones that are led by the P3A and LUMA, not PREPA.

PREPA is actively pursuing the remaining actions to complete its reorganization within the circumstances explained above. This includes the completion and execution of the GGHOA. FOMB should note that the GGHOA is not the GridCo-GenCo PPOA referenced under the T&D OMA, the Limited Waiver, or in LUMA's April 6th letter. PREPA had been willing to enter into a PPOA, as called for under the T&D OMA, but LUMA/P3A presented the alternative of signing a GGHOA instead. PREPA at the time, did not take issue with this, in the spirit of advancing the overall transformation initiatives, although this is not what the T&D OMA states.

Consistent with the Limited Waiver, PREPA submits and maintains that it is and continues to be committed to working diligently to ensure that the conditions waived by it pursuant to that document are satisfied. This includes PREPA's commitment to achieving the full reorganization envisioned under public policy, fiscal plans, and the T&D OMA.

PREPA remains committed to the responsibilities agreed upon in both the T&D OMA and the Limited Waiver and urges that LUMA, as a counterparty, remain equally committed. PREPA will continue to leverage timely communications with LUMA to continue ensuring that LUMA is apprised of all relevant development, challenges, and tasks so that together, we can accomplish the remaining objectives. Once again, PREPA is not the lone actor in many of the pending initiatives. We work and collaborate with the P3A, LUMA, and others (like Thermal Generation P3 Service Provider), as relevant, to properly and responsibly complete the transformation initiatives that remain.
As Owner of the electric infrastructure, including the current operation and maintenance of the legacy generation infrastructure, PREPA's commitment is to ensure operational, financial, and transactional alignment and fairness for the benefit of all key stakeholders, including the future generation operator to be selected by the P3A, and most importantly the public interest.

PREPA looks forward to continuing work with FOMB, its fiscal plan team, and LUMA representatives, to continue advancing energy sector transformation initiatives in the most transparent and responsible way possible, for the benefit of the people of Puerto Rico.

Cordially,

Josué A. Colón Ortiz
Executive Director

Annexes

c Hon. Omar Marrero Díaz
PREPA's Governing Board
Mr. Fermín Fontanés Gómez
Mr. Alejandro Figueroa

ASOCIACIÓN DE PRODUCTORES DE ENERGÍA RENOVABLE

May 16, 2022

Eng. Josue Colón
Executive Director
Puerto Rico Electric Power Authority
San Juan, PR 00902

VIA EMAIL: josue.colon@PREPA.com

RE: PREPA Tranche 1 Renewable Energy RFP

Dear Mr. Colón:

The Renewable Energy Producers Association of Puerto Rico ("APER" by its Spanish acronym) is a not-for-profit organization working to advance the transformation to renewable energy generation in Puerto Rico. APER contributes to furthering public policies and promoting market development efforts to help grow Puerto Rico's renewable energy economy, create jobs, expand economic opportunities, and reduce energy costs.

Over the past decade, our members have engaged with PREPA and its oversight authorities in numerous negotiation processes and diligently responded to changing demands and requirements regarding PREPA's procurement of utility scale renewable energy projects. Some of these projects have survived PREPA's circuitous renewable energy procurement path, several government and PREPA administrations and their conflicting plans and opinions, PREPA's insolvency and its Title III reorganization under PROMESA, delays caused by hurricanes and earthquakes, three renegotiations of the legacy power purchase and operating agreements (PPOAs), the unjustified cancellation by the FOMB of over 450 MWac of new solar energy projects approved by PREPA and the PREB in 2020, and most recently, an opaque and challenging Tranche 1 renewable energy RFP process.

Through this letter, APER seeks to highlight some concerning facts and recent developments related to PREPA's Tranche 1 RFP process in an effort to prevent the failure of Puerto Rico's renewable energy transition.

1. On August 17, 2020, the FOMB cancelled over 450 MWac of shovel ready renewable energy projects with an average first-year energy price of \$99/MWh and an average all-in LCOE of \$133/MWh to have PREPA release the Tranche 1 RFP (February 22, 2021) with a goal to procure at least 1,000 MW of renewable energy resource capacity and execute fully approved contracts by October 15, 2021.

ASOCIACIÓN DE PRODUCTORES DE ENERGÍA RENOVABLE

2. After a challenging Tranche 1 RFP process that was met with numerous amendments and months of delays, PREPA announced the final selection of participants for the final stage of evaluation and subsequently requested Best and Final Offers ("BAFO") on October 5, 2021.

3. By that time, the onset of supply chain challenges, historic increases in logistics costs, commodity price increases, wage inflation, and ongoing U.S. tariffs on solar equipment combined to materially increase the implied construction cost of the proposed renewable energy projects. The Tranche 1 RFP BAFO process revealed prices for the Puerto Rico renewable energy market to be significantly higher than in 2020 and early 2021 and that it could only procure 733 MW out of the 1,000 MW required by the PREB.

   Note: In 2021, for the first time in more than two decades, the cost of installed solar projects, and thus of solar energy, is higher than the previous year, and such costs are expected to rise moving forward. The US Bureau of Labor Statistics Producer Price Index (WPU10) demonstrates an overall increase in prime material prices of 53% (*See* Appendix, Figure 1) for metals and metal products, and the costs of all materials necessary for solar panel manufacturing have also increased dramatically (*See* Appendix, Figure 2). The most significant drivers are an increase of over 300% in the cost of polysilicon and an increase of over 60% in the cost of copper and aluminum directly affecting the cost of solar panels, racks, inverters, switchgear, and interconnection infrastructure. Global shipping costs have also increased by about 6x resulting in an increase from $0.005 per Wp to $0.03 per Wp (*See* Appendix, Figure 3). These cost increases are well known and are impacting renewable energy markets across the globe and particularly in Puerto Rico. These cost increases are a reality of the current market, outside of the control of the proponents, PREPA, the PREB, the FOMB, or the government of Puerto Rico.

4. On December 11, 2021, with the original contract execution deadline two-months overdue, PREPA abruptly changed its approach in the Tranche 1 RFP process. Abandoning a market-based price discovery mechanism, PREPA unilaterally imposed, without any analysis, justification, or explanation, a levelized cost of energy (LCOE) price cap of $105/MWh on proponents as a condition to proceed in Tranche 1 of the RFP process. Given the current market reality, developers will not be able to finance and build projects at the prices imposed by PREPA.

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5. Since December 2021, additional developments have made the LCOE price cap of $105/MWh even more untenable. These developments include, but are not limited to:

   a. Major increases in project costs are compounded by an unprecedented increase in long term interest rates and the associated cost of capital for U.S. projects. The 30-year U.S. treasury yield has increased from a low in December, 2021 of 1.69% to 3.12% as of May 10, 2022, representing an increase of nearly 85% in about 5 months;

   b. PREPA has cancelled the RSA with its Bondholders and the House of Representatives has threatened to cancel the Luma contract, increasing uncertainty and the cost of capital for projects with PREPA as the counterparty. PREPA's and Puerto Rico's credibility as a viable counterparty for renewable energy projects is in question;

   c. Adding to these issues, in March 2022, the U.S. Department of Commerce launched an investigation into allegations that modules produced in southeast Asia were being used to circumvent anti-dumping duties on imports from China. The implied risk of the investigation represents an additional 50% to 250% increase in module prices, and a recent survey of solar developers show that four-fifths reported module deliveries have been canceled or delayed. (*See* Appendix, Figure 4). The potential impacts of this investigation are retroactive and thus, affected panel prices have already increased in order to limit penalty risks.

   d. Finally, due to the delay on contract execution it will be impossible for developers to qualify for the previously accessible 30% or current 26% US Investment Tax Credit (ITC). Only a portion of the 18 projects selected may qualify for the 22% ITC in 2023 if further delays in contract execution are limited while the rest will have only a 10% ITC benefit in 2024 or thereafter. In other words, a benefit loss of 8% already realized and a potential 20% benefit loss from Tranche 1 BAFO prices.

In summary, instead of accepting the market prices presented, PREPA imposed an unachievable LCOE ceiling price of $105/MWh and could only procure 733 MW out of the 1,000 MW required by the PREB. If PREPA insists on holding proponents to an arbitrary maximum LCOE, the result will likely be that no solar projects will be constructed and Puerto Rico ratepayers will continue to pay the highest electrical rates supplied by the most polluting and least efficient generation fleet in the U.S. Accordingly, Puerto Rico will once again be at risk of further delaying compliance

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with renewable portfolio standards established in Act 33-2019: 20% by 2022 and Act 17-2019: 40% by 2025, 60% by 2040, and 100% by 2050.

APER respectfully requests that PREPA exercises its leadership to avert this potential crisis. We suggest that PREPA:

1. Release the results of their market analyses of the estimated cost to build renewable energy projects in Puerto Rico, including all inputs for its LCOE calculations and a breakdown of the interconnection costs that PREPA estimated, to all the relevant stakeholders including the PREB, the FOMB and those developers who qualified for Tranche 1 RFP;
2. Convene a summit with the Tranche 1 RFP participants, the PREB and the FOMB, for an open and frank discussion regarding current market conditions and the ability to construct and finance these projects under the aforementioned realized and projected cost increases coupled with below-market PPA LCOE pricing;
3. Provide an additional opportunity to submit BAFO for all original qualified Tranche 1 proponents that will take into consideration the inflationary and supply chain impacts discussed herein; and
4. Check that its 2022 Fiscal Plan includes said inflationary and supply chain impacts discussed herein in order to reflect correct renewable PPOA market pricing trends

APER stands ready to assist in the coordination of these efforts and to answer any questions you and your team may have.

Thank you for your consideration and attention to this matter of utmost importance for the citizens of Puerto Rico.

Sincerely,

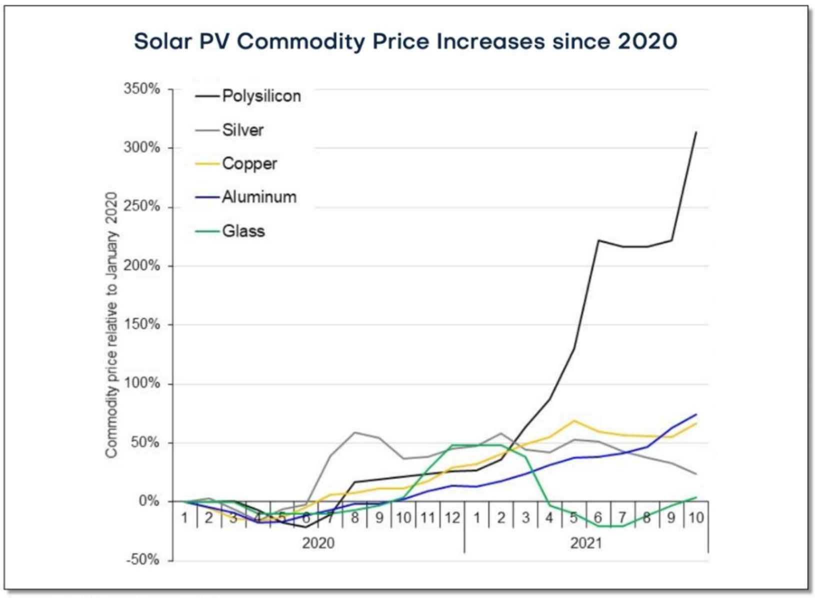
Julián Herencia
Executive Director

cc. Mr. Edison Aviles Deliz, President, PR Energy Bureau, eavilesdeliz@energia.pr.gov
Secretaría PREB, comentarios@jrsp.pr.gov
Alejandro J. Figueroa, Esq., FOMB, alejandro.figueroa@promesa.gov
Members of Financial Oversight and Management Board for Puerto Rico.

