

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

NEPR

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**IN RE: Puerto Rico Electric Power
Authority Rate Review**

CASE NO.: NEPR-AP-2023-0003

**SUBJECT: Motion in Compliance with June 30th
Resolution and Order – Submission of Phase 1 Report**

MOTION IN COMPLIANCE WITH JUNE 30, 2023 RESOLUTION AND ORDER

TO THE HONORABLE PUERTO RICO ENERGY BUREAU:

COMES NOW LUMA Energy, LLC (“ManagementCo”), and **LUMA Energy ServCo, LLC** (“ServCo”), (jointly referred to as “LUMA”), and respectfully states and submits the following:

1. On June 30, 2023, the Puerto Rico Energy Bureau (the “Energy Bureau”) issued a Resolution and Order “to initiate an adjudicative process to review PREPA’s rates” (the “June 30th Order”). *See* June 30th Order at page 2.

2. In the June 30th Order, the Energy Bureau highlighted the various circumstances and events that have changed or taken place since the approval of the January 10, 2017, Final Order and Resolution and Order¹ (the “2017 Rate Order”) and that warrant the initiation of a proceeding to review PREPA’s rates. *Id.*

3. To conduct such a review, the Energy Bureau divided the rate review process into three (3) separate phases. *Id.* Phase I entails an informal review of previously established filing requirements, including those established through Regulation 8720, New Regulation on Rate Filing Requirements for the Puerto Rico Electric Power Authority’s First Rate Case, Regulation

¹ In Re: Puerto Rico Electric Power Authority Rate Review, Case No.: CEPR-AP-2015-0001.

8720 of March 28, 2026 (“Regulation 8720”), that will apply to a rate order modification request filed in the instant proceeding, allocate responsibility for the various requirements across the relevant operating entities and ensure coordination among such entities. *Id.* Through Phase I, the Energy Bureau will also determine which filing requirements will apply during Phase II and which requirements would be deferred and addressed during Phase III. *Id.* at page 4.

4. Phase II entails the filing of a rate order modification request based on the applicable filing requirements adopted by the Energy Bureau as a result of Phase I *Id.* at page 2. Upon such Phase II filing, which the Energy Bureau predetermined in the June 30th Order to be “incomplete”, the Energy Bureau will begin its review of the rate order modification request and would adopt any interim decisions it deems appropriate. *Id.* at pages 2-3. Finally, Phase III involves the “formal review of a complete rate filing [which] contain[s] the items addressed in an interim matter in Phase II” as well as the remaining filing requirements determined during Phase I to be deferred to Phase III. *Id.* at page 4.

5. For Phase I, the Energy Bureau directed LUMA to file a report on or before October 4, 2023 describing LUMA’s understanding of the applicability of previously established filing requirements to the filing of a future rate order modification request, including, but not limited to, the current status of compliance with such requirements, whether LUMA has the capability to comply with such requirements, the timeline necessary to achieve compliance and the entities on which LUMA would rely on to comply with each filing requirement. *Id.* at page 3.

6. The Energy Bureau also required LUMA to report on its progress in addressing the deficiencies in PREPA’s 2016 rate review application and described by the Energy Bureau in the 2017 Rate Order and the status of coordination activities among LUMA, Genera and PREPA in preparation for the upcoming rate review. *Id.*

7. Finally, the Energy Bureau required LUMA to provide in its report a list of the schedules it intends to submit along with its Phase II filing, as well as a discussion on how the filing will address PREPA's legacy debt and pension obligations. *Id.*

8. In compliance with the June 30th Order, LUMA hereby submits its Report, attached hereto as Exhibit 1.

9. Part 1 of the Report includes background information on LUMA's roles as Operator of the Transmission and Distribution System ("T&D System") to help frame this proceeding within the context of current and future challenges. *See* Exhibit 1 at pages 5-6.

10. Part 2 of the Report provides a discussion of the main deficiencies in PREPA's 2016 rate review application identified by the Energy Bureau in the 2017 Rate Order, the progress in addressing such deficiencies achieved by LUMA since June 2021 and the challenges that remain in order to fully address each of the deficiencies identified in the 2017 Rate Order. *See* Exhibit 1 at pages 7-15.

11. Part 3 of the Report contains LUMA's assessment of the filing requirements, in particular, those outlined in Regulation 8720 and a discussion of the factors taken into account by LUMA in conducting its assessment of their applicability. *See* Exhibit 1 at pages 15-19.

12. Based on its assessment, LUMA concluded that it is currently able to fully comply with 21 filing requirements outlined in Regulation 8720 and can partially comply with 19 filing requirements, for which LUMA seeks partial modifications. LUMA also proposes revisions to five (5) filing requirements in Regulation 8720 which would enable such requirements to better reflect existing circumstances. Finally, LUMA identified 16 requirements in Regulation 8720 which, for multiple reasons, have become irrelevant and obsolete and should no longer apply.

13. In total, should the Energy Bureau accept the modifications and revisions proposed herein, LUMA would be able to comply with 45 out of 61 filing requirements in Regulation 8720.

14. The following table summarizes LUMA's findings:

Ability to File	Schedule Count	Description
Yes – No Alternative Proposed ¹	21	Requirement met; no alternatives proposed
Yes – Alternative Proposed ²	5	Requirement met; alternative proposed to schedule(s)
Partial – Alternative Proposed ³	19	Requirement partially met; alternative proposed because not all inputs are available
No - Not Applicable ⁴	16	Requirement not applicable or not relevant
Total	61	
¹ LUMA can fulfill the requirement and does not require clarification. ² LUMA can fulfill the requirement but proposes an alternative to the requirement to closer align with current circumstances. LUMA submits that these modifications result in schedules that will contribute more meaningfully to the rate review. ³ Requirements can be partially met and must be modified to reflect PREPA's circumstances. ⁴ Requirements are not relevant or applicable in the current rate review due to PREPA's current limitations.		

15. A detailed assessment of each of the filing requirements as required by the Energy Bureau in Part II.a.i of the June 30th Order is included as Appendix A to Exhibit 1.

16. In conducting its assessment, LUMA consulted with PREPA and Genera to identify and allocate responsibility over the information each party was required to produce in support of the development and filing of a rate order modification request. Part 4 of the Report provides a summary of such coordination efforts and includes a preliminary list of witnesses to be produced by LUMA. *See* Exhibit 1 at page 19. The preliminary lists of witnesses to be produced by PREPA and Genera are included as Appendices B and C to Exhibit 1.

17. Part 5 of the Report includes a list of schedules, based on Regulation 8720, which LUMA intends to submit as part of a future rate order modification request *See* Exhibit 1 at page 20.

18. The June 30th Order requires LUMA to describe how a future rate order modification request would address PREPA's legacy debt and pension obligations. *See* June 30th Order at page 3. Part 5.1 of the Report provides LUMA's current understanding of the relationship between the instant proceeding and PREPA's financial reorganization under Title III of PROMESA. *See* Exhibit 1 at page 21. A preliminary list of witnesses, issues to be addressed by each witness and schedules to be submitted by the Financial Oversight and Management Board for Puerto Rico ("FOMB") in connection with PREPA's legacy debt is attached as Appendix D to Exhibit 1.

WHEREFORE, LUMA respectfully requests that the honorable Energy Bureau **take notice** of the aforementioned and **deem** LUMA to be in compliance with the directives issued by the Energy Bureau in the June 30th Order.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 4th day of October, 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.



