Temporary Rate Revenue Requirement

May 22, 2025

1.0 Introduction

Through this petition, LUMA is requesting that the Puerto Rico Energy Bureau ("Energy Bureau" or "PREB") approve a temporary rate increase pursuant to Section 6.25(d) of Act 57-2014.[1] The intent of the temporary rate increase is for electricity rates to be set at a level that enables collections of costs associated with, critical and necessary investments into the transmission and distribution system ("T&D System") that LUMA is proposing to undertake in Fiscal Year 2026 ("FY2026"), which begins on July 1, 2025. LUMA proposes that the temporary rate enter into effect beginning June 1, 2025, to allow June 1, 2025, billing to reflect the temporary rate adjustment to ensure that the funding required to support the investment levels proposed by the FY2026 Budget is available in the first quarter of FY2026, starting July 1, 2025, when these investments will be needed.

The Energy Bureau Order requiring that the Provisional Rate and Permanent Rate be filed on July 3, 2025, instead of April 30, 2025,[2] means that the Provisional Rate is not expected to be effective until September or October of 2025, which is the second quarter of the FY2026 fiscal year. This temporary rate adjustment addresses the temporary cash shortfall that LUMA will experience due to the fact that the current rates, which were set in 2017, fail to raise sufficient revenues to meet the utility needs for FY2026, and will be insufficient to allow critical investment in the grid, which is already fragile. As explained below, the continued delay in investment in the utility presents the risk of declines in service levels and/or an increase in future costs that could be avoided in the event that the cash shortfall did not exist.

As stated above, LUMA expects the Energy Bureau to review and issue a determination regarding provisional rates in Case No. NEPR-AP-2023-0003[3] sometime in July or August of 2025 and for such provisional rates to become effective sometime between September and October of 2025. This temporary rate is therefore required to provide funding shortfall for the FY2026 Budget in the period between the beginning of FY2026 (i.e. July of 2025) and the date when such provisional rates become effective (e.g., September or October of 2025).

As explained in detail below, LUMA's FY2025 Budget is not sufficient to fund the required investment that Puerto Rico's aged electric power system requires, nor is it sufficient to remediate years of legacy underinvestment in system maintenance. With the absent implementation of the requested temporary rate, LUMA will be unable to pursue the investment the T&D system critically requires in the first quarter of FY2026. Based on the timing of provisional rates described above and because FY2026 begins on July 1st, Absent a temporary rate, LUMA will be tasked with operating for the first three to four months of FY2026 under the FY2025 T&D Budget revenue requirement which does not cover all of the costs of

[1] Section 6.25(d) of Act 57 of May 27, 2014, as amended, known as the "Transformation and Energy RELIEF Act".

[2] Page 5-6 of April 21, 2025, Resolution and Order, Docket No. NEPR-AP-2023-0003.

[3] Puerto Rico Electric Power Authority Rate Review, Docket No. NEPR-AP-2023-0003.

operating and remediating the T&D System, and thus, will lead to a decline in service, and costs that could have been avoided if the funds were available, as described below.

LUMA's incremental budget requirement to address its operational needs critical to the FY2026 period, is equal to $277.9 million (inflation and incremental funding). LUMA is committed to the expedient progress of the rate review and expects provisional rates to be in place as soon as September 2025. The annualized revenue requirement proposed herein will be contemplated in LUMA's provisional rate proposal, that is to say that any unbilled portion of the annualized revenue requirement not collected through the temporary rate will be rolled into the proposal for provisional rates.

This proposed temporary rate also aims to collect sufficient funding to enable the Puerto Rico Electric Power Authority ("PREPA") to fund the Outage Event Reserve Account.[4] The Outage Event Reserve Account serves as an emergency reserve account intended to ensure that funding is available for LUMA to respond to outages and other emergencies caused by storms and other natural events.

1.1 Criteria for Inclusion in this Temporary Rate Application

As stated in the Energy Bureau's resolution and order in Case No. NEPR-AP-2023-0003 dated April 21, 2025, it will not be approving a FY2026 Budget until well into the fiscal year (the "April 21st Order"). Thus, LUMA would operate under its existing FY 2025 budgets.[5] As noted in the testimony of Mr. Figueroa, the current rates did not produce even the amount needed to fund the FY2025 Budget, and the government supplemented that funding to LUMA by an additional $44 million in FY2025 to meet the shortfall, which is not currently anticipated to be available going forward.[6]

The T&D OMA states that if a budget for a contract year has not been finalized by July 1, then the budget for the preceding contract year, adjusted for inflation, applies until such time as an applicable budget has been finalized (the "Default Budget")[7]. The starting point for this temporary rate adjustment is therefore the incremental inflationary increase to LUMA's FY2025 Budget to arrive at the proposed FY2026 Budget[8].

Table [9]1-1. Calculation of FY2026 Default Budget ($M)

	O&M	NFC	Total
FY2025 Budget	567.4	125.3	692.7
Inflation	19.5	4.3	23.8

[4] PREPA's obligations to fund the Outage Event Account is stated in Section 7.5(d) of 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)

[5] Page 5-6 of April 21, 2025, Resolution and Order, Docket No. NEPR-AP-2023-0003.

[6] See Testimony of Mr. Figueroa being filed concurrently.

[7] Pursuant to Section 7.3(d) of the T&D OMA.

[8] See Exhibit 2.0 being filed concurrently.

[9] See Exhibit 2.02 being filed concurrently.

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FY2026 Default Budget	**586.9**	**129.6**	**716.5**
Incremental Funding Requirement – LUMA	68.0	186.3	254.1
FY2026 Budget	**654.9**	**315.9**	**970.6**

In the April 21st Order, the Energy Bureau also indicated that LUMA could propose spending increases to its FY2025 Budget provided they are high priority and non-controversial.[10] The inflationary adjustment and incremental funding items identified above and described in further detail below, are high priority and non-controversial because they are either unavoidable costs or costs that support critical and necessary investments into the grid that must be undertaken in FY2026.

