

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

NEPR

Received:

Jun 14, 2024

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IN RE: REVIEW OF LUMA’S INITIAL
BUDGETS

CASE NO.: NEPR-MI-2021-0004

SUBJECT: Budget Reallocation

**NOTICE OF REALLOCATION OF FUNDS WITHIN THE NON-FEDERALLY
FUNDED CAPITAL BUDGET**

TO THE HONORABLE PUERTO RICO ENERGY BUREAU:

COME NOW LUMA Energy, LLC (“ManagementCo”), and **LUMA Energy ServCo, LLC** (“ServCo”), (jointly referred to as “LUMA”), and respectfully state and request the following:

1. On May 16, 2023, LUMA submitted to this Puerto Rico Energy Bureau (“Energy Bureau”) the proposed System Budgets for the Puerto Rico Energy System (“the System”), which are comprised of the Proposed T&D Budgets, developed by LUMA; the budget proposal for the legacy thermal generation units (the “GenCo Budget”), the budget proposal for the hydroelectric generating units and the public irrigation facilities (the “HydroCo Budget”) and the budget proposal for PREPA and its subsidiaries other than GenCo and HydroCo (the, “HoldCo Budget”) (collectively referred to as the “System Annual Budgets”).

2. On June 25, 2023, this Energy Bureau issued a Resolution and Order (the “June 25th Order”) whereby it approved the System Annual Budgets, subject to certain amendments to such budgets, including a reduction to the Proposed T&D Budgets.

3. On July 10, 2023, LUMA submitted a *Motion for Partial Reconsideration of Resolution and Order of June 25, 2023 on Fiscal Year 2024 System Budgets* requesting that the

Energy Bureau reconsider its determination to reduce LUMA's Proposed T&D Budgets and restore the full amount of funding proposed by LUMA for Fiscal Year 2024.

4. On September 22, 2023, the Energy Bureau issued a Resolution and Order (the "September 22nd Order") granting, in part, LUMA's Motion for Reconsideration and reversing the reductions to LUMA's Proposed T&D Budget established in the June 25th Order.

5. On March 28, 2024, LUMA submitted to this Energy Bureau, an amendment of the FY2024 Budgets, which budget amendment was also submitted to the P3A ("March 2024 Budget Amendment"). The March 2024 Budget Amendment sought to reallocate \$36 million from LUMA's Operating Budget towards LUMA's Non-Federally Funded Capital Budget. *See Motion Submitting Amendment to FY2024 T&D Budget, Exhibit 1.*

6. The March 2024 Budget Amendment also included a notice of a reallocation of funds within the Operating Budget to increase the Vegetation Management Budget ("VM Budget") by \$6 million. LUMA explained that said reallocation was made pursuant to LUMA's contractual right under Section 7.3(c) of T&D OMA, to reallocate funds within its Operating Budget to address changed operational or commercial circumstances or new legal or regulatory requirements, given that the reallocation within the Operating Budget did not exceed five percent (5%) of said Budget.

7. The March 2024 Budget Amendment did not result in an increase or change to customer rates.

8. On May 6, 2024, this Energy Bureau issued a Resolution and Order whereby it approved the proposed reallocation of \$36 million from the Operating Budget to the Capital Budget. *See May 6th Order, p. 3.* Regarding the notice of reallocation of \$6 million to increase spending for VM, the Energy Bureau granted LUMA ten (10) days, up to May 16, 2024, to explain how it intended to reallocate \$6 million within the Operating Budget to increase the VM Budget.

See id. This Energy Bureau also stated that, provided that the reallocation does not exceed 5% of the specific budget component, LUMA is not precluded from moving forward with the reallocation. *Id.*, pp. 3-4.

9. In a filing dated May 16, 2024, LUMA submitted its response in attention to the May 6th Order. LUMA also requested clarification of the May 6th Order in as much as this Energy Bureau interpreted LUMA’s flexibility to reallocate funds within an approved budget under Section 7.3 (c) of the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement of June 22, 2020 (“T&D OMA”), to apply to budget lines or components. Said Motion is pending adjudication by this Energy Bureau.