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Exhibit 1
2023 Rate Review Phase I Report



Rate Review – Phase I Report

NEPR-AP-2023-0003

October 4, 2023

2023 Rate Review – Phase 1 Report

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0.0 Introduction

PREB RESOLUTION AND ORDER INITIATING RATE REVIEW

Through Resolution and Order issued on June 30, 2023 (June 30th Order), the Puerto Rico Energy Bureau (PREB or Energy Bureau) initiated an adjudicative process to review the rates of the Puerto Rico Electric Power Authority (PREPA) and established a three-phase process to conduct its review.¹ Phase I entails a review of previously established rate review filing requirements after which the Energy Bureau will make a determination with regards to the particular requirements that will apply to a rate review application filed in the instant proceeding.²

The June 30th Order requires LUMA to file a report containing LUMA's understanding of the filing requirements and, in particular, to (1) describe LUMA's current understanding of the filing requirements for this rate review, (2) describe the current status for each requirement, (3) describe steps taken to address deficiencies identified in the 2017 Rate Order³, particularly the requirement for a current Cost-of-Service Study (COSS), (4) provide a list of schedules LUMA intends to submit, (5) report on the coordination between LUMA, PREPA and Genera, and (6) explain how the filing will address the proposed Legacy Debt Charge and PREPA's pension obligation costs.⁴ It is noted that LUMA is not responsible for PREPA's legacy debt or pension obligations.

In compliance with the June 30th Order, LUMA has developed the following Report which contains its assessment and responses to the various requirements outlined in said Order. Section 1 of this Report provides an overview of historical and existing circumstances which informed LUMA's assessment of the filing requirements. Sections 2 through 5 address the information requested by the Energy Bureau in the June 30th Order.

It is important to note that LUMA is issuing this Report in response and compliance with a request by the Energy Bureau who initiated the rate review process. Under the T&D OMA, LUMA is “responsible for preparing, presenting, defending current or future [...] rate cases or other regulatory or legal matters as *they relate to the Agreement [T&D OMA]*, as the Owner's representative before the Energy Bureau and any other local, state or federal government agencies.”⁵ [(T&D OMA Annex I, Sections I.G and I.H.) Emphasis added.) .), see also T&D OMA, Section 5.6 (g). That is, LUMA is not responsible for activities that go beyond the Operation and Maintenance (O&M) Services or are outside the O&M of the Transmission and Distribution System (T&D System). More specifically, LUMA is not responsible for regulatory and legal filings that pertain to other PREPA activities, including rates for the operation and

¹ See Resolution and Order of June 30, 2023, Docket No. NEPR-AP-2023-0003.

² *Id.*

³ See Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

⁴ See page 2 of Resolution and Order of June 30, 2023, Docket No. NEPR-AP-2023-0003.

⁵ *Id.* at ¶ I-3 of Annex 1.

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maintenance of generation assets, or other PREPA activities such as Title III proceedings⁶ under the Puerto Rico Oversight, Management, and Economic Stability Act⁷ (PROMESA).

LUMA appreciates the opportunity to submit this Report to begin a constructive process, receive important guidance from the Energy Bureau, and support the robust electrical system that Puerto Ricans expect and deserve.

1.0 Background and Context

LUMA is tremendously proud of the progress it has made since assuming responsibility for the O&M of Puerto Rico's T&D System on June 1, 2021.⁸ LUMA has made significant and measurable progress in improving electrical service across all categories in fulfillment of its mission for Puerto Rico: improved safety for employees and the public; a heightened focus on customer needs; a more reliable, resilient, and modern grid; effective emergency response; and an acceleration in the shift to renewable energy. These advances have been made in the face of the highest inflation in decades, unforeseen global events, supply chain disruptions, natural disasters, and many other challenges, both global and specific to Puerto Rico.⁹

While LUMA remains focused on making improvements for its customers, financial pressures that Puerto Rico and the electric system are facing have resulted in the need to be more vigilant and prudent than ever when it comes to responsibly spending and allocating resources across an improving, but still fragile system, while maintaining affordability for customers.

PREPA's current Base Rates were determined by the Energy Bureau in the 2017 Rate Order¹⁰. In its first three (3) years of operating the T&D System, LUMA has met its commitment of only using the revenues generated by the existing Base Rates¹¹, while leveraging and maximizing federal funds for eligible capital works. Accordingly, LUMA has not sought any adjustments to PREPA's Base Rates, which are the portion of customer electric rates that fund the costs pertaining to LUMA's operation of the grid, as well as other PREPA costs, since it took over operations of the T&D System on June 1, 2021. Any, and all, adjustments made to rates over the three (3) years LUMA has operated the grid pertain to the cost of generation, fuel, and purchased power, or to other smaller adjustments to subsidies and other items, which are entirely outside of LUMA's control. As a reminder, LUMA does not generate electricity and does not determine the impact that fuel costs have on customer rates. Furthermore, LUMA does not benefit financially from any change in rates due to increased generation fuel costs and LUMA's costs to operate the T&D System are separate from the cost of fuel for generation or the cost of power purchased from private generators.

⁶ See Title III case under PROMESA pending for PREPA in the Title III Court, captioned as *In re Financial Oversight & Management Board for Puerto Rico as representative of Puerto Rico Electric Power Authority*, Case No. 17-BK-4780-LTS (D.P.R.).

⁷ See [Pub. L. 114–187, §4, June 30, 2016, 130 Stat. 551](#), Known as “the Puerto Rico Oversight, Management, and Economic Stability Act” and also as “PROMESA”.

⁸ Pursuant to the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement (“T&D OMA”) executed on June 22, 2020, among 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”).

⁹ As described in Section 8 of LUMA Annual Report for Fiscal Year 2022 of October 29, 2022, Docket No. NEPR-MI-2021-0004.

¹⁰ See Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

¹¹ *Id.*

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Currently **LUMA's costs to operate the T&D System compose approximately 15% of the total customer rates**. The other 85% of customer rates are used to pay for generation operations (currently carried out by Genera PR for all of PREPA's thermal power plants), fuel for Genera operations, energy purchases made by PREPA from private generators including Ecoeléctrica and AES, PREPA corporate expenses (including Title III bankruptcy costs), subsidies to customers, public lighting and the Contribution-in-Lieu of Taxes to municipalities. As mentioned above, this remaining 85% of the costs are separate from LUMA's costs to operate the T&D System and are entirely outside of LUMA's control. During the first two (2) years of operation, and while meeting its commitment to stay within budget and not seek an increase to Base Rates, LUMA has improved reliability (by lowering the frequency of interruptions as measured by a 35% lower System Average Interruption Frequency Index (SAIFI), upgraded customer service (decreasing call wait times to an average below two (2) minutes), dramatically accelerated the deployment of rooftop solar (approving approximately 60,000 customers for net metering), and established effective emergency preparation and response in the face of natural disasters (restoring service to 90% of customers within 12 days after a system-wide blackout caused by Hurricane Fiona).¹²

During this time, LUMA has also dramatically increased the deployment of federal funding. When LUMA began operations in June 2021, PREPA had 41 projects with Initial Scopes of Work (SOW) to be submitted to the Federal Emergency Management Agency (FEMA) to rebuild the T&D System,¹³ and only one (1) project had a Detailed SOW (DSOW). As of October 4, 2023, LUMA has initiated the approval process with FEMA for 400 projects, out of which 245 have been submitted with DSOWs. In total LUMA has \$11.3 billion of projects in the FEMA approval process. In addition, LUMA has received FEMA obligations for 122 projects representing an investment of \$613 million. Furthermore, LUMA currently has 99 projects under construction or energized with federal funding.

While reaching these milestones, LUMA has also been asked to expend significant management time and resources on broader energy system challenges, including the reorganization of PREPA and providing information and other technical assistance to the on-going Title III bankruptcy process. Finally, as part of meeting Puerto Rico's public energy policy objectives, LUMA has actively engaged in other activities that were not previously managed by PREPA, including design and launch of Energy Efficiency (EE) and Demand Response (DR) programs, Electric Vehicle (EV) infrastructure support initiatives, active support for growth and interconnection of utility-scale renewable energy including the Energy Bureau-led Requests for Proposals, and technical analysis and field work to add generation resources and reduce the risk of insufficient energy resources to meet customer demand (including the addition of 350 MW of temporary emergency generation by FEMA). PREB has also required additional reporting in multiple areas.