Table 1-2. Temporary Rate Petition Summary – Investments Incremental to the FY2025 Approved Budget ($M)

Department	Incremental Funding Requirement	O&M	NFC	Total
Customer Experience	Payment Processing Fees	4.5	-	4.5
Operations	Vegetation Management	24.0	-	24.0
	Substation Maintenance	21.0	-	21.0
	System Operations	2.0	-	2.0
	Substation Reliability	-	13.4	13.4
	T&D Fleet	-	3.0	3.0
Capital Programs & Grid Transformation	System Stabilization Projects	-	119.4	119.4
	Wildfire Mitigation Infrastructure Hardening	-	11.7	11.7
	Land Purchases for BESS	-	4.0	4.0
IT OT	Fixed Cost Absorption - Termination of Shared Services	4.2	-	4.2
	Collaboration & Analytics	-	1.1	1.1
	O&M Support for Critical Initiatives	7.2		7.2
	Cybersecurity	-	0.8	0.8
	Technology Enablement	-	3.3	3.3
	Asset Management	-	2.0	2.0

[10] Page 6 of April 21, 2025, Resolution and Order, Docket No. NEPR-AP-2023-0003.

Fleet	Vehicle & Heavy-Duty Equipment Leases	2.6	-	2.6
	Vehicle & Heavy-Duty Equipment Purchases	-	3.8	3.8
Facilities	Existing Rent/Lease Renewals	0.6	-	0.6
	Development & Implementation	-	20.3	20.3
Finance	A-schedules Reporting	0.5	-	0.5
All	2% for Excess Expenditures	1.3	3.7	5.0
Total[11]		**68.0**	**186.3**	**254.1**

The balance of this document discusses the specific activities and initiatives that make up the temporary rate proposal, including how the proposed FY2026 Budget was developed, critical and necessary investments included in such proposed FY2026 Budget, and risk of adverse impacts on services to electricity customers or risk of incurring costs that could have been avoided.

2.0 FY2026 Incremental Budget – T&D Operations

2.1 Customer Experience

The Customer Experience Department ("Customer Experience") oversees and manages customer interactions whether in LUMA's customer service centers across the island, over the phone through the contact center, or virtually via the MiLUMA web application. Customer Experience also manages billing and collections for all customer accounts and is the intake function for billed revenues.

To mitigate cost increases for our customers, LUMA's Customer Experience Department has worked to identify and reprioritize activities within the proposed FY2026 Budget that supports this temporary rate request. However, *payment processing fees* are expected to increase, both due to inflation, as many of the contracts between LUMA and the payment processing providers contain annual inflation escalators, and volume increases, as more customers adopt electronic payment mechanisms.

Further, as LUMA continues with increased collection efforts (including disconnections) an increase in payment frequency is expected in FY2026. Some of the payment processing contracts calculate fees based on transaction volume, therefore, as payment frequency increases, there will be a corresponding increase in payment processing costs. Therefore, the Customer Experience Department's budget for FY2026 reflects a $4.5 million increase compared to the FY2026 default budget. This aligns with projected payment processing fees in FY2026 and supports efforts to continue collecting revenues that are critical to the system.

[11] Numbers may not add to totals due to rounding.

Collecting revenue is a fundamental function and payment processing fees are unavoidable and cannot be paused or deferred. LUMA is invoiced by the payment processing companies monthly. Late payments would result in additional costs that could otherwise be avoided, including financial penalties, damage to LUMA's relationship with this group of vendors, and, in extreme cases, could result in interruptions to service (which would impact collections from the affected payment processing channel).

2.2 Operations

The T&D Operations Department ("Operations") oversees and manages the day-to-day operation and maintenance work on the existing utility infrastructure to ensure that customers continue to receive safe and reliable service. The key functions include operational performance (planning and scheduling of field work); operations and maintenance of the overhead and underground transmission and distribution lines (including emergency outage restoration); maintaining T&D substations; vegetation management; monitoring and operating the electric system, addressing customer service requests and complaints (involving, for example, connections, disconnections, meter reads and concerns about voltage fluctuations or phase-outs); and meter replacement and security.

In presenting the incremental funding requirements relevant to this request (i.e., funding above that reflected in the FY2026 Default Budget), each area is described as it relates to its relevance to this filing, pointing out the impact should there be any delays in funding.

Since its commencement as Operator,[12] LUMA has operated in a predominantly reactive mode with respect to T&D System maintenance, performing a limited amount of preventive maintenance when compared to industry standards and addressing only those deficiencies and abnormalities that pose the most significant risks with respect to safety and system reliability. The Operations Department has been largely focused on restoring power to LUMA's customers and making critical repairs and/or replacements to a well-documented fragile and historically poorly maintained T&D System. To transition from the current state to one more representative of a typical utility, and to move away from the current realities of daily system outages and equipment failures, additional funding is required. Please refer to Appendix A for the full table that illustrates this transformation.

2.2.1 O&M - Substation Maintenance

The FY 2026 Default Budget is only able to maintain status quo (i.e., a gradually degrading system with a repair on failure regimen) in the areas of Transmission and Distribution. However, incremental costs in FY2026 of $21.0 million are required and critically necessary to add minimum necessary activities to stabilize and continue the transition towards future state for substations. Besides having the highest impact on system stabilization and near-term reliability improvement (i.e., substation-caused outages typically affect larger numbers of customers), an effective substation maintenance regimen is a key cornerstone to the system stabilization initiative aimed at reducing the risk of catastrophic, regional- or island-wide outages.

All major outages experienced through the past four years of operation have had significant contributing factors from failed or mis-operating substation components. Although LUMA has progressively improved maintenance practices since commencement of Operations, current funding has not allowed the full

[12] Pursuant to the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement ("T&D OMA").

implementation of the industry standard preventative maintenance program that LUMA has designed to align with manufacturer recommendations and requirements. This means that approximately half of the existing substation equipment remains outside of acceptable maintenance intervals and combining this situation with the known fragile state of the system, a high risk of more large-scale events will continue to persist. Delaying the progression into a full maintenance program means that known risks to the integrity of the T&D System will take longer to address and does not represent a prudent approach to minimizing risks in the system and negative impacts to customers. Delays to expanding the scope and frequency of substation inspections and tests and failure to adequately address the ever-increasing backlog of corrective maintenance will place a pause on reducing (1) less efficient reactive maintenance activities, (2) excessive levels of overtime, and (3) the preponderance of unplanned system outages be they routine or catastrophic, and (4) in some instances increase the likelihood of safety- or operability-related incidents.