10. LUMA hereby provides notice of a reallocation of \$6.4 million within the FY2024 Non-Federally Funded Capital Budget. *See* Exhibit 1. The reallocation is made pursuant to Section 7.3 (c) of the T&D OMA which grants LUMA “complete flexibility, subject to compliance with the Contract Standards and prior consultation with, but not subject to approval by, Administrator or PREB, to (i) reallocate, . . . expenditures within the approved Operating Budget, . . . in order to address changed operational or commercial circumstances or new legal or regulatory requirements and . . . in such a manner that the reallocations do not exceed five percent (5%) of the Budget in which such reallocations are made or the expenditures are not postponed for a period longer than one (1) year.”

11. As Exhibit 1 of this Motion shows, the reallocation is from the Substation Rebuild Program of the Substations Portfolio to the Distribution Pole & Conductor Repair Program of the Distribution Portfolio to cover the costs of replacing poles that have been identified as safety concerns. *See* Exhibit 1, p. 2.

12. The \$6.4 million to be reallocated were initially earmarked to cover a portion of the costs of acquiring, transporting, and installing a transformer for the Bayamón Transmission Center. Thanks to LUMA's efforts to secure and maximize federal funds, those costs are now eligible for reimbursement by the Federal Emergency Management Agency ("FEMA")¹. *See* Exhibit 1, p.p. 2 and 3.

13. As part of LUMA's financial reporting processes, management recently determined that it is prudent to reallocate the \$6.4 million to address the needs of the T&D System in connection with pole replacements which is a critical activity that benefits customers and ensures reliability.

14. LUMA is filing this notice to the Energy Bureau after determining that the \$6.4 million that are now available, should be invested in ongoing pole replacement efforts. This notice is made in good faith, in furtherance of the orders by this Energy Bureau, and to keep this Energy Bureau timely apprised of LUMA's efforts to dynamically address the needs of the T&D System and allocate funds prudently for critical activities, including at the end of Fiscal Year.

15. The budget reallocation does not exceed 5% of the Non-Federally Funded Capital Budget and will not result in any increase or change to customer rates. LUMA's management has determined that the Substation Rebuild Program from which the reallocation is made, will remain funded in FY2024. LUMA's aggregate FY2024 T&D Budget of \$651 million remains unchanged and consistent with the Energy Bureau's September 22nd Order.

¹ LUMA will submit separately to this Energy Bureau for approval, in Case No. NEPR-MI-2021-0002, an Initial Scope of Work for the Bayamón Transmission Center that includes, among others, the costs of acquiring the transformer.

WHEREFORE, LUMA respectfully requests that this honorable Energy Bureau **take notice** of the aforementioned and **make** the determinations it deems necessary to enable LUMA to continue its work to maintain and operate Puerto Rico's T&D System.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, on June 14, 2024.

I HEREBY CERTIFY that this motion was filed using the electronic filing system of this Energy Bureau and that electronic copies of this motion will be notified to the Puerto Rico Electric Power Authority, through its attorneys of record González & Martínez, Mirelis Valle-Cancel, mvalle@gmlex.net; and Alexis G. Rivera Medina, arivera@gmlex.net; and to Genera PR, LLC, through: Jorge Fernández-Reboredo, jfr@sbgblaw.com, Alejandro López Rodríguez, alopez@sbgblaw.com; legal@genera-pr.com; and regulatory@genera-pr.com.



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Exhibit 1

Excel schedules to be submitted via email



Annual Budgets

FY2024 Budget Reallocation

June 14, 2024

Annual Budgets

Introductory Statement

Pursuant to the Resolution and Order dated May 8, 2023, LUMA filed its Transmission & Distribution (T&D) Budget for Fiscal Year 2024 (FY2024) to the Puerto Rico Energy Bureau (PREB) on May 16, 2023. The PREB approved the T&D Budget as proposed by LUMA through Resolution and Order on September 22, 2023.