2.0 Progress Since 2017 Rate Order

2.1 Background

Among the determinations made in the 2017 Rate Order, the Energy Bureau found that “the gaps in data and the numerous subjective and debatable judgements in PREPA's COSS, leave us without confidence

¹² See In Re: The Performance of the Puerto Rico Electric Power Authority, Docket No. NEPR-MI-2019-0007.

¹³ See PREB Resolution and Order dated June 8, 2021 In Re: Review of the Puerto Rico Electric Power Authority's 10-Year Infrastructure Plan – December 2020.

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that the filed COSS describes cost causation accurately.”¹⁴ The Energy Bureau found multiple problems with PREPA’s COSS, including (i) unreliable load data, (ii) lack of information with which to allocate demand amongst customer classes, and (iii) problems with functionalization and classification of costs.¹⁵ Given these deficiencies, the Energy Bureau determined to “view PREPA’s COSS as a guide”¹⁶ and set rates based on the information made available to the Energy Bureau at that point in time.¹⁷ Accordingly, the Energy Bureau focused on setting PREPA’s revenue requirement, allocating the revenue requirement among the customer classes, determining permanent rates based on rate design, and reconciling permanent rates with provisional rates.

On April 24, 2017, the Energy Bureau opened a Notice of Investigation¹⁸ to address the issues that were not addressed in the 2017 Rate Order. These topics were related to PREPA’s data limitations and COSS, “including the cost of service, marginal cost and rate design.”¹⁹ Said proceeding has remained stayed since September 18, 2017.

This Section of the Report responds to item (c) of Part II a.i of the June 30th Order²⁰ and discusses the progress achieved to date in connection with the issues identified by the Energy Bureau in the 2017 Rate Order, and the status of ongoing efforts to achieve full remediation.

2.2 Improving the Cost-of-Service Study

The Energy Bureau stated that the COSS submitted in PREPA’s petition was “insufficient for the Energy Bureau to determine the reasonableness of the results.”²¹ The Energy Bureau was concerned with the inputs used by PREPA to develop its proposed COSS, particularly the load data and PREPA’s functionalization and classification determinations.

LOAD DATA AND DEMAND ALLOCATORS

A load profile for a customer class is a graphic display of that customer’s load shape depicting how the demand for that particular customer class varies over time. Load shape is crucial information for procuring generation sufficient to meet expected load throughout each day and over the course of the year. The Energy Bureau noted that PREPA did not implement a load research program,²² had load shapes that came from inconsistent years and data sources, were the same for large and small customers in the

¹⁴ See page 325 of Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

¹⁵ See page 319-324 of Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

¹⁶ *Id.* at ¶327.

¹⁷ *Id.* at ¶¶326 – 329.

¹⁸ See Resolution and Order of April 24, 2017, Docket No. CEPR-IN-2017-0001.

¹⁹ See Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

²⁰ See page 3 of Resolution and Order of June 30, 2023, Docket No. NEPR-AP-2023-0003.

²¹ See page 3 of Resolution and Order of November 3, 2016, Docket No. CEPR-AP-2015-0001.

²² See page 112 of Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

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same class and were “simulated” rather than observed.²³ The Energy Bureau also stated that additional information to facilitate a reasonable review of the load shapes was not included.²⁴

LUMA Progress

LUMA’s findings after conducting its gap assessment during the Front-End Transition Services period aligned with the determinations made by the Energy Bureau, in that the root cause of the problems with PREPA’s load data and demand allocators was the lack of a formal load research program that applied industry standard methodologies to forecast total system load. The data presented by PREPA was simulated and did not accurately reflect customers’ usage patterns and costs, and, consequently, was deemed by the Energy Bureau as insufficient to inform a COSS.²⁵ At the time of its 2016 rate review filing, PREPA had not performed load research and study activities since 2014 and PREPA stated that it lacked the necessary data and information to produce a reliable COSS.²⁶

To address the load data and demand deficiencies, LUMA developed a Regulatory Long-Term Load Forecast Review²⁷ (hereafter referred to as the Load Forecasting Improvement Plan) to deliver a more accurate and useful forecast of monthly class-level consumption and annual peak demand. Many improvements to the Load Forecasting Improvement Plan have already been implemented, including but not limited to data remediation, regression model updates, and load research sample development. These enhancements implemented by LUMA support the use of improved data on load and demand allocators and will provide greater accuracy and a more reliable data set for review by the Energy Bureau.

LUMA’s Load Forecasting Improvement Plan contains five (5) phases²⁸:

- 1) Internal Governance and Organization Design
- 2) Review Current and Future Methodologies
- 3) Establish Data Needs
- 4) Process Design
- 5) Build Capabilities

LUMA completed Phases 1 through 3 in 2022. For Phase 1, a Load Forecasting Governance Committee was formed and tasked with overseeing the load forecasting improvement process.²⁹ For phases 2 and 3, LUMA conducted an assessment of the current state and planned future state methodologies for load forecasting and established the data requirements necessary for the program. Phases 4 and 5 entail

²³ *Id.*

²⁴ *Id.*

²⁵ See Verified Petition for Approval of 1) Permanent Rate and 2) Temporary Rates of May 27, 2016, Docket No. CEPR-AP-2015-0001.

²⁶ *Id.*

²⁷ See LUMA’s Motion on Submission of Regulatory Long-Term Load Forecast Review of June 30, 2022, Docket NEPR-MI-2021-0001.

²⁸ *Id.* at ¶¶41-42.

²⁹ See page 45 of LUMA’s Motion on Submission of Regulatory Long-Term Load Forecast Review of June 30, 2022, Docket NEPR-MI-2021-0001.

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designing processes and building load forecasting capabilities within the LUMA organization. Phases 4 and 5 are currently ongoing and are expected to be completed by December of 2023 on a timeline that can inform the Fiscal Year (FY) 2025 load forecast.

Some of the immediate improvements that LUMA has accomplished because of the Load Forecasting Improvement Plan are as follows:

- LUMA developed and implemented computer program code to correct historical anomalies in aggregate consumption data.
- LUMA applied a rigorous model testing approach and undertook several ancillary analyses to deliver a more robust unadjusted forecast of class-level consumption.
- LUMA is developing a load research sample by choosing a representative group of customers from each class, whose interval data can be collected. Their electrical demand will be measured hourly or every 15 minutes. LUMA anticipates that the data collection phase will begin in the third quarter (Q3) of calendar year (CY) 2023 and last at least a year. The goal of this sampling process is to find groupings of customers that accurately reflect the consumption patterns of the customers in each rate class, and other characterizations such as net metering.

All these improvements help to refine load forecasting accuracy.

In addition to the Load Forecasting Improvement Plan, LUMA's Automated Metering Infrastructure (AMI) Implementation Improvement Program will improve future COSS input by enabling reliable data inputs from the wider customer group. The AMI Implementation Program establishes two-way, remote meter reading reporting and control capabilities, which offer granular consumption data, bi-directional metering, outage notifications, and power quality measurements.³⁰

As stated in the AMI Implementation Program brief in LUMA's FY2024 Annual Budget filing³¹, LUMA has begun the business process workshops and vendor RFI, and implementation is estimated to begin by the first quarter (Q1) of FY2025. Once LUMA's AMI Implementation Program is complete, LUMA will be able to collect detailed customer usage information on an hourly basis, identify system losses with system energy balances and electric consumption analysis, and enhance operational and financial performance.

With LUMA's Load Forecasting Improvement Program and AMI Implementation Program in place, LUMA will be able to collect granular customer consumption data to be used to model more accurate and data driven demand allocators in a future COSS.

As described above and because of the steps taken in the Load Forecasting Improvement Program, LUMA intends to file a partial COSS that uses direct allocation of costs, where available. This is an important advance over the previous COSS submitted by PREPA.

