

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

<b>NEPR</b>  <b>Received:</b>  <b>Aug 24, 2023</b>  <b>11:19 PM</b>
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IN RE: REVIEW OF LUMA’S INITIAL  
BUDGETS

CASE NO. NEPR-MI-2021-0004

SUBJECT: Motion in response to the Energy  
Bureau’s June 25, 2023 Resolution and Order on  
Efficiency Forecasting and Methodology

**MOTION IN RESPONSE TO THE ENERGY BUREAU’S JUNE 25, 2023 RESOLUTION  
AND ORDER ON EFFICIENCY FORECASTING AND METHODOLOGY**

**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 and Procedural Background***

1. On June 25, 2023, this honorable Puerto Rico Energy Bureau (the “Energy Bureau”) issued a Resolution and Order whereby it a modified and approved LUMA’s Annual System Budgets for Fiscal Year 2024 (the “June 25<sup>th</sup> Resolution”).

2. The June 25<sup>th</sup> Resolution orders LUMA to “submit its efficiency forecasting methodology and projections for the upcoming fiscal year within thirty (30) days from the date of issuance of [the June 25<sup>th</sup> Resolution]”. *See* June 25<sup>th</sup> Resolution at page 15.

3. Meanwhile, in Attachment A of the June 25<sup>th</sup> Resolution, the Energy Bureau orders LUMA to: “[s]ubmit its efficiency forecasting methods and projections for the upcoming fiscal year within sixty (60) days from the date of issuance of [the June 25<sup>th</sup> Resolution]. *See* June 25<sup>th</sup> Resolution at page 34. Attachment A further provides that LUMA “should detail how [it] has

projected potential efficiencies and savings across its operations and should include the process for ongoing performance assessments against forecasts.” *Id.*

4. Within the sixty (60) day term provided for in Attachment A of the June 25<sup>th</sup> Resolution, LUMA hereby submits its response with regards to the Energy Bureau’s orders outlined before. *See* Exhibit 1 to this Motion.

5. As further described in Exhibit 1, LUMA recognizes that there is value in achieving improvements in the areas identified by the Energy Bureau,

6. While improvements have been achieved, significant gaps remain and LUMA’s System Remediation Plan is still in progress and LUMA is still in a period of remediation, repair and replacement in order to bring the T&D System up to Contract standards. *Id.*

7. Exhibit 1 also describes LUMA’s efforts and achievements across the six efficiency areas identified by the Energy Bureau, specifically in the areas of (i) contracting of services, (ii) revenue collections from past due bills, (iii) transmission line losses, (iv) energy theft, (v) missing or malfunctioning meters and (vi) efficiency of the electric distribution infrastructure and third-party pole attachments. *Id.* at page 4.

8. Finally, through Exhibit 1, LUMA seeks to clarify the cost reduction projections originally labeled as “future efficiencies”. *Id.* at page 2.

9. Although labeled as “future efficiencies”, the amounts identified as such in LUMA’s Initial Budgets were not the result of specific cost saving initiatives implemented by LUMA, nor calculated based on a bottoms-up assessment of the cost reduction potential of any particular initiative. The amounts identified as efficiencies were the projected reductions in available GridCo budget for each future fiscal year resulting from declining energy sales and a static base rate. *Id.*

10. In other words, LUMA would have to reduce expenditures in future budgets by that amount in order to remain within the prevailing Rate Order and avoid a Rate Modification Request, which LUMA has successfully done to operate within a decreasing budget. *Id.*

11. LUMA understands the PREB's ultimate objective in the quantification and forecasting of efficiencies as seeking to identify improvements across LUMA's operations such that customers receive better service with fiscal responsibility. LUMA shares this objective.

12. One of LUMA's obligations under the T&D OMA is to operate within the applicable budget for each Contract Year. *See* Section 7.3 of the T&D OMA. The budget proposed by LUMA must be consistent with the existing rate order approved by the Energy Bureau. *Id.*

13. Any budget developed by LUMA would reflect the benefits resulting from the actions across the six efficiency areas identified by the Energy Bureau, as well as the results of the improvement portfolios and remediations activities identified in the PREB-approved System Remediation Plan. *See* Exhibit 1 at page 6.

