

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

<p>NEPR</p> <p>Received:</p> <p>Apr 14, 2023</p> <p>8:37 PM</p>

IN RE: REVIEW OF LUMA’S INITIAL
BUDGETS

CASE NO. NEPR-MI-2021-0004

**SUBJECT: Motion in Compliance with Resolution
and Order of April 5, 2023**

MOTION IN COMPLIANCE WITH RESOLUTION AND ORDER OF APRIL 5, 2023

TO THE HONORABLE PUERTO RICO ENERGY BUREAU:

COME NOW LUMA Energy, LLC (“ManagementCo”), and LUMA Energy ServCo, LLC (“ServCo”), (jointly referred to as “LUMA”), and respectfully state and request the following:

1. On March 14, 2023, the Puerto Rico Electric Power Authority (“PREPA”) filed a motion with this Puerto Rico Energy Bureau (“Energy Bureau”) entitled *Request to Amend FY 2023 PREPA Budget for Implementation of FOMB Certified Fiscal Plan Transformation Initiatives* (“PREPA’s March 14th Amendment Request”). Therewith, PREPA requested an amendment to its approved and certified Generation Budget, arguing that the amendment will not result in increased rates to customers because it is based on revenues from reimbursed federal funds. Particularly, PREPA requested that this Energy Bureau amend the approved Generation Budget for FY 2023 to: (1) allocate \$60 million for operating and necessary maintenance expenses (“NME”) (\$40 million for generation NME projects listed in Annex D of the PREPA March 14th Amendment Request and \$20 million for operating expenses); (2) reallocate funds from the FEMA Reimbursement Account to PREPA’s Operational account to fund expenses for construction projects that have been approved by the Energy Bureau; (3) allocate \$15 million from its operating

budget to fund Genera’s mobilization fee; (4) allocate \$29.4 million to cover estimated costs for the Voluntary Transition Program of its employees; and (5) allocate \$150 million to fund PREPA’s Pension System.

2. On March 24, 2023, PREPA filed a *Renewed and Reiterated Urgent Request to Amend FY2023 PREPA Budget for Implementation of FOMB Certified Fiscal Plan Transformation Initiatives* whereby it reiterated its request for an amendment to its FY2023 certified Generation Budget (the “Renewed Amendment Request”). Through the Renewed Amendment Request, PREPA also clarified and updated its original request for amendment. As per the Renewed Amendment Request, PREPA requested that the Energy Bureau authorize an amendment to the FY2023 Certified Generation Budget to: (i) allocate \$15 million to pay for the Genera mobilization costs; (ii) allocate \$29.4 million to fund the Voluntary Transition Program; (iii) allocate \$200 million to fund the Pension System; and (iv) allocate \$81.8 million for NME (\$46.4 million FY2023 and \$35.4 million for FY2024).

3. On March 25, 2023, this Energy Bureau issued a Resolution and Order with the subject “Request for Information on PREPA’s March 14, 2023 Amendment Request.” In what is relevant to LUMA, this Energy Bureau directed that within three (3) business days, that is, by March 29, 2023, LUMA shall state its position on PREPA’s March 14th Amendment Request, including the requirement for LUMA to notify PREB of any budget amendments as stated in section 7.3(e) of the T&D OMA.

4. On March 26, 2023, PREPA filed a *Petition in Response to the Energy Bureau’s March 25 Order Regarding the Revised Request to Amend the FY2023 Budget* whereby, in what is pertinent, it informed that on March 24, 2023, the FOMB issued a Resolution certifying the following amounts for PREPA’s revised FY2023 Generation Budget: (i) \$15 million to pay for the

Genera mobilization costs; (ii) \$29.4 million to fund the Voluntary Transition Program; and (iii) \$46.4 million for FY2023 NME through a reserve, subject to the Energy Bureau's review and approval (the "March 26th Response").

5. On March 29, 2023, LUMA submitted with this Energy Bureau a Motion entitled *Motion in Compliance with Resolution and Order of March 25, 2023*, whereby LUMA stated its position in connection with PREPA's March 14th Amendment Request. LUMA explained that per Section 7.3(e) of the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement ("T&D OMA"), LUMA is not required to submit a generation budget amendment request to the Energy Bureau but is called upon to notify the Energy Bureau, PREPA and the Puerto Rico Public-Private Partnership ("P3A") for PREPA to request a budget amendment. LUMA also explained that Section 7.3(e) of the T&D OMA, had not been triggered. Furthermore, LUMA stated its concerned with PREPA's ability to fully fund the Service Accounts, explained that it is supportive of any measure taken to ensure PREPA's compliance with its contractual obligations under the T&D OMA, and requested that the Energy Bureau take into consideration PREPA's obligations to fund the Service Accounts under the T&D OMA.

