

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

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IN RE: REVIEW OF LUMA’S INITIAL
BUDGETS

CASE NO. NEPR-MI-2021-0004

**SUBJECT: Submission of Consolidated Annual
Budgets for Fiscal Year 2024 and Annual T&D
Projections through Fiscal Year 2026.**

**SUBMISSION OF CONSOLIDATED ANNUAL BUDGETS FOR FISCAL YEAR 2024
AND PROPOSED ANNUAL T&D PROJECTIONS THROUGH FISCAL YEAR 2026**

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:

I. Introduction

LUMA hereby submits to the Puerto Rico Energy Bureau (the “Energy Bureau”) the proposed Budgets for the Puerto Rico Energy System (the “System”), which are comprised of the proposed budget for the Transmission and Distribution System (“Proposed Annual T&D Budgets”), developed by LUMA; the budget proposal for the legacy thermal generation units (the “GenCo Budget”), developed by Genera PR, LLC (“Genera”); the budget proposal for the hydroelectric generating units and the public irrigation facilities (the “HydroCo Budget”) and the budget proposal for PREPA and its subsidiaries other than GenCo and HydroCo (the, “HoldCo Budget”) developed by the Puerto Rico Electric Power Authority (“PREPA”) and (collectively referred to as the “System Annual Budgets”). *See Exhibit 1* to this Motion.

This submission is made pursuant to the Energy Bureau’s Resolution and Order of February 27, 2023 (“February 27th Order”) and in compliance with the Energy Bureau’s May 8, 2023 Resolution granting in part LUMA’s May 4, 2023 Request for Extension and requiring LUMA “to file the consolidated FY2024 Proposed Annual Budgets on or before May 15, 2023.”

While LUMA is filing the System Annual Budgets, each budget was developed independently by the corresponding operating entity. Thus, LUMA’s discussion on the substance of the System Annual Budgets in this Motion will be limited to the LUMA’s Proposed Annual T&D Budgets. As LUMA did not intervene in the development of the GenCo Budget, the HydroCo Budget or the HoldCo Budget, LUMA makes no representation whatsoever as to the appropriateness, compliance of adequacy of any budget proposal other than the T&D Budget. Any questions or comments regarding the GenCo Budget, *see Exhibit 1 of this Motion, Appendix C*, the HydroCo Budget, *see Exhibit 1 of this Motion, Appendix D*, or the HoldCo Budget, *see Exhibit 1 of this Motion, Appendix E*, should be addressed to Genera, for the GenCo Budget, and PREPA for the HydroCo Budget and the HoldCo Budget.

As per the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement (“T&D OMA”), LUMA’s Proposed Annual T&D Budgets should be adequate in both scope and amounts¹ to reasonably assure that LUMA can carry out the related O&M Services² according to Contract Standards,³ notwithstanding the significant external challenges impacting

¹ See Section 7.4 of the T&D OMA.

² O&M Services include “(i) management, operation, maintenance, repair, restoration and replacement and other related services for the T&D System, in each case that are customary and appropriate for a utility transmission and distribution system service provider, including the services set forth in . . . Article 5 [of the T&D OMA] (O&M Services) (excluding the GenCo Shared Services) and Annex I (Scope of Services), and (ii) establish policies, programs and procedures with respect thereto, in each case, in accordance with the Contract Standards.” See T&D OMA, Section 5.1; *see also* T&D OMA, Annex I.

³ As per Article 1 of the Transmission and Distribution System Operation and Maintenance Agreement dated as of June 22, 2020:

the System and the complex environment in which LUMA is required to operate. Projected overall macroeconomic and electric demand trends continue to result in lower forecasted Base Rate revenues for the System. *See* Exhibit 1, Executive Summary, pages 11, 14, and 15; Section 4.0. The System has also been impacted by increased costs, including four-decades record-high inflation and operational and implementation challenges related to PREPA. *See id.* Lastly, the quantifiable impact of ensuring compliance with specific mandates issued by the Energy Bureau would require additional funding if these mandates were to be implemented in FY 2024. *See Exhibit 1*, Section 4.0. Notwithstanding, LUMA did not propose an increase to the Base Rate in its first two years of operations and is not proposing an increase or change in the Base Rate at this time.

II. Context on Challenges to the System

Several factors external to LUMA have had the effect of increasing the complexity and challenges of operating and maintaining the T&D System. Overall, global factors, including pandemic-related disruptions, supply-chain constraints, Russian war in Ukraine, among other macroeconomic factors have caused the cost of goods and services to increase significantly and, consequently, the cost of operating and maintaining the T&D System. Similarly, factors specific to Puerto Rico and/or PREPA's Title III case also impact the cost of providing services or cause LUMA to incur costs above and beyond the costs of operating and maintaining the T&D System.

Contract Standards means the terms, conditions, methods, techniques, practices and standards imposed or required by: (i) Applicable Law; (ii) Prudent Utility Practice; (iii) applicable equipment manufacturer's specifications and reasonable recommendations; (iv) applicable insurance requirements under any insurance procured pursuant to this Agreement; (v) the Procurement Manuals, as applicable, and (vi) any other standard, term, condition or requirement specifically contracted in this Agreement to be observed by Operator.

Inflation: Cost inflation has substantially raised LUMA’s costs to deliver O&M Services, including labor, materials and services. Global inflation rates have increased to levels not seen in four decades. Furthermore, inflation has been compounding year-over-year since LUMA’s commencement, thus significantly impacting the T&D Budget for FY2024. Particularly, inflation, as measured by the Consumer Price Index and which affects LUMA’s costs, has risen to record levels, registering increases of 7.0% and 6.5% in calendar year 2021 and 2022, resulting in a Consumer Price Index that is more than 13.9% higher than when the Initial Budgets were created in 2021. *See Exhibit 1*, pages 11 and 14 and Section 4.0, page 49.

