NEPR

Received:

May 25, 2023

8:39 PM

COMMONWEALTH 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: Submission of Information in Compliance with Resolution and Order dated May 18, 2023**

SUBMISSION OF INFORMATION IN COMPLIANCE WITH RESOLUTION AND ORDER DATED MAY 18, 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 submit the following in compliance with the Energy Bureau's Resolution and Order dated May 18, 2023:

1. On May 15, 2023, LUMA submitted to this 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"), 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") (collectively referred to as the "System Annual Budgets"). *See Submission of Consolidated Annual Budgets for Fiscal Year 2024 and Annual T&D Projections through Fiscal Year 2026* filed in this proceeding ("FY2024 Consolidated Budgets Submission").

2. On May 18, 2023, the Energy Bureau entered a Resolution and Order whereby it ordered PREPA, through LUMA, to submit detailed HydroCo and HoldCo Operating and Capital

Expenditures Budgets that "reflect[] the LUMA Budget Request in Schedule 3.1 entitled "Annual Budget Summary" with all the supporting documentation used to substantiate the request[s]." *See* May 18th Order, page 2.

3. The Energy Bureau further ordered Genera to submit, through LUMA, a "detailed GenCo Operating and Capital Expenditures Budgets that reflects the LUMA Budget Request in Schedule 3.1 with all the supporting documentation used to substantiate the request." *Id.*

4. On May 22, 2023, PREPA filed an *Urgent Request for a Brief Extension of Time to Comply with the May 18 Resolution and Order and Request for Remedy* whereby it requested an extension of two business days, that is, until May 24, 2023, to comply with the May 18th Order ("PREPA's Urgent Request for Brief Extension").

5. Also on May 22, 2023, LUMA filed an *Urgent Request for Extension to Submit Information in Compliance with Resolution and Order dated May 18, 2022* ("Urgent Extension Request"). As explained therein, counsel for Genera informed that Genera would require a brief extension of time, until 6:00 pm on May 22nd, to finalize its submission to this Energy Bureau in compliance with the May 18th Order. Consequently, LUMA requested an extension to submit Genera's information on the GenCo Operating and Capital Expenditures Budget and supporting documentation, as this Energy Bureau required in the May 18th Order.

6. In a Resolution and Order dated May 22, 2023, this Energy Bureau granted the Urgent Extension Request and PREPA's Urgent Request for Brief Extension. Thus, the submission on behalf of Genera was due by 6:00 pm on May 22nd, and PREPA's submission in compliance with the May 18th Order is due on May 24, 2023.

7. On May 22, 2023, LUMA submitted to this Energy Bureau the information provided by Genera in compliance with the Energy Bureau's May 18th Order. *See Submission of*

Information in Compliance with Resolution and Order dated May 18, 2022, and its Exhibit 1, two Excel spreadsheets to be submitted *via* email to the Energy Bureau: (1) *GeneraPR FY2024 Revised Budget Model Post-P3A Allocation - for PREB - 5.22.2023.xlsx*; and (2) *DRAFT_PREPA GenCo FY24 Budget (2023.04.11).xlsx*.

8. On May 24, 2023, PREPA filed an *Urgent Request for a Brief Extension of One Additional Day for PREPA to Submit Its Modified HydroCo and HoldCo Proposed Budgets in Compliance with the May 18 Resolution and Order*, whereby PREPA requested an extension of time until today May 25, 2023, to submit the modified HydroCo and HoldCo Budgets as requested by this Energy Bureau.

9. As directed by the Energy Bureau, LUMA hereby submits the information it received from PREPA, in compliance with the Energy Bureau's May 18th Order. *See Exhibit 1 and Annexes A and B (* (1) Submission narrative- PREPA HoldCo and Water Assets Budget FY2024 May 25, 2023. Pdf; (2) Annex 1- PREPA HydroCo FY2024 (2023.05.23) REV (004).xlsx; and (3) Annex 2- PREPA HoldCo FY2024 (2023.05.23) REV (004).xlsx.). It is respectfully informed that LUMA did not participate in the development of the HydroCo and HoldCo Operating and Capital Expenditures Budgets nor Exhibit 1 and, thus, makes no representation or warranties in connection with the subject matter and merits of the same.

WHEREFORE, LUMA respectfully requests that the Energy Bureau **take notice of** and **accept** the documents submitted as Exhibit 1 of this Motion; and **deem** that LUMA complied with the May 18th Order, which required LUMA to submit information prepared by Genera.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 25th day of May 2023.

