

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

IN RE: LUMA INITIAL BUDGETS AND
RELATED TERMS OF SERVICE

CASE NO.: NEPR-MI-2021-0004

SUBJECT: Shared Services Separation.

RESOLUTION AND ORDER

I. Background

A. FY2025 Budget Review Process and PREPA's Shared Services Separation Strategy

In the occasion of the review and approval by the Puerto Rico Energy Bureau of the Public Service Regulatory Board ("Energy Bureau") of LUMA's Proposed FY2025 Budgets in accordance with Act No. 57-2014¹ and the 2017 Rate Order and the evaluation of the appropriate funding allocations for LUMA Energy ServCo, LLC (jointly referred to as "LUMA"), Genera, LLC ("GENERA"), and the two subsidiaries of the Puerto Rico Electric Power Authority ("PREPA"), the Energy Bureau examined PREPA's proposed budget for Shared Services ("Shared Services") Separation in FY25, including the information given during the Technical Conference held on June 20, 2024.

The Shared Services, which include certain administrative, managerial, and operational services, are currently being provided by LUMA to PREPA under a Shared Services Agreement (the "SSA") executed by PREPA and LUMA on June 1, 2021, in connection with the award of the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement (the "T&D Agreement"), pursuant to which LUMA assumed the operation and maintenance of Puerto Rico's transmission and distribution system.

Relevant to the proposed FY2025 Budget, PREPA proposed a separation of the Shared Services from LUMA (the "Shared Services Separation Strategy"), with a transition period ending on September 30, 2024 ("Termination Date"). The separation entails the establishment of an independent IT and OT infrastructure, as well as an independent financial system for PREPA, LUMA, and GENERA. With regard to the financial system, PREPA proposed the expenditure for Oracle EBS (E-Business Suite) or Oracle ERP Cloud licensing.

B. Energy Bureau's Resolution and Order of June 26th

On June 26, 2024, the Energy Bureau issued a Resolution and Order in connection with the instant proceeding (the "June 26 Resolution") expressing its concerns with the Shared Services Separation Strategy. Specifically, the Energy Bureau questioned the selection of the ERP system and the separation of the IT infrastructure, noting that the strategy could result in the duplication of costs and overall inefficiencies. In addition, the Energy Bureau advised that there were several ERP alternatives on the market besides the Oracle solutions that could meet PREPA's needs at a fraction of the cost. In terms of IT infrastructure, the Energy Bureau was concerned that a complete separation could jeopardize the need for coordinated responses among PREPA, LUMA, and GENERA.

¹ Known as the Puerto Rico Energy Transformation and RELIEF Act, as amended ("Act 57-2024").



In response to these apprehensions, the Energy Bureau ordered PREPA to *defer* its plan for the separation of the Shared Services as well as the implementation of Oracle's ERP system until it submits a cost-benefit analysis comparing the proposed full separation strategy with Oracle ERP implementation and a joint IT infrastructure approach with LUMA and/or GENERA. The cost-benefit analysis had to be submitted by July 26, 2024.

The Energy Bureau's intent behind this order was to ensure that ratepayers are not burdened by unnecessary expenditures while maintaining the operational efficiency and reliability of Puerto Rico's electrical system.

C. PREPA's Motion in Compliance

On August 15, 2024, PREPA filed a motion titled *Motion in Compliance with the June 26th, 2024 Resolution and Order* ("August 15 Motion") whereby it informed the Energy Bureau that it would proceed with the separation of the Shared Services and the implementation of the Oracle Cloud ERP system and that it would not consider alternative ERP systems, arguing that doing so would not be in the public interest. In addition, PREPA requested that the Energy Bureau take notice of the foregoing state of affairs and deem PREPA in compliance with the Energy Bureau Resolution.

In its August 15 Motion, PREPA asserted that it had already begun the transition process for the severance of the Shared Services and had migrated certain systems.

D. Shared Services Agreement

On January 1, 2024, the SSA was amended and restated to, among other things, extend LUMA's provision of the Shared Services until September 30, 2024. The primary financial services comprising the Shared Services, as set forth in Exhibit A of the SSA, include: (a) access to infrastructure and cybersecurity applications that support daily operations; (b) access to ERP systems, specifically Oracle EBD, which is used for the development of financial reports, management reports, cashflow reports, and the processing and approval of invoices for payments; and (c) the performance of general accounting functions.