Declining Load: Since FY2022, forecasted load has decreased by 8%. FY2024 load is projected to be 15,466 GWh, *see* Final Rate Order, Case NEPR-AP-CEPR-AP-2015-0001, ¶295 (“2017 Rate Order”), reflecting a reduction of approximately 10% from the projected sales used by this Energy Bureau in the 2017 Rate Order of 17,268 GWh. *See Exhibit 1*, pages 14, 18. Going forward, this trend is expected to continue, with load forecasted to be 14,590 GWh in FY2025 and 13,925 GWh in FY2026, *see Exhibit 1*, page 18. Driving the reductions in forecasted load are, among others, macroeconomic assumptions as stated by the FOMB, declining population, and the impact of the Net Metering Program.—Furthermore, Base Rate revenues have declined 7% compared to FY2022. *see Exhibit 1*, page 11. As energy sales decline, so does the revenues generated by the Base Rate and, consequently, absent any adjustments, the System will not generate enough revenues to maintain the operational and performance standards expected.

Title III Costs: Title III-related costs are comprised by costs incurred by PREPA in connection with Title III and PROMESA related responsibilities as well as costs incurred by the Financial Oversight and Management Board for Puerto Rico (“FOMB”) in representation of PREPA before the Title III court. Because these costs are incremental to the costs associated with

the operation of the System, they have the effect of reducing the amount that would otherwise fund operation and maintenance activities.

LUMA Title III Support: LUMA is required from time to time to provide support, data and analysis to PREPA, Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF,” per its Spanish Language acronym) and the FOMB in relation to each of these entities’ requirements and obligations in connection with PREPA’s Title III case. These costs are incremental to the costs associated with operation and maintenance activities and, to the extent not funded from a dedicated funding source, have the effect of reducing the funds otherwise available for operation and maintenance activities.

PREPA Reorganization Costs: As required by Act 17-2019, the T&D OMA and PREPA’s Certified Fiscal Plan, PREPA is required to undergo a reorganization that will take it from its vertically integrated monopoly status towards its “transformed” state, with separate and legally and financially independent operating subsidiaries. LUMA has dedicated and expect it will continue to be required to dedicate significant resources to implement separate and distinct PREPA companies with specific scopes in line with PREPA’s “transformed” state. These costs are incremental to the costs associated with operation and maintenance activities and, to the extent not funded from a dedicated funding source, have the effect of reducing the funds otherwise available for operation and maintenance activities.

III. Background

A. Procedural Background on Submission of the System Annual Budgets

On April 2, 2022, LUMA submitted to this Energy Bureau its Annual Budgets for Fiscal Years 2023 through 2025 (“Annual Budgets”). LUMA also submitted supporting workpapers on April 8, 2022 in this budget proceeding. On July 13, 2022, LUMA filed a *Motion Submitting Fiscal*

Year 2023 Annual Budget as Approved by the Financial Oversight and Management Board for Puerto Rico (the “Informative Motion”) whereby it submitted to this Energy Bureau the Fiscal Year 2023 Budget as certified by the FOMB (“Certified Budget”).

On February 27, 2023, this Honorable Energy Bureau issued a Resolution and Order with the subject “Determination on LUMA's FY23 Annual Budgets and LUMA's FY24 Annual Budgets pre-filing requirements” (“February 27th Order”). In Section IV.I. of the February 27th Order, the Energy Bureau specifically directed LUMA to submit the FY2024 Budget Proposal on or before March 15, 2023. *See*, February 27th Order at page 29. On February 28, 2022, the Energy Bureau entered a Resolution *Nunc Pro Tunc* correcting *motu proprio* a clerical error in the date of submission established for the FY2024 Budget Proposal (the “February 28th Resolution”). Specifically, the Energy Bureau clarified that the FY2024 Budget Proposal shall be submitted on or before April 15, 2023, instead of March 15, 2023. On March 20, 2023, LUMA filed a *Motion for Reconsideration and/or Request for Clarifications of Resolution and Order of February 27, 2023 on LUMA's Fiscal Year 2023 Certified Budget and Request for Stay Pending Adjudication of the Motion for Reconsideration* whereby it requested this honorable Energy Bureau to reconsider and clarify certain aspects of its February 27th Order (the “Motion for Reconsideration”).

On April 3, 2023, LUMA filed a *Request for Extension of Time to Submit FY2024 Proposed Annual Budgets* (the “April 3rd Request for Extension”) whereby it informed this Energy Bureau that it had engaged in discussions regarding the FY2024 Budget Allocation with the Puerto Rico Public-Private Partnerships Authority (“P3A”), Genera, and the Puerto Rico Electric Power Authority (“PREPA”) (collectively, “the parties”) after an Initial Budget Allocation Meeting was held on February 24, 2023. LUMA further informed that it had not received the FY2024 Budget

Allocation as set forth in Section 3.1(b)(ii) of the Puerto Rico PREPA-GenCo-HydroCo Operating Agreement (“PGHOA”). As explained in the Request for Extension, since the process of developing a consolidated budget this year involves new actors, the budget allocation process has been conducted pursuant to Section 7.3 of the Puerto Rico Thermal Generation Facilities Operation and Maintenance Agreement (the “Generation OMA”) dated as of January 24, 2023, which terms are consistent with those of Section 7.3 of the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement (“T&D OMA”) and Article 3 of the PGHOA. In light of those circumstances, LUMA requested an extension of time, until May 1st, 2023, to file the FY2024 Budget Proposal before this honorable Energy Bureau. On April 11, 2023, this Energy Bureau entered a Resolution and Order whereby it granted LUMA’s Request for Extension and, therefore, extended the deadline for LUMA to submit the consolidated FY2024 Proposed Annual Budgets by May 1st, 2023 (“April 11th Order”).

