NEPR

Received:

Apr 24, 2024

10:19 PM

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

IN RE: GENERA PR LLC FUEL OPTIMIZATION PLAN	**CASE NO.:** NEPR-MI-2023-0004 **SUBJECT:** Motion to Submit First Set of Responses to Request for Information in Compliance with Resolution and Order Dated April 15, 2024

MOTION TO SUBMIT FIRST SET OF RESPONSES TO REQUEST FOR INFORMATION IN COMPLIANCE WITH RESOLUTION AND ORDER DATED APRIL 15, 2024

TO THE HONORABLE PUERTO RICO ENERGY BUREAU:

COMES NOW GENERA PR LLC ("Genera"), as agent of the Puerto Rico Electric Power Authority ("PREPA"),[1] through its counsels of record, and respectfully submits and prays as follows:

1. On February 21, 2024, Genera filed a document titled *Motion Submitting Revision to the Fuel Optimization Plan in Compliance with Resolution and Order Dated January 10, 2024* ("February 21st Motion"). In the February 21st Motion, Genera included as Exhibit A a revised Fuel Optimization Plan, and as Exhibit B, the letter from the P3 Authority dated February 16, 2024, which purportedly approved the January 10th Motion Fuel Optimization Plan, subject to several comments listed therein ("P3 Authority Letter").

2. Additionally, on February 21, 2024, Genera presented before the Energy Bureau a document regarding a *Request for Leave to Operate Palo Seco MP and Mayagüez CT with Natural*

[1] Pursuant to the *Puerto Rico Thermal Generation Facilities Operation and Maintenance Agreement* ("LGA OMA"), dated January 24, 2023, executed by and among PREPA, Genera, and the Puerto Rico Public-Private Partnerships Authority ("P3 Authority"), Genera is the sole operator and administrator of the Legacy Generation Assets (as defined in the LGA OMA) and the sole entity authorized to represent PREPA before the Energy Bureau with respect to any matter related to the performance of any of the O&M Services provided by Genera under the LGA OMA.

Gas as the Primary Fuel ("February 21st Fuel Swap Request"). Through the February 21st Fuel Swap Request, Genera sought authorization from the Energy Bureau to operate the Mayagüez CT (combustion turbines) and Palo Seco's MP (mobile pack) units using natural gas as fuel.

3. On April 15, 2024, the Energy Bureau issued a Resolution and Order titled *Requirement of Information, Technical Conference, and Solicitation of Stakeholder Comments Including Evaluation of Fuel Change for Mayagüez Combustion Turbines and Palo Seco Mobile Packs* ("April 15th Resolution"). Pertinent to this motion, and in light of Genera's revised Fuel Optimization Plan submitted with the February 21st Motion, the Energy Bureau ordered Genera to respond, on or before May 10, 2024, no later than 12:00 PM, to the Requirements of Information ("ROI") in Attachment A and Attachment B to the April 15th Resolution.

4. In compliance with the April 15th Resolution, Genera hereby respectfully submits its responses to the ROI outlined in Attachment A of the April 15th Resolution, which addresses the detailed aspects of Genera's Fuel Optimization Plan Initiatives, including clarification on cost management, implementation specifics, and regulatory compliance.

5. Genera will submit the responses to the ROI in Attachment B in accordance with the orders stated in the April 15th Resolution.

WHEREFORE, Genera respectfully requests that the Energy Bureau **take notice** of the above for all purposes and **deem** Genera to be in partial compliance with the April 15th Resolution as it pertains to the submittal of responses to Attachment A of the April 15th Resolution.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 24th day of April 2024.

ECIJA SBGB
PO Box 363068
San Juan, Puerto Rico 00920
Tel. (787) 300.3200

Fax (787) 300.3208

/s/ Jorge Fernández-Reboredo
Jorge Fernández-Reboredo
fjfr@sbgblaw.com
TSPR 9,669

/s/ Alejandro López-Rodríguez
Alejandro López-Rodríguez
alopez@sbgblaw.com
TSPR 22,996

CERTIFICATE OF SERVICE

We hereby certify that a true and accurate copy of this motion was filed with the Office of the Clerk of the Energy Bureau using its Electronic Filing System.

In San Juan, Puerto Rico, this 24th day of April 2024

/s/ Alejandro López Rodríguez
Alejandro López Rodríguez

Exhibit A

Response to Requirement of Information
Specified in Attachment A of the April 15th Resolution.