14. Given the Energy Bureau has the authority to establish the electricity rates with which any budget proposed by LUMA must comply with and such budget developed by LUMA will be reflective of the improvements achieved to date, as well as the additional investments needed to maintain such improvements and continue progress towards achieving performance metrics, the Energy Bureau already has at its disposal the tools, proceedings and mechanisms necessary to measure LUMA's performance and ensure that customers receive the benefits from improved quality of service, more efficient operations by LUMA and an electricity rate that reflects the reasonable cost to operate the energy system.

15. Through the existing reporting and monitoring requirements, including those described in pages 4-6 of Exhibit 1, the Energy Bureau has the capability to monitor compliance

on an ongoing basis and incentivize or otherwise require from LUMA measures to improve performance.

16. Simultaneously, the Energy Bureau can use the information gathered through the multiple monitoring and compliance proceedings to ensure that any rate determination it makes, which will then inform the budgetary environment under which LUMA must operate, furthers its objective of allowing customers access to better services at a reasonable cost.

17. Therefore, for the reasons outlined above, as well as those outlined in Exhibit 1, LUMA respectfully proposes for the Energy Bureau to leverage the existing monitoring and compliance proceedings, along with its rate setting authority, particularly in view of the recently initiated In Re: Puerto Rico Electric Power Authority Rate Review, Case No.: NEPR-AP-2023-0003, to measure LUMA's performance, require necessary corrective measures, and ensure that electric rates are reflective of the qualitative and quantitative improvements achieved by LUMA throughout the years.

18. Should the Energy Bureau deem it appropriate, LUMA would be available to participate in a technical conference that allows for a more comprehensive discussion of the issues identified herein.

**WHEREFORE**, LUMA respectfully requests that the honorable Energy Bureau **take notice** of the aforementioned for all purposes; **accept** LUMA's proposal and **deem** this filing as compliant with the June 25<sup>th</sup> Resolution.

**RESPECTFULLY SUBMITTED.**

In San Juan, Puerto Rico, this 24<sup>th</sup> day of August, 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](mailto:jmarrero@diazvaz.law) and  
[mvazquez@diazvaz.law](mailto:mvazquez@diazvaz.law); and to Genera PR LLC, through counsels of record, Jorge Fernandez-  
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Exhibit 1:

Efficiencies Reporting

August 24, 2023

# Efficiencies Reporting

## Efficiencies Reporting

### INTRODUCTION

Within the June 25, 2023 Resolution and Order in docket NEPR-MI-2021-0004, the Energy Bureau required LUMA to:

- 1) continuously assess its performance against its forecasted efficiencies, highlighting both successes and areas needing improvement;
- 2) submit its efficiency forecasting methodology and projections for the upcoming fiscal year; and
- 3) develop a comprehensive plan for the development, implementation and quantification of efficiencies and savings, including but not limited to those identified in the May 31 Resolution, for evaluation in the upcoming Rate Case.

Consistent with numerous orders from the Bureau and discussions in technical conferences on this topic, LUMA recognizes the importance of the six key areas of improvement identified in the May 31, 2021 Resolution and Order and recognizes the potential value that measuring these improvements across these areas can provide. While LUMA has made significant improvements since the start of operations, significant gaps remain and LUMA has highlighted those in filings and reports on Annual Budgets, Improvement Programs, and System Remediation Plan (SRP). LUMA took over a system that was fundamentally broken. The SRP addresses the highest risk gaps in the system and the utility operations. The SRP is still in progress with critical programs begun but with some them projected to continue for years in some areas through the coming decade, LUMA is still in a period of remediation, repair and replacement in order to bring the T&D System up to Contract Standards.

In light of the above, LUMA has assessed what would be required to conduct this level of reporting on efficiencies and seeks to clarify the following with the Energy Bureau:

- The “Future Efficiencies” line item in LUMA’s Initial Budgets was not included as a forecast for efficiencies that LUMA expected or promised to achieve in future years; and
- LUMA is already reporting on many of the areas that PREB is requesting for additional efficiencies reporting. LUMA is open to including additional data and further details on these areas.