Appendix

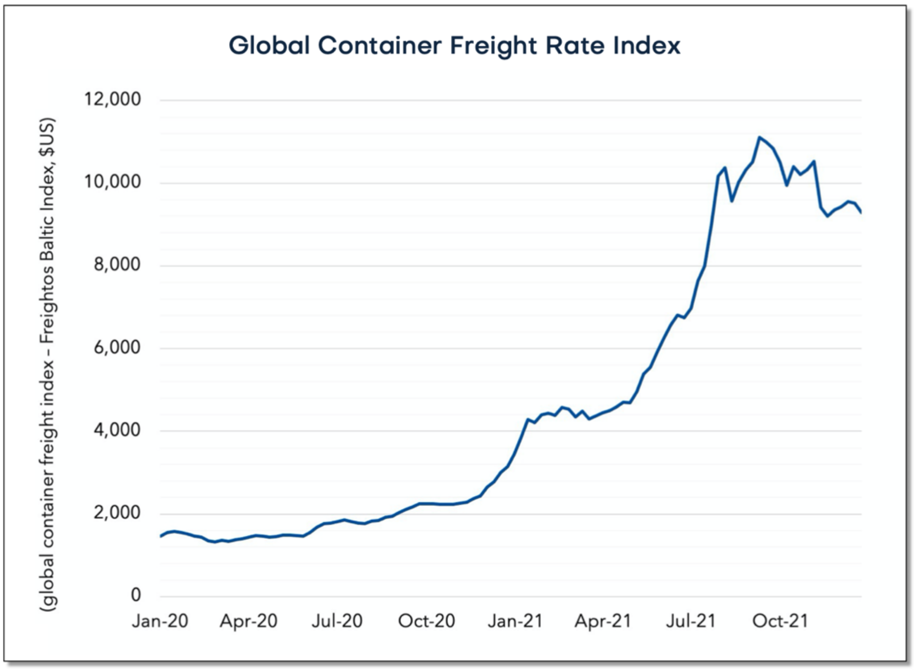
Figure 1: US Bureau of Labor Statistics PPI Commodity Data for Metals and Metals Products (WPU10)

Figure 2: Solar PV Commodity Prices since 2020



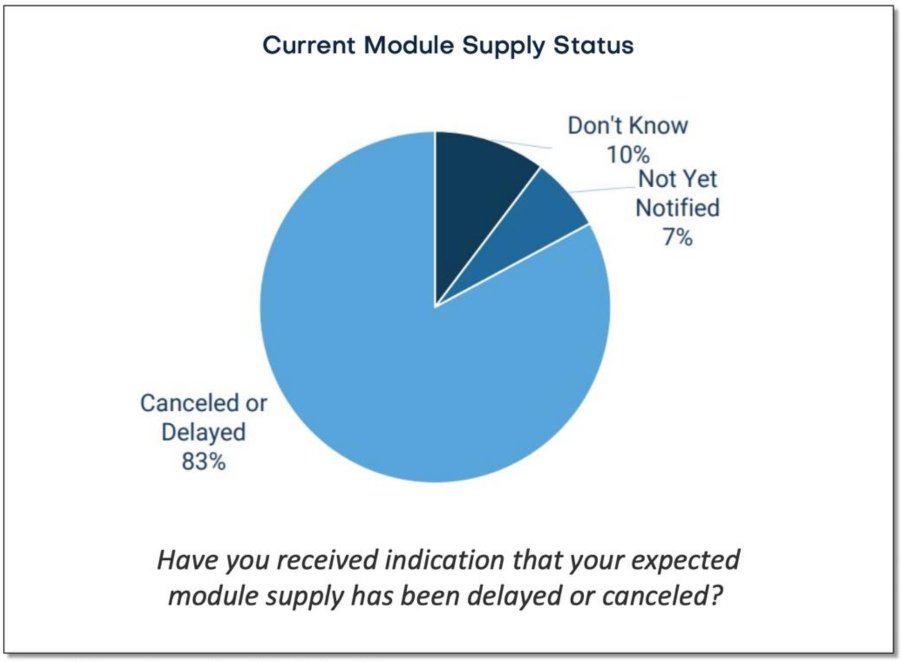
Source: Rystad Energy RenewableCube

Figure 3: Global Container Freight Rate Index in US$



Source: Freightos
Note: The Freightos Baltic Index represents a weighted average of spot rates for 40-foot shipping containers using real-time data from hundreds of logistical providers on 12 global shipping lanes

Figure 4: SEIA Survey on Impact of Auxin Solar Tariff Petition



Source: SEIA Survey - Impact of the Auxin Solar Tariff Petition
Note: This survey seeks to measure impacts of Dept. of Commerce's decision to take up the Auxin anti-circumvention petition on solar companies' business and employment expectations in 2022. 730 responses collected between March 31 and April 21 from SEIA member and non-member companies.

Autoridad de
Energía Eléctrica

FY2023 PREPA GenCo Proposed Budget Expenses

Dated as of April 14, 2022

Contents

Exhibits

I. Background & Context

Context: The budget request of the Puerto Rico Electric Power Authority (PREPA) for the Generation Directorate for fiscal year 2022-2023 (FY2023) was prepared against the backdrop of:

1. the forced outages and ensuing blackouts during 2021 that impacted nearly all of Puerto Rico, along with recent ongoing outages, including the most recent island-wide blackout in early April 2022;
2. new executive management appointed at PREPA;
3. a fresh-eyes update to the Generation Necessary Maintenance Expenses (NME) schedule and budget; and
4. ***ensuring that the legacy generation system can achieve a minimum level of reliability, stability, compliance, and ability to maintain sufficient reserves to avoid severe outage incidents***.

Methodology: The proposed budget was structured within the Revenue Allocation methodology initially proposed by LUMA Energy, LLC and LUMA Energy Servco, LLC (LUMA) and based on the allocation criteria described and presented further below, for LUMA and the P3 Authority's benefit and further analysis, as the T&D and Generation budgets are consolidated[1]. It is also presented for the benefit and eventual further analysis of the Puerto Rico Energy Bureau (PREB) and FOMB. **PREPA is cognizant of the material increases in fuel costs and resulting adjustments to customers' electricity bills. Therefore, and based on such Revenue Allocation methodology, the budget requested herein by PREPA for the Generation Directorate falls within the limits of the 2017 Rate Order and does not require a base rate increase.**

Strategic Objective: The budget requested herein ensures adequate and reliable power generation that is essential for PREPA, LUMA (as the transmission and distribution (T&D) operator in charge of delivering electricity to customers), and for Puerto Rico's economy and general well-being.

a) Generation Outages during Fiscal Year 2021-2022 (FY2022)

Outages Trend: PREPA's aged legacy generation assets began experiencing frequent forced outage events during the summer months of 2021, July, August and September. These outage events were due to various factors, including a combination of high peak demand and energy use, with unanticipated generator forced outages that resulted in very tight reserve margins, and at times, generation shortfalls that resulted in brown-out conditions as well as long load shedding events.

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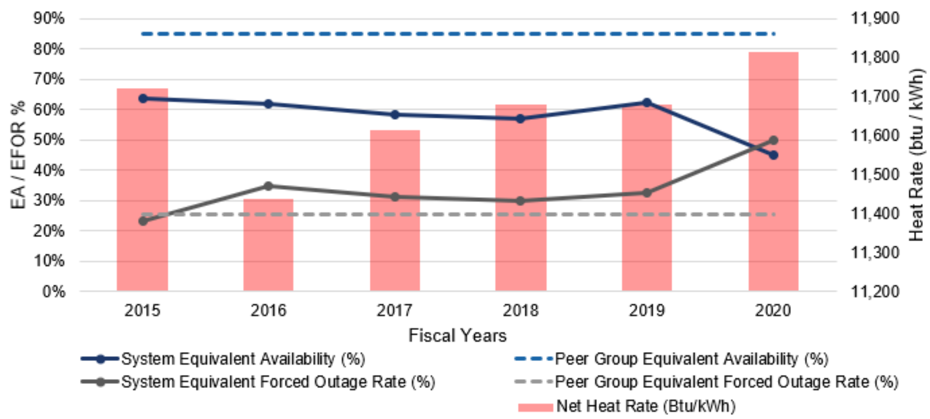
[1] PREPA, LUMA and P3 Authority representatives have had multiple discussions and meetings regarding revenue allocation ahead of LUMA's April filing of their consolidated budget, on March 23rd, March 29th, and March 31st. During those meetings, LUMA explained their methodology and initial proposed allocation. PREPA similarly explained the company's reasoning and basis to propose a revised allocation based on various objective factors. The P3 Authority has been involved in all such meetings and is at least informed on the matters in which there is agreement and those where there are discrepancies.

PREPA's aging plants continue to deteriorate with worsening levels of performance. The availability of the system's generating units dropped by 17% from 2015 to 2020 and has consistently performed below peers. Forced outages of generating units have also seen an increase of 15% over the same period and underperformed peer units, exemplifying the unreliability of PREPA's legacy generating fleet. The net heat rate of generating units has also seen an increase of 377 Btu/kWh from 2016 to 2020. These trends point to growing inefficiencies and unreliability as these units continue to age.

Exhibit 1: PREPA Generating Unit Efficiency Metrics[2]



Root Causes: The underlying root cause for outages in PREPA's legacy generation plants, however, is related to their age and the need for a more enhanced, frequent, and aggressive maintenance (preventive and pro-active) program.

Impactful Outage Incidents: Incidents during August, September, and October 2021, for example, collectively affected over 1,000,000 customers island-wide – or around 70% of electric customers. The September 13-14, 2021, incident, for example, which impacted over 550,000 customers involved incident at Costa Sur Unit 5 (410 MW); EcoEléctrica (530 MW); an outage at Aguirre Unit 2 (450 MW); and problems with several of the Frame 5 GT's (~20 MW each). These outages caused imbalance across the system given the combination of generation and transmission outages.

The September 26th incident involved a chain of events that was precipitated by unusual sargassum levels that impacted power plant intake filters, operations, resulting instability that led to outages. This sequence of events impacted or were impacted by outages at the Aguirre Unit 1 and Unit 2, Palo Seco Unit 3 and Unit 4, and Mayagüez generation units, with load shedding events running through September 30th.

The April 2022 island-wide blackout incident, although not generation related, does underscore the importance and strategic need to ensure that PREPA's legacy generation

[2] PREPA Generating Unit and peer group statistics taken from Sargent & Lundy 2021 Independent Engineering Reports for PREPA's plants and generating units. Peer group data for net heat rate was not available. The data was weighted in terms of each unit's 2022 capacity to reflect the impact these statistics have on PREPA's generational capabilities today.

assets are available for interconnection with the electric transmission system during a restoration or black-start process. This incident started with an explosion and fire at the Costa Sur 230 kV switchyard, which is operated and maintained by LUMA under the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement (T&D OMA). During the event, the electrical system lost connection with the units at Costa Sur and EcoEléctrica, which sufficiently destabilized the system to cause an island-wide black out.