The SSA shall remain in effect from the Execution Date up until the Termination Date, unless extended or earlier terminated.² Any such extension shall be in writing and signed by PREPA, LUMA, and P3 pursuant to the amendment provisions of the SSA.³

The SSA is set to expire on September 30, 2024, thereby terminating LUMA's provision of Shared Services.

II. Analysis and Discussion

Through the August 15 Motion, PREPA does not assert the Energy Bureau that all system migrations will be completed by the Termination Date, therefore PREPA bears the sole responsibility to devise a viable strategy and coordinate all necessary arrangements to ensure the continuity of the Shared Services (or the separation thereof), whether migrated or not, and to avoid major disruptions to its operations and routine transactions. It is imperative for PREPA to articulate a reasonable and cost-effective plan that enables a seamless transition of all affected Shared Services, whether through an amendment and extension of the SSA, or through any other realistic means, including by complying with the requirements set forth by the Energy Bureau.

² Section 2.3(a) of the SSA.

³ Section 6.5 of the SSA.



The Energy Bureau **REITERATES** PREPA's obligation to procure the continuity of all Shared Services (or the separation thereof), whether migrated or not, and ensure that the appropriate course of action is in place and promptly executed so that all systems comprising the Shared Services are fully operational by the Termination Date and thereafter.

Time is of the essence. Failure to take prompt action could lead to the collapse of PREPA's operational systems, which would be detrimental to the public interest. Given the urgency of this matter, PREPA must act in good faith and take affirmative steps to mitigate the risks associated with failing to complete the full transition and separation of the Shared Services by the Termination Date or not extending the term of the SSA.

III. Conclusion

The Energy Bureau **ORDERS** PREPA to:

- i. Immediately determine whether to extend the term of the SSA subject to the amendment process set forth therein or pursue any other viable plan to ensure that all Shared Services, whether migrated or not, are fully operational by **September 30, 2024**, and thereafter.
- ii. Submit a compliance report to the Energy Bureau, **no later than seven (7) days from the issuance of this Resolution and Order**, outlining PREPA's proposed method for securing the continuity of the Shared Services (or the separation thereof), which shall include any applicable budget amendment request necessary to comply with the Energy Bureau's instructions herein.

The Energy Bureau **WARNS** PREPA that, in accordance with Act 57-2014⁴, as amended:

- i. noncompliance with this Resolution and Order, regulations and/or applicable laws may carry the imposition of fines and administrative sanctions of up to \$25,000 per day;
- ii. any person who intentionally violates Act 57-2014, as amended, by omitting, disregarding, or refusing to obey, observe, and comply with any rule or decision of the Energy Bureau shall be punished by a fine of not less than five hundred dollars (\$500) nor over five thousand dollars (\$5,000) at the discretion of the Energy Bureau; and
- iii. for any recurrence of non-compliance or violation, the established penalty shall increase to a fine of not less than ten thousand dollars (\$10,000) nor greater than twenty thousand dollars (\$20,000), at the discretion of the Energy Bureau.

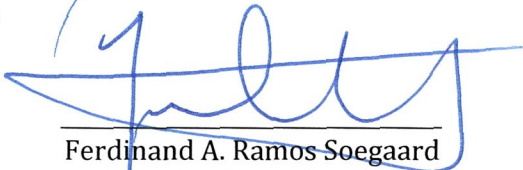
Be it notified and published.




⁴ Puerto Rico Energy Transformation and RELIEF Act, as amended ("Act 57-20 14").


Edison Avilés Deliz
Chairman


Lillian Mateo Santos
Associate Commissioner


Ferdinand A. Ramos Soegaard
Associate Commissioner


Sylvia B. Ugarte Araujo
Associate Commissioner


Antonio Torres-Miranda
Associate Commissioner

CERTIFICATION

I hereby certify that the majority of the members of the Puerto Rico Energy Bureau has so agreed on September 17, 2024. I also certify that on September 17, 2024 a copy of this Resolution and Order was notified by electronic mail to pre@promesa.gov; margarita.mercado@us.dlapiper.com; jan.albinolopez@us.dlapiper.com; mvalle@gmlex.net; arivera@gmlex.net; legal@genera-pr.com; regulatory@genera-pr.com; jfr@sbgblaw.com; alopez@sbgblaw.com. I also certify that on September 17, 2024, I have proceeded with the filing of the Resolution and Order issued by the Puerto Rico Energy Bureau.

For the record, I sign this in San Juan, Puerto Rico, on September 17, 2024.


Sonia Seda Gaztambide
Clerk