Going forward, LUMA expects that as the remaining programs in the Load Forecasting Improvement Program outlined above are implemented and their impacts are realized, the quality of the COSS it performs will further improve. LUMA expects to collect load data and develop demand allocators in line

³⁰ See page 55 of LUMA's FY2024 Annual Budgets Filing of May 16, 2023, Docket No. NEPR-MI-2021-0004.

³¹ *Id.* at ¶¶79-84.

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with industry standard methodologies by FY2025, once the Load Forecasting Improvement Program has been fully completed, and that the quality of input data used to develop demand allocators will continue to increase as customer meters are replaced with automated metering technology.

PREPA'S FUNCTIONALIZATION AND CLASSIFICATION DECISIONS

In the 2017 Rate Order, PREB identified five (5) key issues³² with PREPA's decisions on cost functionalization and classification: incorrectly assigning fixed generation costs as demand-related, ignoring transmission that should have been classified to generation, incorrectly sub-classifying distribution as primary and secondary, allocating customer-costs based on meter cost, and assigning overhead costs based on labor.

The Energy Bureau stated that PREPA's inability to separate costs into the correct functions and categories stemmed from problems in PREPA's functionalization and classification of specific costs. PREPA, as a vertically integrated utility, did not track its actual costs in a manner that could be leveraged to determine cost causation by function or class. As a result, PREPA was unable to classify and functionalize costs in its COSS to the Energy Bureau's satisfaction.

PREPA's costs have yet to be unbundled, with balance sheet remediation activities currently underway to establish unbundled costs and baselines. Until such time when these activities are completed, LUMA does not have the benefit of meaningful balance sheet accounts representing historical information that can be used as a starting point to establish a uniform system of accounts to allow full and proper functionalization of costs by functions.

Puerto Rico's Financial Oversight and Management Board (FOMB) has allocated \$25 million to Puerto Rico's Public-Private Partnership Authority (P3A) in the FY2024 Certified Fiscal Plan for the Commonwealth of Puerto Rico for asset reconciliation and accounting remediation work.³³ This work is necessary to properly unbundle PREPA's historic costs into the generation, transmission, distribution, customer service, and other functions, such that baseline costs can be established and used to form rate design decisions. LUMA is not responsible for these activities and is unable to impact the remediation of financial information that existed before June 2021. LUMA's ability to operate in line with industry standards, including, but not limited to, the development of a fulsome embedded COSS, is dependent on PREPA completing its accounting and balance sheet remediation efforts.

The introduction of the T&D System Operator (LUMA) and the Legacy Generation Assets Operator (Genera) facilitates the functionalization of accounting information, as each function will be recorded and reported separately as per its Operating and Maintenance Agreement (OMA) requirements.³⁴ LUMA is only able to influence the manner in which it records its costs and the quality of the data that it creates. To

³² See page 110-111 of Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

³³ See page 46 of Fiscal Plan for Commonwealth of Puerto Rico, *Volume 1 Transformation Plan, Restoring Growth and Prosperity*, certified as of April 3, 2023 by the Financial Oversight and Management Board for Puerto Rico (last seen, October 4, 2023).

³⁴ Pursuant to the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement ("T&D OMA") executed on June 22, 2020, among 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") and Pursuant to the Puerto Rico Thermal Generation Facilities Operation and Maintenance Agreement executed on January 24, 2023, among the Puerto Rico Electric Power Authority ("PREPA"), the Puerto Rico Public-Private Partnerships Authority ("P3A") and Genera PR, LLC (Genera).

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that end, in its System Remediation Plan (SRP), LUMA explained that its Critical Financial Controls and Critical Financial Systems programs,³⁵ which are expected to be in a remediated state in FY2027, will improve and remediate the financial management systems and technology to enable LUMA to better functionalize and classify its financial information going forward, and to unbundle the costs of the T&D System. The delineation of the GenCo entity will effectuate functionalized generation costs for use in a future COSS.

LUMA Progress

LUMA has made significant progress on the planned activities for the Critical Financial Controls Program. Of the 63 critical gaps that were identified prior to Commencement, seven (7) have been fully remediated, 52 have been partially remediated, and only four (4) remain open.³⁶ Although many improvements pertaining to the Critical Financial Systems Program are in progress, LUMA was able to make progressive changes in a short period of time. In FY2022, LUMA implemented an online budgeting and forecasting system that links to the actual operation and maintenance expenses in Oracle and fully remediated the gap pertaining to the manual timecard process by implementing an automated system where employee expenses can be recorded to a project and task structure.³⁷

Based on the foregoing, PREPA, LUMA and Genera continue to work toward unbundling the financial records of the utility through several initiatives. LUMA is encouraged by the allocation of funding for the remediation of PREPA's balance sheet as this represents a critical step in unbundling the costs of the utility and improving the data that supports functionalization and classification decisions.

2.2.1 Projected Timing for Cost of Service Study

As with any study, the quality of the COSS will improve over time as the quality of inputs improves. Properly developed load forecasts and remediated financial records will facilitate a meaningful COSS that can be relied upon for cost causation and used to inform rate design.

While there are many moving parts to perform a COSS in accordance with best practices, LUMA has determined that based on the schedule for financial controls and financial systems programs in FY2027 and assuming completion by other parties of their financial remediation activities, a full COSS could be performed in FY2028. This schedule also depends on availability of audited results for the first year of PREPA's operations as a transformed utility (FY2024) and completion of the balance sheet remediation activities funded through the 2024 Certified Fiscal Plan.

The timing of the COSS also depends on completion of Phase 5 of the Load Forecasting Improvement Plan (currently scheduled for completion in December 2023 to inform the FY2025 load forecast). The AMI Implementation Program will further improve the quality and granularity of customer consumption data, but its completion is not required for LUMA to deliver a COSS.

³⁵ See LUMA's Motion on Submittal and Request for Approval of System Remediation Plan of February 24, 2021, Docket No. NEPR-MI-2020-0019.

³⁶ *Id.* at ¶¶273-275.

³⁷ *Id.* at ¶¶282-283.

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2.3 Improving Rate Design

In its Notice of Investigation,³⁸ the Energy Bureau outlined several deficiencies with PREPA's proposed rate design and deferred these discussions to a subsequent proceeding, also initiated in the Notice of Investigation. As previously mentioned, this investigation proceeding remains stayed and has not been reopened by the Energy Bureau.³⁹

LUMA Progress

Generally, LUMA determined that rate design deficiencies were most likely attributed to data limitations and the inappropriate estimation of the marginal cost of generation (further addressed in the next section). The successful execution of LUMA's Load Forecasting Improvement Program and AMI Implementation Program, described above, will enable the development of a robust load forecast research study and detailed data collection to support effective rate design. These elements will enable LUMA to address many of the deficiencies/concerns raised by the Energy Bureau in both the Rate Order and the Notice of Investigation. The Load Forecasting Improvement Program will allow LUMA to identify and track various metrics (energy usage over time, demand at various times, number of customers of various types) across customer classes and at a granular level of detail that can be leveraged for rate design. The AMI Implementation Program will allow the collection of granular data surrounding customer consumption behavior that was not available in the prior rate case and can be used to inform rate design in a future COSS.

2.4 Marginal Costs

Marginal cost refers to the incremental cost of producing or serving one more unit (kWh of energy, or one more customer served etc.). Utility marginal cost studies are used to determine these incremental costs. In the 2017 Rate Order, the Energy Bureau determined that PREPA's marginal cost studies were unreliable.⁴⁰ The Energy Bureau identified various deficiencies, including but not limited to: under-estimating fuel prices, ignoring renewable resource costs, assuming load-related distribution plant would not increase O&M costs, and failing to distinguish between marginal and average losses.⁴¹ PREPA's data limitations impede full recording of the marginal cost of generation.