Docket Number: NEPR-MI-2023-0004
In Re: Genera PR LLC, Fuel Optimization Plan
Re: Requirement of Information, Technical Conference, and Solicitation of Stakeholder Comments Including Evaluation of Fuel Change for Mayaguez Combustion Turbines and Palo Seco Mobile Packs

---

Attachment A

Initiative 1 (Reduce the Fixed Premium for Ultra Low Sulfur Diesel "ULSD")

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #1(a)

1. On GPR-PREB ORDER-10.19.2023 #10, Genera responded that "Genera anticipates receiving a payment for this initiative for the life of the Genera contract once implemented." The cost savings calculation for the Actual Fuel Savings for this initiative will serve as the basis for Genera's annual Actual Fuel Savings calculations and the resulting Fuel Optimization Payment. The "methodology will compare the then-current fiscal year ULSD premium (FY2023 contract) to the new negotiated number for FY2024 based upon the then-annualized volume of ULSD consumption across the generation system while the supplier's contract is in effect (estimated date is November 17, 2023, until November 16, 2024)."

    a. What will be the basis for the "current fiscal year ULSD premium" used to calculate this initiative in the subsequent year?

Response:

The premium applicable to FY2025 will be used to compare against the FY2024 (existing) premium.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #1(b)

b. If, in future years, it is determined that the "new negotiated number" for the upcoming year exceeds the current/baseline fiscal year's ULSD premium, will the Optimization Payment include a financial penalty for the increase in the fixed premium for ULSD?

Response:

No. The Fuel Optimization Payment will not include a financial penalty for the increase in the fixed premium for ULSD.

Initiative 2 (Fuel Reliability Enhancements for USLD)

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #2(a)

2. On GPR-PREB ORDER - 10.19.2023 #12(f), Genera responded that "This initiative of increasing the minimum stock reserve of an additional 50,000 barrels for the relevant plants (or implementation of it) will not have a one-time (or other) adverse impact to the monthly deposits into the Genco Fuel Account."

   According to the February 21 FOP, the changes the ULSD supplier needed to implement "include (1) an increase in the minimum stock reserve to the amount of an additional 50,000 barrels of working capacity for Genera to call on in times of estimated heavier-than-normal ULSD demand and 2) a requirement that the supplier uses a minimum size barge (45,000 - 50,000 barrels) to optimize marine deliveries into all plants capable of receiving ULSD via water"

   a. What entity pays for the cost of increasing the on-time "minimum stock reserve to the amount additional 50,000 barrels of working capacity" outlined in item (1)?

Response:

Any and all costs associated with maintaining contractual mandatory minimum stock reserves are borne by the supplier.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #2(b)

b. Does the requirement of the supplier using a minimum size barge (45,000 - 50,000 barrels) to optimize marine deliveries into all plants have an adverse impact to the fixed premium ULSD adder?

Response:

This barge size is typical in the industry, so Genera does not believe there is an adverse impact on the fixed premium ULSD adder. The initiative aims to prevent any supplier from relying on smaller-size barges that may be available from time to time in the market but that does not allow for the sufficient volume to keep minimum inventory levels at the LGA during periods of high demand. This situation was experienced in the prior year's supply agreements.

Initiative 3 (Change of Fuel Oil Escalator and Reduction of Fuel Oil Adder)

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #3

3. In GPR-PREB ORDER - 10.19.2023 #17, Genera responded for this initiative that "Future year savings will be based upon previous year. For example, FY2026 will be compared to FY2025."

a. If, in future years, the calculation of the estimated cost savings for this initiative turns out to be an actual cost increase (rather than a savings) for the upcoming year, will the Fuel Optimization Payment Report include a corresponding financial penalty for the increased fuel cost?

Response:

No.

Initiative 4 (Spot Purchase Option for Fuel Oil and ULSD)

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #4

4. Does the proposed method account for any changes in the fixed premium and the applicable taxes for the newly purchased fuel compared to the contracted fuel? If so, how?

Response:

Yes. The goal of this initiative is to buy spot volumes under an identical price formula as that of the term supply agreement to facilitate a direct comparison of the applicable fixed premium and to allow for a straightforward calculation of the savings by comparing the lower spot premium to the higher term premium. Applicable taxes are in accordance with federal and local tax provisions. Therefore, both the term and the spot purchases would be made under identical tax scenarios. Therefore, no changes in applicable taxes would be allowed.