On April 28, 2023, LUMA submitted an *Urgent Request for Additional Extension of Time to Submit Consolidated FY2024 Proposed Annual Budgets and for Modification of Procedural Calendar* whereby it informed that on April 22, 2023 it submitted the consolidated FY2024 Proposed Annual Budgets to the P3A and that, as of April 28th, the budgets continued to be adjusted and considered by the P3A (“April 28th Urgent Motion”). LUMA suggested an amended procedural schedule pursuant to which the FY2024 Proposed Budgets would be submitted on May 8, 2023. PREPA and Genera agreed to LUMA’s proposed revised procedural schedule.

The P3A notified its Budget Allocation Determination to LUMA on May 1, 2023. *See Exhibit I*, Appendix B. On May 3, 2023, this Energy Bureau entered a Resolution and Order whereby it granted LUMA’s April 28th Urgent Motion and, therefore, extended until May 8th the

deadline for LUMA to file the FY2024 Proposed Budgets (the “May 3rd Order”). The Energy Bureau also amended the Procedural Calendar it had adopted through its April 11th Order.

On May 4, 2023, LUMA filed an *Informative Motion on Status of FY2024 Budget Allocation Discussions, Request for Additional Time to Conclude Discussions and Petition for Modification of Procedural Calendar* whereby it requested an additional extension, until May 16th, 2023, to file the Proposed FY2024 Annual Budgets. On May 8th, 2023, the Energy Bureau issued a Resolution and Order whereby it granted LUMA until today, May 15th, 2023, to file the consolidated FY2024 Proposed Annual Budgets and amended the Procedural Calendar accordingly.

On May 12, 2023, the P3A notified a Revised Budget Allocation Determination as a result of conversations held with LUMA, this Energy Bureau, the Central Office for Recovery, Reconstruction and Resilience (“COR3”) and the Fiscal and Oversight Management Board (“FOMB”) to identify additional funds for distribution under the FY2024 Annual Budgets. *See Exhibit 1, Appendix B.* Through the Revised Budget Allocation Determination, the P3A determined that an additional amount of \$130MM identified as “cash in hand” could be allocated in a matter consistent with the provisions of the May 1st Budget Allocation Determination.

B. The February 27th Order and LUMA’s Motion for Reconsideration

Through the February 27th Order, the Energy Bureau conditionally approved LUMA’s Annual Budgets for FY23 subject to compliance with the orders and reporting requirements set forth therein. Specifically, the Energy Bureau identified certain high priority areas for which it provided specific directives, and which involve the allocation of additional funds.

On page 13 of the February 27th Order, this Energy Bureau directed LUMA to “increase its budgeted funding for Vegetation Management to a minimum of \$60 million for FY2024. This

Energy Bureau further ordered LUMA to include as part of the FY2024 Proposed Budgets a specific allocation for Tranche 1 network upgrades and to “identify the priorities it utilized in determining the impact of reallocating Non-Federal Funds for that purpose.” February 27th Order at page 17. The Energy Bureau also ordered LUMA to evaluate and determine the prioritization of such allocation in a manner that has the lowest potential impact on system reliability. *Id.* Finally, this Energy Bureau required that LUMA allocate additional funding for implementation of the Emergency Response Plan (“ERP”) in connection with Estimated Times of Restoration (“ETRs”). *Id.*, page 24.

On page 18 of the February 27th Order, the Energy Bureau also expressed concerns regarding the potential loss of federal funds due to the inability to identify matching funds. The Energy Bureau directed LUMA

[t]o ensure that Federal Funding is not jeopardized due to the unavailability of matching funds . . . , **LUMA [shall] . . . include an allocation for these funds in its budgets, beginning in FY 2025 to account for the possibility that matching funds may not be available from other sources.** This would be reflected and evaluated in the rate case LUMA is required to file on August 1, 2023, for rates beginning in FY 2025.

Id. (emphasis added).

More specifically, this Energy Bureau ordered LUMA to

- (i) include, beginning in its FY 2024 Budgets, a line item to reflect Federal Cost Share Matching Funds; (ii) include, in its FY 2024 Quarterly Budget Reports, the identity, source and status of funding sources that have been identified to cover the necessary Federal Cost Share requirements for FEMA Public Assistance Grant DR-43 39-PR; and (iii) include in its Rate Filing for FY 2025, an allocation for required Federal Cost Share matching funds to ensure that if not received from other sources, those funds would be available in rates.

Id.

On page 17 of the February 27th Order, this Energy Bureau directed that LUMA shall include in the consolidated FY 2024 Budgets an allocation to fund Network Upgrades:

While the federal funding process is pursued, the Energy Bureau ORDERS LUMA, for FY 2023 (4th Quarter) and FY 2024, to include in its Budget proposal, a specific allocation for Tranche 1 network upgrade funding and identify the priorities it utilized in determining the impact of reallocating those Non-Federal Funds. LUMA is directed to evaluate and determine the prioritization in a manner with the lowest potential impact on system reliability.