All these risks carry with them incremental costs to LUMA and its customers. Unplanned outages that could have been avoided but for funding constraints carry with them real costs to be absorbed by all parties, and excessive levels of overtime related to reactive maintenance and outage restoration are incurred costs that divert funds that otherwise would have been applied towards proactive system hardening and stabilization activities.

2.2.2 O&M - Vegetation Management

FY2025 funding levels have allowed for normal cyclic trimming to the 230kV transmission and substation components, but from a total system perspective, LUMA has only been able to clear seven percent of the entire system annually (approximately 1,400 miles), due primarily to the need to respond to tree-caused outages (often referred to as “hot spotting”). With the advent of the federally funded clearing program and an additional $24.0 million in FY2026, LUMA will be able to immediately start a 3-4 year cyclic trimming program (industry norm for environments similar to Puerto Rico), apply herbicide treatment to the rights-of-way (“ROW”) addressed by the federally funded work (assuring LUMA maintains the benefits of this clearance effort), and perform vegetation management on those transmission facilities specified in Department of Energy (“DOE”) order No. 202-25-2[13] that do not qualify for federal funding (approximately 25 percent of the requirement). This can be accomplished while simultaneously responding to the extraordinary number of tree-caused outages that has plagued the electric system until LUMA can complete (and then maintain) a full four-year trimming cycle and reduce them to more manageable numbers.

Immediate incremental funding to this area is required, as the current funding levels and resulting reactive tactics will adversely impact service to customers as follows:

- Compromises LUMA’s ability to proactively maintain proper clearances and address the backlog of untrimmed trees to mitigate public safety risks due to power outages, fallen wires, and people encountering energized lines.
- Hinders full execution of the Integrated Vegetation Management operating model outlined in the Vegetation Management Plan[14].

[13] Department of Energy Order No. 202-25-2 of May 16, 2025, Federal Power Act Section 202 Puerto Rico Electric Power Authority, U.S. Department of Energy.

[14] Exhibit 1 of LUMA’s Updated Vegetation Management Plan of June 14, 2024, Docket No. NEPR-MI-2019-0005.

- Leads to the progressive decay of the cleared ROWs and loss of the extensive benefits of what would otherwise have been achieved.
- Negatively affects our ability to comply with DOE Order No. 202-25-2[15] regarding management of specific transmission facilities by August 14, 2025.
- Risks not having access to future federal funding in the event of another catastrophic hurricane or other disaster because damage caused by deterioration or from deferred maintenance (in this case, vegetation maintenance) is not eligible for FEMA funding[16].

Vegetation cleared from ROW is expected to grow back within approximately four years, such that by the end of the three-to-four-year ROW clearing project, the areas cleared at the beginning of the project will already be degraded with reduced benefits being experienced, a trend that will continue over each successive year. Therefore, the effects of any delay in starting a cyclic trimming process system-wide only compound over time, resulting in higher costs than will be experienced should LUMA start the process sooner. More specifically to the shorter-term view of this filing, the occurrence of vegetation caused outages, some of which would have been avoided had cyclic trimming commenced as proposed, directly impacts LUMA and its customers in terms of incremental and potentially avoidable costs as well as the added issue of any inconvenience experienced by customers during the service restoration process.

2.2.3 O&M – Systems Operations

An additional $2.0 million is required to provide work planning and scheduling, outage planning, and control center support related to the requested increase in substation maintenance and vegetation management activities described in sections 2.2.1 and 2.2.2. As the scope of these activities increases, additional resources are needed to plan the work, ensure proper staging of materials and staff, schedule the work, develop integrated activity and resource-based schedules, monitor progress, develop workarounds when obstacles occur, and ensure integration with other activities either in close proximity to the work or that require system-oriented coordination. In other words, added substation maintenance and vegetation management activities, overlaid on top of current workload, increases the burden of planning, scheduling and dispatching resources to perform this work, and requires additional staffing to properly plan and coordinate outages to accommodate specific substation equipment testing activities, all requiring centralized coordination and tracking from the control center. These costs are therefore tied directly to the two operation and maintenance (O&M) programs presented above (i.e., substation maintenance and vegetation management), along with any related interfaces with the transmission and substation work discussed below.

2.2.4 Operations NFC Initiatives

The initiatives listed below, once netted against offsetting budget adjustments, require a total of $16.4 million in incremental funding over the inflation adjusted FY2025 budget:

- **T&D Fleet:** Additional funding is required in relation to helicopter equipment leases and purchases aimed at accelerating helicopter 12-year overhauls. The Super Puma heavy lift helicopter, currently out-of-service pending a required 12-year inspection and overhaul, is

[15] Department of Energy Order No. 202-25-2 of May 16, 2025, Federal Power Act Section 202 Puerto Rico Electric Power Authority, U.S. Department of Energy.

[16] FEMA Island Wide Benefit Cost Analysis (WBCA) Standard Operating Procedure (SOP) V1.0 of April 9, 2024.

scheduled to be returned to service in April 2026. However, LUMA has been able to source engines that could be purchased rather than wait for the existing engines to be rebuilt, thus allowing the availability of this helicopter prior to the peak of the upcoming storm season during Q1 FY2026. Additionally, one of the A-Star units must start its 12-year inspection and overhaul by July 2025, or it too will be grounded. The potential combination of not having these two helicopters in services will severely hamper LUMA's ability to gain timely access to certain parts of the electric system during major storm events.

