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

IN RE:	**CASE NO.:** NEPR-_____
TEMPORARY REVIEW OF PERMANENT RATES OF THE PUERTO RICO ELECTRIC POWER AUTHORITY	

Direct Testimony of
Alejandro Figueroa-Ramírez
Chief Regulatory Officer, LUMA Energy ServCo, LLC
May 22, 2025

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I. WITNESS AND CASE INTRODUCTION

Q. 1 Please state your name, business address, title, and employer.

A. My name is Alejandro Figueroa Ramírez. I am the Chief Regulatory Officer for LUMA Energy LLC and LUMA Energy ServCo, LLC (together "LUMA" or "LUMA Energy"). My business address is LUMA Energy, PO Box 363508, San Juan, Puerto Rico 00936-3508.

Q. 2 On whose behalf are you testifying?

A. I am testifying on behalf of LUMA in support of a temporary rate adjustment submitted to the Puerto Rico Energy Bureau ("Energy Bureau" or "PREB") today.

Q. 3 What is your educational background?

A. I received a Bachelor of Science Degree in International Business Management from Bryant University in 2008 and a Juris Doctor from the School of Law of the University of Puerto Rico in 2011. I have over 15 years of experience in legal, regulatory, and procurement in Puerto Rico.

Q. 4 What is your professional experience?

A. From 2015 to 2018, I worked at the Energy Bureau as deputy general counsel and then acting general counsel. During this time, I participated in and helped manage multiple regulatory proceedings, including PREPA's first Integrated Resource Plan proposal, filed in 2015, PREPA's petition for the approval of a transition charge, filed in 2016, and PREPA's first provisional and permanent rate review petition, filed in 2016. From 2018 to 2023, I worked at the Financial Oversight and Management Board for Puerto Rico, where, as Infrastructure Director, I was responsible for the operational and financial restructuring efforts of PREPA, the

Puerto Rico Aqueduct and Sewer Authority, and the Puerto Rico Highways and Transportation Authority. Thereafter, I worked as counsel at DLA Piper Puerto Rico, providing strategic advice to energy sector clients on regulatory and energy policy matters. I joined LUMA in March of 2024 as Vice President, Regulatory, where I was responsible for LUMA Energy's regulatory filings with the PREB and administration and compliance of the T&D OMA. In January of 2025, I assumed the role of Chief Regulatory Officer at LUMA Energy.

Q. 5 Do you hold any professional licenses? If so, which?

A. Yes. I am an attorney authorized to practice law in the Commonwealth of Puerto Rico.

Q. 6 Have you previously testified or made presentations before the Energy Bureau?

A. Yes. I testified in connection with LUMA's proposed budgets for FY2025, Case No. NEPR-MI-2021-0004, in conferences conducted by the hearing examiner in case No. NEPR-IN-2024-0004, and in technical conferences held by the hearing examiner in the rate review process, Case No. NEPR-AP-2023-0003. I also testified in a technical conference for the Integrated Resource Plan, Case No. NEPR-AP-2023-004.

Q. 7 Are you sponsoring any exhibits with your testimony?

A. Yes. I am submitting Exhibit 1.01, a draft of the Temporary Rate Tariff Sheet, Exhibit 1.02, a draft of the Outage Events Tariff Sheet, Exhibit 1.03, the proposed impact to the base rate, Exhibit 1.04, the proposed impact to and the average monthly bill, and Exhibit 1.05, the proposed revisions to LUMA's Model Bill.

Q. 8 Which documents did you consider for your testimony?

A. Among others, the documents that I reviewed included:

- Transmission and Distribution System Operation and Maintenance Agreement ("T&D OMA") executed by the Puerto Rico Electric Power Authority ("PREPA"), the Puerto Rico Public-Private Partnerships Authority ("P3A") and LUMA dated as of June 22, 2020.
- The Puerto Rico PREPA-GenCo-HydroCo Operating Agreement of June 19, 2023 ("PGHOA").
- PREB Resolution and Order dated April 21, 2025, Docket No. NEPR-AP-2023-0003.
- Hearing Examiner's Order on Rate Case Procedures dated April 25, 2025, Docket No. NEPR-AP-2023-003.