The Energy Bureau ORDERS LUMA to: (i) while the federal funding process is being pursued to include a specific allocation for Tranche 1 network upgrade funding in its Q4 FY 2023 (4th Quarter) and FY 2024 Budget proposal and identify the priorities it utilized in determining the impact of reallocating Non-Federal Funds; and (ii) evaluate and determine the prioritization of such allocation in a manner that has the lowest potential impact on system reliability.

See id., page 17.

As referenced above, LUMA filed a Motion for Reconsideration of the February 27th Order. Given that the requests for reconsideration and clarifications included in the February 27th Order involved requirements that apply to LUMA's reporting on the FY2023 Certified Budget and LUMA's submission of the proposed FY2024 Budget, through its Motion for Reconsideration, LUMA also requested the stay of those requirements pending consideration of the motion by this Energy Bureau.

In the Motion for Reconsideration, LUMA espoused that the orders to accelerate the Vegetation Management Improvement Program remediation activities, reallocate funds to finance System Network Upgrades and budget for Federal Cost Sharing Matching Funds set forth in the February 27th Order, impact LUMA individually and its duties and obligations under the T&D OMA.

Specifically related to the Vegetation Management Improvement Program, LUMA explained that the abbreviated timeline set forth by the Energy Bureau in the February 27th Order to reach remediated state is not feasible without maximizing federal funding which, in turn,

requires determinations and approvals from the Federal Emergency Management Agency (“FEMA”) the timing of which are outside LUMA’s control.

LUMA also requested reconsideration of that portion of the February 27th Order directing the allocation of funds in the Budget for FY 2024, for Tranche 1 network upgrades funding and reiterated its proposal that it be allowed to work with the developer of the approved projects and incorporate costs in the PPOA price to lessen the impact of these costs on customers. As explained by LUMA in the Motion for Reconsideration, the actions required by the February 27th Order with regards to the System Network Upgrades, impact the timeline to achieve reliability and resiliency of the grid, the availability of federal and non-federal funding for other T&D System projects, the T&D System Annual Budgets, LUMA’s ability to comply with the T&D OMA, including Contract Standards, the System Remediation Plan and Performance Metrics.

As to the Federal Cost Sharing Matching Funds, LUMA requested reconsideration of the orders on Federal Cost Share Matching Funds included at page 18 of the February 27th Order insofar as they failed to consider that it is the responsibility of the Government of Puerto Rico to identify and fund the cost share portion of the FEMA grants.

Furthermore, LUMA requested that this Energy Bureau reconsider that portion of the February 27th Order that requires “funding in the FY 2024 Budget to enable it to effectively conform to the [Emergency Response Plan], in particular, with respect to providing timely and granular [Estimated Times of Restoration] and requires “funding in the FY 2024 Budget to install, test and fully implement the [Outage Management System] OMS so as to avoid the heavy reliance upon manual processes that is cited in the July 13 Petition.” *See* February 27th Order, page 24. LUMA explained that it has allocated resources to implement the ERP to enable LUMA, among others, to issue ETRs in accordance with the ERP. However, the expedited timeframes suggested

by the Energy Bureau to issue ETRs, fail to consider the processes required by the ERP to issue ETRs.

The Motion for Reconsideration is pending resolution by this honorable Energy Bureau as of this date. As will be discussed below, the directives which LUMA has requested reconsideration represent additional challenges that, coupled with other macroeconomic realities and global factors, represent expenses in excess of those covered by the 2017 Base Rate. To that end, LUMA respectfully reiterates its Motion for Reconsideration and its request to stay the February 27th orders as discussed therein.

IV. The Energy Bureau's Authority to Review Consolidated Annual Budgets

Act 57-2014, the *Puerto Rico Energy Transformation and RELIEF Act*, gives the Energy Bureau authority and regulatory oversight over electric services and electric service companies, such as the Puerto Rico Electric Power Authority (“PREPA”) and LUMA. *See* Act 57-2014, Sections 6.3 and 6.4. Among other powers, the Energy Bureau may establish public policy standards with respect to electric service companies, establish rates, regulate any transaction, action or omission in connection with the electric power grid and the electric power infrastructure, and exercise jurisdiction over certified electric power companies, persons connected to the grid or receiving energy services, and persons that exercise control over the provision of electric power services. *See Id.*

LUMA's Proposed Annual T&D Budgets are submitted to this Energy Bureau pursuant to the February 27th Order and paragraph 441 of the Final Resolution and Order dated January 10, 2017 in Case No. CEPR-AP-2015-0001 (“2017 Rate Order”), as amended on March 31, 2017, whereby the Energy Bureau established the concept of “one-year budget examinations” with the

purpose of “examin[ing] PREPA’s proposed departmental budgets” and “establish a just and reasonable revenue requirement for the fiscal year beginning on the upcoming July 1.”

V. The P3A’s Revenue Allocation Determination

Pursuant to Section 7.3(a) of the T&D OMA, LUMA submitted the System Annual Budgets to the Puerto Rico Public-Private Partnership Authority (“P3A”) on April 22, 2023. On May 1, 2023, the P3A sent a letter to LUMA notifying its determination with regards to the total amount of Base Rate revenues that would be available for distribution and allocation across the various entities operating the System and the corresponding percentage of such revenues allocated to LUMA, Genera and PREPA, respectively. *See Exhibit 1*, Appendix B.