- **Substation Reliability:**

  - **Transmission Priority Pole Replacement:** Immediate incremental funding is required to address transmission line critical capital failure replacements. The funding identified for this work is based on current backlog of critical deficiencies / anomalies and forecasted failures and find rates (i.e., the anticipated number of deficiencies / anomalies expected to be found as the scope and number of inspections and tests increases) from current levels of proactive inspection and maintenance activities. Funding requirements are expected to increase, due to the fact that the system has had years of neglect, continues to age, and has a higher than industry-standard level of out-of-service equipment. Delays in addressing these issues will result in increased system failures and unplanned outages and continue to increase the backlog of defects and outages that could have been avoided had the corrective maintenance backlog been addressed more aggressively, sooner. Increased failures of transmission segments will add to the areas that are already out-of-service, increasing the amount of the T&D System that is out of configuration. The further out of configuration the system is, the less contingencies that exist, thus increasing the risks of major outage events. This was clearly demonstrated during the June 12, 2024, partial island outage event: A misconfigured system resulting from multiple transmission line segment failures reduced LUMA's ability to stabilize the system.[17] This resulted in high loading of remaining segments which, due to the degraded condition of the system, could not operate with the increased loading. As we enter the peak of the storm season, any progress that can be made in addressing these high-risk situations can limit the number of customers experiencing extended and larger outage events.

  - **Substation Reliability**: The immediate and incremental funding requirements are reflective of known issues across substations (i.e., backlog heretofore not addressed in previous years, including issues with transformers, breakers and protection equipment), as well as remediation of critical repairs identified during the necessary substation preventive maintenance activities. A subset of these items will pose a high risk of future events occurring that could impact large groups of customers and divert LUMA's resources from performing more proactive / planned maintenance. This will cause the T&D System to fall further out of its designed configuration and limit any contingencies to absorb system disturbances without incurring unplanned outages. As with the

[17] *IN RE: Interrupción de Servicio Eléctrico a Gran Escala Ocurrida el 12 de junio de 2024*, Docket No. NEPR-IN-2024-0003.

Transmission Priority Pole Replacements, any delays will leave the T&D System's stability exposed and add to the current backlog, thus increasing the likelihood of failures that will lead to unplanned (potentially larger) outages, outages that could have been avoided if funds had been available to address the corrective maintenance backlog more aggressively and sooner. In fact, the current lack of T&D System contingencies has surpassed unacceptable levels and requires urgent attention, as further delays in repairing and replacing failed equipment will only increase LUMA's and its customers' exposure to more frequent and larger outages during the upcoming storm season.

- **Substation Rebuilds:** There is a critical System Remediation Plan[18] (SRP) activity to install necessary point-of-sale metering, requiring design and procurement well in advance of the installation of any metering equipment and other supporting upgrades required across the system. Given the uncertainties around the procurement process in terms of available suppliers and the time required to seek and evaluate bids / award contracts, any delay in starting this effort increases the risk of not being able to meet the SRP commitment. In addition to being linked to an SRP requirement, an important part of supporting funding to stabilize and improve the system involves being able to manage and reduce non-technical losses on the system. The most critical step in understanding non-technical losses is first knowing to a high degree of accuracy how much energy is being delivered to the system. Progressing the installation of accurate point-of-sale metering with urgency will help ensure that energy is being managed on the system.

2.3 Capital Programs & Grid Transformation

The Capital Programs and Grid Transformation Department ("Capital Programs") consists of three functions: Grid Strategy, Engineering, and Project Management and Controls.

- **Grid Strategy** provides strategic direction to the prioritization of investments to effectively rebuild the grid. Key activities include the (1) development of an investment strategy and formulation of projects for submission to FEMA and other federal agencies to access necessary funds and (2) establishment of processes to ensure compliance with relevant codes, standards, and regulations.
- **Engineering** (e.g., Distribution, Systems, Standards and Quality, Transmission and Substations) provides a long-term focus on supporting LUMA's mission to modernize the grid. Key activities include planning the grid, evaluating and analyzing available data to create prioritized asset strategies and plans (e.g., track reliability performance), continually assessing the adequacy of the grid to meet reliability and resiliency performance requirements, developing and maintaining engineering and maintenance standards, providing designs for the T&D System, performing quality assurance functions, and supporting the connection of new customers to the grid.
- **Project Management and Controls** includes the execution of large-scale federal and non-federal capital programs, such as the rebuilding of distribution and transmission lines and substations, clearing vegetation, and deploying advanced technologies. The Project Controls organization tracks and manages project costs and schedules, administers contracts, provides

[18] *In Re: Review of the Puerto Rico Electric Power Authority's System Remediation Plan*, Docket No. NEPR-MI-2020-0019.

project performance reports; and supports the Project Management Office ("PMO"), which ensures organizational adherence to the project execution processes. Project managers, as part of the PMO, drive efforts to complete planned capital work within the pre-established schedule and cost constraints.

In presenting the incremental funding requirements relevant to this request (i.e., funding above that reflected by FY2025 budgeted[19] levels plus adjustment for inflation), each area is described as to its relevance to this filing, pointing out the impact should there be any delays in funding.

2.3.1 Capital Programs NFC Initiatives

The following initiatives have been identified as requiring incremental funding above what is in the Default Budget:

- **Distribution:** In terms of Distribution, LUMA proposes $44.2 million of this incremental required funding, is necessary to complete immediate and critical pole replacements and non-structural repairs, restore out of service distribution lines (currently numbering 114, a net increase of 16 since the start of FY2025), remediate overloads, thermal and voltage issues, and address situations where overhead primary wire is on unsound and non-standard structures in violation of the National Electric Safety Code ("NESC"). Delays in addressing these issues will allow voltage and thermal issues to persist unaddressed on the system creating power quality issues for customers and limiting renewables support for the grid, result in avoidable unplanned interruptions that consume operational resources to respond, particularly with significantly higher volumes in adverse weather, and extend the timeframe for attaining system stabilization and addressing the known portions of the system that are vulnerable to failures and could potentially result in safety hazards for the public as well as LUMA employees.
- **Transmission:** Incremental required funding of $30.8 million is necessary to address the fifty (50) out of service transmission line segments that are core to system stabilization, as they represent essential facilities to reduce the risk of larger transmission-caused outages. Specific activities include restoring the first five of these transmission lines, making critical repairs to storm damaged structures on fifteen (15) lines, completing repairs across the fifty-one (51) line segments originally identified in the stabilization plan, executing on critical findings and thermal overload identified during inspections and studies, and performing transmission wildfire mitigation hardening in response to the PREB ordered study. Delays in addressing these items place a pause on system stabilization thereby extending the timeframe for (1) widespread and extended outages during major storm events, and for that matter, (2) situations where seemingly minor weather events / system operability issues lead to larger outage events.
- **Substations:** Required funding of $44.4 million in incremental cost above the FY2026 default budget. This increase is required to continue the completion of critical out of service substation installation and stabilization activities, including (1) replacement of transformers, load tap changers, breakers, protection and control, and batteries, (2) addressing overloads, and (3) making critical repairs to our worst performing substations. These activities form the core of LUMA's system stabilization initiatives and as these items are addressed, represent the first line of defense against cascading outages, whether they are caused by an external storm event or

[19] Revised FY 2025 T&D Operating Budget Resolution and Order of January 31, 2025, Docket No. NEPR-MI-2021-0004.

equipment / system malfunction. Any delay in addressing these items places LUMA and its customers at risk of experiencing larger and longer outages than would occur if these actions had been initiated sooner.

- **Telecom Related to IT/OT Telecom Systems and Network:** the $3.5 million incremental increase addresses critical fiber and core microwave repairs and completes the IP network stabilization (Megaplex) and transport network MPLS at the most critical sites. Driving the immediate need is the need to have enough fiber in service on two specific links to enable proper protection of interconnecting renewables projects slated for August 2025, to repair critical primary protection line differential channels to ensure proper system reactions and to avoid cascading failures that could lead to island wide impacts, whose remediation costs would be incremental.
- **Other:**
  - **Wildfire Mitigation and Hardening** – $11.7 million in incremental funding is required to support the furtherance of wildfire mitigation activities, in accordance with PREB orders on NEPR-MI-2021-0004.[20] The wildfire studies have progressed in accordance with the PREB direction and the initial outcomes of those studies need to be acted upon. The peak wildfire season historically begins in January in Puerto Rico and in order for actions to be effective in this coming season, they need to be engineered and implemented immediately.
  - **Grid Modernization**– In supporting task 14 of the resolution and order under NEPR-MI-2024-0005, LUMA is actively preparing for the interconnection and enablement of 4 x 25 MW of Battery Energy Storage Systems (“BESS”), to complete within 18 months, thus enhancing system inertia, supporting voltage regulation, and providing quicker frequency response capability. The $4.0 million in urgent and incremental funding is required to purchase land for the BESS during Q1 FY2026 (in Barceloneta, Manati, Aguadilla, San Juan). Driving the immediate need is the risk of losing the option of purchasing the land if funding is delayed. That would cause delays in the project schedule, particularly in the finalization of engineering, thus placing the overall 18-month schedule, and the commensurate benefits to customers, at risk.

2.4 Information Technology & Operational Technology (IT/OT)

The Information Technology & Operational Technology (hereinafter referred to as “IT/OT”) Department oversees and manages all aspects of LUMA’s informational and operational technology systems. It enables critical capabilities that underpin outage response, grid control, cybersecurity defense, enterprise operations, and customer engagement. While some funding has been absorbed through internal reprioritization, $18.6M in incremental funding is required to address immediate cybersecurity threats, support operational continuity, and replace high-risk, end-of-life systems that cannot wait until September. Specifically, $11.4 million in incremental O&M funding is required, to ensure adequate funding to cover (i) incremental fixed costs related to the termination of certain shared services support, (ii) technology support to advance new initiatives, (iii) the cost to replace end user devices.

2.4.1 O&M - Fixed Cost Absorption – Termination of Genera Shared Services

[20] Page 5 of the Resolution and Order of June 26, 2024, determining the FY2025 Annual Budgets for the electric utility. The Energy Bureau ordered LUMA to submit a detailed plan outlining how fire mitigation efforts will be incorporated into its vegetation management and other relevant programs.

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LUMA inherited many of PREPA's legacy IT systems, such as the procurement software and financial system, both of which had processed and stored massive data volumes on behalf of PREPA as an integrated utility. From Genera's commencement until the termination of the Shared Services agreement[21] on February 28, 2025, the IT/OT team provided shared services to Genera, which included the joint use of these applications, and many others.

The termination of the shared services agreement with Genera eliminated cost-sharing for essential IT infrastructure originally designed to support an integrated utility. Fixed costs such as server maintenance, security, and core application support now fall solely on LUMA as these used to be invoiced to Genera. These costs of $4.2 million are unavoidable and were not included in the FY2025 budget and as such, are incremental to the Default Budget for FY2026.

2.4.2 O&M – Support for Critical Initiatives

Incremental O&M funding of $7.2 supports workforce technology needs across field operations, customer care, engineering, and outage response. This includes replacing end-of-life end-user devices and ensuring system reliability during grid events. These investments ensure employees have the tools required to respond safely and efficiently to outages, reducing long-term costs and improving customer service.

2.4.3 Critical NFC Investments - IT OT

Cyber threats to utilities are increasing in frequency and impact. Delaying critical cybersecurity upgrades leaves the system exposed to ransomware, grid lockouts, and widespread service interruptions. $7.2M in NFC funding is necessary to support critical IT/OT investments that cannot be delayed.

This funding addresses two drivers:

- The increasing risk of cybersecurity incidents impacting T&D system stability, customer data, and regulatory compliance.
- The accelerating needs to replace end-of-life infrastructure and end-user tools, which are vital for operational continuity and outage response.