Q. 9 Please briefly describe the purpose of your Direct Testimony.

A. The purpose of my testimony in this proceeding is to support LUMA's request that the Energy Bureau approve a temporary rate adjustment pursuant to Section 6.25(d) of Act 57-2014.

Q. 10 Please provide an overview of how the testimony is organized.

A. In Section II, I provide background on the state of the Puerto Rico's electrical system when LUMA took over as Operator of Puerto Rico's Transmission and Distribution System ("T&D System") on June 1, 2021 and the history of funding made available to LUMA to operate and maintain the T&D System. In Section III, I introduce LUMA's request for a temporary rate adjustment and note that the temporary rate is set forth in Andrew Smith's testimony and accompanying exhibits. In Section IV, I briefly discuss the legal framework for the temporary rate request. In

Section V, I discuss funding for the Outage Event Reserve Account. Lastly, in Section VI, I discuss the proposed rate recovery and describe the rate impact.

II. BACKGROUND

Q. 11 What was the state of the grid when LUMA took over as Operator of the T&D System?

A. Upon commencement of operations on June 1, 2021, LUMA inherited a T&D System that was not up to the minimum industry standard of performance required by the T&D OMA. PREPA was ranked by its customers as the worst-performing utility when compared to the other utilities participating in the J.D. Power Electric Utility Customer Satisfaction surveys for many electric utilities in North America. Other operational indicators, such as reliability metrics, price, wait times, and billing accuracy, indicated that PREPA was not performing at the same level as its comparable utilities.[1] The T&D System was fragile, having suffered from decades of neglect. During the Front-End Transition Period ("FET"),[2] LUMA conducted a system-wide gap assessment and identified over 1,000 gaps.[3] Over 600 initiatives

[1] *See* NEPR-AP-2020-0025, LUMA's Witnesses' Direct Testimonies, Direct Testimony of Jessica Laird, dated August 3, 2021, lines 104-108.

[2] The FET was the period of time from and including the Effective Date (that is, June 22, 2020) and until Commencement Date (this period, the "Front-End Transition Period"). *See* T&D OMA, Section 1.1, at p. 15. During the FET, LUMA was required to provide "Front-End Transition Services" which were "intended to ensure an orderly transition of the responsibility for the management, operation, maintenance, repairs, restoration and replacement of the T&D System to [LUMA] by the […] [Commencement Date], without disruption of customer service and business continuity [….]" *See id*., Section 4.1(a). The Front-End Transition Services are defined in the T&D OMA as services to "complete the transition and handover to [LUMA] of the operation, management and other rights and responsibilities with respect to the T&D System pursuant to [the OMA], including the services contemplated by the Front-End Transition Plan; provided that the Front-End Transitions Services shall not be O&M Services." *Id*., Section 1.1 at p. 16.

[3] *See* System Remediation Plan ("SRP") at p.1, available at https://energia.pr.gov/wp-content/uploads/sites/7/2021/05/Motion-in-Compliance-with-Order-Submitting-Revised-Redacted-Version-of-SRP-and-Redacted-Attachments-to-Responses-to-RIs-NEPR-MI-2020-0019.pdf.

were identified to address those gaps.[4] By "gaps" I am referring to the difference between the state of the T&D System, work practices, procedures, and processes at the time of the FET compared to Prudent Utility Practice,[5] applicable codes and standards, and the T&D OMA. The gap assessment spanned the entire T&D System, including physical infrastructure, operational procedures and protocols, supporting infrastructure and information systems, and administrative practices (including employee training and certifications). As a result, and in accordance with Section 4.1(d)(ii) of the T&D OMA, LUMA developed a System Remediation Plan ("SRP") to remediate, repair, replace, and stabilize the T&D System's equipment, systems, practices, and services.[6] The SRP and the gap assessment that informed its development were based on the recognition by the parties to the T&D OMA of the