Over the course of FY2024 and since June 1, 2021, the men and women of LUMA have made real and measurable progress in improving Puerto Rico's electric system while operating within budget and with fiscal responsibility. LUMA's efforts to maximize its limited resources to address customer needs and rebuild Puerto Rico's T&D system are reflected in the March 28, 2024, Budget Amendment, which showcases LUMA's meticulous efforts to efficiently manage its resources for the benefit of its customers and in furtherance of a more reliable and resilient electric system. On that occasion, LUMA strategically redistributed \$36 million to increase LUMA's Non-Federally Funded Capital Budget and continue to fund important capital investments in the T&D system. This included funds to improve reliability in the T&D system by replacing high-voltage and distribution equipment, acquiring and commissioning a 230/115 kV transformer for the Bayamón Transmission Center, and purchasing vehicles to reduce future operating costs.

In line with these efforts, LUMA notifies PREB of a Budget Reallocation of \$6.4 million from the Substation Portfolio to the Distribution Portfolio within the Non-Federally Funded Capital Budget. This reallocation leverages LUMA's success in maximizing available federal funds, particularly by ensuring that costs associated with the acquisition, transportation, and installation of a 230/115 kV transformer at the Bayamón Transmission Center are eligible for reimbursement by FEMA. LUMA's diligence in this case has resulted in additional resources becoming available for other urgent activities, such as pole replacement—an essential task for any utility. Over the course of FY2024, LUMA has proactively worked to replace damaged poles that pose safety risks to our customers, crews, and property or that jeopardize grid infrastructure integrity, an activity that is consistent with our overall objectives of enhancing system reliability, preventing outages, and prioritizing customer safety.

LUMA is providing notice of this Budget Reallocation pursuant to and in compliance with Section 7.3(c) of the T&D Operation and Maintenance Agreement (T&D OMA). As illustrated in Schedule 2.2 below, the amount reallocated from the Substation Portfolio into the Distribution Portfolio does not exceed 5% of the Non-Federally Funded Capital Budget.

This Budget Reallocation is the result of rigorous analysis, cross-functional review, and leadership alignment on the most critical initiatives for the remaining FY2024. After a thorough review, LUMA's management has concluded that the amounts allocated to the Substation Portfolio budget after accounting for the Budget Reallocation discussed herein are adequate and appropriate for LUMA to meet its FY2024 objectives.

Finally, this Budget Reallocation will not increase customer rates or LUMA's aggregate T&D Pass-Through Expenditures. Therefore, both LUMA's Non-Federally Funded Capital Budget and LUMA's overall FY2024 Budget remain consistent with budgets approved by the Energy Bureau through Resolution and Order on September 22, 2023.

Annual Budgets

All financial data and forecasts in the Budget Reallocation are subject to the limitations of LUMA's System Remediation Plan.

1.0 Reallocation of Funds Within the T&D Capital Budget – Non-Federally Funded Improvement Portfolios

Below, we describe the adjustments to reallocate funds *between* Improvement Portfolios within LUMA's Capital Budget–Non-Federally Funded. Please refer to the schedules in Section 2.0 for additional details.

1.1 Capital Budget – Non-Federally Funded Improvement Portfolios

Distribution Portfolio

- **Distribution Pole & Conductor Repair** – The reallocation of \$6.4 million to the Distribution Pole & Conductor Repair is made in response to LUMA's proactive replacement of damaged distribution poles identified as posing a safety risk to customers, crews, and property, that jeopardize the safety and reliability of the electric infrastructure or that are necessary to maintain service reliability. The amount of pole replacement LUMA deemed necessary based on the criteria described above was higher than anticipated at the beginning of FY2024. LUMA conducted an extensive assessment to determine whether federal funding would be available to cover all or a portion of the costs associated with this work. However, upon thorough examination, LUMA's management concluded that such work is not eligible for federal reimbursement.