Initiative 5 (Price Risk Management)

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #5(a)

5. In GPR-PREB ORDER-10.19.2023 #32, Genera states that the fuel budget is prepared by the T&D System Operator.

a. What involvement does Genera have in this process?

Response:

For the Fiscal Year annual budget, Genera provides the T&D Operator with the next Fiscal Year fuel price forecast, any projected fuel shortage over any relevant period, and the annual Unit Planned Maintenance Program. LUMA consolidates the Fuel Budget with Genera's Operating Budget and budgets presented by other operators of the PREPA assets and submits them to P3A, FOMB, and PREB for evaluation and approval. This is made in accordance with LUMA T&D OMA, the Genera OMA and the PREPA-GenCo-HydroCo Operating Agreement.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #5(b)

b. Why should Genera get benefits from possible errors in the generation/ creation of the Fuel Budget that might prove beneficial to a risk management strategy and deliver an estimated cost savings when compared the budgeted price per barrel?

Response:

The development of the fuel budget is a multi-disciplinary exercise that includes representatives from fuel, planning, operations, finance and regulatory departments from both the LGA and the T&D System operators. Thus, having a final version with any "possible errors" is highly unlikely after such degree of involvement and professionalism. Furthermore, the intention of any Price Risk Management program is not to benefit from any "possible errors" in the creation of the fuel budget but rather "manage" the inherent and inevitable changes in market fuel prices and operational conditions that may and will arise from time to time in (a) the ordinary course of business; and (b) unexpected geo-political or macro-economic market conditions that will adversely affect any well-conceived fuel budget. Genera believes that implementing a Price Risk Management program may result in benefits to the ratepayer in the medium and long term.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #5(c)

c. Explain the work done by Genera related to the LGA-OMA Section 7.3(f) (O&M Budgets - Quarterly Adjustments to Fuel Budget) and Annex IX Section V-B.4 compared to the "fuel budget [as] prepared by the T&D System Operator"?

Response:

Genera is working with P3A to agree on a process to complete Sections 7.3(f) requirements. Nevertheless, the information to prepare this budget is similar to the information submitted to LUMA for the calculation of the FCA quarterly adjustment, which includes the quarterly fuel price forecast, any projected fuel shortage and updated Unit Planned Maintenance Schedule and actual expenses. Genera will make all the invoices available to P3A in accordance with Section 7.3(f).

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #6

6. What is the frequency on which the fuel budget is completed? Provide the contract section that delineates this in the LGA-OMA.

Response:

Fuel Budget is first created for each fiscal year and then updated quarterly pursuant to Section 7.3(f) of the GOMA.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #7

7. The "main methodology for estimating savings of any particular previous mentioned price risk management strategies will be to compare the budgeted price per barrel and the price per MBTU forecasted for fuel purchases to the actual hedged and fixed price per barrel and price per MBTU realized for a given time frame."

a. A fuel budget is done with all available information at the moment. It is understood from GPR-PREB ORDER-10.19.223 #30 & #31, that the yearly fuel budget is done once, and it does not get modified within the fiscal year based on future price movements. If the hedge strategy is executed at a time later than the date the fuel budget was done (e.g., one month later), why should Genera receive an incentive for using 1 month of better information than what it was available when the fuel budget was generated?

Response:

Any Price Risk Management Plan will be based on the careful implementation of one or more strategies and the disciplined execution of each strategy within its intended limits, objectives and allowances. Any business dealing with commodity prices inevitably faces some level of price risk, given price volatility and changes in market conditions. Managing this inherent "price risk" is about using "updated and changing" information and not necessarily "better" information to mitigate any adverse effect of the underlying risk.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #7(b)

b. Will Genera incur a penalty each time the price risk strategies result in overall prices that are detrimental to the ratepayer, compared to a scenario without such strategies?

Response:

Genera will not incur a penalty each time the price risk strategies result in overall prices that are detrimental to the ratepayer, compared to a scenario without such strategies.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #8(a)

8. According to the February 21 FOP, the "Total cost savings estimated for price risk management initiatives are estimated to be between $5 million and $20 million per year."

a. Does this cost include the cost of executing a future, swap, option, or any of the mentioned financial or physical price risk management instruments in the February 21 FOP?

Response:

Yes.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #8(b)

b. Should Genera hire/dedicate staff or contractors to provide the specialized knowledge to decide/execute on mentioned financial or physical price risk management instruments in the February 21 FOP?

Response:

Genera will dedicate knowledgeable and dedicated in-house and/or contracted staff to conceive, implement and execute each strategy under the Price Risk Management Plan.