These investments are broken out in the following 4 areas:

- **Cybersecurity:** $0.8 million in annualized incremental funding is required to ensure that appropriate funding is available for cybersecurity initiatives. From 2023 to 2024, LUMA experienced an increase in cyber events, meaning that Cybersecurity initiatives have become even more imperative to protect our critical infrastructure. This funding will enhance defense capabilities, protect infrastructure from disruptions, safeguard customer data, and ensure compliance with industry standards. Without it, LUMA risks ransomware attacks, unauthorized access, data breaches, and potential grid failures. The initiatives focus on risk assessment, identifying external threats, data protection, internal firewalls, threat detection, and secure OT

[21] Pursuant to the Shared Services Agreement executed on June 1, 2021, 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).

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connectivity. Additionally, failing to invest could lead to non-compliance with NIST and NERC-CIP standards.

- **Technology Enablement:** $3.3 million in annualized incremental funding is required to ensure the reliability of essential tools for outage response, customer service, grid monitoring, and daily operations. Many devices have exceeded their lifecycle, causing inefficiencies and cybersecurity risks. The funding will replace beyond end-of-life laptops, field tablets and devices for front-line teams, update communication equipment like radios and hotspots, and enhance device management and cybersecurity. These activities will improve communication, safety and coordination during field deployment. This also ensures alignment of LUMA's cybersecurity framework and reduces risk of data breaches via lost/stolen devices. These measures are critical for maintaining operations and aligning with NIST and NERC-CIP standards. Without this funding, there is a risk of system outages, increased costs, and loss of public trust. These investments are urgent and necessary for grid modernization efforts. These cybersecurity initiatives are not enhancements—they are foundational risk mitigation measures aligned with NIST and NERC-CIP standards. Failure to fund them in Q1 of FY2026 increases the likelihood of major system outages, reputational damage, regulatory penalties, and loss of public trust. Given the accelerating threat landscape and the interdependency with other grid modernization efforts, these investments must be treated as urgent and funded through the temporary rate.
- **Asset Management:** $2.0 million in annualized incremental funding supports the replacement of end-of-life IT/OT infrastructure—hardware, software, and systems that underpin grid control, enterprise applications, and secure communication. These assets are either no longer supported by vendors or have exceeded their operational lifecycle, posing significant reliability and cybersecurity risks. LUMA plans to replace end-of-life servers, switches, and backup systems. Replacements required to maintain core systems like outage management, SCADA support environments, and network security layers. Without replacement, system performance degrades, increasing the risk of outages and data loss. LUMA will also renew core software licenses essential for analytics and asset tracking, which prevents disruptions in asset visibility, maintenance planning, and reporting needed for FEMA and PREB compliance. Additionally, these funds will be used to expand backup capacity and power redundancy to maintain up time during major events.
- **Collaboration & Analytics:** $1.1 million in annualized incremental funding is required to enable enterprise-wide data governance, process automation, and cross-functional decision making. Delaying these investments would reduce visibility into program performance, hinder compliance efforts, and force continued reliance on manual, error-prone processes that increase operating costs and slow value delivery. As LUMA scales federal programs and regulatory commitments, modern collaboration and analytics tools are no longer optional—they are essential. The initiative focuses on centralizing and securing critical documentation for FEMA and Regulatory compliance, streamlining workflows to minimize delays and errors, and tracking performance metrics across various operations.

Without this funding, LUMA faces the risk of being unable to replace obsolete IT/OT infrastructure, which heightens the possibility of critical system failures that manage and control the grid and protect the private and financial information of most households and businesses on the island. Such failures could lead to complete grid inoperability during outages or emergencies, leaving entire regions without timely restoration capabilities. Additionally, outdated systems and unsupported hardware could result in grid

instability, increasing the likelihood of unplanned outages and prolonged service interruptions. This scenario would also expose LUMA to significant cybersecurity threats, compromising the integrity and security of the grid. If the current rate of system decay continues to exceed the rate of repair, and these issues are not addressed with urgency, the ability to distribute electricity across Puerto Rico will be fundamentally compromised within the next 10-year horizon.

2.5 Fleet

The Fleet Department (hereinafter referred to as "Fleet"), is tasked with the overall management of vehicles ranging from light and heavy-duty vehicles to construction and material handling equipment, and all associated repair shops. Specific "Centers of Excellence" within Fleet include Maintenance Operations, Fleet Regulatory and Compliance, Fleet Management Information Systems, Fleet Coordination, and Capital Fleet Operations.

Funding levels since commencement, driven by our need to operate within budgets supported by current rates, have stretched our ability to maintain a serviceable Fleet that can be operated reliably, safely, and cost-effectively. Therefore, Fleet has an annualized incremental revenue requirement of $2.6 million in O&M and $3.8 million in NFC.

2.5.1 O&M – Incremental Fleet Lease Costs

These costs reflect LUMA's continued use of the Rental Purchase Option ("RPO") as an alternative to near-term capital acquisitions of heavy duty fleet units, which allows LUMA to (1) expedite the revitalization of its fleet, and (2) account for the anticipated need for additional fleet assets attributable to the ramp up of Operations to address the stepped increase in maintenance and repair work, without affecting the NFC profile. As LUMA has three years to exercise the purchase of these assets with credit for rental payments, albeit on a sliding scale (80% of the rental costs for vehicles is applied as a credit towards purchase if the option is exercised before the end of year 1, 60% if exercised before the end of year 2, and 40% if exercised before the end of year 3 – no credit if exercised after the end of year 3), it represents a viable option to more rapidly address a rapidly aging and deteriorating fleet. The following Table 2-1 provides a summary of these expenses for the Temporary Rate Request. Without the purchase of these assets the department will not be able to meet the immediate needs of the Operations and Capital Grids departments that are being requested above. This would create delays in projects that directly impact on the operations of the system and the immediate projects in operations that will slow down the degradation of the T&D System.

Table 2-1. Rental Purchase Option (RPO) Purchase (O&M Expense - $M)

Category	Temporary Request
Number of Fleet Assets	30
Total Rental Cost	$2.6

2.5.2 NFC – Incremental Fleet Buyouts

The Department is requesting $3.8 million for the Temporary Rate. This consists of 17 RPO – Buyouts as well as 30 Direct Purchase – NFC which are tied directly to support the immediate projects in the Operations and Capital Grid departments.