Due to the damages in the 230 kV switchyard, the system interconnection point of Costa Sur steam units and EcoEléctrica combined cycle, LUMA, the system operator, was not able to immediately reconnect the Costa Sur and EcoEléctrica generating units with the electrical system even though these units were available. In order to promptly restore power to customers after this event, it was critical to have the remaining generating units available[3], so LUMA could re-energize the system during the black-start process. After the event, PREPA's legacy generating units were available to be reconnected with the electrical system, excluding those that were already offline due to repair works.

Although PREPA's legacy generating units were technically available, in order to recover the electric system from a total blackout, most major generating units need an external power source with sufficient capacity to start operations. This source of power can be delivered from the system via electrical transmission lines or from on-site combustion turbine generators called black-start units. For example, the San Juan Power Plant does not have black start units, so it needs to energize from the 115 kV substation and transmission line to start its units. In another example, if three of the existing Frame 5000 combustion turbines (CTs) at Palo Seco Power Plant were available, these CTs could be used to start the steam turbine units in the power plant. Hence, a typical start-up sequence is 1) to start CTs at Palo Seco, 2) start the Palo Seco steam units, 3) energize one of the 115kV transmission lines connected to the San Juan Power Plant 115 kV switchyard, then 4) start the San Juan Power Plant units.

As demonstrated by this example, CTs play a pivotal role for initiating the start-up or black-start process after load shed or blackout events. Therefore, after an island-wide blackout, in order to initiate the start-up or black-start process, all reliable available Frame 5000 CTs or peaking units are needed as the power source for most of the starting sequence of base load units. The CTs and the peaking units can help reestablish service faster and limit the impact of a system wide blackout. During outages where the main transmission lines are unavailable, the same CTs and peaking units may operate as the power source for isolated micro grids, providing localized power through the use of the 38 kV sub-transmission lines and medium voltage distribution lines. Once the main 230 and 115 kV transmission lines become available, base load generators can be brought online to reestablish island-wide power.

PREB Oversight: PREB began a dedicated docket (*NEPR-MI-2021-0014*) to evaluate and assess the roles of generation and T&D in outage incidents. The takeaway from technical hearings confirmed that the legacy generation fleet is very aged, and the increased

[3] Including AES and other PREPA legacy units

operational issues have led to forced outages, which in turn impact and delay routine, scheduled maintenance. The ongoing and increasingly delayed routine or planned maintenance of PREPA plants has started a negative feedback loop in which more delayed routine maintenance causes more forced outages, which in turn creates more delayed maintenance, and so forth.

As presented by LUMA in the *Exhibit 2* below during the PREB hearings on the 2021 load shed events, PREPA generation capacity was 40-50% offline and unavailable due to planned and unplanned outages.

Exhibit 2: Load Shed Events Schedule

		Units	August										September							
			22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8
Expected System Capacity		*MW*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*	*5,058*
Capacity Offline																				
Plant	**Unit**																			
Aguirre	1	*MW*	450	80	80	95	120	120	120	330	450	450	450	450	270	270	270	270	270	270
Aguirre	2	*MW*	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450	270
Costa Sur	5	*MW*	60	60	60	60	60	60	60	60	35	35	30	30	30	30	30	30	30	30
Costa Sur	6	*MW*	410	410	410	410	410	410	410	410	410	410	410	410	410	410	410	410	410	410
Palo Seco	3	*MW*	6	6	6	6	6	6	146	216	81	216	6	6	6	6	6	6	6	6
San Juan	9	*MW*	10	10	10	10	10	10	10	50	45	45	45	45	45	45	45	10	10	10
Other		*MW*	1,102	1,102	1,072	1,072	1,022	1,022	972	972	972	922	922	887	887	837	817	817	817	817
Total Capacity Offline		***MW***	**2,488**	**2,118**	**2,088**	**2,103**	**2,078**	**2,078**	**2,168**	**2,488**	**2,443**	**2,528**	**2,313**	**2,278**	**2,098**	**2,048**	**2,028**	**1,993**	**1,993**	**1,813**
Available Capacity		***MW***	**2,570**	**2,940**	**2,970**	**2,955**	**2,980**	**2,980**	**2,890**	**2,570**	**2,615**	**2,530**	**2,745**	**2,780**	**2,960**	**3,010**	**3,030**	**3,065**	**3,065**	**3,245**
Percent of System Capacity Offline		*%*	*49%*	*42%*	*41%*	*42%*	*41%*	*41%*	*43%*	*49%*	*48%*	*50%*	*46%*	*45%*	*41%*	*40%*	*40%*	*39%*	*39%*	*36%*

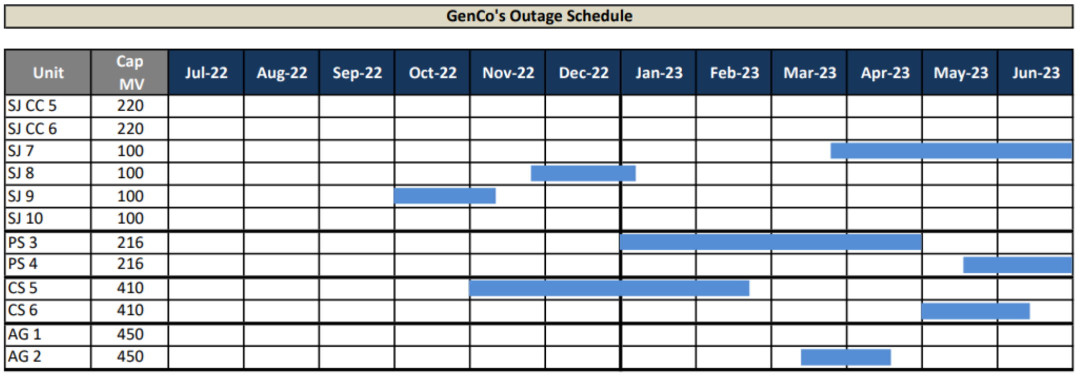
Bottom line: PREPA and LUMA together must guarantee that power generation capacity is always available – because failure to do so is not an option. Further, if PREPA doesn't have generation available, LUMA doesn't have energy to transmit to the clients and thus, it is not able to perform its responsibilities under the T&D OMA.

We are now past an extraordinary series of events and years – with repairs due to earthquakes, slowdowns resulting from COVID, and the ongoing historic transformation process of Puerto Rico's energy sector. While those events have diverted attention and resources, PREPA is now solely focused on ***ensuring system reliability, stability, compliance, and sufficient reserves to avoid similar outages*** while a private operator for the legacy assets is onboarded and new generation capacity is built and/or contracted and integrated into the electric grid.

b) State of Emergency

Emergency Declaration: PREPA's Governing Board, at the request of new Executive Director Josué A. Colón Ortiz, approved an emergency declaration on October 8, 2021, authorizing the use of emergency procurement procedures to: (i) address immediate repairs, (ii) support scheduled maintenance programs, and (iii) maintain necessary reserves to avoid future major plant outages.

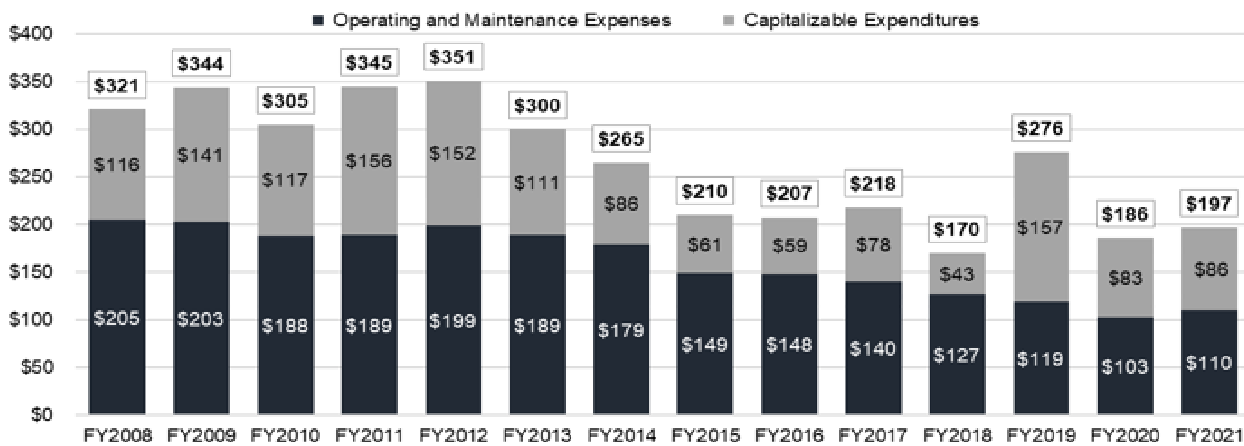
Exhibit 3: Revised & Updated Maintenance Schedule



II. FY2023 Generation Budget Overview

The current FY2023 Proposed Budget includes necessary amounts to ensure the safe and reliable operation of the legacy generation fleet. As illustrated in the graphic below[4], budget reduction trends have disproportionally impacted generation operations, necessitating significant catch-up maintenance and repairs.

Exhibit 4: PREPA Generation Expenditures



a) PREPA Budget Expenses Proposal Summary

PREPA seeks to provide the PREB with the fulsome support found herein and throughout the budget proceeding to demonstrate the necessity of proposed budget amounts along with potential funding source options in light of the significant burden already borne by customers. PREPA has concluded, as further discussed below in the Revenue Allocation discussion, that by using an equitable revenue allocation methodology based on the 2017 Rate Order framework proposed by LUMA, the proposed FY2023 Generation Budget would not require an adjustment to base rate revenues. PREPA also demonstrates that

[4] Source: PREPA Accounting System Data, capitalizable expenditures include costs for major maintenance and inspections, along with expenditures on necessary generation capacity additions and replacements such as Palo Seco MegaGen Units, Mayagüez, and Cambalache.

this allocation of expenses falls within historical proportional trends, including years that were used to develop the PREB approved base rate revenue requirement.

PREPA seeks to implement a comprehensive repairs, maintenance and conservation program to ensure continuity of operations, while undertaking the transition to cleaner energy supply resources executing efforts to switch to cleaner fuels and to integrate renewables as required by Act 17-2019, as well as PREB's approved Integrated Resource Plan (IRP) and IRP Modified Action Plan. The rationale for the year-over-year increase in proposed budget amounts presented in the table below is to improve performance, availability, and reliability to avoid costly and ongoing outages and to improve economic dispatch. PREPA's leadership has developed and proposes herein a needs-based, bottoms-up budget with necessary expenses that it believes can achieve these objectives.