Initiative 6 (Payment Terms Management)

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #9(a)

9. On GPR-PREB ORDER- 10.19.2023 #52, Genera responded that the benefit of this initiative will be part of the Fuel Optimization Payment for "Each year in which this initiative is successfully implemented."47

a. Does Genera have examples from other jurisdictions where a savings claim from implementing a payment term change initiative is fixed for the life of the contract, once the ratepayers fund the one-time economic impact? Does this impact include the additional funds required to transition from 60-day to 30-day payment terms?

Response:

Genera does not have examples from other jurisdictions.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #9(b)

b. If the payment terms are extended in future years (from 30 to 60 or 90 days), will the actual cost of the increase in the payment term price escalator be incorporated into the Fuel Optimization Payment Report and reflect the corresponding financial penalty for the increase in the payment term escalator?

Response:

No.

Initiative 7 (Fuel Efficiency Projects)

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #10

10. In the February 21 FOP, Genera states that "the detailed methodologies and timeline used to determine estimated savings for fuel efficiency projects are outlined in the Genera O&M - Generation Equipment Performance Test Procedure" Specifically in a motion titled *Motion to Submit Revised Annual Performance Test Procedure in Compliance with Resolution and Order Dated* August29, 2023 (Case no. NEPR-MI-2023-0003).
    a. Expand on the summary of the procedures for savings noted in the February 21 FOP.
    b. If, in a future year, the actual thermal efficiency of the unit does not improve and causes an estimated cost to the ratepayers, will the Fuel Optimization Payment Report reflect the corresponding financial penalty?
    c. Provide the detailed calculation process used for the examples noted in section d. of the initiative in the February 21 FOP:
        i. Bringing into service heaters 6 and 7 at Costa Sur 5 & 6 should generate about $500K per month in fuel savings at each unit based on a 311 MW load and $11.5/MMBTU cost at Costa Sur units 5 and 6, or 12 million dollars annually for both units.
        ii. The project at Costa Sur 5 & 6 that includes the use of variable frequency drives in the boiler and feedwater pumps. The additional estimated fuel savings under this initiative is estimated to be $16,477,244 per year.
        iii. The project at Costa Sur 5 & 6 of the repairs the turbines to greatly improve the efficiency of the units. As an example, correcting the steam path of turbines 5 and 6 of Costa Sur of 410 MW each brings fuel savings of $17,606,280 per year in each unit.

d. For Part c. of this question, provide the investment (broken out federally funded and non-federally funded) incurred to date and estimated to be incurred for achieving each listed example.

Response:

This initiative is not part of the most recent version of the FOP. The Fuel Efficiency Initiatives will be presented in future proposed revisions to the FOP.

Initiative 8 (Fuel Swap and Fuel Conversion Initiatives)

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #11

11. In the February 21 FOP, Genera states the "estimated cost savings from a ULSD to LNG fuel swap initiative at the 220 MW LGA in Mayaguez is around $75 million in annual savings." Genera explains how the estimation was done: using estimations of capacity factor and four-year forward delivered price average. Genera also states that the "estimated savings from each conversion project will differ depending upon capital investment, time to market, supply agreements and general market conditions present during the useful life of the converted facility."

    Provide a sample Fuel Optimization Report, pursuant to Annex II, Section III (B)(6) of the GOMA, for this Initiative. Include the worksheet showing how the Actual Fuel Savings and Fuel Optimization Payment will be calculated for each conversion/modernization and the source(s) of information to be used for the calculation. Include and label the assumed amounts and treatment of federally funded and non-federally funded capital investments needed for each conversion/modernization.

Response:

Included herein is an excerpt of a sample Fuel Optimization Report showing the savings calculations for Initiative 8 (Initiative 8.A: Fuel Swap Initiative (Mayaguez)) for 3QFY24 (i.e. Jan-Feb-Mar 2024). See **GPR – PREB – NEPRMI20230004 – 20240415 - ATTA #12.** The sample report shows actual fuel consumption and generation for the Mayaguez CT, together with the actual diesel cost for the fuel consumed during the period. The calculated cost for the "theoretical" gas consumed is based on the current *Natural Gas Supply and Purchase Agreement for San Juan, Palo Seco and Other Generation Stations*. The net savings assume a hypothetical Capital Investment of $1 for illustration purposes only.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #12

12. Changes in fuels will change how legacy generation facilities are dispatched. How does Genera propose to account for changes in dispatch when calculating fuel savings?