The P3A first determined that LUMA, Genera and PREPA would each be allocated 65.2%, 31.8% and 3.0%, respectively, of available revenues. Afterwards, the P3A determined that the total amount of revenues available for distribution and allocation between the parties pursuant to the allocation mechanism mentioned above was \$867 million. Accordingly, the P3A determined to allocate \$567 million of such revenues to LUMA, \$262 million to Genera, \$13 million to HydroCo (managed by PREPA) and \$26 million to HoldCo (PREPA’s remaining operations other than HydroCo).

On May 12, 2023, the P3A issued the Revised Budget Allocation Determination which includes revenues available for distribution in the amount of \$996.7 million. The Revised Budget Determination allocates \$651 million to LUMA for the operation and maintenance of the T&D System, \$301 million to Genera; \$15 million to HydroCo and \$30 million to HoldCo. *See*, Table 1-1 of *Exhibit 1*. The difference in the allocation to LUMA stems from the identification of \$130MM of cash in hand deposited in certain PREPA accounts that the P3A determined may be discretionally applied to the GridCo budget.

VI. The Consolidated FY2024 System Annual Budgets⁴

The table below provides a consolidated view of the System Annual Budgets for Fiscal Year 2024. LUMA is also providing a forecast of its Fiscal Years 2025 and 2026 budgets, as required by Section 7.3 of the T&D OMA”. The System Annual Budgets reflect total operating and maintenance spending (minus federally funded activities) of \$1,301 million, of which \$651 million correspond to the T&D Budget, \$301 million correspond to the GenCo Budget, \$15 million correspond to the HydroCo Budget, \$30 million corresponds to the HoldCo Budget and \$304 million correspond to other costs, including the corresponding LUMA and Genera Service Fees, Bad Debts and Title III-related costs.

Table Error! No text of specified style in document.-1. Annual Budgets – Budgets for Approval (\$ million)

	Budget FY2024	Projection FY2025	Projection FY2026
Transmission & Distribution^{1,2}			
GridCo Operating Expenditures	560	569	577
GridCo Non-Federally Funded Capital Expenditures	91	164	155
Transmission & Distribution Total	651	732	732
T&D Federally Funded Capital Expenditures ^{1,2}	803	1,679	2,182
Generation^{2,3}			
GenCo Operating and Capital Expenditures	301		
HydroCo Operating and Capital Expenditures	15		
Generation Total	316	N/A	N/A
HoldCo Operating and Capital Expenditures	30	N/A	N/A
Other			
LUMA Fee	129	98	128
Genera PR Fee	53		
Bad Debts	59	60	61
Bankruptcy and Advisor Costs	63		
Other Total	304	N/A	N/A

⁴ The consolidated System Annual Budgets for Fiscal Year 2024 are comprised of the T&D Budget, developed by LUMA, the GenCo Budget, developed by PREPA and Genera, and the HydroCo and the HoldCo Budget, developed by PREPA. LUMA is hereby filing the GenCo Budget, HydroCo Budget and the HoldCo Budget in the form and manner as such budgets were provided to LUMA by the corresponding entity. LUMA did not intervene in the development of any budget, other than the T&D Budget.

Total Non-Federally Funded T&D and Generation Expenditures	1,301	N/A	N/A
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Notes:

¹ T&D Expenditures include 2% reserve for excess expenditures, but T&D Operating Expenditures do not include Shared Services for GenCo, HydroCo, or HoldCo.

² Inflation as per macroeconomics provided by FOMB February 8, 2023, of 1.5% and 1.5% in FY2025 and FY2026, respectively.

³ As provided to LUMA by P3A and Genera PR on May 12, 2023. For additional detail, please refer to the documents provided by P3A, Genera PR, and PREPA in Appendix B, C, D and E for additional detail.

See Exhibit 1, page 17.

VII. The Fiscal Year 2024 Annual T&D Budgets

LUMA’s Annual T&D Budget for Fiscal Year 2024 is comprised of the Operating Budget, the Non-Federally Funded Capital Budget, and the Federally Funded Capital Budget. Fiscal Year 2024 consists of \$560 million of Operating Expenditures, \$91 million of Non-Federally Funded Capital Expenditures, and \$803 million of Federally Funded Capital Expenditures. *See Exhibit 1, pages 15, 17 and Schedule 3.1*

The Annual T&D Budget enables the implementation of improvement programs while also reflecting the continued effort and time it takes to build foundational elements to increase the organization’s capacity. These activities include continuity to advance LUMA’s System Remediation Plan (“SRP”), as approved by this Energy Bureau, to raise several aspects of the electric system and organization to minimum industry standards. The Proposed Annual T&D Budgets consist of a budget for FY2024, and projections for FY2025 and FY2026. LUMA’s source of information and assumptions for its GridCo budget and forecast are based on information available during the budgeting process beginning in December 2022. *See Exhibit 1, page 32.*

1. Operating Budget

LUMA’s Operating Budget for Fiscal Year 2024, including T&D Pass-Through Expenditures, is required to perform operation and maintenance services for the T&D System. Operation and maintenance activities include the following departments: (1) Customer experience

department; (2) Operations department; (3) Utility Transformation department; and (4) Support Services department. *See Exhibit 1, Section 2.1, page 21.*

LUMA projects Total Labor expenditures of \$254 million, Total Non-Labor expenditures of \$295 million, \$10.9 million Excess Expenditure Reserve (as required by the Section 7.3(b) of the T&D OMA), for a Total Operating Budget of \$560 million. *See Exhibit 1, Schedule 3.2.*