6. On April 2, 2023, PREPA submitted a Motion entitled *Modified FY2023 Budget Amendment Request for Implementation of FOMB Certified Fiscal Plan Transformation Initiatives and in Compliance with the March 25 Order* ("April 2nd PREPA Motion"). In essence, PREPA referenced a meeting held with the Energy Bureau on March 28, 2023 where the Energy Bureau requested certain information from PREPA. PREPA also submitted information in compliance with the orders of this Energy Bureau, as well as clarifications.

7. On April 5, 2023, this Energy Bureau issued a Resolution and Order, whereby it summarized the aforementioned filings and requested additional information from PREPA in

connection with PREPA's requests for an amendment of the Generation Budget ("April 5th Order"). Regarding LUMA, this Energy Bureau directed that within five (5) business days, that is, by April 14, 2023, LUMA shall submit information requested in Annex B of the April 5th Order. As explained by this Energy Bureau, the purpose of the request for information is to identify funding resources for PREPA's March 14th Amendment Request, as amended and supplemented by the Renewed Amendment Request and the April 2nd PREPA Motion. This Energy Bureau explained that it is interested in learning how LUMA accounts for collections on past due bills. *See* April 5th Order at page 5.

8. In compliance with the April 5th Order, LUMA hereby submits its responses to Annex B of the April 5th Order. *See Exhibit 1.*

WHEREFORE, LUMA respectfully requests that the honorable Bureau **take notice** of the aforementioned for all purposes; and **deem** that LUMA complied with that portion of the April 5th Order that directed LUMA to submit responses to the requests for information included in Annex B of the April 5th Order.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 14th day of April, 2023.

We hereby certify that this motion was filed using the electronic filing system of this Energy Bureau. We also certify that copy of this motion will be notified to the Puerto Rico Electric Power Authority, through its attorney of record: jmarrero@diazvaz.law.



DLA Piper (Puerto Rico) LLC
500 Calle de la Tanca, Suite 401
San Juan, PR 00901-1969
Tel. 787-945-9107
Fax 939-697-6147

/s/ Margarita Mercado Echegaray
Margarita Mercado Echegaray
RUA NÚM. 16,266
margarita.mercado@us.dlapiper.com

Exhibit 1

Requirement of Information on PREPA's Motions Requesting FY 23 Generation Budget Amendment NEPR-MI-2021-0004

Response: RFI-LUMA-MI-2021-0004-20230405-PREB-001

SUBJECT

Bad Debt – Past Due Bills Collections

REQUEST

The October 29 Motion, at page 22, LUMA explains that its efforts to more effectively address collections from past due bills resulted in collection of more than \$203 million in past due bills.

In the "Petition for Approval of Initial Budgets and Related Terms of Service," filed on February 24, 2021, at Exhibit 1, p. 26, Bad Debt was budgeted in the FY 2022 Initial Budgets at \$59 million as approved by the Energy Bureau in the "Determination on LUMA's Initial Budgets", dated May 31, 2021.

- a. Specify the time period for the past due bills that resulted in the collection of the cited \$203 million.
- b. Specify how the \$203 million is reflected in the FY 2022, FY 2023, and FY 2024 budgets.
- c. What was the actual level of Bad Debt that was incurred/accrued in FY 2022

RESPONSE

- a) The cited \$203 million is not from a specific time period. At any point in the year, LUMA's Revenue Protection Team focuses on collecting outstanding bills that are older than 60 days. In the case of the \$203 million collected in FY 2022, those revenues may be associated with any historical period older than 60 days.

It should be noted that prior to LUMA taking over operations in June 2021, charges in Oracle CC&B had not been properly managed through an executed dunning process, meaning that existing accounts receivable date back several years. LUMA is in the process of cleaning up the extensive accounts receivable in the billing system. This process is part of the larger financial reporting clean-up identified to the P3A and which prevents LUMA from achieving financial reporting requirements under the OMA. Once the financial clean-up and Oracle CC&B accounts receivables clean-up have been completed, LUMA will be better able to report the time period for the past due bills. Once complete, the accounts receivable clean-up and write off project will result in no accounts receivable aging in the billing system past 12 months.

- b) As explained in section (a) above, because the \$203 million is the result of collections of accounts that are for amount 60 or more days old, a portion of those amounts may correspond to revenues projected in the FY 2022 budget. As explained above, LUMA expects to be better able to provide such information once the relevant clean-up efforts are complete. The \$203 million is not reflected in the FY2023 and FY2024 budgets.

The anticipated revenue reflected in the budget for each fiscal year is developed based on the forecasted load for that particular year. Budgets are not developed or changed based on cash collections. Actual revenue is reflected in the fiscal year in which it is generated based on invoices.

- c) As noted in the response to section (a), the accounts receivable in the billing system currently dates back several years as PREPA did not use a proper accounts receivable write-off process. PREPA accounted for bad debt as a line item on the financial statements that does not tie back to actual account write-offs in the billing system. The project mentioned in section (a) is intended to clean up the accounts receivable and ensure that a dunning process is followed so accounts receivable are written off in the billing system and rolled up to the financials (i.e. auditable and traceable).