### DEFINING FUTURE EFFICIENCIES REFERRED TO IN LUMA’S INITIAL BUDGETS

During the initial budgets, LUMA presented PREB with a cost reduction projection it labeled “future efficiencies”. The amounts identified for FY2022-FY2024 were not the result of specific cost saving initiatives implemented by LUMA, nor calculated based on a bottoms-up assessment of the cost reduction potential of any particular initiative. The amounts identified as efficiencies were the result of the expected reductions in available GridCo budget for each fiscal year resulting from declining energy sales. Therefore, LUMA would have to reduce expenditures in future budgets by that amount in order to remain within the prevailing Rate Order and avoid a Rate Modification Request, which LUMA has successfully done to operate within a decreasing budget.

As a result, each year of operation, LUMA would be forced to operate more efficiently than the prior year, reducing costs in order to operate within each year’s available budget. Together, the multiple actions taken by LUMA’s personnel across all departments and divisions during each fiscal year resulted in significant efficiencies reflected in LUMA’s results and subsequent budgets..

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As previously outlined in LUMA's response to PREB's May 23, 2023 request for information, LUMA continues to find improved ways to operate through daily operations and through the many improvement activities outlined in LUMA's Recovery and Transformation Framework. LUMA has become considerably more effective at delivering service. These results can be seen LUMA's reports, including the legacy performance metrics Quarterly Filing (Docket No: NEPR-MI-2019-0007):

- LUMA's System Average Interruption Frequency Index (SAIFI) has decreased from the FY2020 PREPA baseline of 10.60 interruptions to 6.56 interruptions, resulting in a 38% improvement,
- LUMA's System Average Interruption Duration Index (SAIDI) has decreased by 25% in the past year,
- LUMA's average speed to answer has decreased from the FY2020 PREPA baseline of 8.30 minutes to 1.97 minutes resulting in a 76% improvement,
- LUMA's wait time in Customer Service Centers has decreased from the FY2020 PREPA baseline of 30.9 minutes to 8.4 minutes resulting in a 73% improvement,
- LUMA's percentage of the fleet out of service has decreased from the FY2020 PREPA baseline of 16% to 5%, a 68% improvement.

It should be noted that LUMA is achieving these unprecedented levels of improvement despite experiencing a budget reduction in FY2023, experiencing significantly less purchasing power due to inflation and adhering to significantly more reporting requirements, which have associated costs.

LUMA's three-year budget projection made as part of its Annual Budget includes estimates for the second and third fiscal years (FY2025 and FY2026 in the case of the FY2024 Budgets). These estimates are based on inflated costs and the load forecast projections. Unlike the for the first budget year, projections for the second and third year are not arrived at through a bottoms-up budgeting exercise and should be viewed and interpreted as mere projections, instead of comprehensive budget proposals. Historically, LUMA had included the "future efficiencies" line item to make up for the projected revenue shortfall due to a significant decline in forecasted load in the two years beyond the next Fiscal Year.

LUMA did not intend for the "Future Efficiencies" line item included in its historical Annual Budget filings to imply that it would be able to quantify and trace the realization of future efficiencies to specific cost-savings initiatives. Further, given that LUMA updates its budgets annually, LUMA has developed a new budget for FY2024 to reflect the current spending requirements and conditions. In the FY2024 Annual Budget case, LUMA did not included a line-item projecting future efficiencies. LUMA did not receive projections for FY2025 and FY2026 from all parties to establish a budget shortfall for the coming fiscal years and LUMA did not want to perpetuate a belief that the "efficiencies" listed in its budget filings were anything more than the difference between inflated costs and declining revenues for the second and third budget years. LUMA has clarified this matter on the record in the FY2022 and FY2023 budget filings and their associated technical conferences.

### **LUMA CONTINUALLY SEEKS IMPROVEMENTS ACROSS MULTIPLE AREAS OF THE ORGANIZATION, INCLUDING THE SIX AREAS IDENTIFIED BY THE PREB AS AREAS FOR TARGETED EFFICIENCIES.**

As reported by LUMA to the PREB across multiple dockets, LUMA continually seeks to improve the performance of the T&D System and deliver better services while being fiscally responsible. As illustrated in LUMA's Quarterly and Annual reports, LUMA continues to make progress in the PREB's six key areas of improvement.