The Direct Purchase – NFC, as its title implies, pertains to outright purchases of vehicles and heavy equipment, and as such is a capital expenditure. The RPO – Purchase constitutes a rental transaction (i.e., the O&M expenses described above), but with an option to convert to a capital purchase within three-years at the list price less a portion of the rental fees on a three-year sliding scale. And the RPO – Buy-out represents the exercise of the RPO, itself a capital expenditure. As the RPO – Buy-out applies to vehicles and heavy equipment already in LUMA's inventory, the replacement profile does not include these fleet assets. Rather, the replacement profile is the composite of the first two categories (Direct Purchase – NFC and RPO – Purchase).

Failure to fund the initiative in the temporary request will limit the number of workgroups that can be deployed, thus extending response times or rendering individuals unavailable to perform work due to lack of vehicles and heavy equipment, will pose safety risks to both employees and the public at large (e.g., operating vehicles that have exceeded their useful life poses potential issues such as brake failures, difficulties in steering, and tire malfunction all of which can lead to accidents, poor suspension and handling which can affect responsiveness, increased exposure to contaminants, absence of modern safety features such as airbags and crumple zones, electronic failures to collision alerts and braking assistance, driver fatigue from excessive vibrations and noise), and will constrain LUMA's ability to dramatically improve reliability, thereby affecting customer satisfaction.

2.6 Facilities

The Real Estate, Property and Facilities Management Services and Development Department (hereinafter referred to as "Facilities") manages and maintains resilient, efficient and safe facilities for LUMA's employees and customers. The Department's key functions include: (1) O&M; (2) Real Estate Planning and Working Spaces Improvement; and (3) Business and Support Management, emphasizing that a functional and relevant facilities management department is more than "cleaning and fixing" damaged items in a building.

Historically, funding levels have been constrained by the necessity to operate within budgets supported by current rates, challenging our ability to maintain and operate facilities that are reliable, safe, and cost-effective. Instead of making comprehensive progress in maintaining, operating, and upgrading LUMA's facilities, the Facilities Department has adopted a risk-based approach to anticipate near-term failures. This strategy prioritizes proactive planning and investment in facilities deemed most critical to LUMA's mission of delivering safe and reliable service to its customers, while employing a "run-to-failure" strategy for other assets.

In preparing the request for temporary rates for Facilities, LUMA conducted a thorough review of all activities and initiatives to identify those essential to the total system needs, and whose costs were incremental to the Default Budget. It was determined that without the approval of this temporary rate, certain expenses not currently budgeted would lack funding and certain critical areas or facilities would continue to experience irreversible damage, ultimately leading to higher costs in the future.

2.6.1 O&M – Incremental Facilities Lease Costs

LUMA (as Agent for PREPA) is a counterparty to thirteen existing leases that either include year-over-year rent increases specified in the contracts or have been extended with rent adjustments. As these increases are contractually obligated and unavoidable and were not contemplated as an expense expected to occur

within the FY2025 budget, an incremental $0.6 million has been added to the revenue requirement for FY2026, to ensure that there is sufficient funding to cover the associated costs.

2.6.2 NFC – Critical Facilities Initiatives

With inputs rooted in feedback from Occupational Safety and the results of Job Site Inspections, LUMA's Facilities department developed a prioritized list of capital repairs, replacements, and additions for FY2026. The initiatives were ranked by applying a ranking methodology that factors for Risk, Facility Focus Rating, Procurement Viability, and Strategic Alignment. Each factor or evaluation criteria had an assigned weight, allowing for a weighted score, where the higher the score, the higher the priority. From this list, we identified specific higher priority projects deemed critical for inclusion in the temporary rate request. These projects, if not addressed now, would likely lead to significantly higher costs in the future due to further deterioration or failure and also, pose a major safety concern for the organization's employees and customers. LUMA is requesting an incremental $20.3M for the initiatives below.

Table 2-2. NFC – Critical Facilities Initiatives

Initiative	Description
Power generator for several locations	86 power generators island wide, most of which are obsolete (require replacement or significant updates / retrofits to assure optimal performance, particularly during power outages. The 86 emergency generators have exceeded their useful life, causing frequent failures that threaten operational continuity, especially with the upcoming hurricane season. Power loss directly affects the grid reconstruction efforts and endangers employee safety and comfort. The lack of reliable backup power may lead to total shutdowns in critical areas. Preliminary planning efforts have begun, but full execution must occur in FY26 to mitigate critical risks.
HVAC retrofit or replacement	Retrofit or replace several HVAC units in different buildings, due to a lack of maintenance over the past 10+ years. Specific replacements include La Torre units (this is a critical property with a critical operation), Luchetti chillers and water pumps system replacement, JRV Chillers replacement and NEOS air recirculation handling unit (Fresh air). The Scada Data Center HVAC system retrofit project is an ongoing project and a priority for the Organization. Its completion is forecasted to be in Q1 FY26.
Critical Building Repairs (Safety)	Luchetti building has over 600 employees on different floors, who could be at risk according to a structural assessment conducted 6+ years ago. The facilities team will conduct a new structure assessment to identify the risk and create an updated plan. Other Safety issues contemplated in this project are (1) NEOM electrical improvements, (2) Luchetti elevator system modernization, (3) NEOS crown repair, (4) NEOM waterproofing, (5) La Torre and NEOM improvement due to SCADA new equipment and (6) Durotex roof retrofit. Roof sealing and fire alarm projects at NEOM have already started, but full completion and expansion to other buildings must occur in FY26. Urgent improvements are needed in the La Torre and NEOM buildings to support the energy load of the new equipment, including an electrical generator to ensure continuous operation. SCADA or DOC failure could cause massive blackouts or prevent proper network monitoring, compromising facility safety.
Caguas region's safety issues	Address properly, projects include: (1) major repairs to Carolina complex, (2) warehouses repairs (roofs, fire alarm and suppression systems repairs, ventilation, lighting, floor repairs, bathrooms), (3) asphalt of various parking areas and (4) demolition of unusable buildings. These conditions are incompatible with a safe and functional work environment. Improvement projects have already started in Carolina and Caguas and must continue as a priority in FY26.