[4] *Id.*

[5] *See* T&D OMA, Section 1.1:

> at any particular time, the practices, methods, techniques, conduct and acts that, at the time they are employed, are generally recognized and accepted by companies operating in the United States electric transmission and distribution business as such practices, methods, techniques, conduct and acts appropriate to the operation, maintenance, repair and replacement of assets, facilities and properties of the type covered by this Agreement. The interpretation of acts (including the practices, methods, techniques, conduct and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) shall take into account the facts and the characteristics of the T&D System and System Power Supply known at the time the decision was made. Prudent Utility Practice is not intended to be limited to the optimum or minimum practice, method, technique, conduct or act, to the exclusion of all others, but rather to be conduct or acts that a prudent operator would take to accomplish the intended objectives at just and reasonable cost consistent with reliability, safety, expediency and good customer relations.

[6] *See* NEPR-MI-2020-0019, revised Filing of System Remediation Plan under Section 4.1(d) of the Operation and Maintenance Agreement for Energy Bureau's Evaluation and Approval, available at https://energia.pr.gov/wp-content/uploads/sites/7/2021/05/Motion-in-Compliance-with-Order-Submitting-Revised-Redacted-Version-of-SRP-and-Redacted-Attachments-to-Responses-to-RIs-NEPR-MI-2020-0019.pdf. The SRP was approved by the Energy Bureau on June 23, 2021, PREB Resolution and Order *available at* https://energia.pr.gov/wp-content/uploads/sites/7/2021/06/20210622-MI20200019-Resolution-and-Order-SRP.pdf.

significantly deteriorated conditions of the T&D System.[7]

The statements of intent the Puerto Rico Legislature, when it enacted both Act 120-2018, which allowed the process to select a private operator for the T&D System and laid the groundwork for the transformation of Puerto Rico's electric power system, and Act 17-2019, include findings on the dire state of the T&D System. For example, in enacting Act 120-2018, the legislature stated that "[p]ractically no infrastructure maintenance was performed during the past decade." The Puerto Rico legislature also stated that Puerto Rico's electric power generation and distribution systems were deficient and obsolete.

The 2017 Rate Order[8] and the 2020 Fiscal Plan also acknowledge PREPA's chronic underinvestment in the system. Specifically, the 2017 Rate Order notes that PREPA's infrastructure spending was not based on actual system needs.[9] The 2020 Fiscal Plan stated that, "in recent years, capital investments in the T&D System were limited to the most urgent projects to avoid imminent system failure rather than to proactively improve the grid for the future."[10] The 2017 Rate Order stated that "[l]ack of effective long-term planning led PREPA to defer investments in

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[7] *See* T&D OMA, Section 4.1(f) (Transition to Standard of Performance) ("The Parties acknowledge and agree that (A) certain components of the T&D System and the manner in which the T&D System is operated do not currently meet the standards of performance required under this Agreement, including the fact that certain matters related to the T&D System or T&D System Sites and certain general operating and administrative practices may not comply with Contract Standards, and (B) a period of review, planning, remediation, repair and replacement will be required to enable Operator to achieve the Contract Standards."). For more information on the state of the grid, please refer to Section 3.2.2 of the SRP.

[8] Resolution and Order dated January 10, 2017, as amended in reconsideration in Case No. CEPR-AP-2015-0001 ("2017 Rate Order").

[9] *See* 2017 Rate Order, at p. 3.

[10] See 2020 Fiscal Plan, at p. 14, *available at* https://drive.google.com/file/d/1paRgy0dJBkUH4-5eev7z2SuR0diil8g9/view.

maintenance of and upgrades to its aging infrastructure and to spend customer and investor funds on projects, some of which would later be canceled but not before expensive beginnings due to inadequate economic or feasibility analysis."[11]

Though these conditions were known, and therefore, not entirely unanticipated, the severity of the deterioration and consequent challenges that LUMA still faces, cannot be overstated. A 2016 Study commissioned by the Energy Bureau in PREPA's last rate case, which was conducted by Synapse Energy Economics, Inc. ("Synapse Study") found that, among others, the T&D System was "falling apart quite literally"[12] due, in part, to capital constraints and an inability to replace and construct lines. Lack of funds forced PREPA to play "a catch-up game on maintenance – following outages, instead of improving the fundamental system."[13]

These legislative findings, findings of the Energy Bureaus and independent studies, reflect a consistent theme: the decades-long degradation of Puerto Rico's energy system is predominantly driven by a well-documented historical lack of investment in the grid, resulting from both poor planning and insufficient funding.