Exhibit 5: FY2023 Proposed Budget vs. FY2022 Certified Budget[5] Comparison

Revenue	FY2022 Budget	FY2023 Budget	FY22-FY23 $-Variance	FY22-FY23 %-Variance
Projected Revenue less Bankruptcy Costs	**$ 1,066,903**	**$ 1,009,561**	**$ (57,342)**	**-5%**
	22.1%	27.9%		
PREPA Proposed Generation Budget Cap for FY2023	**$ 235,612**	**$ 282,016**	$ 46,404	20%
FY2023 Genco Proposed Budget:				
Salaries & Wages	$ 33,180	$ 42,680	$ (9,500)	-29%
Pension & Benefits	$ 31,856	$ 26,204	$ 5,652	18%
Overtime Pay	$ 10,490	$ 13,061	$ (2,571)	-25%
Overtime Benefits	$ 1,185	$ 1,567	$ (382)	-32%
GenCo Labor Operating Expenses	**$ 76,711**	**$ 83,512**	**$ (6,801)**	**-9%**
Non-Labor / Other Operating				
Materials & Supplies	$ 18,000	$ 23,123	$ (5,123)	-28%
Transportation, Per Diem & Mileage	$ 1,500	$ 1,527	$ (27)	-2%
Security	$ 10,444	$ 11,527	$ (1,083)	-10%
Utilities & Rents	$ 5,568	$ 5,573	$ (5)	0%
Professional & Technical Outsourced Services	$ 5,000	$ 6,333	$ (1,333)	-27%
Other Miscellaneous Expenses	$ 12,000	$ 24,542	$ (12,542)	-105%
Total Non-Labor / Other Operating	**$ 52,513**	**$ 72,626**	**$ (20,114)**	**-38%**
Total GenCo Maintenance Projects Expense (NME)	$ 106,389	$ 125,879	$ (19,490)	-18%
Total Genco Operating & Maintenance Expenses	**$ 235,612**	**$ 282,017**	**$ (46,405)**	**-20%**
Generation Surplus / (Deficit) with PREPA Allocation	**$ -**	**$ (0)**		

b) Base Rate Revenue Allocation & 2017 PREB Rate Order

PREB authorized a base rate revenue of $1.25 billion in the March 8, 2017, Ruling on PREPA's Motion for Reconsideration and Motion for Clarification (Attachment A, line 26) (base rate revenue requirement of $1.289 billion less $39 million of Other Income). Base Rate revenues have decreased by approximately $100 million since 2017 due to decreased demand. The allocation proposed by LUMA under their proposed methodology, as presented in its April 2nd Budget filing, disproportionally impacts amounts that should be available for generation operation and maintenance and unfairly skews the

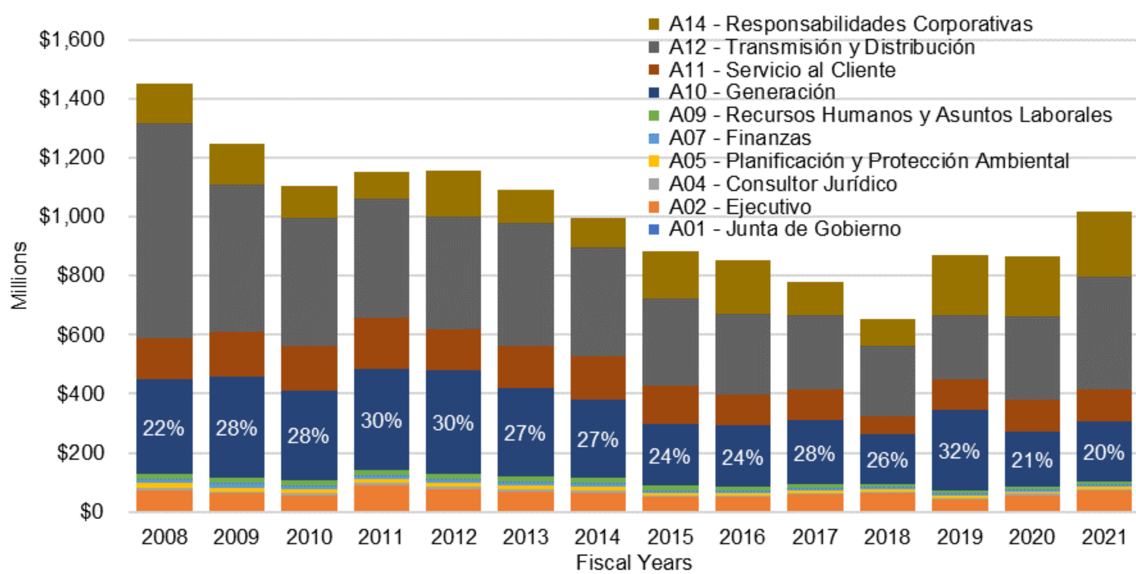
[5] FY2022 GenCo Budget excluding Shared Services certified by FOMB on July 1, 2021

allocation of base rate revenues approved by PREB toward the T&D System related expenses.

c) LUMA Proposed Allocation Methodology and PREPA Concerns

LUMA presented a revenue allocation to PREPA in materials dated March 17, 2022, indicating that it was based on the 2017 Rate Order, further indicating that it was the only reasonable way to allocate revenues. As explained during meetings with LUMA and P3 Authority representatives, from the onset, it was apparent to PREPA that the resulting 16.8% allocation proposed by LUMA for the Generation Directorate would result in a material decrease in amounts allocated to Generation (i.e., reduction of ~$54MM against the FY22 budget), further deepening the current significant deviation from allocations available to generation, as reflected in the graph below. The graph shows how reduction trends have disproportionally decreased generation budgets over the past years.

Exhibit 6: Historical Generation Expenditures[6]



Based on the above and after reviewing the Revenue Allocation proposal presented by LUMA, dated March 17, 2022, the Parties met to discuss LUMA's proposed approach, included below.

6 This information is provided here by PREPA as additional context only and is not intended to be used directly in the Revenue Allocation calculation, which should be based on the 2017 Rate Order. Note that the average of combined-total O&M and capital expenditure of the Generation Directorate from FY2008 to FY2020 was $264 million annually and 26% of combined-total overall PREPA O&M expense plus Capex.

Exhibit 7: Summary of LUMA Materials Presented to PREPA on March 17, 2022

LUMA Analysis of 2017 Rate Case		
PREPA Base Rate Revenue Requirement	*5.6*	**1,289,098**
Generation		
Expenditures		152,960
Necessary Maintenance Expenses		63,300
Total Generation Expenditures and Necessary Maintenance Expenses		**216,260**
% of Generation Expenditures and Necessary Maintenance Expenses compared to PREPA Base Rate Revenue Requirement		**16.8%**
Analysis of Generation Necessary Maintenance Expenses Approved in 2017		**PREB Approved**
Generating plant		
Aguirre steam units		27,000
Costa Sur steam units		7,400
Palo Seco steam units		8,500
San Juan Steam units		800
Aguirre and San Juan combined cycle units		-
Cambalache and Mayagiiez combustion turbine units		4,600
Aguirre Offshore Gasport		15,000
Total Generation Necessary Maintenance Expenses		**63,300**
Note ***1*** *March 8, 2017 Resolution and Order*		

PREPA agrees with the overall base rate revenue requirement figure of $1.289 billion and the future Generation operational expenses of $152.96 million. PREPA, however, found errors of logic and material misstatements that lead to the allocation of a disproportionate and large amount of revenues to LUMA, at the cost of PREPA's legacy generation's budget. Our reasoning follows. First, LUMA implicitly assumed that the T&D revenue requirement allocation percentage should include the full amount of debt service included in the 2017 approved revenue requirement. Furthermore, LUMA did not rely on the PREB approved values for ratepayer Generation funded capex, and instead used $63.3 million when in fact PREB had authorized $89.17 million for Generation capex. The combination of these two adjustments made by LUMA led to the artificially low 16.8% revenue allocation for Generation Expenditures, while increasing the share of revenues allocable to LUMA.

A summarized reproduction of the PREB final order from March 8, 2017, is presented in the Exhibit *8* below, for the parties' ready reference and benefit. The yellow highlighted cell consisting of Debt Service Coverage and Ratepayer Funding of Capital Expenditures is the total amount of revenue requirement available for capital expenditures. A review of this Exhibit *9* reflects (1) the correct Generation CAPEX amount of $89.17 million; and (2) identifies non-operating expenses, debt service and bad debt expense, which are not allocable to Generation or LUMA.

Exhibit 8: Summary Excerpt from 3/8/2017 PREB Rate Order[7]

(Thousands of Dollars)

Line No.	Description	3/8/2017 Base Rates Commission *Adjusted* Results (D)	
1	**Operating Expenses**		
4	Generation Expenses	$ 152,960	$ 152,960
5	Transmission Expenses	$ 38,136	
6	Distribution Expenses	$ 188,281	
7	Customer Billing Expenses	$ 85,334	$ 444,046
8	Administrative and General Expenses	$ 132,295	
9	Bad Debt Expense	$ 98,484	
10	Energy Administration Assessment	$ -	
11	**Subtotal Operating Expenses**	**$ 695,490**	
19			
20	Debt Service (Principal & Interest)	$ 314,390	
21	Debt Service Coverage	$ 125,756	
22	**Subtotal Debt Service and Coverage**	**$ 440,146**	
23			$ 279,218
24	**Ratepayer Funding of Capital Expenditures**	$ 153,462	
25			
26	**Subtotal PREPA Non-F&PP Base Rate Revenue Requireme**	**$ 1,289,098**	

Exhibit 9: PREPA Analysis of 2017 PREB Rate Orders and Supporting Documents

PREB Approved Ratepayer Funding of Capital Expenditures ($ thousands)			
Generación	90,168		$ 90,168
Transmisión y Distribución	91,148		
Servicio al Cliente	14,795		
Planificación y Protección Ambiental	5,850	$ 141,898	
Ejecutivo	30,105		
Maintenance Investment	**232,066**		
IRP Transmission Investment	48,152	$ 48,152	
Aguirre Offshore Gas Port (AOGP) Investment	56,340		
Total Maintenance & Investment Capex	**336,558**		$ 15,000
Limit Ratepayer Funding of AOGP	(41,340)		
Reclassify Certain PREPA Capex as Generation O&M	(16,000)		$ (16,000)
Total Maintenance & Investment Capex	**279,218**	$ 190,050	$ 89,168

Non-Generation Operating Expense	444,046
Non-Generation Capex	190,050
T&D, Customer Biling, Admin and General	**634,096**
Generation Operating Expense	152,960
Generation Capex	89,168
Total Generation Approved Revenue Requirement	**242,128**
Bad Debt Expense	**98,484**
Debt Service (Principal & Interest)	**314,390**
PREPA Non-F&PP Base Rate Revenue Requirement	**1,289,098**

[7] Note the blue highlighted cells denote Generation expenses and green highlighted cells represent Non-Generation expenses excluding Bad Debt, which is a non-cash expense, and Debt Service. The yellow highlighted cell represents total approved Generation and Non-Generation ratepayer funding of capex. Additionally, note that amounts for administrative and other costs that are now included as part of Generation Shared Services, such as Insurance Premiums, are not part of the "Generation Directorate" category. Insurance Premiums and other administrative costs incurred to support Generation activities were comingled in the Administrative and General Expenses category. Also note that the Non-Generation Directorates include costs that are now incurred by "HoldCo" or "PREPA Legacy" entities, such as the PREPA Board of Directors and Generation Environmental expenses (for interaction and compliance with the U.S. Environmental Protection Agency, previously under the Planning and Environmental Directorate), which were also included in Administrative and General Expense category.

d) LUMA Revised Proposal for Revenue Allocation

PREPA presented and discussed its views on Base Rate Revenue Allocation with LUMA on March 29, 2022, and explained that: (1) the 16.8% allocation for Generation was not only inequitable, but based on faulty reasoning, and in the end, inadequate; (2) there was no basis for allocating non-operational expenses to LUMA's applicable expenses out of the 2017 Revenue Requirement (i.e., debt services and bad debt expense); (3) the correct amount for Generation CAPEX should be $89.17 million as approved by PREB and presented in Exhibit *9* above.

LUMA responded with a counterproposal on March 31, 2022. In its revised approach, LUMA retracted its original proposed approach using the 2017 Rate Order to allocate revenues, and instead proposed an approach based on a timeframe of five (5) fiscal years, based on the data provided by PREPA, but leaving out FY2008-FY2016, which tilted the percentage amount available to Generation down from PREPA's proposed 27.6% to 25%.