Bayamon's region's safety issues	Replacement of the fire alarm system, the fire suppressor system and the grease trap of Cataño fleet shop. This shop does not comply with safety codes and represents a safety issue for our employees. Preliminary inspections and technical assessments have begun and must lead to full implementation in FY26.
Ponce's region safety issues	The Ponce region has several safety issues including (1) damaged fire suppression systems, (2) damaged trailers offices at various locations (3) stormwater issues, (4) damaged structures that require demolition, (5) parking areas in need of asphalting (Ponce, Santa Isabel) and (6) warehouses. While some projects are already underway, failing to complete improvements in FY26 puts lives and regional operational stability at risk. It is critical to continue full execution of the upgrades initiated in FY25.
Arecibo's region's safety issues	Several safety issues require the following repairs (1) Arecibo warehouse, and (2) Operations Building. Failure to act could result in partial or total collapses with severe legal and human consequences. The projects have already started and are currently in the evaluation and design phase.
Mayaguez's region's safety issues	Several safety issues require the following (1) Fleet Shop reconditioning and (2) CX roof waterproofing. These conditions jeopardize the continuity of critical operations and may lead to unexpected shutdowns or major incidents. The projects have already been underway since FY25 and are currently in the design and specification development phase.

These projects are considered critical for security and compliance reasons. Some of them are already underway and need to continue.

2.7 Finance

The Finance Department has an incremental need for $0.5 million in funding to support anticipated additional reporting requirements from the Energy Bureau. The Energy Bureau has expressed a desire through the rate review proceeding in Case No. NEPR-AP-2023-0003, for LUMA to make modifications to the format in which it develops, tracks, and reports its financial information.

LUMA's preference is toward making reasonable modifications to enhance its existing budgeting and reporting framework, rather than costly and complex overhauls. That said, even gradual modifications will require process and potentially system changes, which must be contemplated in the immediate term. LUMA's budget process commences in late September to early October. Therefore, sufficient funding must be available to execute ahead of the budget process instead of after, as we did in 2026, to be more efficient and effective and less disruptive to the ongoing operations of the business.

Appendix A

Table A-1. Maintenance Plan Summary

Area	Current State	Future State
Preventive Maintenance (Annual unless otherwise stated)		
Substation	• For the 24 Worst Performing Substations, testing (less DGA) of Transmission and Distribution Breakers and Distribution Transformers • Island wide testing of Transformers (less DGA) and Breakers (Transmission and Distribution) that have not been tested since Hurricane Maria or have been tested since that with noted condition and / or operating concerns (this has been vastly federally funded) • Dissolved Gas Analysis (DGAs) on all transformers (including load tap changers) • Battery Test (semi-annually) of all batteries, including replacing cells as required. • Thermography / IR scan (semi-annually) of all sites • Visual Inspections (semi-annually) of all substations	• Load Tap Changer Functional Test (all) • Transformer / Load Tap Changer Functional and Electrical Test (all every 5 years) • Gas Circuit Breaker Insulation Testing (all) • Gas Circuit Breaker Functional / Diagnostic Testing (all every 5 years) • Oil Circuit Breaker DGA (all) • Oil Circuit Breaker Functional / Diagnostic Testing (all every 4 years) • Distribution Circuit Breaker Functional / Diagnostic / Insulation Testing (all every 4 years) • Dissolved Gas Analysis (DGAs) on all transformers (including load tap changers) • Battery Test (semi-annually) of all batteries, including replacing cells as required. • Thermography / IR scan (semi-annually) of all sites • Substation site inspections (all quarterly) • Relay Functional Testing (all every 3 years) • Motor-operated Disconnect Switch Functional Test (all every 2 years) • Telematics antenna alignment (all annually) • Telematics Fiber inspections (As needed)
Transmission	• Power Line Inspections for 59 Worst Performing OH Line Segments • Thermography / IR Scan for 59 Worst Performing OH Line Segments • Insulator and Hardware Assessment and where necessary, washing for 59 Worst Performing OH Lines (10-year frequency) • Switch Maintenance, Operation, Repair / Replacement (if necessary, however limited ability due to lack of NFC funding) of switches related to Priority Pole Replacement (frequency varies by voltage)	• Power Line Inspections (Aerial and Ground) of all OH Lines (Annually for 230kV and 115kV and every 2 years for 38kV) • Thermography / IR Scan of all OH Lines • Corona Assessment of all 230kV and 115kV Lines • Insulator Washing (all insulators) • Switch Maintenance, Operations, Repair / Replacement (all switches) • UG Line Assessments • Wood Pole Test and Treat (every 10 years)
Distribution	• Visual Inspection and Thermography of 38 Worst Performing Feeders • Coordinated Planned Outages (Estimated 72 Feeders and 186 Jobs within Feeders)	• Visual Inspection and Thermography of all Feeders (every 5 years) • Wood Pole Test and Treat (every 10 years) • UG Manhole and Vault Assessments (every 5 years)

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Area	Current State	Future State
		• UG Visual Assessments of surface-level equipment (every 5 years) • Streetlight Assessments (every 5 years)
Corrective Maintenance		
ALL	• Address OOS Equipment (prioritized based on criticality) and any identified deficiencies / anomalies that poses safety or reliability issues. Not all equipment returned to service resulting in a growing backlog. Equipment typically repaired, not replaced, often requiring “bone yard” parts due to the excessive vintage.	• Reduce OOS Equipment Backlog to coincide with prioritization framework for all Corrective Maintenance • Like OOS Equipment, work down the Corrective Maintenance Backlog in concert with pre-established prioritization framework. • Keep pace with emerging Corrective Maintenance requirements per pre-established prioritization framework