Q. 12 Please describe LUMA's efforts since it took over the T&D System in June 2021 to address the challenges, given the state of the T&D System and insufficient funding?

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[11] 2017 Rate Order, ¶39, at 22.

[12] Synapse Report at 18, *see also* at 12, 26, *available at* https://energia.pr.gov/wp-content/uploads/sites/7/2016/11/Expert-Report-Revenue-Requirements-Fisher-and-Horowitz-Revised-20161123.pdf

[13] Ibid, at 33

A. Since LUMA began operations, over $4.4 billion has been invested into the T&D System, including $1.9 billion in federally funded projects, $433 million in non-federally funded capital, and $2.2 billion in operating and maintenance expenditures. Since its commencement, LUMA has replaced 28,600 poles, repaired or replaced 177,000 streetlights, completed vegetation management on 6,199 miles of lines, and installed 10,348 distribution automation and protection devices to avoid over 271 million minutes of customer service interruptions.

Significant improvements have also been achieved across other areas of the organization that support the deployment of capital improvements and maintenance work, including over 288,200 hours of completed worker health and safety training and certifications, updated materials and inventory tracking, improved workplace safety protocols, and strengthened information systems and cybersecurity practices. Additionally, LUMA has transformed customer service with a modern cloud-based contact center, ensuring 24/7 call response and seamless support during emergencies from any location.

As a result of these efforts, ten (10) SRP programs have achieved remediation status, and eleven (11) have been fully completed.

Q. 13 Do the fragile conditions of the T&D System still persist today?

A. Yes. Despite these investments and improvements, the T&D System remains fragile and is currently degrading at a faster pace than the improvements that are being made on a daily basis. As noted in my previous response, years before LUMA took over as Operator, the T&D System suffered from chronic underinvestment, resulting in a system lacking meaningful capital investment and on which maintenance was

performed simply to "catch up." I note that the Synapse Study was performed prior to PREPA's formal filing for bankruptcy, which means that PREPA's ability to invest in basic maintenance was likely further constrained thereafter. The T&D System was in such poor condition when LUMA took over, such that sustained levels of proactive maintenance, coupled with significant capital investments, as well as investments in supporting functions across the organization, are still required to revert the rate of degradation and begin to deliver improvements in quality of service to our customers.

To illustrate how the T&D System is deteriorating more rapidly than can be addressed with current funding levels, at the beginning of FY2025, there were 53 transmission circuit breakers out of service. Throughout the year, LUMA has replaced and repaired 39 of them. Despite these efforts, the number of transmission circuit breakers out of service currently stands at 57. This means that more transmission breakers failed throughout the fiscal year than LUMA could reasonably put back in service given total available funding levels, and this is despite internal efforts to maximize application of those limited funds on critical stabilization assets, including transmission breakers and transformers.

Q. 14 Please describe the budgets approved for LUMA to operate the T&D System since LUMA commenced operations.

A. Since taking over the operation of the T&D System, LUMA has submitted four annual budgets for approval by the Energy Bureau, with FY2022 being the first, and FY2025 being the most recent. Those budgets were developed and implemented within the funding constraints that continue to impact the energy system. Because

these budgets have been constrained by existing revenue levels, they have not been reflective of the true needs of the system nor of LUMA's ability to deliver across all the remediation and improvement work that the system requires.