Response:

The decision on the dispatch of the units is made by the T&D System Operator. Genera presents the T&D System Operator with the units that are available (not forced out), their environmental constraints, projected fuel costs, availability of units to regulate, and fuel availability. After this information is presented, it is Genera's understanding that the T&D System Operator evaluates it, as well as information submitted by other independent power producers and the necessities to meet the load. The T&D System Operator also evaluates any request that Genera makes for planned outages for maintenance or repairs. The T&D System Operator then prepares a model that produces recommendations on economic dispatch and its Genera's understanding that it is implemented unless anything unexpected occurs. Genera understands that the main driver of dispatch decisions is fuel costs. Thus, Genera cannot, and does not, direct the sequence of dispatch. This is done solely by the T&D System Operator.

Genera's proposal to account for savings for fuel swaps is the comparison between energy cost (price per MMBtu) against the fuel used as part of the fuel swap (natural gas) and the cost of the fuel displaced by the fuel swap (ULSD) at the moment the new primary fuel is used.

Initiative 9 (Asset Supplementing Initiatives)

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #13 (a)

13. In the February 21 FOP, Genera states for Initiative 8 that "**All** fuel conversions and modernizations are subject to PREB approval." This statement (or equivalent) was not included in Initiative 9.

a. Does Genera plan to seek Energy Bureau approval for projects under this Initiative? If not, why not?

Response:

Yes. Genera plans to seek the approval of Energy Buraus for projects under this initiative.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #13 (b)

b. What is Genera's suggested protocol and plan of action for the execution of each project to be proposed to be subject to this Initiative?

Response:

The proposed protocol and plan of action for fuel swaps and conversions are as follows:

1. Prepare a savings model for fuel swaps and conversions of all the units in the LGA
    a. In accordance with Act 17-2019, all models will simulate:
        i. Dual-fuel capability
        ii. Main fuel is natural gas
2. Submit a Petition to PREB for leave to begin the fuel swap or the conversion project
    a. Petition will be accompanied by the following:
        i. Savings model
        ii. Applicable laws and regulations
        iii. Analysis of IRP and PR energy policy alignment
        iv. Explanation of source of funds
            1. Non-federally funded
                a. Included in applicable Operating Budget
            2. Federally funded
            3. Operator or designated Affiliate funded
3. Submit petitions to amend necessary permits (*i.e.,* environmental)

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #14

14. The February 21 FOP states that the "substituted fuel cost methodology will compare the cost of the lower fuel cost (i.e., LNG) to the next higher fuel cost substituted by the new generation (i.e., fuel oil or diesel, depending on unit dispatch and availability." Describe how Genera proposes to identify and calculate "the next higher fuel cost substituted by the new generation."

Response:

The intention of the Fuel Supplementing Initiative is to add generation capacity based on natural gas as the primary fuel to "displaced" generation from units running on higher-priced fuel. Most, if not all, of this substituted fuel will be diesel as (a) the supplemental assets will consist of dual-fuel capable gas combustion turbines not intended to be utilized as continue baseload units and (b) the in-place economic dispatch protocol followed by the T&D System Operator will generally decommit[1] any operating/available diesel unit before any baseload units operating on fuel oil. In certain extreme, low-demand periods, one or more fuel oil baseload units may be decommitted in favor of any gas supplemental units, in which case the cost of fuel oil will be used for calculating the baseline. In summary, Genera will constantly monitor the operation of any supplemental unit and its fuel consumption and compare against the displaced fuel over every 24-hour period.

[1] The term "decommit" refers to the act of withdrawing a unit of energy that was previously committed to dispatch. When an energy unit is committed, it has been scheduled to supply or generate energy at a specific time. However, unforeseen situations or changes in demand may require the removal of that commitment. In such cases, the unit is "decommitted," and its dispatch is either canceled or adjusted.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #15

15. Describe how the proposed savings calculation methodology will account for the leasing cost of the units.

Response:

The cost of the leasing will be part of the cost and deducted from the savings calculation, as it is the case in other initiatives where a capital cost is required to implement such an initiative.

GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #16

16. Describe the capital investments required to undertake this initiative, the funding source envisioned for these capital investments, and how these capital costs are incorporated in the savings methodology.

Response:

As mentioned in GPR – PREB – NEPRMI20230004 – 20240415 – ATTA #15 above, any capital cost required for this initiative will be deducted from the calculated savings.