Substations Portfolio

- **Substation Rebuilds program** – The reallocation of \$6.4 million from the Substation Rebuild program is driven by LUMA successfully identifying federal funding that would be made available to cover costs associated with the acquisition, transportation, and installation of the 230/115 kV Transformer at the Bayamón Transmission Center. Given the critical and urgent need for this transformer, LUMA originally included the costs associated with this initiative (a total of \$16.7 million) as part of the Budget Amendment filed by LUMA on March 28, 2024, and approved by the Energy Bureau on May 6, 2024. LUMA's efforts to maximize and identify all available federal funding sources led to a portion of those costs being eligible for reimbursement by FEMA. This allowed previously allocated monies within the Substation Portfolio to be reallocated to support other critical activities such as, in this case, distribution pole replacements.

Annual Budgets

2.0 Schedules

2.1 Budget Summary

(In \$000s)

		FY2024			
		<i>Proposed Reallocation</i>	<i>Approved Budget³</i>	Variance (\$)	Variance (%)
Transmission & Distribution^{1,2}	<i>Reference</i>				
GridCo Operating Expenditures		523,492	523,492	-	-
GridCo Non-Federally Funded Capital Expenditures	<i>Schedule 2.2</i>	127,936	127,936	-	-
Energy Efficiency Programs		11,531	11,531	-	-
Total T&D Operating and Non-Federally Funded Capital Budget		\$ 662,959	\$ 662,959	\$ -	-
Federally Funded Capital Expenditures	<i>Schedule 2.2</i>	802,587	802,587	-	-
Generation					
GenCo Operating and Capital Expenditures		319,244	319,244	-	-
HydroCo Operating and Capital Expenditures		13,645	13,645	-	-
Total Generation Budget		\$ 332,889	\$ 332,889	\$ -	-
HoldCo Operating and Capital Expenditures		30,943	30,943		
Other					
LUMA Fee		129,162	129,162	-	-
Genera PR Fee		22,500	22,500	-	-
Bad Debts		59,450	59,450	-	-
Bankruptcy and Advisor Costs		62,972	62,972	-	-
Federal Cost Share		30,660	30,660	-	-
Total Other		\$ 304,743	\$ 304,743	\$ -	-

Notes:

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

² Figures may not add due to rounding.

³ Figures reflect the FY2024 Budget Amendment approved by the PREB on May 6, 2024.

Annual Budgets

2.2 Improvement Portfolios - Total Capital Expenditures

(In \$000s)

	FY2024				=	FY2024				+	FY2024			
	Proposed Reallocation	Approved Budget ³	Variance (\$)	Variance (%)		Proposed Reallocation	Approved Budget ³	Variance (\$)	Variance (%)		Proposed Reallocation	Approved Budget ³	Variance (\$)	Variance (%) ²
Improvement Portfolio ¹														
Customer Experience	133,848	133,848	-	-		121,861	121,861	-	-		11,987	11,987	-	-
Distribution	251,691	245,294	6,397	3%		215,855	215,855	-	-		35,836	29,439	6,397	5%
Transmission	131,010	131,010	0	-		130,408	130,408	-	-		601	601	0	-
Substations	143,586	149,983	(6,397)	(4%)		114,643	114,643	-	-		28,943	35,340	(6,397)	(5%)
Control Center & Buildings	47,416	47,416	0	-		38,722	38,722	-	-		8,694	8,694	-	-
Enabling	189,691	189,691	0	-		157,184	157,184	-	-		32,507	32,507	-	-
Support Services	15,036	15,036	0	-		8,177	8,177	-	-		6,859	6,859	-	-
Subtotal	912,277	912,277	(0)	(0%)		786,850	786,850	-	-		125,427	125,427	(0)	(0)
Other														
2% Reserve for Excess Expenditures	18,246	18,246	0	-		15,737	15,737	-	-		2,509	2,509	0	-
Total Capital Expenditures	930,523	930,523	(0)	(0%)		802,587	802,587	-	-		127,936	127,936	(0)	(0%)

Notes:

¹ Figures may not add due to rounding.

² Variance percentage is calculated as variance dollars divided into total Non-Federally Funded Capital Expenditures, including the 2% Reserve for Excess Expenditures.

³ Figures reflect the FY2024 Budget Amendment approved by the PREB on May 6, 2024.