Q. 15 Please explain those budgetary constraints.

A. First, the budgets were limited to the total revenue produced by the base rates approved in PREPA's 2017 Rate Order. Second, FY2024 and FY2025 budgets included additional funding allocated by P3A. Please refer to Table 1 below, showing that additional funding was required in order to balance the system budgets for FY2024 and FY2025:

Table 1. Budget Funding FY2024 and FY2025

($ millions)	**FY2024**	**FY2025**
Total Base Rate Revenue	1,112	1,151
Other Income	59	90
Additional funding	130	75
Total	**1,301**	**1,316**
GridCo Opex and Capex	663	692
GenCo Opex and Capex	324	300
HydroCo Opex and Capex	14	14
HoldCo Opex and Capex	26	34
Other	274	275
Total Non-Federally Funded T&D and Generation Expenditures	**1,301**	**1,316**

Even with the additional funding to help bridge the gap between available revenues and the minimum funding required to operate, maintain, repair, and restore the electric system, LUMA still had to make difficult tradeoffs and defer activities.[14]

Third, the base rates were not adjusted to account for the effects of inflation,

[14] A list of deferred activities was provided in the FY2025 Budget Process, ROI-LUMA-MI-2021-0004-20240612-PREB-017.

the population outflow from Puerto Rico, and the increases in combined heat and power systems by industrial customers and participation in the Net Energy Metering program by residential customers both of which have led to the displacement of energy that would otherwise be provided by the utility and reduced revenues.

Plainly stated, there has been, and continues to be, a mismatch between the rates and actual costs. Because the utility's revenue requirement was set in 2017, before PREPA filed for bankruptcy under the Puerto Rico Oversight, Management, and Economic Stability Act, prior to hurricanes Irma and María, and the 2019 and 2020 earthquakes, and before the T&D OMA and the Generation OMA[15] were executed, current rates are insufficient to cover the current operation, maintenance and investments needs of the energy system.

Q. 16 Has LUMA identified costs for FY2026 that are not funded by existing rates?

A. Yes. First, inflation, which per the T&D OMA should be applied if for a Contract Year or a portion of a Contract Year, a Default Budget will apply.[16] Second, the FY2025 Budget included one-time funding of $44.4 million allocated to the T&D System to help bridge the gap between available revenues and minimum funding required to operate, maintain, repair, and restore the electric system. At the time of this filing, additional funding has not been made available to LUMA for FY2026.[17]

[15] Puerto Rico Thermal Generation Facilities Operation and Maintenance Agreement executed by the PREPA, P3A and Genera PR LLC, (Jan. 24, 2023).

[16] Section 7.3 (d) of the T&D OMA provides that if a budget has not been finalized by July 1 of a Contract Year, the applicable approved Budget for the immediately preceding Contract Year as adjusted for inflation based on the CPI Factor ("Default Budget") shall remain in effect until such time as the applicable budget for such Contract Year is so finalized.

[17] If any additional funding is available to LUMA for July 1, 2025, LUMA will timely inform the Energy Bureau. LUMA would file a revised petition and revised budget.

Third, LUMA has identified additional urgent and critical investments which cannot wait and which, if delayed beyond July 1, 2025, carry a high risk of resulting in a degradation of service or future cost increases. These costs are identified and supported by my colleague Andrew Smith, *Exhibit 2.0,* and the accompanying *Exhibits 2.01 and 2.02* of his testimony. Finally, other costs that require rate-based revenue sources include funding for LUMA's Outage Event Reserve Account.

III. BUDGET FOR TEMPORARY ADJUSTMENT OF RATES

Q. 17 Please identify the costs included in the temporary rate adjustment request.

A. LUMA is seeking a temporary rate adjustment to: (1) the bridge the gap between LUMA's FY2026 Budget and revenues raised by current rates which are insufficient to cover costs for FY2026, including inflation, additional funding that in FY2025 was provided by sources outside of rates, and incremental funding for items required above and beyond the Consumer Price Index ("CPI") adjustment; and (2) replenish the Outage Event Reserve Account. These costs are not and will not be funded by existing rates absent a temporary rate adjustment.