LUMA Progress

LUMA has implemented several measures to improve its ability to estimate costs until verifiable data is available. Since LUMA took over operations in June 2021 up until the introduction of Genera as the GenCo operator, LUMA has been able to estimate system average hourly costs. As was reported to the Energy Bureau, LUMA required access to the OSI-PI data software in order to enable the calculation of more accurate hourly marginal energy costs. LUMA made multiple attempts to obtain access from PREPA to the OSI-PI fuel data to better understand each plant's hourly fuel consumption and electric

³⁸ See Resolution and Order of April 24, 2017, Docket No. CEPR-IN-2017-0001.

³⁹ See Resolution and Order of October 5, 2023, Docket No. CEPR-MI-2017-0007.

⁴⁰ See page 118-119 of Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

⁴¹ *Id.*

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production to be able to perform marginal cost analyses. PREPA refused on multiple occasions to provide this data. Despite the Energy Bureau ordering them to share the OSI-PI data requested by LUMA, PREPA ultimately stalled until Genera assumed operation and maintenance of PREPA's power plants on July 1, 2023.⁴² Genera has since provided LUMA with access to this data.

PREPA's loudest objection to allowing access to the data was their statements that the data was unreliable and incomplete. LUMA is currently assessing the data quality.⁴³ Once the OSI-PI data is analyzed and to the extent that the data from OSI PI is reliable, LUMA anticipates having better information to estimate fuel prices in a future marginal cost study. Implementation of the new Energy Management System (EMS) will allow provide more complete, real-time generation plant fuel data that can be used to inform marginal cost studies. This implementation is documented in the SRP Program: *Critical Energy Management System Upgrades*⁴⁴, which is expected to reach its remediated state in FY2025.

Due to the low effective availability of generation resources, System Operations was rarely faced with dispatch decisions that absolutely depended on accurate marginal cost information. With very low resource adequacy most dispatch decisions during recent years have been based on dispatching enough generation to meet customer demand and to avoid load shed. At the same time LUMA was responding⁴⁵ to PREPA's refusal to provide the OSI-PI data, LUMA undertook several actions to improve the precision of the generation fleet estimated cost structure. This helped improve decision-making but also helped explain retrospectively, what had happened to production costs over the previous period. The improvement steps LUMA has undertaken are listed below for reference:

1. Several exercises to run PROMOD analysis retrospectively over several months to improve LUMA's understanding of estimated heat rates. Heat rate is not a single, static measure, but is modeled using a "heat rate curve" which reflects how efficiency changes with small increases in production. PREPA did not perform a heat rate test on its units in over 10 years⁴⁶, but Genera has already presented its plan to perform these tests on an annual basis which is more consistent with Prudent Utility Practices.
2. LUMA worked across the System Operations and analytical teams to ensure consistency of data and analysis of actuals across different software tools (including PROMOD as well as other more operationally focused software). This effort included review of heat rate data, but also ramp times, production costs, start-stop limitations, and several other variables. These assumptions are now consistently applied in all models.

⁴² See page 2 of Resolution and Order of March 24, 2023, Docket No. NEPR-MI-2023-0001.

⁴³ See PREPA's Motion to Inform PREPA's Position in Regard to the OSI PI Data of March 31, 2023, Docket No. NEPR-MI-2023-0001.

⁴⁴ See page 46 of LUMA's Motion of August 23, 2023, Docket No. NEPR-MI-2021-0001.

⁴⁵ See LUMA's Response to PREPA's Motion to Inform PREPA's Position in the Regard to the OSI PI Data of April 27, 2023, Docket No. NEPR-MI-2023-0001.

⁴⁶ See PREPA's Motion to Inform PREPA's Position in Regard to the OSI PI Data of March 31, 2023, Docket No. NEPR-MI-2023-0001.

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3. LUMA procured a license for Plexos to run in conjunction with PROMOD. The two models are similar, but Plexos enables faster analysis of what-if scenarios that can assist diagnostic analysis. After the LUMA Plexos model was built, LUMA had to install the system variables to support the model and to calibrate Plexos output with PROMOD analysis to ensure consistency of analysis and assumptions.
4. LUMA updated the data in the EMS module for Systems Operations' control room personnel to support decision-making with automated data. This involved training personnel on new procedures, integrating more SCADA data directly into the EMS module, as well as repairs or modifications to hardware to allow various data collection devices to operate automatically.
5. Installed Automatic Generation Control (AGC) capability to several more individual units at San Juan and Palo Seco as part of a longer-term implementation of AGC to all units. Prior to June 2021 commencement, AGC was only available at Ecoelectrica, and some of the units at Aguirre.
6. Developed a single set of all planning data variables in Plexos such that it could be shared with research teams, including personnel from the National Laboratories and the technical consultant supporting the Integrated Resource Plan (IRP) preparation. A single set of data allows for consistent operating and cost data assumptions to avoid multiple, conflicting planning studies (as occurred prior to LUMA).

Regarding the impact of renewable resource costs, LUMA is implementing a multi-phase, comprehensive process to develop a new IRP.⁴⁷ LUMA expects to deliver an updated IRP in 2024, at which time the estimated impact of renewable resource costs as well as other resource costs will be available and will better represent the current and future system. Typically, utilities and planning entities utilize outputs and other data from the integrated resource plan process to inform a rate review. Scheduling a rate review soon after the conclusion of an IRP proceeding would allow for incorporation of more current and more accurate marginal cost and general resource cost data in the rate review process.

Finally, similar to the COSS and rate design sections above, root causes for challenges with determining the marginal cost of generation can be traced to PREPA's lack of formal load forecasting and the consolidation of costs as an integrated utility company, without detailed functional cost data.

2.5 Conclusion

In conclusion, since starting operations, LUMA has taken significant steps to address the deficiencies and flaws in PREPA's review process identified by the Energy Bureau in the 2017 Rate Order⁴⁸ and the Notice of Investigation⁴⁹. The impacts of the quality of data and the system controls that LUMA inherited continue to hinder full preparation of cost of service and comprehensive rate design. LUMA is currently advancing the key programs to overcome the inherited deficiencies. These programs include: **Load Forecasting Improvement Plan, AMI Implementation Program, Critical Financial Controls Program,**

⁴⁷ See In Re: Implementation of the Puerto Rico Electric Power Authority Integrated Resource Plan and Modifies Action Plan, Docket No. NEPR-MI-2020-0012.

⁴⁸ See Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

⁴⁹ See Resolution and Order of April 24, 2017, Docket No. CEPR-IN-2017-0001.

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Critical Financial Systems Program, and Critical Energy Management System Upgrades Program.⁵⁰ Prudently completing the implementation of these programs will take years.

3.0 Review and Assessment of Regulation 8720 Filing Requirements

In this section, LUMA will respond to items (a) and (b) of Part II.a.i. of the Energy Bureau's June 30th Order.⁵¹

It must be noted at the outset that the filing requirements of Regulation 8720⁵² reflected PREPA's specific operational, financial, and organizational circumstances at that point in time. Subsequent to issuance of the filing requirements in Regulation 8720⁵³ and the 2017 Rate Order,⁵⁴ PREPA filed for bankruptcy⁵⁵ under Title III of PROMESA and implemented a system-wide transformation, having separated its T&D and Generation operations, transferred O&M responsibility over to separate entities and reorganized its operations into separate subsidiaries, including GenCo, HydroCo and PropertyCo.⁵⁶ As a result of these changes, limitations exist in LUMA's ability to meet certain requirements of Regulation 8720⁵⁷. The filing requirements applicable to this proceeding must be modified to align with PREPA's current structure and challenges as outlined below.

3.1 Assessment Summary

LUMA has fully assessed the requirements from Regulation 8720⁵⁸ and grouped them into one of four (4) categories depending on whether the capability to fulfill the requirement exists. A summary is provided in Table 3.1 below along with a brief explanation of requirements. LUMA has consulted with PREPA and Genera on its Assessment Summary and LUMA understands that they are supportive of LUMA's proposal(s).