I hereby certify that this motion was filed using the electronic filing system of this Energy Bureau. I also certify that copy of this motion will be notified to the Puerto Rico Electric Power Authority, through attorneys of record: jmarrero@diazvaz.law and mvazquez@diazvaz.law; and to Genera PR LLC, through counsels of record, Jorge Fernandez-Reboredo, jfr@sbgblaw.com and Alejandro López Rodríguez, alopez@sbgblaw.com. A copy of this motion will also be sent to Genera to: kbolanos@genera-pr.com; legal@genera-pr.com; regulatory@genera-pr.com.

DLA Piper (Puerto Rico) LLC
Attorneys for LUMA
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

and Annexes A and B to be submitted via email

PREPA HoldCo and Water Assets Budget FY2024
May 25, 2023

Pursuant to Section 7.3 of the Transmission and Distribution Operating and Maintenance Agreement ("T&D OMA") executed on June 22, 2020 among and between the Puerto Rico Electric Power Authority ("PREPA"), the Puerto Rico Public-Private Partnerships Authority ("P3A") and LUMA Energy, LLC and LUMA Energy ServCo, LLC (collectively, "LUMA"), PREPA hereby submits its fiscal year 2023-2024 ("FY2024") Water Assets Budget and HoldCo[1] Budget for consolidation with LUMA's Budget for submission to the P3A and the Puerto Rico Energy Bureau ("Energy Bureau" or "PREB"). See Annexes 1 and 2.

PREPA has worked diligently with focused resources to ensure a fair and equitable timely submission in compliance with the current schedule mandated by the Energy Bureau. This, now in the context of the Puerto Rico Thermal Generation Facilities Operation and Maintenance Agreement ("LGA OMA") executed by PREPA, Genera PR LLC ("Genera PR"), and the P3A on January 24, 2023.

The PREPA Budgets are based on the revenue allocation used by the Financial Oversight & Management Board ("Oversight Board" or "FOMB") in the certified budget for fiscal year 2022-2023 ("FY2023"). As previously notified to LUMA, PREPA does not agree with LUMA's proposed FY2024 revenue allocation. LUMA presented its last FY2024 revenue allocation proposal in its motion to PREB and Annual Budgets filing on May 16, 2023 ("LUMA May 16 Motion"). In this allocation, LUMA presented a total of

[1] As per the mandates for the transformation of the energy sector in Puerto Rico, a series of subsidiaries are being created to segregate PREPA's assets. In this process, the "HoldCo" name corresponds to PREPA's main structure and management, which has the duties and responsibilities inherent to the owner of all the assets.

"We are an equal opportunity employer and do not discriminate on the basis of race, color, gender, age, national or social origin, social status, political ideas or affiliation, religion; for being or perceived to be a victim of domestic violence, sexual aggression or harassment, regardless of marital status, sexual orientation, gender identity or immigration status; for physical or mental disability, for veteran status or genetic information."

$1,301 million of projected revenues, of which about $304 million are deducting expenses and results in net projected revenues[2] of approximately $996.7 million, which, as explained in the motion, is the amount resulting from an allocation revision issued by the P3A on May 12, 2023.

The LUMA May 16 Motion stated that, according to the P3A revised allocation, $650.8 million were allocated for GridCo or 65.3% of the net projected revenues and about $345.9 million for GenCo, HydroCo and HoldCo or 34.7% of the net projected revenues. In addition, the P3A revised allocation allocated approximately $300.9 million to GenCo, $15 million to HydroCo, and $30 million to HoldCo.

PREPA's proposed FY2024 revenue allocation is presented in the worksheet tab Revenue_Allocation of Annexes 1 and 2, which presents a more reasonable and fair proposal[3]. This, as PREPA's proposed allocation mainly distributes the 2017 PREB Rate Order approved expenses in a more equitable manner, yielding a 35.7% allocation of Projected Net Available Funds for PREPA generation (including Shared Services), water assets, and HoldCo. Based on LUMA May 16 Motion, this percent represents approximately $355.8 million from the $996.7 million of the projected net available funds, $303 million for GenCo (30.4%), $17.9 million for HydroCo (1.8%), and $34.9 million for HoldCo (3.5%). The aggregated budget allocation would be $52.8 million (5.3%) for HydroCo and HoldCo.

In the case of the FY2024 deducting expenses, there is an increase of the bankruptcy and restructuring costs and of the private operators' fees, when compared with the FY2023 FOMB Certified Budget:

[2] According to the FY2023 FOMB Certified Budget, the net projected revenues are equal to the projected revenues less several deductions, that were defined in the FY2023 FOMB Certified Budget as not operational in nature or as restructuring related.
[3] PREPA's allocation is based on projected revenues of approximately $1,193 million, which was LUMA's projection by April 15, 2023.