Q. 18 Explain how LUMA developed the temporary rate adjustment request.

A. LUMA began with the FY2025 T&D Budget of $692 million and applied a CPI inflation factor to arrive at a Default Budget for FY2026. LUMA also considered that the FY2025 T&D Budget included one-time funding for the T&D System of $44 million in additional funds to help bridge the gap between revenues and the minimum funding required in FY2025 to operate, maintain, repair, and restore the

T&D System.[18] LUMA also identified additional items for which funding cannot wait beyond July 1, 2025, without risking degradation of service or future cost increases. Please refer to the testimony of my colleague Andrew Smith, *Exhibit 2.0*, and the accompanying *Exhibits 2.01 and 2.02*, identifying and discussing these incremental costs.

The request was prepared to ensure that rates provide sufficient funding to ensure payment of incremental and unavoidable costs, allow the continuation of projects that will help stabilize the grid, and avoid delays in the commencement or continuation of critical and necessary investments.

Q. 19 When will the proposed temporary rate adjustment be implemented?

A. Given the fact that there is a one (1) month lag between when a rate increase is applied to customer bills and when collections based on that new rate begin, LUMA is submitting a temporary rate application to provide the T&D System with additional funding, commencing June 1, 2025.

Q. 20 Given the ongoing process to review and set new permanent rates, why is LUMA filing a request for a temporary rate adjustment?

A. The Energy Bureau's April 21, 2025, resolution and order in Case No. NEPR-AP-2023-0003 established that a provisional rate request could only be filed once both the revenue requirement and rate design components of the permanent rate petition were submitted to the Energy Bureau, with a target filing deadline of July 3, 2025

[18] *See* NEPR-MI-2021-0004, T&D and GenCo Budgets for FY2025, Exhibit 1, p. 3 available at https://energia.pr.gov/wp-content/uploads/sites/7/2024/05/20240525-MI20210004-Motion-FY2025-TD-GenCo-and-System.pdf.

"The base rate funded component of the budget, consisting of the Operating Budget and the Non-Federally Funded Capital Budget, is $692 million, which includes $44 million in additional funding allocated to GridCo by the P3A."

("April 21st Order"). As a result, assuming a July 3rd filing of a request for provisional rate, and assuming the Energy Bureau requires the full 30-day term afforded in Act 57-2014 to review the provisional rate petition, the earliest that a provisional rate would be eligible to become effective is September 1, 2025. This means that during the first two (2) months of Fiscal Year 2026 (July and August of 2025), the revenues generated by existing energy rates would not be enough to cover the investment levels required for FY2026.

Q. 21 Why is the application for a temporary rate adjustment being submitted *now*?

A. As stated above, prior to the Energy Bureau's April 21st Order, LUMA's expectation was that new provisional rates would become effective July 1, 2025, and remain in effect until final permanent rates were established by the Energy Bureau. Due to the new provisional rate timeline established in the April 21st Order, provisional rates, if approved, could become effective as early as September 1, 2025, or as late as October 1, 2025. A temporary rate adjustment is necessary to bridge the gap between July 1st (the beginning of the fiscal year and when the FY2026 Budget becomes effective) and the date on which a provisional rate approved by the Energy Bureau would enter into effect.

Additionally, implementing a temporary rate beginning June 1, 2025, will help to align cash inflows with expected cash outflows based on the FY2026 Budget to ensure that enough cash is collected over the ordinary collection cycle so as to enable timely payment of budgeted expenditures as the invoices and payment obligations associated with those expenditures become due. Given the fragile financial condition of the utility, the lack of, or delay of, a temporary adjustment to

electricity rates will mean that LUMA will not be able to invest at the levels otherwise authorized by the proposed FY2026 Budget, delaying the commencement of critical projects, even if a provisional rate becomes effective in September 2025.