2. Capital Budget (Federally and Non-Federally Funded)

The Capital Budget comprises the Capital Budget – Federally Funded and the Capital Budget – Non-Federally Funded. The Capital Budget – Federally Funded–, includes federally funded projects approved in the Energy Bureau Federally Funded Docket (*In re Review of the Puerto Rico Electric Power Authority's 10 Year Infrastructure Plan- December 2020, NEPR-MI-2021-0002*), and projects with FEMA Accelerated Awards Strategy (FAASt) numbers. The Capital Budgets include the following improvement portfolios: (1) Customer Experience portfolio; (2) Transmission and Distribution portfolios; (3) Substation portfolio; (4) Control Center and Buildings portfolio; (5) Enabling portfolio; and (6) Support Services portfolio. *See Exhibit 1, Schedule 3.5.*

LUMA projects it will invest \$893 million (inclusive of 2% Excess Expenditure Reserve required by Section 7.3(b) of the T&D OMA) in capital expenditures, comprised of \$802 million (inclusive of the 2% Excess Expenditure Reserve) of federally funded contributions and \$91 million (inclusive of the 2% Excess Expenditure Reserve) of Non-Federally Funded Capital Expenditures. *See Exhibit 1, Schedule 3.5.*

3. Improvement Portfolios

Based on the Recovery and Transformation Framework and in LUMA's previous annual budgets filings, LUMA's programs were developed to a) remediate concerns identified through

gap assessment, b) conduct known infrastructure repair, replacement or hardening projects and c) meet regulatory requirements (such as the Integrated Resources Plan “IRP”). *See* Exhibit 1, Section 2.2, *see also* Appendix A. LUMA’s programs have been organized into portfolios of similar, interdependent programs that together cover all functional areas of the utility. *Id.* The table below provides a summary of annual spending estimates for each portfolio, from Fiscal Year 2024-2026. These estimates include federally funded programs, non-federally funded capital expenditures and program-related operational expenditures.

Table Error! No text of specified style in document.-2. Improvement Portfolio Spending Profile (\$ million, real)

	<i>FY2024</i>	<i>FY2025</i>	<i>FY2026</i>
Distribution	243	440	616
Enabling	266	566	601
Transmission	131	248	363
Substations	132	274	339
Customer Service	151	283	335
Control Center & Buildings	43	55	56
Support Services	22	17	15
Grand Total	988	1,883	2,324

See Exhibit 1, Section 2.2, page 38.

VIII. LUMA’s Key Priorities and Investments for Fiscal Year 2024

Under the T&D OMA, LUMA is required to operate and perform up to Contract Standards. To do so, LUMA must invest in the T&D System, implement operational control and policies, restructure internal procedures, as described in LUMA’s Recovery and Transformation Roadmap. The Transformation Roadmap outlines the Improvement Programs and priority areas identified by LUMA that must be optimized and improved to achieve the complete transformation envisioned in Act 57-2014, Act 120-2018 and Act 17-2019. Each program and priority area is designed to

Achieve a key goal in the Energy System’s transformation: System Rebuild and Resilience, Operational Excellence, Prioritize Safety, Improve Customer Satisfaction and Sustainable Energy Transformation. *See Exhibit 1, page 13.*



For Fiscal Year 2024, LUMA’s T&D Budget focuses on system recovery and resilience.

Some of the key investments LUMA proposes be funded in Fiscal Year 2024 include:

- Worker Safety and Training: Investments in operational excellence and safety programs related to technical training, tools and safety equipment, cyber security, T&D fleet repairs and replacement and security systems.
- Pole, Streetlight, Feeder and Substation Repair and Replacement: Fund construction activities focused on pole replacements, streetlight repairs and replacing, repairing and rebuilding distribution feeders and substations repairs and replacement programs.
- Improve Customer Experience: Enable enhance customer experience training and improved customer service process to achieve greater response accuracy, clearer communication and shortened resolution times.

- Strengthen Vegetation Management and Maximizing Federal Funding for Capital Clearing: Improving reliability through increase vegetation management and capital clearing activities, use of specialized equipment, remediating rights-of-way and proactive vegetation management and control activities. LUMA recently received approval for a \$1.2 billion, multi-year, island-wide Vegetation Re-set that will be funded by the Federal Government and will accelerate the recovery. In FY2024, LUMA will continue the work of remediating rights of way (ROW) and proactively removing vegetation in addition to outage response vegetation management.
- Technological Modernization: Deploy modern technological advancements, such as Advanced Metering Infrastructure (“AMI”) with federal funds, and the use of modern tools, such as Light Detection and Ranging (“LiDAR”), to better understand and plan for right-of-way vegetation clearing, installation of advanced metering and monitoring systems, implementing new communication protocols, and installing distribution automation.
- Advancing Emergency Preparedness: As demonstrated during LUMA’s Hurricane Fiona response, LUMA made significant foundational improvements to the T&D System and our emergency response capabilities within its first two years of operations. LUMA continues to sharpen its preparedness for potential storms and other emergencies including ongoing review of plans, ongoing training in various storm situations, and preplanning for coordination with relevant agencies and communication with customers.

See Exhibit 1, Executive Summary, page 12.