Deducting Expense ($-Thousands)	**FY2023 FOMB Certified Budget**	**FY2024 PREPA Proposed**	**Difference**
Bad Debt	$ 74,466	$ 61,493	$ (12,973)
Bankruptcy & Restructuring Costs	$ 49,500	$ 54,647	$ 5,147
LUMA Service Fee	$ 121,785	$ 128,824	$ 7,039
Genera PR Service Fee	$ -	$ 52,540	$ 52,540
Total:	$ 245,751	$ 297,504	$ 51,753

This deducting expenses table shows that much of the decrease in the net projected revenues is due to an increase of approximately $59.58 million for the private operators' fees and of $5.15 million in the restructuring costs. It is stressed that the expenses of $181.36 million corresponding to the private operators' fees were not considered to determine the current base rate, as only PREPA's operation and maintenance ("O&M") expenses were considered in the 2017 Rate Case. Hence, as can be seen in the proposed budget, the deduction of these fees from the projected base rate revenues causes a significant reduction on the available net revenues needed to cover the electrical system O&M, including other necessary administrative, financial, regulatory, and technical duties and responsibilities.

Regarding PREPA's proposed budgets, they were developed with a bottoms-up approach, forecasting the necessary expenses to operate and maintain the generation and water assets, as well as PREPA's regulatory and administrative duties and responsibilities. In the case of PREPA's water assets and HoldCo obligations, PREPA is requesting approximately $80.1 million, of which $56 million are for HoldCo and $24.1 million are for the water assets that include hydroelectric power plants, dams, and reservoirs. Regarding the Irrigation Division, this area's expenses are not covered by the base rate revenues as, according to current law, the irrigation expenses shall be mainly paid by means of water sales revenues and the Subsidies Rate Rider Revenue for Irrigation.

PREPA's budget amounts submitted by today are not sufficient to address all the needs and priorities that are deemed necessary. PREPA, however, has made its best efforts through a needs-based approach to come within the allocation explained above. The variances of PREPA's proposed FY2024 budgets from the FY2023 FOMB Certified Budget are mainly due to the following facts, without limitation:

1. In the FY2023 certified budget, all the legal services contracts and most of the professional and technical services contracts expenses were transferred to the generation budget, even though most of those expenses shall be kept at the HoldCo budget as they are the responsibility of PREPA's corporate management. Following, we present various examples of this issue:
   a. All the corporate security contracts, amounting more than $9 million, were transferred to generation when these contracts provide services to PREPA's water assets and corporate offices. These contracts, with reduced services, shall be kept at HoldCo.
   b. The legal services budget was significantly reduced and all the approximately $7.4 million of approved funds were transferred to generation. Currently, PREPA is requesting an update to the FY2023 to, among others, add funds for continue contracting legal services and complying with its obligations. These contracts shall be kept at HoldCo, as the legal services in a corporation are the duty and responsibility of the corporate management.
   c. The regulatory and environmental contracts budget was reduced and all the approximately $7.9 million of approved funds were transferred to generation. These contracts, with reduced services, shall be kept at HoldCo, This, mainly to support the water assets operation and reconstruction, among other responsibilities.
2. Regarding the FY2023 labor expenses of HoldCo, the FOMB assumed that most of these expenses corresponded to generation and transferred them to the generation budget. The FOMB did this, even though the same HoldCo employees also support the water assets areas and the corporate management. The result of this transfer was that the HoldCo labor expenses were underbudget by more than $2 million. PREPA's proposed FY2024 HoldCo budget includes the correct amount of funds to pay the labor of the current staff.

Based on the above, PREPA reiterates that its proposed allocation, and the underlying basis, is equitable, reflects revenues more appropriately, and follows the 2017 Rate Order, as required under Section 7.3 of the T&D OMA. PREPA also stressed that

the fact of the reduction in the net base rate revenues, due to the deduction of the private operators' fees, is impacting the available funds to operate the electrical system, according to the approved base rate. Therefore, PREPA recommends assigning the base rate revenues to cover the expenses that were considered when the base rate was approved.

In addition, PREPA reiterates that it will continue working hard to identify funds sources, others than the base rate revenues, like federal funds reimbursements, to pay for the expenses that could not be included in the submitted budgets. This, in addition to the deficit resulting from the proposed budget and PREPA's recommended allocation. PREPA encourages LUMA and Genera PR to also identify other revenues sources, for the benefit of the customers in Puerto Rico.

PREPA is available to meet with the representatives of the P3A, LUMA, and Genera PR to discuss the FY2024 revenues allocation and budgets, especially determining the priorities necessary to continue providing reliable and cost-effective electricity to customers in Puerto Rico.

Annexes