IV. FRAMEWORK FOR AN EMERGENCY AND TEMPORARY RATE ADJUSTMENT

Q. 22 What is the legal framework for a temporary rate adjustment that LUMA applied in its petition?

A. The legal framework is more fully discussed in the motion in support of LUMA's petition. In identifying the costs that LUMA included in its request for a temporary rate adjustment, LUMA considered Section 6.25(d) of Act 57-2014, which provides that, at the request of an electric power company, the Energy Bureau may authorize a rate adjustment due to emergency or temporary events. LUMA also considered case law from the Puerto Rico Supreme Court construing temporary events in connection with a public utility's ability to request temporary or emergency rate increases. LUMA is submitting the documentation and information that, in its judgment as Operator of the T&D System, support the temporary rate adjustment.

Q. 23 What is the proposed duration of the temporary rate adjustment?

A. As stated above, LUMA requests this temporary rate adjustment to become effective June 1, 2025, requiring the Energy Bureau to issue a preliminary determination no later than May 31, 2025. As I stated previously, enabling the temporary rate to become effective on June 1st helps to place the utility and LUMA in a slightly better financial position at the start of FY2026. The temporary rate adjustment would be intended to be in effect for a term of one hundred and eighty (180) days, as provided

in Article 6.25(d) of Act 57-2014, or the date on which a provisional rate becomes effective, whichever comes first.

Q. 24 Please explain how the temporary rate adjustment would be implemented on customers' bills.

A. Two different $/kWh riders will appear on customers' bills. One as a *temporary rate rider*, and another as *Rider Outage Events*, both starting in the June billing cycle.

LUMA intends for the temporary rate rider to be in effect for no longer than one hundred and eighty (180) days or until a provisional rate approved by the Energy Bureau becomes effective, whichever occurs first. Whereas the *Rider Outage Events* will collect $10 million per month (June, July, and August), and then be "zeroed out" until such time that it is re-purposed for use as the *Major Storm Costs* rider once approved by the Energy Bureau in the final order on Docket No. NEPR-AP-2023-0003 and implemented no later than sixty (60) days after the issuance thereof.

V. OUTAGE EVENT RESERVE FUNDING

Q. 25 Describe the Outage Reserve Account.

A. The Outage Event Reserve Account is contractually established under the T&D OMA[19] with a minimum balance set at $30 million. The account is intended to ensure that funds are available to address costs incurred in response to outage events, which, by their nature, are not predictable and are not forecasted; therefore, costs to restore service are not included in LUMA's budget. Outage events can be caused by smaller events, such as periods of heavy rain, wind, and/or lightning, or extreme events such as hurricanes.[20] Although the Outage Event Reserve Account is essential

[19] See T&D OMA, Section 7.5(d).
[20] What constitutes an Outage Event is defined by specific criteria in the T&D OMA.

to provide access to cash for LUMA to be prepared to take actions to address possible near-term expected outages, the Outage Reserve Account is currently underfunded. Although PREPA is solely responsible for funding and promptly replenishing the Outage Events Reserve Account, it has not done so since November of calendar year 2023. Given PREPA's failure to fund this account and because current rates do not cover this cost, LUMA included this high-priority funding in the temporary rate request.

Q. 26 Explain the importance of funding the Outage Event Reserve Account.

A. It is crucial that the Outage Event Reserve Account is funded properly. It is common practice in utility rate making to incorporate storm cost recovery riders. Due to the island's climate and geographic location, major storms can be expected frequently. Due to the weakened state of the T&D System detailed above, the T&D OMA contemplates a reserve account so that LUMA has funding available to pay for the costs to respond to these events. LUMA's priority is to respond to storm-related outages and restore electricity as safely and urgently as possible. Costs accumulate, and once the outage event is over, LUMA must be able to draw down the outage reserve account to cover those costs, and the reserve account would then be replenished for the next event. The need for funds to be available to LUMA to respond to storm events was recognized in the T&D OMA and is critical to ensure reliable service to customers. Failure to fund the Outage Event Reserve Account could leave the utility at risk during the next outage event. This situation creates vulnerabilities since it requires LUMA to otherwise use funds allocated for ordinary operation and maintenance expenditures to be redirected to storm response, the

opposite of what is intended to be prevented through the Outage Event Reserve Account. Moreover, the Energy Bureau requested that LUMA propose a major storm costs rider in a resolution and order on "Two Additional Filing requirements" dated February 27, 2025, in Docket No. NEPR-AP-2023-0003. In the future, the major storm costs rider would serve as a mechanism to reconcile expenses incurred from the Outage Event Reserve Account, as well as any incremental costs for storm response that exceed the funds available in the Outage Event Reserve Account. Clearly, the Energy Bureau acknowledges and understands the importance of this issue.