Exhibit 10: Annual Spend Since in Title III Fiscal Conditions

($ in millions)	2017	2018	2019	2020	2021	Average
A01 - Junta de Gobierno	$1	$1	$1	$1	$1	
A02 - Ejecutivo	$57	$64	$39	$56	$72	
A04 - Consultor Jurídico	$5	$5	$5	$5	$3	
A05 - Planificación y Protección Ambiental	$8	$6	$8	$6	$8	
A07 - Finanzas	$9	$9	$9	$9	$8	
A09 - Recursos Humanos y Asuntos Laborales	$12	$10	$10	$10	$11	
A10 - Generación	$218	$170	$276	$186	$203	$210
A11 - Servicio al Cliente	$104	$60	$101	$106	$110	
A12 - Transmisión y Distribución	$254	$236	$217	$285	$378	
A14 - Responsabilidades Corporativas	$112	$94	$204	$203	$224	
Total	**$780**	**$655**	**$870**	**$866**	**$1,019**	**$838**
Generation % of Total	28%	26%	32%	21%	20%	25%

	FY 23
Basic Revenues	**1,169,476**
Less:	
Expenses applicable to All Parties	
PREPA Restructuring	38,722
FOMB Advisor	24,400
P3A Transaction Costs	9,500
HoldCo	32,602
LUMA Fee	105,704
Bad Debts	87,209
Remainder	**871,339**
GenCo % Actuals	25%
GenCo	
GenCo based on Actuals	221,170

Although the 2.6% difference between 27.6% and 25% may seem small, LUMA made one key change to its original March 17th proposed allocation methodology. That is, LUMA subtracted the T&D Fixed and Performance fees from base revenues for purposes of calculating revenue allocation, hence reducing the applicable multiplier by $105 million, which in effect reduces the available pool of revenues available to generation by almost $30 million. Additionally, LUMA's proposal is flawed for the additional following reasons:

- LUMA selected years for Actual expenses to calculate GenCo % Actuals that include costs related to PREPA Restructuring, FOMB Advisor, P3 Transaction Costs, and HoldCo costs, but then excludes these costs from the “Remainder” to which it applies the proposed GenCo percent allocation of 25%. These two adjustments have the effect of reducing the percent allocation of revenues available to Generation, and on the other it reduces the applicable multiplier base, further reducing the end amount of budget available to Generation.
- As shown in the table above (Exhibit *10*), the allocation percentage calculation based on actual expenses uses an unrepresentative time period (i.e. FY2017-FY2021) during which Generation expenses were exceedingly low, leaving out from the average calculation years in which the percent allocation for Generation was higher, as shown in Exhibit *6*.

e) PREPA Allocation Methodology Proposal

PREPA believes that the Revenue Allocation Methodology should be based on the following principles:

1. Use the 2017 Rate Order as the basis for the base rate revenue allocation because it determined the current base rate. Additionally, this approach is consistent with Section 7.3 of the T&D O&M Agreement;[8]
2. Any revenue requirement line items that are not obviously Generation or T&D system expenses should be excluded from the calculation (e.g., Debt Service and Bad Debt Expense);
3. The calculation needs to be equitable and internally consistent, incorporating revised and corrected input values for Generation capex.

Based on the above principles, the following exhibit (Exhibit *11*) illustrates the changes to LUMA’s calculation approach and inputs, in order to illustrate how each correction impacts the revenue allocation for the Generation Budget.

[8] Owner shall prepare and deliver to Operator the Generation Budget for consolidation with the Operating Budget and the Capital Budgets submitted to Administrator. Administrator shall, acting reasonably, review such proposed Budgets to ensure compliance with the applicable Rate Order and Section 7.4 (Budget Policy).

Exhibit 11: PREPA Modifications and Calculation of Revenue Allocation

(values presented in $-thousands)	[A]	[B]	[C]	[D]	[E]
Allocation Approach:	LUMA Proposed on 3.17.22	[A] excluding Debt Service	[A] excluding Debt Service & Bad Debt	[C] revised corrected NME amounts for Generation	[D] excluding Bad Debt and IRP Capex for Transmission
March 8, 2017 Rate Order					
Total FY2017 Approved Base Rate Revenue Requirement	1,289,098				
less approved Debt Service (Principal & Interest)		974,708			
less approved Bad Debt			876,224	876,224	
less approved AOGP and IRP Transmission					813,072
Column-to-column change		(314,390)	(98,484)	-	(63,152)
PREPA Generation					
Generation Operating Expenses	152,960	152,960	152,960	152,960	152,960
Generation Maintenance Capital Expenditures	63,300	63,300	63,300	89,168	89,168
remove Aguirre Offshore Gas Port ("AOGP")					(15,000)
Total Approved Generation Expenses	**216,260**	**216,260**	**216,260**	**242,128**	**227,128**
Generation Expenses % of Approved Base Rate Revenue Requirement	*16.8%*	*22.2%*	*24.7%*	*27.6%*	*27.9%*
Transmission Expenses	38,136	38,136	38,136	38,136	38,136
Distribution Expenses	188,281	188,281	188,281	188,281	188,281
Customer Billing Expenses	85,334	85,334	85,334	85,334	85,334
Administrative and General Expenses	132,295	132,295	132,295	132,295	132,295
Bad Debt Expense	98,484	98,484			
Debt Service (Principal & Interest)	314,390				
Non-Generation Ratepayer Funded Capex	215,918	215,918	215,918	190,050	190,050
Remove one-time IRP transmission projects					(48,152)
Total 2017 Revenue Requirement Allocated LUMA	**1,072,838**	**758,448**	**659,964**	**634,096**	**585,944**
Expenses % of Approved Base Rate Revenue Requirement	*83.2%*	*77.8%*	*75.3%*	*72.4%*	*72.1%*
Generation Maintenance Capital Expenditures				90,168	90,168
Reclassify Certain PREPA Capex as Generation O&M				(16,000)	(16,000)
PREPA Proposed FY2017 Capital Expenditures for AOGP				56,340	56,340
Limit Ratepayer Funding of AOGP				(41,340)	(41,340)
PREB Approved Generation Maintenance Capital Expenditures				**89,168**	**89,168**
Total Generation Expenses	216,260	216,260	216,260	242,128	227,128
2017 Revenue Requirement Categories Allocated to LUMA	1,072,838	758,448	659,964	634,096	585,944
FY2017 Approved Base Rate Revenue Requirement	**1,289,098**	**974,708**	**876,224**	**876,224**	**813,072**

Notes to *Exhibit 11* explaining adjustments to LUMA's revised proposed allocation:

A. Presentation of the LUMA proposed revenue requirement allocation
B. Exclude Debt Service (Principal & Interest) from the Approved Base Rate Revenue Requirement – this category is not allocable to Generation or T&D
C. Exclude Bad Debt from the Approved Base Rate Revenue Requirement – the reserve for uncollectible amounts from customers is a non-cash expense that is not allocable to Generation or T&D
D. Revise and include correct NME input from PREB approved revenue requirement
E. Remove Generation and T&D projects included in 2017 revenue requirement that were based on the 2015 IRP.

LUMA accepted PREPA's correction to Generation Revenue Requirement elements and made some effort to achieve a consensus on revenue allocation with PREPA. LUMA's final proposed allocation approach, however, deviates from the 2017 Rate Order. PREPA's proposed approach, presented below, is an equitable revenue sharing framework that is (i) consistent with the 2017 Rate Order, and (ii) consistent with the requirements of Section 7.3 of the T&D O&M Agreement[9].

Exhibit 12: PREPA Generation Revenue Allocation

(values presented in $-thousands)

PREPA Generation Revenue Allocation	
LUMA Projected Sales for FY2023	$1,169,392
less Title III Costs	38,722
less FOMB Advisor Costs	24,400
less P3A Transaction Costs	9,500
less Bad Debt	87,209
Projected Sales less Bankruptcy and Advisor Costs	**$1,009,561**
Generation Allocation %	27.9%
FY2023 Revenue Allocation for Generation Budget	$282,016

[9] Owner shall prepare and deliver to Operator the Generation Budget for consolidation with the Operating Budget and the Capital Budgets submitted to Administrator. Administrator shall, acting reasonably, review such proposed Budgets to ensure compliance with the applicable Rate Order and Section 7.4 (Budget Policy).

III. Necessary Maintenance Expenses (NME)

The proposed FY2023 Generation NME Budget is composed primarily of repair related costs for critical generation plant infrastructure. The projects that were included in PREPA’s final proposal were prioritized and selected with the strategic objective of preventing further performance degradation and improving reliability and available capacity – while a private operator is onboarded, and new generation capacity is built and/or contracted and integrated into the electric grid. Plant managers and technical teams were involved throughout the budget proposal development to ensure a robust screening process for deciding which NME projects to pursue. Those activities included in the FY2023 Generation NME Budget are designed to achieve the following goals, which will pave the way towards transitioning the generation legacy assets to private operation:

- Comply with mandated programmed environmental outages & avoid fines from the U.S. Environmental Protection Agency (EPA)
- Improve reliability and performance (including hurricane season preparedness)
- Meet summer peak demand levels by maintaining an adequate reserve capacity of 700MW on average with an assumed 60% outage rate
- Funding for Long-Term Service Agreements and critical maintenance activities for San Juan, Cambalache, Palo Seco, & Mayagüez power plants

Exhibit 13: NME Proposed Budget for FY2023

($ in thousands)

Division	FY2023 Budget	Project Count	Power Plant	FY2023 Budget	Project Count
San Juan Complex	$44,625	17	San Juan Combined Cycle Power Plant	$30,450	10
			San Juan Complex	$12,375	5
			San Juan Steam Plant	$1,800	2
Hydrogas and Cambalache Power Plants	$26,715	26	Aguirre Frame 5000	$1,800	2
			Cambalache	$4,040	4
			Culebra Power Station	$20	1
			Frame 5000 Gas Turbine Units	$400	1
			General	$50	1
			Hydroelectric Units	$3,500	3
			Hydrogas Gas Turbine Peakers	$8,900	5
			Jobos Power Station	$300	1
			Mayaguez	$7,050	3
			Palo Seco Power Station	$575	3
			Vieques Power Station	$80	2
Generation	$22,540	13	All Power Plants	$22,540	13
Aguirre Complex	$12,800	9	Aguirre Combined Cycle	$1,000	1
			Aguirre Power Plant	$11,800	8
Costa Sur	$8,790	12	Costa Sur Steam Plant	$8,790	12
IT	$6,000	3	IT	$6,000	3
Facilities	$2,609	3	Facilities	$2,609	3
Palo Seco	$1,800	3	Palo Seco	$1,800	3
Total	**$125,879**	**86**	**Total**	**$125,879**	**86**

The majority of FY2023 Generation NME Budget is for projects at the San Juan Combined Cycle Power Plant, units 5 and 6, which are PREPA's most modern base load units with the capability to burn diesel or natural gas. Both units supply roughly 35% of load for the north region and 15% for the rest of the island with efficient, environmentally compliant, and reliable energy. These units are fueled with natural gas, which offers a reduction of 90% in SO2 emissions rates compared with diesel fuel oil within an area classified by the U.S. Environmental Protection Agency (EPA) as a non-attainment area. Potential emissions from other pollutants such as PM, PM10, PM2.5, H2SO4, NOx, and CO were also reduced due to the implementation of the San Juan 5 and 6 natural gas conversion, and the emission limits accompanied by these efforts.