⁵⁰ See LUMA's FY2024 Annual Budgets Filing of May 16, 2023, Docket No. NEPR-MI-2021-0004.

⁵¹ See page 3 of Resolution and Order of June 30, 2023, Docket No. NEPR-AP-2023-0003.

⁵² See Regulation 8720, known as "New Regulation on Rate Filing Requirement for the Puerto Rico Electric Power Authority's First-Rate Case" of March 28, 2016.

⁵³ See Regulation 8720, known as "New Regulation on Rate Filing Requirement for the Puerto Rico Electric Power Authority's First-Rate Case" of March 28, 2016.

⁵⁴ See Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

⁵⁵ See Title III case under PROMESA pending for PREPA in the Title III Court, captioned as *In re Financial Oversight & Management Board for Puerto Rico as representative of Puerto Rico Electric Power Authority*, Case No. 17-BK-4780-LTS (D.P.R.).

⁵⁶ Pursuant to the Puerto Rico PREPA-GENCO-HYDROCO Operating Agreement ("Hydroco") executed on June 16, 2023, among the Puerto Rico Electric Power Authority ("PREPA"), PREPA Genco LLC, PREPA Hyrodco LLC, LUMA Energy ServCo, LLC ("LUMA"), and the Puerto Rico Public-Private Partnership Authority ("P3A").

⁵⁷ See Regulation 8720, known as "New Regulation on Rate Filing Requirement for the Puerto Rico Electric Power Authority's First-Rate Case" of March 28, 2016.

⁵⁸ See Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

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Table 3-1. Regulation 8720 – Assessment Summary

Ability to File	Schedule Count	Description
Yes – No Alternative Proposed ¹	21	Requirement met; no alternatives proposed
Yes – Alternative Proposed ²	5	Requirement met; alternative proposed to schedule(s)
Partial – Alternative Proposed ³	19	Requirement partially met; alternative proposed because not all inputs are available
No - Not Applicable ⁴	16	Requirement not applicable or not relevant
Total	61	
¹ LUMA can fulfill the requirement and does not require clarification. ² LUMA can fulfill the requirement but proposes an alternative to the requirement to closer align with current circumstances. LUMA submits that these modifications result in schedules that will contribute more meaningfully to the rate review. ³ The requirements can be partially met and must be modified to reflect PREPA's circumstances. ⁴ The requirements are not relevant or applicable in the current rate review due to PREPA's current limitations.		

3.2 Assessment Detail

3.2.1 Limiting Factors

PREPA'S BANKRUPTCY

In the context of a healthy utility, the rate base/rate of return ratemaking model is used for assessment. The revenue requirement includes expenditures required to serve the utility's customers at a reasonable cost plus a positive return based on capital investments and coverage of utility debt, and an allowance to recognize the risk of such investments. For example, a return on equity component recognizes the cost of attracting investors. The cost of debt is based upon the (weighted average) cost of debt issuances. It is called the "rate base approach" because the capital expenditures become the base on which investors who finance those expenditures earn a return.

The revenue requirement must allow the utility to cover its O&M expenses, depreciation, taxes, and interest on long-term debt. Rate cases are warranted when utility revenues result in net income that does not allow the utility the opportunity to earn the authorized overall rate of return (ROR). This is the model widely used in the mainland U.S. (and Canada) to set rates for investor-owned utilities and some public power entities. Both investor-owned and government-owned utilities require rates sufficient to generate positive cash flow, or net income, to provide dividends to owners and maintain cash reserves to handle unforeseen situations. Additionally, a history of stable, positive cash flow is one of the factors rating agencies use for evaluating the debt issuances of utilities; the better financial health a utility is in, the lower the cost of borrowing, which reduces costs to customers.

In the 2017 Rate Order, the Energy Bureau already noted that PREPA's weak financial condition meant its only source of funding for long-term capital expenditures was from customers.⁵⁹ As PREPA remains under

⁵⁹ See Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

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Title III bankruptcy, that is still true today.⁶⁰ Unable to issue new debt, all utility capital investments must be paid for in the year they are incurred. This is commonly referred to as *cash financing*. Utilities that cash finance their operations have revenue requirements that are the sum of the regular O&M expenses, taxes, and capital expenditures in the test year. By not financing some of the capital investment with debt, the debt service coverage amount – adopted by the Energy Bureau in the 2017 Rate Order⁶¹ – is not a relevant factor for establishing a net income component for the revenue requirement. Instead, the net income to the utility is some percentage of the capital spend.

BALANCE SHEET REMEDIATION

When PREPA can issue new debt, the utility can convert to traditional regulatory financing using a combination of debt and equity to fund capital investment. In preparation for this eventuality, PREPA's balance sheet must be restored, and a set of regulatory accounting books needs to be established for each of the operating companies. These regulatory books will show the amount of gross plant investment, the accumulated depreciation, and the authorized depreciation rates for each type of plant. This will allow LUMA to present regulatory income statements which will form the basis of future rate reviews. Despite this balance sheet remediation receiving some funding in the FY2024 Certified Fiscal Plan, LUMA, PREPA and Genera will not be positioned to establish robust a Federal Energy Regulatory Commission (FERC) Uniform System of Accounts until FY2027.

MODIFICATION TO THE “TEST YEAR”

Regulation 8720 defines a “Test Year” as a “one-year historical period used to determine rate base, operating income, interest coverage ratio and debt service coverage ratio. The historical test year to be used in the formal application is the most recent 12-month period for which audited financial statements exist.”⁶² In the prior rate review, PREPA proposed to use FY2014 as a test year because it was the most recent 12-months for which audited information was available, and then adjusted that data to take into account: the Restructuring Support Agreement between PREPA and certain bondholders, internal PREPA restructuring, budgets for FY2015 and FY2016, the actual spending for those two (2) years, and actual spending for the beginning of FY2017.⁶³ The PREB found 2014 to be outdated and an inaccurate representation for predicting the FY2017 revenue requirement. In the absence of current audited data, the Energy Bureau relied on:

1. PREPA's unaudited operating results for the 12 months ended June 30th, 2016.
2. PREPA's approved budget for FY2017.
3. PREPA's business plan (May 2016).

It is LUMA's understanding that in the 2017 Rate Order, the Energy Bureau directed that future rate proceedings include the most recent fiscal year, adjusted for known and measurable changes from that

⁶⁰ See Title III case under PROMESA pending for PREPA in the Title III Court, captioned as *In re Financial Oversight & Management Board for Puerto Rico as representative of Puerto Rico Electric Power Authority*, Case No. 17-BK-4780-LTS (D.P.R.).

⁶¹ See Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

⁶² See Regulation 8720, known as “*New Regulation on Rate Filing Requirement for the Puerto Rico Electric Power Authority's First-Rate Case*” of March 28, 2016.

⁶³ See page 30 of Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001.

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year. As of the date of this filing, PREPA and its auditors are still working on the FY2022 audit. The most recent available audited financial statements are for FY2021 and were prepared according to Generally Accepted Accounting Principles (GAAP). However, even if the audited financials were available, LUMA, PREPA and Genera are in the process of making significant changes to transform Puerto Rico's electric system and as a result FY2022 will not be a good cost indicator for FY2025 and beyond. On this basis, it would be insufficient for ratemaking.

Accordingly, LUMA proposes to use a forward-looking test year; in other words, the test year, and the rate year⁶⁴ will be the same: FY2025. This approach has the advantage of setting rates to forecasted costs in a bottom-up approach consistent with the Energy Bureau's June 30th Order. The revenue requirement in the rate review will be based on the true costs of providing service in Puerto Rico in the test year.