Given that the major storm costs rider will not be approved until the final order on the revenue requirement and rate design, LUMA is proposing to collect the $30 million in funding of the Outage Reserve Account through the Rider Outage Events commencing in June 2025, with this rider being separate and distinct from the funding for the temporary rates.

VI. RATE RECOVERY AND RATE IMPACT

Q. 27 How does LUMA propose to recover the temporary revenue requirement?

A. LUMA proposes to recover the temporary revenue requirement through two distinct cents per kilowatt-hour charges, each of which will be applied equally to all applicable tariffs. The two different $/kWh rider will appear on customers' bills. One as *Rider Temporary Rate*, and another as *Rider Outage Events*, both starting in the June billing cycle. The charges specific to replenishment of the Outage Event Reserve Account, while part of LUMA's total temporary rate proposal, are, in LUMA's view, separate and distinct, and should appear as a separate charge. Please

refer to *Exhibit 1.05* for more information on the appearance of the Temporary Rate and Rider Outage Event on LUMA's approved Model Bill.

Q. 28 Why is LUMA's request for replenishment of the Outage Event Reserve Account separate and distinct?

A. There are two reasons. The first reason is billing system limitations. To be able to report on aggregate billed revenues collected for the purposes of Outage Event Reserve Account replenishment, it must be created as a separate rider in the billing system. Second, the separate charges are needed to minimize change management for customers and the associated avoidable costs of having the bill rendering updated multiple times. As noted, the Energy Bureau has ordered LUMA to propose a major storm costs rider in the upcoming rate review. As such, this billing element can be repurposed and reused easily in the permanent rate structure with minimal change for customers or incremental cost to go from the Rider Outage Event to the *Major Storm Costs Rider*.

Q. 29 How is the $/kWh rate determined?

A. As described above, LUMA is requesting a temporary rate adjustment so that sufficient funding is available to fund the proposed FY2026 Budget beginning on July 1, 2025. The rate is reflective of the required increase from the current rate to fund the FY2026 Budget on an annualized basis. In doing so, LUMA is seeking the temporary rate to bridge the gap between July 1, 2025, and the date on which, based on the Energy Bureau's April 21st Order, the provisional rate could become effective.

Q. 30 What is the expected impact on the base rate?

A. The expected impact to the base rate is $0.02010 per kWh for the Temporary Rate, and $0.00750 per kWh for the Rider Outage Event, for a total impact of $0.02760 per kWh. Please *see Exhibit 1.03* for additional details.

Q. 31 What is the expected impact on the average residential customer bill?

A. The impact on the average residential customer bill is $11.08 monthly. Please see Exhibit 1.04 for additional details.

Q. 32 Does this conclude your testimony?

A. Yes. It does.

ATTESTATION

Affiant, Alejandro Figueroa-Ramírez, being first duly sworn, states the following:

The prepared Direct Testimony and exhibits constitute my direct testimony in support of LUMA's request for a temporary rate increase filed before the Puerto Rico Energy Bureau. I would give the answers set forth in the Direct Testimony if asked the questions that are included in the Direct Testimony. I further state that the facts and statements provided in the Direct Testimony, including the exhibits, to the best of my knowledge, are true and correct.

Alejandro Figueroa-Ramírez

Affidavit No. 524

Acknowledged and subscribed before me by Alejandro Figueroa-Ramírez, in his capacity as Chief Regulatory Officer of LUMA Energy ServCo, LLC, of legal age, married, and resident of San Juan, Puerto Rico, who is personally known to me.

In San Juan, Puerto Rico, this 22nd day of May 2025.

NOTARY PUBLIC