The reliability and availability of San Juan Units 5 and 6 is critical to maintain a stable and efficient electrical system. By running San Juan Units 5 and 6 at higher capacity factors with natural gas, PREPA has been able to reduce its reliance on other generating units that consume heavy fuel oil, yielding additional emissions reductions. With these units, PREPA can achieve significant reductions in air emissions, at lower generation costs.

The largest project in the FY2023 Generation NME Budget is the $10 million annual expenditure for the Natural Gas Manufacturing Surcharge paid to New Fortress Energy in equal amounts on a monthly basis. The surcharge is a contractually required amount and is stated as being for the “reasonable and necessary current expense of making Natural Gas available” to PREPA.

The Original Equipment Manufacturer (“OEM”) of San Juan combined cycle recommends the Major Inspection and Maintenance of the combustion turbines under the Long-Term Service Agreement at 12,000 hours. Major Inspection of the steam turbine is recommended at 50,000 hours. At that same interval, other major components associated to the thermal energy of a combined cycle and controls should be inspected, repaired and upgraded to extend useful life and to maximize plant efficiency, heat rate and reliability. Both San Juan units 5 and 6 have exceeded their recommended hours of service for major inspection and maintenance.

The San Juan unit 5 combustion turbine reached 12,000 hours on June 28, 2021. Mitsubishi Power System, the OEM, performed a borescope inspection that extended the operating hours until October 2021. The outage for the Major Inspections and Maintenance was scheduled to begin during the third week of October 2021, but due to other forced and planned outages, it was delayed until January 2022. San Juan Unit 5 was taken out of service for major maintenance and repairs on January 15, 2022, and is expected to return to service on June 16, 2022. The Generation Directorate is planning to perform the same major maintenance and repairs on San Juan unit 6 during Fiscal Year 2023, after the peak summer months have passed.

Furthermore, the Generation Directorate has proposed completing the necessary Installation of Modules D & E, Heat Recovery Steam Generator and the Supply and the Installation (Replacement) of the Online Condenser Cleaning System of Unit 5, which should be procured through a competitive request for proposals (RFP) process. A competitive procurement process will provide PREPA with the opportunity to obtain greater alternatives and competition, reduce the risk of collusion, and promote the best possible terms and conditions that will result in the public's best interest in terms of savings, costs, and expenses. Carrying out an RFP process for this specialized equipment offers PREPA the flexibility to negotiate adequate pricing structures, while ensuring the quality of the services provided and complying with the completion times of the projects, among other technical and commercial elements.

The next largest divisional spending category of the FY2023 Generation NME Budget is for Hydrogas and Cambalache Division power plants, which includes the 220MW of capacity at Mayagüez, 248MW of capacity at Cambalache (165MW excluding Unit1), and 378MW of capacity from the 18 Frame 5 peaking and emergency backup units distributed across the island at various power plant complexes and distributed peaking facilities. PREPA routinely faces capacity limitations and total lack of availability at these power plants, and units, which are responsible for immediate emergency response and electrical grid restoration during load sheds and after blackouts. Greater availability of these units could have mitigated or avoided altogether the most recent blackout event that occurred starting on April 6, 2022. The proposed FY2023 Generation NME Budget includes major inspection, maintenance, and repairs at most of the Division's facilities, including annual costs of the LTSA for Cambalache and specific projects for maintenance of Mayagüez and the 18 Frame 5 peaking units. Maintenance and repairs costs at Mayagüez also include expansion of water demineralization capacity to ensure adequate production availability for the full plant operation.

Additionally, the proposed FY2023 Generation NME Budget includes expenses related to design and construction of fire protection systems at San Juan and Aguirre Power Complex's to comply with insurance and other regulatory and safety requirements. The San Juan Power Complex fire protection work includes maintenance and repair of the existing fire detection and suppression system. For the Aguirre Power Complex, fire protection work includes designs for above ground piping to replace the obsolete underground piping system, which has undetectable and irreparable leakage. PREPA plans to undertake RFP processes for contractors to complete the design and relocation of underground fire suppression piping, including any electrical, data and control systems, and water storage and delivery infrastructure.

Further, the proposed FY2023 Generation NME Budget also includes significant amounts for design, build and repair of storage tanks for raw water, demineralized and other processed water, along with repairs and maintenance of concrete or earth dikes in power plants for water containment. Repairs and expenditures on water storage capacity is intended to provide necessary water for plant operations, such as the need for demineralized water for superheated steam for steam turbines, and for compliance with state and federal codes, standards and regulations related to water containment and management, such as: API 653, NPDES, and ASCE-7.

Funding to supply materials, equipment, and services for surface preparation and application of protective coating to certain PREPA steam plant structural elements, boiler components, and exhaust stacks is also contemplated and accounted for in the proposed FY2023 Generation NME Budget. This work is necessary to preserve and protect existing equipment and supporting structures from atmospheric (including coastline saltwater conditions) and thermal conditions that cause and hasten corrosion and deterioration, which has begun to accelerate from delayed and neglected upkeep. Consideration for necessary repairs to fuel storage tanks is also included in the proposed budget. These include:

i) Structural repairs to the floor, roof, shell, columns, and beams element of San Juan Power Complex Tanks along with the application of new anti-corrosive coating on the interior and exterior,
ii) Rehabilitation, repair, and installation of approximately 46,000 square feet of a flexible membrane liner system of the Aguirre Power Complex fuel tanks,
iii) Procurement and delivery of an integrated measurement, control, and monitoring system for the Palo Seco Power Complex fuel tanks
iv) Protective Coating for the Culebra power plant fuel tank to withstand the harsh coastal environment,
v) Yabucoa, Fuel Tanks Dike Spill Containment Works, both fuel tank dikes need spill containment measures, and
vi) Mayagüez Fuel Tanks 1, 2 and 3 repair, inspection, and overhaul including dike repair and coating as needed.

The proposed budget includes funding for the purchase of approximately 45 replacement vehicles that are urgently needed to sustain generation operations. The current fleet is over 20 years old on average and is unsafe and unreliable. PREPA’s Hydrogas Division is comprised of 51 generating units in 20 power stations, which are spread throughout the islands, along with several reservoirs, channels and tunnels - all of which requires movement of personnel between stations for normal operations, repairs, inspections and maintenance.

PREPA has included a portion of the total necessary maintenance budget for Information Technology (IT) related to Generation, in the proposed FY2023 Generation NME Budget. Per the T&D O&M Agreement and Shared Services Agreement, LUMA provides certain IT/OT services to the FY2023 Generation NME Budget. The Shared Services Agreement establishes that such services will be provided for a maximum of three (3) years from its effective date. To that end, PREPA is preparing to take responsibility of this function, which requires certain investments in computer equipment, and program licenses to maintain power plant operations and critical support services such as those from the Engineering and Technical Services Division. Additionally, PREPA needs to generate and have real time access to operational data as it used to have before Service Commencement Date in 2021. LUMA’s shared services in this area have not been effective, impacting PREPA’s access to operational and financial information that it requires for management and reporting purposes.

The proposed FY2023 Generation NME Budget further includes amounts for repairs and maintenance to Bonus Plant site. U.S. Department of Energy (USDOE) provides technical advisor services and monitoring of the facilities, but the agreement between PREPA and the USDOE establishes that PREPA is responsible for maintenance and inspection costs.

IV. Operational Expense

a) Labor Expense

Background: From 2012 to 2021, PREPA's generation workforce fell by over 50% due to the loss of 871 employees, as shown on the table below. The reduction was caused by several factors including austerity measures related to Act 66-2014 and Act 26-2017, among others. These austerity measures have crippled PREPA's ability to retain key talent and hire new employees to allow for orderly succession planning, leading to an overall loss of skilled personnel within the generation directorate.

Exhibit 14: Generation Directorate Annual Headcount Loss[10]

Division	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	**Total**
Servicios de Regadío	3	6	11	6	4	9	11	3	6	7	4	**70**
Generación	1	6	1	0	2	3	1	1	0	0	0	**15**
Ingeniería y Servicios Técnicos	5	2	14	3	1	11	2	5	2	20	2	**67**
Centrales Hidrogas y Cambalache	6	8	18	10	12	14	5	4	1	11	3	**92**
Central Aguirre	13	20	30	23	16	11	15	14	10	23	5	**180**
Central San Juan	10	14	36	15	10	21	9	6	6	28	7	**162**
Central Costa Sur	9	16	37	13	9	14	14	8	10	17	7	**154**
Central Palo Seco	10	7	38	8	6	12	19	5	5	19	2	**131**
Total	**57**	**79**	**185**	**78**	**60**	**95**	**76**	**46**	**40**	**125**	**30**	**871**

PREPA's leadership is acutely focused on ensuring that PREPA can retain and hire the necessary employees to responsibly operate the legacy generation units. Unpredictable retirement patterns without available substitutes to assume the roles of skilled personnel eligible for retirement are driving a critical situation that could potentially cause major operational disruptions. PREPA needs to ensure, therefore, the availability of sufficient personnel to cover shifts at the legacy generation plants, as well as the necessary support staff to ensure that PREPA complies with its various obligations and mandates. To that point, PREPA's Generation Directorate currently faces a (i) shortage of key operational personnel and (ii) a high proportion of key personnel eligible for retirement, which is demonstrated in the following table (Exhibit *15*).

[10] Headcount loss for all reasons

Exhibit 15: Years of Service Schedule

Years of Service	**30+**	**29-30**	**25-38**	**20-24**	**15-19**	**10-14**	**0 - 9**
Number of Employees	53	138	48	146	284	119	245
% of Total Generation Workforce (1,033)	5%	13%	5%	14%	27%	12%	24%

PREPA's proposed spending on labor expenses is consistent with facilitating the transition to private operation via the P3 process currently underway, as it is designed to retain and hire/train the necessary employees to allow for the continuous and safe operation and maintenance of the legacy generation assets. This is also relevant and necessary to enable PREPA's implementation and orderly transition to renewable energy, as mandated by Act 17-2019 and the approved Integrated Resource Plan.