This approach is not unusual in North America. A 2013 research paper by the National Regulatory Institute surveyed 21 state utility commissions and concluded that commissions using forward-looking test years in setting utility rates have had an overall positive experience with no intention to discard forward-looking test years in subsequent rate cases.⁶⁵

In addition, the pace at which the activities performed by the utility are transforming means that a well-developed future outlook is a more accurate depiction of spend profile than historical information. This was confirmed in a 2010 study prepared for the Edison Electric Institute. Although the study focused on investor-owned utilities, the essential conclusion was that shifting to a future test year is a prime strategy when cost increases are being stimulated by the need to rebuild and expand legacy infrastructure to meet environmental and public policy goals.⁶⁶ As described throughout this section, that is the situation LUMA, and the Energy Bureau find themselves in.

For these reasons, LUMA respectfully submits it will use FY2025 for the test year and the rate year.

3.3 Conclusion

For convenience and to facilitate review, LUMA submits as Appendix A, an Excel workbook containing detailed assessments of the requirements set out in Regulation 8720⁶⁷, which include: whether LUMA requires clarifications, whether LUMA has the capacity to fulfill the requirement, and whether meeting the requirement will depend on any other entity. For each of the requirements that LUMA proposes to include in Phase II and Phase III of the rate review, the current status is "under development." Finally, LUMA has provided updated descriptions for each requirement that more closely match the current PREPA operating structure and capabilities (Column F of Appendix A). These updated schedule descriptions are submitted as the applicable filing requirements for this rate review.

⁶⁴ The Energy Bureau considers the "rate year" the first 12-month period in which the new rates will be in effect.

⁶⁵ See K. Costello, National Regulatory Research Institute ["Alternative Rate Mechanisms and Their Compatibility with State Utility Commission Objectives"](#) at page 74, April 2014 (last seen September 21, 2023).

⁶⁶ See M.N. Lowry, D. Hovde, L. Getachew, M. Makos, Edison Electric Institute ["Forward Test Years for US Electric Utilities"](#) at page 1, August 2010, (last seen September 21, 2023)

⁶⁷ See Regulation 8720, known as *"New Regulation on Rate Filing Requirement for the Puerto Rico Electric Power Authority's First-Rate Case"* of March 28, 2016.

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This information provides requirement level detail supporting the information provided in Section 3 of this filing, in a format that is user friendly and allows for line-by-line analysis and explanation.

4.0 Report on Coordination

In this Section, LUMA will respond to item (e) of Part II.a.i of the June 30th Order⁶⁸.

LUMA requires input from Genera and PREPA to complete 12 of the 61 filing requirements in Regulation 8720⁶⁹. LUMA hosted a virtual workshop with Genera and PREPA on September 12, 2023, to discuss these requirements and establish key contacts to engage for future collaboration.

In Table 4-1 below, LUMA provides its preliminary witness list, with the caveat that the list is subject to change. Similar preliminary witness lists for Genera and PREPA are attached herewith as Appendices B and C, respectively.

Table 4-1. Preliminary Witness List - LUMA

Witness Name	Position	Organization	Issues Covered
Mario Hurtado	Chief Regulatory Officer	LUMA	<ul style="list-style-type: none"> • PREPA's Structure • Revenue Requirement
Corey Schneider	Chief Financial Officer	LUMA	<ul style="list-style-type: none"> • Revenue Requirement • Test Year
Joseline Estrada	Manager, Load Forecasting & Research	LUMA	<ul style="list-style-type: none"> • Load Forecast
Shay Bahramirad	Senior Vice President, Capital Programs	LUMA	<ul style="list-style-type: none"> • Non-Federally Funded Capital Expenditures
Donato Cortez	Vice President, Special Projects	LUMA	<ul style="list-style-type: none"> • Operating & Maintenance Expenditures
Sam Shannon	Associate Director	Guidehouse	<ul style="list-style-type: none"> • Rate Design • Cost of Service

5.0 Preliminary List of Schedules

In this Section, LUMA responds to items (d) and (f) of Part II.a.i. of the Energy Bureau's June 30th Order⁷⁰.

⁶⁸ See page 3 of Resolution and Order of June 30, 2023, Docket No. NEPR-AP-2023-0003.

⁶⁹ See Regulation 8720, known as "New Regulation on Rate Filing Requirement for the Puerto Rico Electric Power Authority's First-Rate Case" of March 28, 2016.

⁷⁰ See page 3 of Resolution and Order of June 30, 2023, Docket No. NEPR-AP-2023-0003.

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As detailed in Regulation 8720⁷¹, as well as Appendix A of this Report, LUMA intends to submit the following schedules in its Phase II Filing:

Table 5-1. Schedules LUMA Intends to Submit – Rate Review

Schedule
A-1: Determination of Base Rates Revenue Requirement
A-2: Test Year Result of Operations with Pro Forma Adjustments
A-5: Summary of Financial Position and Changes in Financial Position (Through End of Test Year and Projected Three Years)
A-6: Detail of Types of Costs Recovered through FCA/PPCA
C-1: Test Year Income Statement with Adjustments and Adjusted Results
D-4: Capital Lease detail
D-5: Long Term Purchased Power Agreements (test year and three subsequent years)
E-1: Balance Sheet (test year, two previous years, three subsequent years)
E-2: Income Statement (test year, two previous years, three subsequent years)
E-3: Statement of Changes in Financial Position (test year, two previous years, three subsequent years)
E-4: Statement of Changes in PREPA's Net Position (Deficit) (test year, two previous years, three subsequent years)
E-6: Departmental / Functional Operating Income Statements (test year, two previous years, three subsequent years)
E-7: Various Operating Statistics (i.e. debt service coverage, number of employees) (test year, two previous years, three subsequent years)
E-8: Detail of Contributions in Lieu of Taxes with each government client
E-9: Notes to the Financial Statements
F-1: Projected Income Statement at Present and Proposed Rates for three years
F-3: Projected Construction and Capital Expenditures for Three Years including alignment with IRP
F-4: Detailed Supporting Documentation for Projections
G-1: Fully Allocated Embedded Cost of Service at Present Rates
G-2: Fully Allocated Embedded Cost of Service at Proposed Rates
G-3: Revenue Allocation by Class at Proposed Rates
G-4: Expense Allocation by Class at Proposed Rates
G-5: Allocation Factors and Calculations
G-6: Optional: Alternative Methodologies for Calculating Embedded Cost of Service
H-1: Summary of Revenues by Class at Present and Proposed Rates
H-2: Revenue Requirement Analysis at Present and Proposed Rates (billing determinants)
H-3: Explanation of Changes between Current and Proposed Rates

⁷¹ See Regulation 8720, known as “New Regulation on Rate Filing Requirement for the Puerto Rico Electric Power Authority's First-Rate Case” of March 28, 2016.

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Schedule
H-4: Customer Bill Impact Analysis
H-5: Bill Count and Bill Frequency Analysis
H-6: Proof of Revenue
I-2: Audited Financial Statements
I-4: Business Plan for Rate Year
J-1: Proposed Tariffs
J-2: Current Tariffs Redlined
J-3: Plan of Rider Surcharge Administration for Each Rider
J-4: Energy Efficiency Rider
K-1: Description of Affiliates and Listing of Officers
L-2: Detail of Subsidies Included in Rates
M-1: Rate Design Proposal (including fixed charge, energy charge and where applicable, demand charge)
Pre-Filed Written Testimony for LUMA, Genera, and PREPA
Public Notice

5.1 PREPA Legacy Debt Charge and Pension Obligations

PREPA's Legacy Debt and Pension obligations are currently under a restructuring process pursuant to Title III of PROMESA.⁷² The FOMB for Puerto Rico, as PREPA's sole representative in PREPA's Title III case, is responsible for all aspects of PREPA's Title III proceedings, including developing and proposing a Plan of Adjustment (POA) to the Title III court. The FOMB filed its Third Amendment POA for PREPA on August 25, 2023. The Third Amended POA contains the FOMB's proposed approach for restructuring PREPA's Legacy Debt and Pension obligations, including certain economic terms related to the overall recovery available to different classes of creditors, annual debt service costs to PREPA and proposed rates to be added to PREPA customer bills. The Third Amended POA is subject to confirmation by the Title III court and, therefore, there is significant uncertainty as to its outcome, including its particular impact on PREPA and its customers.