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### *“Making Contracting of services more efficient.”*

LUMA continues to review its procurement processes, expertise and tools in efforts to continuously improve. LUMA prioritizes maintaining proper diligence and adhering to legal requirements when performing contracting services on behalf of PREPA.

By ensuring compliance with relevant regulations and laws, we create a safe, reliable and ethical environment to conduct business operations. We endeavor to follow industry practices to enhance our services. With continued dedication and pursuit of standards, LUMA strives to carefully balance compliance and efficiency in order to deliver improved electric service to our customers.

LUMA's improvements in processes, procedures and systems will bring benefits to the contracting process while enhancing transparency. The Procurement Manual provides guidance for every stage of the procurement process, from assessing requirements to delivering results, ensuring teams follow the common framework, established processes, internal controls and procedures. It also offers a pathway for overall efficiency for both the supplier and contracting parties by streamlining in a clear format state and federal requirements. Enhanced procurement supports an ambitious investment program that will see approximately \$1 billion per year in capital improvements of the electric system.

LUMA is working to standardize processes, promote automation and reduce errors and redundancies. Greater alignment between business processes and contracting practices will provide enhanced visibility and promote accountability and continuous improvement.

### *“Revenue collections from past due bills to be more effectively addressed.”*

As outlined in the FY2023 Fourth Quarter Report, LUMA collected more than \$140 million in past due accounts. Since Commencement, LUMA's Revenue Protection Team has collected a total of over \$890 million in past due accounts. Additionally, outside of the reporting LUMA has conducted to date on revenue collection, LUMA reports on day sales outstanding regularly through its performance metrics proceeding (Docket No: NEPR-MI-2019-0007).

LUMA Revenue Protection Team is solely focused on the collection of overdue debt. This is a team that LUMA implemented at commencement to ensure there is a dedicated focus on this task to prevent past-due accounts from continuing to build up arrears. LUMA has established a standardized 30/60/90 collection process that includes customer outreach through phone, email and letters to establish payment plans to enable customers to pay their past due balance. LUMA is also implementing automated processes through the Customer Care & Billing System (CC&B) to automatically flag accounts that require a collection activity on daily billing cycles. Standardizing process and procedure drives consistent, efficient and effective collection activities across customer classes.

### *“Transmission line losses will be minimized.”*

While transmission line losses do not represent a significant area of improvement, LUMA recognizes its importance and is focused on addressing this by rebuilding the grid utilizing modern design and planning practices in accordance with industry standards.

Modern design and planning practices help improve grid services, including reducing the energy loss in the transmission and distribution systems. Rebuilding and reconductoring key transmission lines will

## Efficiencies Reporting

represent modest reductions in transmission line losses. Consequently, reducing transmission losses does not represent a major opportunity for LUMA to improve efficiency.

### *“Energy theft will be reduced.”*

As outlined in the FY2023 Fourth Quarter Report, LUMA has addressed more than 50 illegal connections by commercial or industrial customers after disconnections for nonpayment began and has reported these cases to law enforcement. Some cases may result in criminal charges being filed.

With respect to energy theft, an issue that impacts all our customers and our communities, LUMA has reduced the number of inactive accounts with energy consumption by almost 35% over the past 12 months. Looking ahead, we will continue to prioritize reducing the impact of energy theft on our customers.

This is as a direct result of the Loss Recovery Improvement Program included within LUMA's Annual Budgets.

Energy theft impacts the overall rate base as revenue remains uncollected for energy produced and distributed to customers. Reducing energy theft will, in turn, reduce the need to recoup the cost of unbilled electricity through rate increases. LUMA will focus on energy theft reduction initiatives by educating operational and administrative staff to recognize, record, and handle cases of irregularities through proper investigation processes. Standard procedures were developed as a crucial component of this initiative to establish operational and administrative uniformity. The execution of the standard processes enables a larger number of theft recoveries and the removal of irregularities, ensuring customers are accurately billed for the energy they are consuming. To ensure compliance with current laws, LUMA has developed relationships with government offices like the Puerto Rico Police Department to ensure the proper support is provided on energy irregularity cases. as the following initiatives will contribute to the reduction of energy irregularities:

- Media outreach to discourage energy irregularities
- Use of the theft hotline, e-mails, postal mail, and confidential call center information to create field activity to investigate potential theft cases
- Purchase of specialized equipment to improve efficiency in detecting irregularities in the field
- Continuous evaluation and development of procedures for process unification in irregularities
- Invoicing unbilled consumption in cases where irregularities are discovered (energy theft)
- Positive theft cases will be submitted to the Department of Justice

### *“Customers without meters or with malfunctioning meters will be addressed.”*

As outlined in the FY2023 Fourth Quarter Report, LUMA has performed over 15,000 meter replacements and over 3,900 meter repairs. Since commencement, LUMA has exchanged over 77,000 meters including net energy meters.