Exhibit 16: Headcount Comparison: Certified FY 2022 vs. Proposed FY 2023

Plant or Area	FY 2022 Certified Budget	FY 2023 Proposed Budget	Change
Proyectos Especiales	10	11	1
Inspección Represas y Embalses	5	6	1
Centro Adiestramiento Sistema Eléctrico (CASE)	11	10	(1)
Director Generación	4	6	2
Oficina de Presupuesto y Mejoras Capitales	6	6	-
Conservación y Servicios Técnicos	14	13	(1)
Taller Mecánica Generar Norte	13	17	4
Taller Mecánica Generar Sur	9	10	1
Conservación Eléctrica Centrales Generatrices	21	27	6
Jefe División Hidro y Ciclo Combinado	2	3	1
Jefe Central Ciclo Combinado	83	79	(4)
Jefe Central - Cambalache	39	38	(1)
Hidroeléctrica Dos Bocas y Caonilla	22	18	(4)
Sub-Área Palo Seco, vega Baja, Covadonga	11	10	(1)
Hidroeléctrica Río Blanco	6	5	(1)
Sub-Área Yabucoa - Daguao, Vieques y Culebra	11	11	-
Hidro Carite y Toro Negro	20	19	(1)
Sub-Área Jobos - Aguirre Gas	12	13	1
Sub-Área Sur Hidro - Gas	16	16	-
Central de Gas - Mayagüez	17	16	(1)
jefe de Centrl Hidro Gas	28	27	(1)
Jefe División Central Generatriz Aguirre	142	152	10
Jefe División Central Generatriz San Juan	158	152	(6)
Jefe División Central Generatriz Costa Sur	196	194	(2)
Jefe División Central Generatriz Palo Seco	160	160	-
Administración de Contratos y Servicios Técnicos	19	16	(3)
TOTAL	**1,035**	**1,035**	**-**

Exhibit 17: Labor Budget Comparison: Certified FY 2022 vs. Proposed FY 2023

($-values presented in millions)

Plant or Area	FY 2022 Certified Budget	FY 2023 Proposed Budget	$-Variance	%-Variance
Proyectos Especiales	$ 0.3	$ 0.8	$ 0.5	149%
Inspección Represas y Embalses	0.4	0.4	0.0	12%
Centro Adiestramiento Sistema Eléctrico (CASE)	0.8	0.9	0.0	3%
Director Generación	0.5	0.8	0.3	68%
Oficina de Presupuesto y Mejoras Capitales	0.5	0.5	0.0	10%
Conservación y Servicios Técnicos	1.4	1.2	(0.2)	-14%
Taller Mecánica Generar Norte	0.9	1.4	0.5	53%
Taller Mecánica Generar Sur	0.6	0.7	0.1	9%
Conservación Eléctrica Centrales Generatrices	1.5	1.9	0.4	26%
Jefe División Hidro y Ciclo Combinado	0.1	0.3	0.2	133%
Jefe Central Ciclo Combinado	6.6	6.7	0.1	1%
Jefe Central - Cambalache	2.8	3.2	0.4	15%
Hidroeléctrica Dos Bocas y Caonilla	1.3	1.2	(0.2)	-13%
Sub-Área Palo Seco, vega Baja, Covadonga	0.8	0.8	0.1	11%
Hidroeléctrica Río Blanco	0.4	0.4	(0.0)	-2%
Sub-Área Yabucoa - Daguao, Vieques y Culebra	0.8	0.9	0.1	15%
Hidro Carite y Toro Negro	1.3	1.3	0.1	6%
Sub-Área Jobos - Aguirre Gas	0.8	1.2	0.3	39%
Sub-Área Sur Hidro - Gas	0.9	0.9	(0.0)	-3%
Central de Gas - Mayagüez	1.3	1.3	0.0	1%
Jefe de Central Hidro Gas	1.9	1.9	0.0	0%
Jefe División Central Generatriz Aguirre	10.7	13.4	2.7	26%
Jefe División Central Generatriz San Juan	11.9	12.3	0.4	3%
Jefe División Central Generatriz Costa Sur	15.3	15.3	0.0	0%
Jefe División Central Generatriz Palo Seco	11.6	12.9	1.3	11%
Administración de Contratos y Servicios Técnicos	1.3	0.9	(0.4)	-29%
TOTAL	**$ 76.7**	**$ 83.5**	**$ 6.8**	**9%**

b) Non-Labor Expense

The Non-Labor Expense category includes the purchase of non-capitalizable services, equipment and tools and materials that are essential and critical to carry out technical activities. This is essential to ensure a safe and reliable operation and maintenance of the generating units that make up the legacy generation fleet, and to meet the energy dispatch and load reserve requirements required during hours of regular and peak demand, as well as the hurricane season.

Exhibit 18: Non-Labor Budget Comparison: Certified FY 2022 vs. Proposed FY 2023

($'s in thousands) **GenCo** **KOE/Description**	**FY 2022 Certified Budget**	**FY 2023 Proposed Budget**	**Certified Budget vs Proposed Budget Var**	**Certified Budget vs Proposed Budget Var %**
200 y 210: Materials and Supplies Gen Blankets	$ 18,000	$ 23,123	$ 5,123	28.5%
260 y 300: Land Transportation & Per Diem and Traveling Expense	1,500	1,527	27	1.8%
510: Rent	5,568	5,573	5	0.1%
550: Technical and Professional Services	5,000	6,333	1,333	26.7%
555 & 557: Miscellaneous Div. Expenses & Services Blankets	12,000	24,542	12,542	104.5%
600: Security Services	10,444	11,527	1,083	10.4%
Total	**$ 52,513**	**$ 72,626**	**$ 20,114**	**38.3%**

The budget for Non-Labor Expense was developed by the PREPA Generation Directorate and Executive management to ensure that generating units are available, reliable and in compliance with the requirements of the EPA Consent Decrees, as well as any operational and power plant's condition requirements under PREPA's Property and Casualty, Business Interruption, and other insurance policies[11]. The FY2023 Generation Budget includes amounts sufficient to ensure that PREPA can undertake the necessary non-capitalizable maintenance and repair activities to comply with operational, environmental and insurance related requirements, which includes but is not limited to the following activities:

- removal and replacement of refractory material
- installation and certification of scaffolding
- pressure washing of boilers and condensers
- interior dry cleaning of boilers
- execution of non-destructive tests on components of boilers
- maintenance and repair of control systems DCS Foxboro for boiler and Mark Vie for turbines, including simulation systems
- repair work of components of the units with stamp R certification
- maintenance and repair of electrical and mechanical equipment such as breaker panels and boiler's safety and line valves
- boilers and turbines conditions assessments
- preventive maintenance program for units
- collection and disposal of non-hazardous material and the receipt of this material in industrial landfills approved for this use
- routine environmental maintenance and repair work on circulation and feed pumps for boilers, fuel pumps, burners, high-pressure components for boilers, condensers, air compressors, power turbines, generators, fire systems, transformers, and electrical switches
- installation and maintenance of control equipment to address any spill of oil or chemical products during the operation of the units and to monitor emissions into the air resulting from fuel combustion and the quality of water for processes, in compliance with the Clean Air Act, Clean Water Act and Oil Pollution Act Laws, as applicable

[11] Note that the cost of insurance premiums for the various insurance policies mentioned here is included in the cost of Shared Services with LUMA, not in Generation Non-Labor Expenses.

- treatment of boiler water for the creation of superheated steam with acid and caustic soda for the operation of the power turbines of the units and the treatment of the process water that it discharged from the power plant to the sea, in compliance with state and federal environmental laws such as the NPDES (National Pollutant Discharge Elimination System) Permit Program
- purchase of hydrogen gases to maintain an adequate level of cooling in the generator of the unit and avoid overheating that causes tripping of the same and load relief
- purchase of other gases such as propane, used for the initial ignition of the boiler's burners, oxygen, carbon dioxide and acetylene used for operational, maintenance and repair projects
- water chemical treatment of the sea water intake travelling screens, against the growth of organism that affects essential equipment such as condensers and water pumps
- water chemical treatment of the auxiliary equipment's cooling towers to avoid and control the cause of corrosion, in all its manifestations, of the components of the cooling system such as: hydrogen coolers, oil coolers, vacuum pump coolers, stator coolers
- maintenance and repairs of vehicles such as vacuum trucks, emergency response vehicles, jeeps and dump trucks used during the environmental maintenance and compliance on the power plant, but as part of schedule and emergency repair projects

The proposed FY2023 Generation Budget is necessary to ensure the execution of scheduled outages for environmental maintenance and major repairs of boilers, turbogenerators, combustion turbines and the respective auxiliary equipment, as well as to improve the availability of the generating units to meet the energy demand of customers. Similarly, the activities and materials included in the FY2023 Generation Budget are necessary to comply with state and federal environmental regulations and operational requirements to avoid catastrophic failure or unit shutdowns due to non-compliance with environmental requirements.

V. Conclusion

- PREPA's new executive management prepared this budget (i) cognizant of the 2017 Rate Order's terms, (ii) the ongoing and challenging transformation of the island's energy sector, and (iii) electric system challenges, including the legacy generation fleet, volatile global fuel prices, and the increased burden being carried by system customers.

- PREPA's proposed revenue allocation is based on the 2017 Rate Order, yielding a fair and equitable allocation between the needs of T&D and those of the Generation directorate.

- The proposed FY2023 Generation Budget considers the availability of federal funding for a host of projects totaling approximately $962 million. Similarly, the T&D System will be benefit from a much larger amount of federal funding, totaling approximately $9 billion for T&D system reconstruction and modernization – which funding and reconstruction is managed by, and the responsibility of, LUMA.

- PREPA's obligation to ensure a reliable, sustainable, and compliant generation fleet (including sufficient reserves) is inescapable – particularly given the most recent experiences of blackouts. It is also the responsible approach while a new private generation operator is selected and onboarded to maintain the PREPA legacy generation fleet. Beyond its own system needs, PREPA's responsibility includes making sure that power generation is stable and reliable to minimize or avoid generation related outages which is essential for people's health, wellbeing and our island's overall economic stability and prosperity.

VI. APPENDIX

a) Excerpt from PREB Rate Order dated March 8, 2017

Puerto Rico Electric Power Authority
Determination of Total Revenue Requirement and Change in Base Rates
Commission Adjustments
Adjust Amount of Ratepayer Contributions for FY2017 Capital Expenditure Funding
(Thousands of Dollars)

Commission Attachment 3 REV
Page 2 of 10

Line No.	Description	Amount (A)	Reference
1	PREPA Requested Ratepayer Funding of FY2017 Capital Expenditures	$ 336,558	PREPA Schedule A-1 REV
	Commission Advisor Adjustments		
2	Adjust for amount recognized in DSCR Margin	$ (125,756)	Note A
3	Limit Ratepayer Funding of Aguirre Offshore Gas Port (AOGP) in FY2017 to amount approved in the Commission's IRP Order	$ (41,340)	Note B
4	Adjust PREPA FY2017 Capital Expenditures for Meters (PIV 16677)		Note C
	Reclassify Certain PREPA Capital Expenditures as Generation O&M Expense:		
	PREPA PIV # — Description		
5	15880 — Major Inspection "C" Unit 1-3 Cambalache	$ (4,000)	Note D
6	16945 — Combined Cycle Improvement U-5 San Juan Steam Plant	$ (6,000)	Note D
7	16946 — Combined Cycle Improvement U-6 CSJ	$ (6,000)	Note D
8	**Total Commission Advisor Adjustments to Ratepayer Funding of FY2017 CapEx**	**$ (183,096)**	Sum of lines 2 through 6
9	Adjusted Ratepayer Funding of PREPA FY2017 Capital Expenditures	$ 153,462	Note E

Notes and Source

This adjustment reflects Commission Advisor adjustments to the amount of PREPA's requested FY2017 ratepayer funding of Capital Expenditures

[A] A portion of PREPA's proposed FY2017 Capital Expenditures is covered by the DSCR margin recommended by Commission Advisor Hill See page 1 of this schedule.

[B] Commission Advisors Fisher and Horowitz recommend limiting FY2017 capital expenditures for the AOBP to the amount allowed in the Commission's IRP Order:

	Amount in Dollars	Reference
PREPA Proposed FY2017 Capital Expenditures for AOGP	$ 56,339,808	PREPA Schedule F-3 REV
AOGP capital spending authorized in the Commission's IRP Order	$ 15,000,000	Fisher/Horowitz Expert Report
FY2017 AOGP capital expenditure adjustment	$ 41,339,808	Fisher/Horowitz Expert Report

[C] Commission Advisors Fisher and Horowitz recommend limiting PREPA's Capex for FY2017 capital expenditures from capital to exclude an amount of costs that is estimated for AMI meters. The Commission did not accept that adjustment.