IX. Incremental Regulatory Activities and Funding Needs

Over the last two years, this Energy Bureau has ordered LUMA to advance, start or fund various activities or priorities it deems important for the System. However, a separate funding source for these activities has not been identified. These activities are: Cost Share match portion for all Federally Funded activities; Funding of network upgrades required for interconnection of renewable energy projects contracted in Tranche 1 of the Request for Proposals; Annual efficiencies and cost savings reporting; Additional O&M funded vegetation management; Improvements to OMS and related systems in support of the ERP; and Additional reporting requirements. *See Exhibit 1*, Section 4.0, page 49. LUMA has yet to develop a cost estimate for these activities. LUMA has yet to develop cost estimates for these activities. *See id.*

The Proposed Annual T&D Budgets do not reflect funding for these activities in FY2024 nor are they contemplated in the 2017 Base Rate. Implementation of these activities by LUMA would require additional funding above and beyond the total amounts reflected in the Annual T&D Budgets. LUMA currently anticipates that these activities will be more fully discussed in the upcoming Rate Case ordered by this Energy Bureau. *See id.*

Section 7.4 of the T&D OMA provides in part that “[t]he Budgets and the related ServCo staffing levels for each Contract Year shall be designed to be adequate ***in both scope and amounts*** to reasonably assure that Operator is able to carry out the related O&M Services in accordance with the Contract Standards and have a reasonable opportunity to earn the Incentive Fee for achieving the Performance Metrics.” (Emphasis added). Upon entering in the T&D OMA, LUMA understood that the performance metrics set forth therein were achievable. *See*, Expert Testimony of Brank Terzic page 30, l. 614-618; *see also* Direct Testimony. Mr. Mario Hurtado, August 18, 2021, lines 124-126 (assuming sufficient funding, attaining the proposed Performance Metrics Targets will be

under LUMA's control as Operator of the T&D System), *In Re: Performance Targets for LUMA Energy ServCo, LLC*, Case No. NEPR-AP-2020-0025. Underfunding of core operation and maintenance activities and improvement portfolios will unavoidably cause LUMA's performance to suffer, requiring the Energy Bureau reset relevant performance metrics such that they reflect the constrained financial environment on which LUMA would be required to operate.

X. Compliance with the February 27th Order

LUMA respectfully incorporates by reference the arguments and requests for remedies set forth in the Motion for Reconsideration. Without waving the arguments as set forth in the Motion for Reconsideration, LUMA has allocated in the Annual T&D Budgets the amount of \$179.8 million to the Vegetation Management and Capital Clearing Implementation Program ("Vegetation Management Program"). The allotted \$179.8 million include \$54.8 million of O&M Expenditures and \$125 million in Federally Funded Capital Expenditures. LUMA also included a detailed Timeline with Milestones, depicting the specific stages of the Vegetation Management Program and the projected timeline for achieving each, as well as a detailed description of the program remediated state, tasks to achieve the program remediated state and the FY2024 activities. *See, Exhibit 1*, Appendix A, pages 208-214. LUMA estimates achieving the clearing of all 230kV rights of ways ("ROWS") by Q4 FY2024 which is consistent with the Energy Bureau's directive in the February 27th Order, page 13. *See Exhibit 1* pages 211 and 214.

LUMA estimates reaching remediated state by Q4 FY2027. LUMA understands that even allocating the additional funds to the Vegetation Management Program, the accelerated timeline required by this Energy Bureau to complete the tasks laid out in the approved Vegetation Management Program is not feasible. Among the factors impacting the timeline for reaching remediated state is the timing of receipt of the federal funds, including receiving Environmental

and Historic Preservation approvals. *See* Exhibit 1, Appendix A, page 214. In addition, LUMA identified post-commencement additional challenges that it was not able to identify when it conducted the Gap Assessment in 2020 during the Front-End Transition Period. Additional information gathered through fieldwork confirmed that some vegetation was denser than originally garnered through satellite imaging, an underestimation of the volume of critical requests for vegetation clearing, and incremental permitting requirements from the federal government have an impact on the proposed timeline and lead to the estimate for completion of remediated state to be set for Q4 FY2027. *See* Exhibit 1, Appendix A, pages 208-214.

The February 27th Order also included specific directives regarding the Emergency Response Preparedness Plan, to wit:

- (ii) provide funding in the FY 2024 Budget to achieve a completed state for the ERP, with the understanding that the ERP is subject to continual improvement and refinement; (iii) provide funding in the FY 2024 Budget to enable it to effectively conform to the ERP, in particular, with respect to providing timely and granular ETRs; (iv) provide funding in the FY 2024 Budget to install, test and fully implement the OMS so as to avoid the heavy reliance upon manual processes that is cited in the July 13 Petition; and (vi) provide funding in the FY 2024 Budget to enable customers to speak with a Customer Service Representative with regard to subjects other than outage related emergencies during a storm event, albeit this may be at a reduced level of service.

February 27th Order at page 24.

In Appendix A, pages 276-283 of the Proposed Annual T&D Budgets, LUMA describes the Emergency Response Preparedness Plan and its funding which LUMA estimates is sufficient to effectively enable it to conform to the Energy Bureau's requirements as to providing timely and granular ETRs and to enable customers to speak to Customer Experience Representatives during a storm event regarding issues other than outage related emergencies. LUMA has also made a priority upgrading the OMS as part of its IT OT Management Program. *See Exhibit 1*, pages 296-

302. The OMS system is key for LUMA to obtain accurate customer information⁵ and provide timely and accurate ETRs. LUMA has continued to pursue asset assessments in line with the implementation of Federally Funded projects. LUMA understands that the FY2024 budget allocation for the Emergency Response Preparedness Plan, along with other allocations and Improvement Programs, adequately prioritizes the areas underscored by the Energy Bureau in its February 27th Order.