Additionally, LUMA has established the meter shop in the Guaynabo area, where a process of meter recertification, quality testing, and recycling has been implemented. In this way, we ensure that the meters installed for our customers maintain adequate accuracy and functionality for their remote reading systems. Providing our customers with better reliability in their readings and an increase in system efficiency, allowing reduced meter purchases, the opportunity for new technology, and refocusing operational efforts in other areas.

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Meter recycling allows us to improve our inventory and continue with malfunctioning meter replacements in the field. In addition, provide bidirectional meters for thousands of net meters. This, without compromising our daily operations, reduces manual readings in the field and strengthens our field operations.

This progress is resulting from the Distribution Meter Replacement & Maintenance Improvement Program included in within LUMA's Annual Budgets and SRP and the Standardized Metering & Meter Shop Setup Improvement Program included within LUMA's Annual Budgets.

The implementation of the Advanced Metering Infrastructure project with FEMA funding will enable the installation of new meters for virtually all LUMA customers over several years. This will dramatically reduce the number of unmetered customers and of customers with malfunctioning meters.

***“The electric distribution infrastructure will become more efficient... Pursuing additional revenue from third parties, such as telecommunication companies, who utilize electric poles for their attachments.”***

The fee for third party attachments on electric utility poles is under negotiation at the moment but estimates for the annual revenue potential were provided in the June 9, 2023 technical conference undertaking response TC-RFI-LUMA-MI-2021-0004-20230609-PREB-0002. The actual amount will depend on multiple factors outside of LUMA's control including potential regulatory and legal determinations.

This work continues to progress under the Update to Third Party Use, Audit, Contract, and Billing Procedures Improvement Program within LUMA's Annual Budgets and SRP and is reported quarterly and annually.

The benefits resulting from actions across these six areas, as well a result of the improvement portfolios and remediation activities identified in the PREB-approved SRP directly benefit ratepayers, either by allowing LUMA to operate more effectively or by reducing the cost of a particular activity within LUMA.

Those benefits are reflected and embedded in each of the budgets developed and results delivered over the last three years. During these three years, energy sales have decreased noticeably. as evidenced by Nevertheless LUMA's ability to developed reasonable and operate within budgets, increased the scope of activities and improved performance without seeking rate adjustments. notwithstanding decreasing energy sales. And Future efficiencies will continue to be embedded in future budgets, particularly as LUMA seeks to ensure compliance with its T&D OMA obligations of operating within budget and within the revenue requirement derived from applicable rates while improving performance.

### **PERFORMANCE SHOULD BE MEASURED BASED ON DESIRED OUTCOMES**

Quantifying savings and applying them to a baseline budget may be counterproductive, as it places unnecessary constraints and increases the probability of underfunding other areas of the operation. It also ignores the fact that on any given year, whether planned or not, planned expenditures and realized costs may increase, such increases driven by exogenous factors as well as by activities that require increased investments in particular areas (i.e. increased in capital investments may require an increase in procurement costs).

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Therefore, efficiencies are better measured based on desired outcomes, rather than on monetary value. In all cases, the desired outcome would entail a benefit to the ratepayer, be it through improved quality of service, greater operational responsiveness or reduced costs.

The desired outcomes would be driven by certain actions that LUMA would undertake. Ordinarily, for each area of interest, an assessment of opportunity is made, which would be followed by the development of an implementation plan detailing action items and timelines. As the plan is implemented, outcomes are achieved, until the final desired outcome is reached. To the extent the desired outcome produces a savings, then those savings offset other costs.

The Energy Bureau can use the information and outcomes reported by LUMA as one of the inputs in determining rates going forward.