[D] Commission Advisors Fisher and Horowitz recommend reclassifying certain FY2017 capital expenditures from capital to generation O&M. This reflects such reclassification of the following PREPA proposed FY2017 capital expenditures:

GOVERNMENT OF PUERTO RICO
PUERTO RICO ELECTRIC POWER AUTHORITY
Executive Director I Josué A. Colón Ortiz I director_ejecutivo@prepa.com

June 16, 2022

BY ELECTRONIC MAIL

Jaime A. El Koury, Esq.
General Counsel
Financial Oversight and Management
Board for Puerto Rico (FOMB)
PO Box 192018
San Juan, Puerto Rico 00919-2018

Dear Mr. El Koury:

The Puerto Rico Electric Power Authority (PREPA) received a copy of the Financial Oversight and Management Board for Puerto Rico's (FOMB) letter dated June 7, 2022, addressed to the Governor of Puerto Rico, the Honorable Pedro Pierluisi Urrutia, the President of the Senate and Speaker of the House of Puerto Rico, regarding modifications to the revised proposed Fiscal Plan submitted on June 1, 2022, by PREPA (the "Revised Proposed Fiscal Plan"). Therein, FOMB directs PREPA to submit a second revised proposed Fiscal Plan (the "Second Revised Proposed Fiscal Plan") that reflects balanced budgets in each fiscal year and a revised proposed FY2023 budget that is consistent with FY2023 projected revenues.

PREPA, FOMB, the Puerto Rico Public-Private Partnerships Authority (P3A), and LUMA ("the Parties") are in ongoing discussions regarding the proposed FY2023 budget revenue allocation and expenses for GridCo, GenCo and HoldCo. During the technical hearing held by the Puerto Rico Energy Bureau (PREB) on ***June 10***, 2022, the PREB commissioners deemed that the budgets proposed by PREPA and LUMA were not "coordinated" appropriately, and therefore canceled the hearing and rescheduled it for June 17, 2022. The Parties met on Monday, ***June 13th*** to discuss the next steps and schedule meetings to advance toward the goal of achieving an appropriately "coordinated" budget, as demanded by PREB. Additional meetings between the Parties were held on ***June 14th*** and ***15th***, including all-day meetings at PREPA and LUMA offices to review and discuss the PREPA proposed budgets for GenCo and HoldCo. The Parties also reviewed and discussed a revised LUMA revenue allocation proposal that was provided to PREPA on June 13th. As of the writing of this letter, there has been significant progress made, but there is no final decision or agreed upon direction for appropriate and compliant reviews to the proposed budgets or revenue allocation.

In this regard, on June 15th, PREPA was informed by LUMA that it had agreed with FOMB a reviewed load forecast approach and would provide an update to PREPA in short order. The final reviewed load forecast was provided by LUMA to Siemens on June 16th to re-run the Aurora capacity expansion and generation dispatch model for the updated generation cost forecast. PREPA understands that Siemens is working on the model, but it is expected to provide an updated forecast data output on the day the reviewed fiscal plan was requested by the FOMB, June 17th.

As a result of the ongoing discussions among the Parties, regarding revenue allocation and expense budgets, and the outstanding updated long-term financial projections, PREPA herein respectfully requests an extension of time, until Wednesday, June 22, 2022, to submit the Second Revised Proposed Fiscal Plan. It is important to emphasize, that the submittal of a compliant fiscal plan on this date remains conditioned on the resolution of the FY2023 budget discussions and timely completion of the revised long-term financial projections.

As always, PREPA remains committed to the objectives of achieving and ensuring reliability, resiliency, and improved service quality for all of Puerto Rico. PREPA looks forward to continuing to work expediently and collaboratively with FOMB and LUMA to develop and implement a fiscal plan and corresponding budget that is compliant with Puerto Rico's energy public policy and with PROMESA's objectives of fiscal responsibility and operational sustainability.

Cordially,

Josué A. Colón-Ortiz
Executive Director

c Hon. Pedro Pierluisi Urrutia
Hon. José Luis Dalmau Santiago
Hon. Rafael Hernández Montañez
Hon. Omar Marrero Díaz
PREPA Governing Board
FOMB Board Members
Mr. Fermín Fontanés Gómez
Mr. Wayne Stensby

June 29, 2022

BY ELECTRONIC MAIL

Jaime A. El Koury, Esq.
General Counsel
Financial Oversight and Management
Board for Puerto Rico (FOMB)
PO Box 192018
San Juan, Puerto Rico 00919-2018

Dear Mr. El Koury:

The Puerto Rico Electric Power Authority (PREPA) is in receipt of the FOMB's letters dated June 28, 2022, addressed to the Governor of Puerto Rico, the Honorable Pedro Pierluisi Urrutia, the President of the Senate and the Speaker of the House of Puerto Rico, regarding PREPA's fiscal year 2023 budget (FY2023 Budget) submitted on June 22, 2022 (the "Revised Budget"). Therein, FOMB directs PREPA to submit a second revised FY2023 Budget (the "Second Revised Budget") that is balanced, properly allocates legal and regulatory expenses between entities, and incorporates updated bad debt expense assumptions.

PREPA received an updated fiscal plan financial model from FOMB and held meetings during the day today, June 29th, with FOMB representatives to understand the changes to the PREPA proposed budgets for GenCo and HoldCo operating and maintenance activities. PREPA appreciates the time spent by FOMB analyzing PREPA's budget submittals and the underlying support data, and PREPA understands the overall fiscal constraints facing the electric power system in Puerto Rico.

PREPA's budgets were developed by management considering the critical needs for the generation system, as well as the regulatory and legal requirements applicable to PREPA. These requirements and needs were detailed and explained in PREPA's GenCo Budget Support filing submitted to PREB on April 14th, and to FOMB as part of the Fiscal Plan submittals, as well as in working sessions held between FOMB, the Puerto Rico Public-Private Partnerships Authority (P3A), LUMA Energy, LLC (LUMA), and PREPA regarding the proposed budgets. It is stressed that, as of May 2022, PREPA expects to spend more than $103 million of the FY2022 Necessary Maintenance Expenses (NME) budget, which represents more than 97% of spending in the current fiscal year. This condition was also considered to develop PREPA's budgets for the FY2023.

In the revised Fiscal Plan Model provided by FOMB, PREPA found that FOMB made significant adjustments to PREPA's proposed budgets, some of which PREPA finds objectionable or cannot accept. For example, the Non-labor Expense category proposed by PREPA for GenCo covers critical services needed to repair and maintain the generation fleet for non-capitalizable services, equipment and tools and materials, and it was adjusted down by $28.7 million. The amount proposed by PREPA for these the Non-labor Expenses is based on a bottoms-up approach and predicated on input from each plant and responsibility area for necessary repairs and maintenance based on prudent engineering practices as to the operational needs of the generation system. Moreover, PREPA's proposed Labor Expense category seeks to address specialized workforce retention and shortage issues described in the April 14th submittal, which the FOMB reduced by $1.8 million. By reducing the proposed amount, PREPA would lose a key tool to retain key personnel to the electrical system operations. PREPA also does not believe the FOMB's movement of 100% of Legal and Environmental expenses from HoldCo to GenCo correctly reflects cost causation or underlying support provided to-date. PREPA proposes and is available to undertake, a careful review of these functions to determine which costs should be absorbed by GenCo and the upcoming P3 Operator, and what responsibilities will remain at PREPA HoldCo after PREPA's corporate reorganization.

Exhibit 1: FOMB FY2023 Budget Changes

($-millions)	FY2022 Budget	4.1 Budget*	5.31 Budget	6.22 PREPA Budget	6.29 FOMB Budget	6.22-FOMB $-Variance	6.22-FOMB %-Variance
Projected Revenue less Bankruptcy Costs	**$ 1,066,903**	**$ 1,009,561**	**$ 1,009,561**	**$ 1,058,185**	**$ 1,045,933**	**$ (12,252)**	**-1%**
A. Genco:							
Labor Operating Expenses	$ 76,711	$ 83,512	$ 83,512	$ 83,512	$ 87,543	$ 4,031	5%
Non-Labor / Other Operating	$ 52,513	$ 72,626	$ 72,626	$ 72,626	$ 43,944	$ (28,682)	-39%
Maintenance Projects Expense (NME)	$ 106,389	$ 125,879	$ 125,879	$ 99,039	$ 99,039	$ -	0%
Total Genco Operating & Maintenance	**$ 235,612**	**$ 282,017**	**$ 282,017**	**$ 255,177**	**$ 230,526**	**$ (24,651)**	**-10%**
B. HoldCo:							
HoldCo Labor Operating							
Labor Operating Expenses	$ 17,690	$ 20,294	$ 19,982	$ 19,982	$ 12,513	$ (7,469)	-37%
Non-Labor / Other Operating	$ 18,180	$ 71,810	$ 60,395	$ 34,461	$ 31,816	$ (2,645)	-8%
Total HoldCo O&M excluding T3/FOMB/P3A	**$ 35,870**	**$ 92,104**	**$ 80,377**	**$ 54,443**	**$ 44,329**	**$ (10,114)**	**-19%**
Title III Costs	$ 38,722	$ 30,300	$ 28,000	$ 28,000	$ 25,100	$ (2,900)	-10%
FOMB Advisor Costs	$ 24,400	$ 24,400	$ 24,400	$ 24,400	$ 24,400	$ -	0%
P3A Transaction Costs	$ 4,750	$ 9,500	$ 9,500	$ 9,500	$ -	$ (9,500)	-100%
Total HoldCo O&M with PREPA T3/FOMB	**$ 103,742**	**$ 156,304**	**$ 142,277**	**$ 116,343**	**$ 93,829**	**$ (22,514)**	**-19%**
C. GridCo:							
T&D O&M Expenses	648,892	627,909	627,909	627,909	626,903	$ (1,006)	0%
LUMA Service Fees	115,131	105,704	105,704	105,704	121,785	$ 16,081	15%
Total GridCo O&M Expenses	**$ 764,023**	**$ 733,613**	**$ 733,613**	**$ 733,613**	**$ 748,688**	**$ 15,075**	**2%**

**HoldCo budget was initially proposed on May 11th.*

As the FOMB is aware, PREPA made great strides in recent weeks to lower the budget amounts for HoldCo support services, considering LUMA's shared services, and Generation O&M expenses. Unfortunately, however, PREPA does not see a path to accommodate further reductions without impacting PREPA's ability to comply with its operational, legal, environmental, and regulatory obligations.

As a result, PREPA hereby submits its revised proposed GenCo and HoldCo budgets with limited changes from the June 13th Budgets and June 22nd Fiscal Plan submittals. PREPA understands through conversations with FOMB that additional funding for operating and maintenance activities that are required during the year may be requested via budget amendment or otherwise. At this juncture, PREPA respectfully notes that it anticipates the budget proposed by FOMB will be insufficient and will require future amendment. Nevertheless, PREPA is prepared to begin the critical maintenance and other work needed for safe and reliable system operation in FY2023, and will expediently seek the FOMB's guidance and approval for additional funding when appropriate and as needed.

Cordially,

Josué A. Colón-Ortiz
Executive Director

c Hon. Pedro Pierluisi Urrutia
Hon. José Luis Dalmau Santiago
Hon. Rafael Hernández Montañez
Hon. Omar Marrero Díaz
PREPA Governing Board
FOMB Board Members
Mr. Fermín Fontanés Gómez
Mr. Wayne Stensby