In compliance with the February 27th Order, LUMA included a line item in Schedule 3.5 with an estimate of the Total Amount of Capital Expenditures to be funded by the state Cost Share match portion for Federal Funding. *See Exhibit 1*, Schedule 3.5. For Fiscal Years 2024-2026, the total amount of said cost share is expected to be funded by the Commonwealth of Puerto Rico through the Community Development Block Grant Program for Federal Funding related to Hurricane María. *See Exhibit 1*, Section 4.0, page 50. LUMA understands that in the upcoming rate case consideration should be given to the impact of a scenario whereby the Commonwealth of Puerto Rico is unable to provide this funding. *Id.*

Finally, with regards to the System Network Upgrades, LUMA respectfully informs that it has obtained a FAAS number from FEMA corresponding to the request for federal funds for that particular improvement program. LUMA budgeted these as a federally funded expense in the Transmission Line Rebuild Improvement Program. *See Exhibit 1*, page 50. It should be noted that the effort, time, and cost to potentially secure FEMA funds for this initiative diverted material

⁵As Mr. Don Cortez, former Vice President of Utility Transformation for LUMA, an engineer with approximately 40 years of experience in the utility industry and who joined LUMA in 2020 testified under oath before this Energy Bureau in Case No. NEPR-AP-2020-0025, the electrical map is not accurate, see AP-2020-0025 Evidentiary Hearing-20230209_Meeting Recording 1 [1:18:09], February 8, 2023, and there are a lot of missing elements which means that LUMA is not certain where some customers are connected to what transformer or what circuit, AP-2020-0025 Evidentiary Hearing-20230209_Meeting Recording 1 [1:19:15], February 8, 2023. Therefore, when trying to find the customer, it is difficult to identify the number of outages a specific customer has had, and OMS is not able to produce accurate results. *See* AP-2020-0025 Evidentiary Hearing-20230209_Meeting Recording 1 [1:19:15], February 8, 2023. Recording available at <https://www.youtube.com/@NegociadodeEnergiaenvivo/streams>.

resources from current programs and funding these network upgrades will reduce the overall funds available to rebuild the system. *See id.* As LUMA explained in its Motion for Reconsideration, the allocation of funds for network upgrades which cost is estimated in \$49 million for FY2024, negatively impacts the timeline to achieve reliability and resiliency of the grid, the availability of federal and non-federal funding for other T&D System projects, the Annual T&D Budgets, LUMA's ability to comply with the T&D OMA, including Contract Standards, the SRP and Performance Metrics. LUMA incorporates herein by reference its arguments in support of its proposal that it be allowed to work with the developer of the approved projects and incorporate costs into the PPOA price to lessen the impact of these costs on customers. Such course of action is consistent with standard industry practice and represents the most prudent alternative in light of the challenges that the operation of the T&D OMA will face during FY2024 and beyond and which have been described herein. LUMA, therefore, reiterates its arguments as set forth in its Motion for Reconsideration.

XI. Conclusion

LUMA understands that the Proposed Annual T&D Budgets included herein are consistent with the public policy principles set forth in Law 17-2019 and prioritize those areas which the Energy Bureau identified through its February 27th Order as requiring special attention. While spending constraints have impacted certain improvement programs, those programs continue to advance towards the goal of bringing Puerto Rico's T&D System to minimum industry standards. As outlined in this Motion, FY2024 represents unique challenges and incremental costs to operate the T&D System. Notwithstanding, LUMA continues committed to advancing in key areas including worker safety and training, repairs and replacement of streetlights, poles, feeders

and substations; improving the service provided to customers; clearing of ROWs and vegetation management; implementation of new technologies and advancement in emergency preparedness.

The FY2024 Annual T&D Budgets are designed to advance, among others, the following energy public policies:

- guarantee the availability of energy materials and supply to the people of Puerto Rico, Section 1.5 (b), Act 17-2019, 22 LPRA§1141d (2022);
- promote the necessary changes in order to transform the Electric Power System into one that satisfies the energy needs of the 21st century Puerto Rico, *id.*, Art. 1.5(2)(a);
- To make efforts to educate citizens and electric power service customers on energy efficiency consumption reduction, distributed generation strategies, and other available tools to empower consumers to have more control over their energy consumption. *id.*, Art. 1.5(4)(b);
- ensure the integration of renewable energy into the Electrical System in a safe and reliable manner and at a reasonable cost, *id.*, Art. 1.5(8)(a);
- ensure the security and reliability of our electric power infrastructure by using modern technologies that promote inexpensive and efficient operations and allow for the integration and dissemination of renewable sources, *id.*, Art. 1.5(9)(a);
- design the infrastructure of the Electrical System to be more robust and resistant to weather events and other disasters, *id.*, Art. 1.5(9)(b);
- maintain the electric power infrastructure in optimal conditions to ensure the reliability, resilience, and safety of the electric power service, *id.*, Art. 1.5(9)(e); and
- guarantee every consumer's right to receive a reliable, stable, and excellent electric power service at a cost that is accessible, just, and reasonable, a transparent and easy to understand bill, and a fast service response., *id.*, Art. 1.5(10)(a).

WHEREFORE, LUMA respectfully requests that the Energy Bureau review and approve the Consolidated System Annual Budgets for FY2024, including, the T&D Operating and Capital Budgets and the GenCo Budget, the allocation of the HydroCo Budget and HoldCo Budget, as well as the other expenditures as set forth in *Exhibit 1* of this Motion.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 15th day of May, 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 attorneys of record: **jmarrero@diazvaz.law** and **mvazquez@diazvaz.law**; and to Genera PR LLC, through **brannen@genera-services.com**; **kbolanos@genera-services.law**; **regulatory@genera-services.law**.



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