Once a POA for PREPA is confirmed by the Title III court, LUMA understands that PREPA and/or the FOMB will develop and submit to the PREB – either within the current proceeding or separately – the materials, information, and documentation necessary and in support of any request for the calculation and inclusion of any charges in customer bills designed to collect revenues for payment of PREPA's Legacy Debt and Pension obligations.

Upon coordination with the FOMB, a preliminary list of witnesses, issues to be addressed by each witness and schedules to be submitted by PREPA and/or the FOMB is attached herewith as Appendix D.

⁷² See Title III case under PROMESA pending for PREPA in the Title III Court, captioned as *In re Financial Oversight & Management Board for Puerto Rico as representative of Puerto Rico Electric Power Authority*, Case No. 17-BK-4780-LTS (D.P.R.).

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Appendix A: Phase II Filing Schedules

Please refer to the attached Excel workbook.

Via electronic mail

Ms. Robin Kostek
Manager, Tariffs and Budget
LUMA Energy, LLC
Email: robin.kostek@lumapr.com

Re: NEPR-AP-2023-0003
June 30, 2023, Resolution and Order

Dear Ms. Kostek,

Pursuant to the requirements set forth under Section II (a)(i)(e)(ii) of the June 30, 2023, Resolution and Order ("June 30th Order") of the Puerto Rico Energy Bureau's ("PREB") Resolution and Order Initiating Rate Review, Case No.: NEPR-AP-2023-0003 Genera PR LLC hereby submits its preliminary and subject-to-change witness list and related issues and topics each witness will address in their testimony.

1. Brannen McElmurray – Chief Executive Officer
 - Testimony of overall rate case process, reasonability and prudence of the revenue requirements and associated costs, in accordance with from paragraph (C) of Section 2.17 of Regulation 8720.
2. Ron Lewis – Chief Financial Officer
 - Accounting, and
 - Finance-related topics.
3. Cesar A Figueroa Diez – Director of Fuel Management
 - Fuel costs,
 - Fuel procurement,
 - Fuel Optimization Plan,
 - Projected savings, and
 - Fuel cost recovery mechanisms.

4. Daniel Hernández Morales – Vice President of Operations

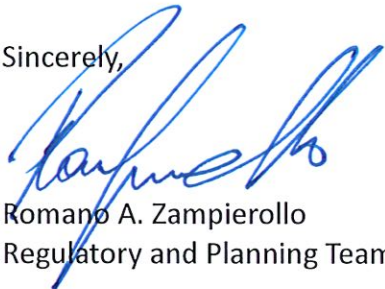
- Capital expenditures and projections,
- Construction, and
- Operations.

As stated above, this preliminary list is provided to comply with the June 30th Order. The officers named herein, and the related issues and topics associated with them, are all subject to change and provided on a conditional basis.

Should you have any questions or require further clarification, please do not hesitate to contact the undersigned, Romano Zampierollo, at rzampierollo@genera-pr.com.

Genera looks forward to continuing working with LUMA for the benefit of the people of Puerto Rico and in compliance with orders from PREB.

Sincerely,

A handwritten signature in blue ink, appearing to read "Romano A. Zampierollo".

Romano A. Zampierollo
Regulatory and Planning Team



GOVERNMENT OF PUERTO RICO
PUERTO RICO ELECTRIC POWER AUTHORITY

Executive Director | Josué A. Colón Ortiz | director_ejecutivo@prepa.com

September 28, 2023

BY ELECTRONIC MAIL
Robin.kostek@lumapr.com

Ms. Robin Kostek
Manager, Tariffs and Budget
LUMA Energy, LLC and
LUMA Energy ServCo, LLC (LUMA)
PO Box 363508
San Juan, Puerto Rico

Dear Ms. Kostek:

Re.: PREPA Submission of Witness List and Sponsored Testimony for 2024 Rate Review

The Puerto Rico Electric Power Authority ("PREPA") hereby submits to LUMA Energy, LLC ("LUMA"), PREPA's preliminary witness list, and the topics to which each witness will sponsor testimony for inclusion in LUMA's Phase I filing as it relates to the 2024 Rate Review. PREPA's preliminary witness list is as follows:

Witness	Title	Topics for Sponsored Testimony
Josué A. Colón Ortiz	PREPA Executive Director	<ul style="list-style-type: none">• Discuss and describe HoldCo and HydroCo structure (i.e. Org Chart) and operations.• Provide overview of PREPA responsibilities / functions, challenges, and proposed solutions / improvements.• Provide high level overview and support for budgetary requirements.
Jaime Umpierre Montalvo	PREPA Director of HydroCo and Operations	<ul style="list-style-type: none">• Support and justify revenue requirement for HydroCo.




Ms. Robin Kostek
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Witness	Title	Topics for Sponsored Testimony
Nelson Morales	PREPA Finance Director	Discuss and describe the following: <ul style="list-style-type: none"> • PREPA Finance operational and contractual responsibilities, including consolidated financial reporting and audits, finance department function needs for future bond issuances post-T3 (e.g., investor roadshows, disclosure requirements) • Justify revenue requirement for HoldCo budget. • Necessary funding for service accounts. • Necessary funding for pension obligations.
Lionel Santa Crispín	PREPA General Counsel	Discuss and describe other key PREPA areas and responsibilities with significant funding needs (e.g., legal).
Juan C. Rivera Burgos	PREPA IT/OT Administrator	
Lucas Porter	Ankura Senior Director	Provide overall expert support for discussions on budget, revenue requirements, and rate structure, among other.

Note that the list of witnesses above and topics remains subject to change in all respects.

PREPA team looks forward to continuing work with LUMA and Genera PR, LLC, representatives in the ongoing effort in advancing energy sector transformation initiatives in the most transparent, and responsible way possible for the benefit of the people of Puerto Rico.

Cordially,

 Josué A. Colón-Ortiz
 Executive Director

- c Lionel Santa Crispin, PREPA General Counsel, lionel.santa@prepa.pr.gov
 Nelson Morales, PREPA Finance Director, nelson.rivera@prepa.pr.gov
 Jaime Umpierre, PREPA HydroCo Director, jaime.umpierre@prepa.pr.gov
 Juan C. Rivera Burgos, PREPA IT/OT Administrator, juan.rivera@prepa.pr.gov



David A. Skeel Jr.
Chair

Members

Andrew G. Biggs
Arthur J. González
John E. Nixon
Betty A. Rosa

Robert F. Mujica Jr.
Executive Director

MEMORANDUM FOR:

Mr. Mario Hurtado
Chief Regulatory Officer
LUMA Energy

Ms. Rachel Ehrlich Albanese
Counsel for LUMA Energy
DLA Piper

Please be advised that the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), in relation to PREPA’s upcoming consolidated rate review proceeding, is hereby providing the following required information:

- I. Schedule List**
 - A. Legacy Debt Charge**
- II. Witness List & Topics List**

Mr. William Zarakas, a principal at The Brattle Group, an advisor for the Oversight Board, will provide pre-filed direct testimony regarding the proposed **Legacy Charge** rates and present supporting information.

The supporting information may include the proposed Legacy Charge rates by customer class; the customer bill impact analysis and other assumptions and modeling methodology considered in developing the Legacy Charge rates and supporting workpapers; and other information the Puerto Rico Energy Bureau may reasonably request in connection therewith.

The Oversight Board understands LUMA will work with PREPA and other operating entities to provide the witnesses and supporting information for all operational expenses and corresponding rate requests, including those relating to pension expenses, as owners of such information.

Date: 10/3/2023

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Recipient: Mr. Hurtado and Ms. Albanese,

Appendix D: FOMB Submittal